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ANALYSIS

An Introduction to Economic Democracy

Co-operatives as Drivers of Economic Growth

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- The concept of political democracy is often taken for granted in the developed world, despite its relative novelty and having emerged through a persistent and painful struggle for voting rights. By contrast, economic democracy is often branded an impossible and even utopian undertaking, just as social democratization was by certain layers of society 250 years ago.

- The former Yugoslav states, many of which are currently facing chronic economic problems with rising unemployment and underinvestment, nonetheless have a rich history of self-management.

- Co-operatives offer their members and society many benefits. They increase local communities' resilience to external economic shocks. Given their democratic nature, they approach decisions on relocation and outsourcing with their wider implications in mind. Another positive for business is the economy of scale and increased bargaining power they offer their members. Profits are reinvested on democratic principles, often leading to lower costs and increased competitiveness (see credit unions below). Finally, co-operatives create stronger ties between co-workers and reduce alienation from the production process, since they encourage democratic participation at every level of the enterprise and its operations.

- Through its co-operatives and collectives, economic democracy offers a more inclusive and fairer system for organizing society and the economy. It can also contribute to resolving pressing current problems, from rising income and wealth inequality to how society deals with the environment and climate change.

- In Bosnia and Herzegovina, worker self-management through co-operatives has the potential to save companies from decline and alleviate job losses due to failed privatization.

An Introduction to Economic Democracy

Co-operatives as Drivers of Economic Growth

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Content

Introduction

The concept of political democracy is often taken for granted in the developed world, despite the relative novelty of universal suffrage. While participation in political decision-making in contemporary democracies may be formally indirect and, given its exercise at four to five-year intervals, ideologically sterile, there can be little doubt about the role that individual participation plays in ensuring a healthy exchange of opinions and so its potential for changing the political weather. Comparing the political systems of most nations today to those of even 200 years ago reveals astounding differences.

By contrast, our current economic system has changed little since the Industrial Revolution, certainly in terms of worker participation, how key decisions are made on production, profit distribution or investment, ownership types, and the relations of production. It is a basic assumption of this paper that political democracy without economic democracy cannot reach its full potential. Giving equal weight to both forms, this paper presents ways and prospects for developing economic democracy in Bosnia and Herzegovina and the Western Balkans.

The keys to understanding how our civilization approaches human potential and its development certainly do lie in ownership relations, democratic decision-making on the means and goals of production, and the redistribution of any profit, but not in them alone. They also lie in the limited and tactical approach taken to revitalizing weakened economies, so that failed privatization continues to affect everyday life. We will look at the case of Yugoslav (SFRY) self-management, as well as examples from other countries, to consider how different types of worker self-management may be useful in saving and reviving companies in or near to bankruptcy.

The history of self-management in the SFRY, the Yugoslav economic crash of the late 1980s, and the "victory" of liberal capitalism after the fall of the Berlin Wall resulted in economic democracy being perceived as a relic of the past, though data from developed countries suggest otherwise. After the 2008 financial crisis, many workers found their answer to reviving the economy in co-operatives (discussed below). There are currently some 1.4 million co-operatives world-wide, with around 800 million members and 100 million employees[1]. According to Hagen Henry, former Head of the Co-operatives Department at the International Labor Organization (ILO), co-operatives in almost all economic sectors are more resistant to crises and economic shocks than "standard" companies. Moreover, the *World Co-operative Monitor's* most recent data (report from 2017, data for 2015) show that the 300 largest co-operatives in the world have aggregate total revenues of 2.16 trillion USD, which is more than Brazil's nominal gross domestic product (see graph below).[2] For perspective, it is worth noting that the 300 largest global companies on the *Fortune 500 list* (mainly for-profit and listed joint stock enterprises) have combined revenues of 22.2 trillion USD.[3]

1 Hamburgh, 2015.

2 Data from the *World Co-operative Monitor* (2017, 2016, 2015 and 2014).

3 The *Fortune 500* list for 2017.

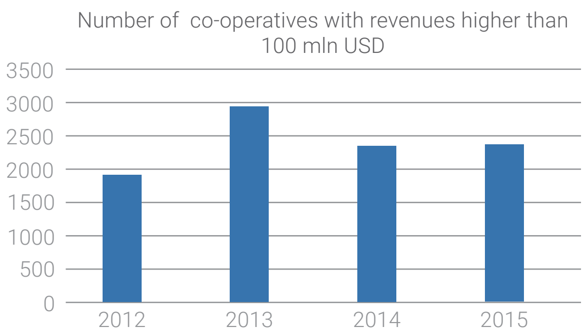


Figure 1: source World Co-operative Monitor data

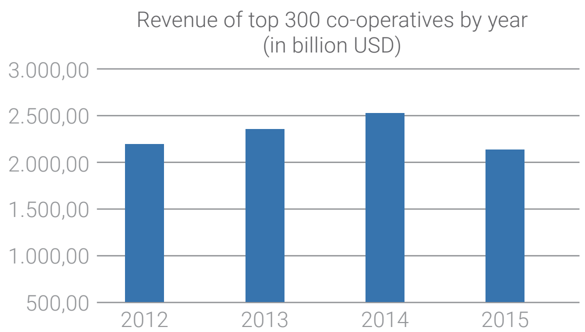


Figure 2: source World Co-operative Monitor data

Economic democracy in general and co-operatives and employee stock ownership plans more particularly focus on worker involvement in key areas of business development and long-term viability, along with deeper integration in the local community, environmental conservation, and a fairer form of globalization. Beyond its intrinsic value, such a model can contribute to saving companies devastated by bad (*business)* management, financial crisis, or failed privatization. Examples of successful worker self-management include *ITAS-Prvomajska* in Croatia, *Dita* in Tuzla, and the various "recovered" firms (*empresas recuperadas-ERT*) in Argentina.

Most co-operatives and worker-managed firms have a bigger problem than just profitability or competitiveness. The lack of a proper "framework" (comprising the legal framework, favorable long-term financing, expertise, changes to bankruptcy laws, etc.), combined with external pressures, all too often predestine worker attempts at running firms democratically to failure.

In this paper, we look at some examples of such "frameworks" in a few different countries and how they might be applied elsewhere. First, however, we examine the example of self-management in the SFRY and compare that model with others that might be tried under the current political and economic system. We then describe the basic forms of more or less (un)regulated worker self-management in Bosnia and Herzegovina and finally look at examples of successful management models from the region and around the world.

The History of Worker Self-Management and the Case of the Socialist Federal Republic of Yugoslavia (SFRY)

The concept of worker self-management may be defined as direct ownership by and democratic participation of the workers in the decision-making processes of the companies (factories) they work in. It has, since the early 1950s, been particularly closely associated with Yugoslav self-governing socialism. As Branko Horvat pointed out, it is in fact an old phenomenon, reincarnated and often revitalized through history. In each incarnation, it took on the characteristic forms of the time, including existing property relations. The first wave took place during the first half of the 19th century, when Robert Owen, Charles Fourier and Louis Blanc came up with the idea of reorganizing society through the voluntary merger of manufactures. Although later considered utopian,[4] their ideas inspired the early co-operative movement and came to be termed *associative socialism*. Over the past two centuries, the ideas of the co-operative and of economic democracy have served (among other things) as inspiration for syndicalism and as a basic organizational principle, e.g. of the economy under the Paris Commune in 1871. During the Paris Commune, industry was handed over to the workers for management. Today, organizational models very close to worker self-management have been developed that integrate well with the liberal capital system of private property.

The Break with the Soviet Union

Self-management saw perhaps its most complete theoretical and practical expression in the SFRY economy, after the break with the Soviet Union in 1948. This experience is significant for any future attempt at establishing alternative economic models, whether by creating new economic values or reviving existing ones. A clear distinction must therefore be drawn between the Yugoslav self-management model and the system of the relations of production in capitalist societies.

Branko Horvat characterized worker self-management in the SFRY as associative socialism, a system located somewhere between state socialist central planning and the capitalist free market. It is hardly coincidental that, after severing its political ties with the USSR, the Yugoslav government turned to the ideas of socialist thinkers like Owen, Fourier, and Marx. On the one hand, this policy change was due to the geopolitical dynamic. On the other, the SFRY's specific structure, history and demographics required a more inclusive economic system than centrally planned ones.

4 The pejorative undertone of this term is due less to its being considered unachievable than because it assumes fundamental social reorganization can take place without class struggle.

Political ideology thus had very concrete implications for the country's international political and economic relations. As it pulled free from the ideological (political and economic) grip of the USSR, Yugoslavia needed a new ideological basis for its unique economic system.

Already by 1949, the managers of public companies were being presented as undesirable sources of bureaucratization. Searching for an economic and political model of its own, the League of Communists of Yugoslavia (LCY) declared the "opportunism of managers must be broken down by worker consciousness," because the managers could not be criticized "from above."[5] The grassroots organizations that would later form the basis of the Yugoslav labor movement already existed during the Second World War. Geographically dispersed partisan units (and national liberation boards) had emerged in response to occupation and had deployed autonomous and self-governing forms of guerrilla resistance and political organization. This was a condition for the early development of worker self-management, just as much as the external factors influencing the Yugoslav economy's paradigmatic transformation in the 1950s. The creators of this Yugoslav economic model held the basic ideas behind its institutionalization to be "the withering away of the state, separation of the Party from the government apparatus, and the transformation of state- to social-ownership, managed by the producers themselves."[6] These goals were generally interpreted as signals both to outside players (USSR and the West) and to the citizenry (the workers). Under the official interpretation of the time, decentralization and worker self-management were to bring about a fairer distribution of wealth and empower all citizens.

Grassroots from Above

After an immediate post-war period of centrally planned industrialization and economic growth, the Yugoslav economy began to run into problems. The USSR wanted to bring the country politically and economically "into line," with sanctions imposed by the entire Eastern Block. This compounded the hardships due to implementation of the Five-Year Plan, causing serious problems for an economy that, in 1949, was still centrally planned (state socialism). Worker councils had been established in some companies and they started to make collective decisions on redistributing profits. By mid-1950, worker self-management "from above" had begun.[7] A law was passed to institutionalize it, changing the nature of labor relations.[8] Between August and October that year, 7,136 workers' councils were formed, with 150,000 workers and officials selected.[9] Self-management was thus initiated by a grassroots workers' movement, but the central Yugoslav authorities were quick to see the ideological benefits, particularly for their geopolitical standing after the political break with the USSR. This was the beginning of the process of defining a special "Yugoslav path" towards associative socialism,[10] in between Stalin's state socialism and the capitalist economies of the West.

The redefinition of *ownership* was key to this transformation of a centrally planned economy into a decentralized "market socialist" one and was widely considered a major success of the Yugoslav socialist experiment. State property, i.e. state ownership of the means of production, was turned officially (and later practically) into socially-owned property, nominally redistributed to all workers for (democratic) management. According to the Constitution of 1953,[11] "social ownership of the means of production and self-management by the producers in industry and by the working people in municipal, urban or regional government together provide the foundation for the social and political organization of the country." As well as introducing self-management in the economic sphere, the Yugoslav authorities took a turn towards societal self-management, establishing it under the constitution across municipalities,

5 Petranović, 1988, p. 289. (Unless otherwise indicated, translations into English of quotes from works written in Serbian, Croatian or Bosnian are by the author.)

6 Klasić, 2014.

7 Cvejić and Petrović, 2014.

8 *Službeni List SFRJ* (Official Gazette of the SFRY), 1951.

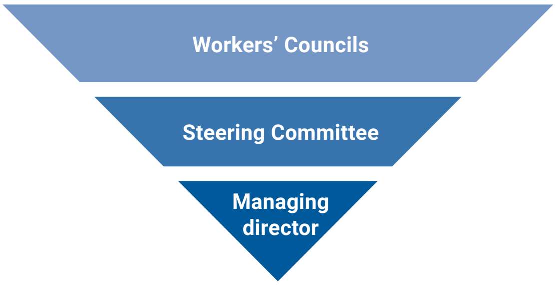
9 Petranović, 1988, p. 293.

10 Later characterized as market socialism.

11 *Novinarsko izdavačko poduzeće*, 1953.

towns, counties, and the educational, cultural and social services. While this transformation came from "above," it proved to have staying power as the basic principle underwriting the transformation of the working class from a political object to a political subject.

The Self-management Structure in the SFRY



The basic structure of worker self-management was triangular: *the workers' council – the steering committee – the managing director*. In theory, the workers' council was the backbone of this new organization of labor and was as such supposed to do most of the decision-making in the company in a democratic manner. As Petranović notes, "Workers' councils had anywhere from 15 to 120 members, while in companies with less than 30 workers, all the workers took part in it." [12] Collectives elected and recalled the members of the council through general direct votes. The mandate lasted two years, with up to two consecutive terms allowed. The workers' council made its decisions collectively and was the company's formal source of major decisions and statutes (rules, financial and production plans, and so forth). The council in its turn elected and recalled the members of the steering committee and decided on how to deploy any surplus capital. In today's economic system, workers' councils have been replaced by steering committees. The main difference from worker self-management lies in the fact that steering committee members have a longer (four-year) mandate and can serve an unlimited number of terms. In some companies, they do not even have to be employees of the firm, which can lead to poor business decision-making, as they will not be directly affected by the consequences.

Despite the government's and the party's enthusiasm for the "three Ds" (de-bureaucratization, democratization and decentralization), in practice "in the workplace, power was concentrated in the steering committee, which was dominated by party members, experts and technocrats."[13] The workers in their councils generally deliberated on production processes and not on how the company should conduct its business. The company was led by its managing director, acting in line with the decisions and orders of the workers' council, which had selected him or her in the first place, but rarely exercised its authority to dismiss.

Three organizational aspects, each with different sources of influence and power, emerge within this hierarchical triangle. The first is the technical aspect of production, with decision-making exercised predominantly by worker experts at lower levels of the organization. The second is the allocation of revenues and the drafting of production and financial plans, where the workers' council played a major role under the democratic principles. The third aspect of the internal dynamics of self-managing enterprises was human resource management, which was largely in the hands of the LCY. Workers could not be laid-off without the support of the workers' council, however.[14]

Clearly, instead of workers' councils accelerating the withering of the state (*de-étatisation*), they helped preserve its influence. Compared to current relations of ownership and production, however, a meaningful level of economic democracy clearly did exist, in combination with some specific inalienable management rights. However small its real impact on daily life or society may have been then, it does not exist at all today.

An Example of a Workers' Council in the SFRY

A branch of 22 workers at a factory[15] with a total of 300 would directly elect one of their colleagues to a two-year term as delegate on the workers' council. Each branch had at least one

12 Petranović, 1988, p. 296. The following text draws on Petranović for details.

13 Unovski-Korica, 2015.

14 Kuljić, 2008.

15 The case in question is of that of Jugoremedija and is discussed in Markuš, 2013.

representative (more for bigger branches). In this firm of 300 employees, the workers' council had twelve members. Delegates to the workers' council initially voted based on the interests of the branch and the employees who had selected them, regardless of potential disagreement with company management. All decisions made by the workers' council were public and available to all employees. In the end, this delegate system was the only one that allowed workers "to meet their representatives face to face every day."[16]

The self-managed economy was quite efficient, at least during the first twenty years (problems were caused mainly by external factors).[17] The results of introducing worker self-management as a basic organizational principle were evident from 1952 on, as the system established itself and a rapid rise in GDP followed. GDP growth for 1955-1960 was 11.3%, the highest in Europe and likely in the world.[18]

According to Ibrahim Latifić: "Throughout the entire post-war period, except 1990, economic development and the rise of gross domestic product (in the SFRY) were constant. First, the pre-war agrarian social and economic structures were overturned. After 1959, industry took a lead over all the other branches of the economy in production and the attainment of gross domestic product goals. Agriculture, which had been dominant in society before the war, was displaced by industrial production. In 1990, social product was 6.1 times higher than in 1952. A major role in increasing production was played by the socially owned part of the economy, which grew by a factor of 8.5 and accounted for 88% of gross national income."[19]

The period of industrial recovery and the introduction of self-management brought significant changes in society. For example, in just two decades (from 1961 until 1981) the urban population increased from 28% to 46%, while the agricultural part of the rural population fell from 50% to 20%.[20] Not only were villages being emptied out, but a smaller proportion of the people who did stay in the villages were working in the fields.

After this shift to relative economic liberalization and *de facto* transfer to a market economy (market socialism) under the economic reforms of 1964, Yugoslav companies were able to maintain their competitiveness on western markets for a period. Over time, however, their competitiveness weakened due to internal contradictions, unequal development between the republics, and external shocks from the global economy (perhaps the most important being the oil crisis of 1973 and the rapid rise of interest rates in the USA in 1981). This resulted in higher debt, unemployment, and inflation, stoking internal tensions. Similar developments took place in many other countries, however, and it would be biased to blame the failure of the Yugoslav economy during this period exclusively on worker self-management.

The Present Context

The present situation differs greatly from the forty-year history of Yugoslavia. The main difference is between their respective economic systems. In the Yugoslav case, there was a system of worker self-management that, whatever the influence of political factors and of manipulation, nonetheless did afford workers an inalienable right to select representatives and influence major aspects of the company's operations. Economic democracy was established in company management on the principle of "one person - one vote," conditioned by the changed nature of ownership. Property that was neither state-owned (as in the USSR's statist model) nor fully private (as in the capitalist economies of the West) allowed everyone equal and democratic access to the means of production. This had an impact on productivity, relations towards production, the community, and other aspects of life. While companies competed horizontally and so maintained competitive price-levels and a degree of innovation, decisions on fundamental business issues (what, how, how much and for whom

16 Ibid.

17 The oil crisis of 1973 and 1979, the Volcker Shock of 1981— the sudden rise of interest rates in the USA, and disintegration of the USSR.

18 Mitrović, 2013.

19 Latifić, 1997, p. 16.

20 Novaković, 2014.

to produce, how much to invest, what level of pay to maintain, etc.) were made democratically in-house.

Under current liberal capitalist conditions, it is possible for shareholder associations to retain, under certain circumstances, characteristics reminiscent of worker self-management and survive. Where shareholders are also employees and participate in ownership, one sometimes finds some of the features of worker self-management. Such circumstances are, admittedly, rare, given the nature of the institution of private ownership and the tendency to amass capital. Under such circumstances the "one person - one vote" rule no longer applies and "one share - one vote" does instead. Moreover, both companies and individuals can be shareholders and the latter do not have to be employed by the company. Consequently, decisions are often made by a far smaller group of people than they affect. This has an impact on the entire life cycle of a company: from basic issues related to business operations (what, how, how much and for whom to produce) to decisions on investments, human resources, salaries, loans, the relationship towards society, bankruptcy, etc. Add the poor standing and organization of many trade unions and the badly designed and even more poorly implemented privatization of public assets[21] and we get the recipe for the failure of so many companies, one which has entailed the ruin of entire industries, communities and generations.

Even under current circumstances, however, several options do continue to exist that offer a legal and organizational framework for economic democracy within companies. In remainder of this paper, we discuss the co-operative model through examples of organized employee shareholding (ESOP).

The Concept of Co-operatives

The term co-operative refers to autonomous, voluntary organizations whose members meet to reach mutual economic, social and cultural goals through a democratically managed organization that they own.[22]

21 Transparency International BiH, 2009, p. 27.

22 Babić and Račić, 2012.

Among other things, co-operatives support:

- free, open and voluntary enrollment in and withdrawal from membership in co-operative enterprises;
- democratic forms of organization where each member has one vote, decisions are made by the democratic resolve of the majority, and the elected management is responsible to the members of the co-operative;
- a fair distribution of profits, autonomy and independence.

Co-operatives are established on the following core co-operative principles and values, adopted by the International Co-operative Alliance:[23]

- **Open and voluntary membership.** Membership in a co-operative is open and voluntary for all individuals who see an opportunity to work and participate in the co-operative and are willing to accept the promulgated rules of the co-operative.
- All members of the co-operative carry out business supervision.
- A co-operative is a democratic environment where the members supervise its work and make decisions at assemblies on the "one member - one vote" model regardless of the scope of business of the individual co-operative.
- **Economic participation and profit-sharing for co-operative members.** Members participate through their work and so contribute to growth of the co-operative. It is not enough to pay membership fees and become a member. Active participation in the work of the co-operative is essential. Any profits (after setting aside the amount dictated by law) are then distributed among the members, in proportion to their role in generating said profit.

23 The following seven points are taken over from the website of the *Croatian Centre for Co-operative Entrepreneurship*, 2016 - http://zadruge.coop/hr/o-zadrugarstvu/sto-je-zadruga-i-kako-je-osnovati/1. The translation into English is the author's.

- **Independence and autonomy.** As an independent and autonomous legal entity, the co-operative relies legally on the work and resources of its members, under their direct supervision.

- **Co-operative members and education, professional development and the right to information.** It is essential members be well-educated and informed, so that they can make appropriate decisions and contribute to development of their co-operative.

- **Collaboration between co-operatives.** Co-operatives exist for their members and to strengthen the co-operative system by connecting and collaborating at the local, regional, national and international levels.

- **Concern for the community.** By conducting their business successfully, co-operatives have a positive impact on their members' lives and contribute to their environment and local communities.

The major benefits of co-operatives include:

Joint entry to the market	More bargaining power, a bigger market share
Lower production costs	Economies of scale reduce production costs and increase competitiveness
Better price for raw materials	Increases competitiveness, mainly through increased bargaining power
Sharing warehouses and machinery	Economies of scale, shared maintenance costs, and better capacity utilization
Joint marketing	Economies of scale, the co-op brand adds value
Co-operatives do not accumulate profits	Instead they lower the price of services for members (e.g. lower interest rates at credit unions) and ensure them a higher price for their labor

Co-operatives exist to meet the needs of their members, who are the ones bringing in capital and investments, as well as overseeing the business process. Every co-operative member is directly involved in operations and acts through the co-operative or uses its services or in some other way directly participates in meeting its founding goals.[24] Co-operative members have rights and responsibilities, established democratically through statutes and regulations. Examples include: the right to vote in decision-making on company management; equal access to any profits being distributed; access to financial reports; and equal access to available work (at times of reduced demand, workers are not laid off; instead everyone works less). Responsibilities include running for executive positions on a limited mandate, equality of contribution, willingness to be an active member, and equal responsibility for any losses.

Under the current economic system, the difference between "ordinary" companies and co-operatives is that the former conduct their business in the interest of majority owners or investors. In the latter, return on capital is usually subordinate to the co-operative members' social and economic interests. We may therefore classify "ordinary" companies as associations of capital, while co-operatives are associations of people. Similarly, when it comes to financing, we may assume that in "ordinary companies" capital generally leases labor, while in co-operatives labor leases capital. Co-operatives redefine productive and other business relationships within the company to at least some degree and provide alternative answers to such questions as: *who the owner is, who's hiring whom, what to do with profits* and so forth.

Use of the delegate model is crucial in worker self-management to ensure co-operatives are fully operational and reach their full potential. The democratic right to vote and the "one member - one vote" principle are foundational to the very definition of co-operatives. How each member uses their vote affects outcomes. A number of common management structures exists: 1. direct democracy (all members decide on everything); 2. voting by delegating power to an individual or committee (managing director); 3. electing a representative body (representative democracy—steering and supervisory boards); 4. creating an *ad hoc* managerial

24 Croatian Centre for Co-operative Entrepreneurship, 2016a.

structure approved by the full membership assembly; and 5. a combination of the above. Within the framework of whatever management structure is established, the co-operative may retain its right to decide on important issues through direct democratic vote. What is important is that decisions remain democratic and be changed only through democratic means.

How one becomes a member is a further important aspect of the co-operative, often determined by statute. As co-operatives can have employees, whether and how they become co-operative members over time and how long they remain such must be defined. Choices made on these two options can have significant implications for how worker self-management works out in practice. If the path to full membership is not properly defined, a co-operative can lose its democratic essence over time.

Financing is another issue requiring precise definition under the rules and statutes to avoid undermining any of the fundamental principles mentioned above. Members of the co-operative bring in "seed money." This does not automatically confer ownership rights but does entail membership rights and obligations. This means that despite varying levels of contribution, which are themselves dependent on the financial needs of the co-operative, members have only one vote each. Differences in contributions can be offset through a system of internal loans (between members, often interest-free), which the new member returns through salary deductions.

Where a co-operative has needs that go beyond its members' financial capabilities, external loan options should also follow the internal co-operative principles. Here, decisions on financial transactions and borrowing are often made by co-operative assemblies on a case-by-case basis. Like other businesses, co-operatives can take out loans from banks, funds, and credit unions, which tend to offer more favorable lending conditions. It is important to note that investors or financial institutions who lend or provide capital against ownership rights in a co-operative rarely themselves become members of the co-operative on that basis.

The distribution of the profit or surplus is another important trait of co-operatives. Established procedures mean that the co-operative must cover losses from previous periods from current gains, as determined by annual audits. After this, the co-operative may allocate and record a pre-set percentage for future growth and a minimum percentage for required reserves, until they reach the total capital contributed by members. Any remaining profit can, in accordance with assembly decision, be used for: signing up additional members and pay their contributions for them, bearing in mind each member's degree of participation, or for disbursement to members, investors and workers, etc.[25]

Co-operatives in Bosnia and Herzegovina— the Regulatory Framework

Co-operatives in Bosnia and Herzegovina are currently regulated by a state-level law (*The General Law on Co-operatives in BiH*), which superseded the existing entity laws (*the FBiH Law on Co-operatives* and *the Law on Agricultural Co-operatives of the Republika Srpska*).

Under the *General Law on Co-operatives in BiH*,[26] a co-operative may be established by no fewer than five individuals and/or legal entities if they meet the conditions set out under the relevant co-operative's rules. The rules can specify that members must be individuals, while the articles of incorporation can allow for a greater number of founders.

The founders' meeting or assembly is the co-operative's largest body and its members are the founders of the co-operative. Co-operative regulations are established by majority vote at the meeting.[27]

25 *Narodne Novine*, Republic of Croatia, 2013.

26 *Službeni glasnik BiH (The Official Gazette of BIH)*, no. 18/03, 2003.

27 The co-operative's rules determine:

- its activities,
- its principles,
- how to change its status or wind it up,
- its representative bodies,
- the conditions for joining,
- the conditions for leaving,
- the form and amount of the membership stake and deadlines for presenting it,

On the "one member - one vote"[28] principle, the meeting elects such other bodies as: the board of directors, the supervisory board, and, if envisaged in the co-operative's rules, a managing director. The president and members of the board of directors, the managing director, and the president and members of the supervisory board are all elected in a timely manner in line with the co-operative's rules for a period of no longer than five years, with the possibility of re-election.

Once the co-operative has been established, one becomes a co-op member by submitting a request, accompanied by a statement accepting all the rights, obligations and responsibilities of membership, as determined by the co-operative's rules.

The assembly, which must meet at least once a year, draws up and confirms the rules, selects and dismisses the chair, the managing director, and the members of both the supervisory board and the board of directors, approves the co-operative's business and financial plans, and decides on the disposal of any property and the distribution of profits and any other important issues, as defined by the statutes. Where there are more than 300 members, the rules may stipulate delegation of the assembly's activities to representatives, of whom there should be no fewer 30, elected for a period of not more than five years.

Co-operatives with fewer than 25 members do not appoint steering boards. Where there is a steering board, it must have at least three members. This board executes the co-operative's business policy and reports on revenues to the assembly. It also prepares recommendations for the assembly and carries out its decisions. Finally, it prepares business reports, balance sheets, and income statements, and conducts business policies, and so on.

The supervisory board oversees the legality of the co-operative's business, discusses the annual financial and progress reports, provides opinions on profit-sharing, and so forth. The director represents the co-operative and runs day-to-day operations.

As to profits, legal regulations require a specific reserve fund be set aside each year. A co-operative must contribute up to 5% of the membership capital each year. Reserves accrue until they equal the total value of the co-operative's capital when it was established. Under the *General Law on Co-operatives in BiH,* co-operatives can envisage the creation of other funds in their regulations. In certain countries (e.g. Croatia) the creation of a co-operative development fund (20% of profits after losses from previous years) is considered advisable or even mandatory.

Examples from Other Countries

Worker Shareholding – ITAS-Prvomajska *(Croatia)*

ITAS-Prvomajska is a company from Ivanec, in Varaždin County, Croatia. It was founded in 1960 and originally produced tools and machinery parts. At its height, it employed around 12,000 workers and was sixth in the world in exports in its branch. After economic transition and the transformation of ownership forms of the 1990s, ITAS went through a problematic and questionable privatization process.

Business problems accumulated, salaries were not paid on time, and debts were not serviced. In 2005, the company declared bankruptcy. The collapse of this business giant, which had supported the economy of an entire region, meant economic catastrophe for the town of Ivanec, with its population of 14,000, and financial insecurity for many families.

- how and when the founders' capital investments must be made,
- members' responsibilities,
- how profits or surplus income-over-expenditures are to be distributed and losses covered,
- allocation from profits to the mandatory reserve fund,
- the rules for election and dismissal and the scope of work of the co-operative's departments,
- the co-operative assembly's rules for decision-making, electing and dismissing representatives, and members' rights and responsibilities,
- other matters.

28 The law also allows voting rights to be weighted (by each member's obligations towards the co-operative or by recorded investment). No member should control more than 5% of the vote at an assembly of 50 members or more. The limit may be lower, if so determined by the co-operative's rules.

Many of ITAS's assets were transferred to so-called "phantom companies" before bankruptcy was declared. When it was, ITAS's total assets amounted to only 3.4 million Croatian Kuna (HRK), while creditors were claiming 32 million HRK. An important detail that ultimately enabled ITAS workers to establish their right to worker self-management of the company was that their claim for unpaid wages and contributions amounted to 52% of total dues. Thanks to the high level of worker solidarity at the creditor meeting (made up of bankruptcy creditors with the right to vote and make important decisions on bankruptcy proceedings), 311 workers acted jointly and secured a majority of the votes. Prior to the bankruptcy declaration, the workers had mobilized and physically occupied the factory. This was of crucial importance, as it prevented any additional sale of the property or productive assets. As Dragutin Varga, an employee and current Chair of the ITAS board, said of this action by the workers, "the factory had to be defended from the inside."[29] The workers encountered many obstacles during this period, including disconnection of electricity and water and the termination of existing contracts with suppliers and customers abroad.

Once the workers had managed to prevent sale of the property and any further reduction of the liquidation assets,[30] a new bankruptcy process was declared and the court appointed a bankruptcy commissioner, who was however already dealing with 21 other cases.[31] The workers were unhappy with the bankruptcy plan, convinced its primary goals were to sell off assets, settle claims and shut down the factory. Since the law allows companies to continue trading under bankruptcy, the ITAS workers decided at a creditor meeting to dismiss the bankruptcy commissioner and appoint a new one with more understanding for their problems and efforts to rebuild production under difficult conditions.

29 Vragolović, 2016.

30 This includes both the debtor's property when bankruptcy proceedings start and any property that may accrue while proceedings are ongoing.

31 Vragolović, 2016.

Restarting the bankrupt enterprise

With the new commissioner and bankruptcy plan in place, a new company with initial capital of 3.4 million HRK, *ITAS-Prvomajska*, was created. The workers also succeeded in restoring their partners' trust and were able to continue with jobs that had already been begun. The other creditors included banks and it was determined under the bankruptcy plan that the new firm would settle its debts at 12.4% of the nominal value. The equity capital of 3.4 million HRK was then converted to 340,000 shares, each worth 10 HRK. The new company offered two options to creditors: either to get their money within three years, dependent on the factory's performance, or to convert their debts into shares (i.e. equity). The banks took the first option, with the result that the workers themselves bought 100% of the shares and became sole owners of *ITAS-Prvomajska*.

Over time, the workers managed to restore production, partnerships and lost customers. 116 workers were employed in production, though there was work for only about 50. Instead of cutting the number of workers, they adjusted the individual workload. Perhaps the most important aspect for this paper is that a democratic structure was established for making business decisions. "The most important democratic factor in a company (alongside the workers' council and trade union) is the production committee (made up of union trustees, the workers' council, production managers and elected worker representatives). It makes binding and advisory decisions and then confirms and implements them, together with the board of directors. The production committee informs the workers about its work and together they make decisions on key issues, such as whether profit will be invested into production or salaries."[32] A number of protection mechanisms were put in place to ensure ITAS could never again be purchased by a single owner. Under the company's statutes, no one can own more than 10% of the shares and, regardless of how many shares one has, everyone's vote counts for the same.

32 Miloš and Ptić, 2015

A so-called "closed model" was also put in place, so that only employees can purchase stocks.[33]

The factory now produces highly sophisticated CNC machines (computer numerical control machines used in making car and machine parts). It employs around 250 workers (overall, some 400 employees have been employed here since 2006) and 90-95% of its machine tool production is sold to foreign markets. Production has been growing 15-20% per annum.[34] The workers themselves decide on their business activities and over the last four years they have invested more than two million Euro into new technology and machinery to improve their competitiveness. In 2015, the average net salary at *ITAS-Prvomajska* was 4,000 HRK.[35] The company has its own cultural association and a soccer club.

While workers did form a majority of the creditor group, the relatively high added value of ITAS products and the concomitantly educated staff also played an important role in reviving this firm. Moving production to another country would have been difficult and there was already a well-educated and trained workforce.

The *ITAS-Prvomajska* case makes clear the potential of worker self-management in the current context, not just as a principle, but as a way of rescuing failing firms. It is important to stress that certain prerequisites had to be met for success in the case of ITAS, but that there are also common characteristics with cases of failed privatization at former giants in the region.

Empresas recuperadas - the case of Argentina

In the wake of the Argentine economic crisis of the early 2000s, which brought state bankruptcy, high inflation rates, and falling gross domestic product and employment, thousands of previously successful companies went bankrupt. Workers at some of these companies organized and, in the spirit of economic democracy, developed the "recovered companies" (*empresa recuperada*-ERT) model, under the slogan "Occupation! Resistance! Production!" This entailed collective action to prevent production resources being removed or the premises being used for other things (occupying the premises and physical resistance) and to restore production and service provision, while negotiating with local and central authorities to continue production during bankruptcy proceedings.[36] The legal process used by the recovered companies was based on co-operative principles. The Argentine Bankruptcy Law was later amended to allow production to continue, as well as change of ownership during bankruptcy. The co-operative assemblies in the recovered companies made important decisions on their company's organization and activities. Under "one worker-one vote," everyone had equal access to decision-making, including on the allocation of assets (not part of the liquidation estate) as production recovered. By 2014, there were more than 300 such recovered companies with 13,000 employee-shareholders.

The number of ERTs increased after the financial shock and it has continued to increase even after the economy recovered.[37] ERTs are distributed by sector as follows: 42% of companies in metallurgy, the graphic industry and construction, 19% in the food sector, and 22% in the non-productive sector (education, health and other services).

Certain preconditions were important in the Argentine case. The first, which will not concern us in this paper, was the existence of a strong developed tradition of trade unions and co-operatives. In the 20th century, Argentina had developed its industry by import substitution through industrialization and there was a significant and relatively well-organized manufacturing workforce.

The Favorable Institutional Framework in Argentina

Perhaps more importantly for our analysis, the institutional and legal framework and changes to it in the early 2000s contributed considerably to the maintenance and development of the recovered companies. Firstly, the way the co-operative

33 Vragolović, 2016

34 Miloš and Ptić, 2015

35 Vragolović, 2016

36 Cvejić and Petrović, 2014, p. 241.

37 Ibid., p. 252.

concept was legally regulated allowed workers to takeover bankrupt companies, both because they did not face legally liability with their own property and because cooperatives are exempt from corporate income tax. Moreover, they could apply for government and national co-operative association subsidies and loans. At the same time, the recovered companies formed strong associations (MNER and MNFER) to lobby for their interests and those of their workers.

Perhaps the most important piece of legislation after the *Co-operatives Act* was the *Expropriation Act* and its application to the ERTs. Cvejić and Petrović state that "it was implemented during the early phases and it was initiated by two of the main movements for the recovered companies – MNR and MNFER… Expropriated assets (bankrupt companies) were assigned to the ERTs for a two-year period, with the possibility of extension."[38] In 63% of cases, expropriation was carried out in favor of the ERT. Most expropriations were short-lived, but contributed to keeping the business afloat, especially during the initial stages of takeover.

The next important precondition for development of the company renewal movement in Argentina was the *Bankruptcy Reform Act*, which established a more favorable framework for sustainability. The previous legal framework had favored swift and "facilitated" disbursement on behalf of creditors (especially banks), while asset and reserve sales before bankruptcy to benefit the owner were not considered white-collar crimes. Bankruptcy proceedings did not take into consideration lost jobs or the possibility of continuing production. Generally, they aimed at rapid liquidation of the property. The *Bankruptcy Reform Act* allowed for continued production and use of liquidated assets and not just as a temporary measure. Worker claims for salaries and contributions could also be used as capital for buying out the company.[39] The act has certain flaws. For one, a co-operative could only participate if it represented at least two thirds of the workforce. They could not be formed where departure of administrative staff or a lack of solidarity and coordination prevented that threshold from being reached. Similarly, employee claims were often less than the bankruptcy assets, meaning they either could not purchase the company or else had to take on the debts of the previous owners. Due to legal uncertainties and lengthy court proceedings, by 2013, only 10% of ERTs were operating lawfully under the new *Bankruptcy Act*.[40]

Apart from the associations established within the recovered companies, the rest of the institutional framework did not favor the ERT workers particularly either. Virtually no union in Argentina supported the ERT workers during the initial phases of taking-over bankrupt factories.[41] Such circumstances were perhaps required for the creation of a network of solidarity and associations. The state itself did support company renewal, however, and over time developed an active policy of subsidies and grants. As Cvejić and Petrović conclude, the basic reasons the ERT movement was a success were Argentina's favorable history, state subsidies and the amendment of key laws. On the other hand, access to more favorable financing and new markets for their products and their unresolved legal status all remain obstacles facing workers at recovered companies.

Financing Options – Credit Unions

As the above examples suggest, lack of access to favorable funding is a major problem facing modern-day co-operatives. The high commercial bank interest rates play a role here, as does a general lack of confidence in the business model. Lack of access to appropriate funding poses a problem not just for co-operatives (capacity expansion, real estate, new technologies, etc.), but also in determining strategies to buy-out bankrupt firms.

Establishing credit unions offers a partial solution to the problem. Credit unions can offer cheaper financing because they are not-for-profit organizations. Instead of being divided between shareholders and directors, any profits are reprogrammed through lower interest rates on loans and higher

38 Ibid., p. 255.

39 Ibid., p. 256.

40 Ruggeri, 2014.

41 Cvejić and Petrović, 2014, p. 258.

ones on savings, while maintaining the sustainability of business operations.

Approximately 15,000 credit institutions in Europe work on co-operative principles. In Germany and Austria, they are known as *sparkasse*, in Spain, Italy and France as *banco co-operative (*co-operative banks) or *banco popolare (*people's banks). The *E-banka* (Ethical Bank) in Croatia is an example of such a bank established as a joint stock company. This is because banks there are required by law to be joint stock companies. Its sole shareholder is, however, the Co-operative for Ethical Financing (ZEF), and all the co-op members have equal rights and responsibilities regarding the bank's operations under a "one member - one vote" system, regardless of investment size. The E-Banka is a development bank owned by its members and with the primary goal of investing in community development through financially, socially and environmentally sustainable projects.[42]

According to one of its founders, Goran Jeras, the E-banka needs about 15,000 members or clients (individuals and businesses) to be self-sustaining, a goal they expect to reach within three years.[43]

Conclusion and Recommendations for BiH

Historical Legacy

As explained above, the region enjoys a very rich historical legacy of economic democracy and worker self-management. Although conceived under a different geopolitical context and subject to shortcomings (e.g. frequent political interference), the experience demonstrated that Yugoslav workers could create co-operatives and manage their own businesses. The model brought significant economic growth, especially in the 1950s.

The Benefits of Co-operatives

Co-operatives offer local communities more resilience to external shocks. They consider the wider consequences for the community when making decisions to outsource or relocate. Co-operatives also offer small producers a more equal footing and influence in decision-making, increasing their bargaining power and market-share and reducing costs through economies-of-scale (sharing machinery and warehouses, etc.).

The Potential of Co-operatives Today

There are many examples in Bosnia and Herzegovina of problem companies like *ITAS* in Croatia or the recovered Argentine companies (e.g. *DITA Tuzla* and *Energoinvest - Rasklopna oprema* (*RAOP*)), as there are in the rest of the region. Many factories that went through privatization ended up bankrupt, with major losses of productive capacity and jobs. We again stress that in this context the debate should be about systemic errors and omissions rather than any lack of competitiveness on the part of the failed companies.

As shown, given an at least marginally more favorable institutional framework, basic co-operative principles can bring factories back from the brink of bankruptcy. The examples offered were *ITAS Prvomajska* and the recovered factories in Argentina. In the former case, the factory was producing relatively high value-added products, and the workers stood together, pooling their claims against the owners and later the bankruptcy trustee. They utilized internal democratic principles to agree replacement of the trustee and create the preconditions for continuing production. At least two major conclusions for future policy can be drawn from their experience: the bankruptcy law needs amending to give bankrupt companies more flexibility in keeping production going and co-operative organizational principles should be promoted in such factories, before factory property is transferred to "phantom companies" or sold off.

Another area of application for co-operative principles is in the long-term financing of businesses and individuals through credit unions. The benefits they offer include lower interest rates and longer-term financing. This is something many small-to-medium enterprises currently need. The

42 http://www.ebanka.eu.

43 Krstić, 2016.

example of the E-bank in Croatia has been described above.

Policy Recommendations

Overall, we have stressed certain important features that we believe may be useful in promoting this economic model in future and will allow some of the strategies outlined above to be used to form and promote co-operatives, not least as a model for reviving bankrupt companies in Bosnia and Herzegovina.

Government bodies and non-governmental organizations in Bosnia and Herzegovina and the Western Balkan region more generally should prioritize co-operatives as a development resource for specific economic fields and for communities. Given this, the first step is to raise awareness and knowledge of this economic model, combatting prejudices that have arisen over time. In times of economic hardship, co-operatives provide economic "leverage" by sharing resources and knowledge, as well as motivating people to be more active in their communities.

As a model for company renewal, co-operatives can have an impact on specific jobs and economic activities, as well as providing positive examples of good practices for further development of co-operatives. Branches and enterprises facing financial difficulty (bankruptcy, privatization failure, etc.) but with the potential to rebuild production should be identified. In such cases, the goal should be to build up worker solidarity within the firm so that wage and contribution claims can be converted into worker shareholdings. Over time, this will enable direct joint management of the company.

Another area for such policy intervention is to amend bankruptcy legislation to give bankrupt enterprises breathing space to restart production and convert workers claims into ownership, preserving as many jobs as possible. Given that owners and, often, bankruptcy trustees tend to focus on shutting down production and layoffs, organized worker shareholding and co-operative-based production might not create an economic miracle, but would surely alleviate shocks, mass layoffs and the destruction of entire communities. As our examples show, over the medium-term, co-operatives and worker shareholding can help a sustainable and integrated model emerge that is much more resistant to endemic economic crisis, while the long-run focus should be on expanding the co-operative ecosystem in general.

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