

COOPERATION AMONG SMALL PRODUCERS
IN NORTHEAST BRAZIL

by

CARLOS OSÓRIO DE CERQUEIRA

Thesis submitted for the Ph.D. in the
University of London

University College London

September, 1990

ProQuest Number: 10609812

All rights reserved

INFORMATION TO ALL USERS

The quality of this reproduction is dependent upon the quality of the copy submitted.

In the unlikely event that the author did not send a complete manuscript and there are missing pages, these will be noted. Also, if material had to be removed, a note will indicate the deletion.



ProQuest 10609812

Published by ProQuest LLC (2017). Copyright of the Dissertation is held by the Author.

All rights reserved.

This work is protected against unauthorized copying under Title 17, United States Code
Microform Edition © ProQuest LLC.

ProQuest LLC.
789 East Eisenhower Parkway
P.O. Box 1346
Ann Arbor, MI 48106 – 1346

To my Father
Professor Paulo Osório de Cerqueira
(deceased 1983)
I dedicate this thesis

"Emancipation of women and cooperative production, are (...) the two great changes that will regenerate society"

John Stuart Mill, 1869.

"Capitalist economy behaves like an organism that has undergone an organ transplant: it spontaneously rejects the alien tissue."

Branko Horvat, 1982.

ABSTRACT

The objective of this thesis is to investigate the feasibility and main dilemmas confronted by producer cooperatives in Northeast Brazil, whose members are handicraft or factory workers.

For these purposes, the relevant literature is examined, including works in the socialist tradition, both utopian and scientific, and the economics of cooperation. This literature identifies the tendency towards degeneration, financial and entrepreneurial problems, and market instability, as important characteristics of producer cooperatives, and this diagnosis is confirmed in the case-studies.

The research examines the way that producer cooperatives have developed in Northeast Brazil, showing that this depends upon the labour process, which in the case-studies varies from handicraft to manufacturing processes. These cooperatives were created, inter-alia, to relieve poverty. Although receiving support, not only from government agencies to promote cooperativism but also from international donor institutions, severe obstacles to their formation and continued survival are observed in all the case-studies.

The research also reveals that formal independence of the cooperative labour relation, often a statutory institutional requirement, disguises the real labour relation which is proper to the piece-rate system. This relationship, together with subcontracting, constitute the major characteristics of the producer cooperatives in Northeast Brazil.

TABLE OF CONTENTS

	PAGE
ABSTRACT	4
TABLE OF CONTENTS	6
LIST OF TABLES AND MAP	9
ACKNOWLEDGEMENTS	10
<u>INTRODUCTION</u>	12
 <u>PART ONE: HISTORICAL BACKGROUND</u>	
 Chapter 1. <u>UTOPIAN ORIGINS OF COOPERATIVISM IN NINETEENTH</u>	
<u>CENTURY BRITAIN</u>	
1.1. INTRODUCTION	17
1.2. NEW LANARK	18
1.3. ROBERT OWEN'S NEW VIEW OF SOCIETY	22
1.4. DAVID RICARDO'S VIEW OF OWEN'S PLANS	31
1.5. OWEN'S NEW HARMONY AND OTHER FAILURES	34
1.6. JOHN STUART MILL	36
1.7. MARX AND ENGELS ON OWEN'S UTOPIA	39
1.8. OWENISM	45
1.9. ROCHDALE	46
1.10. CONCLUSION	50

PART TWO: APPROACHES AND PROBLEMS

Chapter 2. NINETEENTH CENTURY APPROACHES TO THE PROBLEMS
OF PRODUCER COOPERATIVES

2.1.	INTRODUCTION	52
2.2.	ROOTS OF THE DEGENERATION HYPOTHESIS	53
2.2.1.	MARX	53
2.2.2.	BEATRICE WEBB	62
2.3.	THE EARLY NEOCLASSICALS	69
2.3.1.	WALRAS	69
2.3.2.	MARSHALL	72
2.4.	CONCLUSION	80

Chapter 3. MARKET INSTABILITY

3.1.	INTRODUCTION	82
3.2.	THE BASIC MODEL OF ILLYRIA	82
3.3.	REMODELLING ILLYRIA	88
3.4.	CRITIQUE FROM SOCIALISTS	95
3.5.	CONCLUSION	100

Chapter 4. FEASIBILITY OF PRODUCER COOPERATIVES

4.1.	INTRODUCTION	103
4.2.	DATA SURVEY FOR BRAZIL	103
4.3.	DATA SURVEY FOR EUROPE	107
4.4.	FORMATION AND DISSOLUTION	110
4.5.	CONCLUSION	118

PART THREE: EMPIRICAL ANALYSISChapter 5. INSTITUTIONAL FRAMEWORK OF COOPERATIVES INBRAZIL

5.1.	INTRODUCTION	120
5.2.	ORIGINAL LEGISLATION	121
5.3.	CURRENT LEGISLATION	123
5.4.	IMPLICATIONS	130

Chapter 6. CASE-STUDIES

6.1.	INTRODUCTION	134
6.2.	AN APPROACH	137
6.3.	CONCLUSION	142
6.4.	ANNEX: DESCRIPTION OF CASE-STUDIES	153
6.4.1.	INTRODUCTION	153
6.4.2.	COMTERN	155
6.4.2.1.	INTRODUCTION	155
6.4.2.2.	COMPETITION	164
6.4.2.3.	EVOLUTION	166
6.4.2.4.	COOPERATIVE CAPITAL	172
6.4.3.	CRETMOC	177
6.4.4.	JOAO XXIII	181
6.4.5.	COOPARMIL	183
6.4.6.	JAGUARIBANA	187
6.4.7.	FEDRO II	191
6.4.8.	COMAVI	195
6.4.9.	PONTAL	199
6.4.10.	CENTRAL	205

BIBLIOGRAPHY

210

LIST OF TABLES AND MAP

	PAGE
3.1.Effects of Changes in Rent, Tax Rates and Prices on the Employment of Labour by the Producer Cooperative	89
3.2.Effects of Various Changes on Output and Employment of Firms: Neoclassical, Illyrian and Worker-managed	98
4.1.Brazil,1982: Distribution of Cooperatives by Type	104
4.2.Brazil,1982: Regional Distribution of Artisan and Industrial Cooperatives	105
4.3.Northeast of Brazil, 1982: Yearly Distribution of Working Permits Conceded by the Government to Artisan and Industrial Cooperatives	106
6.1.COMTERN, April 1984 and February 1989: Occupations	158
6.2.SITEX, 1974: Occupations	159
6.3.COMTERN, 1984/1988: Monthly Production	168
6.4.COMTERN, 1984/1989: Number of Workers	170
6.5.COMTERN, 1983/1988: Evolution of Membership	170
6.6.COMTERN, 1983/1987: Percentage of Shares Owned by Directors in the Cooperative Capital	174
 MAP: Location of Case-Studies of Producer Cooperatives	 154

ACKNOWLEDGEMENTS

A great debt of thanks is due to my supervisor David Goodman for his guidance and patience which went far to help see me through this long project.

I am grateful to George Catephores for his comments in his capacity as co-supervisor and internal examiner, and for inducing me to overcome my own limitations. Also to Werner Baer, the external examiner, who gave me the initial motivation and who flew across the Atlantic to examine me.

Saul Estrin and Benjamin Ward introduced me to the specialized bibliography to which they have contributed enormously.

To Patricia I owe my thanks for her support, typing and correcting my English. Above all for her continuous and exclusive care, looking after our son Paulo and enabling me to study.

My thanks also go to my daughters Ana Carla and Ana Alice from whom I suffered "saudades" during these long years; to Sergio, my brother, who helped me take care of my affairs during my absence from Brazil.

My Brazilian colleagues of PIMES/Department of Economics of

the Federal University of Pernambuco encouraged me to undertake this task, especially those who lived in England and/or visited me during the last three years: José Ferreira Irmão, Ana Dolores Novaes, Yony Sampaio, Gustavo Maia Gomes, José Ricardo Bezerra Nogueira, George Browne Rego, Edinaldo Bastos, Maurício Costa Romão, Roberto Viana Batista, Marcos Formiga, Alexandre Barros, Jorge Jatobá, João Policarpo Lima, Rozane Bezerra de Siqueira, Analice Amazonas, David Rosenthal, Frederico Katz, Antônio Márcio Buainain, Olímpio Galvão, Renato Duarte, Zionan Rolim and Tarcísio Araujo.

Concessa Vaz, my excellent office mate, Carlos Guanziroli, Bernadete Gutierrez and Vanderlei Ribas offered continuous friendship.

At various stages of the fieldwork I received support and helpful comments from Bradford Smith, Representative of the Inter-American Foundation, and from the members of the research team of the Joaquim Nabuco Foundation, Recife: Clóvis Cavalcanti, Virgínia Botelho, Helenilda Cavalcanti and Tarcísio Quinamo.

I deeply thank CAPES/Brazilian Ministry of Education for the sponsorship of my studies.

INTRODUCTION

A producer (or alternatively worker) cooperative is a business organization owned and, in principle, controlled democratically by those working for it. It is a sui-generis enterprise because the members, besides owning the cooperative shares, play a dual role: as employers and, simultaneously, employees of themselves. The shareholder, regardless of the number of shares owned often has a right to work for the cooperative and to participate with just one vote in the general assembly, which is the ultimate authority and collective decision-maker. The right to work under a self-management system derives from the property ownership of the shares. The cooperative capital consists of individual shares, the transferability of which is subject to the cooperative's rules and decisions.

There is no external coercive authority to force the members to cooperate with each other. The relationship of cooperation developed within the cooperative organization is freely entered into by the members, in a reciprocal way. The raison d'être for the development of a cooperation relation ("one for all, and all for one") among the membership is the individual economic weakness of each potential member, per se, and the assumption that they, collectively, pursue their own economic self-interest through the cooperative. Voluntary and reciprocal cooperation among the poor has been the target relation of the cooperative movement from its

origins in order to strengthen small producers vis-à-vis capitalists. Moreover, according to the cooperativist doctrine, returns ("dividends") on capital shares are limited and no exploitative employer-employee relationship is allowed among the cooperators.

In Brazil, the cooperator is legally considered self-employed (or autonomous). In the middle 1980s, a revival of urban producer cooperatives in Brazil was given a boost by the involvement of government, at all levels, to alleviate the social consequences of a deep economic recession. Notwithstanding the new policies, producer cooperatives continued to be a forgotten theme for the economics profession. Therefore, this was never discussed at national meetings of economists held since 1973 and sponsored by ANPEC (Brazilian Association of Economics Centres). Rural economists in Brazil have, on the contrary, often discussed the fate of agricultural cooperatives. This thesis serves to introduce the debate on urban producer cooperatives from a Brazilian economist's point of view.

Historically, the record of producer cooperatives in different countries, including Britain, the cradle of cooperativism, has revealed the strong instability of those organizations. They have great difficulty in competing in the market with more competitive forms of firm organization. However, they are constantly being founded and then most of them are destroyed. Although producer cooperatives have

spread throughout capitalist countries, they have always been quite scarce, co-existing with, but never dominating, the capitalist sector. A small sector of producer cooperatives is found in almost all capitalist countries, from the most to the least well developed. Incentives and government support for cooperatives have often been susceptible to the variation of the economic cycle, because they might serve to alleviate increasing unemployment during slumps. The producer cooperatives are like a stream of small firms entering the market, almost always tending to fail after a short time. As small-scale enterprises of high instability they have shown great tenacity as a form of production. While displaying negligible importance on macro-economic magnitudes, such as their share in national income and level of employment, the producer cooperative experiments should be seen, in their social dynamics, as a way of struggling against poverty, though with very limited success.

This thesis comprises three parts. The first contains the historical utopian roots of cooperativism in Britain during the early part of the last century.

The second part examines the approaches and problems of cooperatives, from the last century to the present day. It contains three chapters. It begins by presenting the approaches on cooperatives elaborated by socialists (Marx and his followers) and by the founding fathers of

neoclassical economics (Walras and Marshall). The following chapter deals with the recent neoclassical literature based on the model of Illyria, which is an abstraction drawn from the world of cooperatives, constructed to represent the Yugoslav departure in the 1950s from Soviet-type model of central planning. The next chapter is concerned with post-Illyrian studies that present the problems of a tiny sector of producer cooperatives which have been very volatile, but which continue to be formed and dissolved in capitalist countries. Notwithstanding the differences in the approaches examined, they give evidence of an historical continuity of the main problem areas: financial, managerial and the "degeneration" problem, that is, the transformation of the socialist cooperative features into capitalist ones. The view taken here results from the search for a synthesis, attempting to explain the reasons for the persistent problems observed in producer cooperatives in Brazil in handicraft (artisan) and manufacturing sectors.

The third part of this thesis covers the institutional framework and empirical investigation in Brazil. The case-studies refer to producer cooperatives located mainly in the Northeast, the country's poorest region, where they have received more attention from development agencies. They have relied heavily on the financial and technical support of these agencies.

The artisan cooperatives have tried to develop commercially,

but the motivation and commitment of their members has not been able to overcome their immediate needs for survival on a durable basis. Members have been tempted to opt for a regular assured supply of material from traditional traders rather than face the uncertainty of an unstable cooperative shop. The dependence of artisans on traders is a relationship which is stronger than the alternative cooperative system, usually sponsored by government officials possessing goodwill, but lacking in experience from an historical perspective.

The dependence of manufacturing cooperatives on parent capitalist firms is part of a widespread phenomenon of the practice of subcontracting. Instead of internalising the production of certain items, capitalist firms economize by ordering them from an external workforce which is internal to the cooperative.

The case-studies support the broadest conclusion of the theory: success for producer cooperatives competing against capitalist firms is not attainable, except under special circumstances, which include financial and technical assistance from pro-cooperative agencies.

1.UTOPIAN ORIGINS OF COOPERATIVISM IN NINETEENTH CENTURY BRITAIN

1.1.INTRODUCTION

In the last century, cooperativism in Britain was widely influenced by Robert Owen (1771-1858) and other utopian social reformers, whose idealized propositions objected to the evils of capitalism, and proposed a cure. Lack of implementability has been the common feature of a utopia since the publication of Thomas More's Utopia (1516).

This chapter comprises the following sections: 1.2 presents the early New Lanark experience of Robert Owen, an industrialist who came to be known as "father of cooperatives" and "prophet of the poor"; 1.3 traces the ideas developed by Robert Owen, from 1813 to 1820, some of which were used in producer cooperatives; 1.4 presents the reaction of David Ricardo, in 1819, as a Member of British Parliament, against Owen's plans; 1.5 reports on the failures of the social experiments directed by Owen; 1.6 indicates how, in contrast to the early doctrine of socialism, John Stuart Mill stressed the role of the market in determining product and factor prices, even when the firm was a producer cooperative; 1.7 examines the critique by Marx and Engels of Owen's utopianism; 1.8 presents reasons for the importance of Owenism, a social movement started by Owen's followers; 1.9 reveals the principles of Rochdale, a

hallmark for the cooperative movement; 1.10 concludes this chapter.

1.2. NEW LANARK

The Scottish village of New Lanark is located midway between Glasgow and Edinburgh. At the turn of the nineteenth century, it was a prosperous workers' village, where Robert Owen owned the largest cotton mill in Scotland and one of the largest in Great Britain. During its peak period, over two thousand five hundred people lived in the village. The factory was built by the Scottish banker and industrialist David Dale, who later became Owen's father-in-law. At the foundation of the factory David Dale formed a temporary (1783/5) partnership with Richard Arkwright, the famous English entrepreneur, inventor of the water-frame, one of the most important technological innovations in cotton spinning of the early British Industrial Revolution.

Owen founded a cooperative store in 1813 in New Lanark to supply consumer goods to his factory workers, who were called on to participate in the management of the store. The cooperative would accept tickets as payment instead of currency. These "tickets for wages", issued by Owen, resembled the old truck system used in remote places, where workers had no access to retail shops other than those owned by the employer or his foreman. Industrialists were not interested in managing such shops, unless they intended to

retrieve part of the wages they had paid to the workers. The hilly terrain which connected New Lanark village to Lanark town, whose access was often difficult, led to the formation of a captive market for the cooperative store.

The experience of the shop should not be confused with the internal organizational practices of the mills, which were an experiment in industrial relation for the time. As an industrialist, Owen believed that labour productivity would increase and the capitalist would have a better disciplined, more stable and satisfied workforce if working conditions were improved.

During the first years of the last century, he shortened the working day in his New Lanark factory from about thirteen or fourteen hours to ten and a half. More precisely, to twelve hours, with one and a half hour for resting and eating. He also introduced new methods of factory discipline, paid better wages than fellow cotton spinner manufacturers and supported workers' education and training. He became a famous industrialist and pioneer of new working conditions.

Owen's experience as an industrialist was not ignored by Marx, who included him in the index of authorities quoted in Capital, vol.1, and also quoted from him. Marx's quotation of Owen follows:

"Since the general introduction of
(expensive*) machinery, human nature has

been forced far beyond its average strength"¹.

The innovative management introduced by Owen is also referred to by Marx:

"Robert Owen, soon after 1810, not only maintained the necessity of a limitation of the working day in theory, but actually introduced the 10 hour day into his factory at New Lanark. This was laughed at as a communist utopia; so was his "combination of children's education with productive labour", as well as the workers' co-operative societies he was the first to set up."²

This quotation clearly contradicts another author, who wrote rather carelessly:

"What is astonishing is that Marx does not mention once in all his detailed description of the struggle for shorter hours in England and the British factory legislation, to be found in Capital, Robert Owen's internal factory reforms

¹Karl Marx(1867). Capital, vol.1, Penguin edition, p. 527, fn.61.

*(expensive) appears in Owen's original (examined below in Section 1.3), but this word is omitted in the Penguin edition of Marx.

²idem. p. 413, fn.58.

at New Lanark and Owen's initiative in the legal limitation of the working day and regulation of child labour. Evidently he was ignorant of it. He knew apparently only Robert Owen the utopian".³

The social advances in working conditions in Owen's factory were part of his capitalist experience, having apparently nothing to do directly with cooperativism. However, improvement of working conditions and labour relations, and the emphasis he gave to education and training of workers in New Lanark are points of departure consistent with all his writings properly related to cooperativism.

In New Lanark, totally dominated by Owen's large cotton spinning factory, a community fund was formed : each individual contributed one sixteenth of his wage to support the sick, those injured by accident and the aged. It should be noted how the social fund was a precursor of the social security system of modern times. At a time when Scotland, compared with England, was extremely poor and underdeveloped, Owen wished to disseminate his village experience at national level envisaging that, step by step,

³Erwin Hasselman (1971).The Impact of Owen's Ideas on German Social and Cooperative Thought During the Nineteenth Century,in Sidney Pollard and John Salt, editors. Robert Owen, Prophet of the Poor: Essays in Honour of the Two Hundredth Anniversary of his Birthday, Bucknell University Press, p.288.

all members of any community would be trained to live without idleness and poverty. For him, the main evils of society were direct consequences of ignorance. Education was a vital ingredient to cure poverty without domestic revolution.

1.3. ROBERT OWEN'S NEW VIEW OF SOCIETY

This section presents the evolution of Robert Owen's reformist ideas in his earlier papers, written during an eight year period from 1813 to 1820⁴. The book contains the papers listed below. The year of the first edition of each paper precedes the title.

1813 A New View of Society: Essays on the
Formation of Character

1815 Observations on the Effect of the
Manufacturing System

1816 An Address to Inhabitants of New Lanark

1817 Report to the Committee of the
Association for the Relief of the
Manufacturing and Labouring Poor

1817 A Catechism of the New View of Society
and Three Addresses

1817 Further Development of the Plan for the
Relief of the Poor and the Emancipation
of Mankind.

⁴Robert Owen (1813/1820). A New View of Society and Other Writings. Everyman's Library, London, 1927, reprinted: 1963.

- 1818 On the Employment of Children in
Manufactories
- 1818 To the British Master Manufacturers
- 1819 An Address to the Working Class
- 1820 Report to the County of Lanark

As is shown below, Robert Owen's 1813/20 writings were chiefly concerned with the defence of education for all and the formation of cooperative communities for the unemployed. Although he did not discuss the organization of cooperatives for artisans and workers in specific detail, some general features of cooperativism were, to a certain degree, idealized by him.

The original book title of the first edition of Owen's four essays, and the long rubric heading added to the title, show the basic belief of all his thinking. The book title is:

"A New View of Society; or, Essays on
the Principle of the Formation of the
Human Character and the Application of
the Principle to Practice".

It is followed by the statement:

"Any character, from the best to the
worst, from the most ignorant to the
most enlightened, may be given to any
community, even to the world at large,
by applying certain means; which are to
a great extent at the command and under

the control or easily made so, of those who possess the government of nations".

In short, the character is made for, and not by the individual. This belief is repeated ad nauseam in all his papers. For him, education and training are responsible for the huge task of character formation. This is very important to the cooperative doctrine because it reveals how the cooperative spirit could be socially developed. Instead of just taking human character as it is, the doctrine impels cooperators to accomplish social aims and to support each other.

In the introduction to Owen's book, G.D.H. Cole³, a Guild Socialist who espouses a British system of workers' self-management, asserts that it is out of those papers that the two great movements of socialism and cooperativism both arose in Great Britain. He reminds the reader that, with the exception of Owen's 1858 Autobiography⁴, the selection encompasses his best contributions to human knowledge and that later works could be disregarded, except by the specialist. The unfinished autobiography, by coincidence, did not get far beyond 1820.

Owen's plans to relieve poverty were to form self-sustaining communities, designated as "villages of unity and mutual

³G.D.H.Cole, Introduction, in R. Owen. op. cit.

⁴Robert Owen (1858). Robert Owen Written by Himself.

cooperation". The first sketch of his 1817 plan was successively worked out and only fully detailed in 1820 when he proposed "the principle of united labour, expenditure, property and equal privileges"⁷, which was later on considered to be the maxim of cooperativism. The details of property rights were, however, never formulated in his plan. The papers written before the 1817 plan were based upon his experience as a factory owner in an isolated Scottish village: New Lanark. The community village, not the factory itself, is the connecting ideal for Owen's later plan to protect the poor, which he put forward in his 1817 Report for the relief of the poor, presented to the House of Commons. From 1817 onwards even without becoming a politician, he turned out to be an important public figure. As it so happened, after 1815, the final year of the Napoleonic war, employment and production levels in Britain declined. In order to relieve distress and unemployment, Owen suggested the formation of villages specifically to grow agricultural produce.

In an address published as a preface to the third essay On the Formation of the Character, he appealed to his fellow industrialists who had the resources to aid the character formation of those they employed. As businessmen they had a common motive which is clear from Owen's reminder:

"Like you I am a manufacturer for pecuniary profit"⁸.

⁷Robert Owen(1813/1820).op.cit., p. 266.

⁸Owen.op. cit., p.7.

He criticized, however, existing labour conditions and argued that the basic needs of the workers should be met in "sufficient quantity of wholesome food and other necessities of life"⁹.

Speaking ex-cathedra as an industrialist he said:

"Since the general introduction of inanimate mechanism into British manufactories, man, with few exceptions, has been treated as a secondary and inferior machine; and far more attention has been given to perfect the raw materials of wood and metals than those of body and mind."¹⁰

In the (1815) Observations on the Effect of the Manufacturing System, Owen verified the increasing misery of the masses with the introduction of the manufacturing system.¹¹

In this essay, besides deploring the Corn Bill¹², as early as 1815, he suggested social improvements for labour

⁹idem, p.9.

¹⁰idem. p. 9/10 .Karl Marx took notice of this in Grundrisse, Chapter on Capital, Penguin Edition, p.711. Further on, p.712 to 714, Marx also took extensive notice of Owen's historical conception of industrial (capitalist) production from Owen's 1837 Six Lectures Delivered at Manchester.

¹¹Owen. op.cit., p.121/122.

¹²idem, p. 122.

conditions, designed to shorten the working day and regulate female and child work. Owen regarded Acts of Parliament as the only way to accomplish these objectives which he had already implemented with success in his New Lanark factory.

The paper An Address to the Inhabitants of New Lanark was delivered on the opening of the Institute for the Formation of Character, on the 1st of January, 1816. The Institute, open to visitors from all over Europe, was a practical mark of Owen's determination to combat ignorance, which for him was the main cause of social evils and misery. This discourse concludes the period of papers directly related to his New Lanark community approach.

Owen's (1817) Report to the Committee for the Relief of the Manufacturing and Labouring Poor was presented to the House of Commons Committee on the Poor Laws. He was by then considered a very successful industrialist and was respected as a public man. He turned his back on mechanical power in order to produce the greatest benefits to the poor at the smallest expense. The situation of poverty and unemployment in Britain was aggravated after the English victory over Napoleon. Owen described the crisis of the post-Napoleonic war years in the following way: because the war demand was over, markets collapsed. Mechanical power had gradually superseded human labour which was obtained at a price far below that which was absolutely necessary for the subsistence of the individual with minimal comfort. Labour

devaluation in turn caused a decrease in consumption and a general economic crisis as manufacturers responded to a deficiency of effective demand by reducing production levels and laying off labour.

To solve the problem of unemployment, Owen suggested the creation of home colonies using land organised in the form of parallelograms. The British Parliament in the middle of an economic crisis was not favourable to the implementation of his "parallelograms". Having failed to convince Parliament, Owen made up his mind to appeal to the general public. At forty-six, by way of devoting his life to a public cause, he circulated a summary of his curriculum vitae: a self-made man, successful, benevolent manufacturer, who was ready to challenge his powerful opponents in public meetings and gatherings.

The (1817) A Catechism of the New View of Society is a further improvement of his plan previously delivered in the same year to the Poor Laws Committee of the House of Commons. Catechism was published in London newspapers and publicly debated at the City of London Tavern. One important message of cooperativism arose in the Catechism: all in the agricultural community should have mutual and common interest in cultivating the soil, on the principles of united labour and expenditure.

In the (1818) An Address to the Working Class, he was

convinced that by means of persuasion he would be able to unite everybody: the rich and the poor, the governors and the governed. This non-antagonistic view of classes was incorporated in his proposal for relieving public distress by giving permanent employment to the poor and working classes in his "parallelogram" colonies.

The (1820) Report to the County of Lanark was the elaboration of the 1817 Report, in which he had turned his back on mechanized power. In 1820 he also suggested the use of the most intensive labour techniques in agriculture. He outlined the advantage of cultivating the soil with the spade instead of the plough, because the latter instead of loosening the soil, hardens it. It is worth emphasizing his inclination towards technological backwardness because producer cooperatives of modern times are very often encountered in the less dynamic sectors.

In the 1820 Report, Owen claimed that:

"manual labour, properly directed, is the source of all wealth, and of national prosperity"¹³.

Gold should cease to be the standard of value because it was considered an obstacle to economic progress of society:

"to let prosperity loose on the country, a change in the standard of value"¹⁴

¹³idem, p. 246.

¹⁴idem, p. 248.

is necessary.

"Money is the root of all evil."¹⁵

According to Owen, human labour comprising the combined manual and mental powers of man was, in principle, the natural standard of value. Human labour would thus acquire its natural or intrinsic value, which would increase as science advanced. The natural standard of value should become the practical standard of value. To make labour the standard of value, it was necessary to ascertain the labour value in all articles to be bought and sold. The genuine principle of barter was the only equitable principle of exchange. The currency ought to be replaced by labour notes.

Furthermore, Owen also contested the view that man could provide better for himself and more advantageously for the public if there was more competition. Men for so long have acted individually and in opposition to one another because they have not been trained in principles that permit them to act in union, together and in cooperation. For that, society should be taught to "govern circumstances", but at that time society was still "governed by circumstances"¹⁶.

The formation and supervision of the new establishments idealized by Owen confirmed his benevolent and autocratic

¹⁵idem, p. 249.

¹⁶idem, p. 273.

experience in New Lanark.

The self-sustaining societies would create markets in equilibrium with production. To avoid any burden on the government these societies would pay the same taxes as private firms. A principle of equity and justice, openness and fairness would direct the proceedings of these societies where selfishness would cease. They would yield the greatest reciprocity of benefit and would rapidly multiply.

1.4. DAVID RICARDO'S VIEW ON OWEN'S PLANS

In 1819, when the economist David Ricardo was a Member of Parliament, he sat on a committee to examine Owen's plans. In Ricardo's correspondence edited by Piero Sraffa, in a letter to Trower, Ricardo commented on Owen's plans and principles:

"I am not a member of a Committee to further Mr. Owen's plans - the committee was appointed for the purpose of examining, and not of approving those plans. (...) It was in vain that I protested I differed from all the leading principles advanced by Mr. Owen (...). The sequence was chiefly examined with a view to a pauper establishment or a well regulated workhouse, but even to that limited plan

there are insuperable obstacles. Owen is himself a benevolent enthusiast, willing to make great sacrifices for a favourite object. (...) and Mr. Owen, appear to think nothing necessary to production, and the happiness of a crowded population, but land. We have land; it may be made more productive, and therefore we cannot have an excess population. Can any reasonable person believe, with Owen, that a society, such as he projects, will flourish and produce more than has ever yet been produced by an equal number of men, if they are to be stimulated to exertion by a regard to the community, instead of by a regard to their private interest? Is not the experience of ages against him?"¹⁷

This letter was written soon after a meeting on Owen's plan. On this occasion, as a member of the committee, Ricardo spoke after Owen, explaining the reasons why they could not

¹⁷David Ricardo (1819). Letter to Trower dated 8 July 1819. In Piero Sraffa, editor (1952) The Works and Correspondence of David Ricardo Vol.III, Cambridge University Press, p. 45/6.

agree.¹⁸

In another speech on Owen's plan, Ricardo observed his total disagreement, arguing that it was built upon a theory inconsistent with the principles of Political Economy. As an example, Ricardo added:

"He would dispense with ploughs and horses in the increase of the productions of the country, although the expense as to them must be much less when compared with the support of men. (...) Spade husbandry Mr. Owen recommended as more beneficial to production. He was not informed enough on the interests of agriculture to give an opinion".¹⁹

David Ricardo also commented on Owen's plan in a pamphlet:

"If we lived in one of Mr. Owen's parallelograms, and enjoyed all our productions in common, then no one could suffer in consequence of abundance, but as long as society is constituted as it now is, abundance will often be

¹⁸David Ricardo (1819). Speech on Mr. Owen's Plan, at a meeting held on 26 June 1819, op. cit., pp. 467/8.

¹⁹David Ricardo (1819). Speech on Mr. Owen's Plan, at a meeting held on 16 December 1819. op. cit., pp. 30/1.

injurious to producers, and scarcity is beneficial to them".²⁰

Ricardo, as other mainstream economists of the last century, such as John Stuart Mill, Leon Walras and Alfred Marshall called attention to the superior efficiency of the private firms and the lack of understanding by social reformers of the economic principles and the importance of market mechanisms.

1.5. OWEN'S NEW HARMONY AND OTHER FAILURES

In 1824, tired of being only discretely applauded and without having enough support in England for his cooperative community plan, Owen moved to America to implement his ideas in New Harmony, Indiana, where he invested and lost most of his fortune. This experiment soon ended in failure.

With the money received from Robert Owen, the ex-proprietor of New Harmony bought another settlement, ironically named Economy, which prospered throughout the last century. By contrast, New Harmony never succeeded. As the sole purchaser, Robert Owen appointed the management committee which disintegrated into a series of squabbling factions by the time he gave up this Village of Cooperation in 1828 and returned to England. During this agricultural experience,

²⁰David Ricardo (1822). On Protection to Agriculture, fourth edition, London, p. 21.

not even the "open door" principle was attained: non-whites, for instance, were not allowed to settle in the village.²¹

When Owen came back to England, he found he had made converts and disciples.

Owen's ideas on the socialization of exchange and the labour theory of value, were used for the formation in 1832-3 of the National Equitable Labour Exchange, of which Owen was the Governor. Two branches were founded in the greatest cooperative centres of London and Birmingham, where attempts were made to value goods and reward labour in terms of the labour time spent in their production. These institutions suffered a speedy demise.

When the National Association for the Protection of Labour was formed in 1830 by the Owenite leader, John Doherty, and was transformed in 1834 into the Grand National Consolidated Trades Union, Owen chaired this first national confederation of workers. The new organisation grew fast, gaining a quarter of million members (workers and cooperators) in a few weeks of life, yet within a year of its formation, it had completely disintegrated. His early success as a millowner and his idealism were not enough to avoid the failure of the social experiments Owen personally directed.

²¹This ironical story is related in the booklet distributed by New Lanark Conservation (1986). David Dale and Robert Owen and the Story of New Lanark. Moubray House Publishing, reprinted 1989, p.23.

1.6. JOHN STUART MILL

Mill took an interest in the cooperative movement before Walras and Marshall. He conceded the possibility of workers exercising the functions of management and entrepreneurship, despite the fact that these require highly skilled training. It had always been obvious to him, though, that the lack of this kind of training among poor workers had been a constraint to the performance of those functions.

In the middle of the last century, Mill was very aware of the practical inadequacy of the ideas on cooperativism defended by Owen in England and Louis Blanc in France. Notwithstanding this fact, Mill was hopeful that the "associations of labourers among themselves" would have a role in the future.

"The form of association, however, which if mankind continues to improve, must be expected in the end to predominate, is not that which can exist between a capitalist as chief, and work-people without a voice in the management, but the association of the labourers themselves on terms of equality, collectively owning the capital with which they carry on their operations, and working under managers elected and

removable by themselves"²².

While comments in support of social transformation and new forms of industrial organization can be found in Mill's Principles, he never set aside his strong advocacy of market competition. In this respect, therefore, he completely dissented from the socialists of his time. Mill clearly stated his position when confronting the socialists:

"With moral conceptions in many respects far ahead of the existing arrangements of society, they (the socialists) have in general very confused and erroneous notions of actual working (of market competition); and one of their greatest errors, as I conceive, is to charge upon competition all the economical evils which at present exist."²³ **Parentheses added.**

Mill also stated:

"Competition may not be the best conceivable stimulus, but it is at present a necessary one, and no one can foresee the time when it will not be indispensable to progress. Instead of

²²John Stuart Mill (1848). Principles of Political Economy, Felican Books reprint: 1970, p.133.

²³Mill. Principles, op. cit., p. 141.

looking upon competition as the baneful and anti-social principles which it is held to be by the generality of socialists, I conceive that even in the present state of society and industry, every restriction of it is an evil, and every extension of it, even for the time injuriously affecting some class of labourers, is always an ultimate good"²⁴.

These ideas were put forward in an unfinished book "Chapters on Socialism"²⁵ where Mill examined the attractiveness of the ideals of equalitarian socialism and the abyss between the practicability of utopian socialism on the scale of a village, as suggested by Robert Owen, and of revolutionary socialism on a national scale, as advocated by Karl Marx. Marx, who is never mentioned by name in these preliminary writings, had denounced Mill as the best representative of a "shallow syncretism" because of his attempt to harmonize the "political economy of capital" with the interests of the proletariat. That is, to "reconcile the irreconcilable"²⁶. The management of the whole productive resources of a nation

²⁴Mill. Principles, op. cit., p. 142.

²⁵John Stuart Mill (1879). Chapters on Socialism, reprinted in Stefan Collini, editor (1989). J.S.Mill On Liberty and Other Essays. Cambridge Texts in the History of Political Thought.

²⁶Karl Marx (1873). Postface to second edition of Capital, vol.1. See Penguin edition, p.98.

by one central authority would, according to Mill, have no advantage over an improved capitalism.

1.7. MARX AND ENGELS ON OWEN'S UTOPIA

Since 1848 when the Communist Manifesto²⁷ was published, Robert Owen has been labeled as an utopian socialist²⁸. The point of departure in this political manifesto is that the history of all societies is the history of class struggle. Thus, the most influential utopianists: Owen, in Britain, and Saint-Simon and Fourier, in France, were criticized because they put forward an alternative system to capitalism at the early stage of the class struggle between the proletariat and bourgeoisie. At that time, according to the authors of the Manifesto, there were neither economic nor political conditions for the emancipation of the proletariat, then in its infancy.

Later on, in a letter that Marx wrote when he was preparing the first edition of Capital (in German), Owen's utopia was considered to "contain the presentiment and visionary

²⁷Karl Marx and Friedrich Engels (1848). Manifesto of the Communist Party.

²⁸For a detailed analysis of the utopian thought, see: Frank Manuel and Fritzie Manuel (1979). Utopian Thought in the Western World. Basil Blackell, Oxford. Two chapters: 28 and 29, are of special interest for the topic of the present section: "Owen's Moral World", and "Marx and Engel's in the Landscape of Utopia".

expression of a new world".²⁹

Schumpeter³⁰ also reassesses the importance of the utopian socialists who lived in the epoch before the works of Karl Marx. For Schumpeter, their dreams were the rationalized dreams of the non-ruling classes and provided bricks and mortar to be used by modern socialists. Schumpeter admitted that there was more realism in utopian thought than the Marxists believed, though he recognised that it did not exclusively stress proletarian interests.

The age of this utopian socialism had finished, according to Schumpeter, between the time of the Communist Manifesto (1848), and the founding of the First International (1864). During the interim period of 1848 to 1864, the doctrinal and political criteria of "scientific" socialism were forged.

Some excerpts from the Manifesto are selected below, where the scientific socialists, Marx and Engels, commented on the utopian schemes, but not specifically on cooperatives, which is a topic, although not central, of the discourse of the First International, as we see below in Section 2.2.1. The Manifesto, which proclaims social revolution based on the class struggle, stresses how the utopian socialists insisted

²⁹Karl Marx (1866). Letter to Ludwig Kugelmann dated 9 October 1866. In (1987) Karl Marx and Frederick Engels Collected Works, vol.42, p.326. Lawrence and Wishart, London.

³⁰Joseph Schumpeter (1943). Capitalism, Socialism and Democracy, fifth edition: 1976, p. 308.

on a different way:

"They want to improve the condition of every member of society, even that of the most favoured"

"...they habitually appeal to society at large, without distinction of class"

"...they reject all political, and especially all revolutionary, action; they wish to attain their ends by peaceful means, and endeavour, by small experiments, necessarily doomed to failure"³¹. **Emphasis added.**

The Manifesto, as early as 1848, already called attention to the tendency of small experiments, formed under the auspices of utopian socialist doctrine, to fail. Later, we will examine how producer cooperatives contain utopian characteristics and tend to fail as businesses. Before the Manifesto, Friedrich Engels at the age of twenty four had written The Condition of the Working Class in England. At that time, he remarked that

"Robert Owen was the founder of Socialism. He was a millowner himself and, although his theories developed from an appreciation of the antagonism between the middle classes and the

³¹Marx and Engels(1848). Manifesto of the Communist Party.

workers, nevertheless his practical proposals unduly favoured the bourgeoisie and were often less than just to the proletariat."³²

In a letter from Engels to Marx, written in the same year as the publication of this book, the creation of a library of socialist thought in Germany was discussed, which would contain the works of predecessors, including the papers of Owen.³³

The alleged connections of Owen's utopian socialism with bourgeois aspirations were disregarded in Engel's late writings : Anti-Duhring³⁴ and Socialism : Utopian and Scientific³⁵. According to the special Introduction to the English edition (1892), written by the author, the later paper was originally part of the book Anti-Duhring. In this book, written three decades after the Communist Manifesto, Owen was distinguished among the great utopians, because he lived in Britain where capitalist production was more developed than in France, the country of Saint-Simon and

³²Friedrich Engels (1845). The Condition of the Working Class in England. Basil Blackwell, Oxford, 1958, p.269.

³³Frederick Engels(1845). Letter to Marx dated 17 March 1845. In (1987) Karl Marx and Frederick Engels Collected Works, vol.38, p.27. Lawrence and Wishart, London.

³⁴Friedrich Engels (1878). Herr Eugen Duhring's Revolution in Science (Anti-Duhring). English translation: 1936.

³⁵Friedrich Engels (1880). Socialism : Utopian and Scientific, English edition:1892.

Fourier. Owen, according to Engels, perceived better than the French, the class antagonisms, although none of these three utopians put forward the best interests of the proletariat³⁶.

This point is also presented by Marx's editor, Engels, in Capital, vol. 3.³⁷

In his own book Anti-Duhring, Engels expressed sound admiration of Owen's character and charisma:

"a man of almost sublimely child-like simplicity of character and at the same time a born leader of men such as is rarely seen."³⁸

Engels also painted with vivid colours a resume of Owen's life:

"All social movements, all real advances made in England in the interests of the working class were associated with Owen's name. Thus, in 1819, after five years effort, he was successful in securing the first law limiting the labour of women and children in the

³⁶Engels. Anti-Duhring, op. cit., p. 25.

³⁷Engels, in Marx, Capital, vol.3, Penguin edition, p.740, fn.24.

³⁸Engels. Anti-Duhring, op. cit., p. 287.

factories. He presided at the first Congress at which the trade unions of all England united in a single great trades association. As transition measures to the complete communist organization of society he introduced on the one hand the co-operative societies (both consumers' and productive), which have since at least given practical proof that it is very well possible to dispense with both merchants and manufacturers; and on the other hand, the labour bazaars, institutions for the exchange of the products of labour by means of labour notes with the labour hour as unit. These institutions were necessarily bound to failure"....³⁹

Owen's part in the main events of British history in the last century is generously recognized by Engels. Certainly, the curriculum vitae quoted above was not based only on fantasy. The utopianism of Owen is seen by Engels, at the end of the above quotation, as the tendency of those institutions founded on Owen's principles to fail. In the next chapter, we will see how Marx and his followers gave attention to the phenomenon of failure in cooperatives.

³⁹idem, p. 290.

1.8. OWENISM

The enormous support for Owenism in Britain at the end of the 1820's and during the 1830's is explained by E.P.Thompson⁴⁰ as a search for collective independence by artisans and skilled workers who were threatened with the loss of their individual independence and wished to resist the major trend of becoming proletarian. Hence, their intention to retain social control over their own means of production, at a time, in England, when the structure of capitalism had been only partly built. According to E.P.Thompson, in that period

"Owenism was the first of the great social doctrines to grip the imagination of the masses" (and was) "a movement which should have made more earnest attempts to pioneer new forms of community life than any in our history".⁴¹

The utopian spirit of Owen, as characterized by E.P.Thompson, was his evasion of the reality of political power and his attempt to by-pass the fundamental question of property rights.

⁴⁰E.P.Thompson (1963). The Making of the English Working Class. Penguin edition: 1980,p.290.

⁴¹idem, p. 884/5.

1.9.ROCHDALE

On December 21st, 1844, in Toad Lane, Rochdale, near Manchester, a group of twenty eight skilled producers⁴², influenced by utopian socialist ideals, launched a cooperative store: the Rochdale Equitable Pioneers' Society. The surplus from trading was partially distributed in the form of dividends, in proportion to their purchases, after paying limited interest on capital invested, and making a contribution to an education fund for the benefit of individual members and their families.

From the cooperative store, the "Pioneers" developed agricultural, financial and producer cooperatives. The latter type was a cooperative cotton factory, known as the Rochdale Cooperative Manufacturing Society, established in 1854, one decade after the cooperative store was started. Workers were paid a dividend on the basis of individual production and participated in the decision making of the cooperative. Shareholding was open to workers and outside members. The cooperative was successful and the cooperators

⁴²There were eight flannel weavers, this being the most frequent occupation. A wide spectrum of skills was covered by the remaining members: wool sorter (two), joiner (two), shoe-maker (two), tailor, block printer, stationery engineer, cabinet maker, silk manufacturer, hatter, slubber, warper, warehouseman, cotton bank man, hawker, power loom overlooker, clogger, foreman cotton weaver. Judging from a picture of thirteen of the "Pioneers" exhibited in the Cooperative Museum, which the author visited, located today in the same building of the original Cooperative Store, they could not have been the poorest workers of the locality.

decided to build a new mill for which it was necessary to raise capital. New external shareholders were attracted and the control of worker-cooperators decreased. In a few years the new members owned and controlled this firm, according to the typical capitalist model, providing an early case of "degeneration" of a producer cooperative. The tendency to the degeneration of cooperatives is considered at greater length in the following chapter.

In the historical literature on cooperativism,⁴³ the introduction of Rochdale principles in the mid-nineteenth century was the beginning of the modern cooperative movement, marked by the application of a number of organizational rules which, together, had never been applied before. Rudimentary forms of cooperatives were, however, found during the pre-Rochdalian period, in several places and different times, mainly in the sectors of quarrying, fishing, corn milling and baking. They often involved common property of assets and some form of profit-sharing.

⁴³ See among others the following references:

Beatrice Potter (1893). The Co-operative Movement in Great Britain, Swan Sonnenschein, London, First Edition: 1891. See Chapter III: "The Store".

Arthur H.D.Acland and Benjamin Jones (1932). Working Men Co-operators : An Account of the Co-operative Movement in Great Britain. Published by the Co-operative Union Limited, Manchester, sixth edition. First edition: 1884. See Chapter II: "Historical Outline".

Jenny Thornley (1981). Workers' Co-operatives. Heineman, London. See Chapter 1: "Right Turn at Toad Lane".

Robert Oakeshott (1978). The Case for Workers' Co-ops. Routledge and Kegan Paul, London. See Chapter 5: "The Old Producer Co-ops".

The principles of cooperative retailing set out by the "Pioneers" are listed below:

1. A fixed rate of interest to be paid on share capital invested in the cooperative society

2. Division of the surplus among the members, according to their purchases ("dividend on purchase", or the "divi" as it became popularly known)

3. Trading for cash only

4. Selling only pure and unadulterated goods

5. One member, one vote, irrespective of the amount of capital invested by the member in the cooperative society

6. Open membership

7. Political and religious neutrality

8. Provision for the education of members, including the learning of cooperative principles.

These principles have been modified and adapted to new circumstances by the Cooperative Movement. The "dividend on purchase", for instance, used by consumer cooperatives does not suit producer cooperatives. The latter's surplus is distributed on the basis of work done by its members. The very restrictive principle of "trading for cash", inhibiting growth and accumulation, was replaced by credit trading. Today's producer cooperatives have conformed to a greater or lesser extent with the following principles, which are derived from Rochdale and were reformulated in 1966 by the International Cooperative Alliance:

1. Voluntary membership

2. Democratic control: one man, one vote, regardless of differences in ownership of cooperative capital shares

3. Payment of limited interest for capital share owners

4. Distribution of the surplus on the basis of the work done by producer members

5. Part of the surplus is to be spent on the education of cooperators and their families

6. Cooperatives must cooperate amongst themselves.

Efforts to adopt these doctrinaire principles in producer cooperatives, competing with capitalist organizations which are guided by other rules, have shown limited viability. Most producer cooperatives after a short time tend to stagnate, decline or close down, or even reject the implementation of those principles, transforming the objectives into more conventional capitalist rules.

1.10. CONCLUSION

At the outset, in nineteenth century, cooperativism aimed principally at protecting artisans and workers, and the poor small producers, who were generally threatened by the process of proletarianization. The utopian socialists, such as Robert Owen, reacted against the impoverishment of the workers and small producers during the first stages of the Industrial Revolution, when village communities began to lose their pre-industrial social harmony. Blaming the conflict on competition inherent in a capitalist economy, utopian socialists envisaged building a new social order based on small local communities where cooperative relations would prevail, generating material equality and a better standard of living for the workers. For this, the profit-making objective, regarded as the cause of exploitation in capitalist relations in the workplace, should be replaced by cooperation. Education was seen as not only necessary to provide skills to workers but also to form a new social character, a basis for the development of new relations of cooperation.

Utopian socialists, nonetheless, made no attempt to assess the viability of their schemes within competitive markets, a criticism which was raised by mainstream economists at the time, such as David Ricardo and John Stuart Mill.

From another perspective, the lack of feasibility of utopian

reforms was also indicated by the "scientific socialists", Marx and Engels, according to whom the transition to higher stages of development could not include a return to pre-industrial relations. This is a fundamental critique of utopian socialism. Specific Marxist analysis of the restricted viability of producer cooperatives is left for the following chapter.

2. NINETEENTH CENTURY APPROACHES TO THE PROBLEMS OF PRODUCER COOPERATIVES

2.1. INTRODUCTION

This chapter examines the roots of two approaches to the limited viability of producer (worker) cooperatives in a capitalist context, utilised since the nineteenth century. Karl Marx and the Fabian socialist, Beatrice Potter, later Mrs. Webb, originally formulated the degeneration approach: why producer cooperatives tend to fail or to revert to capitalist forms of organization. Leon Walras and Alfred Marshall, on the basis of the neo-classical approach, examined problems which have been recognized respectively as the financial (or collateral) dilemma and the entrepreneurial question. The dilemma is viewed, on the one hand, as the difficulty producer cooperatives face in obtaining external finance and, on the other hand, the unlikelihood of basing growth on their internal resources, because they are firms with self-imposed limits on capital gains. The entrepreneurial question refers to obstacles to good management arising from a democratic organization of equal voting and egalitarian purposes.

2.2.ROOTS OF THE DEGENERATION HYPOTHESIS

2.2.1.MARX

Just three years before the first edition of Capital, vol 1, factory cooperatives were assessed in a preliminary way by Marx in his inaugural address to the formation, in 1864, of the International Working Man's Association, better known as the First International. In this political discourse, before an audience of trade unionists and Owenites, he indicated how factory cooperatives could be seen as new phenomena:

1) large scale industrial production using modern technology may be carried on without the existence of one class of exploiters employing another class of the exploited.

2) the capitalist monopoly over the means of production is not a technical requirement of production

3) like slave and serf labour, wage labour is also a transitory form destined to be replaced by cooperative labour which is a superior form of labour

4) cooperative labour is limited in scope and its evolution is less dynamic than the evolution of capitalist relations.

Marx concluded that

"to save the industrious masses,
cooperative labour ought to be

developed to national dimensions, and consequently to be fostered by national means."¹

The displacement of the capitalist in a cooperative is also referred to in volume 1 of Capital:

"On 26 May 1866, a philistine English periodical, The Spectator, reported that (...) the main defect in the Rochdale co-operative experiments is this: They showed that associations of workmen could manage shops, mills, and almost all forms of industry with success, and they immediately* improved the condition of the men, but then they did not leave a clear place for masters."²

The relation of cooperation, as analysed by Marx in Capital vol.1 is assumed by capital in order to exert effective control and exploit the worker. This relation is examined in three non-self-contained stages, respectively, in the chapters on cooperation, manufacture, and large industry. The exploitative relation which prevails in capitalism

¹Karl Marx(1864). Inaugural Address to the First International, in David McLellan, editor(1977), Karl Marx Selected Writings, Oxford University Press, p.531/7.

²Karl Marx. Capital, vol.1, Penguin Edition, p.449, fn.15.

*The original publication of The Spectator says "immensely" instead of "immediately", which is a misprint.

differs from the voluntary relation of cooperation, proclaimed by the cooperative movement, which aims to develop it among labour in order to confront capital.

Cooperative organizations, in which workers are not only the object but also the subject of the relation of cooperation, did not occupy much space in Marx's more general analysis undertaken in Capital to explain the laws of motion of capitalism.

Most of his references to producer cooperatives, which are presented below, make Marx's view of factory cooperatives explicit. However, Marx makes only marginal reference to handicraft cooperatives. Normally, these are no more than footnotes³ and criticize Owenites who did not perceive the transitional nature of individual handicraft production and, consequently, supported artisan cooperatives and even the piecework-wage relation. The latter is, for Marx, the proper basis of the "sweating system" and "modern domestic industries".⁴ This is crucial for understanding Brazilian producer cooperatives which are placed in an institutional straight-jacket by this form of labour remuneration, as seen below in Chapter 5.

³Karl Marx. Capital, vol. 1. Penguin Edition. See footnotes at pp. 188, 635, 692 and 695.

⁴Karl Marx, Capital, vol. 1, Penguin Edition. See especially p. 595/9 on "The Impact of the Factory System on Manufacture and Domestic Industry" and the Chapter 21: "Piece-Wages".

Moreover, Marx recognized the possibility that the piece-wage relation, besides facilitating the subcontracting of labour, would also give rise to the exploitation of one set of workers by another, despite all being simultaneously exploited by capital. In his own words:

"(...) piece-wages allow the capitalist to make a contract for so much per piece with the most important worker (...) at a price for which this man himself undertakes the enlisting and the payment of his assistants. Here the exploitation of the worker by capital takes place through the medium of the exploitation of one worker by another".⁵

It is clear in this quotation that Marx was not taking into consideration any cooperative performing the functions of an intermediary: screening, selecting, and also paying the supervised workers, who are subcontracted by the intermediary to a capitalist. It is relevant, however, to raise the possibility of whether those functions might be performed by a producer cooperative that supplies labour to capitalist firms. The logic governing the capitalist firm is to minimise internal labour costs. Thus, this firm subcontracts work out to the producer cooperative which, in its turn, contracts cooperative members.

⁵Karl Marx. Capital, vol. 1. Penguin Edition, p. 695.

In the analysis of the division of profit in vol. 3 of Capital, Marx noted experiments of factory cooperatives in two chapters: "Interest and Profit of Enterprise" and "The Role of Credit in Capitalist Production". Factory cooperatives are contrasted with capitalist joint stock companies, taken as different examples of a new phase of collective capitalism.

In the transition between the individual (private) capitalism into the collective form of capitalism, Marx examines the splitting up of the functions of capital ownership and control of business. The latter function is performed by professionals in an increasingly hierarchical system of supervision and management. Different skills are necessary for running the complex production process and a segmented market of labour endowed with managerial skills is formed. These skilled workers are paid by wages ("variable capital"), which are clearly distinguished from the concept of profit ("surplus value") of the enterprise. In this context, Marx states:

"Cooperative factories provide the proof that the capitalist has become just as superfluous as a functionary in production as he himself, from his superior vantage-point, finds the large landlord (...). In the case of cooperative factory, the antithetical

character of the supervisory work disappears, since the manager is paid by the workers instead of representing the capital in opposition to them".⁶

From the accounts of cooperative factories that Marx studied it emerged that, despite the higher interest rates they paid, their profits were greater than the average because constant capital was more intensively used by cooperatives⁷.

Marx pursued this line of thought, which he had started in the speech of the First International and in the previous remarks, when he examined the role of credit in capitalist production. The credit system constituted the principal means for the gradual transformation of individual forms of capitalism into the collective forms of capitalism. Factory cooperatives (in a "positive way") and joint-stock companies (in a "negative way") should be viewed, according to Marx, as results of this evolution. Ownership in those organizations, however, exists in the form of individual shares, which retain the character of private wealth. Continuing his analysis, he suggested the following:

"The cooperative factories run by

⁶Karl Marx. Capital, vol. 3, Penguin edition, p. 511/2.

⁷Karl Marx, Capital, vol. 3, Penguin Edition, p.512. According to Engel's editorial footnote this passage was written in 1865 and the accounts referred only go up to 1864. This year is, by coincidence, the same of the launching of the First International, when Marx assessed cooperatives' problems, as presented above.

workers themselves are, within the old form, the first examples of the emergence of a new form, even though they naturally reproduce in all cases, in their present organization, all the defects of the existing system, and must reproduce them. But the opposition between capital and labour is abolished here, even if at first only in the form that the workers in association become their own capitalist, i.e. they use the means of production to valorize their own labour"². **Emphasis added.**

This quotation presents a key suggestion for the formulation by socialists of the "degeneration approach". If factory cooperatives must, as affirmed, reproduce all the defects of the capitalist system, the seeds of their degeneration are impregnated in this form of organization. Therefore, its effectiveness in transforming capitalist relations of production is quite illusory.

Summing up, handicraft cooperatives were not considered in Capital because of the intrinsically individual nature of the artisanal process of production and its transitional character. Factory cooperatives, in their turn, were for Marx a type of enterprise that represented, in embryonic

²Karl Marx, Capital, vol. 3, Penguin Edition, p. 571.

form, an alternative to capitalist production. Economic relationships in scarce and isolated experiments of factory cooperatives would not significantly alter the wider relations and forces, in the economy as a whole, unless they were set up on a national scale. Rather, factory cooperatives were more likely to become capitalist organizations, instead of surviving as islands of socialism in a sea of capitalism. The decisive role in the transformation of capitalism would be accomplished by the proletariat as a class, not by elite segments of it, inspired by utopian socialist ideas.

Following the Marxist tradition, Lenin wrote two articles on cooperatives after he took over power in Russia.⁹ In the 1919 article, old cooperatives were considered bourgeois organizations owned by a limited collective of shareholders to whom advantages, such as dividends on shares, were handed out. The 1923 newspaper article On Cooperation, one of his last writings, envisaged organizing peasants in cooperative organizations, as part of the New Economic Policy (NEP) that was interrupted by his death. In 1923 Lenin looked back in order to find out why the plans of Owen and early cooperators were "fantastic", "romantic and even banal", which he explained in this way:

⁹Lenin. "Measures Governing the Transition from Bourgeois Co-operative to Proletarian Communist Supply and Distribution" (written 2nd Feb. 1919, first published 1931); "On Co-operation" (May 1923, articles in Pravda); in Lenin's Economic Writings edited by Meghnad Desai (1989), Lawrence and Wishart, London

"Because they dreamed of peacefully remodelling contemporary society into socialism without taking account of such fundamental questions as the class struggle, the capture of political power by the working class, the overthrow of the rule of the exploiting class".¹⁰

Under socialism, cooperatives would educate peasants towards social production. For this, Lenin emphasized the necessity of a cultural revolution to change the individual ethos of peasants. The agricultural socialist cooperatives proposed by Lenin should use land and means of production that belonged to the working class in power. In terms of property rights, these cooperatives would be state-owned. Agricultural cooperatives in existing socialist countries¹¹, despite the importance they are gaining after Perestroika, are not the object of the analysis undertaken in this thesis, which is restricted to urban producer

¹⁰Lenin(1923). On Cooperation, op. cit.,p.343.

¹¹This is a very topical question today. Oscar Lange wrote a little-known paper dealing with the role of cooperatives within the framework of a functioning centrally planned economy:Poland. Accepting state ownership as the keystone of socialist development, he proposed a cooperative sector as an auxiliary element, not only in agriculture but in small-scale production in general: craft, cottage industry and personal services. See: Oskar Lange (1958). The Role of the Co-operative Movement in the Construction of Socialism. Written in Polish and published in a collection under the title The Impact of the October Revolution on the Co-operative Movement. Translated into English and published in the book: Oskar Lange (1970). Papers in Economics and Sociology: 1930 - 1960. Pergamon Press, p. 443-456. Foreword by Michail Kalecki.

cooperatives in capitalism. That is, those that are owned by small collectives of workers, not by any "representative" of the total collectivity like the state.

2.2.2. BEATRICE WEBB

The origins and evolution of the British cooperative movement of the nineteenth century and the tendency for producer cooperatives to close down or change their purposes were examined in a book written by Miss Beatrice Potter¹². Her book is an attempt to evaluate to what extent the cooperative idea developed by Owen had been realized during the last century in Britain. She distinguished between the Owenite communities, promoted and supported by upper, and middle-class persons and the cooperative movement connected directly with working-class organizations.

This book contains her pioneering presentation of the degeneration thesis, the foundations of which are first encountered in Marx's writings, as observed in the previous section. She later returned to this topic in other publications written together with her husband, Sidney Webb.¹³

¹²Beatrice Potter (1893) The Co-operative Movement in Great Britain, Swan Sonnenschein, London, 2nd edition. First edition :1891.

¹³See, for example: Sidney and Beatrice Webb (1920). A Constitution for the Socialist Commonwealth of Great Britain, London: Longman.

The Webbs pointed out that, where the workers became the owners and, consequently, organizers of industrial firms, the rule was for those firms to fail. The exceptions which escaped failure were transformed into capitalist firms, generating profits for the owner-members and employing workers from outside. The industrial cooperatives were often established to reorganize declining capitalist firms, or ones already insolvent, or even ones closing down. When, occasionally, the cooperatives succeeded, this type of organization almost inevitably tended to assimilate the capitalist modus operandi and, eventually, was dissolved as a cooperative firm.

Producer associations (or cooperatives) were classified into four groups by Beatrice Potter¹⁴:

I Those which employed only full members, who selected the management committee. This Christian Socialist model was inspired by the French socialist Buchez, whose leading idea during 1830s and 1840s was the elimination of the capitalist. He attempted to extend to the industrial workplace the French Revolution ideal of 200 years ago: Liberté, Égalité, Fraternité. Liberty to elect and dispose of the high hierarchy; equality of rights among associates based on the equally shared capital that belonged to a collective of workers, and fraternity in work.

¹⁴Beatrice Potter(1893), op. cit., Chapter 5.

II Those consisting only of full members who had accepted permanent management by a person or committee.

III Those self-governing cooperatives of small masters, which employed outside labour. This type of cooperative extracted profit from the labour of non-members, living off the sweat of their fellow men.

IV Those industrial partnerships in which outside shareholders owned most of the capital, but in which the workers were encouraged or obliged to take shares, although they were disenfranchised and excluded from acting on the management committee.

While the Christian Socialist group had a high propensity to "eat their own seed corn" and thus fail to make adequate investment, the last three groups tended to degenerate into profit-seeking organizations.

When the cooperative exceptionally survived it quickly evolved into another type of organization. Lack of capital, lack of demand and absence of administrative discipline in the producer cooperatives are pointed out as common causes of commercial disaster. Because of the lack of capital, the cooperative workshops were formed in trades where the

"sweating-system"¹⁵ prevailed, and were gradually eliminated by the introduction of newly-advanced technology and improved labour organization.

The old fallacy of the labour exchange form of barter was seen by Potter as the deluded attempt by cooperatives to create value, whether or not their products corresponded to any available demand. She observed that producer cooperatives were frequently established in bad times or in decaying industries, to resist a reduction of wages or to supply work for the unemployed.

The lack of administrative discipline is due to a reversal of power relationships. During the working day, all acts of the cooperators must be supervised by the managers, but during the assemblies the relation is reversed: the managers render account to the cooperators.

In her conception, associations of producers are anti-democratic because they fragment the class of producers into tiny self-governed circles of producers, which must either compete with each other or collude to impose prices on the consumers. Nevertheless, instead of comparing different producers' organizations, Potter calls attention to the "self-evident" opposition of the two market sides, producers

¹⁵The appalling working conditions of the domestic industries, at the time Potter's book was written, became eventually better known through the results of a two-year investigation by the Select Committee (created in 1888) of the House of Lords on the "Sweating System".

and "the community" of consumers, when she writes:

"For it is self-evident that all associations of producers, whether they be capitalists buying labour, or labourers buying capital, or a copartnership between the two, are directly opposed in their interests to the interest of the community".¹⁶

Potter complained that the Christian Socialists just ignored the fundamental changes brought about by the Industrial Revolution. Therefore, they failed to reform the capitalist system, and even to adapt themselves to it. In synthesis, their theory was false.

A return to the situation where the worker bought his own material and sold his product and thus realized profit was no longer practicable. Forty years after the Rochdale experiments were founded, she concludes her empirical study in a very pessimist way:

(...)"genuine associations of producers, owning the capital and controlling the enterprise of their establishment, exist only in those trades untransformed by the industrial revolution and that the majority of these associations are diminutive."¹⁷

¹⁶Beatrice Potter(1893), op. cit., p. 156.

¹⁷idem, p.168.

Potter affirms that so long as the cooperative system is surrounded by an individualistic and competitive society

"it is impossible to assert dogmatically that democratic control would be an effective alternative to individual profit-making in lowering the price and improving the quality of commodities".¹⁸

She explained how the growth of the cooperative system is limited by the poor conditions of life of certain trades and the isolation of the hand-to-mouth existence of casual labour.

"the restlessness or mental weariness arising from lack of nourishment, tempered with idleness, or intensified by physical exhaustion, do not permit the development, in the individual or the class, of the qualities of democratic association and democratic government."¹⁹

Workshops that escaped state regulation constituted an example of the incapacity of association of their workers. She suggested the following boundaries for the cooperative

¹⁸idem, p.209.

¹⁹idem, p.226.

system:

"Poverty and irregular habits form a lower limit to the growth of cooperation. Fastidiousness and the indifference bred of luxury constitute a higher limit to the desire or capacity for democratic self-government."²⁰

She also took into consideration the financial and administrative limits to the growth of cooperatives compared to other forms of enterprise. The accumulation of capital in cooperatives would proceed, if at all, at a slow pace. They were foredoomed to failure.

This diagnosis was later expanded and deepened by Beatrice Potter Webb and her husband, leading intellectuals of the Fabian Society, an influential "think tank" for the British Labour Party, very often suspicious of worker cooperatives and quite committed, for a long time, to the nationalization of industry.

²⁰idem, p.226.

2.3.THE EARLY NEOCLASSICALS

2.3.1.WALRAS

The active participation of Walras in the French cooperative movement from 1864 to 1870, the period immediately prior to his taking a chair in Political Economy at the University of Lausanne, is reported in a recent article written by Claude Hébert²¹, who reveals episodes in the life of the famous general equilibrium theoretician which are not very familiar to today's economists. Walras favoured the cooperative movement in a practical way and, together with Leon Say (Jean-Baptiste Say's son), he founded the cooperative bank : "Caisse d'Escompte des Associations Populaires", in 1865 and the cooperative newspaper "Le Travail", in 1866.

Earlier experiences of the French cooperative movement were associated with the ideals defended by Buchez, during the 1830s and 1840s, who contested the necessary role of the capitalist in the production process, and the 1848 Luxembourg Commission presided over by Louis Blanc, which suggested that cooperatives formed by workers, should receive special support from the state budget. The condition for receiving this external support was agreement to distribute the expected profits in fourfold shares, in

²¹Claude Hébert(1988). Léon Walras et les Associations Populaires Cooperatives.Revue d'Économie Politique, 98ème année, No. 2, pp. 252-272.

order to pay

- 1) the labour force with equal wages for all
- 2) the capital borrowed from external sources
- 3) a social fund to help the elderly and the sick
- 4) a collective reserve fund for financing the industry.

However, this project was thrown out by the National Assembly, which was opposed to public support for this kind of cooperative organization.

According to Hebert (1988), the contribution made by Walras²² on worker cooperatives illustrates a tentative synthesis of liberalism and socialism, after he became disillusioned with the possibilities of finding a solution to the social question through the instrument of tax reform.

For Walras, capitalist industrialization changed the methods of industrial production which became dependent on a concentration of capital, giving the capitalists superiority over the workers. The workers who were not well off, should contribute their small savings to form production associations and cooperatives along the lines of the English (Rochdale) model. Starting as small cooperatives, they would achieve the ownership of capital, each worker owning

²²Léon Walras (1865). Associations Populaires de Consommation, de Production et de Crédit. Paris, Dentu. Quoted by C. Hebert, op. cit., p. 256. This book contains three lessons taught by Walras on cooperatives and also the Statute of the Cooperative Bank he founded with Leon Say.

individually his/her own share. The principle of individual property was clearly defended by Walras. In the case of worker cooperatives, capital returns should also be determined by the market. Success would be better achieved if the worker was allowed an easy and rapid way to expand savings. To that end, the proper remuneration of individual capital would provide greater encouragement to increase small savings. Moreover, for Walras, there must be a link between the cooperatives and the firms supplying credit, in order to let the cooperatives conquer and widen their niches in the market.

The originality of Walras's ideas lies in his emphasis on the financial difficulties of worker cooperatives. The purpose of the cooperative bank (a type of people's bank) he founded and directed was to break out of the vicious circle of small firms, like worker cooperatives, which suffered from insufficient capital due to the lack of collateral guarantees demanded by lending institutions. Consequently, the strong and large capitalist firms are more apt to borrow money than the small ones. For Walras, the high record of cooperative bankruptcy was mainly due to external factors, although he also recognised the influence of internal factors, like the absence of workers' discipline and good management.

In 1866, the rapid development of long-term lending to worker cooperatives by the popular bank he directed created

enormous difficulties for the bank, which was finally liquidated in 1870, unfortunate evidence of his insight into the nature of the problem. This is now known as "the dilemma of collateral": self-financing as well as external financing are quite difficult to obtain by worker cooperatives because of the nature and principles of this type of business organization.

2.3.2. MARSHALL

Marshall was possibly the first great economist to highlight the "entrepreneurial and managerial question" of worker cooperatives: how to benefit from good management and entrepreneurship without paying this scarce factor of production adequately. The strongly individualistic working men would find their own private ways to material success without sharing their initiatives with other working men.

The Presidential Address of the twenty-first Annual Cooperative Congress, held at Ipswich, on Whitsuntide in 1889, was delivered by Marshall²³, a year before the first edition of the monumental treatise on the Principles of Economics²⁴. The cooperative organizations are referred to

²³Alfred Marshall (1889). Cooperation, in A.C.Figou, editor, (1925). Memorials of Alfred Marshall, Macmillan, London.

²⁴Alfred Marshall (1890). Principles of Economics, Macmillan, London, eighth edition: 1952.

in this book and also in Industry and Trade²⁵, which is a continuation of Principles.

Marshall greeted the audience he addressed in the 1889 Congress of the Central Cooperative Union as

"the truest and bravest knights of that great order of modern chivalry-cooperation."²⁶

The core of his discourse is a reflection on the business abilities of working men. Among social movements, he remarked on the uniqueness of cooperativism as a movement with high social aims and simultaneously having a broad business basis. As a doctrine, its ultimate aim was to stress the social dimension of human nature. As a type of business, it brought about the utilization of the business capacity of working men, which he considered the waste product of the world's history. In the absence of cooperativism, for lack of opportunity it would have remained latent and come to nothing.

Through joint action, cooperators would educate themselves in business management, and move from a position of helpless dependence towards their own guidance and self-governance. The movement develops individual business abilities while

²⁵Alfred Marshall(1919). Industry and Trade, Macmillan, London, second edition: 1919

²⁶Marshall(1889). Co-operation. op. cit., p. 251.

training the cooperator in collective action, for the attainment of collective ends, using collective resources.

He called attention to the handicap of producer cooperatives in competition with private firms which select professional, qualified and inventive managers. Even so, most private businesses, according to Marshall, fail within the first five years. However, when a cooperative society fails,

(...)"a louder obituary is recited which the careful historian of cooperation epitomises for his necrological chapter: a perpetual warning as to the vanity of human hopes."²⁷

Had Marshall's address been delivered after the publication of Beatrice Potter's book²⁸, summarised above (see Section 2.2.2, above), one could have guessed that he had intended to criticise this "careful historian of cooperation". The historical evidence is, however, that his speech was delivered two years before her book was published.

Instead of taking as his theme the life cycle of cooperatives, and their birth and death rates - as Potter had done to evaluate their tendency to degenerate- Marshall emphasised the management problem faced by the cooperative

²⁷idem, p. 245.

²⁸Beatrice Potter (1891). The Co-operative Movement in Great Britain, Swan Sonnenschein, London, 2nd edition: 1893.

organization. However, as a proviso, he added that, despite access to better management, private business is also exposed to a high rate of failure. This is even more true regarding small businesses and, therefore, this is a point of fundamental importance in the evaluation of small cooperatives, despite having been disregarded by Potter in her writings.

At the end of his address Marshall urged the audience of cooperators to stay alert against the opportunists who would use the field of cooperation just for their own individual ends. Thus, wrong-doing was denounced, as well as incompetence. In order to achieve efficiency, Marshall recommended that cooperative managers should be paid a salary high enough to prevent any tempting offer from private business. If managers are not paid competitively they could be enticed away by greater remuneration outside the cooperative.

In theory, Marshall reminded the cooperators, it was well known that in competition capital hires labour and pays a fixed wage and in a competitive system of cooperatives labour hires capital and pays it a fixed rate of interest.

In his speech, he tried to convince his audience of an important aspect of industrial organization, namely, that management was a fully-fledged factor of production, separate from capital and labour. Marshall took these three

factors, rather than two, in order to reveal what really happens within an industrial organization, namely, that labour is hired by business ability in command of capital. In cooperatives, capital is hired by the cooperative. He also elucidated the vicious circle:

"If they have not much business abilities, they will not get much capital, either of their own or of anyone else's and, if they get it, they will not keep it long: and it all comes back to that."²⁹

Due to this management constraint to the development of cooperatives, empirical evidence has shown, according to Marshall, that cooperatives are unable to meet the requirements of highly dynamic industrial sectors which do need large capital and rare talents. Therefore, cooperatives needed to be guided towards other sectors which chiefly produce on the basis of the following characteristics: punctuality, order, neatness, detailing.

In Principles, Marshall refers to the ideal form of cooperative society as the type of business organization in which a part or the whole of those shareholders who undertake the risks of the business are themselves employed by it. The employees have a share in profits and power of voting at the general assemblies. They are the employers

²⁹Marshall(1889). Cooperation. op. cit., p. 245.

and masters of their own managers and foremen. They are interested in their own benefits, which make each of them averse to any shirking of work by fellow cooperators.

Marshall observed that the ideal form of cooperative was not carried out in its entirety and was rarely realized in practice because

(...)"human nature being what it is, the employees are not the best masters of their own foremen and managers."³⁰.

Marshall insisted in Principles on the point he brought out in his discourse on Cooperation: those who are strongly individualistic will prefer to open their own private businesses and profit from them instead of sharing the profits with fellow cooperators. Their own private ways to success dispense with the necessity of sharing their initiatives. Cooperation attracts those whose social character is stronger, who desire not to separate themselves from their comrades, but to work with them. However, managers of cooperatives seldom have as much skill as those in the private sector of business. Marshall especially wanted to indicate the difference between the ideals and reality of cooperativism:

"Its aspirations may in some respects be higher than its practice; but it undoubtedly does rest in a great measure

³⁰Marshall. Principles, op. cit., p. 255.

on ethical motives."³¹

In Industry and Trade, Marshall also refers to the lack of management abilities as the main obstacle of businesses owned by workers, not necessarily labour cooperatives in the formal sense:

(...)"the chief hindrance to the advance of working-men to the control of business lies in a lack, not of capital, but of the training and habits of mind needed for dealing with the larger problems of business policy (...) difficulties are greatest in those industries in which technique is changing most rapidly."³²

After he presented a synthesis of the Rochdale method of cooperation in Chapter 7 of Industry and Trade, he explicitly concluded that

(...)"the faith that competition should give way to cooperation(...) would hardly bear the test of exact scientific analysis; it had a solid kernel: for it meant that the movement was one by the weak to help the weak; that a new comer was to be welcomed

³¹Marshall. Principles, op. cit., p. 255.

³²Marshall. Industry and Trade, op. cit., p.646.

because he wanted help; and not, according to the joint stock company rule, in proportion to the capital which he contributed."³³

As a last point, Marshall observed that cooperatives are seldom successful in sectors other than those of marketing and production of staple foods for the working classes.³⁴

³³Marshall. Industry and Trade, op. cit., p. 290.

³⁴Marshall. Industry and Trade, op. cit., Appendix P, p.854.

2.4. CONCLUSION

Making a comparison of Marshall's views on the main problems of producer cooperatives with Walras's, one concludes that the former stressed internal factors, while Walras stressed external factors. Thus Walras favoured the existence of special financial institutions to support cooperatives and defended individual ownership of cooperative shares, as well as the remuneration of these shares according to the capital market. Marshall, on the other hand, highlighted the entrepreneurial and managerial question of worker cooperatives, and recommended that these organizations should pay the management well, which he considered to be by itself a scarce factor of production.

The unfeasibility of producer cooperatives, a topic raised in writings by socialists of the last century, like Marx and Beatrice Potter, also was considered by the early great neo-classicals: Walras and Marshall. Both approaches, the socialist and the neoclassical, despite their differences point to a common feature: producer cooperatives, since the last century, display only limited feasibility. They are constrained when they enter in a process of interaction with the credit system (a point emphasized by Walras in France and Marx in England, coincidentally in 1864 and following years) and also by problems related to managerial question in the context of a non-authoritarian, presumably democratic, decision-making organization: lack of

incentives, labour indiscipline, and lack of entrepreneurship, which were all areas of concern to Marshall.

The financial constraints and the entrepreneurial boundaries that worried the early neoclassicals were not completely disregarded by the socialists of the degeneration approach school. Nevertheless, the latter chose to emphasize the historical perspective of the necessary transformation of producer cooperatives, originally conceived to apply utopian socialist ideals. Assuming that efficiency improves in the transition from earlier modes of production to later ones, the handicraft cooperatives assembling together individualistic artisans are foredoomed to fail in a capitalist context, as empirically shown by Beatrice Potter.

Finally, the recent literature, examined later in this thesis, puts forward and still considers as standard reasons for the failure of producer cooperatives those advanced by the authors surveyed in this chapter.

3. MARKET INSTABILITY

3.1. INTRODUCTION

This chapter presents the model of Illyria, which started a prolonged debate on the market instability of producer cooperatives. The practical relevance of this debate, initiated three decades ago, is to apply modern economic analysis to demonstrate the phenomena highlighted by the economic literature of the last century: the utopianism of cooperativist doctrine and the tendency of cooperatives to degenerate. The Illyrian model shows the possibility of a negative supply curve which stimulates perverse reactions to price changes. It also shows the possibility of unstable market equilibrium.

3.2. THE BASIC MODEL OF ILLYRIA

In a seminal article for the economic theory of cooperatives, Benjamin Ward¹ formalized a neo-classical model to analyse the feasibility of the Yugoslav way to socialism. Illyria was an ancient Roman colony located approximately where the territory of Yugoslavia lies today. Ward's pioneering analysis examined "market syndicalism" or

¹Benjamin Ward (1958). The Firm in Illyria: Market Syndicalism, American Economic Review, vol.48, no.4, sept., p. 566-589. This article was revised and republished as chapter eight of the book: Benjamin Ward (1967). The Socialist Economy: A Study of Organizational Alternatives Random House, New York.

"Illyria", a model for the Yugoslav economy of the 1950's. In that decade, after the Stalin-Tito breach occurred in 1949, the first steps were taken towards "market socialism", which were quite different from those prescribed by the Soviet central planning model. This period followed the immediate post-World War II experience, when Yugoslavia, like the other Eastern European countries, narrowly pursued Soviet-type planning.

Ward put forward an analytical approach previously used, before World War II, by Oskar Lange², who gave a theoretical demonstration of the viability and efficiency of "market socialism". This paper played an important role in the pre-war discussion about the modus operandi and feasibility of rational management of a socialist economy. Lange emphasized that the planning authorities of a socialist economy may resort to a kind of market (or quasi-market) mechanism. The resulting price and output decisions investigated by Lange in his model of market socialism are, in abstracto, quite similar to those obtained in the competitive capitalist model.

Ward was inspired by Lange's analysis, but he decided that his Illyrian firm maximized income per worker, rather than

²Oskar Lange (1936/7). On the Economic Theory of Socialism. The Review of Economic Studies, Part I: 1936, Vol.4, no. 1, p. 53-71; Part 2: 1937, vol. 4, no. 2. p.123-144. These articles were revised and republished in book form conjointly with a paper of F.M. Taylor: Oskar Lange and F.M. Taylor (1938). On the Economic Theory of Socialism, Minneapolis.

profit, the usual assumption of neoclassical models.

The maximand of the Illyrian firm explicitly considers the number of workers in the denominator and the net revenue (difference between revenue and cost) in the numerator. The inclusion of the number of workers in the firm's objective function caused astonishing results for this model in comparison with conventional neo-classical models in which profit-maximization by the capitalists determines the appropriate number of workers.

Considering the homogeneous production function, and taking for simplicity the case of one output and one variable input (labour), with a fixed capital stock owned by the state which is paid a fixed cost by the cooperative, Ward demonstrated the following theorems:

"A change in the fixed costs of the competitive Illyrian firm leads to a change in output in the same direction."³

"A change in price to the competitive Illyrian firm leads to a change in output in the opposite direction."⁴

The demonstration follows. Dividend is defined as $y(L) = p.Q(L)/L - C/L$, where

p is the parametric output price

³Ward (1958). op.cit., p. 573.

⁴idem, p. 575.

L is the variable labour input

Q(L) is the short-run production function with positive and decreasing marginal product

C is the fixed cost which may be interpreted as depreciation or capital tax.

The accounting dividend would be

$$y(L) - w = p \cdot Q(L) / L - C / L - wL / L$$

The worker's full wage would be the sum of the accounting dividend, $y(L) - w$, and the contractual wage, w , or simply $y(L)$. Maximizing $y(L)$ is equivalent to maximizing the accounting dividend.

The first order condition will imply

$$[L \cdot p \cdot Q'(L) - p \cdot Q(L) + C] / L \cdot L = 0$$

$$\text{Then } p \cdot Q'(L) = [p \cdot Q(L) - C] / L$$

Let $y^*(L)$ be the maximized dividend.

$$\text{Thus } p \cdot Q'(L) - y^*(L) = 0$$

In order to demonstrate the first theorem let us differentiate the left side of the last equation with respect to C and equate to zero. Then

$$p \cdot Q''(L) \cdot dL / dC - [p \cdot Q'(L) \cdot dL / dC - 1] / L + [y(L) \cdot dL / dC] / L = 0$$

Using the maximized dividend form we conclude

$$dL / dC = -1 / p \cdot Q''(L) \cdot L$$

Because of decreasing marginal product the denominator is negative. Then $dL / dC > 0$

That is, the optimal number of workers in Illyria changes in the same direction of a change in the fixed costs.

To demonstrate the second theorem let us differentiate the left side of the maximized dividend equation, with respect to p and equate to zero. Then

$$p.Q''(L).dL/dp + Q'(L) - [1/L]\{[p.Q'(L) - y.(L)].dL/dp + Q(L)\} = 0$$

Using the maximized dividend form we get

$$dL/dp = [Q(L)/L - Q'(L)] / p.Q''(L)$$

The numerator of the right side of the last equation is positive because in the relevant range the average productivity is higher than the marginal productivity. But, the denominator must be negative by the assumption of decreasing marginal product. Then $dL/dp < 0$

That is, the optimal number of workers in the Illyrian firm varies inversely to changes in product price.

The last theorem implies Ward's fundamental result: the supply curve for the Illyrian firm is negatively sloped. This implies, in turn, that the number of workers will decrease when output price rises and will increase when output price falls. Just the opposite would happen in a profit-maximizing competitive market, as text books reveal.

Ward shows that assuming the price-adjustment mechanism to have the same sign as the amount of excess demand, in Illyria the price equilibrium is unstable if the demand curve has a steeper slope than the supply curve. Ward

emphasises that market equilibrium is not inherently unstable, but it will depend upon the demand elasticity. If it is assumed to be larger (in absolute value) than the supply elasticity, then stability is assured⁵. When product demand is relatively inelastic, argued Ward, the problem of instability is most likely to arise⁶. In the same article, Ward examined the case of two variable inputs. The capitalist and Illyrian criteria lead to the same behaviour with regard to non-labour inputs. For these, the equilibrium conditions are the same. However, the two criteria do not lead to the same behaviour when it refers to the labour factor, because each worker receives a share of the profits. Ward proves that the negatively sloped curve will depend on the relative importance of labour⁷.

Ward's analysis has the merit of bringing to mainstream economics a topic of great importance for historical and empirical studies of producer cooperatives. However, he shifted the emphasis from institutional instability, the principal focus of analysis in the last century, to the instability of the market equilibrium. This became a central topic in the economic literature on producer cooperatives that has developed during the past three decades, since the Illyrian model introduced this problem.

⁵idem, Appendix, p. 586.

⁶idem, p. 576.

⁷idem, Appendix, p. 588.

3.3.REMODELLING ILLYRIA

Once the producer cooperative was organised, argued Evsey Domar⁹, it is highly unlikely that labour inputs can be varied with changing prices and rent in order to maximize the dividend rate because, by its nature, the producer cooperative cannot admit or expel members at will⁹. For him, the Illyrian assumption - that the cooperative is actually able to employ the optimum number of labour units which maximizes the dividend rate - was unrealistic. He reminded the reader that the presumed democratic nature of a cooperative and its freedom from capitalist exploitation made it very attractive to socialists and social reformers. However, it did not have the same appeal to economists. Ward's analysis of Illyria is an exception: a "path-breaking paper"¹⁰.

The prototype of a worker cooperative examined by Domar was the Kolkhoz, a soviet collective farm free from all the obstacles imposed by the central planning mechanisms (quotas, shortage of inputs, depressed prices of output etc.), in order to place it in the Lange-type of competitive world. Domar admitted that the soviet kolkhoz should be allowed not only to contract its own workers

⁹Evsey Domar(1966). The Collective Farm as a Producer Cooperative. American Economic Review, Sept., p.734-757.

⁹idem, p. 742.

¹⁰idem, p.735.

(hiring in), but should also contract workers from outside (hiring out) its membership, when needed.

The cooperative in the Domar model faces a supply curve of labour which has the usual positive slope. Three types of labour supply curve were studied by Domar: a moderate labour shortage, a severe labour shortage and an excess supply of labour. The results of Domar's models are summarized by him in the following table¹¹, which also includes Ward's results.

TABLE 3.1:

THE EFFECTS OF CHANGES IN RENT, TAX RATES, AND PRICES ON THE EMPLOYMENT OF LABOUR BY THE PRODUCER COOPERATIVE

INCREASE IN	ILLYRIAN	WITHOUT HIRING	WITH HIRING
Rent	+	-	0*
Income tax rate	0	-	-
Price	-	+	+

*Except in the case where the cooperative operates like a monopsonist.

The list of recommendations for Soviet agriculture suggested by Domar based on the above table is quite similar to those of conventional economic theory. He then concluded:

¹¹Domar. op. cit., Table 2, p. 747.

"Judged by strictly economic criteria, the co-op has not come out well. But even on these grounds, it is quite possible that a co-op may be more efficient than a capitalist or a state-owned firm in societies where membership in the co-op, as contrasted with hiring out for a job, has a strong positive effect on workers' incentives (though hardly the case in Soviet Kolkhozes). And so may the co-op's capitalist cousin: a firm with a profit-sharing scheme."¹²

Jaroslav Vanek dedicated at least one decade of his academic life to the economic theory of a system based on labour-management during which time he wrote a formidable volume on this matter¹³. His neoclassical approach differs greatly from the socio-institutional approach of his brother, Jan Vanek (see below). Jaroslav Vanek built on his research on the Illyrian model, and considerably extended Ward's and Domar's analysis. In a labour-managed economy, he agreed with Ward, the maximization of income (income defined as the

¹²idem, p. 749.

¹³Jaroslav Vanek (1970). The General Theory of Labour-Managed Market Economics, Cornell University Press, Ithaca, New York. A companion book, by the same author, more speculative and philosophical, intended for the general public: Jaroslav Vanek (1971). The Participatory Economy: An Evolutionary Hypothesis and a Strategy for Development. Cornell University Press. Ithaca, New York.

value of sales minus all costs) per worker is the natural operating system. Otherwise, management decisions would be bound to conflict with the workers' collective.

Making the assumption of homogeneous labour, the last worker either hired or fired from the cooperative earns the same as everybody else and generates net income, a portion of which can be added to the income of all workers in the cooperative. When a reduction in the employment level of the cooperative is called for, a conflict might arise. Who is fired? Who will stay?

This question, inter alia, is considered by James Meade¹⁴ in his book review of Jaroslav Vanek (1970). Meade suggests that the main differences analysed by Jaroslav Vanek between a capitalist (entrepreneurial) system and a labour-managed (cooperative) system relate to five topics: incentives, short-run adjustment, free entry, monopolistic behaviour and macro-economic effects. Two-tier membership rights were proposed by Meade who separated the new partners from the old founders of an "inegalitarian cooperative" model. For this model, rules were proposed. The first for the expansion of the number of worker-partners in a cooperative, the second for the withdrawal of an existing partner from the cooperative. Each rule comprises two conditions:

¹⁴James Meade (1972). The Theory of Labour-Managed Firms and Profit-Sharing. The Economic Journal, no. 82, pp.402-428.

- 1a) that the new partner wishes to come in
- 1b) that the old partners wish to accept him
- 2a) that the partner concerned wishes to leave
- 2b) that he should obtain from the remaining partners permission to withdraw¹⁵.

By the first rule no one may be conscripted; that is, membership is voluntary for the new member. It is also consensual for old members. The second rule avoids involuntary dismissal and it is incompatible with dismissal by the majority decision rule. The second condition is coercive and was proposed because a member should not be able individually to abdicate collective responsibility.

The Ward, Domar, Vanek and Meade contributions to the theory of labour-managed systems are regarded as major theoretical foundations of the literature on cooperatives. Detailed examination of these foundations are found in the books of Ireland and Law¹⁴, Frank Stephen¹⁷ and the recent survey by Bonin and Futterman¹⁸.

¹⁵idem, p. 421.

¹⁴Norman Ireland and Peter Law (1982). The Economics of Labour-Managed Enterprises. Helm, London.

¹⁷Frank Stephen (1984). The Economic Analysis of Producers Cooperatives, Macmillan, London.

¹⁸John Bonin and Louis Futterman (1987). Economics of Cooperation and the Labour-Managed Economy, Vol 14 of the series: Fundamentals of Pure and Applied Economics. Harwood Academic Publishers, Chur, Switzerland.

The latter authors demonstrate the following four Illyrian propositions for the short-run case of one variable labour input and a fixed cost associated with constant capital input:

"(i) labour-managed firms will be smaller than their capitalist counterparts in the short run when profits are positive

(ii) in the short run single product firm, output responds inversely and thus perversely to changes in the product price

(iii) labour and, in the short run, output respond positively to increases in fixed cost and negatively to decreases in fixed cost

(iv) labour allocation will be Pareto-inefficient in the Illyrian economy when short run profits are non-zero in profit maximizing twin firms".¹⁹

The first proposition is a key result of the pure theory: the labour-managed Illyrian firm will try to increase labour productivity and will be more capital-intensive than the capitalist twin, therefore, it will restrict employment relative to the latter.

¹⁹Bonin and Putterman (1987). op. cit., p. 15/17.

This result prevails in the long-run analysis of the allocative problem in Illyria. There, the choice of technique will also be more capital-intensive in labour-managed firms than in the capitalist twin.²⁰ The labour-managed firm would use less than the optimal amount of labour, would tend to produce less than the optimal scale of output, and would employ a technique with higher capital-labour ratio than the capitalist twin.

The pure model is concerned essentially with competitive firms in which all control is vested in the work force, with equal rights among workers, which is an abstraction and far away from the complexities of the real experiences of labour cooperatives.

For the purposes of this thesis, the main lesson of economic theory lies in the observation of a tendency towards inefficiency. This shares the general pessimism found in several economic and socio-institutional approaches which revealed, as we see in Chapter 2, a pattern of failure and degeneration for worker cooperatives since the last century.

²⁰idem, p. 58/9.

3.4. CRITIQUE FROM SOCIALISTS

The concrete complexity of the labour-management system is not captured by the Illyrian model, according to Jan Vanek²¹, an expert of the International Labour Office, who spent several years in Yugoslavia, examining workers' councils and the self-management system. He wrote an important book, that was published post-mortem, reporting his systematic analysis of the Yugoslav experience with decentralization. In this book, Jan Vanek did not question the formal logic and the mathematical derivations of Ward's model which, for him, were unquestionably correct, although he argued that the premisses were false and the tools of analysis were inadequate for understanding the Yugoslav economy²². There was no disturbance to the economy - contrary to the Illyrian results - when decentralization with self-management was exercised in a pragmatic way, preventing the emergence of the negative patterns suggested by the Illyrian model:

- "(i) the possibility of the enterprises reducing their production and seeking higher incomes through price increases, employment restriction and other forms of monopolistic behaviour; and
- (ii) the possibility of the work

²¹Jan Vanek (1972). The Economics of Workers' Management: A Yugoslav Case Study. See Chapter VI on the Illyrian Firm.

²²idem, p. 143.

collectivity using up all its income for personal or collective consumption, thereby not only failing to contribute to the necessary expansion of the economy as a whole, but actually consuming the available social capital and means of production."²³

The deliberate effort to prevent these two Illyrian results by the decentralization policies of the government, is in our opinion, a tacit recognition that these tendencies really did in fact occur.

The principal lesson from Ward's model, according to Jan Vanek, is a warning against applying theorems formulated for other systems under different circumstances²⁴. But, Jan Vanek argued that the most important motive for the gradual introduction of self-management was of a political nature. It evolved from a stage of central planning, in an unprecedented way, in response to the needs of decentralization of a society very differentiated economically, and also in terms of region, religion, culture and language.

²³idem, p. 139.

²⁴idem, p. 152.

Branko Horvat²⁵, another expert on the actual working of the economy of his country, Yugoslavia, criticized the Illyrian model on behavioural grounds because Ward assumed income per worker as the objective function. This implies, according to Horvat, strange results which have been taken in the neoclassical literature as prima facie evidence of the inferior efficiency of the worker-managed firm. Horvat claims that what workers' councils actually do is to set up the "aspiration income", which is an accounting income that enters the objective function. The worker-managed firm maximizes the residual surplus. In so doing, it will behave like a neoclassical firm and will be equally efficient. The main difference is that labour is not sold, like a commodity, to capitalists²⁶.

Horvat considers a firm with a simple conventional production function with two variable inputs which are: labour (x1) and other resources (x2)

$$q = f(x_1, x_2)$$

There is also a fixed cost, k, to represent depreciation or a capital tax. Taking p as the price of output, w as the wage rate and p2 as the price of the other variable input, Horvat derives the effects of various changes in output and employment for the three following types of firms:

²⁵Branko Horvat (1982). The Political Economy of Socialism: A Marxist Social Theory. Martin Robertson, Oxford.

²⁶idem, p. 343.

1) A neoclassical profit-maximizing firm:

$$p \cdot q - (w \cdot x_1 + p_2 \cdot x_2 + k)$$

2) An Illyrian firm maximizing income per worker:

$$[p \cdot q - (p_2 \cdot x_2 + k)] / x_1$$

3) A worker-managed firm, as proposed by Horvat, which maximizes residual surplus:

$$p \cdot q - [(w + w') \cdot x_1 + p_2 \cdot x_2 + k]$$

where $(w + w')$ is an accounting income, that for practical purposes performs the allocation role of the wage rate, without being a wage rate. The personal income actually paid does not enter the objective function, which Horvat describes as maximum total income subject to the constraint that accounting personal income be $(w + w')$.²⁷

The results are surveyed in the following table²⁸:

TABLE 3.2:

EFFECTS OF VARIOUS CHANGES ON OUTPUT AND EMPLOYMENT OF FIRMS

INCREASE IN	NEOCLASSICAL	ILLYRIAN	WORKER MANAGED
Product price	+	-	+
Wages	-	0	0
Material input price	-	-	-
Fixed cost	0	+	0

²⁷idem, p. 343.

²⁸idem, p. 341.

Horvat reluctantly concedes that the maximand he suggested "may not be rational; it may be that workers should maximize income per employed person"²⁹.

But he did not discuss, at this point, the system's specific rationality. What he envisaged was to have the neoclassical rationality re-established in the typical worker-managed firm.

Two ways to neutralize or even reverse the perverse short-run supply response of the Illyrian firm were revealed above. One is based on institutional arrangements such as those examined by Jan Vanek. The other is to choose a convenient maximand like that very neoclassical one proposed by the marxist theorist, Branko Horvat. The gimmick he used simply transformed the Illyrian firm's objective into the conventional capitalist objective.

²⁹idem, p.343.

3.5.CONCLUSION

The first implication of the analysis presented in this chapter is that the price instability in the fantasyland of Illyria converges to the nineteenth century approaches surveyed in the preceding Chapter 2 to show the limited feasibility of producer cooperatives. Irrespective of their point of departure and varying levels of abstraction, all major economic approaches lead to pessimist results.

The possibility of price instability in Illyria - the economy consisting exclusively of self-managing cooperatives - is the main warning given by Ward when measures were introduced in Yugoslavia to decentralise an existing socialist economy after a period of Soviet-type central planning. The simplicity of the model disguises the consequences of price instability arising from institutional disruptions.

The absence of the financial problem is due to the fixed rate paid by the cooperative for the utilization of state owned capital, whose supply is perfectly elastic.

In its turn, labour homogeneity implies that earnings are distributed equally to each member. By definition it precludes the hierarchical and managerial problems of existing producer cooperatives in capitalist economies.

The reductionism of Illyria was broken down to adapt to more flexible assumptions. For example, Domar relaxed the condition of exclusive hiring in and allowed hiring out, which rendered labour a more flexible and marketable factor of production. The researches undertaken by Jaroslav Vanek and James Meade were inspired by the same cursory idea of making the model of Illyria less restrictive to the mobility of capital and labour, since immobility hinders the efficient working of the Illyrian system.

However, neither the applicability nor the the degree of realism of the model of Illyria to the correct understanding of the general features and tendencies of Yugoslavia or any other (still) existing socialist countries are matters of concern for this thesis. Our problem is to determine whether the Illyrian model sheds light on the understanding of producer cooperatives in capitalist economies, especially in Northeast Brazil.

The comparative results between the Illyrian firm and the "twin" profit maximizing firm reveal the smallness of the former, which reacts to market signals in a different way, generating allocative problems. The smallness of producer cooperatives is, nonetheless, empirically observable in Brazil and other capitalist countries. However, there is concretely no question of over-intensive capitalization in producer cooperatives. On the contrary, underinvestment

typically is the problem of producer cooperatives and implies a lower capital intensity than in capitalist firms.

As far as the incentive problem of Illyria is concerned, in an M-member cooperative that does not hire out, the individual cooperator who shares the net revenue with M-1 fellow cooperators will receive some direct benefit from any additional effort, but he will reap only the fraction $(1/M)$ th of the result of his extra effort, the remainder being distributed among fellow members. The greater is M, the lower will be his working incentive. Or, alternatively, the reduction of the membership of the cooperative will increase the economic material incentive for effort and efficiency of the individual cooperator.

This type of incentive problem, found in Illyria, does not occur in concrete examples of producer cooperatives in Brazil and most of the countries where the piece-rate system is the compulsory form of labour reward in a producer cooperative. Payment by the piece stimulates individual overworking. If the net surplus of the cooperative (after deducting labour payments) is to be shared among the membership in proportion to individual work performed, again the incentive operates in the direction of individual overworking, evading the Illyrian problem of every member being compensated by the extra effort of each.

4. FEASIBILITY OF PRODUCER COOPERATIVES

4.1. INTRODUCTION

This chapter analyses the feasibility of producer cooperatives in capitalist economies, first to explain their rare occurrence, and second to specify the problems they face. The first two sections commence by looking at some statistical evidence of the small size of today's producer cooperative sector in Brazil and European countries.

In sum, the standard reasons for the small size of the sector of producer cooperatives, often repeated in the recent literature examined below, are the collateral dilemma, the entrepreneurial question, and the tendency to "degeneration". As already seen in Chapter 2, these problems were first diagnosed in the last century, and are associated respectively, with the names of Leon Walras, Alfred Marshall and the socialists, Marx and Beatrice Webb.

4.2. DATA SURVEY FOR BRAZIL

Data available on worker cooperatives in Brazil cover the following categories: artisan and industrial workers, which are in our special field research, as well as health workers (doctors and dentists), taxi drivers and other transport categories, journalists etc., who formed service cooperatives which have not been included in the case-

studies of our sample.

In Brazil in 1982 (Table 4.1), two years before the field research started, worker cooperatives were only fourteen per cent of the total number of cooperatives. The remainder were distributed among several sectors: agricultural cooperatives (half of the total), consumer cooperatives, education, rural electrification and the remaining two tiny sectors: mining and fishing.

TABLE 4.1: BRAZIL, 1982

<u>DISTRIBUTION OF COOPERATIVES</u>			
<u>TYPE</u>	<u>NUMBER</u>	<u>%</u>	
Agricultural Producers	1409	50,7	
Rural Electrification	278	10,0	
Consumption	381	13,7	
Education	272	9,8	
Workers	390	14,0	
Mining	11	0,4	
Fishing	40	1,4	
TOTAL	2781	100,0	

Source: INCRA, Brazilian Ministry of Agriculture

The cooperatives of artisan and industrial workers started to appear in Brazil during the 1970's and grew in importance in the early 1980's, especially during the severe economic crisis of 1981-4.

Their regional distribution in 1982 (Table 4.2) reveals the locational predominance (two thirds of the total), of the Northeast, the most underdeveloped region, where our field research was concentrated.

TABLE 4.2: BRAZIL, 1982

REGIONAL DISTRIBUTION OF ARTISAN AND INDUSTRIAL COOPERATIVES

REGION	NUMBER
North	3
Northeast	38
Southeast	10
Centre-West	2
South	7
BRAZIL	60

Source: INCRA, Brazilian Ministry of Agriculture

Of the 38 Northeastern cooperatives of artisan and industrial workers in existence in 1982, none had been given a working permit by INCRA before 1973. For one of them, the date of the working permit was missing. For the others, the distribution is presented in Table 4.3, below. In 1982, the average age of producer cooperatives in Brazil was less than 5 years. Even this estimate is perhaps exaggerated because it does not consider the possibility that some of the cooperatives had not been taken off the INCRA register, despite previous closure. This might occur

due to lack of communication from cooperatives which had collapsed or bureaucratic officials might have delayed their removal from the register until they were reasonably certain that there would be no chance of reopening.

TABLE 4.3: NORTHEAST BRAZIL, 1982

YEARLY DISTRIBUTION OF WORKING PERMITS CONCEDED BY THE
GOVERNMENT TO ARTISAN AND INDUSTRIAL COOPERATIVES

YEAR	NUMBER	AGE IN YEARS IN 1982
1973	4	9
1974	3	8
1975	9	7
1976	1	6
1977	1	5
1978	9	4
1979	2	3
1980	1	2
1981	2	1
1982	4	0
TOTAL	37	4,67= average age

Source: INCRA, Brazilian Ministry of Agriculture

The very short life-cycle of artisan and industrial cooperatives suggests that strong forces towards degeneration and instability are at work, confirming the most general conclusion of the theory examined in this thesis.

4.3. DATA SURVEY FOR EUROPE

Empirical surveys in Europe reveal that the sector of producer cooperatives is, generally, insignificant.¹

In Spain, besides the small-scale artisan cooperatives, there is a federated complex of cooperatives centred in Mondragon, a town of less than thirty thousand inhabitants, in the Basque Province of Guipuzcoa. The case of Mondragon is very singular because it differs from the Western European pattern of producer cooperatives in which small firms in relatively old technology sectors predominate. There, an industrial cooperative for the production of cookers and stoves was created in 1956, under the auspices of Don Jose Maria Arizmendi, a priest very committed to the social doctrine of the Catholic Church. Years later, a credit cooperative was opened, and was the starting point of the people's bank Caja Laboral Popular, which has played a crucial role in the spectacular progress of the cooperative network of Mondragon, comprising industrial, financial, educational and consumer cooperatives. Caja Laboral Popular provided supervised credit as well as management consultancy to the cooperatives, to whom the local savings effort was channeled through this bank, which tightly controlled the

¹The only country where the socialist version of producer cooperative constituted the typical organization in all industrial sectors was a non-capitalist one: Yugoslavia. See: Saul Estrin (1984). Self-Management: Economic Theory and Yugoslav Practice, Cambridge University Press.

complex of Mondragon.² Employing only cooperative members, total employment creation increased steadily following the formation of the first cooperative and reached about sixteen thousand in 1979, after which the complex of Mondragon underwent an adjustment process due to an economic recession.³

Italy has the largest sectors of producer cooperatives in Western Europe, employing about 2,4 per cent of the nonagricultural workforce in 1980. Those cooperatives are concentrated in the construction sector (40 per cent), services (40 per cent) and industry (20 per cent), mainly in textiles, clothing and leather.

In France, the producer cooperatives employed less than 0,2 per cent of the nonagricultural workforce in 1980, and are also concentrated in construction, services and industry. The industrial cooperatives are encountered in the engineering branches (metal and mechanical) and in printing and publishing.

In the United Kingdom in 1980, the proportion of nonagricultural employment provided by 330 producer cooperatives was a miniscule 0,025 per cent. There were

²Henk Thomas and Chris Logan (1982). Mondragon: An Economic Analysis, London, George Allen and Unwin.

³Keith Bradley and Alan Gelb (1987). Cooperative Labour Relations: Mondragon's Response to Recession, British Journal of Industrial Relations, vol. XXV, No. 1, March.

only 6 thousand cooperative workers out of a nonagricultural workforce of almost 24 million. The British producer cooperatives are typically very small firms, most of them employing fewer than 10 workers (about seventy per cent of the total number of producer cooperatives)⁴.

Europe has witnessed a recent upsurge of producer cooperatives since the oil price shocks of the seventies (1973 and 1979) and subsequent economic crises⁵. In the United Kingdom, for example, there were 17 producer cooperatives in 1970 with 1600 workers. These numbers increased to 1400 in 1986 with, perhaps, 10,000 workers.

⁴Saul Estrin and Virginie Perotin (1987). Producer Cooperatives: the British Experience. International Review of Applied Economics, Vol 1, number 2, p. 152/175.

⁵Derek C. Jones and Jan Svejnar (1982). The Economic Performance of Participatory and Self-Managed Firms: A Historical Perspective and a Review, in Derek C. Jones and Jan Svejnar, editors, Participatory and Self-Managed Firms, Lexington Books, Massachusetts.

4.4.FORMATION AND DISSOLUTION

As shown above, the sector of producer cooperatives is small in capitalist countries. The reasons presented in the economic literature to explain this phenomenon are presented below.

The single most important obstacle to the formation of producer cooperatives in capitalist countries, according to Jaroslav Vanek⁴, is the dilemma of collateral, viewed as the difficulty producer cooperatives face to obtain external as well as internal financing. To lend money, as is well-known, financial institutions require guarantees that are not easily provided by producer cooperatives because of the nature of these organizations. The collective ownership or the non-transferability of cooperative shares make it impossible to use these shares as guarantees to borrow money from banks and other financial institutions. Lack of working capital causes producer cooperatives to have irregular access to raw material markets, and also creates difficulty in marketing their finished goods regularly. This might be crucial for the survival of the cooperative organization because it confronts several limitations in financial markets. Besides, it is very unlikely to grow on the basis

⁴Jaroslav Vanek (1970). The General Theory of Labor-Managed Market Economies. Cornell University Press, Ithaca, New York, p.317. See also, Jaroslav Vanek (1971). The Participatory Economy: An Evolutionary Hypothesis and a Strategy for Development. Cornell University Press, Ithaca, New York, p.99.

of its internal resources, because it is an organization with self-imposed limits on capital gains and accumulation.

A national agency to support cooperatives was designed by Vanek⁷, with funds to extend credit to cooperatives and also providing technical and administrative assistance to facilitate their entry into the market and their continued competitiveness. This supportive institution is a modern grand version of Walras' Caisse d'Escompte des Associations Populaires (See Section 2.3.1). A contemporary prototype is the Caja Laboral Popular, that commands the Mandragon cooperatives mentioned above.

The problem of collateral is coupled with the tendency of producer cooperatives to fail in competitive markets. Four self-destructive forces that cause degeneration are distinguished by Jaroslav Vanek⁸:

1) For a given stock of capital, there is a "self-extinction force" to reduce the membership in order to increase the income of the remaining members. This self-extinction tendency per se would lead to a shrinking of the membership to one, or more precisely to two if the decision-making process of firing was based on majority rule. This negative force might be off-set if there existed solidarity

⁷Jaroslav Vanek (1970). op. cit., section 14.4: The National Labor-Management Agency, p. 322/327.

⁸Jaroslav Vanek (1975). The Basic Theory of Financing of Participatory Firms, in Self-Management: Economic Liberation of Man, edited by Jaroslav Vanek, Penguin, p. 445-455.

among all members, internal rules for self-protection of founder members, seniority schemes, internal regulations for job stability and guarantees against dismissals.

2) The remaining members will reduce ("consume") capital stock after the first self-extinction force has brought an increase in the capital-labour ratio. The difficulty of transferring share ownership from departing to incoming members might increase the propensity of remaining members to "consume" capital. A tendency towards capital "consumption", known also as capital "starvation", is more likely to prevail if cooperative members are very poor, with a low propensity to save, individually and collectively.

3) The "under-investment force" is caused by the collective form of cooperative ownership and the difficulty of transferring shares if the principal sum invested is not redeemable.

4) The "never-employ-force" means that expansion, if it takes place, will take the form of higher capital-intensity, rather than an increase in membership.

Among the reasons why most producer cooperatives, regardless of their potential efficiency, eventually fail in capitalist countries, Branko Horvat⁹, like Jaroslav Vanek, ranks the dilemma of collateral in first place. Producer cooperatives suffer from discrimination by banks in the credit market, by private firms in the supply of necessary raw materials, and

⁹Branko Horvat (1982). The Political Economy of Socialism: a Marxist Social Theory, Martin Robertson, Oxford.

also in the marketing of cooperative products.

The second reason listed by Horvat is the entrepreneurial question. Producer cooperatives find it difficult to attract good management because of the egalitarian philosophy ideal of the cooperativist doctrine which restrict the range of salary differentials. Capitalist firms then can bribe away superior managers.

The tendency towards degeneration is the third reason on Horvat's list. An expansion phase might lead the cooperative to degenerate into an ordinary capitalist firm if founder members opt to hire workers from outside the cooperative, instead of increasing the membership, thereby causing social differentiation among newcomers and old members.

In support of this point of view, Horvat poses an interesting biological analogy with the problem of organ rejection after a surgical transplant:

"Capitalist economy behaves like an organism that has undergone an organ transplant: it spontaneously rejects the alien tissue."¹⁰

Two additional reasons are included on Horvat's list, backing his biological image of the cooperative as an organ

¹⁰idem, p. 456.

transplanted from socialism into capitalism:

i) The most trivial problems of genuine producer cooperatives become complicated and costly to sort out because of the legal and institutional setting in which they survive as aliens.

ii) Ideology and vested interests work against the cooperative organization, making it a deviant in capitalist surroundings.

A contrasting view is posed by Oliver E. Williamson, who submits an analogy based on material magnetic properties, arguing that, unlike capitalist organizations, cooperatives cannot tolerate outside intervention from financial institutions, providing a further reason for the collateral dilemma.

"(...) short-term bank and trade credit are more accurately described by a physical analogy. They are more nearly akin to iron filings in a magnetic field. The prospect of high (risk-adjusted) returns presents a well-nigh irresistible attraction to liquid reserves. To be sure, local exhortations to discriminate can be temporarily effective. But venture capitalists are unprincipled in their search for profit. Capital displays an inexorable tendency to equalize returns

at the margin."¹¹

He adds that, ceteris paribus, equity ownership in the cooperative firm is subject to greater hazard than in a capitalist firm, therefore cooperatives are denied parity access to long-term debt and equity financing. Banks select the best customers, excluding the hazardous cooperatives. By insisting that the cooperative form faces a special hazard, Williamson rejects the thesis of negative discrimination by banks against cooperatives. It is the organization proper of the cooperative that causes its victimisation. For instance, as far as the entrepreneurial problem afflicts producer cooperatives, Williamson argues that few, if any, skilled managers are prepared to sacrifice their income to run a cooperative in a viable way.

The colossal difference between the number of capitalist firms and the minuscule number of producer cooperatives has been taken as evidence of the prima facie superior efficiency of the capitalist form of organization. The arguments might be traced to two approaches, according to Louis Putterman¹². The first considers that workers are better off when they work for capitalist firms rather than when they organize their own firms, assuming that workers are in principle free to create cooperatives themselves.

¹¹Oliver E. Williamson (1985). The Economic Institutions of Capitalism, Macmillan, New York and London, p.266.

¹²Louis Putterman (1984). On Some Explanations of Why Capital Hires Labour, Economic Inquiry, vol. XXII, April, pp.171/187.

The second takes survival rates and success as market indicators of efficiency.

The merits of the above arguments are questioned by Putterman who indicates the lack of equal market opportunities between capitalist firms and cooperatives. He suggests that the rules of the financial market discriminate against cooperatives, partly because the nature of the latter is opposed to the prevailing rules of the capitalist system.

The reasons for the formation and existence of producer cooperatives in capitalist economies are examined by Avner Ben-Ner¹³, who suggests that workers own and control firms in order to increase their welfare by internalizing the conflicts that otherwise would exist between labour, on the one side, and capitalists, on the other. According to Ben-Ner, there is an inherent bias in capitalist economies against the formation of producer cooperatives, based on the simple argument that whoever can appropriate profits will rather prefer not to share profits with others. This entrepreneurial problem stems from the scarcity of individuals possessing entrepreneurial and managerial skills and motivation to form a firm. Another bias against the formation of producer cooperatives occurs because workers

¹³Avner Ben-Ner (1987). 'Producer Cooperatives: Why do they Exist in Capitalist Economies?' In Walter W. Powell, editor. The Nonprofit Sector: A Research Handbook, Yale University Press, New Haven and London, p. 434/449.

possess less wealth than capitalists and consequently, raise less capital using their personal wealth as collateral. Thus, workers are expected to be relatively more risk averse than capitalists. In addition, explains Ben-Ner, producer cooperatives are less well-known to potential lenders, who will only lend money to cooperatives at higher interest rates because capitalist firms are less risky ventures and more credit worthy.

Workers' dissatisfaction with workplace practices in capitalist firms also might serve as a motive for transforming the firm into a producer cooperative. This often happens, under the threat of shutdown in declining industries or during generalized recessions, when workers might prefer to prolong the firm's existence under a cooperative form rather than face unemployment.

4.5. CONCLUSION

The difficulties inhibiting the formation and causing the dissolution of producer cooperatives, such as the entrepreneurial problem and the collateral dilemma, might eventually be overcome if favourable circumstances appear in the form of support for the creation of producer cooperatives, through institutions which provide grants, or technical assistance, or implement educational programmes.

The empirical evidence suggests that external support has often been a very important contributory factor to the formation and survival of producer cooperatives. With external support, workers can be mobilized to buy out capitalist firms and convert these into producer cooperatives or establish, from scratch, new producer cooperatives.

Horvat's analogy of a transplanted organ with the functioning of a producer cooperative in a capitalist system might be expanded to take into consideration that recent advances of medicine have achieved great success in transplant surgery when two conditions are fulfilled. First, a certain degree of tissue compatibility between donor and patient must be verified before the operation takes place. The compatibility between a producer cooperative and a capitalist market will depend on the competitive strength of the cooperative. Second, if the

correct combination of remedies is ingested permanently by the patient to avoid post-operative rejection. The amount and quality of remedies permanently required for the survival of the producer cooperative will depend on the external support necessary to offset the spontaneous forces rejecting the alien tissue. In other words, an external positive discrimination is needed to compensate for the negative discrimination exercised in the market place.

In sum, either producer cooperatives degenerate, incorporating firm objective, organization methods and behavioural rules in order to compete efficiently with capitalist units or will be dependent on external support in order to preserve their genuine features.

5. INSTITUTIONAL FRAMEWORK OF COOPERATIVES IN BRAZIL

5.1. INTRODUCTION

During the period of our empirical research (1984-87), all cooperatives should have abided by the Federal Law no.5764, which was established at the end of 1971. This law, however, omitted certain features of urban producer cooperatives which represent a special category and which started to appear in considerable numbers in Brazil after the passage of this law.

In 1988, the year following the completion of the empirical research, the new Constitution promulgated by the Constitutional Assembly, elected after the transition from military to civil government, increased the role of the State in the regulation of economic activity, under article no. 174. In this article it is stipulated that a law (which is still to be drafted by the National Congress) will support and stimulate cooperatives and other forms of association. The Constitution also stipulates that the State will favour the organization of mining cooperatives, giving them priority in the concession of exploration rights for mineral resources. However, the new Constitution is silent on the subject of other types of cooperatives, such as artisan and industrial, and even rural ones, on which the old legislation was focussed.

5.2. ORIGINAL LEGISLATION

The involvement of the Federal Government, making clear the intention of the State to control the Cooperative Movement, began after the 1930 Revolution, through which young military officers, then known as "tenentes" (lieutenants), took over power from the rural aristocracy. Before 1930, Brazil's presidents had been chosen alternately from politicians from the States of Sao Paulo and Minas Gerais in order to represent the predominant interests of coffee (mainly in Sao Paulo) and cattle (mainly in Minas Gerais) producers.

The 1930 Revolution has been considered the historical turning point in the support of state policies to promote industrialization.

After 1930, while the Ministry of Labour was initiating a social welfare system to benefit the urban workers, the Ministry of Agriculture, in order to extend state intervention in rural areas, put forward a policy of cooperativism¹. Membership of a rural cooperative should be voluntary and open to all, big and small land owners and even landless rural workers. This principle envisaged

¹Maria Domingues Benetti (1985). *As Relações entre Estado e Cooperativismo: Análise do Período 1933-37*. In Maria Domingues Benetti and Telmo Rudi Franz, editors, Desenvolvimento e Crise do Cooperativismo Empresarial do Rio Grande do Sul: 1957-1984, Fundação de Economia e Estatística (FEE). State Government of Rio Grande do Sul, Porto Alegre.

uniting rural producers cultivating areas of various sizes, so that they could compete against intermediaries and so bring about a reduction in food prices for urban workers. This principle was first established in the Federal Decree of 1934 which regulated the functioning of several types of cooperatives: rural producers, rural credit, housing, consumption, as well as urban producer cooperatives.

Urban workers' unionism and, to a lesser extent, rural cooperativism, were part of the official ideology of political paternalism intended to strengthen State control over urban and rural professions, while implementing direct policies to guide the process of industrialization, then in its infancy. The "social question", as taken up by government leaders, encompassed the support and protection of urban workers' interests; such support included the supply of cheap food. Cooperativism became a state policy to organise rural producers to this effect.

Several young officers of the 1930's, then lieutenants, returned to power during the military regime from 1964 to 1985, as old generals. One example is the ex-Minister of Agriculture in 1934, who again became a member of the Cabinet in the recent military government that passed the 1971 Law on Cooperatives. This was at a time of the most severe military rule.

5.3. CURRENT LEGISLATION

The 1971 Law defines cooperative as a special type of non-profit economic organisation, which is not subject to bankruptcy proceedings. The preclusion of judicial bankruptcy is, however, solely limited to tribunal proceedings; the real tendency of cooperative organizations to fail (Chapter 4) can hardly be prevented from happening by law.

There is a capital ownership by the cooperative as a legal entity. For instance, the building and equipment that belong to the cooperative as a whole.

According to article no. 24 of the Law on Cooperatives, share capital should only receive a fixed rate of interest. It thus follows a Rochdalian principle that restricts capital gains (Section 1.9), and does not reflect the liberal recommendation of following market pricing, suggested earlier by Walras (Section 2.3.1). The Brazilian legislation explicitly prohibits distribution, on top of the 12% allowed, of any other financial or non-financial benefit or advantage to the shareholder. The ownership of share capital is legally bound to the members. Both the cooperative and its members are prohibited from paying debts with shares. This clause protects the cooperators' individual ownership but causes collateral difficulties to the cooperative in obtaining bank loans (Chapter 4).

It is worth noting that this legislation, under a subtle provision in article no.88, allows cooperatives to participate in non-cooperative societies. Based upon this article, the largest agro-industrial cooperatives, most of them located in the South and Southeast of Brazil, acquire and became legal owners of capitalist enterprises, such as trading companies and large factories, whose employees are not cooperative members. It is relevant to mention this legal practice here because it extends the sanction of the Brazilian law to one type of degeneration of cooperatives², similar to the few successful cases studied by the Webbs in the last century and first decades of present century in England (Section 2.2.2.).

The membership of the General Assembly, consisting of all cooperative shareholders, is the same membership of the cooperative. The final authority within the cooperative belongs to the General Assembly (article no. 45). The General Assembly elects from among its members only, with a time mandate, the high level officers of administration and direction. The directors are accountable to the membership for the proper performance of their duties and for their decisions. The membership has the right to dismiss them by majority decision at the General Assembly.

²Some case-studies of enormous agricultural conglomerate cooperatives are examined in Maria Rita Loureiro, editor (1981). Cooperativas Agrícolas e Capitalismo no Brasil. São Paulo, Cortez.

Labour control within a cooperative is entrusted to the management and the hierarchy, but these are subject to the participatory decision of the members. Therefore, the top organizational structure differs from that of the capitalist firm, because in the supreme decision-making body of a cooperative, namely, the general assembly, all cooperators have the right to participate and vote with equal weight, irrespective of their share of the cooperative capital. Thus, all members have a say on management and hierarchy. The officers of these positions are paid by the workers, permitting the disappearance of the antagonistic character of the supervisory work, as Marx suggested when he referred to an elective cooperative manager, quoted in Section 2.2.1.

The substitution of a very participatory process for capitalist management control often implies running the cooperative under majority democratic rule, which must be obeyed by the membership. Each cooperator must sacrifice some measure of individual autonomy to the sovereignty of the totality of the cooperative. In concrete terms, the producer cooperative is a kind of organization where full individual autonomy is not realizable. This is contrary to the cooperativist discourse which claims to defend the autonomy of small producers against socioeconomic forces that threaten to transform them into mere employees of the capitalists.

Under article no. 48, the cooperative is allowed to hire non-members to perform several functions, including technical and commercial management. The non-members, like the managers, are contracted as employees, with all the social security rights of an employee of a capitalist firm: paid holidays, retirement pension, health care, unemployment benefits etc. Paradoxically, the "self-managed" cooperatives in Brazil are managed by outside professionals. This implies the existence of a problem of asymmetric information between managers, on the one hand, and cooperative members, on the other.

Members, however, are not allowed to be employees of the cooperative. Article no. 90 contains a legal device to disguise any real employment relation between cooperator and cooperative. It forbids the time-wage relation, and makes obligatory the payment by piecework to cooperative members. Only non-members are permitted to earn time-wages and be hired as normal employees. Thus, a cooperator must be legally "autonomous" (that is, self-employed) even when he/she works only in or for the producer cooperative. Article no. 90 still emphasizes that whatever the type of cooperative, the labour relation between the worker-member and the cooperative cannot be considered an employment relationship between employee and employer. Therefore, the cooperative members do not obtain the same social benefits as employees.

The piece-rate system prevails whether the producer cooperative involves domestic outworkers or factory workers. The inherent risk of being paid by the piece in any type of producer cooperative is born by the cooperator whose labour contract with the cooperative does not guarantee the permanent achievement of even a minimum subsistence wage.

The cooperative is clearly distinguished in law from a capitalist firm. The following is a synopsis of article 4 of the 1971 Law:

i) Open membership and voluntary adherence. The number of members is not limited in a cooperative, unless there exists a technical impossibility to accommodate newcomers.

ii) The capital belonging to the cooperative, named "social capital", is represented by individual shares.

iii) Limitation of the number of capital shares for each member. In special cases this pre-requisite is slackened and the distribution of shares might follow a rule of variable proportions, but usually distribution is equal.

iv) Intransferability of shares from members to non-members.

v) All members enjoy equal rights of voting (one member, one vote), irrespective of the amount of shares owned by individual members.

vi) The quorum rules for the General Assembly are based on membership, not on capital ownership.

vii) Surplus arising out of the operations of a cooperative should be distributed to its members in proportion to their transactions with the cooperative.

viii) Indivisibility and cooperative ownership of two funds which are not subject to individual shares: the Reserve Fund, formed with at least 10% of net surplus in order to develop the cooperative organization, and the Social and Educational Fund formed with at least 5% of net surplus to make provision for the education, in accordance with the ideas of Robert Owen (Section 1.3), and the social needs of cooperative members and their families, and of cooperative employees.

ix) Political neutrality. No racial, social or religious discrimination.

x) Social assistance to members, and also to employees in cases foreseen by the cooperative statutes.

Two sources of internal finance are identified. The first is the funding by individual members of shares which form the cooperative capital (item ii). The private and individual ownership of the cooperative capital is, therefore, held by shareholding members, as prescribed by Walras and following in the French tradition of cooperativism (Section 2.3.1). Equally distributed shares might exist, but it is not a general pre-requisite (item iii). The second source is the provision of the cooperative funds derived from cooperative savings according to minimum percentage charges on the net surplus. Otherwise, the correspondent part of the net

surplus would accrue to individual shareholders.

A firm is registered as a cooperative with the National Institute for Colonization and Agrarian Reform (INCRA), an organ of the Federal Ministry of Agriculture, that besides the institutional duties implied by its name, controls also all types of agricultural and urban cooperatives.

5.4. IMPLICATIONS

The formal recognition of a firm as a producer cooperative started from scratch or converted from a capitalist firm requires, respectively, the "non-formalization" or the "de-formalization" of the labour relation of members in legal and institutional terms. This occurs even if the labour obligations of the member require exclusive and total dedication, determining in practice real economic dependence on the producer cooperative. Under this condition, independence which is merely formal, truly disguises the real employment relation.

According to Brazilian legislation, the piece-rate relation is compulsory whether a member gives all of his/her time to the cooperative or not. As a consequence of this constraint, additional to disincentives to capitalization, commented on below, producer cooperatives in Brazil are not encountered in sectors with continuous and highly automated production processes that are inconsistent with such a payment method. The piece-rate thus becomes a social relationship that confines the producer cooperative experiments to backward technological sectors of low levels of accumulation, capital-intensity and growth.

In a pure piece-rate system, the worker's earnings depend on measured output that takes account of the possibility of varying quality. In producer cooperatives, quality control

is a function performed by the cooperative management. The quality of the piece is assessed mainly on the basis of the end result, not by on-going tight monitoring and supervision during the processing of the product. This gives the worker a sense of individual independence and self-control.

The provision of a minimum income to workers is not accomplished by a pure piece-rate system, in which the worker's earnings depend basically on the output. However, the greater the risk faced by the worker, the greater are individual incentives to work³. Pure piece-rate, therefore, implies distribution according to work, not directly according to need. The latter may be taken into account by introducing some element of profit-sharing, in establishing that a fraction of any profits will be spent on education or a programme for sickness benefits.

The determination of piece-rate wages in a non-cooperative organization is a quite simple bargaining process between the worker and the buyer who orders the items produced. The process of determining piece-rates is, nevertheless, often the subject of contention and some indeterminacy in a producer cooperative because all workers have a say in both sides of the labour bargain: on one side as workers, and on the other side, as cooperative owner-members.

³Joseph Stiglitz (1987). The Design of Labor Contracts: The Economics of Incentives and Risk Sharing. In Haig R. Nalbantian, editor. Incentives, Cooperation and Risk Sharing, Rowan and Littlefield Publishers.

The short-run needs of workers come into play through their unwillingness to accept low piece-rates which makes the yearly shared net surplus unattractive. Consequently, the long-run survival of the cooperative is threatened by a low level of reserve funds retained from low current surpluses. Incomplete information about the day-to-day top management decisions and the lack of foresight regarding the future of the cooperative by worker members, who hold less information than the managers, can spark off an overt conflict of interests, difficult to resolve in a consensual manner. The achievement of a consensus seems easier when the underlying common interests are made explicit and all become aware of the need to reconcile short and long-run objectives. Otherwise, the cost of consensus rises and the search for it declines relative to that of an authoritarian solution⁴. If authority increases in the hands of managers, without being delegated to them by members, it leads to conflicts similar to those between workers and small capitalists.

The halting in the progress of producer cooperatives is, as mentioned above, also due to the disincentive effect of capital returns and the immobility of share ownership, hindering transfer and trading of cooperative capital

⁴Kenneth Arrow (1974). The Limits of Organization, W.W. Norton, New York and London. See Chapter 4.

shares. A legally imposed maximum annual fixed rate of 12%⁵ on cooperative capital returns being far below the rate of chronic inflation leads to a negative real reward to capital. Opportunity costs are relatively much higher if one takes into consideration the alternative real gains guaranteed to deposits in savings accounts. It is common knowledge that savings accounts in Brazil remunerate the amount deposited, after correcting for inflation and paying real interest. They also offer the possibility of immediate (or at-short-notice) withdrawal of the principal. As opposed to these benefits, the property rights over the assets of a producer cooperative are restricted in a way that the net returns on capital shares must be counted as real losses. The economic incentive towards owning a producer cooperative's shares is not, therefore, derived from real returns to capital, but from the expected employment opportunity and the corresponding stream of labour income associated with share ownership⁶.

Briefly, the rules and relations encompassed in the legal framework of cooperatives in Brazil hold back and fetter the development of producer cooperatives and impose on them utopian concepts, which lead to backwardness.

⁵Astonishingly, in the recent Brazilian Constitution of 1988 (Art. 192, paragraph 3), charging above the real interest rate of 12% on any financial loans is conceived to be usury, a punishable crime.

⁶Hajime Miyazaki (1984). On Success and Dissolution of the Labour-Managed Firm in the Capitalist Economy, Journal of Political Economy, vol. 92. No. 5, Oct., p. 909/931.

6. CASE-STUDIES

6.1. INTRODUCTION

The first section examines the characteristics of the situation of the Brazilian economy at the time of the field research. The second section aims at working out an approach distinguishing small factory cooperatives from artisan cooperatives, and at providing a general basis for the analysis of all case-studies. The third section presents the relevant concluding comments on the case-studies whose descriptions are taken up in the fourth section (annex).

The years 1981 and 1983 were atypical for the Brazilian economy. Annual GNP growth of 7 per cent had been sustained since the end of the Second World War. At the beginning of the 1980s, by now known as the "lost decade", macroeconomic adjustment policies were applied, causing the crisis of 1981, which deepened following Brazil's debt service difficulties and the agreement reached with the International Monetary Fund at the end of 1982. The negative growth rates of around 3 per cent in 1981 and 1983 were the first of their kind experienced in recent decades. In the intervening year of 1982, the growth rate was positive but very low. During the crisis, as often is the case in capitalist countries, the Brazilian government embarked on a programme of supporting producer cooperatives in order to alleviate poverty and the huge and increasing unemployment

of the urban population. The Federal Labour Ministry and corresponding State Labour Secretariats were placed in charge of this programme, which was utilised as a channel to obtain Inter-American Foundation (IAF) grants for the cooperatives. The results of the crisis were particularly severe in the Northeastern region, which was plagued by a prolonged drought between 1979 and 1984.¹

In 1983 the domestic sectors were severely affected by the recession, which had started in 1981, hitting mainly industrial sectors with high import content, most of them located in Sao Paulo, the dynamic industrial centre of Brazil. From Sao Paulo, the crisis spread to other states of the Southeast and, after reaching the states of the South, also reached the peripheral regions: the Northeast and the North. In the worst year, 1983, the Northeastern economy was particularly badly affected. Its economy continued to decline during 1984, when Sao Paulo witnessed the first signs of recovery. The sectors that spearheaded the recovery phase were those with high export content, while those which first suffered the impact of the adjustment policies were, as already noted, the most import-intensive ones.

¹Unequal regional impact of the macroeconomic adjustment policies is examined by Gustavo Maia Gomes, Carlos Osório and José Ferreira Irmao (1986). Políticas Recessivas, Distribuição de Renda e os Mercados Regionais de Trabalho no Brasil: 1981-1984. Pensamiento Iberoamericano /Revista de Economía Política, No.10, July/December, Madrid.

High growth rates of GNP, both in Brazil as a whole and in the Northeastern Region at approximately 8% during 1985 were coupled with increasing inflationary pressures. In February 1986, the rising inflation rate reached the peak of 15% a month. Amidst increasing social discontent, the Federal Government then announced the Cruzado Plan: a package of heterodox policies intending to curb inflation but without, at the same time, being recessionary. Prices were frozen, including the foreign exchange rates, but excluding interest rates. Indexation was forbidden for new contracts. A monetary reform was decreed and a table ("Tablita") was published by the Government to convert the old currency ("cruzeiro") into the new one ("cruzado") in order that old contracts and debts could be honoured. It applied conversion coefficients fluctuating daily between old and new money, so that the inflation previously foreseen would be absorbed. Wages were converted into new money on the basis of the average purchasing power of the past half year, adding a bonus of eight percent.

The apparent success in reducing inflation won overwhelming popular support for the government in the first months after the Cruzado Plan was implemented. Government credibility was temporarily restored and the economy maintained its upward trend. However, demand was overheated by the increase in real wages and unemployment rates sharply plunged, while the level of formal employment soared. The formal sectors, subject to government control under the plan, did not allow

further increases in nominal wages. Then the autonomous, self-employed workers in the informal sector dramatically increased their real earnings. For the first time in recent Brazilian history, income distribution shifted in favour of the poor, though only for a short and ephemeral period, during which the Cruzado Plan was seen as manna from heaven by self-employed workers, and particularly by the workforce of producer cooperatives.

6.2. AN APPROACH

This section is based on the author's empirical research during a three year (April 1984 to March 1987) study of "grassroots" organizations in Northeast Brazil. These included case-studies of producer cooperatives whose members are artisans (handicraft workers) or small factory workers.

The corresponding labour processes, which vary from handicraft to manufacturing, represent early stages of technological development, and are characterised by levels of labour specialization which are consistent with the piece-rate relation.

The way in which the relation of voluntary and reciprocal cooperation develops in producer cooperatives depends upon the labour process of the activity in question: manufacturing or handicraft, as described below.

A manufacturing cooperative is one that runs a small factory which utilizes a mechanized production process, and controls the total labour process. The ownership and property of the working instruments and machinery are not physically differentiated among internal workers, although they may operate individually allocated instruments and machines. The earnings of a cooperative factory worker depend upon the quantities produced by those machines which are operated by the worker. The commercial activities are performed by the specialized department of the factory cooperative.

Most of the production of factory cooperatives analysed in Northeast was clearly subcontracted by capitalist firms. The latter put out orders for small items to be produced by cooperative workers who do out-work for the capitalists. Thus, where factory cooperative production is subcontracted by a capitalist, the internal labour force of the cooperative is used as an external labour force by the capitalist. The internal purchase by the factory cooperative of labour from the membership becomes, through subcontracting, an external sale of the membership's labour to the capitalist firm.

A domestic handicraft (artisan) worker's earnings depend a great deal upon the quality of the work performed. The artisan cooperative generally is one which runs a shop to

re-sell the handicraft items domestically produced by the members. This organization merely centralizes the commercial activities of its members. Although the labour process remains under the control of the member who continues to work domestically (or in a workshop near home), the cooperative takes over the function of quality control. In this respect, the cooperative is a collective substitute of the private intermediary.

The artisan members should hand over their finished pieces to the cooperative in order to circumvent the middlemen and to protect the monopoly power of the cooperative. If the products of the members are not entirely delivered to the cooperative, this organization's existence will depend upon its competitive strength vis-à-vis the traditional intermediaries.

The handicraft labour process utilizes rudimentary technology. It is based upon skill (not brute force) and is mainly manual and individual. Handicraft workers possess their own tools and means of production and, individually, operate on a very small scale of production. The form of organization adopted in establishing a handicraft cooperative does not have a substantial effect on the domestic form of production, since its fundamental purpose is to facilitate the commercialization of the artisans' products and to purchase the raw materials needed for their production. With respect to the location of the shop,

where the commercial activity is concentrated, handicraft workers perform out-work, given that it is outside the shop that productive activity is undertaken, whether at home or in nearby premises and small workshops.

Eight case-studies of producer cooperatives located in Northeast Brazil and one in the Amazon Region are listed below, and examined in detail in the Annex of this chapter (Section 6.4). The list presents the cooperative's name, year of foundation and locality. The first three own small factories, but only the first (COMTERN) has a membership consisting solely of factory workers. The second (CRETMOCC) and third (JOAO XXIII) cooperatives include both factory workers and handicraft workers. Others on the list are composed of just artisan members.

The study of COMTERN deserves more attention because, contrary to the other case-studies, COMTERN produces just one product, performing the whole production process under one roof, without having handicraft activities, and the distribution of cooperative capital shares among members is very inegalitarian.

COMTERN : Cooperative of Textile Workers of the State of Rio Grande do Norte,
1983, in Natal, capital of the State of Rio Grande do Norte.

CRETMOC: Cooperative of the Workers of Montes Claros.

1978, in Montes Claros, a region of the State of Minas Gerais within the administrative area of the Superintendency of the Development of the Northeast (SUDENE).

JOÃO XXIII: Mixed Cooperative for the Formation of Human Resources and Tourism.

1978, in Ponta de Pedras, Marajo Island, in the estuary of the River Amazon, State of Para.

COOPARMIL: Artisan Cooperative of Ipaguassu Mirim.

1979, in Massapê, State of Ceara.

JAGUARIBANA: Artisan Cooperative of Jaguaribe.

1968, in Aracati, State of Ceara.

PEDRO II: Artisan Cooperative of Hammock Makers of Pedro II.

1978, in Pedro II, State of Piaui.

COMAVI: Artisan Cooperative of the Ipojuca Valley.

1982, in Caruaru, State of Pernambuco.

PONTAL: Artisan Cooperative of Pontal da Barra.

1981, on the beach of Pontal, Maceio, capital of the State of Alagoas.

CENTRAL: Central Cooperative of Artisans of the State of Rio Grande do Norte (Federation of Artisan cooperatives).

1978, in Natal, capital of the State of Rio Grande do Norte.

6.3. CONCLUSION

One century has passed since Beatrice Potter Webb observed that the British producer cooperatives were concentrated in branches of the "sweating system", and consequently were ill-suited to survive (Section 2.2.2). She linked the phenomenon of degeneration with either failure or survival through mutation. A few cases of producer cooperatives that did not succumb, tended to slacken their genuine characteristics and to degenerate, hiring non-member workers and becoming profit-seeking organizations controlled by small capitalists. This was the fate of the industrial cooperative originating in Rochdale (Section 1.9), hence the "Rochdalian disease" appeared as the earliest instance of the metamorphosis of a utopian cooperative organization into a capitalist one.

In Northeast Brazil, however, although producer cooperatives have flourished in the modern version of the "sweating system", there is no case of degeneration through growth and the hiring of non-members in large numbers.

The sole non-members who worked internally were the cooperative managers. With the exception of COMTERN, whose directors and managers were members, managers in some cases were either public officials at the disposition of the cooperatives, or were hired with funds from government

support agencies, as in the case of COMAVI, CENTRAL, PONTAL, CRETMOG. In other cases, they were paid by international charities; for example, JOAO XXIII by one from Switzerland, and COOPAMIL and JAGUARIBANA by one from Germany.

The dependence of Brazilian producer cooperatives on government or non-government organizations is their choice elected to circumvent entrepreneurial and managerial problems, and also constraints on their capacity to raise both internal and external financing (Chapters 2 and 4).

Practically excluded from access to the private financial system, the cooperatives sought and competed for grants such as the "free" capital provided by the Inter-American Foundation to all the firms of the case-studies. Financing from state banks was also observed in the case-studies, as well as a higher incidence of default on repayments. For instance, the case of JOAO XXIII, in arrears with the Regional Amazon Bank, and CENTRAL, in arrears with the State Development Bank of Rio Grande do Norte.

COMTERN was the most successful in obtaining public and also private bank loans. It even managed to borrow money from the National Bank of Cooperative Credit (BNCC), a Federal bank supposedly founded to support cooperatives, but which had never made any loans to other producer cooperatives in the sample. Incidentally, the amount borrowed by COMTERN from this bank was approximately one-

tenth of the amount obtained from its main private bank creditor in December 1987. Moreover, the credit from the National Bank of Cooperative Credit was obtained at a prosperous time, after the tough formative stages in the life of this cooperative.

Recent macroeconomic policy measures taken by the new Brazilian government since March 1990 to contain excessive public spending which was causing hyper-inflation included the closure of the National Bank of Cooperative Credit, among several other unprofitable public companies. The effect of this bank on the lives of urban producer cooperatives had never been significant. The impact of its winding up on them was nil. However, it must have caused some damage on its regular clients, the large agroprocessing and trading cooperatives of wheat and sugar, which had always been its main clients. These agricultural cooperatives prospered by following the process of degeneration outlined by Beatrice Webb.

COMTERN was given more emphasis in the analysis of the case-studies because it is the sole non-artisan cooperative in the sample. In retrospect, the cooperative capital was created as "sweat equity" to replace unpaid wages. Its distribution among members reflects the very unequal wage bills associated with the failed capitalist factory (SITEX). The revival of this factory as a cooperative is a fine example of the category of "Phoenix" cooperatives, which

carry on business under new labour-management relations, sacrificing wages temporarily to save jobs.² COMTERN is a special case because of the time lag of seven years between the closure of the previous capitalist firm and the birth of the cooperative, which caused heavy depreciation of its machinery and equipment.

Subsidies and government incentives were used originally to set up the capitalist enterprise which served as an "external department" of clothing factories located in Natal. Ironically, subsidies and government incentives, and even international grants, were again used to revive SITEX, but this time as a cooperative, though it remains as an external department of the clothing factories.

Subcontracting of the product (labels), therefore, is not a particular feature of the cooperative organization. Quite the opposite! In order to survive, producer cooperatives of the "sweating system", because they were small firms, have opted for dependence on capitalist firms. But, here, the dependency relation is a wide phenomenon, for it goes far beyond mere technological dependence. The subcontracting of the product is a primary link in the chain of subcontracting that is all pervasive, and includes the subcontracting of labour.

²Chris Conforth and Alan Thomas (1988). Developing Successful Worker Cooperatives, Sage, London. See p.9.

In this type of subcontracting chain, the factory cooperative buys the raw materials used by the cooperators, undertakes the production process and effectively allows the exploitation of the cooperative workers by outside capital. Thus, a factory cooperative might be an organization utilised as "the medium of the exploitation of one worker by another", as Marx observed when he analysed the piece-wage system (Section 2.2.1). Moreover, the "constant capital" in Northeast Brazil is used more extensively in manufacturing cooperatives than in other factories. The phenomenon of extensive use of cooperative constant capital was already viewed by Marx when he studied the British "cooperative factories" in the year of his launching of the First International. Yet, piece-wage workers in Northeast Brazil also prolong their working day, as under the "shameless" exploitation associated with the "sweating system".

If the cooperator works full time, exclusively, continuously and directly in a factory cooperative, as it was observed in COMTERN and parts of JOAO XXIII and CRETMOC, and is paid by piecework, compelled by the Brazilian Law on Cooperatives, and by the obstinate ideal of autonomy proclaimed by the cooperative doctrine, then the cooperative relation disguises the real labour exploitation that takes place under the cover of the cooperative form of organization.

In the cases of handicraft cooperatives examined here, when

the cooperator only works for, and delivers all finished items to the cooperative, the artisan is independent (autonomous) only insofar as institutional and legal procedures are concerned. The cooperative plays the role of a purveyor of raw material and is expected to market the finished products. How viable are the artisan cooperatives and what growth constraints did they experience?

The case-studies of producer cooperatives in Northeast Brazil reveal that they face severe financial and entrepreneurial obstacles not only to their initial formation but also to their survival, although all have been supported by the government, the church and international donor agencies. In spite of this, two of the cooperatives (COMAVI and FONTAL) of the nine case-studies ceased trading before the field research ended. No doubt, none would still be in operation without considerable external aid. Continued survival is far from guaranteed.

The producer cooperatives examined here are located in remote vilages, small or middle-size towns, and were fostered in the most uncapitalised enclaves, where often there is no machinery available at all. This is the case, for example, in lace-making (FONTAL and JAGUARIBANA), straw-plaiting (COOPARMIL, CENTRAL, part of COMAVI), weaving with manual looms (PEDRO II) and pottery (part of COMAVI and part of JOAO XXIII). The cooperatives that operate simple industrial machines belong to textile and clothing branches

(COMTERN and part of CRETMOC) and woodworking (JOAO XXIII).

Exclusive female membership, of women eager to earn income to supplement family earnings or even to act as heads of household, is encountered in CRETMOC, and in five artisan cooperatives: COOPARMIL, JAGUARIBANA, PEDRO II, PONTAL and CENTRAL. Women are in the minority in two factory cooperatives: JOAO XXIII and COMTERN. The only artisan cooperative in which women do not predominate in the membership is COMAVI, which comprises different groups of artisans: potters, straw basket makers, and ironsmiths who produce cow bells. COOPARMIL members are handicraft straw hat makers. JAGUARIBANA is composed of lacemakers practicing the "labyrinth" style. PEDRO II members are hammock weavers who use rudimentary technology. PONTAL members are lacemakers using the "fillet" style. The cooperatives federated in the CENTRAL are formed by handicraftwomen, most of whom are producers of straw basketry.

In all the case-studies, cooperatives perform production processes which are typical of self-employed activities: extensive sub-contracting, domestic working, lack of scale economies, high flexibility of labour use, women's occupations, a very rudimentary division of labour and, above all, low level of "cooperation", as conceived by Marx. Producer cooperatives are, in a contradictory way, developed in exactly those branches where "cooperation" is non-existent or its level is very low. Apart from COMTERN and

the factory lines of production of CRETMOOC and JOAO XXIII, the producer cooperatives in the sample attempt to unite domestic artisan workers, who could potentially benefit from group purchasing of raw materials and the common selling of products in the same retail outlets.

The research demonstrates that the main objective for the members in forming an artisan cooperative is to try collectively to overcome their dependence on intermediaries, when independence for artisans individually seems to be unobtainable. The motivation to participate in an artisan cooperative decreases, or even disappears, when the artisan is capable of escaping from dependence on intermediaries. The individual dependence of the artisan is determined by his/her level of poverty. The control of the whole process of production is only possible when, besides buying the raw material, it is also feasible for the artisan to choose to whom and when to sell, and yet to know what is the lowest selling price, below which it is not worth selling the item. Therefore, market information for decision-making is also an essential determinant of the independence of the artisan.

When the artisan is unable to maintain individual independence and needs to have access to raw material, this is often supplied on credit, which becomes the key mechanism for the subordination of an artisan to a trader. The artisan who needs credit often becomes contractually obliged to hand over the product to the creditor. The contract normally

forecasts the value the dependent artisan will add to the material, by working on it to produce an item of a certain quality. Thus, the control of product quality is transferred from the artisan to the putter-out who orders the item, although the control of the labour process is not entirely transferred to him. If the putter-out receives an item which, in his view, is of lower quality than expected, he might reduce his price or even reject the item when delivered by the artisan. This kind of contractual arrangement prevailed under the Putting-Out System in England, which preceded the factory system. The producer in the Putting-Out System was paid by the piece and was responsible only for the production process, leaving the buying and selling to the putter-out, who supplied the raw material to the producer³.

In the communities in Northeast Brazil where there are concentrations of specialized artisans, those artisans who can retain their independence are quite often the most skilled and more well-known by the customers. The dependent artisans, who form the cooperative, are normally the poorest of the poor, being the least skilled and well known, with no individual reputation in the market.⁴ However, there are

³Maurice Dobb (1946). Studies in the Development of Capitalism. George Routledge, London. See especially Chapter 4.

⁴The relationship between the poor conditions of the artisans and the artisans' dependence on capital (merchant or manufacturer) in British capitalist development was examined by Dobb, who contrasted the well-to-do artisan with the poor and dependent one. See M. Dobb (1946). op.cit., p.149.

always the exceptions of those idealists who are more committed to cooperative doctrine and the service of the community. In the Northeast, the substitution of an artisan cooperative for the putter-out causes the following problem. On the one hand, the credit sought by the artisan cooperator should be provided by the cooperative to replace the putter-out. On the other hand, the collective pursuit of independence might be weakened because, when there is no overriding imperative forcing them to cooperate, artisans are always tempted to reestablish links with the putter-out, disrupting the monopoly power of the cooperative. Also, whenever the cooperative runs out of working capital, there remains no alternative for the artisan but to subordinate himself again to a putter-out. Then, the attempt to circumvent the middlemen turns out to be innocuous and futile.

Is the wheel turning full circle for producer cooperatives? As demonstrated in this thesis, the utopian content and backwardness of the social relations weighing heavily on producer cooperatives since Rochdale, imply the institutional instability and weakness of this type of organization. These potential flaws are exacerbated by doctrine and often, as in the Brazilian case, by law, inhibiting their capacity to compete efficiently against capitalist organizations in accordance with the prevailing rules of capitalist markets.

Not surprisingly, the membership of producer cooperatives has never had the upper hand in the capital accumulation process. It belongs, rather, to the other, the fragile side, out of which the capitalists have extracted, directly or indirectly, the surplus for capital accumulation.

The objective of this thesis is not mercilessly to hammer a nail in the coffin of cooperation among small producers. Disregarding the narrow dogmas of anti-market cooperativism, there are, hopefully, many ways of promoting the increase of cooperation among small producers, which is a topic for another thesis.

6.4.ANNEX: DESCRIPTION OF CASE-STUDIES

6.4.1.INTRODUCTION

It was possible to retrieve information from the cooperatives analysed here because they are a subset of "grassroots" projects which received grants from the Inter-American Foundation (IAF), Washington, D.C. This donor institution of the American Government contracted a Brazilian social research institution, namely, the Joaquim Nabuco Foundation (FUNDAJ), to monitor and evaluate the outcome of each grant and, generally, the performance of the grantees. The research project was submitted to IAF by the Brazilian foundation in 1983. The main primary sources of information for this section are the monitoring and evaluation reports prepared for IAF, which were based on individual field research undertaken by the team contracted by FUNDAJ.⁵ The final evaluations of the first six cooperatives on the list were published in a book⁶. However, this book does not attempt any generalization from the case-studies, which is a concern of this thesis.

⁵The cooperative's name is followed by the researcher in charge of the evaluation reports: COMTERN, by Carlos Osório; CRETMOC, by Virginia Botelho; JOAO XXIII, by Clóvis Cavalcanti; COOPARMIL, by Helenilda Cavalcanti; JAGUARIBANA, by Helenilda Cavalcanti; PEDRO II, by Clovis Cavalcanti; COMAVI, by Carlos Osório; FONTAL, by Carlos Osório; CENTRAL, by Virginia Botelho.

⁶Clovis Cavalcanti, editor (1988). No Interior da Economia Oculta, Articles by Carlos Osório, Clóvis Cavalcanti, Helenilda Cavalcanti, Tarcisio Quinamo and Virginia Botelho. Published by Fundação Joaquim Nabuco, Recife, in cooperation with the Inter-American Foundation.

6.4.2.COMTERN: Cooperative of Textile Workers of the State of Rio Grande do Norte.

6.4.2.1.INTRODUCTION

This "rescue cooperative"⁷ was formed from below, in a bottom-up way, by part of the labour force of a capitalist firm, SITEX, that was engaged in subcontracted production of clothing labels. The capitalist plant was closed six years before the formation in 1983 of this cooperative. During this intervening period, the Textile Workers' Union, on behalf of forty former SITEX employees, one-third of its labour force, sued the bankrupt capitalist, who was known as "The Prince", for the social security benefits owed and the unpaid wages. Apart from the union initiative, the rights of the remaining ex-SITEX workers were individually contested in the labour tribunals.

As a result of negotiations, disputes and judicial decisions, the ownership of the machinery and equipment was transferred to the workers' cooperative, which reopened the damaged plant in the manner of the Phoenix reborn from the ashes. The property rights of the building and plot of land of SITEX, which were not awarded to COMTERN, continued under

⁷"Rescue cooperatives" are formed from bankrupt or declining private firms. The case of COMTERN confirms that this category of cooperative tends to be created during recessions. British case studies of this type are examined in Alan Thomas and Jenny Thornley, editors (1989). Co-ops to the Rescue. London, ICOM Co-Publications.

judicial claims by the non-members of the cooperative. During the two formative years, COMTERN utilized these assets without paying any rent.

The size of the COMTERN workforce is much smaller (Table 6.1) than during the time when SITEX operated the factory in a capitalist way (Table 6.2). Only the workers of the production line, who have decreased in number, were considered essential by the cooperative, which has dispensed with the service occupations, such as secretaries, gardener, driver, receptionist etc., who were employed during the period of capitalist ownership of the same factory.

The pay differentials in SITEX (Table 6.2) from the top levels (the Industrial Director) to the bottom (a finisher, for instance), were estimated to be 30 to 1. This inegalitarian structure is disclosed in the course of a proposed expansion project submitted by the factory owner for financial assistance from the Superintendence of the Development of the Northeast (SUDENE), which did not approve it. Evidence on the financial earnings or losses of SITEX is not available, due to the disappearance of the factory archives. The maximum pay differential in the wage bills of COMTERN of 5 to 1, from the President to an auxiliary worker, is much more egalitarian.

The incentive schemes for individual production used by SITEX were maintained in COMTERN, but with the important

difference that there is no minimum wage in the cooperative which pays only by piece-rate. When SITEX was organised as a capitalist firm, the piece-rate scheme was established over and above the minimum wage. For instance, now a weaver who controls a set of looms (from one to three, depending on his skill) is paid only by the tick of the loom's clock. Previously in SITEX the remuneration for the number of ticks amounted to a minimum wage. Each loom has a meter (clock) which marks precisely the amount of output, which is linearly related to the pre-programmed movement of shuttles to weave the weft and warp threads. The number of ticks of the clock counts the length of the ribbons of labels woven and defines the weaver's piece-rate.

The mutual commitment among ex-SITEX workers was strengthened during the judicial proceedings that preceded the formation of this cooperative by 'the Textile Workers' Union. The mobilisation of the workers was led by two ex-workers of SITEX, namely, the President and the Secretary of the Union who became, respectively, Administrative Director and President of COMTERN, and who today still occupy the top management positions with vivid though entrenched leadership. Besides close monitoring and supervisory work, they also perform work on the production line: the President as a designer, design being a preliminary function in the process of the preparation of weaving; the Administrative Director as a weaver and finisher.

TABLE 6.1: COMTERN OCCUPATIONS

DEPARTMENTS and occupations	April 1984	February 1989
TOP MANAGEMENT	3	3
President Director	1	1
Administrative Director	1	1
Commercial Director	1	1
ADMINISTRATIVE	4	3
Store-keeper	1	1
Sales Manager	1	1
Security	1	0
Cleaner/Coffee Maker	1	1
MAINTENANCE	4	7
Master Mechanic	1	1
Mechanic Foreman	2	2
Auxiliary	1	4
MODELLING	3	4
Designer	1	1
Card Puncher	1	1
Auxiliary	1	2
PREPARATION	6	11
Warper	1	1
Spindler	1	4
Heddler	3	3
Auxiliary	1	3
WEAVING	28	28
Weaver	28	28
FINISHING	6	8
Finisher	6	8
TOTAL	54	64

Source: COMTERN: Wage Sheets

TABLE 6.2: SITEX OCCUPATIONS (1974)

OCCUPATIONS	FREQUENCY	WAGE (unit=min.wage)
ADMINISTRATIVE	13	
Secretary to Pres. Dir.	1	3.0
Chief	1	11.26
Treasurer	1	2.0
Chief of Personnel	1	2.62
Cashier	1	2.0
Receptionist	1	1.13
Cleaner	1	1.13
Security	3	1.13
Driver	1	1.5
Gardener	1	1.13
Book-keeper	1	2.0
COMMERCIALISATION	2	
Chief	1	11.26
Invoice Clerk	1	2.62
INDUSTRIALIZATION	3	
Technical Director	1	30.0
Assistant	1	15.0
Secretary	1	2.0
MODELLING	6	
Chief	1	2.93
Card Puncher	1	1.28
Auxiliary	4	1.28
PREPARATION	19	
Chief	1	2.93
Warper	2	1.28
Spindler	8	1.28
Heddler	8	1.13
WEAVING	65	
Master Mechanic	1	7.50
Mechanic	3	1.35
Assistant	3	1.2
Weaver	58	1.2
FINISHING	10	
Chief	2	1.2
Finisher	8	1
TOTAL	128	

Source: Project of Expansion of SITEX submitted to SUDENE.

The workers of the cooperative had acquired the necessary firm-specific skills during the period when they were hired as employees of the original capitalist firm. Consequently the training of the labour force was costless for the cooperative.

The total production of clothing labels by COMTERN is subcontracted from capitalist clothing manufacturers, most of them located in the same town of Natal or neighbouring states. The utilization of labels in clothes is necessary to provide information to the consumers about the trademark, the size, fabric composition, washing and drying instructions, etc. Either the clothing factory internalises the production of labels or subcontracts it. Labels, almost by definition, cannot be supplied to an unspecified user but must be delivered to an identifiable client. This is the technical reason why COMTERN receives orders for the totality of its production. Thus, the internal labour of COMTERN is utilised as external labour by capitalist clothing factories.

The cooperative received encouragement and pledges of support and technical assistance from other unions of the State of Rio Grande do Norte, the State Development Company, the State Secretariat for Labour and Social Welfare, the local office of the National Employment Service (SINE) of the Federal Labour Ministry, and from a local business consultant who formerly was Governor of the State.

The State of Rio Grande do Norte is recognized in Brazil as the most supportive of producer cooperatives. There has been a consistent flow of support from the State, independent of each individually elected government.

The Industrial Federation of the State of Rio Grande do Norte, influenced by a strong lobby from the local clothing industries (responsible for 27% of the industrial value added in this state in 1980), gave its support to the reopening of the label factory.

The greatest concern voiced by all agencies involved with the project of reopening the factory as a cooperative, was the question of whether the group of workers would be able to see beyond the short-term benefits of increased income in order to build up the cooperative's capital. Fortunately, the workers were not only aware of this question but also had access to managerial and technical skills. A feasibility study and other planning efforts undertaken prior to the factory reopening indicated that the group had the ability to manage and run the factory. Having worked for SITEX previously, the workers knew the jobs they would perform. Some of them had already received special training years ago on the repair and programming of the machines. In addition, the workers had been working together towards the reopening of the factory for over six years, strengthening their group solidarity.

The organization of the cooperative consists of a General Assembly of all members which is the final authority in all matters. This Assembly elects an Administrative Council, composed of a President Director, an Administrative Director and a Commercial Director. The General Assembly also elects a three-person Fiscal Council on an annual basis. Members of the Administrative Council and the Fiscal Council may not be relatives and may not serve in two positions at the same time.

The grant of \$80,000 (eighty thousand dollars) donated by the Inter-American Foundation (IAF) was essential in helping COMTERN begin operations as a manufacturer of industrial labels and running all phases of production and marketing. Grant money was used to help the cooperative refurbish its equipment (\$28,620), purchase some new equipment (\$6,800), cover half the costs of a new building (\$30,000), and provide a portion of the initial working capital (\$14,580). By the termination of the grant period in 1985, the portion of the grant funds (\$30,000) designated to help with the construction of a new building had not yet been used for that purpose.

The money remained in an interest-bearing savings account until it was finally used by the cooperative to purchase the factory building they now occupy. During the interim period the remaining grant was partially and temporarily withdrawn

on several occasions when COMTERN had unbalanced accounts and ran into the red. Meanwhile, the very existence of this savings account also provided an apparent insurance for COMTERN in its relations with banks and suppliers.

The initial plan to move to a new location was abandoned when a Federal Court decided in 1985 to compensate another eighty ex-SITEX employees (non-members of the cooperative) for unpaid wages and benefits by awarding them the ownership of the factory building and its plot of land. At that time, the new building that was being constructed by the Industrial Development Company of the State of Rio Grande do Norte, was less than half finished. The construction of the new building by the State Government in the industrial district near Natal represented the counterpart to the IAF grant to reopen the label factory as a worker managed enterprise. COMTERN decided to stay where it was and purchase the building from the other ex-employees of SITEX. According to the COMTERN directors interviewed, this arrangement proved to be crucial for the cooperative's survival. Thus, the cooperative very dramatically demonstrated that it had to renounce the doctrine and principle of open membership to succeed in business. To overcome this principle is clearly covered by the Brazilian law. The cooperative accepted, nonetheless, the membership and hiring of a few who sued the SITEX capitalist individually. In addition, the cooperative demonstrated that its members were hard working and willing to make the

initial sacrifices during the formation phase in order to guarantee that the cooperative would reach maximum production. However, the members were not prepared to share their benefits with all ex-colleagues who did not participate in the original solidarity group.

6.4.2.2.COMPETITION

At the reopening of the factory in 1983, workers of textile and clothing industries in the Northeast faced the highest levels of unemployment.

As a result of the slump of the clothing sector in the Northeast, a label factory named GERRY, located in the Recife Metropolitan Region, faced severe financial difficulties. GERRY had become, after the failure of SITEX, the most important regional supplier of labels to the clothing industry. Incidentally, the same GERRY, founded before SITEX was initiated, had always been the main regional competitor. The decline of GERRY, which had suffered some temporary closures in 1983 and 1984, as a consequence of the economic crisis, opened a market niche which was filled by the production of COMTERN when it restarted operating the ex-SITEX factory. The weakness of GERRY, therefore, made room for the emergence of COMTERN.

The technological vintage of COMTERN machinery is inferior to that of GERRY, despite the latter's earlier foundation.

The reason is that the financier who established SITEX had no previous expertise in this branch when he applied to obtain subsidies from SUDENE. As far as the technical capabilities of the Jacquard looms are concerned, the comparison favours GERRY in terms of the number of output exits for ribbons of labels, higher speed (averaging twice the rotations per minute of COMTERN looms), as well as a higher average time of continuous operation.

To compensate for the technological gap, COMTERN's workers are compelled to extend their working day and receive lower earnings.

During 1984, while GERRY lost ground in the regional market of labels, COMTERN renovated several Jacquard looms and other machines that had deteriorated in the long period of idleness. The equipment had also been vandalised. This period was remembered as the "rust times" by the COMTERN workers. Skills of ex-maintenance workers of SITEX were of fundamental importance in restoring the machinery to working order.

At the end of 1984 GERRY faced insolvency and a take-over bid made by its main contractor: "Casas Pernambucanas", an enormous economic conglomerate of the textile and clothing industries, which is vertically integrated with a retailing group owning department stores throughout Brazil.

In February, 1985, GERRY was finally taken over by "Casas Pernambucanas", exemplifying the process of capital concentration during an economic crisis. With this merger, GERRY became no more than a dependent plant, producing labels primarily for the conglomerate. Only the extra production capacity remained available to accommodate outside orders. The directors who previously owned GERRY were transformed into managers of the factory which was "put in" by the conglomerate.

In contrast to the typical capitalist buy out of GERRY, the case of SITEX experienced a completely different rearrangement of capital ownership and organizational control when it was converted into a producer cooperative.

6.4.2.3.EVOLUTION

The growth of COMTERN was gradual. At the very beginning it supplied the clothing factories of Natal, taking advantage of locational economies due to its proximity. Afterwards, it diversified towards markets in the neighbouring State of Ceara. Subsequently, it obtained contracts from Pernambuco, the home state of its declining competitor: GERRY. Later, it also accepted orders from Rio de Janeiro and elsewhere.

Soon after repairing the essential machines in the final months of 1983, orders were quite erratic, and the production of COMERTN varied accordingly. Thirty of the

fifty looms were totally refurbished by April 1984, and thirty-four by March 1985. The recovery of the machinery and equipment has not been completed yet. Only forty out of fifty looms were at work in February 1989. The early months of 1984 witnessed fast growth of COMTERN production (Table 6.3) and the yearly total production doubled between 1984 and 1985. Growth continued in 1986, benefiting from the Cruzado Plan, whose initial success caused an increase in real wages, favouring especially low-income workers. As a result, demand for clothing grew rapidly and the clothing industries in turn, to keep up with, increased their orders for labels. While the demand for labels shifted upwards, the COMTERN debts were nominally decreased by application of the table of currency conversion ("Tablita"). The annual report of this cooperative described the new form of loan repayment as a relief. After reaching monthly record levels of production by mid-1986, COMTERN launched a collective fund to make provisions for holidays (although only half of the normal period for industrial workers) and also for mishaps, such as sickness, injury or death.

Levels of annual production were quite similar between 1986 and 1987. A setback in the following year was caused by the temporary closure of the main contractor: a clothing plant located in Natal, whose orders previously used to occupy half of the COMTERN looms.

TABLE 6.3: COMTERN 1984/88
MONTHLY PRODUCTION (1000 m)

Month	1984	1985	1986	1987	1988
January	34	137	191	201	99
February	60	101	165	166	115
March	99	131	193	205	193
April	101	137	146	188	173
May	66	164	173	186	151
June	50	184	193	190	228
July	90	190	210	178	285
August	103	193	216	227	192
September	114	167	200	265	170
October	89	178	243	236	154
November	104	159	216	220	155
December	113	160	211	185	157
TOTAL	1025	1902	2360	2450	2075

Source: COMTERN

The creation of employment by COMTERN reached a higher level by the end of 1986, the year of the Cruzado Plan (Table 6.4). During this period of growth, COMTERN took the decision to dispense with formal employees. This resulted in the firing of the security personnel, the only two workers who had full rights as "signed labour card employees", contrary to the others whose status of self-employed, autonomous workers, was established by law: they were cooperative members. To replace the security employees, COMTERN contracted the service of a specialized security firm which, in its turn, contracted security workers as normal employees. The subcontracting chain was thus extended to the maximum by COMTERN, which is itself a passive subcontractor of labour, and, therefore, a subcontractor of its worker members. In sum, it reveals a case of double subletting of labour.

The radical decision to have no employees was later relaxed for just one exception: the cleaner/coffee ("cafesinho") maker, who is the sole non-member worker of COMTERN in February 1989 (Table 6.4).

The evolution of membership is presented in Table 6.5. Compared to Table 6.4, the latest figures reveal a difference of fifteen acting members who are still share owners, but who no longer work for the cooperative because they voluntarily found better jobs elsewhere.

TABLE 6.4: COMTERN : NUMBER OF WORKERS

	April 1984	August 1985	December 1986	February 1989
Members	50	51	64	63
Non-members	4	2	0	1
TOTAL	54	53	64	64

Source: COMTERN: Wage Sheets

TABLE 6.5: COMTERN: EVOLUTION OF MEMBERSHIP
(accumulated figures at 31st December)

	1983	1985	1986	1987	1988
Registered	43	69	95	108	113
Terminated	1	5	16	25	35
Acting Members	42	64	79	83	78

Source: COMTERN: Balance Sheets

Previous experience in the factory at the time SITEX was operating was the main criterion used by COMTERN in selecting new members, although some apprentices trained by experienced workers within COMTERN were also eventually admitted.

The increase of membership from 1983 to 1985 was selective. It included a dozen out of the eighty workers who individually sued SITEX, one of which being the new Commercial Director, who applied to COMTERN when his immediate predecessor left to join an accountancy firm which, not by mere coincidence, was contracted by COMTERN. The new Commercial Director received eighteen per cent of the total price (fifty six thousand dollars) paid by COMTERN to buy the building and plot of land from the eighty claimants. His membership fee was nominal (Table 6.6). In the ranks of those eighty claimants he stands in second place, behind the ex-Technical Director of SITEX, who received twenty-one per cent of the total sum. As seen in Table 6.2, the latter had the highest salary. These two top managers of SITEX, between them, therefore, accounted for forty per cent of the debt owed to the eighty claimants. This is a sign of the extremely uneven distribution of income in this firm.

6.4.2.4.COOPERATIVE CAPITAL

The litigation concerning the transfer of asset ownership to COMTERN in 1983 and 1985 was resolved and judicial orders were granted only when the state-owned Development Bank of Rio Grande do Norte relinquished the SITEX assets, which it had held as collateral.

Besides the highly subsidised schemes of SUDENE, under which SITEX was founded, the original founder, a financier, also obtained subsidised long term loans from the state Development Bank, to which he offered the firm's assets as collateral. Because of the non-repayment of these debts by SITEX, the sale of its assets was blocked by the bank at the time of the closure of this firm.

Both in 1983 and 1985, the state Development Bank, following the traditional attitude of local governments of this State to support cooperativism, wrote off the SITEX debts and transferred the assets it held as collateral to the workforce. In addition, this bank advanced a loan of thirty thousand dollars to COMTERN under a four year subsidised scheme (coincidentally the same amount donated by the Inter-American Foundation for the same purpose item) needed to complete the purchase involving the building and plot of land.

In sum, in 1983, ownership of the machinery and equipment was transferred to the forty founding members of COMTERN that acted together through the Textile Workers' Union. In 1985, the building and plot of land were transferred to the eighty ex-workers of SITEX who individually had prosecuted the former owner of the factory. They then sold this property for cash to CONTERM. In both cases the workforce benefitted from the legal settlement of the SITEX insolvency due to the magnanimity of the financial creditor.

In retrospect, it seems there was no better alternative for the bank. Even if COMTERN had been unlikely to prosper, the repayment of SITEX's debts by SITEX's owner was absolutely hopeless. As far as COMTERN workers were concerned, they had no hopes whatsoever in 1983 of receiving in cash the money owed to them by SITEX. At that time COMTERN workers had to bear the risks of taking possession of the factory in payment of the debt owed to them. The market value of the machinery and equipment of SITEX in 1983 was practically nil because of the unsaleability and lack of buyers, let alone the damage caused by vandalism and the depreciation over so many years. The workers believed that they could put the factory into operation again by themselves, depending on their skill. They also knew that there was a potential market from the clothing industries in Natal, whose industrial strategies opted for the non-internalization and the subcontracting of the speedy delivery of labels.

The cooperative capital was distributed between SITEX's former employees in accordance with their claims on the SITEX debts to the workforce. The reason for the high proportion of shares owned by the actual directors of COMTERN (Table 6.6) was the importance of their skills within the SITEX workforce. Those whose debts were the greatest, had the greatest incentive to recover what was owed to them and take possession of the factory rather than simply continuing to be wage earners.

TABLE 6.6: COMTERN: PERCENTAGE OF SHARES OWNED BY DIRECTORS IN THE COOPERATIVE CAPITAL (at 31th December)

	1983	1986	1987
President Director	11.5	11.3	9.2
Administrative Director	3.2	3.8	3.8
Commercial Director(old)	15.4	15.7	10.7
Commercial Director(new)	0.0	1.4	2.0

Source: COMTERN, Annual Reports.

From 1983 to 1985 the distribution of the cooperative capital was inadvertently frozen. Not even the legal monetary indexation used to correct the nominal values of assets during chronic inflation, that all firms normally apply when they draw up their annual balance sheet, was provided by COMTERN. This negligence was caused by the

absence of net profits to be distributed before the 1986 balance.

During 1986, the directors proposed a form of distributing the anticipated net surplus, and this was unanimously accepted by the General Assembly in September, 1986. The proposal was to divide the net surplus in two parts at the end of the year: 60% to be distributed in cash among workers in accordance with the participation of each one in production (that is, in proportion to the share of each worker's annual earnings in the total wage bill for that year); and 40% to a reserve fund. In February 1987 these resources were used to expand the cooperative's capital, again in the same proportion as each member's share of the cooperative capital.

The same September meeting of all COMTERN members took other important decisions. The social security contribution hitherto paid by each worker member (19.2% of the wage, equivalent to the sum of equal contributions by the employee and the employer in normal firms) to the National Assurance Institute in order to have access to some social benefits (health treatment, retirement and working injuries, but not paid holidays) was now undertaken by the cooperative. In compensation, 10% of each wage paid by the cooperative would henceforth be retained by the cooperative to increase its capital. The expected net surplus to be distributed annually takes into account this retention of

10% of all wage bills as a means of expanding the cooperative capital.

In February 1988, the General Assembly again faced the decision of how to distribute the net surplus. On this occasion, the already known net surplus of 1987 was placed under scrutiny. The rule passed by the General Assembly in the previous year (60% for wages; 40% for the cooperative capital accumulation) was again proposed by the directors. A rival proposal put forward by the production line workers (70% for wages; 30% for the cooperative capital fund) lost by a tiny margin of votes.

The higher propensity of workers on the shop floor to increase wages ("eat their own seed corn") and their refusal to plough back surplus into the cooperative was contained by the strong leadership of the directors, who owned about 30% of the cooperative capital. All workers are share owners, but the distribution among them is unequal. The long-run prospects of COMTERN depend very much on the outcome of this conflict: on the one side, the directors intend to maximize the value of their own capital, while, on the other side, the workers search to maximize wages. The directors undertake the entrepreneurial role as well as the capitalist role, although the appropriation of the accounted net surplus is submitted to a democratic decision-making process, and is internally distributed among all, though in an inegalitarian way.

6.4.3. CRETMOC: Cooperative of the Workers of Montes Claros.

This cooperative, created from scratch on the initiative of the State Government, comprises a factory of diversified clothing production by seamstresses: industrial uniforms, jeans, shirts and trousers; and artisan activities: domestic handicraftwomen who produce carpets of "arraiole" type, or do the finishing of shoes.

Most, but not all, of the heterogeneous production of CRETMOC is subcontracted. Only a small part is out of a subcontracting chain.

a) The whole factory production of industrial uniforms is, for technical reasons, subcontracted by capitalist firms to be worn by their employees. One industrial uniform used in one plant is different in detail from the uniform of another plant.

b) The production of jeans was not, at the beginning, subcontracted, but it came to be completely delivered to one tradesman to whom the monopoly of sale on commission was given.

c) The cooperative sells shirts and trousers which are the only garmets produced in its factory which are not always subcontracted.

d) The artisan branch comprises two activities:

1) "Arraiolo" carpets are produced domestically for sale by the cooperative.

2) The finishing of shoes which is undertaken

domestically is subcontracted by the cooperative which, in turn, is subcontracted from an industrial capitalist.

The cooperative received support from the Superintency of the Development of the Northeast (SUDENE), the State Labour Secretariat and the Brazilian Centre to Support Small Enterprise (CEBRAE).

CRETMOC was organized as a worker cooperative after an earlier attempt that had incurred government disapproval. Its 36 members were all women of rural origin who made clothing and woven carpets to be marketed by the cooperative in Montes Claros, a town of two hundred thousand inhabitants in northern Minas Gerais. The cooperative began as a producer association for weaving production, but this proved economically unviable, so the members diversified to make industrial uniforms and other clothing. In 1984, 18 members began making blue jeans. In order to increase this production line, the cooperative submitted a project to obtain a grant from the Inter-American Foundation (IAF) to cover the purchase costs of industrial sewing machines and other machines (\$12,500) and inputs, such as thread and cloth (\$2,500).

With technical assistance from the Brazilian Centre to Support Small Enterprise, the cooperative bought 11 used sewing machines and six other machines and still had more than \$2,000 left over, which they transferred to their

working capital account. The introduction of machinery increased production capacity significantly but the number of members also increased. Via a project to make shoes domestically, membership reached 85 at the end of 1984, when the cooperative was able to rent a better building for their production facilities, and the former headquarters became a showroom. Despite these gains, serious structural problems continued to keep productivity low and put the cooperative in a risky situation of instability. Although sales, production and members' earnings increased, all were still low. Lack of working capital and commercial competition were persistent problems faced by the cooperative.

In addition, the cooperative was managed by a public official seconded from the National Employment System (SINE). Members participated very little in the administration. The manager saw members as being handicapped by poor health conditions, indifferent and unmotivated by their lack of experience in group work, and as having numerous family problems. In the face of all these problems, productivity suffered and, though it doubled in 1984 after the introduction of the new machinery, it seems to have dropped considerably in 1985.

The manufacturing of bluejeans became the basis of the cooperative's existence. The artisan members who made shoes at home considered themselves to be exploited by the

cooperative, which acted as a subcontractor for a capitalist shoe company, which thereby evaded paying the workers any social security benefits. The carpet weavers produced only a small number of pieces (which increased from three to eight per month during the grant period), but the cooperative found it difficult to make profits on this part of its operations. Most members had little information about cooperative operations or administrative decisions, and many complained to the evaluator, calling the managers "false friends". At the same time, most members had no training or experience in running any kind of business organization. The evaluator noted that outside assistance was indeed necessary for the cooperative's survival. But the dominance of outsiders as managers led them to see members as not ready to participate in decision-making and planning. The cooperative was run in a top-down non-participatory way. The evaluator commented that it was difficult to establish what exactly members thought of the management. Apparently, they saw the cooperative as not unlike the private factories where some of them had previously worked, though they appreciated the comradeship they had with one another in the cooperative.

CRETMOOC had become dependent on only one distributor for its blue jeans, who was also offering to be the sole raw material supplier. In this situation, the cooperative effectively became little more than a simple mechanism for subcontracting labour.

6.4.4. JOAO XXIII: Mixed Cooperative for the Formation of Human Resources and Tourism.

Extractive activities are the most important source of livelihood for the local Amazon population.

The cooperative comprises a multi-purpose factory which produces, mainly under a subcontracting scheme, furniture and small boats with Amazon timber, as well as bricks, roofing tiles and pottery with clay. The potter artisans use drawings of the famous pre-Colombian "Marajoara" ceramics. Most of them are not cooperative members and work on a part-time basis.

This cooperative originated from a community development programme of the Catholic Prelature of Ponta de Pedras. It became a top-down transfer of a plant from church ownership, influenced by Liberation Theology, into the hands of 60 ex-employees. A donor institution based in Switzerland, (the "We Build Together" Foundation) gave grants from the beginning of the cooperative and paid a Swiss-born manager.

The Inter-American Foundation approved a one-year grant to enable the cooperative to complete a new storage facility, build a kiln, a moulding table and a barge, and to purchase an engine for the barge. These improvements in the production capacity of the cooperative were planned to

enable part-time artisans to increase their incomes. The new kiln for pottery and roofing tiles is primarily used for larger items because of its size. The pottery wheel was purchased for use in the production of pieces which are distributed to decoration by other artisans. The wheel is also used for teaching new artisans. The cooperative purchased a boat and an engine to transport handicraft products and raw materials. Also, a workshop/warehouse for pottery production and storage was made available.

Labour for the above activities was provided by community members involved with the cooperative. Contrary to project goals, the artisans' real income did not rise, although a nominal increase was noted. The number of artisans producing pottery did increase, however. The growth in production of this cooperative was due to the following factors:

- a) Increased space for drying, storage and firing;
- b) A more viable means of water transport for products and raw material.

The cooperative plays a vital role in the community because most of its members have no employment alternatives on the island of Marajo. In addition, for the majority of the members, work in the cooperative is the principal source of family income. The debts incurred by this cooperative were the main problem. Always in arrears with the Regional Amazon Bank, the cooperative was unable to maintain the value of its working capital.

6.4.5. COOPARMIL: Artisan Cooperative of Ipaquassu Mirim.

In 1979, pastoral clergymen helped local craftswomen found this cooperative, which was not legally recognized by the government until 1983. Its founding members (all women) make articles, mostly hats, from carnuaba-palm fibre. During its early years, the cooperative operated out of a church, supplying members with raw materials, buying their finished products and marketing them in Fortaleza, capital of the State of Ceara.

But many problems kept the cooperative from operating at the level it wanted. These included the seasonal nature of palm-fibre harvesting, which made it difficult to stock adequate amounts to keep members supplied. Another problem was caused by its director, who began to use the organization as a means of promoting his entry into local politics; his management led the cooperative deep into debt.

The cooperative received help from a variety of sources: National Employment Service (SINE), German Service of Technical and Social Cooperation (SACTES), the Catholic Church and others. With their assistance, the cooperative paid off its debts in 1984.

In 1980, the municipality of Massape, in the "sertao" region of Ceara, where this cooperative is situated, had a population of thirteen thousand, of whom half lived within

the town limits. The cooperative members were so poor that some received food assistance from the Brazilian Legion of Assistance (LBA) and the Red Cross. Handicraft work and subsistence agriculture had kept them from starvation. A member that was 24 years old had already had 12 children: she had married at age 12.

Unemployment was extremely high, especially for male heads of households, who were mostly landless farmworkers. The cooperative members used income from their craft to supplement family income by about 20 %. Under the Cruzado Plan, during 1986, when prices were frozen by the Government, hatmakers' earnings increased from a very low level.

In this environment of extreme poverty, the cooperative has tried to keep its members motivated by encouraging them to have a fighting mentality, especially against exploitation by middlemen.

The goals of the Inter-American Foundation grant were to build a headquarters for the cooperative (\$6,200), to run training courses for prospective members (\$600), to buy members' products and raw materials (\$3,800) and other items of working capital (\$2,500).

According to the evaluator, the cooperative achieved all these goals in good order. The cooperative hurried to

finish its new headquarters before the coming of the rainy season and the building was inaugurated on time, by March 1985. It included two storerooms for raw materials, a garage and two workrooms. The latter had not been in the original plan; interest received on the principal that was temporarily deposited in a savings account was applied to pay the increased construction costs. Storage of palm fibre was complicated because it was harvested only in September and October, and merchants would buy all of it, then resell it later at vastly inflated prices. Without its own storage space, before the construction of its headquarters, the cooperative had to rent space, and it could not store enough fibre to supply members' needs. During the grant period, the price of fibre rose dramatically. Consequently, the cooperative could not give members as much of a discount off the price of fibre as it wanted. But members were able to buy enough raw materials to see them through the period of scarcity. At the same time, the cooperative was able to increase substantially the price it paid members for their finished products. As a result, membership increased from 132 to 168 during the term of the Inter-American Foundation grant.

The cooperative's structure is fairly democratic. Members meet locally, and their leaders pass on their concerns and suggestions to the administration. Of the members interviewed, 70% went to local meetings, and 62% attended to general meetings at cooperative headquarters. There was good

participation in voting for cooperative officers. Even so, most members leave decision-making in the hands of the top administration. This condition of subordination tends to lead the individual to see the organization as something given, or as a service that is for the benefit of the poorest and beyond their control. With questions of physical survival so pressing, few members have the energy for extensive participation in cooperative affairs. Its leaders were dedicated and well thought of, though a pattern of nepotistic featherbedding was beginning to emerge that could lead to a loss of credibility for the administration.

Despite the success of the Inter-American Foundation project, the cooperative could not manage to improve its members' standard of living substantially. Economic conditions were simply too desperate for this organization to have much effect. Outside help was apparently indispensable, and the cooperative made good use of it. In the judgment of the evaluator, the Inter-American Foundation grant was one of the mechanisms that helped the cooperative move to a more complex level of operation. But structural problems, such as commercial competition and survival in a country where inflation was uncontrolled, would have continued to challenge cooperative leaders and members.

6.4.6. JAGUARIBANA: Artisan Cooperative of Jaquaribe

In 1968, 22 craftswomen founded this cooperative in the town of Aracati, located 140km from Fortaleza, Ceara. Aracati is a town of about 60,000 residents, in an area that suffers much from chronic drought. Cooperative members are very poor like almost all of Aracati's population.

The cooperative had more than 650 registered members in 1984, but only 48 were active. They made tablecloths, shawls, bedspreads and other needlework in a style called "labyrinth". This work is very time-consuming, and hard on the eyes and hands. Although these products may fetch good prices in Fortaleza and other big cities, a needleworker may earn only about 20% of final consumer prices. The remainder is earned by the middlemen. Of course the handicraft-women could never afford to buy the goods they produce.

The cooperative furnishes raw materials to members at a discount, markets the finished products, distributes net revenues on a regular basis and participates in national and state crafts fairs. The cooperative store located in the cooperative's headquarters on a main street in Aracati is frequented by tourists.

The cooperative had received aid from the National Employment System (SINE) and from several other government agencies, including the Organization for the Cooperatives of

the State of Ceara, the National Institute for the Colonization and Agrarian Reform (INCRA) and the National Programme for the Development of Artisanship (PNDA). The cooperative has a sales outlet in Fortaleza in a store of a market run by the State Tourism Enterprise. Private aid had come from the religious institution CARITAS, and the Vilebaldo Aguiar Foundation. The support agencies are so numerous that they tend to compete against one another.

Cooperative administrators told the evaluator that the National Employment System was the only agency that really helped them; the others only visited to control and check. In 1985 the National Employment System donated a jeep to the cooperative so that administrators could visit members in remote locations.

With the help of the National Employment Service, JAGUARIDANA draw up a proposal for the Inter-American Foundation in 1984. The project's aims were to construct a building to replace a rented house, to serve as an office, production centre and commercial outlet with a telephone; to use working capital to buy raw materials for members and buy finished products from them; and to give training courses, with assistance from the National Employment System, to 40 members.

According to the evaluator, the cooperative accomplished all of the objectives of its project with little difficulty. The

building was built, raw materials bought and sold, finished products purchased and training courses given. Completion of the new building was delayed by catastrophic floods that drove more than half of Aracati's population from their homes. Nevertheless, the building was of substantial help to the cooperative. In their old, rented headquarters, they had sold only one-third of their products; in the new building, they made two thirds of their sales. Sales increased by 60% in real terms. With the working capital they could pay members for their work on delivery, giving them greater incentive to produce. They were also able to increase payments to members by 40%. The cooperative set up a savings account in which they deposited members' payments for raw materials, in order to finance future purchases and get around the depreciation caused by inflation.

Even so, the cooperative was still not earning enough to generate adequate working capital, and members complained to the evaluator that their work was still poorly paid.

The cooperative also faced competition from private individuals. For example, one woman was buying finished products from needleworkers and selling them thread at a discount from her husband's store. She then marketed the objects to commercial buyers in Fortaleza. Some members had become subcontractors, receiving raw materials from the cooperative at a discount and subcontracting the work, sometimes to family members. Those who did the actual

needlework were sometimes quite exploited.

According to the evaluator, the relation of the members to the cooperative was one of subordination; in return, they expected the cooperative to be their boss. The more dependent the craftswoman was in her commercial relation with the cooperative, the clearer her sense of exploitation. Only the poorest members used cooperative facilities, and their first concern was how much they could earn. The better-off members, often the master artisans, would buy inferior raw materials at lower prices from the market, since the price they received for their finished pieces would depend more on quality.

Most of the members participated very little in the cooperative. A small minority made the decisions, and they tended to transfer most of major decisions to outsiders of supporting agencies.

The new building gave members more chance to meet one another and to know more about the workings of the organization. Support from the Inter-American Foundation put the cooperative in a position to fight for its own survival. The grant could not, however, ensure permanent survival. The cooperative would still have to cope with commercial competition and the quiet dissatisfaction of its members.

6.4.7. PEDROII: Artisan Cooperative of Hammock Makers of PedroII

This cooperative was founded in 1978 and received formal recognition in 1979 from the Institute for Colonization and Agrarian Reform (INCRA). In 1984 the cooperative had 200 members, all of whom were low-income women living in the town of Pedro II, three hours by car east of Teresina, the capital of Piaui, the poorest state of Brazil. The cooperative produces colourful hammocks and other woven goods, including bedspreads, pillow covers, rugs and bags. The hammocks, the cooperative's principal product, are made on traditional looms in the homes of the members allowing them to combine domestic chores and childcare with their craft work.

Materials used in making these woven goods are purchased in bulk by the cooperative which also markets the finished products. The cooperative has received technical and financial assistance from the State Government of Piaui, as well as grants from the Superintency of the Development of the Northeast (SUDENE), the National Employment Service (SINE), the National Handicraft Development Program (FNDA), and the Regional Handicraft Development Program (PRODART) which is affiliated with the State Secretariat for Industry and Commerce (SIC). The cooperative is also a member of the Organization for the Cooperatives of the State of Piaui.

Piaui is one of the states which was hardest hit by the drought which affected Brazil's entire Northeast between 1979 and 1984. Like many production organizations in the informal sector, this cooperative had been severely affected by an inflationary economy which had rapidly raised the prices of the inputs necessary to production.

The main objective of this grant was to help the cooperative guarantee its members sufficient quantities of materials, at reduced costs, and increase production of items for sale. The Inter-American Foundation provided funds so that the cooperative could make wholesale purchases of its primary production inputs, cotton thread and yarn, as well as other materials. These materials were then distributed among cooperative members to produce hammocks and other woven goods according to the market demands for these products. The cooperative pays its members for their labour and purchases finished woven items for subsequent sale in Piaui and other Brazilian states. The grant funds were used primarily for working capital and for the purchase of some equipment for the cooperative office and marketing outlet. The working capital fund is divided into two parts: capital for purchasing raw materials and capital for purchasing finished products. For its part, the cooperative agreed to cover all administrative costs, salaries and taxes, as well as provide a portion of the working capital.

During the grant period the cooperative had also experienced

an increase in membership. The president also complained about a lack of technical assistance from the government. This situation stems from infighting between a state and a federal support agency. Following a change of state government in November, 1982, the head of local agency of the National Employment Service left this organization to work for the State Secretariat of Industry and Commerce, taking with her all of the handicraft projects. The federal official who had provided technical assistance to the cooperative was removed with no one from the state agency to substitute.

The positive outcomes of the grant included :

- 1) the establishment of a rotating capital fund;
- 2) a three-fold increase in the number of women producing items for the cooperative;
- 3) while the cost of the raw materials used by the cooperative had increased, so had the cooperative's total sale of handicraft items.
- 4) at the end of the grant period, the cooperative had successfully avoided entering into debt, either with members or with others in the marketing process.

Despite the assistance that had been received from numerous organizations, it has not been enough for the cooperative to significantly expand its productive activities, increase its working capital, or greatly increase the overall earnings of the cooperative members. Several factors have affected the

cooperative's ability to grow. While the leaders of the cooperative are very dedicated, they lack management and administrative skills. In addition, the cooperative was often understaffed. The current manager was serving more as a publicity/sales agent than a manager. It should be pointed out, however, that Pedro II is a relatively small and isolated town in which human resources are scarce. The general consensus is that the current manager was the best available at the local level. While a good weaver could earn the regional minimum salary working full-time for the cooperative, it unfortunately was not able to provide full-time work for all of its members. Although the income of cooperative artisans had risen, the average income per member was still less than 40% of the regional minimum salary. While cooperative sales had doubled in value, the marketing effort to date was still not sufficient to meet the cooperative's needs.

Most of the members were extremely poor. Their involvement with the cooperative, which provided just under 30% of the monthly family income in most cases, was helping them in their struggle for survival. The cooperative continued to stand out as an organization of women who had assumed their own subsistence. The cooperative members had a real sense of participation in the group's activities with the women themselves occupying all of the key positions. Though its management was weak, the cooperative had a good track record in terms of its service to its members.

6.4.8. COMAVI: Artisan Cooperative of the Ipojuca Valley

Formed in February 1982 by 42 artisans operating in Caruaru and surrounding areas in the State of Pernambuco, its membership had risen to 60 artisans by 1983. Caruaru lies in the agreste, a transitional zone between the fertile coastal strip and the arid backlands of Northeastern Brazil. COMAVI's members come from scattered rural hamlets where the only sources of income are sporadic day labour on nearby farms and the home production of handicrafts. The cooperative's core group comes from the community of Alto do Moura.

This village, 5 miles from Caruaru, traces its origins in clay working to a master artisan named Vitalino. Now deceased, this master began the tradition of making clay figurines for which the community is now famous. The cooperative has a General Assembly composed of all members which elects an administrative council (President, Vice President, Secretary) for a three-year term, and a three-person Fiscal Council elected annually. Since most members are cash poor, the membership fee (an amount equivalent to fifteen sterling pounds) is usually discounted from the products sold through the cooperative. The work of rural artisans, among the poorest people in Northeastern Brazil, has traditionally been sold at undervalued prices to intermediaries.

COMAVI's central purpose was to provide stable sources of income for rural, landless families who have skills in handicrafts such as making ceramic figures (depicting country folk, saints, and local folk heroes), straw hats and baskets, and metal objects, such as rustic cow bells and other decorative art. COMAVI hoped to provide training in improved production methods and marketing, as well as help with the provision of raw materials. COMAVI received periodic assistance from the Secretariat of Labor and Social Action of the State of Pernambuco. The objective of the Inter-American Foundation grant was to allow COMAVI to expand its membership, its marketing of handicraft products and its purchase of raw materials.

The grant was provided to purchase a lorry and to increase COMAVI's working capital. With the help of the newly-formed Organization for the Cooperatives of the State of Pernambuco, it was hoped that COMAVI would be able to develop new marketing outlets in the locality and in other regions of Brazil. The grant was also used to help COMAVI acquire and equip an additional storage area for its finished handicrafts. COMAVI and the State Government of Pernambuco agreed to cover all other costs, including those relating to administration and personnel.

As per the agreement, a lorry had been bought and a warehouse had been purchased in Alto de Moura to serve as the Cooperative's new headquarters. This purchase became

necessary when the State Labour Secretariat stopped paying rent for the group's original office and store in Caruaru town centre. While the money was used to purchase raw materials and finished handicrafts, the cooperative's president had little idea about how to maintain the project's working capital intact. The end result was the accumulation of large volumes of undervalued and deteriorated stocks.

A major portion of the cooperative's duties were concentrated in the person of the president who served as sales agent, driver of COMAVI's lorry, and manager. This multiplicity of tasks, not surprisingly, diminished his performance. For his efforts, the president began paying himself a small salary. The fact that the membership accepted this situation, as well as the financial losses experienced by the cooperative, is indicative of both the president's popularity (as a leader and patron to the members) and the very low level of participation by other cooperative members in the management of the organization.

The central problem in the COMAVI project, however, seems to be related to a lack of experience in both management and marketing. This situation was exacerbated both by the fact that promised technical assistance from the Organization for the Cooperatives of the State of Pernambuco never materialized and that the attempts made by the Inter-American Foundation to secure technical assistance from

other sources were not acceptable to the State Labour Secretariat.

The plethora of official organizations connected to the project had the unfortunate net result of making the whole project unnecessarily complicated and creating an environment that actually mitigated against greater participation by individual artisans. This project had negligible success in improving the standard of living of member families. The artisans complained that the cooperative had not provided them with higher income and a more stable source of off-farm work. Unfortunately, the project, while well intentioned, fell far short of its goals and eventually closed down in 1985.

The lorry bought with money from the Inter-American Foundation grant was subsequently used to compensate the ex-president of COMAVI, with the approval, it must be said, not only of its members, but also of the state institutions involved. The leader artisan's earnings were for a long time in arrears. After being entitled to the lorry ownership, that belonged to the cooperative, he melancholically moved out to restart his life elsewhere, a sad requiem for a failed artisan cooperative experiment.

6.4.9. PONTAL: Artisan Cooperaive of Pontal da Barra

This cooperative's membership was composed of approximately 270 low-income women living in the small fishing village of Pontal da Barra, Alagoas, in Northeastern Brazil. The handicraft women in the cooperative produced "fillet", an intricate form of embroidery, which is sold directly to tourists who visit the cooperative's commercial outlet in the village. Without such a cooperative, most of the women would be forced to market their handiwork through middlemen who have ready cash and access to wider markets.

For a number of years, the cooperative received technical and financial assistance from the Foundation for Labour and Community Development (FUNDEC), an organization created by the State Secretariat of Labour. A department within this Foundation has the special task of promoting the development of artisan skills and their organizations in the State of Alagoas.

The principal goals of this project were to improve the production and marketing activities of the PONTAL Cooperative. In order to implement these goals, the cooperative planned to construct a building at the entrance to the village to serve as office, production centre and commercial outlet. A day-care centre was to be constructed next to the office. The cooperative also planned to set up a working capital fund for the purchase of the cloth and

thread which would be advanced to members. The cooperative, in conjunction with the Foundation for Labour and Community Development, planned to provide training to 80 members in cooperativism and advanced embroidery skills. By the end of the project it was hoped that 75 per cent of the women in the cooperative would be able to raise their incomes to the level of the minimum salary, a goal far from reality.

The Inter-American Foundation provided grant funds to cover the cost of construction of the office building and for the purchase of office equipment. It also provided funds for working capital and to meet part of the training costs. The State of Alagoas donated the plot of land for the building. The Foundation for Labour and Community Development, along with another organ of the Secretariat of Labour, the Foundation for the Well-being of Minors (FEBEM), provided the resources for construction and operation of the day-care centre. The cooperative agreed to cover the costs of administration and part of the training costs.

Construction of the central office building and the day-care centre, was completed in October, 1985, a number of months behind schedule. Because the building work cost more than was projected initially, funds originally set aside for equipment and training were re-allocated to cover the additional costs. The acquisition of the plot of land on which the building was being built was slowed down by the state bureaucracy.

During the time of this project, 123 artisans used working capital donated by the Inter-American Foundation. The cooperative's final report states that over the grant period the average income of its members rose to approximately the minimum wage. Of the remaining grant funds set aside for training and equipment, almost all were used to purchase equipment which included a telephone line for the cooperative headquarters, typewriters, a mimeograph machine, other graphics equipment, including a machine to stamp equipment that they planned to give to graduates of their proposed training courses.

The final evaluation report paints a different picture from that of the cooperative's final report. Only about one-third of the members took an active role in the cooperative business and this absenteeism problem persisted because there was no transfer of power from the Foundation for Labour and Community Development to the cooperative membership. Another problem was the insufficient amount of working capital that was gradually being eroded. Clearly this problem was related to the poor management of existing funds and lack of experience in the marketing of finished products by cooperative members.

The cooperative's administration consisted of a President, a Commercial Director and an Executive Secretary, elected on a three year mandate. There was also a Fiscal Council,

elected on an annual basis. The cooperative marketed its produce to three types of clients: middlemen, tourists and, to a lesser degree, a local clientele.

Three times a week the cooperative used to distribute material and thread and buy finished pieces. The cooperative's Commercial Director and the individual artisans came to a prior agreement upon the actual purchase. The cooperative's commercial Director could lower the amount to be paid if it was inferior in quality to what had been agreed upon previously. In order to underwrite its own expenses, the cooperative was unable to offer its members prices for their pieces above those paid by local merchants.

The cooperative was open during normal business hours but closed in the evening, while many of the private stores were open to take advantage of tourists who strolled in the plaza in the early evening. These stores operated from the front of family homes, thus cutting down on their costs compared with the cooperative. An added attraction of these private stores was that they offered a variety of handicrafts, not just "fillet".

The cooperative did not have the complete autonomy of a private organization since it existed under the auspices of the State Secretariat of Labour. The day-care centre was directly controlled by the state and the cooperative used its services with no involvement in the administration. In

addition, the state government had changed the upper age limit of children eligible for the day-care centre from six to four years. This, and other examples of increasing rigidity on the part of state, resulted in a decline in the number of mothers who actually made use of this facility. Ironically, this facility was seen originally as a way to bring more women into the cooperative.

Furthermore, the government-sponsored training programmes emphasized the doctrine of cooperativism rather than marketing and business administration. The result largely was to increase the membership without a great deal of training in how to market the cooperative's products. The study reported that many of the local shops dealing in "fillet" were run by women artisans who had successfully branched into sales. None of the cooperative's artisans had successfully managed their own store.

The cooperative had three paid employees, two with salaries paid by the State Secretariat of Labour, which also employed an accountant and a social worker to help. The accountant, who came once a week to help keep the books and other accounts had complained on numerous occasions about the artisans' lack of education in the area of accounting. The social worker had, with little success, tried to organize group handicraft projects, apparently unaware of the fact that the making of "fillet" is an individual activity and that many women work domestically because it fitted in

easily with the other things that needed to be done within the home. The cooperative also expected the state government to provide a manager.

While the State Secretariat of Labour continued to support the cooperative, much of this assistance had been paternalist and often inappropriate. There seemed to be no provision for training a local cooperative member as manager. A full-time manager and some practical training in marketing and bookkeeping would have been of more use to the cooperative than a part-time accountant and a social worker. In addition, the cooperative's autonomy was undercut by such actions as that of refusing to allow the women to manage their own day-care centre as originally planned.

The cooperative members tried to adjust to the strong regulations imposed by the bureaucracy of the State of Alagoas and the Brazilian Law on Cooperatives. However, after trying to operate the cooperative without a manager for a period of months, it proved to be an impossible task and it finally closed its doors in 1986. Lack of working capital, lack of good management, and finally lack of adequate credit were the critical problems which brought the eventual closure of the cooperative. This, in spite of more than adequate donations for investment in the building facilities and equipment.

6.4.10. CENTRAL: Central Cooperative of Artisans of the State of Rio Grande do Norte (Federation of artisan cooperatives).

This apex cooperative is the first state federation of artisan cooperatives ever founded in Brazil. It actually consists of six different cooperatives combined into one in the area of Rio Grande do Norte. By 1983 the cooperative had a combined membership of approximately 3,200 artisans, most of whom were rural women of landless families. For most of these families, sales of handicrafts supplement temporary work as day laborers on nearby farms.

The artisans belonging to the single cooperatives use a number of locally available natural resources, for example, palm leaves, sisal, clay and wood to produce a variety of handicraft articles, including baskets, purses, lamp shades, belts, placemats, hats, decorative furniture coverings, wall hangings, hotpads, lacework, embroidered tablecloths and clothing, wood carvings, pottery, scenes designed with coloured sand in bottles and polished coloured stones. One of the central cooperative's principal functions is to help its members market their crafts.

The CENTRAL Cooperative retains about 50 per cent of the gross sales price to cover all overhead costs. At the end of the year, the balance is distributed as follows: 10 per cent to a reserve fund; 10 per cent to a technical, educational and social assistance fund; 10 per cent for a

social fund. The remainder is distributed among the member cooperatives according to the value of their production. Additional services are provided by the CENTRAL Cooperative including the supply of certain raw materials (carnauba palms for example), introduction of new designs and craft items, and the provision of training courses. Also help is given to members to gain legal recognition as artisans in order to make them eligible for the Brazilian social security system, like medical care, despite the limited scope of access by the artisans in comparison with the fully-covered employees.

Support was received from the Federal Ministry of Labour and the State Secretariat of Labour and Social Welfare, channelled through the office of the Regional Handicraft Development Programme which attempts to develop and promote regional handicrafts. The State Secretariat of Labour and Social Welfare, along with the State Secretariat of Education and Culture, and the Federal University of Rio Grande do Norte provide the salaries for 9 of the CENTRAL Cooperative's 27 full-time employees.

The General Assembly of the Central Cooperative consists of three delegates from each of the member cooperatives, elected by their individual general assemblies. The General Assembly elects an Administrative Council (three year term) and a Fiscal Council (one-year term). In addition to the president, vice-president and secretary, the Administrative

Council has one council member from each of the member cooperatives. In 1978, the state government helped expand the cooperative system at which time four of the single cooperatives and the CENTRAL Cooperative were formed. The physical infrastructure of the CENTRAL Cooperative was financed with a World Bank rural development loan to the State of Rio Grande do Norte.

The IAF grant was to allow the CENTRAL Cooperative to construct a storage facility for palm leaves and to increase its working capital so that it could provide work for an additional 2,000 artisans in the state. The new storage facility would allow adequate space for both finished handicraft products and for raw materials. Neither dramatic gains nor dramatic losses were made in 1984, but important market outlets in southern Brazil were retained where 50 per cent of the group's sales were made. Thanks to a new storage facility, the cooperative was able to keep an adequate supply of palm leaves on hand for its artisans. The cooperative's directors also reported that they had purchased a vehicle with the interest earned from grant funds.

A report submitted to the Inter-American Foundation by the Joaquim Nabuco Foundation states that to a great extent the weaknesses found in the CENTRAL Cooperative as an organization were a reflection of the whole state cooperative system which had been regarded as a relatively

low cost way to supplement the income of the very poor. More often than not, this was little more than a drop in the bucket. The CENTRAL was only able to provide regular purchases for about 40 per cent of its artisans. These artisans earned less than half the legal minimum wage. Worse than this, the same 40 per cent of the artisan population received most of the work, with others being called on only occasionally, often at the last moment when demand was suddenly increased. Not surprisingly the quality of these last minute rush orders was often inferior to the normal quality.

Working capital seems to be the most immediate problem of the CENTRAL. The high annual inflation rate has had an especially severe impact on producers of non-essential items (like most handicrafts) which many people can no longer afford to buy. Lack of working capital resulted in a situation where the cooperative was only able to meet half of the requests for handicraft items.

CENTRAL has not been able to greatly increase its international sales either. When interviewed, the local representative of the International Trading Company in charge of the CENTRAL's exports cited various reasons why international sales, which are made on a consignment basis have been kept in check. These include low volume of production, lack of product diversity, and strong competition from a wide range of handicrafts coming from

such places as Southeast Asia.

The CENTRAL Cooperative remains one of the most important artisan cooperatives in Rio Grande Do Norte, but with only meagre prospects of being able to greatly increase its market. The financial future of the cooperative was burdened by a World Bank loan which it will eventually have to pay back through the Development Bank of Rio Grande Do Norte. Clearly this IAF grant has helped the CENTRAL to survive during a time of great economic hardship. The project, however, has fallen far short of its goal of assisting a greater number of artisans. Given the legal constraints of the Brazilian cooperative system and the state of the national economy, the general consensus is that the CENTRAL Cooperative will be unable to achieve its more ambitious social goals.

BIBLIOGRAPHY

ACLAND, Arthur H.D. and JONES, Benjamin (1884). Working Men Co-operators: An Account of the Co-operative Movement in Great Britain. Published by the Co-operative Union Limited, Manchester, sixth edition:1932.

ARROW, Kenneth (1974). The Limits of Organization. W.W. Norton, New York and London.

AXELROD, Robert (1984). The Evolution of Cooperation. Basic Books, New York.

BRASIL (1988). Constituicao da Republica Federativa do Brasil (Constitution). Published by the Federal Senate.

BRASIL (1971). Lei das Cooperativas no. 5764, de 12/dez./71 (Cooperative Law). Published by the National Congress.

BRASIL (1982). Cadastro das Cooperativas do INCRA (Register of Cooperatives of the National Institute for Colonization and Agrarian Reform). Unpublished document.

BENETTI, Maria Domingues (1985). As Relacoes entre Estado e Cooperativismo: Analise do Periodo 1933-37. In BENETTI, Maria Domingues and FRANZ, Telmo Rudi, editors. Desenvolvimento e Crise do Cooperativismo Empresarial do Rio Grande do Sul: 1957-84. Fundacao de Economia e Estatistica (FEE). State Government of Rio Grande do Sul, Porto Alegre.

BEN-NER, Avner (1987). Producer Cooperatives: Why do they Exist in Capitalist Economies? in POWEL, Walter W., editor The Nonprofit Sector: A Research Handbook. Yale

University Press, New Haven and London.

BONIN, John and PUTTERMAN, Louis (1987). Economics of Cooperation and the Labour-Managed Economy. Vol 14 of the series: Fundamentals of Pure and Applied Economics. Harwood Academic Publishers, Chur, Switzerland.

BRADLEY, Keith and GELB, Alan (1987). Cooperative Labour Relations: Mondragon's Response to Recession, British Journal of Industrial Relations. Vol. XXV, No. 1, March.

CAVALCANTI, Clovis, editor (1988). No Interior da Economia Oculta, Articles by Carlos Osorio, Clovis Cavalcanti, Helenilda Cavalcanti, Tarcisio Quinamo and Virginia Botelho. Fundacao Joaquim Nabuco, Recife. Published in cooperation with the Inter-American Foundation.

COLE, G.D.H. (1927) in OWEN, Robert. A New View of Society and Other Writings. Everyman's Library, London, reprinted: 1963.

CORNFORTH, Chris and THOMAS, Alan (1988). Developing Successful Worker Cooperatives. Sage, London.

DOBB, Maurice (1946). Studies in the Development of Capitalism. George Routledge, London.

DOMAR, Evsey (1966). The Collective Farm as a Producer Cooperative. American Economic Review. Sept.

ENGELS, Friedrich (1845). Letter to Marx dated 17 March 1845. In Karl Marx and Frederick Engels Collected Works (1987). Lawrence and Wishart.

ENGELS, Friedrich (1878). Herr Eugen Duhring's Revolution in Science (Anti-Duhring). English translation: 1936.

ENGELS, Friedrich (1880). Socialism: Utopian and Scientific. English edition: 1892.

ENGELS, Friedrich (1845). The Condition of the Working Class in England. Basil Blackwell, Oxford, 1958.

ESTRIN, Saul (1984). Self-Management: Economic Theory and Yugoslav Practice. Cambridge University Press.

ESTRIN, Saul (1989). Workers' Cooperatives: Their Merits and their Limitations, in ESTRIN, Saul and LeGRAND, Julian, editors. Market Socialism. Clarendon, Oxford.

ESTRIN, Saul and PEROTIN, Virginie, (1987). Producer Cooperatives: the British Experience. International Review of Applied Economics. Vol.1, no.2.

HASSELMAN, Erwin (1971). The Impact of Owen's Ideas on German Social and Cooperative Thought During the Nineteenth Century, in POLLARD, Sidney and SALT, John, editors. Robert Owen, Prophet of the Poor: Essays in Honour of the Two Hundredth Anniversary of his Birthday. Bucknell University Press.

HEBERT, Claude (1988). Leon Walras et les Associations Populaires Cooperatives. Revue d'Economie Politique. 98eme annee, No. 2, pp. 252-272.

HORVAT, Branko (1982). The Political Economy of Socialism: A Marxist Social Theory. Martin Robertson, Oxford.

IRELAND, Norman and LAW, Peter (1982). The Economics of Labour-Managed Enterprises. Helm, London.

JONES, Derek C. and SVEJNAR, Jan (1982). The Economic Performance of Participatory and Self-Managed Firms: A

Historical Perspective and a Review, in JONES, Derek C. and SVEJNAR, Jan, editors. Participatory and Self-Managed Firms. Lexington Books, Massachusetts.

LANGE, Oskar (1936/7). On the Economic theory of Socialism. The Review of Economic Studies. Part 1: 1936, Vol. 4, no. 1, p.53/71; Part 2: 1937, vol. 4, no. 2, p.123/144. Republished in LANGE, Oskar and TAYLOR, F.M. (1938). On the Economic Theory of Socialism. Minneapolis.

LANGE, Oskar (1958). The Role of the Co-operative Movement in the Construction of Socialism. Republished in LANGE, Oskar (1970). Papers in Economics and Sociology: 1930-1960. Pergamon Press. Foreward by Michael Kalecki.

LENIN (1919/1923). "Measures Governing the Transition from Bourgeois Co-operative to Proletarian Communist Supply and Distribution" (written 2nd Feb. 1919, first published 1931); "On Co-operation" (May 1923, articles in Pravda); republished in DESAI, Meghnad, editor (1989). Lenin's Economic Writings. Lawrence and Wishart, London.

LOUREIRO, Maria Rita, editor (1981). Cooperativas Agrícolas e Capitalismo no Brasil. Sao Paulo, Cortez.

MAIA GOMES, Gustavo, OSORIO, Carlos and FERREIRA IRMAO, Jose (1986). Politicas Recessivas, Distribuicao de Renda e os Mercados Regionais de Trabalho no Brasil: 1981-1984. Pensamiento Iberoamericano Revista de Economia Politica. No. 10, July/December, Madrid.

MANUEL, Frank and MANUEL, Fritzie (1979). Utopian Thought in the Western World. Basil Blackell, Oxford.

MARSHALL, Alfred (1889). Cooperation, in FIGOU, A.C.

editor, (1925). Memorials of Alfred Marshall. Macmillan, London.

MARSHALL, Alfred (1890). Principles of Economics. Macmillan, London, eighth edition: 1952.

MARSHALL, Alfred (1919). Industry and Trade. Macmillan, London, second edition: 1919.

MARX, Karl (1864). Inaugural Address to the First International, in McLELLAN, David, editor (1977), Karl Marx Selected Writings. Oxford University Press.

MARX, Karl (1866). Letter to Ludwig Kugelmann dated 9 October 1866. In (1987). Karl Marx and Frederick Engels Collected Works. Lawrence and Wishart, London. Vol. 42, p. 326.

MARX, Karl (1858). Grundrisse, Penguin Edition: 1973.

MARX, Karl (1867). Capital, vol.1. Penguin Edition: 1976.

MARX, Karl (1894). Capital, vol.3. Penguin Edition: 1981.

MARX, Karl and ENGELS, Frederick (1848). Manifesto of the Communist Party.

MEADE, James (1972). The Theory of Labour-Managed Firms and Profit-Sharing. The Economic Journal. No. 82, pp.402/28.

MILL, John Stuart (1848). Principles of Political Economy. Pelican Books reprint: 1970.

MILL, John Stuart (1879). Chapters on Socialism. Reprinted in COLLINI, Stefan, editor (1989). J.S. Mill On Liberty and Other Essays. Cambridge Texts in the History of Political Thought.

MIYAZAKI, Hajime (1984). On Success and Dissolution of the Labour-Managed Firm in the Capitalist Economy, Journal

of Political Economy, vol. 92, No. 5, Oct.

NEW LANARK CONSERVATION (1986). David Dale and Robert Owen and the Story of New Lanark. Moubray House Publishing, reprinted 1989.

DAKESHOTT, Robert (1978). The Case for Workers' Co-ops. Routledge and Kegan Paul, London.

OSORIO, Carlos (1986). In MAIA GOMES et al., op. cit.

OSORIO, Carlos (1988). In CAVALCANTI et al., op. cit.

OWEN, Robert (1813/1820). A New View of Society and Other Writings. Everyman's Library, London, 1927, reprinted: 1963.

POTTER, Beatrice (1891). The Co-operative Movement in Great Britain. Swan Sonnenschein, London, 2nd.Edition: 1893.

PUTTERMAN, Louis (1984). On Some Explanations of Why Capital Hires Labour, Economic Inquiry, vol. XXIII, April.

RICARDO, David (1819). Letter to Trower dated 8 July 1819; Speech on Mr. Owen's Plan, at a meeting held on 26 June; Speech on Mr. Owen's Plan, at a meeting held on 16 December; In SRAFFA, Piero, editor (1952). The Works and Correspondence of David Ricardo. Vol. III, Cambridge University Press.

RICARDO, David (1822). On Protection to Agriculture. Fourth edition, London.

SCHUMPETER, Joseph (1943). Capitalism, Socialism and Democracy. Fifth edition: 1976.

STEPHEN, Frank (1984). The Economic Analysis of Producers Cooperatives. Macmillan, London.

STIGLITZ, Joseph (1987). The Design of Labor Contracts:

The Economics of Incentives and Risk Sharing. In NALBANTIAN, Haig R., editor, Incentives, Cooperation and Risk Sharing. Rowan Littlefield Publishers.

THE SPECTATOR, Periodical. Issue of 26 May, 1866.

THOMAS, Alan and THORNLEY, Jenny, editors (1989). Co-ops to the Rescue. London, ICOM Co-Publications.

THOMAS, Henk and LOGAN, Chris (1982). Mondragon: An Economic Analysis. London, George Allen and Unwin.

THOMPSON, E.P. (1963). The Making of the English Working Class. Penguin edition: 1980.

THORNLEY, Jenny (1981). Workers' Co-operatives. Heineman, London.

WALRAS, Leon (1865). Associations Populaires de Consomation, de Production et de Credit. Paris, Dentu.

WARD, Benjamin (1958). The Firm in Illyria: Market Syndicalism, American Economic Review. Vol.48, no.4, p. 566/589.

WARD, Benjamin (1967). The Socialist Economy: A Study of Organizational Alternatives. Random House, New York.

WEBB, Beatrice and WEBB, Sidney (1920). A Constitution for the Socialist Commonwealth of Great Britain. London: Longman.

WILLIAMSON, Oliver E. (1985). The Economic Institutions of Capitalism. Macmillan, New York and London.