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WORKER CO-OPS

March 1983

Volume 2, Number 4

B. C. CO-OP RESTAURANT PLANS WORKER CO-OP MANAGEMENT STRUCTURE

J. J. Forrestal

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arm of Canada Mortgage and
Housing Corporation in the
area.

The CAS housing co-op is located near the restaurant, which has been able to pay several CAS members a small amount to plan and continue Isadora's development.

(Housing charges at the CAS co-op are determined by the amount of each individual's income. Thus, housing charges are reduced for those residents who are under- or unemployed. Also, CAS residents are required to contribute a portion of their income to CAS to carry out its community work. (CAS has loaned Isadora's several thousand dollars.)

Isadora's is being built in the shell of a former machine shop. It's popular location is expected to attract the island's factory workers, shoppers at its farmers' market and fashionable stores, artisans who live and work there, patrons of its theatres and residents of several housing co-ops in the area.

Some professional help has been donated to the restaurant, which worked out a detailed financial plan with the help of an accountant who works for a nearby restaurant, the B.C. Credit Union Central and CCEC, the Community Congress for Economic Change.

Vancouver Mayor, Mike Harcourt, is a restaurant member, and the board of directors includes MLA Emery Barnes, a social worker, the president of the Municipal Employees' Union, a management consultant, a restaurateur and an accountant.

In a coming issue, the Worker Co-op Newsletter will feature an update on Isadora's with a focus on its management operations.

J. J. Forrestal is a Toronto journalist and gastronome who has been involved in co-op housing for several years.

Isadora's Co-op Restaurant is set to open its doors this April. This Granville Island restaurant in Vancouver has raised \$376,000 through loans, grants and sales of more than 1100 shares at \$100 each.

A \$100 share entitles its holder to \$25 a year in restaurant purchases. Groups purchasing \$1000 in shares receive \$325 in purchases or catering. Each shareholder-member has one vote, no matter how many shares he or she buys.

"One member, one vote. That stuff gets around. A lot of education goes on that people haven't thought of when restaurant members sell shares", says one Isadora organizer, Heather Pritchard.

Isadora's, family-oriented and union-built, will feature seasonal meals at bargain prices, special play facilities for kids, concerts, cabaret, and political theatre.

It intends to invest one-third of its profits in the local community to help fund other non-profit businesses. The remaining two-thirds will be earmarked for upgrading the restaurant and for employee profit-sharing.

Some \$42,000 still needs to be raised. Isadora's is now working out a management structure. The restaurant will operate as a worker's collective. The organizational plan shows the need for about 20-30 staff members, operating in three shifts. The restaurant will be open from 7 a.m. to 1 a.m. It is expected to be a high volume operation, and its organizers have been able to project the turnover rate per hour and the average amount they will earn from each.

The project began in 1979. It has been the co-operative effort of the Vancouver Society for Total Education, members of the Community Alternatives Society Housing Co-op (CAS) and the Granville Island Trust, which is the social planning

RECENT PUBLICATIONS

Paul Jones

The response to our request for book reviewers in the September, 1982 issue (Vol.2 No.2) was very encouraging. Wherever possible, we provide reviewers with complimentary copies from the publishers, but sometimes we loan them our personal copies. Among the material listed below are books available for review. Interested persons should contact:

Paul Jones
167 Carlton Street
Toronto, Ontario
M5A 2K3

Tel: (416)961-0114

Unions and Employee Ownership: A Symposium. Arlington: National Centre for Employee Ownership (NCEO), 1982, 63pp. Includes a dissenting view from "A European Perspective", by George Wright, General Secretary of the Wales Trade Union Council.

We Own It: Starting and Managing Co-ops, Collectives and Employee-Owned Ventures by P. J. Honigsberg, B. Kamoroff, and J. Beatty. Laytonville, Cal.: Bell Springs, 1982, 165pp. A how-to handbook which cautions, among other things, against the use of the term "not-for-profit" since it is not a legal phrase and may be misleading, even fraudulent!

Making America Work: Productivity and Responsibility by J. O'Toole. New York: Continuum, 1981, 216pp. For this author, Worker-Ownership and Self-Management mean "Worker Capitalism" and ownership of the means of production by each and every individual. "...The fear of worker bankruptcy is hypothetical. Instead of going broke, the record thus far shows that worker capitalists have made out like -- well, capitalists -- by selling their shares to conglomerates at handsome profits" (p.104).

This is Egged
Although intended for promotional purposes, this booklet provides useful information about the history and organization of Israel's Egged Bus Company, the largest public transport co-operative in the world with 5,600 members. Copies available from:

Friends of Pioneer Israel
272 Codsell Avenue
Downsview, Ontario

Kibbutz Industries: Special Supplement in the Jerusalem Post International Edition, September 12-18, 1982. (English).

This 7-page supplement to the Jerusalem Post International Edition is loaded with rich information about the industrialization of the Israeli Kibbutzim, with production now totalling IS\$6 billion. Among the interesting articles is one that describes the introduction of robots into kibbutz factories. Indicative of the changing face of the kibbutz is the desire by Kibbutz Beit Haemek to recruit Ph.D.s in physiology, biology, agriculture, biochemistry, and microbiology for its company that employs advanced tissue culture techniques to propagate ornamental, specific pathogen-free plants.

To order, write:

The Jerusalem Post
International Edition
P.O. Box 261
Norwood, N.J.
U.S.A. 07648

Report of the Sub-committee to Promote Profit-Sharing by Employees in Business. Ottawa: Government of Canada, 1982, 39pp. Recommends another task force study the question; the selected bibliography to the report is slim and rather one-sided.

Balancing the Economy by Revitalizing the Third Sector by Tom Webb. Ottawa: 1982, 12pp. This is a proposal to the Federal Government to establish

a government agency for co-operative and community development.

For copies, write:

Tom Webb
56 Sparks Street
Suite 401
Ottawa, Ontario
K1P 5A9

Tricofil: Tel que Vecu!
(Tricofil: As it Really Happened) by Paul-Andre Boucher in Collaboration with Jean-Louis Martel. Montreal: Le Centre de gestion des co-operatives des H.E.C., 1982, 373pp.

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WHICH WAY EMPLOYEE OWNERSHIP?

Paul Jones

Hard economic times often lead people to question the orthodoxy of the current economic system. That's not unusual, or remarkable. What is interesting is the variety of answers that are produced in a range of situations. So it is with employee-ownership. Consider the following stories:

- The employees of Consolidated Rail Corporation of Philadelphia (Conrail) recently voted to "begin a transaction that could result in complete or substantial ownership with control of Conrail by its employees"

(Globe and Mail, November 10, 1982). Terms of the transaction include wage and other concessions as may be necessary to ensure Conrail's survival, and credit against the purchase price for concessions made to date and other items. The resulting railway would be a for-profit corporation with "normal management of operations and normal board made up of members from the traditional range of private sector experiences, albeit with some employee designees". The labor unions, who initiated the proposed transaction, would not have any vote in the ownership or management.

- Twelve managers of Smith and Stone, Inc., an electrical wiring company in Georgetown, Ontario, bought the 60-year-old company from Duplate Canada and Canadian General Electric. The firm, which makes items such as light switches, lamp holders, and floor tiles had been up for sale for almost a year. It began serious negotiations with the managers two months before the deal closed (Sunday Star, December 26, 1982). The sale

saves the jobs of 225 shop workers and 75 office staff.

- The Foreign Investment Review Agency (FIRA) forced the Herald Company of Syracuse, N.Y., to save the jobs at two Canadian publishers, Random House of Canada and J.B. Lippincott Company of Canada, as a condition for approval of Herald's takeover bid of Random House of Canada (Globe and Mail, September 14, 1982). Herald's has further agreed to provide the Canadian employees of Random House with an opportunity to buy a controlling interest in the company (i.e., 51 per cent of the voting shares). J.B. Lippincott, with 10 employees, was originally scheduled to close when FIRA refused to approve the original American owners' takeover bid. But the government feels that not only has it saved jobs but it has also increased Canadian-based publishing activity.

PENSION FUNDS

- The employees of Fittings Inc. of Oshawa, members of Local 1817 of the United Steelworkers of America, loaned their company \$750,000 from their pension fund to overhaul existing machinery, finance new marketing ventures and, thus, indirectly save jobs. The loan, which needed the special approval of the Ontario Pension Commission, is secured by a debenture on the Company's fixed assets, equipment and accounts receivable. Fittings, the largest iron castings foundry in Canada, currently has 109 workers on lay-off

(Toronto Star, November 20, 1982) and the initiative for the pension fund loan came from the workers. Wally Majesky, President of the Metro Toronto Labour Council, called the move most unusual.

SAVING JOBS

Saving jobs is a primary or partial goal of all four transactions, but what will be the long term effects of these types of arrangements? In return for wage concessions, investments, etc., which all involve increased assumption of risk by the workers, have they received in return an equivalent increase in their democratic control over management and the investment policies that determine the degree of risk? These policies have more influence in determining worker productivity than their day-to-day efforts on the job.

PARTICIPATION

As Richard Long has suggested, "The extent to which Employee Ownership is able to bring about increased Participation in decision making may be the single greatest factor affecting the success of employee ownership" both in the short run changes in job effort and long run changes in strategies" ("Job Attitudes and Organizational Performance Under Employee Ownership" (1980), 23 Academy of Management Journal 726 to 736.)

DEVELOPING WORKER CO-OPERATIVES AS A SYSTEM OF FIRMS

John E. Jordan

The point which this paper wishes to make is quite simple. It is that our development strategies for worker co-operatives need to lead toward, or even begin with, a system of enterprises rather than the single, autonomous co-op.

This argument is not based primarily on Mondragon, although that is the example which will come most readily to the minds of many. Instead, the argument draws on broader co-operative experience as well as that of small private business, and social systems theory.

At least in Canada and the United States, most worker co-operatives begin as small firms (few expand beyond that). As both the recent Canadian Federal Government small business review and the extensive study of David Birch at the Massachusetts Institute of Technology show, the survival rate of small business is not good. (The statistics are not perfect: not all firms which disappear have gone bankrupt; some have found it too arduous, and decided to go fishing, or have successfully merged.) In Canada, at least one in five small businesses does not witness its fifth birthday, according to a recent study at the University of Western Ontario. In the United States, the failure rate appears to be even higher.

The worker co-operative experience is less clear. Oakeshott and Jones have argued convincingly that the worker co-operative survival rate in several European countries is at least as good as capitalist enterprises. There seem to be few grounds for arguing that it is much superior.

Failure rates of this magnitude pose a considerable pragmatic challenge to worker co-operative proponents, but they pose a moral challenge as well. Is it right to encourage vulnerable workers to invest time, energy, money, and expectations in an enterprise

that has a considerable chance of failure? One can reasonably conclude that proponents are under considerable obligation to analyze extensively what might be done to reduce the chance of failure.

The dominant development model now deployed for the development of worker co-operatives is a slight variant of the small business development model. The distinguishing characteristic of this model is its virtually exclusive focus on the viability of the individual firm. The desire for independence is one of the chief motivators of those starting new businesses, and this does much to explain the preoccupation with the single firm. But in most cases, the dominant co-operative development model for consumer as well as producer and worker co-operatives is only a slight variant on the small business model. The Saskatchewan Department of Co-operation and Co-operative Development, the largest in Canada, speaks of assisting a co-operative to the point of "self-sustaining"

activity. If one examines the recent handbooks or manuals which have been published in Great Britain, the United States, Canada, and Italy on developing worker co-operatives, one finds a similar concentration on the development of a single co-operative as an autonomous entity. There is, to be sure, attention paid to the need for involvement of workers and the desire to invigorate the democratic process. But most of the material on the actual business development would be at home in any good manual on starting your own firm.

Without alternative organizational strategies, we are unlikely to turn in a significantly better success rate than small businesses generally.

The alternative strategy put forward here involves a shift in perspective. It still requires that individual firms

be formed, and that they be operationally and financially viable. But the focus for development becomes less the individual firm and more a system of interdependent firms.

Although the autonomy of the individual co-operative is an article of the co-operative creed, an examination of what co-operatives do reveals a different pattern. If one looks at the well-developed sectors of Canadian co-operatives, it becomes quickly apparent that the local co-operatives are highly interdependent in their operations while still retaining their formal autonomy. The retail co-operatives in Western Canada, for example, display an extensive range of interdependent linkages. They

refer to the Co-op Retailing System (CRS), with Federated Co-operatives Ltd. as the central. Federated's activities extend far beyond wholesaling. It provides manpower planning and management development, so that the staff of individual co-operatives are better viewed as a civil service for the whole system. Federated also assists with planning and market development, and its services in this area even extend to standing behind the security a local co-operative offers when it takes on increased debt to enable an expansion program. Federated also engages in product development, advertising and promotion, manufacturing, computer systems development and operation, training for staff and elected members and planning for the system as a whole.

One sees a similar picture if one looks at credit unions. In each province there is a credit union central which provides services and manages the key interdependencies between local credit unions. Liquidity management is a good example of an operational interdependency. Through the central, the credit union can

deposit surplus funds and, in return, draw funds when it requires additional cash. Centrals also play a lead role in product development in many provinces - a key issue in the fast changing financial arena. Centrals also provide cheque clearing services and in other ways act as an intermediary between the local credit union and the larger financial domain. Their range of services extends to computer systems development and operation, training of staff and elected members, advertising, and promotion.

Co-op Systems

Local co-operatives or credit unions which do not have access to a broader system tend not to survive. There seems to be a direct correlation between the coherence and effectiveness of credit union and co-operative systems in different sectors and parts of the country, and the growth and development of those sectors. In areas where strong, interdependent systems have not been created, growth and development tends to falter, and an increased number of problems appear. The concept of a system of firms also implies that, when a co-operative is in difficulty, it will be able to enlist support from the larger system of which it is a part. There have been several significant instances of this in Canada in the past few years. Indeed, the only major co-operatives that have not been assisted when they encountered significant difficulty were those that had held themselves aloof from other co-operatives.

Mondragon

The Mondragon experience is well known, and furnishes many examples of carefully designed operational interdependencies. These include the financial arrangements between the worker co-operatives and the bank, the sharing of information to enable co-ordinated planning, the formation of new

co-operatives to make components used by other co-operatives in the group, the opportunities for surplus personnel to shift to another co-operative, the social security program, and the education and training programs. Nonetheless, the extensive development of Mondragon has often obscured the key notion of designed interdependencies between the worker co-operatives.

Italy also presents excellent examples of linkages between worker co-operatives. One common form is the consortia. These undertake a variety of functions on behalf of their member co-operatives. They purchase supplies, arrange financing at a set rate for all co-operatives in the consortia, act as general contractors in the construction industry - managing the contract and dividing the work across the various worker co-operatives in each trade - and manage export contracts.

Entrepreneurs

Finally, there is an increasing indication that private entrepreneurs are discovering the merits of being part of a larger supportive system. Statistics on market share of food retailers in Canada show that the supermarket chains gained 10 percentage points across the past decade. More significantly, the entire gain came from the independent grocers. The third group, called the associated independents, held their own ground. This group includes most retail co-operatives but also other merchants who have formed organizations to provide themselves with wholesaling and other services. There are many other examples. Some, such as Home Hardware, have been in existence for many years. Home Hardware acts as a wholesaler, but supplies house brand products, advertises and merchandises, and provides consulting assistance to participating merchants. Others are much newer. Within

the past few years, Canadian small businessmen have formed central organizations in book selling, hi-fi distribution, taxi cabs, and several other fields.

Strategies

These developments can be related to broader ones within the world of industry. As the external environment has become more turbulent for most firms, the autonomous small firm is more vulnerable. It rarely has sufficient human resources to engage in the necessary environmental scanning and contingency planning. It often does not have the financial resources to engage in research and development or the retooling that is required when technology or customer demand shifts suddenly. There is broad recognition today that industry needs to meld the advantages of large and small. Firms which are formally small need to balance their entrepreneurial agility with the resilience and robustness that can be obtained by participating in a larger organization. Firms which are formally large need to find ways of operating as if they were small so that they may be entrepreneurial, to use a term which Norman Macrae of The Economist has popularized. Since most worker co-operatives are formally small they need to find ways in which they can obtain access to the type of resources that provide large firms with their distinctive advantages. These lie especially in the areas of environmental intelligence, planning, financial depth, market development, and staff training and development.

What this perspective suggests is that development strategies for worker co-operatives should be refocused. Instead of the point of entry being the individual worker co-operative, we should be thinking of beginning with the core organization of an interdependent system of worker co-operative firms.

COMMENTS ON 'DEVELOPING

WORKER CO-OPERATIVES AS

SYSTEMS OF FIRMS': WHAT'S

TO BE DONE

John E. Jordan
Jack Quarter

In his very compelling analysis, John Jordan notes that the fate of the small, isolated business is very precarious, and there is little reason to believe that small isolated co-ops would fare much better. As an alternative, Jordan proposes developing systems of co-op firms and, thereby attain some of the supportive integration typical of large companies, yet still maintain the resiliency of small enterprises. A major advantage of large firms and federations of small firms over the isolated business is the ability to plan and control the market place.

Bearing this objective in mind, the more troublesome problem is - if I can borrow the title of an oft-maligned essay - 'What's to be Done' to attain this integration. Given that the worker co-op landscape in Canada is quite barren and that credit unions (co-op financial institutions) do not have a strong commitment to a worker co-op development strategy, it is a virtual capital requirements. As such, the type of economic integration that is typical of the modern corporation - in which a market is provided within the corporation for derivative forms of production and service - seems impossible. This same principle of integrating production is used at Mondragon. With the development of an enterprise, market needs are created that are met through the creation of derivative production and services. Since there is a planned market, the new enterprises operate with a much higher probability of success

than isolated enterprises, as is borne out by their results.

Unfortunately, this type of integration of production requires a volume of business that a fledging worker co-op could not provide, even if there was a willingness to do so. In Canada, such a volume would be available through the more mature co-ops, in agricultural distribution or in insurance. However to date, they have not integrated worker co-ops within their production and service needs - perhaps because they are cautious and await a successful demonstration.

STARTING PLACE

A more feasible starting place might be to see whether the large consumer market in existing housing co-ops and credit unions would collaborate with worker co-ops planned to service their needs. Such a strategy has been pursued in some informal discussions of an embryonic resource group in Toronto to form worker co-ops. The first step would be to attain information on the services that individual housing co-ops and credit unions in the Toronto area are providing and whether they would find it advantageous to have these services provided by worker co-ops established for such a purpose. For example, if a survey noted that there was a need for janitorial services, it might be possible to establish a janitorial

worker co-op or several of them. These worker co-ops could also undertake outside business, possibly using a two-price system. Essentially the principle would be to harness the consumption of housing co-ops and credit unions as a planned market for worker co-ops.

This principle has been successfully applied by the Israeli Kibbutzim, as a substantial part of production is designed to meet market needs of other kibbutzim. For example, Kibbutz Ein Hamifrat has a large box factory which services the need for agricultural cartons among other kibbutzim. It also sells outside the kibbutzim, having about 20 per cent of the market in Israel. Both in its sale to other kibbutzim and outside its price must be competitive. But it is understood that as other things being equal, the kibbutzim purchase each other's products. Given that there are about 100,000 adult members and a similar number of children and adolescents, the preference for each other's products makes it easier for kibbutz enterprises to plan a market and also provides them with a competitive edge in the market place.

ENTERPRISES

Not only do the kibbutzim plan their collective needs this way, but enterprises are planned to service the personal consumption as well. For example, the kibbutzim have a retail shoe outlet in Haifa at which kibbutz members can purchase quality shoes at discount prices. The same outlet sells shoes to nonkibbutz members at competitive retail prices.

Unlike kibbutzim in which the household economy is integrated within the community

INTERNATIONAL NEWS

Switzerland

Switzerland's major consumer co-op, Co-op Schweiz, has decided to include employee representatives on its board of directors. The delegates to the 93rd annual meeting, held June 19, 1982, authorized the nomination of two representatives by the employees to their 27 member board. The other 25 members are elected by the delegates at the annual meeting. To be eligible for election, a candidate must have occupied a permanent position with the Co-op for at least three years. Co-op Schweiz employs 31,581 people in 1,423 stores, serving 1,061,929 members. Their sales in 1981 were close to \$4 billion.

(ensemble! 1 Octobre 1982)

Australia

The 1981 Productivity Improvement Award for Small Business of the Australian Productivity Promotion Council was won by the New South Wales Worker Co-operative Program. Their entry outlined the objectives and principles of worker co-operatives and listed some of the achievements of their members. The entry was supported by findings from the evaluative report of the University of New South Wales Social Welfare Research Centre. The trophy, donated by the Commonwealth Development Bank, was presented to the group in front of an audience of businessmen who were greatly impressed with the results of the program.

(from Work link: A Publication for Worker Co-operatives in New South Wales, Nov. 1981)

Australia

The New South Wales Government's Department of Youth and Community Services has, in conjunction with the Co-operative Federation of New South Wales Central Banking System, set up a new corporation to administer a \$400,000 (Aust.) revolving loan fund and grant programme as part of its Worker Co-operative

Programme. The Common Ownership Finance Pty. Ltd. (COF) is currently established as a "registered company" but it may convert to a co-operative structure in the future (Work Link, Vol.2, No.11, November 1981). The Company is now owned by the Co-operative Federation of New South Wales which administers the fund according to guidelines agreed by the Federation and the Department of Youth and Community Services.

Financial assistance will be available under either the Self-Help Development Fund or the Loans Fund. The Self-Help Fund are grants of up to \$5,000 for feasibility studies and business planning for a maximum of six months working capital for initial developmental (Work Link, Vol.3, No.7, Sept./Oct. 1982). The Loans Fund is available for capital equipment purchases and longer term venture capital according to submitted business plans at 3 per cent less than the prevailing rate at the banks. COF also has the discretion to grant "interest free holidays" (Common Ownership Finance Party Ltd, Guidelines for the Provision of Financial Assistance to Worker Co-operatives, p.12). The financial assistance may be either directly to the co-operative or indirectly paid to third parties to carry out specific work to benefit a particular co-operative.

The assistance is available to groups planning to start a new co-operative business or convert an established business, as well as existing co-operatives. Specific criteria also include size (must create 3 full time positions within the first six months of operation), a financial commitment by members (usually share purchases), and a sound organizational structure. As well, for loans the group must have a "clear understanding of the basic economics and operations of the industry sector it is proposing to enter" and a plan of operations. Under Australian law, the word co-operative can include both organizations registered as companies as well as co-operatives. Accordingly,

Continued on page 8

the Guidelines lay out organizational criteria which must be written into its articles or by-laws. They are:

1. One of the principal objects must be the provision of employment.
2. Membership in the co-op must be open to all permanent workers.
3. If membership is open to non-workers, the workers must clearly have control.
4. Capital contributions must be a clear condition of membership.
5. Share transfers must be subject to Board Approval.
6. There must be a limit on profit distribution by way of dividends on share capital.
7. Benefits of the co-operative must be available to the worker members as workers, and not as shareholders.
8. Control must be exercised on the one person - one vote principle.
9. On dissolution, a surplus must be made available to another worker co-operative or a support organization, which have similar dissolution restrictions in their articles.

In creating the COF, the New South Wales Co-operative movement has separated the vehicle for providing financial assistance from the group that provides technical assistance, the New South Wales Co-operative Development Agency. The latter will assist groups in preparing business plans and loan applications, while the former will judge the quality of the submissions so prepared. This is markedly different from Mondragon's Caja Laboral Popular where the two functions are integrated into one body, the bank. The question is whether this is a result of the different source of funds in Australia (i.e. the government); or a desire to avoid a conflict of interest in approving loan applications. It will be interesting to see how the Australian venture capital fund works. Further information on COF can be obtained by writing:

Common Ownership Finance Pty. Ltd.
 The Secretary
 GPO Box 1758
 Sydney, New South Wales,
 2001
 Australia

Jamaica

KINGSTON (CUC News Service) -- Looking for a good hotel for your next stay in Jamaica? Try the Casa Monte in the blue mountains overlooking Kingston.

That recommendation comes from Michael Rosberg, a project officer with the Co-operative Development Foundation, not only because the air conditioned Casa Monte offers good food, accommodation, and service, but also because it is a worker-co-operative.

The hotel had been a government training centre until 1979 when the government closed the centre and the employees took it over to operate as a hotel.

They're doing such a good job they expect to pay off the government loan they made to purchase the hotel within a few months.

At first, the employees hired a manager without co-operative experience to run the operation. He did not last long, nor did a second one who replaced him. So after losing two managers in six months, the co-operative decided to employ one of its own members as manager. A plumber-electrician, he took management training and has been on the job ever since.

The members of the board of directors include the hotel's gardener and the lifeguard.

Democracy is very much alive in the co-operative with major operating and policy decisions taken at weekly meetings.

It was at one such meeting that the members decided to do something about the high price they had to pay for vegetables. So they started their own vegetable farm at the hotel. Now they're selling surplus vegetables to neighbours.

EEC

A report now published which was commissioned by the EEC shows that there are more than 500,000 people employed in Workers' Co-operatives in Western Europe and the numbers are growing rapidly.

In Italy alone there are 5,000 "producer co-operatives" employing 350,000 people and the rapid growth in that country is helped by co-operatives enjoying

exemption from local taxes and the existence of a 40 million Co-operative Development Fund which will provide up to 70% investment in a new co-operative at 4 1/2% interest for the first £15,000 (market rate of interest beyond that).

In France there are 35,000 people working in 900 co-operatives and again there is evidence of a rapid up-surge in growth since 1975. Co-operatives have some advantages under French law. They can re-invest part of their profit into a "workers participation fund" free of corporation tax or personal taxes and an equal proportion of profit (also tax-free) into an investment reserve. The law also requires that when public contracts are put out to tender preference must be given, prices being equal, to workers co-operatives and that where possible the contracting authority (state, local authority or public service) should break the work, service or goods it requires down into lots a quarter of which should be offered to workers co-operatives at the average price.

Since 1978 the law in France has also provided that local authorities can grant direct subsidies to workers co-operatives whilst being prohibited from contributing in any form towards the capital of private undertaking. This example of positive discrimination is justified on the grounds that no private individual can appropriate the co-operative's capital reserves since, by law, assets in the event of dissolution do not go to the members but, as with ICOM Model Rules, go to other co-operatives or to "SCOP", the French confederation of producer co-operatives.

After Italy and France, Britain has seen the greatest growth in worker co-operatives in recent years with over 400 Common Ownerships registering through ICOM, mainly new enterprises. In fact starting from a very low base, a total of 30 workers co-operatives in 1975, the rate of growth in the UK has been greater than that in France, surprising since UK law offers none of the incentives available in France or Italy.

The interest of the EEC Commission in having the study

INTERNATIONAL NEWS CONTINUED FROM PAGE 8

done lay in the employment creating potential of worker co-operatives. The fruit of the research did not suggest that co-operatives offered a solution to the problem of unemployment in Western Europe but did suggest that they could make a contribution. In all countries the total number of jobs had been maintained and new jobs created. 15-17,000 a year in Italy, 1,500 a year in France and Britain, 500 a year in Holland and Spain. Insignificant numbers in view of the scale of the problem but who knows what could happen if just 1% of the money spent on maintaining unemployed people was diverted to helping them create employment through co-operation.

EEC

The European Economic Community (EEC) headquartered in Brussels, and the Manpower Services Commission of Britain have joined forces to launch six worker co-ops at a cost of £300,000 in grants and loans. The scheme, intended to serve as a model for future EEC efforts in Europe, will provide 39 jobs for "unemployed youths with no business experience".

At the Hartlepool (England) Co-operative Enterprise Centre these youths "will learn business techniques and work sharing under a team of five staff. By next year it is hoped the six businesses will be able to survive without further grant aid" (ICA News, pp.9-10).

One is entitled to wonder whether such a state-centred initiative can possibly be credible to "unemployed youth" in Hartlepool. No initiative should be scorned where serious unemployment exists, of course, but experience elsewhere with similar schemes is not very encouraging.

For example, a two-year study of 25 worker co-ops in Quebec singled out 10 that came into existence through Canadian government grants. Their workers "viewed themselves as little more than captives of forced work programs for those on welfare and unemployment" (Vaillancourt, p.17).

The same study also found motivation and locally based initiative were key predictors of success. "Of the 16

co-operatives begun solely to make jobs, only two were categorized as successful after two years. None of the co-operatives which were begun in order to advance regional development failed during this same period" (Vaillancourt, p.14). The key phrase above is "solely to make jobs".

References

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United States

The employee stock ownership plan (ESOP) of U.S. aerospace giant, Bendix Corp. of Michigan, recently became a pawn in a complicated mutual takeover struggle with Martin Marietta Corp. of Maryland, another aerospace manufacturer (Globe and Mail, Sept. 11, 1982). The ESOP stock, meant to spread the spirit of capitalism to the workers by paying them partially in company shares, was unexpectedly tendered by its trustee, Citibank of New York, in a bid by Martin Marietta to buy a controlling interest in Bendix.

Bendix Corp. began the struggle on August 25 by attempting a takeover, tendering an offer for 45 per cent of Martin Marietta stock. Although Bendix later succeeded in purchasing a controlling 70 per cent interest in Martin Marietta, state laws and company bylaws prevented it from immediately voting the directors of Marietta out of office. In the interim, Martin Marietta fought back, buying up 44% of Bendix - a controlling interest. About 23 per cent of the Bendix stock taken up by Martin marietta was in trust as an ESOP.

Bendix applied for a court order prohibiting the trustee, Citibank, from selling the stock of its own workers to Marietta. Martin Marietta accused Bendix of "coercing

employees". Bendix lost and the ESOP stock was sold, evidently without specific consent from each of the employee "shareholders". As a result, Bendix and Martin Marietta ended up owning each other.

The stalemate was broken only by the intervention of Allied Corp. of New Jersey (Globe and Mail, Sept. 24, 1982). Bendix became a subsidiary of Allied and Martin Marietta remained independent, but much deeper in debt, exchanging Bendix stock for its own from Allied at prices inflated by the struggle (Globe and Mail, Sept. 30, 1982).

ESOPs were never designed to lead to workers' control or self-management. Far from that, it now appears that the minority position of stock in trust for employees under such plans does not even give U.S. workers a say in who will own the company they work for.

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Carla Salvador

It is a cliché to say: it wouldn't have been possible without her, but it is certainly true in this case. Since its inception as an independent newsletter, Carla Salvador has done copy editing and most facets of production for Worker Co-ops without charge. Carla's retirement, however well-deserved, naturally comes as a disappointment. So, we'll say it once again: it wouldn't have been possible - and thank her very much.



BOOK REVIEW

by

Frank Lindenfeld

Alasdair Clayre (editor), The Political Economy of Co-operation and Participation: A Third Sector. Oxford University Press, 1980.

Reviewed by Frank Lindenfeld, Cheyney State College

This book presents three models, the most important of which are Peter Jay's fully co-operative market socialist economy, embracing all firms with over 100 employees, and Robert Oakeshott's cooperative sector within a mixed economy, based on the Mondragon example. The volume touches on a number of issues:

1. How do we get from "here" (i.e., existing capitalism) to "there" (i.e., market socialism?) Jay assumes this will be a gradual process, through the agency of a socialist party. For this to happen, we would have to have different socialist parties and a change in the culture of individualistic materialism. Such a new culture would stress an enhanced quality of life and ecological considerations. It would raise questions about what is to be produced and whether differentials in economic rewards should be abolished.

2. Smaller firms create most new jobs. This implies there should be encouragement to establish new small cooperatives. Why not emulate the Caja Laboral Popular of Mondragon by forming similar banks whose main goal is to help start co-ops?

3. How large should self-managed enterprises be? Jay says 1,000-2,000. I would argue for 500. Optimum would be 30-300. This would allow for two tier representation, so any governing board would have a maximum of 15 directors each representing a work group of not more than 20.

4. How important is it for workers to have a capital stake

in their co-op? Don't they work better if business failure could wipe out such a stake? In Mondragon, members who invest \$2000 might receive back this share plus interest on dissolution but they can't disband the firm and live off assets. The assets are socially owned, as with tax-exempt American non-profits that must turn them over to another non-profit organization on dissolution.

5. Workers having savings tied up in their co-ops means they risk losing both jobs and savings if the co-op folds. Yet if the alternative is working for a traditional capitalist firm or a nationalized one, many would accept that risk, especially if they have an additional pension scheme not tied to the success of their firm.

the range of \$1.2 to \$1.5 million. It also developed sales and distribution strategies for North America and Europe. To satisfy different customers (musicians, recording studios, radio stations, institutions, etc.) they designed different sizes of systems.

The members chose the worker co-op model particularly to create better productivity. United in a co-operative, the workers are more involved in the management of their work. In their basement workshop they operate as a team rotating the tasks to produce an average of one synthesized every three days. They alternate, because to do the same task constantly, would be exhausting. For example, to do the programming one must write at least 16,000 lines of codes. Alternation helps to maintain the workers' interest and, accordingly, higher quality output.

This type of enterprise lends itself well to the cooperative model. Even though they have different specialties, all members are equally involved in production. As well, it requires a relatively modest initial investment. There is another co-operative in electronics in Quebec: Celibec in Trois Rivieres. The members of Technos plan to reinvest surplus earnings in the research and development of new products. In this sector, where technological change is extremely rapid, and the product-life does not exceed five years, reinvestment in the development of new products is a condition sine qua non of success, if not of survival.

TECHNOS CO-OP PRODUCES REVOLUTIONARY NEW SYNTHESIZER

Paul Jones

About a year ago Pierre Guilmette developed a prototype for an entirely digital synthesizer, a technological advance over Japanese and American products then on the market, which are all analog, or hybrid analog and digital. To put it into production and distribute it, he formed "Cooperative de developpement et de production de systemes electroniques-TECHNOS" with four others; an economist, two technicians, and a professor at the electronic music studio at Laval University. (Michel Lambert, ensemble!, le 26 novembre 1982, p.24).

Before going into production, the co-op had a market study done by an outside firm. The study established that potential sales were in



SPRING PLANT UP IN

THE AIR

Bob Schutte

In July of 1982, several weeks before contract negotiations were due to reopen, Chrysler Canada Limited of Windsor made an unusual offer to the 350 unionized employees of its spring and car-seat frame plant. The workers were offered plant and inventory with a book-value of \$3.1 million, for the bargain price of \$1. However, Chrysler did not commit itself to buying the plant's production at current prices, and its director of public affairs, Gordon Pfeiffer, was quoted as saying the plant is "unprofitable to Chrysler and a drain on our resources" (1).

The United Auto Workers Union viewed this offer as a pre-contract bargaining ploy. According to Basil (Buzz) Hargrove of the U.A.W. national office, Chrysler wanted to close this branch plant because it "could buy seat frames cheaper from independent U.S. companies". In his view, "just because you can buy something cheaper doesn't mean you should put 300-odd people out of work" (2).

In considering the Chrysler offer, the union was aware of the recent participation of U.A.W. workers in the purchase of National Hardware of Dresden, Ontario. National Hardware was being dumped by the Canadian conglomerate, Cominco, of Vancouver, and the union's share of the buy-out was approved by the executive of Local 580 of the U.A.W. (3). However, Windsor Local 444 of the U.A.W. rejected Chrysler's offer of sale of the spring plant because it was feared that it would depress wages and weaken the union.

The fate of the Chrysler spring plant in Windsor was just one of the issues on the bargaining table when overall contract negotiations later broke down, and strike action was taken. Late in December, the U.A.W. emerged with a contract settlement which included significant wage concessions from Chrysler. The

spring plant issue remained unresolved, according to Doug Glynn, P.R. rep for the national U.A.W., but he said, the union was pursuing the matter with the government in the context of an auto-industry task-force.

On January 17, 1983, Chrysler announced its intention to close the spring plant, which it claimed is losing \$5 million a year. The next day Industry Minister Ed Lumley expressed surprise at the announcement; "I haven't given them permission to close anything. If they follow through, it will be another violation of our agreement." (4). The agreement Mr. Lumley referred to was \$200 million of loan guarantees from the Federal Government, part of a financial package to save the company from bankruptcy and preserve jobs. Chrysler already had announced it would not establish a planned diesel plant in Windsor. Now it claimed that it had "no agreement" with the government.

Scheduled to close in mid-July, the spring plant may once again be a bargaining piece. Chrysler would like the \$200 million of loan guarantees to convert its existing Windsor car plant for Caravan van-wagon production. Whatever the future holds for the spring plant, it is a good bet that worker ownership would be a bad deal.

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RECENT

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FROM PAGE 2

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A Study of Industrial Workers' Co-operatives by R. O'Connor and P. Kelly. 1980, 221pp.



OTTAWA RENOVATION CO-OP

LOOKS AT ITS OWN DEMISE

Margot Andresen

It's a year now since members of the Collective Action Co-operative (COACTCO) went their separate ways, and many people are still wondering why the Ottawa-based renovation co-op didn't work out. According to founding member Amanda Shaughnessy, "A lot of us were interested in the philosophy of worker co-ops and not in being construction workers. Once the novelty wore off, and we looked at something closer to our inclinations, we found the co-op was just not able to survive the transition." Another big problem was a lack of necessary skills and capital.

COACTCO began in 1977, when another founding member, Herman de Souza, was teaching a course in community development at Ottawa's Algonquin College. At the end of the school year, a number of the students graduating from the course were unable to find jobs. Amanda Shaughnessy was interested in the worker co-op model and made the class aware of this alternative. Herman had been asked to build a chicken coop (that's coop, not co-op). He put all three factors together.

"I didn't want to get into full-time construction, so I decided to use a structure with shared ownership and legal status."

The chicken coop led to other building and renovating contracts. However, only three out of 15 members had expertise in building. The days were filled with getting the job done and the evenings with transferring skills. This made for a long work week, and the pay remained minimum wage.

"The big problem was that after the first job, the company was undercapitalized. We had a high level of equity in unpaid wages and loans to the organization. Most of the money was being pumped back into the co-op, and a lot of it was going to training," Herman recounted.

Next, COACTCO got into projects with a quick return -- climbers for children, outdoor swings, wooden toys and small

furniture -- but found that only the most skilled workers could do these tasks.

The next project COACTCO took on was renovating a row of housing units valued at \$400,000. This, too had its difficulties.

"There are no government start-up funds for worker co-operatives. It wasn't possible to get a loan because there was nothing to lend against. Once again, we couldn't afford to pay the market rate for skills, and at the same time we had to hire specialists at competitive rates to do certain parts of the renovation," Herman explained.

The real crunch came when interest rates began to soar in 1980. The owners were unable to continue to finance renovation and couldn't sell the units. The venture took a substantial loss, and COACTCO got out of the home renovation business.

A government contract for weatherproofing kept the four or five core members employed until January, 1981, when members decided to follow their own areas of interest.

"For a while, we were learning new skills and were able to balance that off with the low wages, but after a while it was time to get some money in the pocket again," Amanda explained. "We all

expected to make some money and egged ourselves on, thinking that we might be able to. Partly it was just bad timing. But there were other things -- after starting a worker co-op because of the philosophy, we found ourselves having to kick people out of their houses in order to renovate and sell units, and this didn't sit too well, either."

"Also, we were an island; there were no other worker co-ops to compare notes with and neither government nor co-operatives showed any support," Amanda said.

What are the lessons to be learned? "It's fine to look at Mondragon and get excited about worker co-ops as an employment alternative, but you have to remember that Mondragon came out of a do or die situation, where there was no alternative. In a climate where there is unemployment insurance, the pay has to at least be above that. People who work in worker co-ops lead dual lives where they are co-operators at work but when they get home expect to live at the same standard as everyone else," concluded Herman.

One of the positive aspects, according to both Amanda and Herman, is the fact that the experience gave members skills they didn't have before. All of the five core members are employed in some aspect of the experience: co-operative education, energy, weatherizing, and office management.

Margot Andresen is an Ottawa freelance writer and broadcaster

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