

A COOPERATIVE ECONOMY – What Might It Look Like?

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Introduction

The topic for discussion is: “A Cooperative Economy – What Might It Look Like?”

Over the last 150 years or so, two socio-economic systems have dominated the world: capitalism and communism. Capitalism is synonymous with individual ownership and private enterprise, and communism is synonymous with state ownership and public enterprise. All of us are familiar with both systems. However, there is a third model, sometimes called ‘the third way’ or the cooperative economy, which offers an alternative future, one that, potentially, should avoid the excesses and disasters of both capitalism and communism.

To begin, let us briefly look at some examples of successful cooperative models. Next, we outline some well-known cooperative principles. Finally, we discuss what a cooperative economy might look like.

Examples of Successful Cooperative Models

Robert Owen: The start of the cooperative movement is generally dated to the first half of the nineteenth century, to the time of Robert Owen. Owen was a successful British cotton spinner and industrialist, who demonstrated at New Lanark that a model factory and town based on cooperative principles could run profitably. All of Owen's New Lanark workers, including many women, received company education and company housing. Owen wanted factory reform, urban reform and educational reform implemented throughout all of England. However, although Owen's model was well-known and often

admired, it was not supported by the British government or adopted by other firms, and so it had little impact on economic development in Britain during the nineteenth century.

Muto Sanji: A century later, at the beginning of the twentieth century, a vision similar to that of Owen's emerged in Japan. Muto Sanji, who was born in 1867, was a young managing director of a cotton-spinning business. He developed a solution to the twin problems of training and retaining the workers he needed and restraining the cost of their wages. He organised in-house training programs in his factories, and offered good workers a range of benefits, including lifetime employment, promotion by seniority, consultation with managers about their work, and some beginnings of 'company welfare' for themselves and their families.

The principal difference between the two models was that Owen advocated cooperative ownership, while Muto advocated simply a cooperative approach to industrial relations.¹

Farmers' Cooperatives: In the first half of the twentieth century in Australia, farmers and rural producers began establishing many farmers' and farmers'-cum-producers' cooperatives in order to produce and distribute their produce cheaply and efficiently. Such cooperatives reduced inequalities by removing the need for other, more inequitable, kinds of business, and they captured economies of scale for small producers. The farmers relied on their own initiative and on mutual cooperation to build efficient businesses in the absence of any kind of government support.

Mondragon: In recent times, since the Second World War, thousands of successful cooperative models have been developed all over the world. The Mondragon group of cooperatives in the Basque region of northern Spain is often cited as one of the world's most developed cooperative models.²

In 1956, Jose Maria Arizmendiarieta, a Catholic priest, inspired several of his graduate students to establish a small industrial cooperative. It quickly grew to produce domestic appliances and machine tools. From the beginning, the Basque people wholeheartedly supported this initiative. By the 1970's, over 100 new cooperatives had been established, and the Mondragon Corporacion Cooperativa had become one of Spain's top ten industrial conglomerates, and the greatest cooperative success story in the world.

After Spain joined the European Economic Union, the Mondragon Corporacion Cooperativa expanded internationally, and now it employs more than 60,000 people and has annual sales of nearly US\$8 billion. However, none of its factories outside Spain are run as cooperatives, and today more than one third of the cooperative's employees are non-members.³

Recent examples: Recent examples of successful cooperative models include the following:

1. **Farmers' cooperatives:** Cooperatives manage 99% of Sweden's dairy production, 95% of Japan's rice harvest, 75% of western Canada's grain and oilseed output, and

60% of Italy's wine production. 99% of Japan's fish production is also run cooperatively.

2. **Banking cooperatives:** Some of Europe's major commercial banks are cooperatively owned or organised, including Germany's DG Bank, Holland's Rabobank, and France's Credit Agricole.⁴
3. **Housing cooperatives:** In Europe, there are 10,614,000 housing coops. 15% of Norway's and 2% of the United Kingdom's housing stock is cooperative. The Czech Republic has 10,000 housing cooperatives. 25% of housing development in Turkey in the last 25 years has been through the cooperative system.
4. **The National Cooperative Business Association:** In the USA, the National Cooperative Business Association includes 47,000 cooperatives serving as many as 100 million people, or 37% of the population.⁵
5. **Maleny:** Australia's best-known example of a cooperative community is Maleny, on the Sunshine Coast Hinterland. Maleny is a small rural town of 4,000 people, which supports 17 cooperatives, including a cooperative bank, a food cooperative, a cooperative club, a workers' cooperative, a cashless trading cooperative, four environmental cooperatives, and several community settlement cooperatives. The Maleny Credit Union was started in 1984, and today has more than 6,000 members and more than \$15 million in assets.⁶
6. **The International Cooperative Alliance:** Finally, today more than 760 million people throughout the world are members of cooperatives. They are members of the world's largest non-government organisation, the International Cooperative Alliance, which represents more than 250 national and international organisations.⁷

International Cooperative Principles

The International Cooperative Alliance defines a cooperative as follows: "A cooperative is 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."⁸

There are seven internationally recognized principles of cooperatives:

1. **Voluntary and open membership:** Cooperatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
2. **Democratic control by members:** Cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives have equal voting rights, based on one member one vote.
3. **Member economic participation:** Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the

cooperative, benefiting the members in proportion to their transactions with the cooperative, and supporting other activities approved by the members.

4. **Autonomy and independence:** Although cooperatives may deal with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.
5. **Education, training and information:** Cooperatives provide education and training for their members, elected representatives, managers and employees, so that they can contribute effectively to the development of their cooperatives. They also inform the general public about the nature and benefits of cooperation.
6. **Cooperation among cooperatives:** Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, regional, national and international structures.
7. **Concern for the community:** While focusing on member's needs, cooperatives also work for the development of their communities through policies acceptable to their members.

Former United Nations Secretary-General Boutros Boutros-Ghali, in his 1994 Report to the General Assembly, said: "Cooperative enterprises provide the organisational means whereby a significant proportion of humanity is able to take into its own hands the tasks of creating productive employment, overcoming poverty and achieving social integration."⁹

What Might a Cooperative Economy Look Like?

Finally, let us briefly discuss what a cooperative economy might look like if cooperative enterprise became the dominant mode of production and distribution. A dozen or so key areas readily come to mind.

Ownership: As suggested at the outset, there are three fundamental ways to organise a modern economy: it can be based on private enterprise, as in capitalism; it can be based on state enterprise, as in communism; or it can be based on cooperative enterprise, as in the 'third way' or the cooperative economy. These are the three basic modes of ownership and production that have been invented by human beings to date. The type of enterprise we choose, meaning the type of ownership and the corresponding mode of production we adopt, to a large extent determines the type of economy we build.

The mixed economies that exist in most developed capitalist countries in the world today are primarily a combination of public and private enterprises. Other types of ownership, such as independent non-profit ownership and forms of collective ownership such as mutual societies, in a cooperative economy would be considered to be part of the cooperative sector. More on the cooperative sector shortly.

In a cooperative economy, the principle that governs ownership is the following one: As far as possible, industry, agriculture, trade and commerce – almost everything – needs to be managed through cooperative organisations.

The corollaries are:

- a) Only those enterprises that are difficult to manage on a cooperative basis because they are either too small, or simultaneously small and complex, should be left to private enterprises; and
- b) Only those enterprises that are difficult to manage on a cooperative basis because they are either too large, or simultaneously large and complex, should be left to public enterprises.¹⁰

In other words, in a cooperative economy cooperative enterprise is the norm, and public and private enterprise only occurs where cooperative enterprise is not suitable. In line with this principle, cooperative enterprises would produce and distribute all types of goods – essential, semi-essential, and non-essential or luxuries – and provide all types of services.

The public sector in a cooperative economy might include large-scale industries, telecommunications, public water supplies, roads, railways, airlines, civil defence, some research and development, public education, hospitals, universities, etc. The role of the public sector would be clearly defined, public sector enterprises would be regulated by the local, state or federal government, and such enterprises would function as statutory authorities, independent of direct government involvement. Workers in a public sector enterprise would have the right to elect their own representatives on to their board of directors.

Generally large-scale public sector enterprises would strive to make a profit. However, some large-scale key industries, such as those that supply raw materials, would function as no-profit-no-loss enterprises. They would supply raw materials at cost to other large-scale producers and to producers' cooperatives.

In a cooperative economy, the exact line of demarcation between public and cooperative enterprises would be a policy and legislative issue, and would include room for flexibility.

The private sector in a cooperative economy would be limited to small-scale businesses, and it would be restricted to producing and distributing non-essential goods and providing non-essential services. Private enterprises that grew too large would be required to transform themselves into cooperatives.

The cooperative sector: The cooperative sector would be the largest sector in a cooperative economy. The cooperative sector would be divided into three main sub-sectors: a) cooperatively-run businesses, b) a range of community-based organisations, and c) households.

- a) Cooperative businesses include farmers' cooperatives, farmers'-cum-producers' cooperatives, producers' cooperatives, workers' cooperatives, industrial cooperatives, cooperative banks, financial cooperatives, and cooperatives that provide a range of other services, such as health care and legal services. Such cooperatives would be designed to be successful business enterprises and to make a profit. Most small, medium and large businesses that we see in the world today would be transformed into cooperative enterprises in a cooperative economy.
- b) The second branch of the cooperative sector includes a range of community-based organisations. It includes community groups, sporting clubs, charities, cultural and religious organisations, environmental groups, non-profit organisations, non-government organisations (NGOs), mutual societies, and other similar types of organisations. This branch of the cooperative sector is important because it reflects the ideals and values of a community, and is a rich source of social capital. It includes the organisations and networks that make up civil society, and which perform many beneficial works not done by businesses or governments.
- c) The third branch includes household economies. Household economies are good examples of cooperative principles at work, and they can give us some useful insights into how a cooperative economy might function. For example, the members of a household generally share resources, cooperate together for their mutual benefit, and enjoy a shared sense of belonging. Household production, household work, child rearing, and the role of mothers and carers, which are generally not included in the formal economy today, all would be recognized in a cooperative economy.

Economic democracy: Economic democracy means that as far as possible people should have the right to make all the economic decisions that directly affect their lives. This right extends to many of the decisions that are currently being made by governments and large corporations. In practice, this means that people would have the right to make economic decisions within the cooperative enterprises in which they work and within their local communities. Local communities can solve local economic problems more easily than either national governments or large businesses because they are closer to the source of the problem and by definition the problems are on a smaller scale.¹¹

The implementation of economic democracy would see competition policy replaced with a policy of cooperation. Economic democracy would be achieved through: a) strengthening the cooperative sector, b) economic independence for women, and c) economic decentralisation.

Economic decentralisation: In a cooperative economy, five principles would guide the process of economic decentralisation: a) local people would have control over local resources; b) production would be guided by local consumption and not by profit; c) as far as possible, production and distribution would be organised through cooperative enterprises; d) local people would have priority employment in local industries; and e) products that can be manufactured locally would not be imported. Economic

decentralisation is the practical means by which local communities would take control of their local economies.¹²

Decentralised planning: Both economic democracy and economic decentralisation require decentralised planning. Local communities and local governments need to have the authority necessary to make the decisions that directly affect their local economies. Economic decision making would start at the grass roots level and devolve upwards. Only local people would sit on local boards.

Decentralised planning would also mean that production and distribution would be done through local cooperative networks, and that local communities would work together for their mutual benefit. There would be no net capital outflows from any local area. In addition, both economic decentralisation and decentralised planning would need to be consistent with the principles of economic efficiency and economies of scale.

Cooperative entrepreneurship: The entrepreneurial drive generally associated with successful business men and women in a capitalist economy would be largely transformed into cooperative entrepreneurship in a cooperative economy. In a cooperative economy, good innovation, quality research and development, and the ability to bring new goods and services to market in a timely manner at reasonable prices, is a role that would be done by cutting-edge cooperatives. Harnessing the cooperative entrepreneurial capacity of a group of capable, community-minded people is generally considered to be one of the greatest potential strengths of a cooperative economy.

New measures of progress: New measures of progress would be adopted in a cooperative economy to evaluate the social and environment impact of development. Such indicators would include: education and literacy levels; health and infant mortality; availability of basic services such as water, sanitation, electricity and telecommunications; suitable accommodation; air and water quality and environmental pollution levels; the levels of depletion of natural resources; biodiversity and species loss; and access to cultural and recreational resources.¹³ Additional indicators would include: monitoring income distribution, increasing purchasing capacity, deductions for social and environmental costs, accounting for the depletion of non-renewable resources, and capital asset accounts for building infrastructure and public resources. Such indicators are much broader than the indicators used widely today, such as corporate profitability, GDP growth, and wealth accumulation.

New indicators would also need to be devised to evaluate the full range of resources: physical, mental and spiritual. Triple bottom line accounting methods would quantify financial, social and environmental value, and multiple bottom line accounting would also quantify ethical and spiritual value.

Balanced economic development: Balanced economic development would ensure that a cooperative economy would not be either under-developed or over-developed. A balanced economy is one in which the agricultural sector, agrico- and agro-industries

(‘pre-harvest’ and ‘post-harvest’ industries respectively), manufacturing and the service sector all develop in balanced proportion. A balanced cooperative economy would place great importance on agrico- and agro-industries as a means of developing a sustainable economy.¹⁴ It would also halt the decline of the agricultural and manufacturing sectors, and encourage the development of the not-for-profit sector in order to develop social capital. As part of its tax policies, a cooperative economy would gradually phase out income tax and introduce a rational system of resource taxes.

Socio-economic units: A socio-economic unit in a cooperative economy may be defined as a natural community which has the potential to be self-sufficient and sustainable. Here self-sufficient has two components. First it requires that the socio-economic unit can produce its own minimum necessities of life so as to sustain the local inhabitants. Second it requires that the socio-economic unit can sustain a balance of trade, that is, manufacture sufficient exports to exchange for the additional commodities it needs so that the local inhabitants can enjoy a good standard of living and not just the minimum standard. Clearly, the requirement of sustainability is best met if the socio-economic unit can meet these objectives efficiently.

Since socio-economic units are meant to be natural communities, their boundaries are defined by economic, cultural and environmental factors. These factors include: similar economic problems and uniform economic potentialities, a common history and culture, and similar environmental features. As socio-economic units develop, we would expect to see two or more adjoining units merge together, based on factors such as economic parity, cultural mixing and administrative integration.¹⁵

A cooperative market economy: A cooperative economy should not be confused with a command economy. A cooperative economy is a market economy, but it is not a capitalist market economy. Consumer preferences, reflected through consumer cooperatives, would govern the production of goods and the provision of services, so production would be determined by consumption and not by profit. Producers and consumers would interact directly with each other, and not through various intermediaries. Trade would be done mostly through cooperatives, but wealth and resources would not be drained from one socio-economic unit to another.

Political reform: For a cooperative economy to work efficiently, political reform is also necessary. Good policies, just laws and a fair regulatory environment are necessary to ensure that a cooperative economy benefits all. However, capable leaders are also essential. Requiring politicians to sign their election manifestos so that they enter into legally-binding electoral contracts with voters, and empowering voters to sue politicians who breached their electoral contracts based on their public statements and voting record, would very quickly elevate the standard of political leadership.

In addition, creating a fourth branch of government, besides the judiciary, legislature and executive, that would be responsible for auditing, gathering statistics and fundamental

economic management, would separate economics and politics structurally. The role of government would become clearly defined and limited.

Globalisation: As far as possible, a cooperative economy would adopt the principle of political centralisation and economic decentralisation. When local communities around the world have economic security, and socio-economic units provide people with the basic necessities and an increasing standard of living, people will naturally see the advantages of a world administration. A common philosophy of life, a world-wide penal code, and a global constitution that protects local communities and contains a strong bill of rights, can make globalisation work for all.

Conclusion

So we can see that a well-developed cooperative economy would contain a range of features that, potentially, can offer a new direction for humanity. The challenge of integrating communities, economies and natural environments into sustainable systems could well be mastered, if we choose to develop a cooperative economic model.¹⁶

Finally, I would suggest that the choice we face today is clear cut. It is between, on the one hand, the status quo, meaning business as usual, and, on the other, actively engaging ourselves in building a sustainable future for our children and our grandchildren. The choice that we make today may well determine the future course of life as we know it on our planet.

Thank you.

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- 15 Sarkar, “Socio-Economic Groupifications”, op cit., pp. 21-29.
- 16 Also see, for example, John Pearce, *Social Enterprise in Any Town*, Calouste Gulbenkian Foundation, 2003, and Michael Towsey, *Economics for Self-Reliant Communities*, Prout Institute of Australia, 2005.

Useful Websites

Mondragon Corporacion Cooperativa: <http://mondragon.mcc.es>
National Cooperative Business Association: <http://www.ncba.org>
International Cooperative Alliance: <http://www.coop.org/ica/index.html>
Cooperatives in Australia: <http://www.australia.coop>
Maleny Credit Union: <http://www.malenycu.com.au>
Cooperative Housing: <http://www.unhabitat.org/>
Local Energy Transfer System (LETS): <http://www.lets.org.au>
Ecovillages: <http://www.ecovillages.org/australia/>

Videos

“Creating Prosperous Communities – Small-Scale Cooperative Enterprise in Maleny”, produced by the Prout Community Settlement Cooperative, 2002. The video is available through inrsong@ozemail.com.au, and the text is available at www.proutworld.org/features/maleny.htm.