

Cooperative Societies in Greenland and Nunavik: A Lesson on the Importance of Supporting Structures

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Abstract

We present different types of cooperatives in Greenland and Nunavik, Canada, in order to assess two different developments. A first approach to comparisons leads to an anomaly suggesting the necessity of empirical analysis in the two regions. Why is it that Greenland never really managed to create a cooperative movement? Except for consumer cooperatives, the remaining types of supply and worker cooperatives were a failure. There were isolated success stories for a limited period of time, but the general picture remains the same. Most of these cooperatives are liquidated, and we never saw multi-purpose cooperatives established. Quite the contrary took place in Nunavik, in the northern part of Québec in Canada. Here we saw a viable cooperative movement, and everywhere local communities established multi-purpose cooperatives. At the same time a strong cooperative association evolved. It seems that cooperative supporting structures are essential to a cooperative success in an Arctic region.

Introduction

Greenland at a first glance appears unfriendly to human activities. The climate is harsh and the landscape is characterized by rocky snow topped peaks and icebergs along the coastlines. Inland, a 3,000 meters thick icecap dominates. Nevertheless, approximately 55,000 persons, among which 87 percent are Inuit (Aeskimos), live on the shores of this vast island. Besides sheep herding in the south of Greenland, farming is virtually impossible, so fisheries and administration are by far the most important economic activities. Of the Greenland disposable gross national income of some 10 billion kroner in 2,000 (US\$1.25 billion), 3 billion kroner are partly a block grant from the Danish state (2.4 billion) and partly different Danish ministries' allocations to Greenland (0.6 billions). This means that transfer incomes are injected into the Greenland economy to the equivalent of almost half of the GDP, which is approximately 7 billion kroner. Some of the GDP is value added stemming from economic activities in Greenland and some is induced by the block grant, which has

a multiplier effect on the economy. The so-called percentage of collectivism is high. Some 80 percent of the economic activities are either Home Rule Government or municipal administration or simply Home rule state owned and operated businesses. The Royal Greenland Trade, Tele Greenland, The KNI corporation (retailing) and the Royal Arctic Line are all state operations. Other companies such as Greenland Air are joint ventures between private interests and the Home Rule. The structure of the economy is skewed with a dominant sector of non-tradables. It is in this sector that private initiative settled with profit expectations due to Government spending. Tradable goods saw since the 1950s an ever-increasing annual average growth in terms of sectoral GDP shares. However, this was mainly because first the Danish state and later the Home Rule State ran fisheries and manufacturing plants on shore. Private initiative mainly engaged in off shore larger vessels that not always land the output to manufacturing on shore in Greenland. Politically, Greenland is a self-governed region within the Danish kingdom with a home rule government (*landsstyret*) and a parliament (*landstinget*) with legislative power. Greenland autonomously decides on all matters except foreign policy, administration of judicial matters and the currency, which is shared with Denmark.

Nunavut in eastern Arctic Canada is a former part of the Northwest territories. It is now a new territory created in 1999, in which 25,000 persons live, among which 85 percent are Inuit. First, Nunavut Territorial Assembly has a legislative power in a wide variety of fields, including education, health and social services, etc. *Nunavik* is the northernmost region of the Québec province, where some 10,000 persons live in 14 coastal villages, while 90 percent of the population is Inuit by origin. Nunavik has a relative autonomy in fields such as education and health, with a specific body in each field, such as a School board, a Health board, etc. But there is no assembly with legislative power *per se*. A political commission appointed by the Canadian federal government, the Québec provincial government and the Makivik Corporation, the birthright Inuit organization, proposed the creation of a form of public government for Nunavik that has many features in common with Nunavut.

Nunavik has a sparse population when compared to Greenland. There were a total Inuit and non-Inuit population of 8,712 people in 1996, and the largest town of Kuujuaq had 1,726 residents, while the second largest of Inukjuak had 1,181. In terms of these figures, Nunavik inhabited areas are – as in Northern Greenland – mostly settlements and some towns of no more than 2,000 inhabitants. As in other parts of the Arctic North America (including Greenland), the Government sector plays a crucial role in the regional economy. However, in Canada and Alaska, the governments do not engage in activities as owners of the companies; instead there is a government spending effect that spurs growth and development mainly in the non-tradables sector. Few years ago, the privately owned Hudson Bay Company (HBC) sold its northern operations to the Northwest Company, which is owned by former

employees of the HBC. The Northwest took over operations of retail stores all over Northern Canada, which then were re-named "Northern Stores".

Besides, as part of the James Bay Agreement the Inuits gave up land claims in return for Can.\$225 million to the Cree Indians, while the Inuit "share" of this deal was Can\$90 million. The land claim capital marked among other things the establishment of the "Makivik Corporation", which has all Inuits in Nunavik as beneficiary "shareholders". The "Makivik Corporation" is a holding company of several subsidiary companies. One of these is for instance "First Air", named after "the first people" or the Inuits that inhabited the region. The "Makivik Corporation" is a people's stock holding company, something different from a company organized as a cooperative.

Cooperative and participatory policy articulation in post-war Greenland

Ever since the first great plan for modernizing Greenland came into being, cooperative societies and popular participation in the development process were aired as important strategies for a gradual privatization of the Danish State's engagement. A central planning system in the 1960s aimed at promoting growth and development. This system is in principle still functioning – as seen in other Northern communities, where the Government plays a crucial role regulating the economy. The fact that private initiative never took interest and still until today is marginalized to the non-tradeables sector, has led to a lot of neo-liberal bogus about the need for markets and privatizations. In reality the State in the 1950s tried to implement a strategy of creating optimal conditions for the operations of Danish and transnational companies in Greenland. In the late 1950s, however, it became apparent that private initiative never took interest in investing in companies manufacturing tradable goods. Instead, private small scale companies were established in comply of Government spending. In response to that, the State in 1959 took up a grand scale industrialization program that alleviated the skewed industrial structure and secured an impressive growth not just in the economy as a whole, but also in the tradables sector, that grew faster in terms of sectoral value-added shares of GDP than the non-tradeables sector. It is quite understandable that the State, and later the Home Rule Government, maintained control and regulation over the years. Running an economy in the Arctic North on loftily ideological, but correct neo-liberal economic doctrines, can be nothing but a hazardous venture – that was the reality then, and it is even more the reality today.

The *Greenland Commission of 1950* (G50) and later the *Greenland Committee of 1960* (G60) underscored the importance of these strategies. In relation to the hesitant private investors and the absence of significant developments in the tradables sector, the G60 described its tasks like this (Winther, 1988b:45):

In relation to an assessment of the development that took place in production, it is expected that the committee goes through the natural

industrial potentials – except the mineralogical ones, to be discussed in a special mining law commission established by the Minister for Greenland Affairs. In relation to the general development the committee is also expected to discuss the issue of investments in the Greenland industry with due considerations to the large growth of the population. The Committee also ought to consider the question of an eventual transition from State operations to Private operations of the supply companies and the technical companies under Greenland's Technical Organization (including operations of cooperative societies).

Putting the cooperative strategy into a pan-arctic perspective, the cooperatives in the Arctic regions of the US and Canada were mentioned by a Commission in the late 1960s as an instrument for promoting the so called "Greenlandization" (Winther, 1988a:151):

Furthermore, development suggests a cautious approach in relation to selling of State companies unless it can be done to Greenland communities, that can guarantee the local population's control with the development. The ascertained occurrences within the private sector speak for an enhanced support to the cooperative movement, because experiences show that through cooperation, it is possible to activate the Greenland population. Similar experiences are done in the Arctic regions of the U.S. and Canada, where a conscious policy of developing local industries on a cooperative base is adopted.

After the adoption of Home Rule in 1979, politicians, administrators and planners from Denmark took a radical approach to the idea of cooperative societies in Greenland. Some of these trend-setting Danish intellectuals with a past as Marxist professors favored the ideology of central planning, enterprise councils and cooperatives in a different way than seen before in realization to the reformist forces just quoted. The forces in the commissions were probably more or less rooted in Social Democratic ideas in the central Danish Administration and the Ministry for Greenland Affairs. The radical approach was presented by the Industrial Policy Program adopted in Qaqortoq in 1980. However, the program never got any importance, which was likely due to reluctant forces still firmly attached to the traditions of paternalism and colonialism from Copenhagen. These forces took leading positions in the Home Rule Administration and in the enterprises the Home Rule took over from the State during the 1980s. Confronting this with the policies of the two progressive political parties Siumut and Inuit Ataqatigiit, is rather interesting. Either the politicians later changed their mind drastically, or the post-colonial new elite of Danish managers, administrators and planners, in just another "Yes Minister" style, managed to maneuver cooperative ideas away from the politicians.

In 1977 the Siumut party as a part of its program stated (Dahl, 1986:205):

Siumut will now and in the future cooperate with and defend the majority of the Greenland Population's – the fishermen, the hunters, the sheep breeders and the cooperative societies – interests. The goal for Siumut is that all the State Trade activities are taken over by cooperative societies.

And the small left radical party Inuit Ataqatigiit (IA) went even further by declaring (*ibid.*:209):

IA will work for the people's political freedom on the base of social ownership. All means of production established for profits owned by States, multi-national companies or other companies are diluting the native population's interests. Hence, these will be handed over to the Greenland State or local town and settlement communities in order to create an alternative to the industrial development that limits the possibilities for self-reliance. The goal is that all employees take care of planning, operations, management and decisions at the work places.

Studies of early Danish Government sources and later Home Rule political and administrative sources all point to the same up to the mid-1980s. There is no doubt that a political and administrative will did exist to implement a participatory and cooperative way. Yet, almost nothing happened in reality – the cooperative movement in Greenland never managed to get off the ground. The cooperatives did not carry the impressive records of growth and development for the Greenland economy from 1955 to 1992. Instead, it became a hybrid of Government initiative, income transfers from the Danish State and central planning in the tradables sector assisted by private initiative in the non-tradables sector that carried this through.

Cooperatives in Greenland

In terms of statistics and empirical analysis, it was a very fragmented picture one got from a first approach to analysis of the Greenland Cooperatives in the 1980s (Winther, 1987). There was an urgent need for a lot of pioneering work, and quantitative data were hard to obtain. Besides "advanced story telling", we only have qualitative methods, observations and available documents to rely on. No statistical or econometric study has ever been performed, and it is probably close to impossible to attain any economic data on the performance of the cooperatives.

In the 1980s Greenland had a federation of co-ops (Kapikat), which had as members consumer cooperatives (Brugsen), producer cooperatives of hunters and fishermen (*i.e.* supply co-ops) and small scale cooperative electrical power plants and hydro power stations in the settlements. Likewise, the labor-movement (SIK) established two worker co-ops supplying cleaning services. These two co-ops in Narsaq and Nuuk only had a short existence, before they were forced out of business.

Consumer cooperatives

In contrast to the supply cooperatives the consumer cooperatives are distinguished by large scale operations on the retail market for consumer goods and are all situated in the bigger towns. The Ministry of Greenland Affairs in the 1960s and 1970s frequently looked favorably on the idea of a cooperative takeover of the Royal Greenland Trade shops in the towns. Largely due to this, many local communities started their own consumer co-ops. But when it came to the realization of the promises, Greenlanders often found a gap between promises and reality. Only two of the Royal Greenland Trade shops were taken over by the consumers. Even after the Home Rule took over the Royal Greenland Trade's retail and wholesale division, there was no further intention of handing over these divisions later to be organized as KNI (Kalaallit Niuersifrat, "the land of human beings"). The KNI has since 1989 been a shareholding company with the Home Rule Government as the only shareholder. One privatization plan took prominence in the public debate in 2001. It was actually the only one communicated to the public by the KNI board. This plan favors a model involving a Danish strategic investor holding a majority of stock together with a local minority of stockholders.

The consumer co-ops in Greenland were above all an initiative from State initiators in Denmark and of course from the powerful Danish Cooperative Wholesale Society and Union in Copenhagen. Moreover, during the years the Greenland co-ops enjoyed financial, administrative and consultative support from Denmark. In many West coast towns a quasi-competitive situation arose between the Co-op shops and the Government owned and operated shops.

For quite a while, the issue of what is left of the ideal consumer co-op based on the Rochdale principles of democratic decision-making and profit sharing, has occasionally been debated in Denmark. Of course some of these are still there. The stores are still operated in accordance with democratic principles. It is the general assembly that confirms and decides the overall policies of the enterprise, and still dividends are paid. However, it is hard to tell the difference between traditional profit-oriented retail chains and the consumer cooperatives. Both types of firms are commercially oriented. Like the shareholders in the traditional retail company, the consumers of co-ops find it difficult to control professional management and key personnel. Whether professional management and other key personnel run a co-op or a traditional stock holding company does not change much of the day-to-day operations. Similarly in Greenland it is hard to see the difference between the consumer co-ops and the KNI. Nevertheless, the co-ops elect their boards democratically at general assemblies of their members. By the end of the year, a dividend is paid in proportion to the members' purchases. The dividend principle is actually also adopted by the KNI. However, the board here is composed of politically Home Rule appointed members. Still, it is hard to tell the difference. The "Brugsen"

is operated commercially as an ordinary retail chain, and quite illustrating, the co-op movement has not put much efforts into the debate on the privatization of the KNI. Confronting this statement with the earlier efforts of taking over the shops, when the Danish State ran them, suggests that the two players are quite happy with things as they are. Of course, whether the KNI is owned and operated by Government or by a foreign capitalist retail chain makes a difference. Still, the cooperative movement has made very little noise regarding this crucial question. The two retail chains are doing well and are almost completely dominant with regard to groceries and merchandise.

Supply cooperatives

In 1987 it was possible to establish at least a location of all the supply cooperatives. Besides two co-ops, the "Avataq" limited liability company of Qaqortoq (Julianehåb) and the "Sipineq" limited liability company of Sisimiut (Holsteinsborg), all the remaining co-ops were operated in small settlements of no more than 600 inhabitants. The concept limited liability company emphasizes that a co-op share can only be sold at face value and that each member only was liable for this. The value of the share was often small. In "Sipineq" for instance it was 1,000 Danish Kroner. Whether all Greenland Co-ops actually practiced this principle remains an open question. Often the Home Rule Government financed the co-ops anyway and only a small share of the capital was supposed to be put up front by the co-op member.

In 1987, I compiled whatever available information I could get on these cooperatives (Winther, 1988b). According to these preliminary investigations, it was possible to identify some 30 co-ops, that were in the process of establishment, or were either still functioning or had been functioning before liquidation. A common feature of the cooperatives was that, technologically speaking, they were all engaged in low-technology activities.

Typical settlement production in Greenland is dominated by the landing, delivery and primitive manufacturing of a residual base of raw inputs (fish, sea and land mammals), where processing, for instance fish at the lowest technological level, is characterized by manual methods without cold storage facilities. In other words, the fish is either salted or dried. What the Royal Greenland Trade left in the settlements after leaving these places was only drying equipment. Part of the Danish planning strategy in the 1960s and 1970s was to close down the settlements and move the inhabitants into the townships in order to concentrate labor, capital and housing in an optimal way. This created in the settlements some immediate needs for a substitute after the Royal Greenland had closed down facilities. In many instances the set up of a co-op was a means, for the settlement people, to avoid moving to the towns. Small-scale expansions occurred due to low interest loans obtained from the Home Rule. Often an investment in a small cold storage house created a buffer production connected to the factories in the towns along the West coast. A major feature of

all the co-ops was that the cold storage plants were used for all those species, that neither private investors nor the Royal Greenland Trade found profitable to exploit. In addition to trade and meat and fish processing, there was a small number of co-ops based on sheep breeding and reindeer breeding. Only one plant in the settlements had a technology at a higher level than the archetype plant just described. In 1984, a mechanized plant was established in Qeqertersuatsiaat (Fiskenæsset) south of the capital Nuuk.

What went wrong: problems and constraints for cooperatives

By the late 1980s it became apparent, that the cooperative strategies in the days of the birth of Greenland Home Rule were jettisoned even before sincere steps had been taken to support and strengthen the cooperative movement. The co-ops of the towns "Avataq" and "Sipineq" were both liquidated. All the settlement co-ops became a part of Royal Greenland and later on of NUKA Inc., a division of the Royal Greenland Inc., separated from the company in 1999.

The lack of data mentioned above of course creates insecurities as how to explain why the cooperatives never got off. At least six explanatory factors come into mind:

- First of all, the supply co-ops mostly eked out an economic existence relatively less important than other activities, between on the one hand a dominant Danish State or a dominant Home Rule State and, on the other hand, a weaker traditional private sector. The private sector's value added constitutes less than 60 percent of GDP, and it mainly occupies business operations promoted by Government spending in the towns of Greenland. This peripheral position meant that the businesses of supply co-ops were reduced to operations in settlements, where no private investors were interested in spending their capital. Moreover in towns, the presence of both the Royal Greenland Trade factory and a cooperative often meant that the cooperative had to take up productions that neither private investors nor the State or Home Rule found sufficiently profitable;
- Second, a profound lack of education and knowledge in relation to cooperative ideas and the operations of a company made up a forceful impediment to the dissemination of cooperatives. There was a lack of identification with the cooperative principles of "one person – one vote" in decision-making as opposed to the "one share – one vote" principle in other types of firms. Moreover there was a lack of knowledge of the principle of dividends issued in proportion with what is bought and sold to the company by its co-op members. In general alienated sentiments were present – which may owe its explanations to the fact that the cooperative idea was promoted from above by the Danish State through commissions and committees, from the Danish consumer cooperative movement or from political parties in Greenland. When

cooperatives become' a success story as seen in Danish agriculture, in the Danish Consumer movement, or for instance in other countries – it is the story about a grassroots initiative and a grassroots mobilization of local societies. An expert launched cooperative movement without an accompanying grassroots mobilization seems less viable than the model started from bottom up;

- Third, the development model for Greenland comprises a micro example of the Marshall aid principle to Europe after the Second World War. The idea was that Greenland needed industrial development, and when there was a low propensity to invest in the sector for tradable goods, the State should in the short-run set up fishing and fishing industries on shore. At the same time, the State established the remaining sectors necessary to run a mixed economy. In twenty years the Greenland economy came very close to the rest of Scandinavia, which was a titanic leap forward. It was a development model, with hardly a resemblance anywhere else in the world. The socio-economic consequences even exist today in post-colonial Greenland. In a way, we could say that the indigenous population was and still is anaesthetized by the benevolent initiative from the Danish colonial rulers. It created a different story, than seen when former British and French colonies obtained independence from their colonial rulers. That was occasionally a more violent and bloody story. Yet, it was colonialism imposing a Scandinavian way of life on the Inuits, and the ramifications of that phenomenon are still present. There is a widespread lack of entrepreneurship and a lack of social innovations of the kind attached to a cooperative movement. Talking about the grassroots initiative above, we have implicitly emphasized the crux of the matter. Cooperative initiative is a defensive precaution against a hostile laissez-faire market society. It is a self-reliance movement set up to fulfill workers', consumers' and suppliers' needs – such as a stable and secure income, inexpensive quality goods and services, and a place where the self-employed producers can sell their produce and services. If a government guarantees all that anyway, the very base for cooperation disintegrates, and that could well have been the case in Greenland;
- Fourth, the geographical conditions in Northern Greenland could not secure a stable and on going production. Many supply cooperatives were located in the North where frozen waters during wintertime make it impossible to transport processed fish to consumers in the south or to receive necessary technical inputs to maintain the settlement plants;
- Fifth, opposition among mainly Danes belonging to the post-colonial elite and opportunism among Greenland politicians was an important constraint to the development potentials of the co-ops. Rent seeking and attempts to

hold on to power both in the economic and the political sphere could – along with lacking comprehension of the co-op idea – explain opposition and disapproval regarding co-op takeovers of the Danish State operations in Greenland after 1979. As stressed by Ivar Jonsson, the original culture encompassed elements of community and teamwork. Although the great hunter would lead the rest of the community to the hunting grounds, each man functioned on his own. This organization is much more in correspondence with modern organizations, yet production technologies in Greenland are still based on hierarchy and bureaucracy as a heritage from the colonial way of technology transfer (Jonsson, 1997). These technologies embody power structures, which contributed to secure the powers of a new post-colonial elite. Rent and power seeking are important incentives for opposing any attempt of decentralizing power to cooperative societies. In economic terms, cooperatives with profit sharing and dividends, with democratic control of management and equal ownership, could endanger rent seeking, privileges and powers. Only ten years after the establishment of Home Rule in 1979 all initial ideas of co-ops were efficiently buried;

- Sixth, the cooperative movement lacked sufficient and strong supporting structures of a financial, administrative and consultative kind. As mentioned above, the consumer cooperative movement in Denmark assisted the establishment of consumer cooperatives in Greenland, which probably explain why the cooperative shops in the towns along the west coast proved themselves viable in the long run. The producer or supply cooperatives, however, did not enjoy the same kind of support. An attempt was done to create an association for the consumer cooperatives, the supply cooperatives and the cooperative plants for energy distribution in the settlements. The association *Kapikat* never gained momentum and the financial support from the consumer cooperatives was miniscule.

Cooperatives in Nunavik

Analysis of the cooperatives in both Greenland and Nunavik constitutes a paradox, because the failure in Greenland does not repeat itself in this part of Arctic Canada. Quite the contrary happened here, so what we posed as a “what went wrong question” above can be reversed to a “what went right” question below.

There are cooperatives established in Nunavut as well as in Nunavik. The Nunavut Government has included the policy of promoting cooperatives as part of its development policy. Yet, the same data problem as mentioned regarding Greenland data is prevalent. That is not the case for Nunavik cooperatives, because the Federation of Cooperative in New Québec published a comprehensive compilation of financial historical data for the operations of cooperatives since 1967 (Federation

of Cooperatives in New Québec, 1999; Duhaime *et al.*, 2001). This publication has been published and since long updated as an education tool for the directors (elected members of the board of the Federation) and managers (of local co-ops).

The first Inuit cooperatives in Canada came from two sources. In Povungnituk, in 1958, the soapstone carvers created a cooperative association in order to increase their control and revenues from their art. With the help of a missionary and a local agent of the Hudson Bay Company (HBC), they discovered that their carvings worthed much more than what they got from HBC buyers. Also they wanted to get access to supply, especially for building, that HBC could not sell to Inuit, following directives from the Canadian government. The Canadian policy concerning the Inuit changed drastically in 1959, when it recognized that there was a need for permanent settlement, housing and utilities. Hence, the second point of origin of the Inuit cooperatives is a federal plan to create economic development opportunities among the Inuit, in the line of the new policy. In 1959 in Kangirsualujaq in the Ungava Bay area, a cooperative was established to purchase fishing equipment and to operate a small wood mill. These origins are significant of two modes of involvement. In the case of the Povungnituk association, the cooperatives that were later created followed this model. The local involvement was in the long run the key factor of success, and the keyword for decision-making and management. These cooperatives were born from grassroot initiatives that later led to the creation of the Federation of the Cooperatives of New Québec. The Federation itself played a central role in providing leadership, training, and maintaining a close and helpful connection with the cooperative movement in the southern part of the Québec province. This proved a major element of success, mainly because it often provided financial support (Simard, 1982).

In the early days, government employees, interested local clergy and other white local residents often occupied dominant positions. Most control, decision-making and supervision was performed by these outsiders, while the Inuits were eventually trained and educated to take up the new challenges posed. Government loans were an important factor in the beginning, but eventually, the Federation of Cooperatives became the dominant factor behind the development of local cooperatives.

Whereas the Greenland cooperatives kept operating with fishing and hunting on a low technological scale as their main line of business, each settlement cooperative in Nunavik managed to set up *multi purpose co-operatives* in other lines of business than primary trade. This is one further explanatory factor to the comparative success of the Nunavik cooperatives. In 1998 there were 12 cooperatives operating as *local cooperative associations* in the 14 settlements. One important economic factor, oil delivery is by far the most profitable activity. Other lines of business are hotels and restaurants, purchasing offices, retail stores, courthouse rentals, cable TV distribution, post offices and hunting and fishing camps. Virtually all members of the local communities are at the same time members of the cooperatives one way

or another. General meetings locally elect the board which runs all these business operations in cooperation with the management.

Financial data on Nunavik cooperatives

In the 1988 book "Erhvervsudvikling i Grønland", one of the conclusions based on interview data was that the cooperatives of Greenland did not received any financial significant support from the association "Kapikat". It was mainly the Home Rule Government branch of consultative services and the industrial subsidies committee (erhvervsstøtteudvalget) that gave administrative, consultative and financial support to cooperatives (Winther, 1988b). Table 1 shows a difference when comparing this situation to Nunavik. Looking at the Nunavik data, it is quite obvious that Government money, either federal or province grants, was "seed money". Whereas Greenland cooperatives over the years kept receiving grants, the opposite is the case for Nunavik.

Only in the early years of the cooperatives did either the provincial or the federal government provide support for the association. Today it is contributions by the cooperatives to their association that finance the operations of the federation.

Table 1. The Federation of Cooperatives in Québec's operating costs and source of operational funds

Operational variables	1968	1978	1988	1998
<i>Cost of operation</i> (Can\$000)	114	1,472	4,430.7	6,054.9
Income	114	1,369	4,981.0	7,523.5
Surplus before returns	0	-103	550.3	1,468.6
<i>Operating grants (%):</i>				
Cooperatives	39	74	99.3	99.7
Québec government	61	4	0	0
Federal government	0	22	0.7	0.3

Source: Federation of Cooperatives in New Québec: Growing with Cooperatives, 1999.

One further conclusion lends support to the paradox in question, because the cooperatives in Greenland either were operated with a soft budget constraint, or the members accepted lower incomes:

All production cooperative societies (supply cooperatives in Greenland, GW) have serious economic problems and, except for very few, are operated with losses financed through Government grants. The losses year after year create problems regarding the implementation of the Rochdale Principle of payment of dividends in proportion to what the members sell to the cooperative. The members of the cooperatives in some cases accept lower input prices for their catches brought into the co-op (Winther, 1988b:75).

Tables 2 and 3 suggest a remarkable different picture in the Nunavik cooperatives. Throughout the years 1968-1998, all the cooperatives show improvements on their historic financial data in current prices. Taking the initial and the final figures, the ratio of gross profits to total income (Table 2) shows improvements throughout all the years for almost all the cooperatives.

Table 2. Gross profits to total income in Nunavik cooperatives 1968-1998

Cooperatives	1968	1978	1988	1998
Povungnituk	25.4	41.5	41.9	40.4
Great Whale River	43.6	31.0	40.2	46.8
Ivujivik	11.0	39.0	38.5	41.5
Sugluk	19.0	33.0	36.7	39.5
Inukjuak	NA	38.0	42.7	39.4
Fort Chimo	46.0	29.0	44.2	48.6
George River	24.0	29.0	36.9	42.6
Payne Bay Co-op	NA	36.0	33.7	45.2
Aupaluk Co-op	NA	NA	36.1	42.2
Wakeham Bay Co-op	NA	30.0	27.3	44.3
Akulivik Co-op	NA	36.0	36.6	41.5
Koartak	NA	NA	28.0	40.8

Source: Federation of Cooperatives in New Québec: Growing with Cooperatives, 1999.

In Table 3 we have a productivity proxy with the ratio of gross profits to labor costs. Gross profits cover grants to the FCNQ, labor compensation, interest, depreciation on fixed assets, dividends paid to the members, the residual profit, and other expenses. Over the years negative net-profits after returns and extra payments have occurred. Yet, in 1998 only one of the cooperatives faced a minor loss.

In terms of the productivity proxy in Table 3, the evidence seems more mixed, because average annual growth computations will show negative signs for three of the cooperatives, and for some the improvements appear close to a stagnant pattern. Nonetheless, the overall impression is one of progress.

What went right: the importance of supporting structures

In the following we argue that the most important explanatory factor to cooperative successes is the establishment of adequate supporting structures. Other cooperative experiences globally point at the same direction. Cooperatives operating on their own in a hostile corporate capitalist environment do not fare well. Often they are less profitable and face capital starvation and management problems. They appear less viable and have a short life expectancy in terms of their operations. A rank of important issues has been raised in relation to this (Abell, 1981). If workers' cooperatives are equipped with specific competitive advantages often ascribed to them, *e.g.*, motivation, commitment and enhanced productivity – why is it that

Table 3. Gross profits to labour cost in Nunavik cooperatives 1968–1998

Cooperatives	1968	1978	1988	1998
Povungnituk	2.7	3.4	5.5	3.0
Great Whale River	1.7	3.4	2.2	2.4
Ivujivik	1.4	3.1	2.8	3.0
Sugluk	2.0	2.8	2.7	3.3
Inukjuak	NA	3.5	3.1	3.2
Fort Chimo	1.5	2.2	3.2	2.9
George River	5.0	2.9	3.0	3.8
Payne Bay Co-op	NA	2.5	3.4	2.8
Aupaluk Co-op	NA	NA	3.3	3.4
Wakeham Bay Co-op	NA	2.7	2.2	3.2
Akulivik Co-op	NA	4.7	2.9	3.1
Koartak	NA	NA	2.0	2.6

Source: Federation of Cooperatives in New Québec: *Growing with Cooperatives*, 1999.

they did not long ago outperform their traditional capitalist competitors in the marketplace? Why are there so few cooperatives, and why do they tend to be small or medium sized enterprises? Moreover, is there a tendency for cooperatives to degenerate into traditional ownership, and if they do well, why then, is it that some do well and other do not?

Of course there are answers to these questions related to institutional and cultural factors. Cooperatives need supporting structures sheltering the cooperatives against incompatible forces in market environments mainly created for capitalist firms. Both Branko Horvat and Jaroslav Vanek have emphasized the importance of supporting structures (Vanek, 1970; Horvat, 1982). Horvat once addressed the question of *Why is it that worker managed firms did not already outperform conventional capitalist firms* in the Swedish employers association. For a Marxist economist as Horvat, the answer was obvious: a capitalist firm that would have had to operate within the framework of another mode of production, with other institutions and power relations would not function optimally. Such firms require free mobility of labor, sufficient market places and contractual freedom. If this firm has to operate under the conditions posed by feudalism based on serfdom and low mobility, the firm would not function optimally. The mode of production is like a human body in which the surgeon transplants a foreign organ, only to realize later that the body rejects the transplant. The worker managed firm will function optimally only if new and suitable institutional arrangements secure its operation.

Vanek, a humanist economist, also stressed this in his work (Vanek, 1970 and 1977) – yet he took the arguments further than to the macro economy. He suggested a labor-managed system either nationally as Horvat or as “a new third sector” within the framework of an existing market system. Building suitable supporting financial, administrative and consultative structures as a bulwark against hostile capitalist

market forces, the labor-managed system will grow and eventually prevail in the very long run. In terms of financial theory, it is especially the establishment of initial funding and current funding in a closed revolving financial circuit that is important for possibilities to obtain loans otherwise not available from the traditional banking sector. Initial funding can be based on private savings and investments, trade unions, pension funds and wage earners funds, or it can simply be financed *via* a quasi-capital market based on bonds instead of shares sold at the stock exchange. Bonds do not give an investor the same power as stock does.

The importance of supporting structures can be seen in the Mondragón cooperatives in Euzkadi, Spain. With the establishment of a financial, administrative and consultative network in support of the cooperatives, astounding results can be obtained. The Mondragón case still constitutes an impressive case corroborating the thesis that the cooperative solution is feasible. Studies have suggested that the Mondragón cooperatives are doing better on economic regional and national indicators, and since the 1950s an impressive growth and development has characterized the operations of the Basque cooperatives (Bradley and Gelb, 1981; Thomas and Logan, 1982; Cheney, 1999). The study of the Mondragón cooperatives may be considered a single case, and quite right the picture one gets from empirical studies elsewhere seems blurred. In some countries we do not find unequivocal answers. Yet, for France and Italy evidence has been found in support for the competitive advantages seen in the Mondragón cooperatives. The same in the US in relation to the early days of the Plywood cooperatives in Washington State (Berman, 1967; Jones and Svejnar, 1985; Defourney *et al.*, 1985).

In the case of the Nunavik cooperatives, these factors could be developed along the same lines. There are already indications pointing in the same direction. The following lend support to the theory stressing the importance of supporting institutions:

- The Federation is the key; and inside, the personal involvement of key actors is important;
- The close connection with the cooperative movement in south Québec is another key. This movement weights a lot and has helped a lot;
- Government support as seed money. For instance, the deal allowing the co-ops to acquire the Shell Co. tank farms (and to engage the co-op into fuel distribution, which makes a big difference) was negotiated with the clear support of the Québec government;
- Diversification: from producer co-ops, they rapidly became consumer co-ops; then they diversified into activities such as hotelkeeping (increasingly important), petroleum product distribution (very profitable), tourism (outfitting camps with their rich clients from the USA), etc.;
- Involvement of the base membership. These co-ops are a social and political

movement. The counter-proof is that co-ops, without such an involvement, are doing worse.

The history of cooperative societies in Greenland is not quite the same. The consumer cooperatives are a success, probably because the Danish movement established supporting structures and assisted the set up of cooperatives. However, this was only the case for consumer cooperatives and not the supply or worker ones that failed to develop. It seems that the lesson to be learned from theory and the practical experiences is quite clear. Had Greenland cooperatives developed adequate supporting structures and had the cooperative movement freed itself from the State and private sectors, the picture might have turned out differently.

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