tivity or product quality" and that all discussions of conditions of employment be dropped. The role of the National Labor Relations Board is nevertheless passive regarding enforcement of this provision. The burden of bringing suits to assure that managements do not adopt the strategies I have outlined falls to organized labor. It is important that labor allocate resources to the bringing of such suits in order to prevent the undermining of its position by management.

Participative systems are in the interests of both labor and management. It has been necessary for labor and management to cooperate in order to discover, through experimentation, how these participative systems might best be designed. These circumstances have led to the practice of basing participative systems on voluntary cooperation. This practice has served to develop a set of effective design principles, which are not working well in terms of either diffusion or effective operation. Either labor or management needs to become the leading advocate of participative systems. As is recognized by the NLRA, there are compelling reasons against this lead being taken by management. There are equally compelling reasons for it being taken by labor. First, the specific procedures of these systems, while they are sometimes inconvenient to managers, are in the short- as well as long-term interests of workers. This suggests the union as the appropriate enforcement arm. Second, the structure of these systems makes them potential vehicles for decentralized collective bargaining. This rules out management as the prime mover. Finally, organized labor—as a societal institution—is at a crossroads. In order to stop the forces that have been eroding its membership, it must change its strategies. One possible change is toward centralization: away from our present system of decentralized bargaining toward a reliance on the state to protect workers. Another possible change, which I propose, is toward a further decentralization of the collective bargaining process. □

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10

Philadelphia Story

William F. Whyte

Philadelphia is the site of an innovative program, which promises to have profound effects on the future of the employee ownership movement in the United States. The program is led by a union, United Food and Commercial Workers, but that in itself is not unique. Local 46 of the same union was the precedent setter with Rath Packing Company in 1980; United Automobile Workers (UAW) Local 736 followed in 1981; establishing employee ownership for Hyatt-Clark Industries, a former General Motors plant. The pathbreaking features of the Philadelphia program are these:

- Negotiation of a labor agreement with a subsidiary of A&P to reopen supermarkets that have been shut down, trading pay and benefit concessions for jobs and financial support for worker cooperatives.
- Creation of the O&O Investment Fund, the first union established fund specifically designed to provide credit, technical assistance, and research and educational services to support the creation and growth of worker cooperatives. (The O&O logo stands for "owned and operated"—by the workers themselves.)
- Development of a highly participative process for planning and establishing worker cooperatives through linking researchers and consultants with union leaders and workers. This places the Philadelphia experience in the context of past efforts to build worker cooperatives in the United States and abroad.

The breakthrough occurred in the relationship between the United Food and Commercial Workers Union (UFCWU) and the Great Atlantic and Pacific Tea Company. Once the leading food store chain, A&P had been losing ground to competitors for years; it was becoming evident that traditional collective bargaining strategies would not save the jobs of the retail clerks in Local 1357 and the meat cutters in Local 56. By late 1981 there were indications that A&P was considering shutting down its supermarkets in the Philadelphia area. By this time Wendell Young, president of Local 1357, had begun exploring the possibility of establishing some form of worker ownership in some of the stores to be abandoned by A&P. He had commissioned market and feasibility studies to support such a program. According to Kreiner and Lamas, writing in *WIN*: "Suddenly, at the end of February [1982], the company made a surprise announcement that, within 20 days (the period of advance notice required by the collective bargaining agreement), it was shutting down virtually the entire Philadelphia division—putting nearly 2,000 people out of work."

Building on preliminary studies already available, Young made a bloc bid for UFCWU members to purchase the twenty-one supermarkets that appeared to be the most promising business prospects. At the same time, Young called in Jay Guben, who had worked with Local 1357 in the past, to organize the support activities. He in turn commissioned Philadelphia Area Cooperative Enterprise (PACE) to carry out a massive educational program on worker cooperatives for prospective worker-owners. Jay and Merry Guben of Grey Areas shared responsibilities with PACE on this program.

It was not only the union's bid for shut down stores and its well-organized planning process that persuaded A&P to reconsider its decision. Under the terms of its UFCWU contract, Young estimated that the shutdowns could have cost the company up to $40 million in previously unfunded pension obligations. Young pointed out that management could avoid most or all of this financial burden if the parties could negotiate a new contract involving the reopening of the supermarkets. As he says, "That caught their attention." The main features of what Young justifiably calls "a historic agreement" were these:

- UFWCU preserved intact pension and health insurance benefits. Wage concessions dropped the clerks, the lowest paid category, from $10 to $8 per hour, and higher paid employees received similar cuts. Vacations were cut from four weeks to one. Workers were to gain back the pay cuts within two years, and some of the additional vacation period is being restored over a longer period.
- A&P agreed to rehire UFCWU members for its new subsidiary, Super Fresh Food Centers, Inc., and established a joint committee with the union to manage the process. As more than fifty supermarkets have been reopened, approximately 2,000 workers have been rehired.
- Super Fresh agreed to implement a Quality of Working Life Program in order to stimulate worker participation in its Food Centers.
- The union secured an option to purchase its choice of two of four shutdown supermarkets, with PACE as its agent, plus the right of first refusal on any Super Fresh shutdowns.
- With some adjustments geared to percentage of labor costs, Super Fresh agreed to set aside 1 percent of its gross revenues from all of its Food Centers, that sum to be divided between annual worker bonuses and the O&O Investment Fund. The fund was established for the purpose of providing organizational, financial, research, and educational services in the development of worker cooperatives.

Politics of the One Percent

Since the 1 percent clause was designed to support the building of worker cooperatives, its history deserves special attention. It was originally announced that 40 percent of the money from Super Fresh would be paid in Super Fresh employee bonuses and 60 percent would go into the employee ownership investment fund. Later it was announced that 35 percent would go to the investment fund. Until the spring of 1983, there was considerable uncertainty as to what the final formula would be.

The uncertainty was based upon problems between Local 1357, representing the retail clerks, and Local 56, representing the meat cutters or butchers. It was only recently that the Retail Clerks Union merged with the meat cutters into UFWCU, so that now two locals of the same union represent employees in the same stores. The butchers have traditionally been regarded as the skilled tradesmen. A considerable difference in perceived status remains alive in the stores. About 80 percent of the employees in a supermarket fall in the clerk category. They have been represented by Wendell Young, who began organizing in the Philadelphia area when he was just nineteen years old.

Nominally the contract was negotiated jointly by the two locals, but Wendell Young took the lead throughout. Leo Cinaglia, president of Local 56, only attended the last two negotiating meetings. Cinaglia stated that he accepted the contract as laid out in the final meeting, but, when it was typed up for him to sign, he said he would do so only if the butchers were granted fifty cents an hour above the rate that had been agreed upon orally. Many of those involved in the Philadelphia program looked upon this maneuver as a breach of trust, but Cinaglia insisted that he was simply renegotiating the contract. In any event, he got the parties to agree on the additional fifty cents.

Since Cinaglia declined to support the O&O Investment Fund, the 1 percent bonus was to go to all employees, and only the clerks would then pass on 35 percent of what they received to the fund. According to Young, at the time the contract was negotiated, they readily agreed to the contribution of money they had not yet earned, as part of the package securing them reemployment. By the time the clerks held a referendum to authorize this contribution, they knew that the butchers would be keeping 100 percent of their bonus money. This apparent inequity stirred some resentment. Nevertheless, a majority of the clerks voted to support the proposed distribution of the bonus.

When the employees were back at work with Super Fresh, the dollars the clerks were giving up became a much more tangible issue. In the summer of 1983, some of the clerks in five of the most prosperous stores collected money to hire a lawyer to file suit against Local 1357 and A&P to cancel the contribution agreement. The legal argument was that the referendum was not binding, that bonus money to the employees could only be contributed to the fund on the basis of voluntary and individually signed check-off authorizations.

The union leaders believed they had a good chance to win the court case, but the process would be long and costly to all parties. More important than the financial costs would have been the divisive effects of fighting a case in which the dissidents would have had the sympathy of many employees who could readily count the dollars they would gain if the suit were successful. Facing this problem, the union leaders decided to yield and make all contributions individual and voluntary. Since they had no hope of persuading their members to contribute 35 percent of the bonus money, they appealed for 10 percent. In spite of urging by the union leaders, only a small minority of the Super Fresh workers signed the voluntary 10 percent check-off authorization; and, by the second year of the program, many of those had terminated their contributions. The projected cash flow to the fund of over half a million dollars a year had dwindled down to a trickle.

For the union leaders, the experience was painful, but they learned from it. They remain committed to the principle of bargaining for O&O Investment Fund support, but now they are attempting to gain their objectives through new labor contracts in which the company would be required to check off money for each worker. The money would be contributed by each company directly to the fund. This would avoid the legal challenge that destroyed the original contribution agreement. After an unsuccessful try with this strategy in bargaining with ACME (which is even larger in Philadelphia than A&P), the union began to achieve success with two-to-five cents per hour contributions with other supermarket chains. This strategy was to be pursued in bargaining a new contract with A&P in the summer of 1985.

Financing O&O Stores

Beyond member contributions, the first two O&O stores had to be financed by substantial bank loans. After some weeks of discussion and negotiation with potential lenders, the Philadelphia people were able to secure loans from the Continental Bank, backed by loan guarantees from the Small Business Administration. Each worker-owner paid $5,000 for one share of voting stock. In most cases, personal loans from the Local 1357 credit union financed these investments. No other stock was issued, thus preserving the one-worker/one-vote cooperative principle. According to the plan, when worker-owners quit or retire, they would be required to offer their stock back to the cooperative, which would then sell the stock to a new worker-owner.

A&P intended to reserve for possible Super Fresh reopening the best of the shut down stores in terms of space, equipment, and market area. Does this mean that the O&O stores are bound to be lemons? Some weeks after A&P had agreed to sell the Roslyn (Montgomery County) store and the Parkwood Manor stores, management decided it had made a mistake in offering Roslyn. A&P then proposed to give the union two other stores if the union would let them take back Roslyn. This was a difficult question to resolve. Like all other questions involving O&O stores, the organizers of the program allowed the worker-owners to make the decision. By this time, they were well along in their planning of the Roslyn store and were convinced they could do better with it, so the worker-owners declined to switch.

Worker-owners do not steal from themselves.

At the outset, the manager was the only full-time person in each store who was not an owner. The potential worker-owners had to recruit and select a manager. This was just one of the assignments involved in an extraordinarily participative planning process in which the potential members were meeting in the union offices three times a week from March into the fall, when Roslyn opened in mid-October, with Parkwood Manor following in November. Sherman Kreiner and Andrew Lamas at PACE worked with Jay and Merry Guben of Grey Areas throughout the planning process. PACE was responsible for setting up the legal structure and, with the Gubens, played major roles as consultants on the organizing and planning process.

The potential owners set up a committee for recruiting and sorting out candidates for store manager. The committee narrowed down the choice to two individuals for Roslyn and two for Parkwood Manor. The Roslyn committee interviewed each candidate, following the same format in the questioning for both, and they videotaped the interviews. All of the members then attended a meeting to view the videotaped interviews, after which they voted for the candidate of their choice. The Parkwood people followed a similar procedure.

One of the major problems to resolve in the planning process was the authority of the manager versus the authority of the collective body of worker-owners. The general idea was that the manager should be the boss during working hours but subject to the direction of the nine-person board of directors and the total membership when those bodies met. It was important to sort out the types of decisions that the manager could have the authority to make, separating them from decisions that had to be made by the board of directors, and further separating out those that could only be made by the whole collective body. The worker-owners and Andrew Lamas of PACE devised an ingenious scheme of allocating decision-making power according to the time in which a decision had to be made, the number of people to be affected by the decision, and the amount of money committed by that decision.

O&O Advantages

There are four basic advantages that O&Os are counting on to enable them to outperform A&P, as it had operated in the past. First, there is low overhead. Beyond saving the large salaries and expenses of higher management in a supermarket chain, the workers stressed the savings in local store management salaries. Comparing the A&P regime, one worker made this observation in the *Philadelphia Inquirer*: "The main difference? Supervisors. I had one that moved a sign, another who asked me who moved that sign and a third who moved it the other way. And they constantly bickered about who was doing a better job. I didn't know what to do with that sign."

A second advantage is flexibility. When A&P ran the stores, the store manager and the department managers had no choice in ordering supplies. They were required to indicate how much of any given item they needed, but everything was supplied to them by the A&P. Now the O&O stores are served by IGA, but they are not required to buy all of their merchandise from that organization. The manager of Parkwood Manor estimated that about half of their merchandise was bought from other sources. This also means that there is much more opportunity to buy close to the local area as well as to adjust the buying and displaying to the interests of the particular neighborhood. For example, one of the worker-owners described an experience while working with A&P, then controlled by a German firm. Top management had decided that every store should have an Oktoberfest—a promotional program that is successful in Germany. They were loaded down with all sorts of German products, including large allotments of boxes of chocolate and German biscuits, practically none of which sold. The store was in a Jewish neighborhood, where the Oktoberfest had no appeal.

The O&O also has more flexibility in moving people around to fill in where they are needed, without regard to their job classification. Even the meat cutters pitch in to help on the checkout counters—something that is practically unheard of in a privately owned supermarket.

The subject of stealing and spying reveals a third advantage of O&Os. In a supermarket, stealing by employees or customers can be costly. My informants recalled from personal experience a number of ways in which merchandise would be sneaked out the door without going through the checkout counter. The company had to employ spies to check up on the stealing. One informant told me that he once found a man from the main office digging through the store's garbage. There had been cases in which employees would make an arrangement with garbage collectors so that they would throw out certain well-packaged meats and then split the value of the stolen goods later.

O&O people estimate that their inventory "shrinkage" is only about one-sixth of that experienced in the average supermarket. Owners are more vigilant than nonowners in watching out for shoplifters. The owners do not steal from themselves, and, except during membership meetings every two weeks, worker-owners outnumber non-owning part-timers on the job and are thus in a good position to protect their interests.

A fourth advantage concerns what is called "sweat equity." In the spring of 1983, in the Parkwood Manor store, owners were putting in substantial sweat equity in terms of unpaid time on the job. Manager Scheuren estimated that this could come to as much as eight hours a week, but he added that they hoped this could be reduced in time. Much of this unpaid time arises out of coping with a rush of customers around the time when people come to the end of their normal working hours. In the A&P store, when the worker's time for the day runs out, he or she simply quits, even if that means leaving a number of customers frustrated in a checkout line.

This is a delicate problem for the union, since the leaders do not want success to depend on working extra hours without extra pay. The problem may be unavoidable since the worker-owners are inclined to do whatever they can to make their own stores successful.

Personal Costs and Benefits

Among the main benefits of employee ownership are enhanced learning opportunities, with a consequent increase in personal confidence and self-esteem. Under A&P, everything was formalized by papers that the manager, the produce manager, and other department managers had to fill out. They had no responsibility for anything except what quantities to order. They were not required to keep any records at the store except those that would be processed at a higher level. Now not only does the manager have the total overall responsibility, but the meat manager is responsible for his orders, and so on throughout the store. There is also a treasurer who has to learn enough about accounting to keep the books. Another important gain is control over one's own fate. Nearly everyone emphasizes the importance of freedom from the dictation of some remote management.

One of the important costs of the program so far might be called the nervous strain. Beyond the endless hours spent in planning, which certainly amount to an important cost, various people spoke of the nervous strain involved in recognizing that, while they had a great opportunity, they also were shouldering responsibilities far beyond anything in their previous experience. The nervous strain was not limited to the worker-owners. Jay and Merry Guben spoke about spending many sleepless nights wondering whether they were providing the guidance needed. Consulting with a group of people whose savings and future livelihood depend upon the guidance you give them puts a much heavier load upon the conscience of the consultant than simply consulting with a big corporation. On the other hand, consulting with this sort of organization is also a very rich learning experience for the consultants. I found universal enthusiasm among the worker-owners for the help they had been given by Grey Areas and PACE in the process of establishing the first O&O stores.

A question frequently asked of those who get involved in employee ownership through union membership is, "How can you bargain with yourself?" In this case, the parameters were provided very largely by the union contract with Super Fresh Food Centers, Inc. The worker-owners might have been willing to start themselves at a lower pay level than A&P employees, but they were under pressure from UFCWU not to undercut the established rate. The union also had to bargain with the board of the cooperative over the powers of the store manager. Board members were advised by Sherman Kreiner of PACE and spoke highly of his skill in helping them to recognize what was needed for effective management.

Coping with Problems

The Philadelphia program had made a strong beginning but major strategic problems remained to be resolved. Given the attention the Philadelphia program is receiving all around the country, how those problems are handled is likely to have an important impact on the development of worker cooperatives in the United States in the next decade.

The Philadelphia people are charting a course in a field in which failures have been more common than successes. In start-ups, worker cooperatives compare favorably with private enterprise. Various studies have shown that of the private firms started in any one year, only 20 percent will survive for five or more years. Bear in mind that even this low rate occurs in a nation in which the laws and institutions are structured so as to support and guide private enterprise.

Can worker cooperatives do better without widespread official support and guidance? Past experience reveals some of the major barriers to success. Since private banks have been reluctant to extend credit, worker cooperatives have often suffered from shortages of investment and working capital. Even if they start with a state-of-the-art technology, worker cooperatives have had difficulty in supporting the research and development needed to remain competitive. When workers have the ultimate power, they are likely to distribute the profits generously to themselves in good years and fail to maintain adequate reserves to survive a recession. Even if the worker members overcome all the foregoing problems, the cooperative may go out of existence because it has been too successful. If control has been based on stock ownership, the original worker owners will recognize that taking in new workers as owners will dilute the founders' equity, so there is a tendency to deny ownership to new workers. The cooperative then evolves into a two-class system: worker-owners versus hired labor. By the time the worker-owners approach retirement, they would be glad to sell their stock to nonowning workers, but the stock may have increased in value to a point at which only outsiders can afford to buy in.

> A cooperative may go out of existence because it has become too successful.

Looking about the world for experience in solving such problems, we find a growing interest in the Mondragón cooperative complex in the Basque country of Spain. Interest in what we call the Mondragón model has spread far beyond academic circles. Since its founding in 1978, the Industrial Cooperative Association has been committed to the Mondragón model. The same is true of PACE. Wendell Young had been thinking and planning for some form of worker ownership years before he had heard of Mondragón, but it was Sherman Kreiner who brought that model to the attention of Young and also of Jay Guben in the early stages of the Philadelphia cooperative program. The BBC documentary on Mondragón was used in the orientation program for prospective worker-owners, and PACE featured it in a public conference on worker cooperatives in Philadelphia in March 1982.

To understand its potential lessons for Philadelphia, we need at least a brief outline of the Mondragón cooperative complex. From its small beginnings with a cooperative technical school in 1943 and the first worker industrial cooperative in 1956, the Mondragón pioneers have built a cooperative complex now employing more than 20,000 members in 100 industrial, construction, and service worker cooperatives closely linked with a cooperative bank and cooperatives in industrial research and development and in education. Caja Laboral Popular, the bank, has become the central element in the complex. Besides providing loans to member cooperatives at below the Spanish market rates, the Caja supports an entrepreneurial division with over 100 professionals providing information and technical assistance for creating new cooperatives, management consulting for expanding or maintaining cooperatives, and even emergency intervention to help the members of a failing cooperative to reorganize so as to build a solid base for future operations.

In contrast to the tightly knit Mondragón complex, Philadelphia has had three supporting organizations—Local 1357, PACE, and the O&O Investment Fund—which were of vital importance but which had to sort out their relations with each other and with the worker cooperatives. Since representatives of all three organizations had seats on the board of directors and on the executive committee of the fund, that was the primary forum for this sorting out process.

Before the O&O Investment Fund came into existence, Sherman Kreiner and Andrew Lamas of PACE worked closely together with Jay and Merry Guben of Grey Areas in the start-up of the first two O&O supermarkets. When the fund came into existence, with Jay Guben as its director, there naturally arose questions of the division of labor between PACE and the fund. PACE staff people thought that the fund should confine itself to banking functions, leaving project development to PACE. For the fund, Director Jay Guben believed it was more difficult to "put together viable deals" than to obtain financing, and his board was not inclined to bar him from deal making. This made it necessary for the O&O Investment Fund board and executive committee to engage in months of discussion and negotiation in order to work out jurisdictional issues between PACE and the fund.

No sooner had these issues been resolved at least on paper than a financial crisis drastically changed the relations between the two organizations. The fund had been established on the assumption that it would be supported by its share of the Super Fresh productivity bonus. When that source of support all but disappeared suddenly, the staff hoped to maintain its program through foundation and government grants and contracts until they could build up support from service fees and future labor contracts. For a time it seemed as if this might be possible, but in December 1984 the fund was turned down for two major foundation grants. Feedback from the foundations indicated that the apparent competitive relationship between PACE and the fund was a major consideration in the decision to reject. Why should a foundation support two struggling nonprofit organizations pursuing the same objectives in the same city?

The financial crisis generated a series of emergency meetings of the executive committee of the fund. Members believed that if Local 1357 were successful in negotiating cents per hour company contributions to the fund in contracts arrived at in 1985, this strategy could yield well over $100,000 per year. The hoped for A&P infusion would not begin to flow until the summer of 1985. Meanwhile, the fund was deep in debt and without new revenues to support its operations.

After exploring other alternatives, the executive committee presented to the board a proposal that had been tentatively worked out with PACE. In effect, PACE would take over the fund. The fund would retain its existing board of directors but would be operated under a management contract with PACE. This meant that PACE would provide staff support to the fund and the preexisting fund staff would be terminated. The board accepted the proposal with mixed feelings. There was a sense of being let down through having been associated with an enterprise that had not been able to accomplish its objectives on its own. On the other hand, board members generally had a high regard for PACE and recognized the logic of concentrating efforts and resources in a single organization.

Local 1357 also has problems sorting out its relations with the other support organizations and with the worker cooperatives to which it has given birth. In the traditional adversarial relationships in private firms, union leaders and workers learn from experience—plus readily available training programs—what to expect from each other. Without such an experiential base, it is much less clear what the relations between O&O worker union members and the Local 1357 leadership should be.

The contributions of the supporting organizations in the start-up process are clear to the worker-owners; but when the new cooperatives are going concerns, it is much less clear what the worker cooperatives should expect of the support organizations and vice versa. This is particularly illustrated in the problem of maintaining worker ownership in the long run.

Maintaining Worker Ownership

In the O&O supermarkets, employee ownership is based upon stock—a single share purchased for $5,000, with no distinction being made between full- and part-time employees. The articles of incorporation stipulate that all employees shall be members: "Within the trial period of two months, a prospective member must either be accepted into membership or terminated as an employee."

The ownership maintenance problem has emerged in both stores, but here I concentrate upon the more prosperous Roslyn supermarket. At the outset, all twenty-three full-time employees were owners, and two part-timers had bought their shares. Since it was difficult at the time to recruit part-timers willing to buy the stock, eleven nonowners were employed. The feasibility study indicated that Roslyn could meet its interest and premium payments and still break even with a projected volume of $125,000 in weekly sales. Within a few months, the store was averaging around $140,000; during the winter of 1984-85, volume climbed to $170,000.

One full-time employee-owner left and sold his stock back to the store. He has not been replaced. To handle the increased volume of business, the store hired nine additional part-timers. Several of the part-timers, over a period of months, petitioned the Roslyn board of directors for the right to buy stock and become voting members. Union leaders and consultants repeatedly urged the board to extend ownership to all workers willing to buy the stock. This issue occasioned several heated meetings of the Roslyn board, but all of them had the same outcome: the board voted against including new members. This issue has provoked considerable friction between the union leaders and the worker-owners—who continue to be members of the union—and also between members and nonmembers within Roslyn and even within the board itself. Board members in the minority feel that the board is violating cooperative and democratic principles.

Roslyn may be in the early stages of acting out the classic scenario leading to the conversion of financially successful cooperatives into private enterprises. As the value of the firm increases, members decline to dilute their equity by voting in additional members. Eventually, to realize the increased value of their stock, they vote to sell out to a private firm. They have already rejected an offer of more than double their initial investment, but, with Roslyn's continuing success, will they turn down the next offer? And the ones after that?

The problem of relations between base cooperatives and support organizations raises the general question: democracy at what level? Should the original worker-owners of a base cooperative have the right to exclude other workers from ownership? If leaders of support organizations believe that ownership should be open to all workers, can they secure compliance with that policy?

Moving Ahead

By the summer of 1985 the Philadelphia program was moving ahead with renewed strength and dynamism. Local 1357 was negotiating new labor contracts including company contributions to support worker ownership. Now that the financing no longer depends on annual voluntary contributions by individual workers, PACE, in association with the UFCWU, has an assured and growing source of financing for technical assistance, education, and research in worker ownership.

In the spring of 1985 the third and by far the largest worker-owned supermarket opened its doors for business. The Strawberry Mansion O&O, developed jointly by PACE and the UFCWU, is also the first O&O project to be established in a new building in a new shopping center. PACE continues an active program of organization and education for future O&O cooperatives in the Philadelphia area.

With principal support from the Ford Foundation and with preliminary commitments from various church organizations, PACE has launched the Inter-Faith Revolving Loan Fund, which promises to establish a capital base of close to a million dollars in the near future. In addition to drawing on this fund to package loans from other sources, PACE now for the first time has its own source of loan money for future worker cooperatives.

With the Inter-Faith Revolving Loan Fund, the Philadelphia program has become a major force in a growing regional trend. The Industrial Cooperative Association in Somerville, Massachusetts, has built a million dollar revolving loan fund on the base of a start-up grant from the Ford Foundation. The Center for Community Self-Help in Durham, North Carolina, has established the Self-Help Credit Union. Within the first year of its existence, the credit union had built up over $1.5 million in assets and had provided twelve loans to worker-owned or democratically controlled businesses.

Lessons Learned

The O&O experience has provided rich learning opportunities for all of us who have been involved in decision making or research. As a member of the board of directors of the O&O Investment Fund up to February 1985, I have learned along with the union leaders and the key people in the supporting organizations. The accomplishments in Philadelphia have been impressive, but we can learn from our mistakes as well as from our successes.

Wendell Young and his associates in the union leadership of Local 1357 pioneered in charting a new model for a relationship between a union and worker cooperatives. Their strategy not only saved up to 2,000 jobs within A&P but also brought into being two worker owned and operated supermarkets and paved the way for others. Nevertheless, we have all learned that some of our ideas were faulty. At one time, we believed that the O&O Investment Fund share of the productivity bonus from Super Fresh would amount to over half a million dollars a year. If that had come to pass, the fund would have been able to operate on a large scale—possibly too large for the healthy development of such an innovative undertaking in its initial stages. Furthermore, it was one thing to call upon unemployed workers to give up a percentage of a productivity bonus which would come into being only after they got their jobs back. It was another thing to divert a large sum of money from the productivity bonuses when the workers were no longer dealing with hypothetical dollars. If this plan had been implemented, it might have provoked serious political problems within the union. This experience did not persuade the union leaders to abandon the idea of bargaining for support of the O&O Investment Fund, but it has led to a change in strategy. The new cents-per-hour company contribution strategy is beginning to pay off.

Along with our interpretation of the success of the Mondragón cooperative complex, the Philadelphia experience underlines the importance of building an organizational infrastructure to provide support and guidance for fledgling worker cooperatives. The impressive organizational infrastructure at Mondragón grew up over a period of years out of an initial worker industrial production cooperative. In Philadelphia, we were trying to build supporting organizations independently of worker cooperatives but for the purpose of helping to create and guide those organizations. Clearly, the supporting organizations in Philadelphia were essential for building the initial worker cooperatives; but we are still trying to learn how those suporting organizations can serve worker cooperatives once they are established—and how those cooperatives can help to finance the supporting organization.

At the outset, it appeared that Philadelphia was fortunate in having three organizations working together to build and strengthen worker cooperatives: the union, PACE, and the O&O Investment Fund (led by Jay Guben who had been involved in the early O&O developments through Grey Areas). When it suddenly became clear that the fund would not have the ample support from the productivity bonus, it was already geared up to operate on a scale that could only have been maintained through a steady flow of grant funds from foundations and grants or contracts with public agencies. It is now painfully clear that, until employee ownership has progressed far beyond its present state, even such a large city as Philadelphia cannot expect to provide support for two such organizations. The merger of the O&O Investment Fund with PACE reflects this realization.

A major problem is the authority of managers versus the authority of worker-owners.

The relations between supporting organizations and worker cooperatives must depend upon some sort of reciprocity in which the cooperative makes some payments in return for the services it receives. This could be worked out on the basis of a contract in which the leaders of the worker cooperative commit themselves to sharing a small percentage of their income with the supporting organization. Such an arrangement was considered at the time of the start-ups of the first O&O stores, but planners were counting on several hundred thousand dollars from the Super Fresh contract, so no service payments were written into the agreements between the cooperatives and the supporting organizations. In the cooperatives being organized now, the supporting organization is contracting for a continuing fee payment for services. This will be important in providing some of the financial support needed by supporting organizations beyond that which can be brought in from the new union contracts; but it will be some time before service fees can provide the full financing for effective support organizations. In the meantime, like other such support organizations, PACE must continue to depend partially on grants and contracts from private and public agencies. Even when a fee contract has been established, it remains to be determined what the parties should expect from each other as a basis for these fees. It would seem reasonable to the initial members of the worker cooperative for them to pay out of their income to cover some of the costs of technical assistance in getting them started; but if those payments are to continue indefinitely into the future, the leaders of the worker cooperatives will want to know what kind of technical and/or financial assistance they are entitled to in order to justify these continuing fee payments.

In Mondragón, the cooperative bank has the financial strength to provide credit at below the national market rates along with an impressive array of services to provide technical assistance in organizational planning, marketing, manufacturing, and business administration generally. At best, it will be some time before any supporting organizations can develop to the point of providing such a strong array of financial and technical services. Nevertheless, the Mondragón example has proven to be an inspiration to those seeking to develop supporting activities.

When worker ownership has once been established, how is it to be maintained? To answer that question, it is important to recognize both the flexibility allowed under employee stock ownership plans (ESOP) legislation and the membership maintenance problems that may arise in worker cooperatives in the United States that do not take advantage of the ESOP structure.

At the time that Wendell Young was beginning to think seriously about worker ownership, like nearly all union leaders at the time, he had no faith in the ESOP. Recognizing that throughout the 1970s the ESOP mechanism had been utilized primarily by management people without apparent concern for the interests of workers and that it had been enacted into a series of laws initiated by Senator Russell Long, who is not known as a friend of labor, the leaders of Local 1357 were determined to create worker cooperatives rather than employee stock ownership plans.

We are now learning that the maintenance of worker ownership in Mondragón depends not only upon the collective solidarity traditional in Basque culture but also upon the powerful influence of the cooperative bank. In order to get the bank loans that are essential to starting a worker cooperative, the members have to design a constitution and bylaws that call for all inclusive worker membership and control in terms of one-worker/one-vote. They also sign a contract of association with the bank, and that contract gives the bank the right to terminate its association with the worker cooperative on six months' notice if it violates the organizational principles laid down by the founders of Mondragón. Since the advantages of retaining association with the bank are so great, in no cases have the worker members of any cooperative exercised their inherent right to vote to change the constitution and bylaws so as to restrict ownership by excluding new workers.

In the Philadelphia situation, neither PACE, the O&O Investment Fund, nor Local 1357 have had the power to enforce compliance on the inclusion of all workers as members. We therefore have to depend on legal and other design aspects of a worker cooperative or ESOP in order to maintain full membership. Paradoxically, it may be easier to accomplish this objective through an employee stock ownership plan, although the legislation was not designed for this purpose. The employee stock ownership plan can be drafted so that all new employees are automatically included as owners. Instead of adopting the traditional control arrangement in which voting is in proportion to the number of shares owned, first at Rath Packing Company (in 1980) and later at Atlas Chain Company (in 1983), voting rights have been separated from stock holdings. All workers own stock, and the stock is in the hands of trustees who vote and therefore control the board of directors. In turn, the trustees are elected by the workers on a one-worker/one-vote basis. It is possible to plug in the basic principle of a worker cooperative—one-worker/one-vote—even when ownership is nominally in terms of stock. The ESOP can be written so that employees leaving the company must offer their stock for purchase by the company or by the trustees of the plan, thus making sure that control does not slip away to outsiders as has happened over the years in so many cases of worker cooperatives.

In addition to securing the tax advantages offered by ESOP legislation, we are now learning that it is possible to establish and maintain the basic principles of a worker cooperative through an ESOP skillfully designed to reach those objectives. Paradoxically, it may be easier to reach the objectives through the ESOP route than through a worker cooperative structure. Members must be solidly committed to the objectives at the outset and be able to utilize what has so far been learned through experience and research. □

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Participation and Performance

Michael A. Conte

The movement for employee ownership may have the most politically diverse constituency in the United States. Its supporters range from United States Senator Russell Long, a political conservative who is almost single-handedly responsible for the Employee Stock Ownership Plan (ESOP) legislation of the 1970s, to Tom Hayden, a former antiwar activist and social-democratic progressive. In spite of some commonality of interest shown by all members in the movement, it is important for their differences of opinion to be fully argued out. Two fundamental differences concern (1) the appropriate form of employee ownership and (2) the desirability of accompanying ownership with decision-making rights for employees. I shall try to outline some of the opposing views on these issues and present the evidence favoring each side. I center the discussion on cause and effect, not on issues of fairness or equity, and I intend this to be a positive statement on employee ownership.

Does employee share ownership per se affect organizational performance? This central issue is tricky because of the variety of forms in which employee ownership has appeared. The earliest examples were producer cooperatives, which are documented to have existed in the United States as early as in the eighteenth century. In their pure form, producer cooperatives, or coops, typically adopt a specific structure, involving one share per member. Members are allowed to purchase more than one share; but since additional shares do not entitle the member to additional earnings or to additional voting power, very few members purchase a second share. Membership in a coop entitles a person to work there on a wage basis, to share in the profit of the coop, and to participate in the decision-making process in a variety of ways. Coops tend to be democratic organizations, with each member feeling very much like an owner in the traditional sense of the word. Derek Jones and I have recently documented the existence of about 750 industrial producer cooperatives in the United States prior to 1959. On the basis of a 1985 survey, I estimate that there are approximately 200 organizations in the United States today that would qualify to be called cooperatives.

In the 1920s a kind of employee ownership involving