Co-operatives in a socialist economy: Cuba's decentralization of decision-making Sonja Novkovic

Abstract

Co-operative enterprise differs from investor owned in a number of ways: its purpose is to satisfy member needs; it is guided by a set of internationally recognized principles and values (ICA 1995); its relationship to people and capital is different from investor owned incentive structures; co-operative capital needs to be managed differently to secure control by the members. While managing the 'co-operative difference' is not a trivial task under any circumstance, it seems even more challenging in conditions of state planning and state control attempting to preserve socialist values, as is the case in Cuba. The paper examines these issues and discusses how members can shape the co-operative difference in socialism, and what co-operatives have to offer to Cuban socialist economy.

Introduction

Cuba is embarking on a new path towards a market socialist economic system with presence of diverse business forms designed to deliver higher productivity and assist Cuban economy in its transformation. Its post-revolutionary economy marred by an ongoing US embargo; the USSR- subsidized centrally planned economic system in 1970s-1980s; the 'special period' caused by the economic collapse upon the breakdown of USSR in the 1990s; and finally the period of liberalization of the economy in recent years. However, though Cuba opened up to foreign direct investment and recognized non-state asset ownership, the measures were not addressing structural imbalances of Cuba's economy, leaving it import dependent (Gabriele 2011).

In 2011 Cuba's government initiated more radical reforms of deregulation and decentralization, but, unlike former socialist economies in Eastern Europe and Asia, Cuba is not a 'transition' economy. Its leadership insists on preserving the socialist system, only state owned firms would to a large extent be replaced by small businesses, co-operatives, social enterprises, and various forms of shared ownership with foreign-owned entities (leasing, franchises, and direct investment with minority foreign stake). Cuba's co-operative economy is presently restricted to agriculture, but efforts are under way to expand the co-operative model to other sectors of the economy. Cuban path to self-management and co-operation has an important feature in recognizing the ICA Statement of Co-operative Identity (1995) that

¹ The term 'transition' economy refers to countries whose economic systems and supporting institutions changed from socialism (centrally planned, or self-managed in case of Yugoslavia) to capitalist market economy. Initial steps included privatization of state (or socially owned) enterprises and the introduction of capital markets.

includes co-operative values and principles as integral to the co-operative model, potentially setting their variant of market socialism apart from other market-socialist experiments.

Co-operatives are wide-spread around the world, and function mostly in capitalist economies. They have developed particular institutional characteristics based on their economic environment and challenges arising from the economic system around them.

Management of the co-operative difference, therefore, derives its challenges from the dominant economic paradigm and the prevailing institutions. What would a socialist variant of co-operation look like? Would it be different, and if so how?

The only *socialist* experience with industrial democracy on a large scale was the Yugoslav system of self-management (1950-1991), often viewed as co-operative market socialism. However, Yugoslav self-managed firms, while democratically governed and socially owned, were structured differently than ICA-defined co-operatives. This paper highlights the differences and similarities between the two types of enterprise to point out the characteristics shaped by the economic system (socialism vs capitalism). Since Cuba is proposing a different type of socialism, with mutualisation of a part of the economy and decentralization of government as a model of reform, the characteristics of a co-operative form of ownership are explored and its advantages in the socialist context are discussed. I outline the potential challenges in managing the co-operative difference in this context, particularly in reaching social goals by co-operative economic means, and propose adoption of additional principles to reflect the socialist reality.

Socialism, self-management and co-operatives

Cuba is undergoing significant structural reforms of the economy, as outlined in the Guidelines of the economic and social policy of the party and the revolution (2011). The key principles drawn in the document include the preservation of socialism, and an economic system based on the 'people's socialist ownership over the fundamental means of production, governed by the socialist principle of distribution²: "from each according to his/her capacity, to each according to his/her contribution." Planning continues to be the allocation mechanism, but it would be informed by market trends. The Cuban model will consist of diverse enterprise forms: "In addition to socialist state-run enterprises, which will be the main national economic structure, the Cuban model will also recognize and promote other modalities; namely, foreign investment forms (franchises, joint ventures, etc), co-operatives, small farming, usufruct, franchisement, self-employment and other forms that may emerge and contribute to increased labor efficiency." Also important and reflected in the Guidelines is the principle of security for all citizens in the statement that "no one will be left behind". The main thread in these general guidelines seems to be the overarching goal to achieve social development (the socialist purpose), with decentralizing economic decision making and thereby increasing productive efficiency as a means to achieve that goal. Socialist Cuba has succeeded in reaching a high level

² The significance of this form of distribution is its non-egalitarian character, potentially leading to income inequality. This was viewed by Marx as inevitable in socialism, due to the lingering of capitalist institutions.

of human development³ and there is an ongoing concern and effort not to erode that achievement with economic restructuring.

Generally speaking, socialism can be understood as a social movement, or as an economic system, or both. In line with the Marxist tradition, socialism is an economic system with the means of production owned and controlled by the working class⁴. In practice, this has been understood to mean that the state in the name of its citizens owns and controls the means of production (the centralized Soviet system), or that workers control the socially owned means of production (Yugoslavian decentralized model of self-management). As a social movement, socialism is about ensuring human development, equity, and social justice. With attention to people's needs at its core, the purpose of a socialist society is captured in the subordination of capital, in calls for fair income distribution, and in ensuring general access to social security and the provision of basic necessities, such as food, shelter, healthcare and education, among other. Rooted in the labour theory of value (Ricardo; Marx), work is the main source of income in socialism, with labour (rather than capital) as rightful owner of the residual income, i.e. profit.

Yugoslavia's model of market socialism was based on *social ownership* of the means of production, and on *self-management*⁵. Workers hired managers and made decisions about investments, retained earnings, income distribution, hiring, etc. through workers councils.

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³ The Human development index consists of three components: income, health and education. HDI for Cuba was 0.78 in 2011, well ahead of economies with similar levels of income per capita. http://hdr.undp.org/en/statistics/hdi/

⁴The relations in production will impact the social relations.

⁵ Self-managed firms were termed 'associations of labour' since workers were not hired at a market determined wage; rather they participated in the distribution of earnings according to a predetermined scale in each firm -the 'point system'. The value of the point, and therefore salaries, would fluctuate according to market performance.

Social ownership of the means of production meant that firms at the minimum had to maintain the value of the capital equipment (via mandatory investments at the rate of depreciation), and they had no individual right to dispose of the physical capital⁶. The state could not interfere in the firms' decisions, with the exception of some strategic industries (energy, eg.). Self-management functioned in an economy without a capital (shares) market, and in market competition between multiple self-managed firms, as well as small private firms⁷.

On the other hand, co-operatives, as defined by the International Co-operative Alliance in the Statement of co-operative identity 1995, are voluntary associations of individuals who use the co-op business for their purpose. Members carry out democratic decision-making.

Member association with a co-operative is defined by the user relationship; they can be consumers (consumer co-ops), producers (agricultural co-ops), bank account holders (credit unions) or workers (worker co-ops), among other. Therefore only worker co-operatives (ICA) are directly comparable to self-managed firms.

Co-operatives can also be of the multi-stakeholder type, combining different types of members: workers, consumers, and/or users of services. This form predominates in Italy as 'social co-operatives', in France as SCIC (Sociétés coopératives d'intérêt collectif, or Co-operative community enterprises), and it is known in Quebec as 'solidarity co-operatives'. While Quebec's multi-stakeholder co-ops span various industries, Italian social co-ops mainly deliver social services; they are funded to a large extent by the government contracts, but they deliver the

⁶ Property rights include the right to use an asset, the right to enjoy the 'fruits' produced by the asset, and the right to dispose of the asset. Self-managed firms could dispose of socially owned capital only as a collective, while individual workers had the right to use capital and enjoy the fruits – i.e. distribute profit.

Private businesses were limited by the number of employees they could legally hire.

services independently and autonomously (Vezina & Girard 2013). Municipal government representatives may sit on the Board of directors, similar to the SCIC. One can include various stakeholders in the governance-sometimes with a vote, and sometimes as non-voting members (eg. a school with teachers and parents on the board of directors may have a representative of community, as determined by members, on the board as a non-voting, or a voting director). Rules of engagement are determined by the members.

Socialism and co-operatives

The various institutional settings in an economy are reflected in the predominant underlying values of its decision-making constituencies. The systems and organizations of interest to us here are socialism, capitalism and a co-operative organization, in order to examine the impact and structure of co-operative form of business in this context.

In the Marxist tradition, capitalism is defined as an economic system based on the private ownership of the means of production. The underlying values in capitalism are, therefore, centered on the sovereignty of capital ownership. Ellerman (2007, 2010) argues that this view is misleading as the true nature of capitalism is the employer- employee relationship expressed in a labour contract, or the ability of a capital owner to hire people and appropriate profits. Capitalism, reflected in the neoclassical economic theory, focuses on material incentives that will drive the behavior of 'rational' economic beings: labour is a resource in production, available for hire in a contractual relationship, and separate from person's social needs ("it's strictly business"). The social function of businesses is reduced to charity, if business is profitable enough. Corporate social responsibility is typically reflected in 'giving back to society'

in a charitable form as various types of donations, rather than changing the relations in production.

Socialism, on the other hand, centers on people as complete human beings who are involved in the production processes as an integral part of the social process. People are also engaged in society outside of the production, but their productive lives carry over to their personal lives, and vice-versa. Socialist values are about humanism, equity, equality and solidarity. Labour sovereignty dictates social arrangements and economic institutions in socialism: capital markets (stock exchange) are typically non-existent; private ownership of productive capital and/or land is limited (this excludes personal possessions); financial capital is viewed as a resource in production, rather than a goal in itself; and, in the self-managed variant of socialism, industrial democracy is the prevailing control mechanism.

Co-operative organizations, on the other hand, are voluntary associations of persons coming together to meet their needs through a production process (ICA 1995). Co-operatives are, therefore, also people-centered. Their underlying values are humanism, equity and equality, and solidarity⁸. Co-operatives are self- organized, motivated by needs and/or by social justice, where needs are seen to arise as a result of a) market failure — a service/good is not delivered by the market forces because of low profitability; or b) government failure — government unable to deliver services, or delivers insufficient services to some segment(s) of the population. Social justice motivation for co-operative formation, on the other hand, is about deliberate action to deliver goods/services in a form not driven by the profit motive; a different –socially rather than financially motivated –purpose (see Zamagni & Zamagni 2010 for

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⁸ See ICA 1995 for the description of personal and organizational values.

a discussion). Co-operative members can be any number of stakeholders such as consumers (consumer co-ops), labour (worker co-ops), account holders (financial co-ops), producers (agricoops), or more than one type of member. The social and economic roles are combined in a co-operative form of organization, since the purpose of the business is to meet the needs of members.

The departure between a socialist self-managed firm and a co-operative firm in capitalism is in the role of capital in the organization. Co-operative firms have developed within capitalist systems as a counter-balance to the prevailing (capital-controlled) institutions. On the other hand, the institutional setting in socialist economies limits private ownership of the productive capital. But another key difference, namely where the decision to exercise people's rights is made - at the micro or macro level - arose due to the role of the state in socialism as the 'keeper of values'. In other words, the state through the legal system protects labour rights and social rights more generally, whereas in co-operatives those rights are protected in the firm itself through internal rules and bylaws in a consensus decision of the members. Note however, that labour rights need not be protected in a consumer co-operative, or a credit co-operative, for example. By the same token, a worker co-operative need not be concerned about protecting the environment or charging fair prices to consumers⁹. This is where the values and principles of cooperation play a key role, and why the co-operative structure is important in the social economy. No other type of social enterprise requires their members to adhere to ethical values, govern democratically, or strive for independence. The principles and values of cooperation ensure that co-operatives do not benefit just their members. They connect co-

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⁹ A multi-stakeholder co-operative internalizes these varied interests by incorporating objectives of various types of members (stakeholders) in one organization.

operative organizations to the rest of society, to their community, and to the environment¹⁰. In capitalism, however, the ongoing struggle is to keep the values at the forefront of operations and decision making in co-operatives, which is challenged daily in price competition with capitalist enterprises¹¹. In the interest of clarity, Table 1 lists the main characteristics of socialism, capitalism and a co-operative organization.

	Values and institutional arrangements	Who upholds them?	
	Capital ownership dictates social arrangements and economic institutions;		
The values of capitalism	Capital sovereignty;	Capital owners are the keepers of values;	
	Material incentives;	,	
	Labour is viewed as a resource in production, rather than 'persons' who need to develop/grow;	Rights and protection of private ownership, i.e. capital owners	
	Social values perceived to be separate from economic values and based on the charity model;	Responsibilities/risk - individual	
	Corporate social responsibility draws largely on charity i.e. after-profit 'giving back to society' rather than changing the relations in production.		
	Humanism;	The state is the keeper of values.	
The values of socialism	Equity;	Values are institutionalized via	
	Equality;	the legal structure (at the macro level)	
	Solidarity;		
	Labour sovereignty dictates social arrangements and economic institutions;	Rights and protection to labour /person	
	Capital markets non-existent;	Responsibilities/risk- perceived to be in government hands, and becomes distanced from an individual	
	Private capital ownership limited;		
	Financial capital is viewed as a resource in production, rather than a goal in itself		
	 micro (democratic) governance in the self- managed variant of socialism. 		

¹⁰ Particularly by applying the principles of education and training, co-operation among co-operatives, care for the community and the environment.

11 Education plays the key role in achieving the competitive advantage through co-operative values.

The values of cooperation	Humanism; Equity,	Members (grass roots) are the keepers of values.
	Equality; Solidarity;	Values are institutionalized in the enterprise (micro level)
	Self- organized, driven by needs or by	Rights and responsibilities - individual as a part of the collective (trust, reciprocity play a role in social relations)
	social justice;	
	Social and economic roles are combined;	
	Business purpose is to meet needs of members;	
	Members vary by patronage (use) – consumers, workers, agricultural producers, etc.	

Table 1 Comparisons of values at the core of capitalism, socialism, and co-operatives.

Co-operatives in socialism

Co-operatives can be understood as a form of mutualization of the economy, rather than its privatization¹². Agricultural co-operatives have been around for a number of years in Cuba. Ongoing efforts to bring them in line with the ICA 1995 understanding of co-operative business is a testament to Cuban transformation efforts, at least in agriculture. Agricultural cooperatives are granted the usufructus property rights of land, but they do not exercise the right to dispose of it (i.e. sell the land). On the surface, and from the lens of a capitalist system, this could be considered problematic. Private property rights are at the heart of neoclassical economics, where material incentives and personal gain, i.e. 'rational behaviour' drive market allocation. However, the advances in institutional economics (Elinor Ostrom on the 'commons'

¹² Privatization of state enterprises was the key component of the Eastern European economic transition from socialism to capitalism. Firms, including former Yugoslavia's self-managed firms following nationalization of social property by subsequent governments, were sold to new owners of capital – be it the employees and managers, or other private entities. Employee-owned businesses, including ESOPs in the US, are capitalist firms as long as ownership and control rights are based on the amount of capital invested, rather than a democratic vote.

1990), behavioral economics (Thaler and Sunstein 2009 and others), organizational psychology (Stocki et al 2010), and measures of happiness (Helliwell and Huang 2011) suggest that people are 'predictably irrational' and not self-centered; that material incentives only go so far in adding to people's happiness, and social considerations are just as important; that common property and joint decision making about the use of resources produces better results for society than would privatization; and that psychological ownership, rather than ownership 'on paper' is critical in inducing participation. All this implies that the right to use an asset and to distribute profits from its use may be enough to induce participation and socially efficient outcomes, with careful institutional design and incentive structures¹³.

What about other types of co-operatives? What would the socialist variant of co-operation look like? Based on socialist values and the values of co-operation, the key ingredients, it seems, would need to include:

- Democratic decision-making; one person one vote, or the delegate system in second tier co-operatives.
- 2. Labour sovereignty. As labour control is the key component of socialism, this implies that workers would be a member category in *all* co-operatives.
- 3. Independent decision-making; control in members' and employees' hands.
- 4. Social justice, equity¹⁴, equality.
- 5. Solidarity. Clear decisions about firms in distress, bankruptcy, disposing of assets, but also provisions for temporary declines in demand, retraining, etc.

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¹³ Cuban co-operatives successfully devise their own incentive structures to increase participation and productivity (eg. Alamar Organoponico in Havana).

¹⁴ One implication of this principle would be profit sharing with part-time and seasonal employees.

- 6. Joint ownership of capital. Indivisible reserve funds, but also individual internal accounts would need to be established as an incentive structure, as income security, and as a method of assigning property rights to workers (Ellerman 2007).
- 7. Member-contribution to capitalization. Members should put aside their own funds to capitalize the business (see point 6 above on internal accounts).
- 8. Social transformation. Education, training and investment in social development.
- 9. Social ownership and stewardship of natural resources (land; water...)
- 10. Limited return to capital investment.

We summarize these features in Table 2.

	Characteristics of the hybrid system	Who upholds the values?
	Multi-stakeholder co-operative model (solidarity co-operatives) to include employees as members in all types of co-operatives.	Members-grass roots, including workers.
	Limit part time labour and share profit.	Values institutionalized in the enterprise (micro level). Common ownership and supportive legal structure regulated at the macro level
Co-operative market	Capital ownership structure must result in psychological ownership of the collective	
socialism	'The commons', or common ownership and the usufructus rights need to be accompanied by a responsibility to pay for the required financial	
	capital and other resources, or the maintenance of the resources, at the micro level.	Rights and responsibilities - individual as a part of the collective (trust, reciprocity play a role in social relations)

Table 2. Key components of co-operative market socialism

Managing co-operative difference in Cuban context

Cuba has an unprecedented opportunity to shape its economic institutions, while learning from the experience of others – Yugoslavia's self-managed socialism, China's 'one country two systems', Vietnam's market socialist variant, but also the co-operative systems world-wide. Cuba also has an incredible advantage in having reached high levels of human development, unlike other countries in the region, or countries with similar income levels. The *Guidelines of the economic and social policy of the party and the revolution* (2011) outline the principles of Cuba's transformation as: I. preserve socialism (this has implications for equity in income distribution; limited ownership of the means of production; labour sovereignty); II. maintain high levels of human development; and, III. provide universal access for satisfaction of basic needs (food, healthcare, education, shelter).

From the economic structure point of view, Cuba needs to increase productivity for import substitution particularly in agriculture, and strengthen its manufacturing sector, but it has an advantage in knowledge-based industries, such as bio-technology, drugs and medical equipment, and R&D (Gabriele 2011). What do co-operatives have to offer under these circumstances? Co-operatives can fill the gap in agriculture and in low-tech manufacturing for domestic purpose, as well as in other sectors in longer term. They would also have an advantage in building inter- and intra -sectoral linkages. But how would they be structured in order to meet the goals of a socialist society? Some of the necessary ingredients are outlined above, drawing on the principles of co-operative organizing and socialist goals. Starting from a premise that a principles- based organization, where the structure of mechanisms to realize the

principles is left to members rather than prescribed, has an organizational advantage over mandated forms of organization, it can also be argued that the 7 ICA principles are not sufficiently explicit about the role of co-operatives as vehicles for social transformation. As an example of a co-operative system devising additional principles to secure the common purpose of their network, Mondragon's co-operative principles include those of the ICA, but are more specific about the way to achieve social development¹⁵. I will contrast them to the needs of Cuba's society, as outlined in the *Guidelines*¹⁶. In addition, note above that co-operatives in a socialist economy should include employee members, in line with the principle of labour sovereignty. They may incorporate other types of members for particular purposes, but employee membership ought to be *sine qua non*. Multi-stakeholder co-operative form (and not just worker co-ops) is important in socialism to highlight user rights i.e. the demand side of the equation, often marginalized in socialist (supply side) systems.

Table 3 specifies Mondragon's 10 co-operative principles (Smith 2001), and their interpretation in columns 1 and 2. The third column offers a possible application of these principles to Cuba's development goals. Principles 11 and 12 are added to reflect Cuba's comparative advantage and the lead role it can play in sustainable development practices, and the socialist form of capital ownership. This categorization, of course, is a mere illustration of the potential application of co-operative principles and values in the context of a socialist market economy. Whether Cuba's decision-makers eventually take a similar road or a markedly different one remains to be seen. This is seen as a contribution to the various other debates

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¹⁵ Cuban co-operative sector can modify their own principles of co-operation without trumping the autonomy of the co-operatives themselves.

¹⁶ I also draw on communications with Camila Pineiro-Harnecker and Mike Lebowitz in identifying specific concerns.

about the road from a centrally planned system to a solidarity economy, but also pointing to the specifics of cooperativism in the socialist context.

Principle	Mondragon's interpretation	Application to Cuban socialist goals and values
1. Open admission;	Co-op membership is open to all who qualify for particular tasks and accept the basic principles. Workers go through a probationary period.	Co-op membership should be open to all qualified workers after a probationary period (and/or other types of members where applicable)
2. Democratic organization;	One-member one vote rule; governing council and social council democratically elected; sovereignty of the general assembly; independent co-ops, but a joint network strategy.	Democratic governance. Mondragon's network governance structure offers lessons for economic integration across sectors and social integration through adherence to the same values and principles.
3. Sovereignty of labour;	The wealth is created and distributed on the basis of labour contribution; commitment to job creation; labour remuneration on the basis of solidarity (fixed part of pay + share in dividends according to performance).	Labour sovereignty is a critical component of socialism and labour-management (Ellerman 2007,2010)
4. Instrumental and subordinate nature of capital;	Capital receives some fixed remuneration (interest) but not related to co-op performance.	Limiting financial capital gains; important to allow investing personal savings in the co-op to avoid the Furubotn-Pejovic undercapitalization phenomenon, but also to create a full sense of ownership ¹⁷ of the co-op.
5. Participatory management;	Progressive development of self- management; member participation; this requires transparency and information sharing.	An essential component in building the sense of ownership, but also member education and training.
6. Payment solidarity;	Agreed upon salary differential between highest and lowest pay. Ensuring low income inequality, equitable division of labour and equitable pay.	Important for socialist distribution and principles of equity and solidarity.

¹⁷ Yugoslavia's self-managed firms did not link financial investment to membership. This often created a sense of 'nobody's' firms, rather than 'our' firms and had implications for theft, lack of self-monitoring and lack of individual responsibility for the firm's assets.

7. Inter co- operation;	Cooperation among co- operatives in the network.	Building networks to reach scale economies and build solidarity across sectors of the economy and society.
8. Social transformation;	Commitment to economic and social development, education, community development, social security	The key component of Cuba's efforts to maintain and build on high levels of human development. Co-operatives commit to community building and meeting human needs.
9. Universality;	Cooperation with other organizations sharing the values/goals.	Ensures linking the co-operatives to other organizations with focus on human development, in the country and internationally.
10. Education.	Support for training and education of members and community.	Key for human development as freedom
11. Sustainable development	n/a	Co-operatives should be committed to sustainable practices. Cuba has an advantage in the acquired knowledge about sustainable practices and communities.
12.Social ownership of the means of production	n/a	Reflects the land lease model used in Cuba's agriculture, but it also rests on the social ownership of productive assets more generally.

Table 3. Principles and values of co-operative firms in Mondragon and (potentially) in socialism

In the above sketch of the principles, we recognize two separate roles of capital – one is the physical capital including natural resources used in the production processes, while the other is financial capital. Principle 4 reflects the subordinate role of financial capital in that private financial investment is possible, but returns are limited. Principle 12 refers to common (socialist) ownership of natural resources and capital used in production. While limited small business activity would be possible under this scenario, physical capital and production facilities

would be socially owned¹⁸ (i.e. these assets could not be expropriated). At least initially, the 'price' of asset use could be providing basic needs to communities, as applicable, but a cooperative way to meet those needs is to form a co-operative as a self-help organization. These and other elements of social and economic organization need to be assessed and determined in a democratic process, as do the principles that will guide it. Also important in building a decentralized economy focused on human development is to devise a set of measures to assess adherence to these goals. Many such measures are already in use within the international cooperative movement.

The role of the state in a co-operative system

Successful examples of regional co-operative development suggest that government should support an enabling legal environment; a flexible legal framework; mandatory reserves for co-operative and community economic development; mandatory indivisible reserves; transfer of commonly owned assets in case of closure to other co-operatives or community owned enterprises; provision of individual accounts in co-ops (this is internal decision-making but legal structure should enable it, as well as multi-stakeholder co-operatives with different types of members); 'patient capital' funds and institutions for additional capitalization of investments; enable network creation, as well as participate in networks with co-ops (complex networks, Novkovic and Holm 2012) for issues of concern to all, such as health and elderly care, childcare, research and development projects, and the like.

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¹⁸ This proposal is rooted in Cuba's reality, as well as research findings that support the effectiveness of common ownership with carefully self-designed rules (Ostrom 1990).

Judging by successful development of the social economy such as one in Quebec, the government should also ensure flexibility and diversity in the choice of business form (but may encourage co-op formation for private businesses), as well as encourage democratic governance of social enterprises if they are not co-operatives. A partnership between the government and the social economy in policy design seems to be the formula for long term success.

Financial capital

In socialism, labour is the sole source of income. However, the role of financial capital in co-operatives, as well as in other social enterprises and in socialist systems, is to enable production processes for (sustainable) human development. Financial capital in co-ops is not venture capital. Successful examples of financial support for community social development can be found in Quebec's partnership between the government, social economy and co-operatives, as well as Italian co-operative reserve funds and Mondragon's Caja Laboral. Scotland's (and elsewhere) model of second tier co-operatives and their role in capitalization of its agricultural co-operatives is also an interesting case to explore. It is important to create the conditions for sound investments that reduce risk by assessing social returns on investment – combining the community contribution, government contribution, and social economy funds.

A lack of capital markets in socialism is an advantage in terms of potential demutualisation – there is no market where assets can be sold. However, reasons for demutualization of co-operatives in capitalism are still relevant in the socialist context: if co-operative members become detached from the goals of the organization; if they do not have a

sense of control and influence over the decisions; if they do not have independence to make decisions; if they lose trust in their colleagues (leaders and others); or if they cannot meet their needs in retirement, then in socialism demutualization will be replaced by a loss of the sense of ownership, and consequent behaviour¹⁹ and outcomes.

Conclusions

Motivated by Cuba's restructuring of the economy with the goal to intensify productivity for import substitution and meet the needs of Cubans, and by the proclamation that a large part of this restructuring will include co-operative firms, this paper discusses the potential for co-operative development on a large scale to meet the aspirations of socialism.

Co-operatives (ICA 1995) are contrasted with self-managed firms in Yugoslavia to highlight the differences and offer lessons for Cuban organizational design. I suggest that social transformation using the co-operative model, such as Mondragon's experience, is an appealing format for micro-economic organization of the economy with multiple goals and overall human development at its core. Devising additional co-operative principles that would fit the objectives of Cuba's transformation, reinforce social ownership, and more explicitly capitalize on Cuba's advances in sustainable development may be a road to a sustainable co-operative economy built on socialist objectives.

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¹⁹ This can be manifested as theft, corruption, shirking, black market activity, etc. reducing solidarity.

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