

Social Reform and Worker Cooperatives: Countering Economic Inequality

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Abstract

This article points out the value guiding the argument for large government programs and the regulation of the private sector is a desire to socially and economically protect the working class. Without such an effort and value, the working class is poor and with such an effort the working class is correctly labeled the "middle class and they become the heart and force of a democratic society.

Introduction

The industrial revolution that gathered momentum in Europe and the United States during the late eighteenth century created the historical context for the theoretical development of radical political economy. Utopians argued that private property was the source of existing inequalities but the framework of their thought, based upon conceptions of a pre-industrial society, is today remote. The extensive development of factory production and the social conditions that ensued - and the laissez faire interpretation of these events favored by conventional economists - created the conditions in which modern socialism was born.

Nonetheless, the industrial revolution brought about unprecedented increases in productivity based on the development of factories and the widespread use of machinery. The major cost of these innovations was borne by those with the least amount of power in society – the working class – or, for all intents and purposes, the poor. In 1750 the working class in Europe, specifically England and the United States, lived near subsistence levels and the purchasing power of wages deteriorated during the second half of the eighteenth century, while the controversy among economic historians as to whether real wages rose between 1800 and 1850 suggests that any improvement was only slight (Deane, 1957; Lindert & Williamson, 1983). However, national income in England and the United States grew over this period, so that workers' relative living standards fell and the potential consumption they involuntarily sacrificed financed the investment required for industrialization. Had working-class incomes kept in step with national income, the average worker would have been approximately fifty per cent richer in 1840 than thirty years earlier (Kuznets, 1952; Lindstrom, 1983).

Social Costs

Prior to and during the Industrial Revolution, factory work replaced traditional occupations, typified by rural farming or guild status as an artisan in various crafts. This change resulted from the breakdown of the old feudal societies of Europe and the industrialization of those same economies due to mechanistic innovations in the means of production. Mechanization facilitated the division of labor, creating tasks that women and children could perform. Consequently whole families often worked to achieve subsistence and class stratification increased (Hooks, 2000). The conditions under which labor was performed were unregulated, dangerous, and involved long hours in

dehumanizing conditions. Moreover, the growth of factory production stimulated urbanization in Europe and the United States. As a result, roads, water, sewage, waste management, public health, and provisions for open spaces failed to keep pace with urban migration, while housing was concentrated in crowded slums. The inevitable result was air and water pollution, epidemics of typhoid and cholera, and widespread respiratory and intestinal disease, with a consequent low expectation of life. In addition to these difficulties land used by villages, “commons,” was confiscated by the rich for their capital expansion. In *Capital*, Marx discusses the expropriation of agricultural land from the poor who are dependent on that very land for their basic needs. Known as the Enclosure Movement, this policy was based on a measure initiated by the aristocracy and wealthy land owners in the 18th and 19th century England. The movement was aimed at confiscating land that was owned in common by a village, or at least available to the village for grazing animals and growing food. The Enclosure Movement was designed to expropriate village land and redistribute it to the aristocracy and wealthy for their ownership. In 1845 the British Parliament passed the Enclosure Act of 1845 in which the British government started “enclosing” land (walls, fences, or hedges), and awarding this land to the aristocracy and wealthy land owners, similar to what has been happening in Latin America for decades (Grandia, 2007). The consequence for the people who were using this land was often eviction, sending many of them to slums in the cities in hopes of finding work in low-paying jobs such as factory work spawned by the Industrial Revolution. The most well-known Enclosure Movements were in the British Isles, but the practice had its roots in the Netherlands and caught on to some degree throughout Northern Europe and elsewhere as industrialization spread (Marx, 1846). Both peasants and industrial workers suffered the additional

burden of political persecution in England due to government fears of a repetition of the French Revolution. Successive administrations in England, specifically during the nineteenth century industrial revolution, were slow to intervene and remedy social problems. Thus the period of Napoleonic War and the subsequent economic labor crisis constituted the bleakest chapter in British labor history, precisely because the success of this eventual economic expansion came at the expense of labor (Cole, 1947; Thompson, 1963; Davis 1986). By contrast, capitalists enjoyed absolute power over their labor force, nominally free but able to live only by selling their labor power. This was also the case for labor in the United States. As a result Britain and the United States witnessed a considerable development of radical economic doctrines in the first half of the nineteenth century as a justifiable reaction to these and other accounts of exploitation and injustice.

The Radical Response

Late eighteenth- and early nineteenth-century industrialization rested on three sets of institutional principles: (1) private property as the means of production; (2) a self-regulating laissez faire market economy; and (3) the transformation of labor into a commodity. Orthodox economists (classic liberal) either took as given or positively approved these phenomena while many conservatives and socialists/radicals opposed them. The “Tory Radicals” maintained a paternalistic conservative ethic based on high church English aristocratic beliefs, which usually translated into a distain for industry. Radicals, however, accepted industrial innovations but not the unrestrained rule of private capital, or a self-regulating market which they argued were the ultimate causes of contemporary inequalities and social problems. They believed that, through the elimination of private ownership

of capital, an industrial economy would be created where every person was treated with dignity and the proceeds of production were divided equitably, as argued by early nineteenth-century British socialist, Robert Owen (Davis & O'Hagan, 2010; Donnachie, 2000).

Owen (1771-1858) achieved fame as a businessman, an economic theorist, and a social reformer. From the age of ten he served as a draper's apprentice but at twenty he was the manager of a large cotton factory at New Lanark, which became renowned throughout Britain for its conditions of work. It was at New Lanark that Owen insisted on strict industrial discipline, but in combination with living wages, a decent job environment and compulsory education for workers' children. Owen's political economy was based on three important theses. First, Owen believed that a more just and efficient economy should be based on his experimental model at New Lanark which he described as an "Economy of High Wages." Here Owen holds the view that a wage increase, or higher labor costs, leads to: (1) an improvement in the living standards of workers; and (2) greater efficiency and production by workers. In other words, increased wages generate additional revenue for both the company and workers. Yet Owen's theory conflicted with the prevailing orthodoxy of the time, and today's neoliberal orthodoxy, that any wage increase incurred will come at the expense of profits and hence lead to a diminution in employment and economic activity. Nevertheless, by extending the "Economy of High Wages" from an individual firm to the nation, Owen embraced an embryonic *under consumption theory of depressions*. He advocated a high wage policy that maintained purchasing power as a cure for unemployment and promotion of economic growth.

Secondly, Owen argued that an individualistic economy is inequitable, irrational, and anti-social, and that private ownership was an institution whereby one class gained power over the rest in order to gain profits. In contrast Owen did not attack industry or new technology as it manifested itself in the burgeoning industrial revolution. Rather he denounced private ownership of the means of production, the spread of unfettered and unregulated economic competition, and radical individualism that was propagated through enlightenment liberalism (Smith, 1776). Owen argued to the contrary that private ownership at the expense of labor and unrestrained competition destroyed social cohesion. Furthermore, he argued that individuals by themselves can not simply improve their own lot in life, but rather it was within the context of a community and its many support networks that the betterment of individuals was realized.

Thirdly, Owen's labor theory of value was based on the priority of labor over capital and profit. He saw human labor as something more than simply mechanistic. Owen described human labor as "the natural standard of value" and thought that this concept required capital and machinery to become the servant of labor. This is because Owen believed that capital and profit are designed to serve the human person and community as its first moral priority. Consequently, the state and not the "market," should determine the amount of labor expended on commodities and that workers are to be compensated based on both human needs and effort. Owen argued for economic cooperation, rather than competition, through a network of self-governing communes, where private ownership of the means of production was transformed into a democratic alliance eliminating any labor-ownership conflict.

Social Reform

Owen's career as a national reformer fell into distinct stages. Between the publication of *Towards a New View of Society* in 1813 and *A Report to the County of Lanark* in 1821, he concentrated upon ameliorating existing social problems such as poverty, child labor, long hours, and unemployment. He thought that these could be avoided if his fellow manufacturers copied New Lanark on grounds of "enlightened self-interest." Indeed his arguments at this stage could be shared by capitalists more concerned with long-term profitability than with immediate gains, but found that his appeals met with little response. He then attempted to persuade the government to alleviate social distress and he was intermittently popular in official circles after 1815 when he stressed the importance of environmental improvements more than his personal brand of socialism. As he advanced beyond the role of wealthy philanthropist to the advocacy of wider reforms that threatened established authority, he became less influential. Nevertheless, Owen established "communist" communities at Orbiston (near Glasgow), Tytherley (in Hampshire) and between 1824 and 1829 at New Harmony in Indiana. The aim was to settle unemployed laborers on the land in self-governed "Villages of Unity and Cooperation." Such schemes reflected his conviction that society as then constituted, would permit cooperatives to supplant existing institutional structures. Owen did this by attempting to persuade the rich and influential about his ideas for social and economic transformation. Yet the Owenite settlements declined and ultimately disappeared, partly because of the hostile external environment and the agricultural depression which generated an influx of unemployed workers, and consequently an excess supply of labor to the villages of cooperation. The establishment and collapse of these

schemes devoured a large proportion of Owen's wealth and assets.

Owen persisted in his collectivist experimentations. In 1824 the London Cooperative Society was formed as a store for cooperative trading, designed to supersede competitive distribution and allow craftsmen to exchange goods without capitalist intermediaries. It aimed to sell at trade prices and use the savings accumulated through elimination of retailers' profits to establish socialist communities. The next envisaged stage of development involved members' cooperation to produce directly for each other rather than choosing between capitalist goods sold in their stores; the London Society opened an Exchange Bazaar for societies and individuals to engage in mutual exchange. Owen returned from the United States in 1829, when more than three hundred cooperative societies were in existence, a figure which rose to almost five hundred by 1832, although many pursued solely educational objectives. After 1830 producers' societies aiming to supply cooperative stores developed rapidly. They arose first in trades requiring little capital and were particularly attractive to craftsmen whose independent status was threatened by capitalist production methods. They often possessed close connections with the relevant trade unions which saw them as auxiliaries in the struggle for better conditions by providing jobs for the unemployed and those on strike. In 1831 the first National Cooperative Congress met, at which Owen fostered producers' cooperatives as a means of converting even more unions to the creed of cooperation.

Cooperative stores bought wholesale and sold retail, the commodities demanded by their members, but cooperative producers faced the difficult problem of obtaining a market for all their products. This problem

stimulated development of labor exchanges where workmen and producers' cooperatives could exchange products directly, and thus dispense with both employers and merchants. The most important such institution, the National Equitable Labor Exchange, was established by Owen in 1832 and stimulated the formation of similar exchanges in provincial cities. They sought to secure a wider market for cooperative groups and to enable them to exchange their products at an equitable valuation resting on labor time. Owen appointed trade union "valuers" to price goods on the basis of the cost of raw materials plus the amount of labor time expended on them. A new currency of labor notes was issued for the conduct of transactions. Crucial weaknesses emerged, however. Labor and commercial prices coexisted; goods the exchanges offered more cheaply were soon disposed of while the more expensive remained unsold. Exchanges would not control their stocks to demand levels and movements in the manner of capitalist retailers, since they had to take what members brought them. Consequently, they became overstocked where there were many cooperative producers and understocked in trades where there were few.

In particular their supplies were concentrated upon goods that could be produced by craftsmen possessing little capital. Despite this major weakness, they enjoyed considerable success for a time, but collapsed in the general crash of the movement in 1834. Even then some exchanges balanced their books while the National Equitable Labor Exchange incurred a heavy debt which then fell to Owen. When Owen returned to England in 1829, he found that a trade union movement had emerged after the repeal of the Combination Act in 1824 and in 1829 he witnessed the formation of the first modern national union, the Operative Spinners. While this was happening, the next two years saw much social unrest in the form of agricultural riots and

a wave of strike activity in the northern textile towns as a means of achieving the eight-hour work day. Then by 1832 several distinct but related bodies, such as, the Owenite societies, cooperative stores, cooperative producers, labor exchange, and trade unions, looked to Owen for leadership. Most were growing rapidly, as workers disillusioned by the terms of the 1832 Reform Act, swung away from political, toward organized labor action. Owen sought the fusion of these groups into one national organization, centrally directed and under worker control which would challenge and transform economic relations through its practice of cooperative production.

By 1833 the Operative Builders' Union (OBU) was the largest in the country, with a membership of sixty thousand. It adopted an Owenite agenda to take over the construction industry and reorganize it as a national guild. To implement this program none of its members would work for capitalist builders who refused to join the guild. The owners attempted to destroy the OBU by a lockout by forcing those re-employed to sign a document (i.e., a written pledge not to join a union which gives the employer the right to fire them if they violate the pledge). The workers lost as the OBU simultaneously fought the lockout and attempted to launch the guild with inadequate financial resources. Its members were then forced back to work by various regions during 1834 and the end of that year the OBU ceased to exist. It split into craft sections with a greatly reduced membership. Owen, nevertheless, sought to unite all the associations intended for the improvement of the working class. To this end he inspired the formation of the Grand National Consolidated Trade Unions (GNCTU) which was intended to be a single inclusive union aiming to supersede capitalism by a cooperative system based upon workers' control of production. It sought to implement on an economy-wide basis a plan

similar to the OBU guild for construction. Ultimately the GNCTU would control, through its constituent members, all industry, thereby taking over the functions of capitalists, parliament, and local government. It would become the locus of economic, and ultimately political, power. The GNCTU's formation was followed by feverish organization by discounting cooperative retail and producer societies, unions alone attracted over one million members.

As with the OBU, owners reacted to the GNCTU by presenting the document to workers, with the threat of a lockout if not signed. This response originated in Derby; it was imitated in other towns, but Derby remained the test-struggle. The workers lost, being forced back to work after a lockout lasting four months. Given the repeal of the Combination Acts, the case was pursued under the 1797 Naval Mutinies Act which was never intended to apply to trade unions. Nonetheless, this opportunity for the government to deter union organization arose because many unions adopted secret initiation ceremonies under the threat of employer retaliation. As a result, the GNCTU encountered severe administrative problems. The recruits it made and the disputes it faced were so abundant that urgent problems of management were inevitably ignored. Internal dissention developed and Owen became disillusioned; he hoped to initiate bloodless revolution by providing examples of the benefits derived from cooperation. Accordingly he dissolved the GNCTU in August 1834, arguing for a return to education and the need for an ethical appeal in preference to coercion. The GNCTU faded away, but some of its constituent groups and elements of its cooperative ideology remained. Owen returned to establishing villages of cooperation (e.g., Queenswood in 1839), and in 1844 the Rochdale Pioneers' Cooperative Society developed from a local Owenite body. However, after 1834 the thrust of working-class agitation moved from

industrial to political arenas, focusing upon the demands of the Chartists.

The GNCTU was undoubtedly a failure in its implementation, yet it was attempting an impossible task which no leadership could have achieved. This is because trade unions were still learning the art of organizing into a cohesive effective unit. At the time workers were only able to accomplish sporadic results from organizing into unions and cooperatives. However, they were unable to achieve any sustained action. By contrast, having just won a significant political victory in the 1832 Reform Act, factory owners and the burgeoning industrialists were determined in their resolve to counter any form of organized labor movement or cooperative based industry. They also possessed the support of a Whig government determined to show that the Reform Act would not destroy property rights. Against such power, workers were poorly paid, uneducated, and only beginning to understand the importance to organized efforts to seek improved working conditions and living wage salaries.

Cooperatives Today

The roots of the cooperative movement can be traced to multiple influences and extend worldwide. In the Anglosphere, post-feudal forms of cooperation between workers and owners that are expressed today as “profit-sharing” and “surplus sharing” arrangements, existed as far back as 1795 (Gates, 1998; Ridley-Duff, 2007; Bell 1973). The key ideological influence on the Anglosphere branch of the cooperative movement, however, was a rejection of the “charity principles” that underpinned welfare reforms when the British government radically revised its Poor Laws in 1834. As both state and church institutions began to routinely distinguish between the “deserving” and

“underserving” poor, a movement of friendly societies grew throughout the British Empire based on the principle of mutuality, committed to self-help in the welfare of working people. Also Robert Owen and his partners in their New Landmark community introduced better labor standards including discounted retail shops where profits were passed on to employees. Later Friendly Societies established forums through which one member one vote was practiced in organizational decision-making (Whitsett, 2006). The principles challenged the idea that a person should be an owner of property before being granted a political vote. Throughout the second half of the nineteenth century, there has been a surge in the number of cooperative organizations, both in commercial practice and civil society, operating to advance democracy and universal suffrage as a political principle (Rothschild & Allen-Whitt, 1986). Friendly Societies and consumer cooperatives became the dominant form of organization amongst working people in Anglosphere industrial societies prior to the rise of trade unions and industrial factories. Toward the end of the nineteenth century, over eighty percent of British working age men and ninety percent of Australian working age men were members of on or more Friendly Society (Weinbren & James, 2005).

From the mid-nineteenth century, mutual organizations embraced these ideas in economic enterprises, firstly amongst tradespeople, and later in cooperative stores, educational institutes, financial institutions, and industrial enterprises (Brown, 2006). The common thread (enacted in different ways, and subject to the constraints of various systems of national law) is the principle that an enterprise or association should be owned and controlled by the people it serves, and share any surplus on the basis of member’s cooperative contribution (as a producer, laborer or consumer) rather than their

capacity to invest financial capital. Nonetheless, the cooperative movement has been fueled globally by ideas of economic democracy. Economic democracy is a socioeconomic philosophy that suggests an expansion of decision-making power from a small minority of corporate shareholders to a larger majority of public stakeholders. There are many different approaches to thinking about and building economic democracy. Both Marxism and anarchism, for example, have been influenced by utopian socialism, which was based on voluntary cooperation, without recognition of class conflict (Monzon & Chaves, 2008). Anarchists are committed to libertarian socialism and have focused on local organization, including locally managed cooperatives, linked through confederations of unions, cooperatives and communities. Marxists, who as socialists have likewise held and worked for the goal of democratizing productive and reproductive relationships, often placed a greater strategic emphasis on confronting the larger scales of human organization. As they viewed the capitalist class to be politically, militarily and culturally mobilized for the purpose of maintaining an exploitable working class, they fought in the early 20th century to appropriate from the capitalist class the society's collective political capacity in the form of the state, either through democratic socialism, or through what came to be known as Leninism. Though they regard the state as an unnecessary oppressive institution, Marxists consider appropriating national and international-scale capitalist institutions and resources (such as the state) to be an important first pillar in creating conditions favorable to solidaristic economies (Cliff & Cluckstein, 1988). With the declining influence in the Soviet Union after the 1960s, socialist strategies pluralized, though economic democratizers have not yet established a fundamental challenge to the hegemony of global neoliberal capitalism.

Basically, a cooperative today is a legal entity owned and democratically controlled by its members. Those same members often have a close association with the enterprise as producers or consumers of its products or services, or as its employees. In some countries, e.g., Finland and Sweden, there are specific forms of incorporation for cooperatives and may take the form of companies limited by shares or by guarantee, partnerships or unincorporated associations. In the UK they may also use the industrial and provident society structure. In the United States, cooperatives are often organized as non-capital stock corporations under state-specific cooperative laws. However, they may also be unincorporated associations or business corporations such as limited liability companies or partnerships. Such forms are useful when the members want to allow: (1) some members to have a greater share of the control; or, (2) some investors to have a return on their capital that exceeds fixed interest. Neither of these may be allowed under local laws for cooperatives. Nevertheless, cooperatives often share their earnings with the membership as dividends, which are divided among the members according to their participation in the enterprise, such as patronage, instead of according to the value of their capital shareholdings as is done by a joint stock company (Ridley-Duff, 2008; 2009).

Cooperatives are typically based on the cooperative values of “self-help, self-responsibility, democracy and equality, equity and solidarity,” and the seven cooperative principles: (1) voluntary and open membership, (2) democratic member control, (3) economic participation by members, (4) autonomy and independence, (5) education, training, and information, (6) cooperation among cooperatives, and (7) concern for community (International Cooperative Alliance, 2013). Cooperatives are dedicated to the values of openness, social responsibility and caring for

others. Such legal entities have a range of social characteristics. Membership is open, meaning that anyone who satisfies certain non-discriminatory conditions may join. Economic benefits are distributed proportionally to each member's level of participation in the cooperative, for instance, by a dividend on sales or purchases, rather than according to capital invested. Cooperatives may be classified as either *worker*, *consumer*, *producer*, *purchasing*, or *housing* cooperatives.

Conclusion

Although Owen's innovations beyond the sphere of New Lanark failed during his lifetime, he left an enduring legacy to the future of radical theory and the possibility of restructuring economic activity into cooperative economic arrangements that could potentially rectify some of the serious underlying economic issues faced by the United States. The influence of Owen's would be that: (1) he established a personal example of one who cast aside his personal wealth in an endeavor to secure a more just future for others; (2) the economic measures at New Lanark illustrated that a policy of high wages and improved conditions need not destroy profitability; (3) many of Owen's theoretical innovations (e.g., labor value to replace money as an Equitable Labor Exchange) are not inherently impractical; (4) his theories of, and attempts to establish, workers' cooperatives made Owen the instigator of a significant movement of later times, as developments from the Rochdale Pioneers of 1844 demonstrate; (5) Owen's appreciation of the role of trade unions in replacing individual worker motivations by collective policy provided a clue to improving quantitative and qualitative living standards.

Owen's efforts at creating a democratic economy through cooperative movements pointed to a force that could potentially be harnessed for achieving a future transformation of just and productive economic relations. Owen's approach to resolving economic injustice epitomized the Utopian approach to resolving exploitation. He hoped for individual conversion, then government action. Yet this was an unrealistic ambition given the existing power structure at the time. But no so for today's issues regarding the current economic devastation in the Great Recession. What Owen lacked was a theory of class struggle, believing instead that the transition to socialism, or a more democratic economy, would occur through the influence of reason and persuasion. Nevertheless, the potential that a democratic economy and a cooperative movement possesses for insulating people from economic calamity is that arguably, cooperatives tend to have a longer life than other types of enterprises, and thus a higher level of entrepreneurial sustainability. The rate of survival of cooperatives after three years was 75%, whereas the ratio was only 20% for all enterprises (United Nations, 2012). Furthermore, cooperative banks build up counter-cyclical buffers that function well in case of a crisis," and are less likely to lead members and clients towards a debt trap. This is explained by their more democratic governance that is less likely to reduce perverse incentives and subsequent contributions to economic bubbles (Mason, 2009; Cassidy, 2009; Kraus, Piff, & Keltner, 2009).

Acronyms

GNCTU: Grand National Consolidated Trades Union
OBU: Operative Builders Unions

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