

# HOW MONDRAGON BECAME THE WORLD'S LARGEST CO-OP

*In Spain, an industrial-sized conglomerate owned by its workers suggests an alternative future for capitalism.*

By Nick Romeo

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Illustration by James Clapham

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Jorge Vega Hernández, a mechanical engineer working in northwestern Spain, returned from a business trip and started to feel sick. It was March, 2020—the beginning of the pandemic—and so he called a government help line. He was told that he might have the coronavirus and that he should stay home. But, without leaving the house for a test, Hernández couldn't get proof of his illness—and, without that proof, he had no excuse for not

coming into work. A week after he got sick, he said, his company fired him. (The firm cited “insufficient” job performance as the motive.)

Alone and newly jobless during lockdown, Hernández, who was thirty-two at the time, considered his life. He was an engineer with expertise in the automotive industry, so finding a new position wouldn't be difficult. But he didn't want just any new job. He wanted to work for a company that treated workers decently. His girlfriend, who lived in the Basque region of northern Spain, suggested that he consider a position within a group of worker-owned coöperatives there called Mondragon.

The Mondragon Corporation, as it's known, is a voluntary association of ninety-five autonomous coöperatives that differs radically from a conventional company. Each co-op's highest-paid executive makes at most six times the salary of its lowest-paid employee. There are no outside shareholders; instead, after a temporary contract, new workers who have proved themselves may become member-owners of their co-ops. A managing director acts as a kind of C.E.O. within each co-op, but the members themselves vote on many vital decisions about strategy, salaries, and policy, and the votes of all members, whether they are senior management or blue-collar, count equally.

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When individual coöperatives do well, their members share in the profits. When times are hard, the coöperatives collectively support one another, sharing funds and reallocating workers among themselves to preserve jobs. During the pandemic, workers at many Mondragon co-ops voted to temporarily reduce their own salaries or hours until markets recovered; people who felt sick were trusted and encouraged to stay home. The treatment Hernández said he received when he was fired would be almost impossible within Mondragon, since worker-owners must vote to dismiss

one another, and this can occur only in cases of very severe misconduct.

Worker-owned coöperatives are often considered both idealistic and inefficient; the model is seen as suitable mainly for upscale grocery stores or boutique bakeries in progressive towns. At a 2019 conference, the economist Larry Summers characterized co-ops as intrinsically sleepy and short-sighted. “When you put workers in charge of firms and you give them substantial control over the firms,” he said, “the one thing you do not get is expansion. You get more for the people who are already there.” And yet Mondragon is not a sleepy grocery store. Its collection of co-ops employs around eighty thousand people, and seventy-six per cent of those who work in manufacturing co-ops are owners. One makes bicycles at an industrial scale; others make elevators or produce huge industrial machines used in the production of jet engines, rockets, and wind turbines. Mondragon’s businesses include schools, a large grocery chain, a catering company, fourteen technology R. & D. centers, and a McKinsey-like consulting firm. In 2021, the network brought in more than eleven billion euros in revenue. The collective enforces five hundred and five types of patents and employs about twenty-four hundred full-time researchers. It also owns subsidiaries in countries including China, Germany, and Mexico, and competes effectively in international markets, winning contracts from firms such as General Electric and Blue Origin. The odds are good that key elements of something within a hundred feet of you—an espresso maker, a gas grill, a car—were made at Mondragon.

“We are a kind of mirror for conventional companies, and in it they do not see a very beautiful image,” Ander Etxeberria, Mondragon’s director of coöperative dissemination, told me as we drove between co-ops in the Basque country. A slender, affable man who speaks many languages, Etxeberria is essentially a professional explainer of Mondragon to its roughly two thousand annual visitors. It was a warm spring afternoon, and he rolled down the windows and gestured to the passing countryside as we drove. A flock of sheep clustered on a hillside above the squat, rectangular

headquarters of a precision-machine-tooling co-op. We passed a bank, a language-instruction school, a grocery store, a factory—each owned by its workers.

Mondragon's network of co-ops, many clustered along Spain's Deba River, has managed to survive nearly seventy years of capitalism's creative destruction. Its persistence suggests that there are fairer and more sustainable ways of doing business. But whether a version of its model could be replicated outside of one beautiful region of northern Spain is an open question, debated within Mondragon and beyond. The collective has a unique history, and its density powers a rare feedback loop in which coöperative values shape institutions, which then reinforce the same values, spiralling outward to define an entire way of life. Mondragon is an inspiring and successful experiment. Will it ever be repeated?

**T**he town of Mondragón, in a green river valley surrounded by the Cantabrian mountains, is home to some twenty-two thousand people. A medieval city occupies the town center, with stone archways that soar over cobbled streets and a medieval Gothic church in a central square. The remains of José María Arizmendiarieta, the Catholic priest who founded the Mondragon coöperatives, are buried inside.

Born in 1915, Arizmendiarieta lost an eye in a childhood accident; mobilized during the Spanish Civil War but unable to take part in the fighting, he still served as a Basque-language journalist for a publication opposed to the Nationalists led by Franco. He was arrested by Franco's forces and spent a month in prison before being released. After the war, he became a priest and was assigned by the Church to the town of Mondragón, in 1941, when he was twenty-five.

He found that the area's economy was deeply impoverished, with virtually no middle class, and that its society had been fractured by civil war. He mobilized citizens to launch civic and cultural initiatives, including a soccer

field, a medical clinic, and a housing complex for workers. Since the early twentieth century, a locksmithing factory in Mondragón had been employing local boys, who sometimes started at the age of fourteen, clocked fifty-hour weeks, and had few prospects without further education. Upon arrival, Arizmendiarieta began using the local Catholic Action center to educate young workers through study circles, which met in a converted seventeenth-century palace. In 1943, Arizmendiarieta created a technical school; students there worked at the factory in the morning and attended classes in the afternoon. Eventually, he selected a group of promising workers who, in the evenings, began pursuing long-distance degrees in engineering. By 1956, five members who had finished their degrees left their factory jobs to launch a coöperative company that produced kerosene heaters. More industrial co-ops began appearing throughout the valley, drawing workers from the technical school and collaborating with one another to share expertise. Thus was born the Mondragon experiment.

The growth of the co-ops followed a pattern. An obstacle would confront local workers, and a new co-op would be created to overcome it. When, in 1958, the Spanish Ministry of Labor excluded the new worker-owners from the national social-security system, arguing that they were not eligible for workers' benefits because they were also part-owners, Arizmendiarieta created an internal pension and health-care system that was itself organized as a coöperative; it still exists today, supplying sick leave, parental leave, a generous pension, unemployment benefits, and medical insurance to Mondragon's worker-owners. (The Spanish government has long since revised its position and provides coverage for co-op members, in addition to that offered by Mondragon.) To meet the need for affordable financing, Arizmendiarieta organized a coöperative bank.

On my first afternoon in Mondragón, Etxeberria and I walked into the dark interior of the church beside the central square. I could hear a choir rehearsing a hymn. Etxeberria pointed to the tomb of Arizmendiarieta, on one side of the central aisle. A stack of pamphlets lay beside it, and I took

one; it was part of a campaign to canonize the priest, whom it described as “the apostle of coöperation.”

I stood for a while, absorbing the atmosphere. (The Mondragon Corporation has no official position on the canonization campaign, but Arizmendiarieta is venerated even among the secular.) I saw that the pamphlet included a suggested prayer to Arizmendiarieta, and information on whom to contact if it were answered. I walked back out into the sun.

“There are earthquakes, tsunamis, tornadoes, and there is Arizmendiarieta,” Etxeberria told me, in the square. “We are lucky he struck here.”

**H**ernández was hired by a Mondragon co-op called Soralue in 2021, and now hopes to work there permanently at the end of his two-year temporary contract. Located in a nearby town, the co-op occupies a boxy facility roughly the size of five football fields, and employs two hundred and sixty-five people in the Basque country to design and manufacture large milling and boring machines used to help produce wind turbines, boat engines, and components for airplanes and spaceships. Futuristic equipment looms over the factory floor, with workers buzzing around, making adjustments.

On a drizzly spring morning, nine members of Soralue’s social council—an elected group that facilitates information sharing between managers and workers—gathered in a brightly lit conference room for their monthly meeting with Soralue’s president and Rafael Idigoras, the co-op’s managing director. The men and women were casually dressed; most were drinking espresso from paper cups. Idigoras projected his laptop onto a screen and embarked on a brisk presentation in Spanish about Soralue’s strategy. First, he showed a pie chart of 2021 sales by country around the world; then he offered details on a new manufacturing facility that was soon to be built at a cost of eight million euros. As an industrial rumble suffused the room from below, he went over the co-op’s forty-million-euro investment in R. & D.

over the past decade.

A man interrupted by standing up, then announced that he'd just received an e-mail confirming the sale of a €1.8-million machine to a company in Germany. Applause broke out around the table. "What are you still doing here?" someone joked. "Go sell another!"

Fred Freundlich, a professor of organization and coöperative enterprise at Mondragon University—a co-op descendent of the original technical school, which offers bachelor's and graduate degrees to many of Mondragon's future workers—told me that visitors are often surprised by how much information the coöperatives share internally. Conventional companies regularly brief investors and shareholders on earnings, strategy, and the health of the business; Mondragon's co-ops share the same detailed information with worker-owners, who buy into their co-ops by making one-time payments of roughly sixteen thousand euros in most co-ops. Funds from the buy-ins are stored in individual accounts which can earn interest of up to 7.5 per cent a year. If a co-op goes out of business—a rare occurrence—the funds disappear, but in good years, a portion of its dividends is added to the balance. At Soraluce, Idigoras told me, typical worker-owners have about a quarter of a million euros in their accounts by the time they retire, often at age sixty-two.

A co-op's general assembly, comprising all of its members, elects a governing council, which then appoints a managing director. The system is vulnerable to the habits of its voters: although forty-two per cent of Mondragon owners are female, only twenty-nine per cent of governing-council members are women. Still, the fact remains that Idigoras, the managing director, works for Soraluce's members rather than the reverse. It's as if Jamie Dimon, the C.E.O. of JPMorgan Chase, had been chosen by a committee elected by a broad sample of the bank's workforce—receptionists, cashiers, cleaners, investment analysts. If JPMorgan adopted Mondragon's six-to-one pay ratio, Dimon's compensation would be capped at six times that of his lowest-paid employee; while it's hard to estimate his hypothetical salary too narrowly, he

would almost certainly make less than a million dollars instead of the more than eighty-four million dollars he earned in 2021, and his decisions would be subject to approval by workers. Furthermore, if JPMorgan were a Mondragon co-op, its profits and staff would sometimes be shared with Basque co-op versions of Bank of America and Wells Fargo.

It's easy to assume that such arrangements must impair productivity. But multiple academic studies have found that coöperatives with worker governance and ownership are as profitable as or more profitable than ordinary firms. Researchers note that, in co-ops, incentives are better aligned: people benefit directly when their co-op succeeds, and so they are more committed. (The same principle motivates work at many startups.) They also find that democratic governance empowers workers to suggest improvements and increases their satisfaction. Certainly, many people seem to stay at Mondragon because they enjoy working there. "If I worked outside of Mondragon, I would earn more money," Ion Beltza, an engineer and industrial director at Fagor Automation, told me. "But I prefer to live here with a lot of people and friends than alone like a king."

**M**uch of the social life in the town of Mondragón happens in culinary clubs—hybrids between clubs and restaurants that are managed coöperatively, with logistics handled by rotating committees. New members can join a culinary club only after their applications have been approved in a vote; membership fees are around twenty euros a month. If you belong to a culinary club, you simply reserve the facilities, show up with friends and food, and enjoy full use of a fancy, well-stocked professional kitchen and bar. Members are trusted to record whatever they use, and accounts are settled monthly.

On a warm weekday evening, I had dinner at a culinary club on the second floor of a building in the old town. The interior of the club felt vaguely medieval, with dark-wood panels, exposed stone walls, and a mellow glow from recessed lights. Beltza, the engineer from Fagor Automation, was

grilling T-bone steaks on the industrial range as a small group chatted in the dining room, eating *txistorra*, a local sausage, from gleaming silver trays. Etxeberria, wearing a yellow hoodie and sipping a glass of local red wine, was recalling an old legend about a dragon that had once terrorized the people of Mondragón.

“He came down from his cave in the mountains to eat people,” Etxeberria said, of the dragon. “The villagers told him, if you only come once a year, we will give you the most beautiful young woman in town. But this was not a good solution, so they tricked him—they made a woman out of wax, and when he began to eat it, it melted in his mouth. Then all the ironworkers rushed forward together and killed him with their tools.” He paused for dramatic effect before intoning the lesson: “In other towns, they hired St. George to kill their dragons, but in Mondragón, we killed him coöperatively.”

The story provoked a burst of laughter and commentary. “Come on,” said a photographer in a black leather jacket whose family owned a local non-coöperative company that manufactures keys.

As an allegory for the Mondragon coöperatives, the myth is irresistible. The poverty of post-Civil War Spain, the oppression of the Franco dictatorship, the 2008 crash, the pandemic—the co-ops have subdued many menacing dragons through collective action. But the model also has limits. To some critics, Mondragon’s overseas workers, who are not owners—it outsources to low-cost locations, operating a hundred and thirty-two production plants in thirty-two countries—are a sacrifice to the dragon of capitalism. Noam Chomsky has made many admiring remarks about Mondragon, but has also argued that the coöperatives “still exploit workers in South America, and they do things that are harmful to the society as a whole.” (In a system in which businesses must make a profit in order to survive, Chomsky added, “they have no choice.”)

Members of Mondragon's management defend these overseas plants, which are often located close to the assembly sites of its large customers. One executive with experience in running these plants noted that profit-sharing presupposes profit, and that worker-ownership requires a successful business for workers to own. If Mondragon were to situate its factories only in Spain, he told me, the collective would be unable to compete globally, forcing it to reduce its homegrown workforce. He also pointed out that in Mexico, Mondragon has studied the possibility of organizing some of its factories into coöperatives, but didn't go through with it. The Mondragon executive cited a lack of co-op-friendly laws in the country, as well as insufficient interest among foreign workers. Similar studies in other countries did not lead to the creation of foreign Mondragon co-ops. Not everyone has found these arguments persuasive. Freundlich, the professor at Mondragon University, told me, "There are worker-owned companies who have figured out how to share ownership with their subsidiaries overseas. If they can do it, we should be able to do it."

Over dessert at the culinary club, I mentioned a refrain I'd heard throughout my visit: many people had told me that the original spirit of coöperativism was declining. The rise of overseas subsidiaries was one sign of this decline, and so was the gradual widening of the pay ratio between Mondragon's top executives and lowest-paid workers: originally, it was three to one; in 1972, it became four-and-a-half to one; and since the late nineteen-eighties, it has been six to one. Perhaps the true dragon was a slow decay of the coöperative ethos.

Xabier Ormaetxea, a dark-haired twenty-seven-year-old engineer at a co-op, was the youngest person at the table and the grandson of one of Mondragon's original five founders, who worked alongside Arizmendiarieta, the priest. He nodded agreement and offered a dictum. "Hard times make strong people, strong people make good times, and good times make weak people," he said. He meant that the co-op spirit had been stronger in the mid-twentieth century, when Spain was haunted by the spectres of Franco and

war.

Around the table, there were murmurs of assent. Ormaetxea described a recent controversy within the Fagor Group of coöperatives. Engineers and managers had proposed raises for themselves that would help bring their salaries closer to market rates; the salaries would not exceed the six-to-one ratio, but would be near the top end of the range, creating a larger internal pay gap. Upset by this proposal, some workers near the bottom of the pay scale at Fagor Industrial, one of the group's co-ops, convened an extraordinary general assembly, at which members discussed and voted on the proposal. In the end, it passed by a wide margin.

“If we're going to compete, it will go up,” Ormaetxea predicted of the six-to-one ratio. “I don't know when and I don't know how much, but it will.” Mondragon's salary-ratio cap, he continued, reminded him of a popular Basque soccer club, Athletic Bilbao, which plays in Spain's top division and uses a “local origin” rule, only hiring players born or trained in the Basque country—a noble bit of idealism that, some say, limits the club's ability to compete at the highest level.

“They can do pretty well, but they cannot compete with the best, who pay for the most talented players in the world,” he said.

“They can still win!” the photographer, a fan of the Basque soccer team, objected. Then he added, “Even if they don't, it's better to keep local players.”

To people inside Mondragon, even minor changes can seem to signal a catastrophic decline in values. But to outsiders, the collective remains a baffling business from another dimension. Iñigo Ucín, the president of Mondragon, told me that American and Chinese visitors often confuse its model with a form of communism. Ucín recalled one American businessperson who asked how Arizmendiarrieta could be a real priest if he was a communist; another struggled to understand why one would start a co-

op if it didn't enjoy special tax advantages. (Tax law in the Basque country treats coöperatives and conventional companies differently, but their total obligations are similar.) American executives can seem less curious about how co-ops work than about what kind of car Ucin drives—a BMW 3 series.

The culture shock is mutual. Ucin told me that he couldn't believe how much well-paid American executives were willing to reduce the wages of their comparatively underpaid employees; America's current economic arrangements, he argued, are completely unsustainable. "How many poor people there are in the United States is unbelievable," he said. "Something is clear—in the future, things have to change." At the same time, it wouldn't be easy for the Mondragon model to succeed in a country like America, Ucin thought. "You can't have coöperatives without coöperative people," he said.

On my last night in Spain, I met Alberto Gorroñoigoitia, the son of one of the original five founders and a vice-president at Mondragon. He walked me through the old town's narrow streets, pausing to point out the house where he'd been born, the location of the Young Catholic Action center where youth people had gathered into study circles, and an apartment where Arizmendiarieta had lived. At a bar near a towering stone archway, we found a table outside. It was early evening, the light was soft, and the whole town seemed to be out socializing; kids rode past on scooters, teens cruised in small packs, and adults clustered around tables at cafés and bars. Every few minutes, someone walking past would stop to chat with Gorroñoigoitia.

He, too, worried that coöperative values in Mondragon were declining. "We have to keep something different inside of us, something more just, more humane, if we want this model of business to continue," he said, frowning. I mentioned my own country, America, and he seemed to cheer up. The U.S. was a reminder that things could be worse.

Compared to practices at places like Amazon or Uber, Mondragon seems like a shocking success. When I asked Ormaetxea if he thought Mondragon's

six-to-one pay ratio would ever explode to match America's—a study by the Economic Policy Institute on America's largest companies found that, in 2020, the compensation ratio between C.E.O.s and typical workers was three hundred and fifty-one to one—he was doubtful. “It could not happen here,” he said. “They would vote against it.”

Our conversation turned to the many recent declarations of support for corporate social responsibility by major American and European companies. Gorroñoitia was very skeptical of such statements, which he saw more as a matter of marketing than of genuine commitment.

“Corporate social responsibility is all too often lies!” he said, and took a sip of beer.

Gorroñoitia looked into the distance and reminisced. Arizmendiarieta died of complications from heart disease in 1976, at the age of sixty-one; Gorroñoitia recalled how his father, along with the other founders, had felt orphaned. He gestured at everything surrounding us: “They couldn't have imagined that it would grow into all this!” He recalled his father telling him about a senior religious functionary from the Vatican who'd once visited Mondragón to collect evidence of miracles for Arizmendiarieta's possible canonization. As he left, the visitor made a half-joking comment that, Gorroñoitia thought, struck home: even setting aside the supernatural, Mondragón's coöperatives looked like a kind of miracle. If that's true, they're a miracle of an unusual kind—one that actually exists, and could be repeated. ♦