

## **Developing Democracy: Cooperatives and Democratic Theory**

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**Abstract:** The 2011 Occupy movement drew critical attention to the need to develop new economic models that enrich communities rather than a small group of investors that have little or nothing to do with the communities from which their wealth is extracted. This need is nothing new, of course, as liberal capitalism among other factors has produced long-running economic disasters across the U.S. One answer to this has historically been the cooperative movement, which first arose in the early 19<sup>th</sup> century as a response to the devastation being caused by laissez-faire capitalism, centered around the value of labor, the union of worker and consumer interests, and the democratization of enterprises. The cooperative movement has grown phenomenally since then (now with over a billion members worldwide), but it has also changed in significant ways, and recent work has promoted cooperatives as a democratic alternative to the traditional capitalist model. But the nature of cooperatives as democratic enterprises must be better understood, as they vary considerably in terms of size, shape, and the degree to which they adhere to their founding principles of egalitarianism, shared property and democracy. This paper examines questions related to cooperatives' democratic character, including the effects of cooperative type and size, and considering both the nature of relations within any given cooperative, as well as the cooperative's role as a force for broader democratic social change.

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## **Developing Democracy: Cooperatives and Democratic Theory**

Cameron County, Texas, where I currently reside, has consistently been identified as the poorest or second-poorest urban county (population over 250,000) in the nation. Cameron and Hidalgo County, its neighbor to the west, are the only urban counties in the nation with median household income of under \$25,000 (for comparison, median household income in Texas is over \$42,000 and in the U.S. it is over \$46,000). As might be expected, these counties also have the highest poverty rates in the country, at over 41%. The *colonia* Cameron Park, which is surrounded by Brownsville (the main city in Cameron County), has been identified as the poorest urban settlement (over 1,000 households) in the country, with median household income of under \$17,000 (average per capita income of just \$4,100).<sup>1</sup>

I may be accused of stating the obvious, but Brownsville and Cameron County, like plenty of other similarly-situated communities across the country, need economic development. Like many other cities around the country, Brownsville does have experience with development, little of it good. The standard model of development for low-income communities involves using public subsidies to attract employers, who usually offer mostly low-skill, low-wage jobs that do little more than replace direct public assistance and fail to add much, if anything, to the local economic base. With little or no meaningful stake in the city, net earnings are exported to distant corporate headquarters (and then on to investors around the world), and little regard is given to the effects of the business on the surrounding community. When the subsidies end, or the economic winds shift, the employer goes somewhere else in search of new subsidies, and, a new hole having been made in the local economy, the city goes in search of a new company in an effort to fill the gap and start the cycle again.

An alternative model of development, referred to as community wealth strategies,<sup>2</sup> aims at

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<sup>1</sup> ("Poverty in Texas," 2009)

<sup>2</sup> As far as I can tell, the term was coined by the Democracy Collaborative, based at the University of Maryland, which maintains the Community Wealth website: [www.community-wealth.org](http://www.community-wealth.org). See also (Dubb,

improving the ability of communities and individuals to increase asset ownership, anchor jobs locally, strengthen the municipal tax base, prevent financial resources from “leaking out” of the area, and ensure local economic stability. Such a model of development not only creates jobs, but develops them from the ground up, drawing upon the assets—human and otherwise—of the community and the institutions that serve it. Capital is rooted in the community, so it can’t just pick up and go elsewhere. Further, because they are built from the ground up and strongly connected to the community, community wealth strategies can be designed to promote a greener, cleaner, healthier community. While there are a number of community wealth building strategies, including community development corporations, community development banks, various forms of public ownership, and employee stock ownership plans (ESOPs) to name a few, this paper will focus on a particular type that is significant in that it is inherently democratic. I refer, specifically, to cooperatives. Although necessarily democratic in a way that other forms of enterprise are not, this does not mean that their democratic character is beyond question. Indeed, the threats to democracy in cooperatives are, in fact, very real, and provide some lessons in what happens when democratic theory meets democratic practice.

The first part of the paper will offer a brief overview of cooperatives, their history and the character of the global cooperative movement, including here in the United States. The second part will consider democratic theory in the context of the cooperative movement, and identify some of the challenges that are inherent in the operationalization of that theory. The third section will discuss three possible ways of addressing those problems, and the conclusion will return to Brownsville to consider how the theory might be applied in practice.

### **Cooperatives and the Cooperative Movement**

Cooperatives do not receive a great deal of attention in the social science literature, at either the theoretical or practical level. The cooperative movement, however, may be reasonably

considered the world's largest democratic social movement. Democratic practices have been embedded in cooperatives from their beginnings in the early 19<sup>th</sup> century, and, while this is often obscured in modern histories of the movement, it was from the beginning organized based on a critique of capitalist political economics and an attempt to articulate and develop a practical alternative based on what eventually grew into socialist theory.

The extent of the cooperative movement today is substantial: Over a billion people worldwide are members of cooperatives, according to the International Cooperative Alliance, the apex organization for cooperative associations worldwide.<sup>3</sup> According to a 1995 U.N. report, fully half the world's population is affected in some way by cooperatives. In 2002, the International Labor Organization (ILO), citing cooperatives' role in promoting social empowerment, specifically endorsed the cooperative as a model for economic development,<sup>4</sup> and the year 2012 was designated by the U.N. as the International Year of the Cooperative (IYC). The movement is well-established in all of the world's leading economies, including in the U.S. A recent report published by the University of Wisconsin Center on Cooperatives identified some 30,000 cooperatives in the U.S., holding over \$3 trillion in assets, generating over \$650 billion in revenue, and paying some \$75 billion in wages and benefits to about 2 million employees.<sup>5</sup> According to the National Cooperative Business Association (NCBA), around 120 million Americans are members of a cooperative.

We should take care, however, in considering the significance of these numbers and before announcing the success of a hidden socialist revolution in America. The truth is that the picture given above of the cooperative movement, understood as a kind of movement for radical social change, is quite distorted. Few of those 120 million Americans who are members of cooperatives would see themselves as engaged in a radical transformation of society. Cooperatives may be well-

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<sup>3</sup> (ICA, 2012). Founded in 1895, the ICA is one of the only working-class based organizations to have survived both world wars and the Cold War, and was one of only three organizations given special reporter status by the U.N. at its founding.

<sup>4</sup> (ILO, 2002).

<sup>5</sup> (Deller, Hoyt, Hueth, & Sundaram-Stukel, 2009, p. 2).

established in the U.S., but their status as agents of social change is not so clear. For evidence of this, one need look no further than the 2011 resolution in the U.S. Senate to recognize the International Year of the Cooperative, which passed unanimously (itself noteworthy in today's hyper-partisan political environment) and was co-introduced by Thad Chocran (R-MS), one of that body's most conservative members. Far from evidence of the possibility of deeply-hidden socialist tendencies on Chocran's part, it points more toward the degree to which cooperatives have become assimilated into the capitalist economy and do not fit neatly into any ideological agenda. By the same token, it could also be evidence that cooperatives have already had a very substantial effect on American politics. For those who would like to see democratic practices woven more deeply into the fabric of our social institutions, the fact that cooperatives are so strongly accepted by conservatives such as Chocran offers an indication of how powerful the appeal of democracy may be; at the same time, it raises questions about what democracy may look like when it is extended in this way, and the function and role of democracy within the context of cooperatives if we want to understand them as agents of broader and deeper social change.

The idea of cooperatives as agents of social change comes in no small part from their history—a part of their history that gets little attention, especially in the United States. For the movement more generally, this means that an understanding of the ideological and political basis for its founding has largely been lost.<sup>6</sup> The founding myth for the movement as a whole centers on the establishment of a retail store by members of the Rochdale Society of Equitable Pioneers in Rochdale, England (near Manchester) in 1844. A group of 28 desperate, impoverished hand-loom weavers, influenced by Owenism<sup>7</sup> and Chartism, driven to destitution by industrialization and

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<sup>6</sup> Birchall's work is an excellent example of this. While it provides a very valuable overview of the historical development of cooperatives internationally from the last half of the 19<sup>th</sup> century through the 20<sup>th</sup> century, it includes only a very brief discussion of the period before Rochdale (discussed below), and while it includes very interesting discussions about the political associations of cooperatives, it has almost nothing at all to say about ideology. (Birchall, 1997).

<sup>7</sup> Or "socialism." In this period the terms seem to be used more or less interchangeably. The term Owenism refers to Robert Owen, a wealthy industrialist who advocated the establishment of investor-supported cooperative communities as a way of addressing the massive social problems associated with the Industrial

victimized by unscrupulous merchants, bands together and adopts a set of principles and objectives that reflect the experience of the failures of similar prior efforts. Contributing a few pence a week over the course of a year or so, they open their own retail operation that offers at first only a very limited range of goods for sale to members. Within a short period, demand requires that they open more often and carry more goods, and before you know it similar operations based on the Rochdale model are springing up all over England and beyond. By the 1930s cooperatives based on the Rochdale model constitute a substantial portion (perhaps as much as a third) of the English economy and are well-established throughout the industrialized world.<sup>8</sup>

The myth has some basis in truth, of course, but the Rochdale Society did not arise spontaneously, nor were its first members merely a group of destitute weavers. In fact, as Fairbairn points out, the founders were skilled artisans who were comparatively well-paid—those who were truly destitute would not have been able to afford the weekly subscription fee. “The Rochdale Pioneers did not rise spontaneously from need, but were organized consciously by thinkers, activists, and leaders who functioned within a network of ideas and institutions.”<sup>9</sup> The Rochdale Pioneers, in other words, were people who were very aware of (and some had been active in) an earlier stage of the cooperative movement that had begun in the 1820s but had largely—though not completely—died out by the end of 1833.<sup>10</sup> While it is the case that the Rochdale Pioneers were a more or less

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Revolution and laissez-faire capitalism. Owen is often seen as the founder of the cooperative movement.

<sup>8</sup> The origins of the romanticized version may be traced to the first history written of the Rochdale pioneers by George Jacob Holyoake, the first edition of which was published in 1857 (Holyoake, 1900). If Holyoake’s claims in his Preface of 1893 are to be believed, this work, which was published in serial form in Britain and by Horace Greeley in the *New York Tribune*, translated into French, Spanish, Italian, German and Hungarian, and quoted by J.S. Mill in his *Principles of Political Economy*, played a major role in spreading the Rochdale model worldwide (Holyoake, 1900). He provides a much fuller history, including a lengthy discussion of earlier work as well as various other experiments similar to Rochdale, in his two-volume work, *The History of Co-operation in England* (Holyoake, 1971).

<sup>9</sup> (Fairbairn, 1994, p. 4).

<sup>10</sup> Isolated experiments in cooperation date to the late 18<sup>th</sup> century, but a theoretical framework that linked them together and made them an expressly *political* and *social* movement didn’t exist until William Thompson published his *Inquiry* (1824, discussed below). Owen, who began advocating for the establishment of cooperative communities as early as 1817, offered little in the way of theory. Thompson’s death in 1833 marked a turning point for the cooperative movement, as Owen had largely turned his back on the movement

autonomous group seeking to address local conditions, the earlier movement was more expressly ideological and focused on radical social transformation, and there can be little question but that the Rochdale Pioneers meant to pick up on that tradition. The cooperative movement, then, has its roots in a radical movement for social transformation. Those roots have been obscured, especially where cooperatives have had to assimilate or else perish within capitalist economies, but while hidden, the principles that make the cooperative movement a meaningful vehicle for social transformation have not entirely been lost.

*William Thompson and the theoretical foundations of the cooperative movement*

The theoretical foundations for the cooperative movement were most clearly articulated by William Thompson, a wealthy Irish landowner and social reformer<sup>11</sup> who was referred to as a “disciple” at one point by the utilitarian philosopher Jeremy Bentham.<sup>12</sup> But while both sought the “greatest happiness of the greatest number,” Thompson’s idea of what constituted “happiness” was quite different from Bentham’s, and, as a result, his theory is much more social than Bentham’s individualistic hedonism.<sup>13</sup> Where Bentham’s work contributed much to liberal capitalist thought, Thompson established some of the most important foundations for socialism. Indeed, Thompson’s first major work, *An Inquiry into the Principles for the Distribution of Wealth most Conducive to Human Happiness* (1824) includes one of the most substantial early attacks on the multi-headed Hydra of systems of domination, including the developing system of liberal capitalism and its inequality of wealth, slavery and racial domination, and the oppression of women by men—in short, all forms of subordination. Central to his argument are a critique of inequality and of private property as the

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by that point and early experiments had failed. Chartism then captured much of the energy of the working class; its failure after a decade of struggle then opened the way for a resurgence by the cooperative movement, which had never been entirely abandoned.

<sup>11</sup> Thompson was somewhat apologetic about being a member of the “idle classes,” but at the same time saw himself as an intellectual laborer who made a productive contribution to society through his efforts (Thompson, 1996, p. 1).

<sup>12</sup> (Bentham, 1989, p. 360).

<sup>13</sup> The relationship between Bentham’s and Thompson’s ideas about happiness, utility and democracy is complex. I explore them closely in my book, *Happiness, Democracy and the Cooperative Movement* (working title), forthcoming in 2014 from SUNY Press.

principal means through which inequality is established and maintained.

One of Bentham's main concerns is security, but while Bentham is more concerned with security of property, Thompson argues that one of the problems of a system of individualistic competition for the accumulation of private property is that it amounts to a system of *insecurity* for the workers, who are coerced by threat of starvation into a labor contract that forces them to give up their right to the produce of their labor.<sup>14</sup> So, the first step in Thompson's system is to secure to the workers the full produce of their labor. The second is to ensure that all labor and all exchange are truly voluntary. These three points (security in the produce of labor and voluntary labor and exchange) make up what he calls the "natural laws" for the distribution of wealth.<sup>15</sup> The underlying principles here—equality, security and voluntarism—are the basic foundations of Thompson's theoretical system.

The problem with these natural laws, Thompson argues, is that they can't be sustained under a capitalist system, which will quickly introduce inequality. To address this problem, Thompson proposed a modified version of Owen's cooperative community model. These cooperative, or "Owenite" communities as they are commonly known, were largely autarkic communities of 500–2000 people that included housing, production of finished goods, agriculture, education and childcare.<sup>16</sup> The property of the community was owned in common by its members, who shared both in the production necessary to fulfill their material needs and in its distribution. The community was to be governed democratically, and all members would have to have an effective voice in its governance. Reflected in these arguments, then, are a second set of foundational

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<sup>14</sup> It is generally recognized that Thompson was the first to articulate the theory of surplus value, which Marx later built upon. Anton Menger, one of the first to systematically consider the work of Thompson and Marx, argues that, in this regard, "Marx is far inferior to Thompson." (Menger, 1962, pp. 101-102).

<sup>15</sup> (Thompson, 1968, pp. xiv, 178)

<sup>16</sup> Thompson's 1830 work, *Practical Directions*, lays out detailed plans for such communities, including the schedule of crop rotation, construction of the housing (which would include central heating) and even health-related concerns, including contraception (Thompson, 1830). Thompson's plan was specifically endorsed by the 1<sup>st</sup> Cooperative Congress in 1831 as the model for the development of cooperatives in the British Isles (Owen, 1831).



principles: shared labor/common property,<sup>17</sup> and democracy.

This brief discussion of Thompson's theory reveals the importance of a set of radical principles that underlie his system: Equality, security and voluntarism are the essential moral principles, while shared labor/common property and democracy are practical principles that establish the conditions in which the moral principles can be advanced. One of the consequences of this system is the way that it alters the relationship between the members of the community as compared to the liberal capitalist model. Members of the community encounter one another not on the basis of a conflict of interests as either competitors for scarce resources or instruments for personal gain, but as equals whose interests are aligned. This alignment takes place through the particular structure of the institutional context in which this encounter occurs, and that institutional structure establishes the conditions of their encounter. Within this context—the context of the cooperative community—democracy can be understood at its most radical level, as the enactment of equality. In other words, within the cooperative community, democracy is instantiated not only in its formal governance, but in the everyday interactions of people, whose relations are premised on mutuality and equality, which are developed, fostered, and maintained through the community's egalitarian institutional structure.

The question of significance with regard to cooperatives today, then, is whether, or the degree to which, they establish the conditions for this radical encounter of equality to take place—in other words, the degree to which they establish the conditions for this radical democratic experience. This is not only a theoretical but also an empirical question, in part because cooperatives today take a wide diversity of forms, such that the principles that govern cooperatives are implemented very differently depending on the type of cooperative as well as factors such as size and location.

### **The Modern Cooperative Movement**

In 1995, after an extensive process of discussion and debate by a commission that included

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<sup>17</sup> I express shared labor and common property as a single principle because the two are inextricably linked in Thompson's thought: Shared labor produces common property.

48 members from 29 countries and every continent but Australia, the International Cooperative Alliance adopted a revised set of Cooperative Principles<sup>18</sup> as part of a Statement of Cooperative Identity.<sup>19</sup> The ICA reserves for itself “final authority for defining co-operatives and for elaborating the principles upon which co-operatives should be based,” noting that, in doing so, they also attempt to “explain how co-operative principles should be interpreted in the contemporary world.”<sup>20</sup>

The Statement of Cooperative Identity reflects, if not always the reality, at least the aspirations of the cooperative movement. It defines “the co-operative” as “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.” Stated values include “self-help, self-responsibility, democracy, equality, equity, and solidarity.”<sup>21</sup> In the white paper accompanying the Principles the ICA states that, despite the history of revision to their principles, consistent in them is “a fundamental respect for all human beings and a belief in their capacity to improve themselves economically and socially through mutual self-help,” stating further that “democratic procedures applied to economic activities are feasible, desirable, and efficient” and that “democratically-controlled economic organisations make a contribution to the common good.”<sup>22</sup> The principles themselves include the following: that membership in the cooperative is open and voluntary; democratic governance on a one-person one-vote basis (with some caveats); that members contribute equally to the capital of the enterprise—and control that capital democratically—and that at least some portion of that capital is the “common property of the co-operative”; and that capital raised from outside investors does not carry with it ownership or control

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<sup>18</sup> At its founding in 1895 the ICA adopted a set of principles that were called the “Rochdale Principles.” These were revised through similar processes 1937 and 1966 (MacPherson, 1995, p. 5). With the adoption of the 1995 principles, the reference to Rochdale in the title was formally removed, although some people still refer to them by their old name.

<sup>19</sup> (ICA, 2006a; MacPherson, 1995)

<sup>20</sup> (MacPherson, 1995, p. 5).

<sup>21</sup> (MacPherson, 1995, p. 5).

<sup>22</sup> (MacPherson, 1995, p. 6).

rights. Additional principles call for cooperatives to engage in educational activities, especially regarding the cooperative principles themselves, as well as cooperation among cooperatives and sustainable development practices.<sup>23</sup>

In the Statement can be seen at least the vestiges of Thompson's principles of equality, voluntarism, security, democracy and common ownership. Over the course of over 150 years they have been weakened, but this is not the only difference between the cooperative movement of Thompson's day and our own. As might be expected, over this period the character of the movement itself, and a number of its dimensions, changed substantially.

#### *Historical development*

In the first place, the autarkic community idea didn't work out too well. Despite his efforts, no community founded on Thompson's detailed plan was ever established. Owen had somewhat more success, but none of the communities he founded lasted more than three years. It is rarely remembered, however, that the original intent of the Rochdale Pioneers—as with most other cooperative societies of the time—was to accumulate a surplus that would enable them to buy or lease land for the establishment of a community along the lines proposed by Thompson. However, as their retail operations prospered and grew with the opening of branches,<sup>24</sup> the goal of establishing a community faded and eventually disappeared.<sup>25</sup>

Over time, cooperative societies in Britain became more and more focused on retail operations, and more and more consumer-oriented. Two primary causes contributed to this: First, the development of centralized distribution through the Co-operative Wholesale Society (CWS)<sup>26</sup>

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<sup>23</sup> (MacPherson, 1995, p. 4).

<sup>24</sup> It has been suggested that this expansion marks the invention of what we now call the “chain store.” (Birchall, 1997, p. 9).

<sup>25</sup> In fact the societies eventually expanded into agriculture, manufacturing, and even housing, although in a manner quite different from the autarkic model Thompson had advocated. It would be interesting to explore this development, and how it differed both practically and conceptually from Thompson's ideas, but this is not the place for that.

<sup>26</sup> Birchall claims the CWS “virtually invented modern retail distribution.” (Birchall, 1997, p. 10).

became a powerful engine of growth, which gave the CWS a great deal of economic power. This success served as a kind of legitimation, but, as Fairbairn notes, the CWS was “a conservative influence, stifling experimentation,” with the result that “part of the Pioneers’ vision fell away as the movement grew and narrowed.”<sup>27</sup> Second, a debate over the heart and soul of the cooperative movement between advocates of labor-based versus consumer-based cooperatives was won decisively by supporters of consumer cooperation. Consumer advocates, led by Fabian Society leaders Sidney and Beatrice Potter Webb, successfully argued that workers retained self-interests that could not be reconciled with the rest of society in their capacity as workers.<sup>28</sup> On the other hand, they argued, consumption is a universal interest that can bind together all members of society. The result of these two factors was that the objects and motives of the Rochdale society—and the movement that grew out of it—became inverted in the shift of focus from workers to consumers, amounting to a “consumers’ revolution in the co-operative movement, [in which] the traditions and principles of co-operatives were remade in the interests of consumers.”<sup>29</sup>

In a formal sense, the abandonment of the cooperative community model meant that, instead of seeking to establish a self-contained, self-sufficient egalitarian alternative to capitalist society one small community at a time, the cooperative societies became independent economic enterprises that benefit their members through the redistribution of surplus revenue. While this came at the loss, or at least moderation, of some of its ideals, it also enabled the expansion of the cooperative model on a vast scale. The advantage of the economic enterprise model is that it is not limited to small-scale communities providing basic goods to local populations. In fact, it became possible for any kind of economic activity to be organized as a cooperative—as, indeed, has happened. While its particular form may be quite different, there can be little doubt that the size and extent of the cooperative movement today far surpasses anything Thompson could have imagined.

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<sup>27</sup> (Fairbairn, 1994, p. 13).

<sup>28</sup> This will be discussed in more detail below.

<sup>29</sup> (Fairbairn, 1994, pp. 13-14).

*Cooperatives today*

Two features of the cooperative movement today stand out: Its size and its diversity. In terms of size, it may be noted that the ICA bills itself as “the world’s largest non-governmental organization,”<sup>30</sup> with 233 member organizations representing over a billion people in over 100 countries worldwide. The ICA reports that, “The United Nations estimated in 1994 that the livelihood of nearly 3 billion people, or half of the world’s population, was made secure by cooperative enterprise.”<sup>31</sup>

As the ICA points out, “The co-operative model of enterprise can be applied to any business activity,”<sup>32</sup> and in addition to their growth in numbers, cooperatives have attained substantial diversity of form. Some classification can be made. The most significant differentiation is based on the particular stakeholder group that constitutes its owner/members: Consumer cooperatives, owned by those who purchase the goods or use the services of the cooperative (including credit unions, as well as retail and service enterprises such as grocery stores, and utilities such as electrical and telecommunications cooperatives); producer cooperatives, which are typically primarily engaged in distribution and marketing, are owned by people or enterprises who are engaged in producing similar goods (this includes agricultural cooperatives, as well as independent craftspeople and artisans); and worker cooperatives, owned and governed by the people who carry out the functions of the enterprise—i.e., the workers.<sup>33</sup> Each of these implement the Cooperative Principles

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<sup>30</sup> (ICA, 2009).

<sup>31</sup> (ICA, 2012). The extent of cooperatives in the U.S. has already been discussed. In other parts of the world they are even more significant economic actors: One out of every three families in Japan is a member of a cooperative; in Singapore fifty percent of the population belongs to a cooperative. In Quebec, 70% of the population is a member of at least one cooperative (ICA, 2012). They are also important parts of the economies of developing nations. For example, cooperatives account for 45 percent of the Kenyan economy, according to a recent report by the UN (Secretary-General, 2009).

<sup>32</sup> (ICA, 2006b).

<sup>33</sup> The NCBA identifies a fourth type of cooperative, referred to as Purchasing/Shared Services Cooperatives, which are “owned and governed by independent business owners, small municipalities and, in some cases, state governments that band together to enhance their purchasing power, lowering their costs and improving their competitiveness and ability to provide quality services.” (NCBA, 2006). However, this particular type of cooperative may be unique to the U.S., as it is excluded from the UN report’s summary of types of

somewhat differently.<sup>34</sup>

Of the three types, worker cooperatives may best fulfill the original intent of the early British cooperative movement in that they address the problem of the subordination of labor to capital. However, they have had the least success in the developed economies in part because of problems of access to capital. In general they are fairly small enterprises with up to a few dozen members. The one great exception, Mondragón (based in the Basque region of Spain), with 85,000 employees around the world, is a significant departure from the norm.

Consumer cooperatives are the most directly descended from the Rochdale model and in many ways are the “face” of the cooperative movement. As retail stores they may be the most public (especially if “co-op” is a part of their name, like Co-opportunity in Santa Monica, CA), but they are also unquestionably the largest in terms of number of members. Over 98% of all co-op memberships in the U.S. are in consumer co-ops, and they account for 92% of all cooperatives.<sup>35</sup> Again, diversity is significant: They may range from a buying club of a few dozen people, to REI (Recreational Equipment, Inc.), one of the world’s largest cooperatives with nearly five million members. Besides retail stores, other common forms include utilities (especially electricity in rural areas), housing cooperatives and credit unions. In fact, about 80 million of the 120 million members of consumer co-ops in the U.S. are in credit unions.<sup>36</sup>

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cooperatives (Secretary-General, 2009), and it is the most distant from the Rochdale model. While it includes some very significant companies—including both Ace and True Value Hardware—because these may be thought of as pseudo-cooperatives with respect to the Principles, they can be left out here. It is unclear what effect this might have on statistics regarding the size and extent of cooperatives in the U.S. For his sake, Birchall identifies six basic forms: consumer, credit, agriculture, worker, housing and health. But for the most part, at least, credit cooperatives (also known as credit unions) and housing and health cooperatives can all be understood as varieties of consumer cooperatives focused on providing services instead of retail operations.

<sup>34</sup> Much of what follows is based on the cooperative sector in the U.S. There are some structural differences elsewhere, but none of these are particularly significant. What may be different is the distribution of membership among the different categories. Although I have not seen any firm analysis of this question, the the consumer cooperative sector may be stronger in the U.S. and Britain than elsewhere.

<sup>35</sup> (Deller et al., 2009, p. 11)

<sup>36</sup> Many members of credit unions may have no idea that the institution at which they do their banking is a kind of cooperative, or how it differs from banks and other financial institutions. It certainly failed the mother-in-law test: In a recent conversation it was revealed that my mother in law, someone who conforms to many of the traditional notions of a “typical American citizen,” had no idea what a cooperative was, despite the fact

While consumer cooperatives may predominate, some of the best-known cooperative brands are producer cooperatives, although most Americans would probably be surprised to learn that they are co-ops. Some of these, including Sunkist, Ocean Spray and Land O'Lakes, are very large companies.<sup>37</sup> About 30% of all agricultural produce in the U.S. is handled by cooperatives, including some 90% of all dairy. As was mentioned above, while agriculture clearly dominates this sector, there are other kinds of producer cooperatives, including, for example, of craftspeople and artisans. Despite significant differences in nature, what they have in common is that they are associations of independent producers whose primary reason for coming together is marketing and distribution of their goods.<sup>38</sup>

### **Democracy and the Cooperative Movement**

The Cooperative Principles clearly state that cooperatives are to be governed democratically on the basis of one person-one vote and, by and large, this requirement is met.<sup>39</sup> However, this is a very weak standard, and it is reasonable to ask just how democratic the cooperative movement really is. There is no direct answer to this, for two reasons. First, the answer depends on how one defines democracy. A Schupeterian definition would be inclined to accept a fairly minimal degree of participation by members, while a radical democrat would set a much higher standard and find a much lower level of democracy as a result. Second, cooperatives are autonomous organizations, and each one is organized differently and operates under different conditions. This makes any evaluation of the “movement” problematic.

One point to keep in mind is that democracy comes into play in cooperatives in both their

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that she had worked at a credit union for several years.

<sup>37</sup> For example, with annual revenue of over \$7 billion in 2006, Land O'Lakes is the largest agricultural cooperative in the U.S. and 38<sup>th</sup> largest overall in the world (Kashef, 2008).

<sup>38</sup> The term “producer cooperative” is sometimes used to refer to worker cooperatives (see, e.g., Wright, 2010, p. 373). In my usage, a producer cooperative is made up of independent producers for the purpose of marketing and distribution, not for production. A worker cooperative is an enterprise owned by the people who work there, engaged in a work of many hands (either production- or service-oriented), as distinct from a group of independent producers.

<sup>39</sup> An exception is agricultural cooperatives where voting rights are connected to the volume of produce delivered by each member, but even here there are limits to how big of a differential there can be.

internal organization as well as in their external relations (that is, in their relations with and impact on the community). These interact with one another in dynamic ways. Two factors are of particular importance with respect to democratic practices both internally and externally: size and the type of cooperative.

*Democracy in their internal organization*

While they would have formal political institutions, with elected boards of directors, in Thompson's version of the cooperative community democracy was most directly expressed in the relations obtained in the community itself, and in the regular interactions of its members. In this context, democracy can be understood as a principle of social interaction, whereby individuals recognize one another as social equals and neither as instruments nor as competitors. Thompson recognizes that not everyone is equal in an absolute or complete sense (he recognizes, for example, the existence of differences in experience and ability), but they are equal as members of the community, such that no one may exercise domination over anyone else, and no one except children is seen as subordinate.

Thompson does not argue that there would be no self-interest in these communities—indeed, he emphasizes the importance of self-interest as a principal motivation—but the absence of private property means the absence of *selfish* interests. Similar to a kind of ideal-type Aristotelian *polis* in which the citizens understand that their own well-being depends upon the well-being of all the other citizens, everyone in the cooperative community would recognize that their own interest is best served through the advancement of the interest of the community, which is to say everybody's interests. The pursuit of self-interest, then, harnessed for the social interest, could be encouraged rather than suppressed. The alignment of self-interest with social interest is achieved not through appeals to abstract concepts such as virtue, but through institutional design, by making the pursuit of private good part and parcel of the pursuit of the social good.

One question, then, in considering how this theory might apply to the contemporary cooperative movement is the extent to which it relies on the autarkic nature of the cooperative



community. Key to the functioning of the community, according to Thompson, is the on-going practice of an exchange of labor, through which the members address one another's needs through their productive activity; each individual produces for the sake of all, and all produce for the sake of each individual. Another way to put it is to say that there are no individual producers or consumers, simply collective produce based on collective labor (performed by individuals), and collective consumption (also performed by individuals). The cooperative, in Thompson's model, does not exist for the purpose of production or of consumption, but for the mutual fulfillment of the needs of its members. Modern cooperatives are, however, quite different.

The question with respect to actually-existing cooperatives today has to do with the quality of the interconnection, or the nature of the relationship, between members. The cooperative communities as Thompson envisioned them were easily identifiable as communities. To what extent do today's autonomous enterprises still constitute a kind of "community"? This is, to some extent, a question having to do with the way the term, "community," is defined<sup>40</sup> (too large a task to consider for this paper), but the essential issue has to do with the basis and character of the relationships between the members of this "community."

Relationships between members are likely to be weaker in producer and consumer cooperatives because there is less interaction between them. For producer cooperatives, the cooperative is merely an instrument through which they are able to more effectively market their goods, and any one producer need not have much to do with the other members at all, except when conducting business pertaining to the cooperative. Consumer cooperatives, as retail establishments, may be open to members and non-members alike, and except for a small core of people who are particularly active, members may not know who in the store at any given time is a member or not. Relations in worker cooperatives, on the other hand, can be expected to be much more intensive, and involve a much higher degree of interdependence, which would tend to establish conditions for

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<sup>40</sup> See, e.g., (Yeo & Yeo, 1988).

stronger democratic practices. That said, informal hierarchies are likely to develop over time, as some workers gain higher status due to their long tenure and experience, or if particular skill sets give some positions a higher status than others. Small worker cooperatives may be expected to have very high levels of interrelation, but in a large cooperative (such as some of the Mondragon coops), this may be quite low.

There is a general question that arises here about the compatibility of hierarchy and democracy. Normally, a hierarchy is understood as a particular sort of distribution of power, wherein power becomes more concentrated toward the top of the hierarchy. However, in a worker cooperative (where the issue may be most clearly drawn), there will be a tension between the fundamental equality of the members and the establishment of differential positions. The nature of different functions may establish an effective hierarchy, as some functions are task-specific while others involve coordination and cross internal boundaries. Consider, for example, bookkeeping. This is a general task, which affords the person who performs it certain authority over others in the company (for example, in determining the way accounts are kept, which may have some far-reaching implications). One approach some cooperatives have taken is to rotate tasks among employees, but there are problems associated with this that may undermine the organization, as not everyone is equally skilled at performing certain tasks. Static assignments, however, may lead to the development of power centers (“fiefdoms”) that undermine the democratic character of the enterprise. Underlying this is the question of whether the members of the cooperative are effectively able to hold other members accountable—a question similar, in many ways, to questions of public sovereignty within a representative democracy.

Size is a significant factor, regardless of type. The larger the cooperative, the less connection its members are likely to feel with it, the more alienated it becomes from them, the less it must rely on member involvement and the more it must rely on professional management. While increasing professionalization in management may have positive aspects with regard to ensuring the long-term viability of an enterprise, it also has problematic tendencies as it leads to a class of officials whose

interests, focus and concerns may come to be different from those of the membership, and it can loosen members' sense of responsibility to the organization.<sup>41</sup>

The question of the type of democracy is significant here, as well. For legal reasons, it may be necessary for all U.S. cooperatives, regardless of their size or type to have designated officers and a board of directors; in this case they are no different from Thompson's model described above. Despite this, they may choose to govern themselves in a highly participatory manner. But as they grow, even a cooperative that puts participatory mechanisms of governance in place may slowly devolve into a thin, representative model, especially with the rise of a class of professional managers that exercises operational control. Over time, fewer and fewer members may attend meetings relating to governance, deferring decision-making to an elected board of directors (who may defer to the judgment of the professional managers); eventually, participation in elections may decline to a point where only a few members are involved even at that level.<sup>42</sup>

Bemoaning the relatively low rates of participation in large consumer cooperatives, Lambert comes to the conclusion that the question of democracy does not hinge on the number of people who show up for meetings or vote in elections. For Lambert, the presence of democratic procedures is sufficient, as he considers the "essence of democracy" to be the possibility for the expression of opposition. As long as that possibility exists, even when "the members may appear to be sunk in apathy," the cooperative has not lost its democratic character.<sup>43</sup> However, apathy is not generally

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<sup>41</sup> Encouraging news on this front comes from Mondragón, which is by any measure very large. A recent news story on how well the Mondragón cooperatives have weathered Spain's economic problems discusses the fact that, if one firm is forced to lay off workers, they will be taken in by other firms in the federation; when their former employer returns to health, they will return to their prior position. What makes this particularly interesting is that the firms are themselves largely autonomous, yet they recognize a duty to support one another. The article suggests that this is due to the particular culture of the Basques, but a similar case can be seen in the Arizmendi cooperatives in the San Francisco Bay Area. (Burridge, 2012; the information regarding Arizmendi comes from personal communication I have had with members of the Arizmendi Association of Cooperatives).

<sup>42</sup> For example, only a little more than one percent of REI's 4.7 million members participated in a recent election for members of the board of directors (Walker, 2011).

<sup>43</sup> (Lambert, 1963, p. 73). To my knowledge, no research has been done to date on member participation rates in the governance of cooperatives.

considered to be a sign of a healthy democracy, and it would at least suggest that the cooperative does not promote the sense of interrelatedness that is essential to establishing a democratic ethos within the cooperative.

Most cooperatives maintain a level of fundamental equality built into their structure, because all members contribute an equal amount to the capital and have equal voting rights. The fact that members benefit proportionally based on their usage of the cooperative represents a form of equality, although it also means that those who have greater resources, and therefore make greater use of the cooperative, will receive a greater absolute benefit. In this sense, then, the cooperative will not address structural inequalities among members. The exception to this may be found in worker cooperatives, where pay differentials tend to be much lower than in traditional capitalist firms.

*Democracy in their external relations*

Cooperatives may be said to promote democracy in their external relations where they contribute to a more egalitarian, open and democratic society, and also to the degree that they act as “schools of democracy” in which members gain exposure to and experience with democratic procedures and participation. Some take it on faith that cooperatives—in particular, worker cooperatives<sup>44</sup>—do contribute to a more democratic society, but this cannot be taken for granted. Indeed, there is no particular reason why, understood as autonomous enterprises, cooperatives would be any different from any other sort of enterprise.<sup>45</sup> What Gonzales says with respect to Italian worker cooperatives could be said about them more generally: “Though guided by strong ethical commitments to solidarity and democratic control, at heart, cooperatives are business enterprises dedicated to serving the collective though the private interests of their members.”<sup>46</sup>

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<sup>44</sup> See, e.g., (Wright, 2010).

<sup>45</sup> I focus exclusively on consumer and worker cooperatives in what follows, mostly because most producer cooperatives are agricultural and rural, and this paper is primarily concerned with redevelopment in urban areas. While they may have significant social effects (they may be largely responsible for preserving the institution of the family farm), these are less broad in scope. For considerations of space it seems prudent to remove them here.

<sup>46</sup> (Gonzales, 2010, p. 230).

As was mentioned above, in the early 20<sup>th</sup> century, a debate ensued in Britain between advocates of worker cooperatives and those for consumer cooperatives. At that time, the Cooperative Wholesale Society was rapidly becoming the largest distributor of retail products in Britain, and much of what it distributed was made by companies that were wholly-owned subsidiaries. The question had to do with whether those subsidiaries should themselves be organized as worker cooperatives, or whether they should be understood as, in a sense, subordinate entities to the consumer cooperatives they supplied. This debate was won decisively by the advocates for consumer cooperatives, and some of their arguments are quite relevant here.

The essential point the Webbs and others made was that worker cooperatives were still “capitalistic” as they produced goods for profit, even though in their case all profit was for the benefit of the workers themselves and not outside investors. Consumer cooperatives, they argued, were more socially oriented, as any positive net revenue that was not used either to strengthen the cooperatives’ finances (to pay debt, for example, or kept as retained earnings) or for socially-oriented purposes (such as education) would be returned to the members—i.e., the patrons of the cooperative. In that sense, there was no “profit” in the traditional sense, only excess revenue that would be returned to the consumers themselves.<sup>47</sup> Workers would be expected to keep their demands within reasonable bounds because they are consumers within the same system; by the same token the cooperative could be constrained from exploiting the workers because the workers are also a part of the community.

Within the retail (i.e., consumer) cooperatives there was no question about hiring labor, which effectively replaced volunteer labor; indeed, far from whether employees of consumer co-ops should have an ownership stake, the question had to do with whether they should be allowed any role in governance at all. After all, the workers in the CWS system were not simply producing goods

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<sup>47</sup> (Webb & Webb, 1921, pp. 182–187). Another point in the debate was whether or not consumer cooperatives should serve non-members. The concern was that if they did, then the members would benefit at the expense of the non-members, which was precisely the kind of exploitive relationship they wanted to get away from (Lambert, 1963).

to be distributed through the capitalist system, in which case they would enjoy or suffer from their success or failure (however they might define that) within the competitive markets of which they were a part. Rather, they were producing goods within a closed system in which their customers were members of the same network of cooperatives. In effect, as the Webbs point out, this was a debate between “the idea of manufacture organised by groups of producers, *for exchange* with the rest of the world [as opposed to] manufacture organised by the whole democracy of consumers, for their consumption or service [and] therefore *for use*.”<sup>48</sup>

Labor would be alienated in a consumer-oriented system, but under completely different conditions from traditional capitalism, in a way that ultimately addresses that alienation. Noting that, “There will always be a conflict of interests...between producers and consumers, so long as one person consumes what another produces under a price and wage system,” an American ally of the Webbs, J.P. Warbasse, argues that “the consumer co-operative movement is a ground upon which these differences are being best worked out.”<sup>49</sup> Warbasse’s argument is that someone who works in a community-based enterprise is more inclined to understand that they are a part of something larger than themselves and that they are not simply being exploited to produce surplus value for the enrichment of a small class of investors.

Ideally, in a community in which all consumers are organized into a system of retail cooperatives that produces what they consume (either directly or through subsidiaries), the alienation of labor would be overcome because workers would, in effect, engage in exchange with one another through the distributive mechanism of the cooperative or cooperative system. All surplus would be returned to the workers, albeit not in their role as producers but in their role as consumers. This comes close, then, to Thompson’s idea of workers providing “a *market to each other*, by working together *for each other*, for the mutual supply, directly by themselves, of all their most

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<sup>48</sup> (Webb & Webb, 1921, pp. 185–186).

<sup>49</sup> (Warbasse, 1942, p. 223). At the time of his writing, Warbasse was the President of the consumer cooperative-oriented Cooperative League of the U.S.A., which later expanded to incorporate all forms of cooperatives as the National Cooperative Business Association (NCBA).

indispensable wants.”<sup>50</sup>

The framework for Warbasse’s argument is sometimes referred to as the “cooperative commonwealth”<sup>51</sup> or what Warbasse himself calls “cooperative democracy.” Warbasse suggests that, “Evolution may substitute cooperative democracy for the state.”<sup>52</sup> Local societies unite to form national societies; these then are coordinated through the International Cooperative Alliance, forming a global network of cooperatives through which all production and consumption may be organized. With cooperatives coordinating and addressing distributional issues, the political frameworks would be recognized as superfluous and would simply wither away.<sup>53</sup>

The Webb/Warbasse model, then, can be understood as a kind of system of mutual non-exploitation: The consumers do not exploit the workers, and the workers do not exploit the consumers. The problem is that this requires an extremely high level of commitment in a more or less open market economy: The workers, in their role as consumers, must be willing to forego the possibility of paying cheaper prices by shopping elsewhere (i.e., potentially pay a premium for buying goods produced by other co-op members), and/or consumers, in their role as workers, must be willing to forego the possibility of higher wages by taking employment in the cooperative system (assuming all of them can be employed by the cooperative). In a competitive market economy this level of commitment may not be achievable.<sup>54</sup> More important for the current discussion, however, is the kind of effect such an arrangement might have more broadly on the community of which the cooperative is a part.

Writing about cooperative communities, Thompson notes that the members “have not ceased to be members of the great general community in which they live. They take no monastic

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<sup>50</sup> (Thompson, 1830, p. i).

<sup>51</sup> (Casselmann, 1952, pp. 10-11).

<sup>52</sup> (Warbasse, 1942, p. 137)

<sup>53</sup> (Warbasse, 1942, Ch. X)

<sup>54</sup> The real test of this would be in Britain, where the Cooperative Group, a consumer cooperative federation that grew out of the CWS, now boasts some seven million members and comes the closest to this model. However, I know of no research on these questions.

vows of voluntary seclusion from the world.... The sympathies of such communities will be enlarged.... By reason, by generosity, they will always seek to promote the public good.”<sup>55</sup> In the contemporary literature this is referred to as the “spill-over effect” in which the democratic practices of the cooperative help to produce more civic-minded citizens and a more participatory ethos.<sup>56</sup> These effects include, as Pateman puts it, “the development of the sense of political efficacy...the broadening of outlook and interests, the appreciation of the connection between private and public interest [and] the gaining of familiarity with democratic procedures and the learning of political (democratic) skills.” However, as she notes, obtaining these benefits require “higher level participation.”<sup>57</sup> In other words, the spill-over effects are either limited to those relatively few members who are able to participate at these higher levels, or the cooperative must be organized in such a way as to enable and encourage broad-based participation. Here again size is clearly a factor: It is simply easier to have high levels of participation in smaller organizations (for example, through assembly-style meetings for governance and management) than in large ones (which are more likely to rely on representative governance and professional management).

Because worker cooperatives are more likely to operate in a more democratic manner (being generally smaller and having a stronger sense of shared interests) and more egalitarian in economic terms, they are more likely to contribute to the democratization of society. However, because the workers themselves both benefit most directly (in an economic sense) and are able to exercise full control over the cooperative, they are, as the Webbs suggest, more likely to fall into the self-interested logic of the traditional capitalist model, which undermines their democratic potential. If worker cooperatives do not do this, it may reflect more of the effects of ideological socialization within the culture of the cooperative than a change in the structural conditions.

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<sup>55</sup> (Thompson, 1968, p. 434).

<sup>56</sup> See, e.g., (Schur, 2003).

<sup>57</sup> (Pateman, 1970, p. 74). It should be noted that she is discussing participation in industrial firms, not cooperatives.



Consumer cooperatives may also contribute to the democratization of their society, and, compared to worker cooperatives, may, in fact, have broader effects since they tend to be larger, that is, they have more members. However, they are likely to be more weakly democratic and less likely to have a direct impact on people's lives, because members are less likely to have a strong sense of attachment to the cooperative, and because, unless it is comprehensive in its offerings and the only game in town, the cooperative may be just one of several retail establishments patronized by members. Furthermore, people more readily self-identify based on their employment (what they "do"), rather than what or how they consume, so the sense of community fostered by consumer cooperatives may be weaker.

To sum up, then, there would seem to be something of an intensity/extensity trade-off with respect to the spill-over effects: The smaller the organization, the higher the level of participation and therefore the stronger the educative effects. These members, then, might be expected to have a larger direct impact on their community. In larger organizations the impact might be less intense and therefore more diffuse, but spread over a larger population.

### **Mixed Models**

Each of the primary sectors of the cooperative movement, then, has its strengths and weaknesses. In assessing the role of co-ops in a strategy for democratic redevelopment, the best path appears to be one that takes advantage of the strengths and addresses the weaknesses of each. One approach involves what are referred to as "multi-stakeholder" cooperatives with membership categories for each stakeholder group—principally consumers and workers, but also possibly including suppliers and even financiers.<sup>58</sup> Hoyt describes this type of cooperative as "a community institution in which many actors have an economic interest in its success."<sup>59</sup> These are fairly rare, but Hoyt offers three examples, including one in Japan, one in North Carolina, and Mondragón

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<sup>58</sup> (Hoyt, 2004, p. 281).

<sup>59</sup> (Hoyt, 2004, p. 281).

(mixed primarily through its Eroski chain of grocery store consumer cooperatives).<sup>60</sup> Hoyt suggests that, “The deep philosophical division between consumers and producers so strongly entrenched in the consumer cooperative movement by Beatrice Potter Webb may be losing power.”<sup>61</sup>

The multi-stakeholder model is attractive for the way it ensures that, as Hoyt puts it, “The unique interests and goals of each [stakeholder group] are explicitly recognized in the membership requirements and organizational structure.”<sup>62</sup> Hernandez notes that while the assumption is that people with opposing interests will find it difficult to collaborate, “people do it all the time in everyday life. The multi-stakeholder cooperative just formalizes and structures the relationship to give the enterprise stability and strength.”<sup>63</sup>

This multi-stakeholder model only works, however, within the specific context of a single cooperative, and, indeed, is most relevant only in retail operations in which consumers play a significant and direct role. Hernandez’ comment brings out a point that often gets overlooked: Developing a more democratic society must alter not only the mode of production, but also of distribution, of labor *and* of consumption. If the essential point is to ensure that people have a measure of control over the institutions that establish the conditions for the fulfillment of their needs, then this applies not only to their status as workers but also to their status as consumers. Only a multi-stakeholder model can fulfill both of these functions.

Another model is suggested by Erik Olin Wright’s discussion of the *Chantier de l’economie social* in Quebec.<sup>64</sup> What is significant about the *Chantier* is that it acts as a coordinating body, a kind of “‘network of networks,’ a forum in which all of the elements of the social economy can meet.”<sup>65</sup>

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<sup>60</sup> Two key financial enterprises in the Mondragón system are also consumer cooperatives: Caja Laboral, which acts not only as the system’s bank but also plays a crucial role in providing support services including business planning; and Lagun Aro, which provides social insurance services.

<sup>61</sup> (Hoyt, 2004, p. 281).

<sup>62</sup> (Hoyt, 2004, p. 281).

<sup>63</sup> (Hernandez, 2011).

<sup>64</sup> (Wright, 2010, pp. 204-216).

<sup>65</sup> (Wright, 2010, p. 208)

Although not made up entirely of cooperatives, Wright notes that they play a central role in the *Chantier*, as they embody, as Wright puts it, “participatory democratic forms of governance at both the micro- and macro-levels of organization.”<sup>66</sup> This federation model does not directly solve the problem of alienation (for workers in consumer cooperatives or for consumers with respect to worker cooperatives), but it does provide a forum whereby suppliers, producers and consumers can all come together to address their common concerns, enabling the problem of alienation to be addressed indirectly.

A final model is one that was developed to address conditions in Cleveland, Ohio not unlike those found in Brownsville—an impoverished minority community ravaged by the powerful forces of liberal capitalism and racism.<sup>67</sup> Around 2005, the Cleveland Foundation was instrumental in establishing a project called the Greater University Circle Initiative (GUCI), which was formed in order to address the problems of one of the poorest communities in Cleveland. In 2006, the Cleveland Foundation and other funders provided a grant to the Democracy Collaborative to take a number of steps that led to the development of what has come to be called the Cleveland Model. The model is based on the idea of capturing a portion of about \$3 billion in annual procurement and services spending by key local anchor institutions and redirecting it to worker-owned cooperatives based in the community in which the anchor institutions operate. The intention is to develop large-scale cooperatives—or a large-scale network of cooperatives—based largely on the Mondragón model, that will employ 500 local residents as worker-owners by 2015 and as many as 5,000 in the next 10-15 years. The Evergreen cooperatives contribute a portion of their net revenue to a revolving loan fund in order to expand the pool of money available for further investment and support.

Central to the Cleveland Model is the establishment of support institutions. Evergreen Cooperative Corporation (ECC) serves as the corporate “home,” with the individual cooperatives

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<sup>66</sup> (Wright, 2010, p. 212).

<sup>67</sup> The following information regarding the Evergreen Cooperatives comes from the Evergreen Toolkit, [www.evergreentoolkit.org](http://www.evergreentoolkit.org).

functioning as subsidiaries. Administrative functions are handled by ECC, along with partner organizations that provide services such as employee recruitment and training. Unique to the Cleveland Model is the fact that, in addition to worker-owners, the ECC's board of directors includes representatives from other stakeholder groups, including strategic partners, major stakeholders (the major institutional customers), and GUCI. The individual cooperatives may be directly governed in a participatory manner by the workers, but the system as a whole includes members of the community, to help ensure that the cooperatives maintain their orientation toward broad-based community economic development.

Part of the significance of the Cleveland model for cities like Brownsville is that it is explicitly a model for economic development. The support institutions fulfill critical needs for system-wide governance, planning, coordination, asset accumulation and management, as well as training and guidance. This helps to ensure not only the success of the cooperatives, but that they don't just fulfill the workers' needs, but also address the needs of the larger community. There are a number of important challenges, however, that must be recognized. One is the danger of paternalism, as the experts and specialists—professional managers—at the center of the support organization may come to exercise control in a way that undermines the democratic nature of the cooperatives. At the same time, the cooperatives themselves need to make an effort to retain their autonomy and foster a participatory ethos.

Traditionally, cooperatives come into existence because a group of like-minded individuals decide to pool their resources (as producers, consumers or workers) and share the benefits that come from their united efforts. It is, in a very direct sense, a bottom-up model of collective self-help. The Cleveland economic development model, however, upends this, imposing the institutional structure from above, and then bringing people into it. Ironically, the creators of the model, who may not themselves be from the community, may limit the degree to which community members, or members of the cooperatives themselves, are empowered, for fear that their vision may be upset. This fear may not be unreasonable: Many people, or even most, and especially those whose lives

have been marked by a long and deep history of profound poverty, disempowerment and subjugation, may not be used to engaging in democratic practices like those used in most cooperatives. The democratic ethos must be learned, and the habits of subordination unlearned. In deeply impoverished communities, the temptations of short-term gain at the expense of long-term success may be difficult to deny.

### **Conclusion**

Even if imperfect, there is little question that an extensive system of cooperatives can have a positive effect on a community. Indeed, the U.N. refers to these effects in their resolution establishing the IYC, noting that cooperatives, “promote the fullest possible participation in the economic and social development of all people, including women, youth, older persons, persons with disabilities and indigenous peoples, are becoming a major factor of economic and social development and contribute to the eradication of poverty.”<sup>68</sup>

Places like Brownsville and Cameron County suffer from systemic problems. Systemic change is required to address these problems. Traditional development strategies make it too easy for large corporations to take advantage of the desperation of impoverished communities to extract resources and leave the community worse off than before. As a community wealth-building strategy, cooperatives ensure that the resources of the community are used to benefit the community.

In terms of their democratic effects, cooperatives clearly do not make society less democratic (as may be the case with traditional wealth-extracting capitalist enterprises), but there remain questions about whether they really do contribute to creating a more democratic society, or the extent to which they do so. There are empirical as well as theoretical questions here. Empirical study would require an extensive survey of the actual practices of cooperatives of different types and in different settings to get a sense of the factors that contribute to making cooperatives more or less democratic in their actual practices. Anecdotal evidence based on my own observation suggests that

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<sup>68</sup> (General Assembly, 2010)

there is a broad range, and that questions of form and size (especially if there are professional managers) are very significant. The central theoretical question has to do with the character of the community that constitutes the cooperative itself, and the connection between organizational design and democratic practices in establishing, fostering and maintaining this sense of community. Questions remain with respect to what constitutes “the community,” or the relationship between the different levels of community that coexist as concentric rings around the enterprise—the cooperative members themselves, their immediate neighbors and the people with whom they interact, and the larger city and region. On what basis do different institutional features, such as democratic practices and shared property interest, establish a sense of commonality or connection among the members? Does ideology play a role? And, at some point, is it more appropriate to refer to a cultural, as opposed to ideological, edifice that maintains particular conditions? What does this mean for democracy, and democratic theory?

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