

**COVID-19, Job Market Disruptions & Cooperatives
Alternative: A Case Study of Pakistan**
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Abstract

The objective conditions of Pakistan's economy - especially in its labour market - have not kept pace with broader demographic changes such as population growth. This has created wide-ranging socioeconomic inequities in the form of poverty, unemployment, falling living standards, and so on. The COVID-19 pandemic further exacerbated this situation. Research suggests that widespread poverty and unemployment - especially among the youth - can directly increase crime, terrorism, and militancy. In this context, the paper recommends a hitherto untested alternative employment policy that can benefit all segments of Pakistan's society, with a special focus on unemployed youth. This policy broadly revolves around the creation and promotion of community-based entrepreneurial firms, also called 'Worker Cooperatives.' The latter have a robust academic tradition, specifically in Marxian political economics, with Mondragon Cooperatives Corporation (MCC) and Marcora Law serving as its international best practices. If allowed to grow and mushroom untrammelled, a Worker Cooperatives Sector can become an engine of economic growth and employment generation in Pakistan.

Keywords: Worker Cooperatives, Unemployment, Youth, Pakistan, COVID-19, Security.

Introduction

The COVID-19 pandemic has altered the world in unprecedented ways. Besides creating a health emergency, the pandemic has fundamentally affected all facets of human life, which are unlikely to be overturned even after the pandemic is completely over. The pandemic has been especially hard for countries that work on reactive – rather than proactive – logic, especially Low-Income Developing Countries (LIDC). Pakistan is among those LIDCs which were ill-prepared and consequently hit-hard by the pandemic. Even before the spread of COVID-19, Pakistan was struggling on various fronts. For example, the country consistently underperformed all its regional rivals in key performance indicators such as the Human Development Index (HDI), governance, economic management, taxation, ease-of-doing-business, and so on. This dismal performance made Pakistan a nation at par with the least developed countries of Sub-Saharan Africa.

To compound its problems, Pakistan has a huge youth bulge with approximately two-thirds of its population under 30 years of age and around 1.4 million people entering its labour market every year.¹ To accommodate these aspiring young workers, Pakistan needs to sustain a GDP growth rate of at least 7 percent.² However, the recent economic performance of Pakistan is anything but promising. In the last two years, the country has had a growth rate of under 2 percent, with the COVID-19 shock plunging the economy

¹ “Over 1.4 Million People to Join Labour Force Every Year in Next Five Years,” *Mettis Global News*, February 28, 2019, <https://mettisglobal.news/over-1-4-million-people-to-join-labour-force-every-year-in-next-five-years>.

² Shahid Sattar, “Is Pakistan Prematurely De-industrialising?,” *PIDE Blog*, September 4, 2020, <https://pide.org.pk/blog/is-pakistan-prematurely-deindustrialising/>.

to a dismal -0.38 percent.³ This has increased the unemployment level from 5.8 million in 2019-20 to a staggering 6.65 million in 2020-21. Young people bear the brunt of the unemployment scourge as the unemployment rate is highest among the educated – who are on average three times more likely to be out of the job market – and among the 20-24 age group.⁴ The precarious condition of Pakistan's labour market, especially concerning youth employment, poses a serious security challenge for Pakistan. If the situation is not addressed urgently, then the anger and frustration of the youth can potentially vent in the form of delinquency, vandalism, street-crime, and even Islamist/separatist militancy. A plethora of studies⁵ in labour economics also confirms the causal relationship between unemployment and crime/militancy. Perhaps the best-known example of unemployment fuelling social unrest

³ Mishal E Noor, "Covid-19 and Pakistan's Economic Fallout," *Express Tribune*, October 22, 2020.

⁴ Bakhtawar Mian, "Number of Jobless People to Reach 6.65m in 2020-21," *Dawn*, June 17, 2020, <https://www.dawn.com/news/1564053>.

⁵ Holly Young, "Youth Unemployment Is an International Security Issue," *Guardian*, August 20, 2014, <https://www.theguardian.com/global-development-professionals-network/2014/aug/20/youth-unemployment-interactive-vicki-escarra>; O. B. C Nwolise, "Implications of the Arab-Spring for National Security in the West African Sub-Region: The Role of the Nigerian Army," *Open WorldCat*, 2013, <https://www.worldcat.org/title/implications-of-the-arab-spring-for-national-security-in-the-west-african-sub-region-the-role-of-the-nigerian-army/oclc/912512766>; Polet François, *The State of Resistance: Popular Struggles in the Global South* (London/New York: Zed Books, 2007); Louise M. Fox and Melissa Sekkel Gaal, *Working out of Poverty*, report (Washington, D.C.: The World Bank, April 24, 2008), <https://doi.org/10.1596/978-0-8213-7442-9>; Sandra Alters, "World Poverty," (paper, Gale, Cengage Learning, Detroit, 2013); Lester Russell Brown, *Redefining National Security* (Washington, D.C.: Worldwatch Institute, 1977); Hyacinth N. Iwu, "Re-Contextualising Unemployment and National Security in Nigeria," *Journal of Sustainable Development* 8, no. 6 (July 2015), <https://doi.org/10.5539/jsd.v8n6p231>.

comes from Tunisia when an unemployed graduate working as a fruit vendor set himself on fire in a display of sheer agony and dejection.⁶ This single event culminated in local unrest further cascading into a regional protest movement better known as the 'Arab Spring', in a remarkable illustration of the Butterfly Effect. Since then, the Arab Spring has degenerated into abominable conflicts resulting in regional instability in the form of the Syrian War, NATO invasion of Libya, and so on. Hence, in the case of Pakistan, the menace of unemployment should be seen as a high-risk security issue requiring a collaborative strategy of both the defence and economic policymakers.

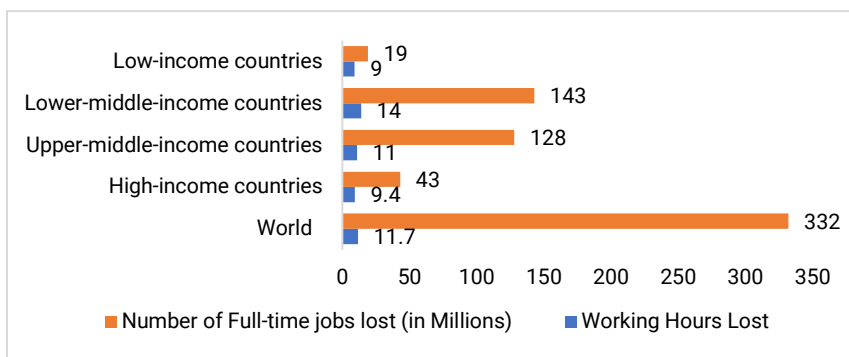
It is in this context that this paper proposes an alternative model of employment and entrepreneurship, which has the potential to benefit a wide segment of the Pakistani populace in all sectors of the economy. This model is known as 'Worker Cooperative' (WC) or Worker Self-Directed Enterprises (WSDE). A WSDE eliminates the dichotomy between workers and the owners. The model is unique owing to its creative way of organising work, which is fundamentally different from top-down hierarchical firms, whether in the private sector, public sector, not-for-profit, and so on. Little wonder then that the model is gaining traction and is the focus of discussion and theorisation in a plethora of heterodox economics journals. This study adds to the growing literature on WCs from around the world, especially in Latin America and parts of Western Europe, where the cooperatives have had much success in the form of Mondragon Cooperatives Corporation (MCC) in Northern Spain, and in the shape of a potent employment policy called 'Marcora Law' in Italy. In the context of Pakistan, this is a pioneering work that addresses a gap in academic research and employment policy and seeks to fill it by proposing a national level cooperatives policy.

⁶ Tarek Amara, "Young Jobless Tunisian Sets Himself on Fire," *Reuters*, March 12, 2013, <https://www.reuters.com/article/us-tunisia-politics-immolation-idUSBRE92B0GS20130312>.

COVID-19 and Job Market Disruptions

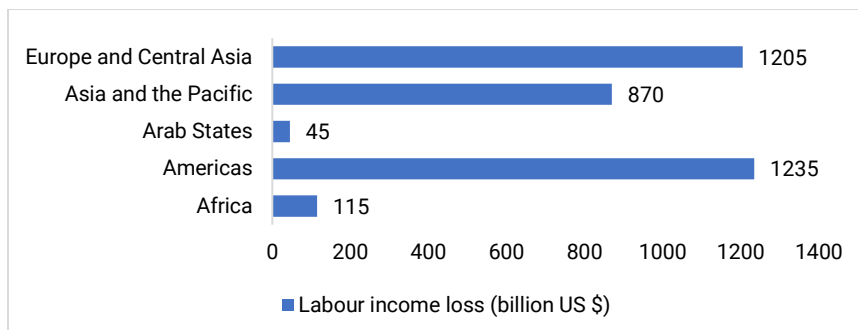
Since its outbreak, the COVID-19 pandemic indiscriminately affected all countries and societies across the globe. Besides creating an unprecedented public health crisis, the pandemic resulted in massive economic and labour market disruptions not seen since the Great Depression of the 1930s and World War II. Among all the economic variables, the labour market has taken the heaviest toll of the pandemic, which is conspicuous in the form of widespread job losses, layoffs, cuts in remuneration, loss of working hours, and so on. This is shown in Figures 1 and 2:

Figure 1: Number of Jobs Lost in Q1 (2020)



Source: ILO Monitor (Sixth Edition).

Figure 2: Loss of Labour Income in Q1-Q3



Source: ILO Monitor (Sixth Edition).

According to the data compiled by the International Labour Organization (ILO), 332 million people have lost their full-time jobs directly as a result of the COVID-19 pandemic (Figure 1). In addition, the aggregate labour income lost amounts to USD 3470 billion (Figure 2).

Although the virus has wreaked havoc across regions, the middle- and lower-income countries have borne the brunt of it, especially in terms of numbers of jobs lost and the fall in labour income. Prolonged lockdowns in many LIDC have further exacerbated the situation as a large majority of their population cannot work-from-home owing to their low education and weak skill set. Besides, structural issues such as weak institutions and economic constraints, like limited resources and tight fiscal space, further add to the problem. Small wonder then that IMF economists predicted that COVID-19 may undo the recent economic progress painstakingly achieved by many LIDCs.⁷ In addition, COVID-19 has also created massive fiscal imbalances and debt sustainability problems for struggling LIDCs.⁸

In this context, it becomes clear that the virus is anything but a 'great equaliser' as it disproportionately affects poorer countries and the weaker segments of society. Pakistan, too, is among the LIDCs who have been unevenly impacted by the virus. Although the pandemic did not result in an egregious public health emergency, it nevertheless created great socioeconomic upheaval in the country. To begin with, 8 million people have lost

⁷ Daniel Gurara, Stefania Fabrizio, and Johannes Wiegand, "COVID-19: Without Help, Low-Income Developing Countries Risk a Lost Decade," *IMF Blog*, August 27, 2020, <https://blogs.imf.org/2020/08/27/covid-19-without-help-low-income-developing-countries-risk-a-lost-decade/>.

⁸ Emmy Hawker, "COVID-19: The Impact on Developing Economies," *www.businessbecause.com*, June 25, 2020, <https://www.businessbecause.com/news/insights/7052/covid-19-impact-on-developing-economies>.

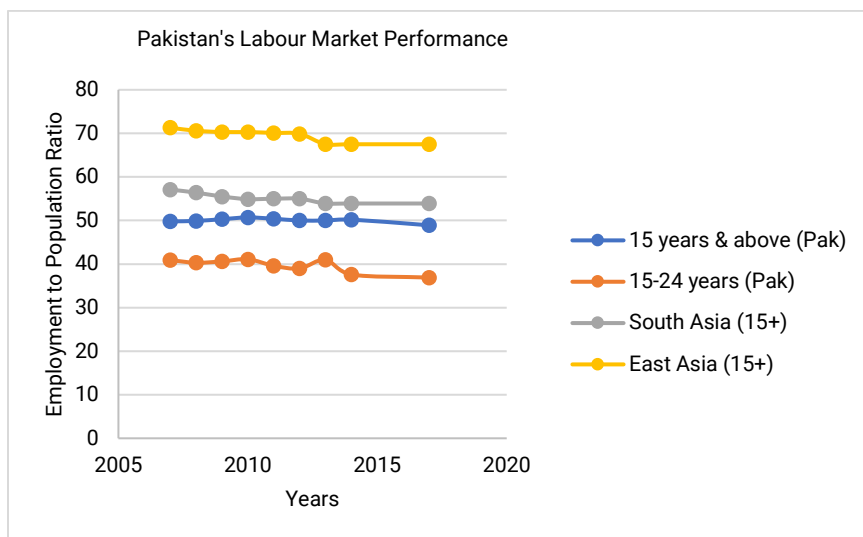
jobs directly due to COVID-19, and food inflation climbed to double digits when it struck.⁹ This translates into more people – especially those already on the margins – slipping below the poverty line. Indeed, according to a study conducted by the Pakistan Institute of Development Economics (PIDE),¹⁰ the poverty rate is projected to increase from 23.4 percent to 59 percent resulting in 75 million more impoverished people, thus bringing the total to 125 million people living below the poverty line. In addition, the labour market is expected to tighten and shrink further, with youth unemployment reaching record levels. For instance, a joint report¹¹ prepared by the Asian Development Bank (ADB) and ILO estimated that 1.5 million to 2.3 million Pakistani youth will lose jobs owing to the subsequent COVID-19 waves and the policy measures aimed at containment. Hence, the exogenous shock of COVID-19 has further strained an economy and a labour market that has historically underperformed even in comparison to other regional rivals. This is depicted in Figure 3:

⁹ Bakhtawar Mian, “Number of Jobless People to Reach 6.65m in 2020-21,” *Dawn*, June 17, 2020, <https://www.dawn.com/news/1564053>; “High Food Costs,” *Dawn*, October 29, 2020, <https://www.dawn.com/news/1587585>.

¹⁰ “COVID-19 in Pakistan: Caring for the Poor and Vulnerable,” Pakistan Institute of Development Economics, 2020, <https://www.pide.org.pk/index.php/covid-19>.

¹¹ “Tackling the COVID-19 Youth Employment Crisis in Asia and the Pacific,” International Labour Organization and Asian Development Bank, August 18, 2020, https://www.ilo.org/asia/publications/WCMS_753369/lang-en/index.htm.

Figure 3: Employment to Population Ratios (2007-17)



Source: Pakistan Bureau of Statistics.

This paper employs the employment-to-population ratio as a proxy to gauge the vibrancy of Pakistan's labour market when comparing it to other regional countries located in South and East Asia. The employment-to-population is a simple metric used by labour economists to measure the number of people employed as a percentage of the total population. When compared to other analogous measures – such as the unemployment rate – the employment-to-population ratio does a relatively better job in depicting the true picture of the labour market¹² As one can see in Figure 3, the employment-to-population ratio of Pakistan (for the age group 15 and above) averages to 0.5, which is lower than the South Asian average of 0.55 and far lower than the East Asian

¹² Eric Esteves, "What Is the Employment-To-Population Ratio?," *Investopedia*, November 30, 2020, https://www.investopedia.com/terms/e/employment_to_population_ratio.asp.

average of 0.7. In addition, youth unemployment in Pakistan is far higher even in comparison to the national average, as reflected by the average employment-to-population ratio of 0.4 for the age group 15-24.

The loss in employment as a result of COVID-19 is only going to worsen the population-to-employment ratio, especially for the youth. Besides raising the poverty level, the fall in incomes will also exacerbate existing economic and social inequities, and as this study has already established, income inequality and unemployment directly feed into crime and social unrest.¹³ In other words, the shock of COVID-19 can potentially lead to a rise in crime and terrorism – hence, posing a grave security issue – until some proactive policy is adopted immediately and earnestly.

Workers Cooperatives (WCs): Theory and Practice

The literature in political economy and labour economics contains a rich history of ideas that many scholars deem as alternatives to the present-day, ubiquitous mode of work that involves a social relationship of employer-employee or a boss-subordinate and so on. WCs are one such example.

Although the idea itself is quite old, it was widely popularised in the 19th Century by radical intellectuals like Karl Marx (1818-1883), who viewed it as a potent alternative to replacing the capitalistic way of work. Marx saw merit in cooperatives since they eliminate the dichotomy between owners and workers by allowing the latter to assume full responsibilities of the former, besides performing work and controlling all aspects of the workplace. This way of organising work, according to Marx, helps eliminate capitalistic ‘exploitation’ as the workers fully appropriate the surplus value that they produce. These views of Marx are reflected thus: ‘(Through a cooperative)

¹³ Muhammad Khalid Anser et al., “Dynamic Linkages between Poverty, Inequality, Crime, and Social Expenditures in a Panel of 16 Countries: Two-Step GMM Estimates,” *Journal of Economic Structures* 9, no. 1 (June 5, 2020), <https://doi.org/10.1186/s40008-020-00220-6>.

the opposition between capital and labour is abolished here, even if at first only in the form that the workers in association become their own capitalist, i.e., they use the means of production to valorise their own labour.”¹⁴

Despite Marx’s favourable assessment, the WCs have played a very limited role in socialist and communist economic policies of the 20th Century, especially of the former Soviet Union. This is partly attributable to post-revolution conditions – civil war, foreign invasion, and so on – and partly to the limited vision of revolutionaries. Although the leader of the Russian revolution, Vladimir Lenin (1870-1924), had a lucid understanding of cooperatives’ significance for a socialist economy - as reflected in his pamphlet *On Cooperation* - his premature demise precluded any chance that Russia had of converging towards a full-fledged WC economy. What emerged instead was a complete dominance of the state on all aspects of society, including economy, industry, and agriculture. The state sphere of influence stretched to the workplace as well, where state bureaucrats replaced private capitalists, giving no respite to the workers, and keeping intact the old way of organising work. Similarly, the surplus-value, which was previously siphoned-off by the private capitalists, now came to be appropriated by the bureaucrats and a state apparatus that was controlled by the Communist Party. In other words, private (free market) capitalism had been replaced by state capitalism in the garb of communist planning.¹⁵

Despite the penchant of radical (political) philosophers towards WCs, it is surprising that the best practice of WCs come from apolitical enterprises rather than socialist countries. Consider the example of Mondragon Cooperatives Corporation (MCC).

¹⁴ Karl Marx, *Capital*, vol. 3 (1894; repr., New York: Vintage Book, 1981), 571.

¹⁵ Stephen A Resnick and Richard D Wolff, *Class Theory and History: Capitalism and Communism in the U.S.S.R* (New York: Routledge, 2002).

In the 1940s, during the height of the Spanish Civil War, a Catholic priest named José María Arizmendiarieta arrived in the town of Mondragon located in the Northern Basque region of Spain, which at that time was plagued by rampant poverty, rising unemployment, extreme inequality, and social unrest. To help the local community stand on its own feet, he started a technical college in 1956, which later became the first cooperative enterprise named 'Ulgor'. This is the humble background in which MCC was founded. Today, the MCC has more than 96 subsidiary cooperatives, 14 Research & Development (R&D) centres and employs 81,000 workers making it the largest employer in the Basque region and among the top 10 big businesses of Spain.¹⁶

The distinguishing feature of MCC – indeed of any WC – is the ability of its workers to collectively decide upon the fundamental economic premise, i.e., what to produce? How to produce? For whom to produce? and what to do with the profits? Moreover, every year, workers from all the cooperatives congregate in the Annual General Assembly (AGA) and democratically elect their Managing Director (MD) and other senior corporate officials. In addition, all the official decisions regarding the pay, perks, privileges, and hiring/firing of the senior management are also made collectively by the MCC workers. This is in sharp contrast to a capitalist firm, where the reverse is true. In other words, in MCC, as in any WC, the workers are the real owners and where the dialectical contradiction of bourgeoisie-proletariat has been negated.¹⁷

In recent years, MCC has seen unprecedented horizontal growth as well, as it has expanded its operations overseas into new markets. In addition, it has started its university with approximately 4,000

¹⁶ Ricardo R. Fuentes Ramíres, "Three Essays on Economic Stages and Transition," (PhD diss., University of Massachusetts, Amherst, 2016).

¹⁷ Richard Wolff, "Yes, There Is an Alternative to Capitalism: Mondragon Shows the Way," *Guardian*, June 24, 2012, <https://www.theguardian.com/commentisfree/2012/jun/24/alternative-capitalism-mondragon>.

enrolled students and is offering advanced degrees (Bachelors, Masters, and PhD) in a plethora of disciplines, including engineering, business, education, gastronomy, and cooperatives management. Besides, the MCC has opened a cooperative bank named 'Caja Laboral', which holds approximately €24 billion in deposits.

Despite these impressive achievements, the MCC has retained a spirit of camaraderie among its rank and file. In fact, almost all of its success is attributable to this sense of solidarity and worker autonomy. Consider, for example, the fact that all cooperative organisations look out for each other, especially in bad times, by allocating 10 percent of their profits to fellow cooperatives who are financially struggling. Small wonder then that only six firms have shut down in the network of MCC since its birth. In addition, during a financial downturn, the worker-owners preserve their employment by either taking a cut in compensation or transfer some of their fellow employees to other cooperatives, but no one is laid off. In a similar vein, the pay differential between the highest and lowest paid worker in MCC is in the ratio of 6.5 to 1 respectively, and this decision, like all others, is made democratically by worker-owners as well. Compare this to the pay differentials in the United States, where an average Chief Executive Officer (CEO) of a big corporation earns almost 400 times greater than the lowest-paid worker.¹⁸

While the highly publicised case study of Mondragon proves the competitive advantage of WCs in entrepreneurship and business management, the Italian government's 'Marcora Law' demonstrates the policy efficacy of cooperatives in the context of employment generation and production capacity optimisation.

The Marcora Law was passed in 1985 by the then-Minister for Trade and Industry Giovanni Marcora, who had grown concerned by the rising claims and costs of the unemployment benefits.

¹⁸ Wolff, "Yes, There is an Alternative to Capitalism: Mondragon Shows the Way." and, Ramíres, "Three Essays."

Instead of sanctioning an expansion of social security, Marcora called for fostering self-reliance in communities by promoting entrepreneurship, which would also increase the productive capacities of the country. However, his scheme did not involve the advocacy and creation of propriety-based enterprises but rather community-based collective organisations, i.e., WCs. Thus, the Marcora Law was born.

Apart from creating viable communal enterprises, the Marcora Law is also an effective employment generation policy. As per its rules, the Italian government pays a lump-sum amount in start-up capital to a group of unemployed people provided that they agree to run it as a WC. Note that the amount in start-up capital is a substitute for the unemployment benefits, which the Italian government would otherwise have to pay to unemployed or laid-off workers.

As a public policy, the Marcora Law is widely successful, and in the three decades since its inception, it has directly created 257 businesses resulting in 9,300 jobs. Besides, these cooperative businesses are, on average, more successful than non-cooperative or capitalistic firms. For example, the survival rate of industrial cooperatives in Italy is 87.16 percent, while on the other hand, 48.3 percent of non-cooperative firms fail in the first three years of their business.¹⁹ The 'Worker Cooperative Sector', created by the Marcora Law, has added to the resilience of the Italian economy and has been helpful, especially during times of financial crises.²⁰

¹⁹ International Cooperative Alliance, "The Marcora Law Supporting Worker Buyouts for Thirty Years - ICA," www.ica.coop, September 11, 2015, <https://www.ica.coop/en/media/news/marcora-law-supporting-worker-buyouts-thirty-years#:~:text=Thirty%20years%20ago%20the%20then>.

²⁰ Marcelo Vieta, Sara Depedri, and Antonella Carrano, "The Italian Road to Creating Worker Cooperatives from Worker Buyouts: Italy's Worker-Recuperated Enterprises and the Legge Marcora Framework," *SSRN Electronic Journal* (2015), <https://doi.org/10.2139/ssrn.2641057>; Camillo De Berardinis, "The Marcora Law: An Effective Tool of Active

To conclude, the example of Mondragon Corporation in Spain and Marcora Law in Italy show that WCs can successfully function both as business organisations and as an employment generation public policy. While scholarly research on such initiatives is limited, available evidence suggests that cooperatives are more resilient than capitalist firms,²¹ boost higher worker productivity,²² preserve jobs better²³ and are counter-cyclical, i.e., they retain rather than fire employees in a business cycle downturn, as shown by the example of MCC.²⁴ In addition, the greater autonomy afforded to workers by the cooperative structure results in more job satisfaction and a

Employment Policy," *Co-Operative News*, September 22, 2015, <https://www.thenews.coop/98000/sector/retail/marcora-law-effective-tool-active-employment-policy/>.

- ²¹ Alberto Zevi, Antonio Zanotti, François Soulage and Adrian Zelaia, *Beyond the Crisis: Cooperatives, Work, Finance. Generating Wealth for the Long Term*, report (Brussels: CECOP Europe, 2011), https://www.cecop.coop/img/pdf/beyond_the_crisis_english-2.pdf; Chiara Bentivogli and Eliana Viviano, "Changes in the Italian Economy: The Cooperatives," *SSRN Electronic Journal*, February 16, 2012, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2023189.
- ²² Joseph R. Blasi, Richard B. Freeman, and Douglas L. Kruse, *The Citizen's Share: Putting Ownership Back into Democracy* (New Haven: Yale University Press, 2013) .
- ²³ Virginie Pérotin, "Entry, Exit, and the Business Cycle: Are Cooperatives Different?," *Journal of Comparative Economics* 34, no. 2 (June 2006): 295–316, <https://doi.org/10.1016/j.jce.2006.03.002>; Virginie Pérotin, "Worker Cooperatives: Good, Sustainable Jobs in the Community," *Journal of Entrepreneurial and Organisational Diversity* 2, no. 2 (2013), <https://doi.org/10.5947/jeod.2013.009>.
- ²⁴ Eddi Fontanari and Carlo Borsaga, *La funzione anticiclica delle cooperative italiane* [The Counter-Cyclical Function of Italian Cooperatives] report (Trento: Second Euricse Report, Euricse Edizioni, 2013).

sense of ownership, which is the secret behind cooperatives' competitive advantage.²⁵

Cooperative Societies in South Asia: Historical Context

In the late 19th and earlier 20th Century, the province of Punjab in British ruled India was afflicted with the problems of low crop yield, low farmer productivity, and inadequate agricultural output due to various reasons. The chief amongst them was the issue of the high debt burden accrued by farmers and a lack of credit provision mechanism.

To overcome this issue, which was pervasive in Punjab and other agriculturalist states of India, the British government instituted various high-powered committees and gave them the mandate to assess the situation and come up with creative solutions. One such committee recommended that the British government form 'Cooperative Credit Societies' which can support farmers and other agriculturalists in meeting their credit needs. As a result, the first Cooperatives Act was passed in 1904, which was followed by another Act in 1912.²⁶ In the post-colonial India and Pakistan, these two acts still form the backbone of contemporary cooperatives movement, especially in the agriculture and housing sectors.

Agricultural Cooperatives

In Pakistan's rural Punjab, primary cooperative societies exist at the base or operational level, which solicit their funds from the Punjab Cooperatives Bank. The Punjab Cooperatives Bank, in turn, raises

²⁵ Virginie Pérotin, "What Do We Really Know about Worker Co-Operatives?", Co-Operatives UK, 2015, <https://www.uk.coop/resources/what-do-we-really-know-about-worker-co-operatives>.

²⁶ Khalid Mustafa and Zulfiqar Ahmad Gill, "Cooperatives and Development: Lessons from the Punjab Experience," *The Pakistan Development Review* 37, no. 4, Part II (December 1, 1998): 1017–30, <https://doi.org/10.30541/v37i4iipp.1017-1030>.

this sum of money from the Federal Bank of Cooperatives (FBC from now on), which was established in 1976 with a heavy mandate of supporting provincial cooperatives bank, conducting R&D on agricultural cooperatives, reviving the cooperative movement, resolving the credit issues of farmers and other agriculturalists, assisting the provincial cooperative banks in chalking out plans for seasonal lending, besides carrying out appraisals and feasibility studies for such programmes. However, the FBC has failed to deliver on most of its objectives and currently serves merely as a lender to provincial cooperative banks.²⁷

With the establishment of the Agricultural Development Bank, alongside the entry of several commercial banks in the rural sector, the pool of potential credit supply to farmers increased. In fact, at the time of Pakistan's independence, the cooperative institutions were a major, if not the only source, of finance as they accounted for 98.33 percent of all loans provided. However, by 1997, this figure had fallen to 26.29 percent.²⁸

The entry of private lenders was complemented by the government, which introduced a new scheme of loan provision at zero interest rates in the 1970s to support the cooperatives movement. On the surface, it appeared that there was sufficient credit in the system to meet the needs of every farmer, but unfortunately, many farmers

²⁷ Government of Pakistan, *Report of the National Commission on Agriculture*, report (Islamabad: Ministry of Food and Agriculture, 1988); Federal Bank for Cooperatives Pakistan, "Federal Bank for Cooperatives Act 1977," Islamabad: FBC, 1977.

²⁸ PBS, "Agricultural Statistics of Pakistan," (Islamabad: Pakistan Bureau of Statistics, Government of Pakistan, 1975); PBS, "Punjab Development Statistics," (Lahore: Bureau of Statistics, Government of Punjab, 1986); and, PBS, "Punjab Development Statistics," (Lahore: Bureau of Statistics, Government of Punjab, 1998).

could not benefit due to corruption in cooperatives societies and political meddling.²⁹

Despite government efforts over the years to promote and strengthen the institution of agricultural cooperatives, the overall participation rate of farming households in cooperatives remains relatively small. This is attributable to several factors. First, the supply of credit to agricultural cooperatives remains tight, even though the government introduced many schemes in the past to resolve this issue, as noted in a previous paragraph. Second, the government department dealing with cooperatives is remissive as it failed to mobilise rural households to join agricultural cooperatives. Third, large landowners and agriculturalists in Punjab have come to possess a disproportionate influence over primary cooperatives owing to their propitious terms and conditions that are in reality devised for small farmers. This observation is backed by evidence as well. Statistics show that only 1 percent of small farming households are registered with cooperatives, but this figure rises to 13 percent for households owning more than 148 acres of land.³⁰

Housing Cooperatives

After the creation of Pakistan in 1947, millions of immigrants crossed the border to seek refuge in the newly created Muslim homeland. However, unfortunately, the state of Pakistan was not fully prepared to accommodate all of them and provide proper provisions in terms of food, clothing, and shelter. Left with no option other than to fend for themselves, many such refugees built their own mud houses in major urban centres, thus, creating squatter settlements or *katchi abadis* that were largely tolerated by the state. This vacuum, created by the impotency of the state, was filled by cooperatives that adopted a township approach of

²⁹ A Waheed, "The Role of Cooperatives in the Rural Development of the Punjab," (paper, National Institute of Public Administration, 1985).

³⁰ Government of Pakistan, "Rural Credit Survey," 1985.

developing land and building houses. The state, however, did provide large tracts of land (1200 acres according to one estimate) to cooperative societies for township development.³¹

Upon receiving a piece of land from the government, a cooperative society develops a housing scheme by carving out residential/commercial plots and then leasing it to individual members. The provisions of basic amenities (like electricity, water, gas, etc.) are usually the responsibility of the city development authority, who are paid in full by the cooperative.³²

The individual members of housing cooperatives are tenant-owners, similar to worker-owners in the WCs. The tenant-owners receive the registry of a plot contingent upon payment once the housing cooperative finishes developing the land. The tenant-owners are then authorised to construct a housing unit themselves but are required to follow the map and other construction regulations of the cooperative. The tenant-owners are also required to continue paying union dues as required by the Federal Government and stipulated in the land transfer agreement. Although the tenant-owners are rightful owners of their housing units, any transfer or sale/purchase is the purview of the housing cooperative.³³ The management of the cooperative is elected democratically on the principle of one tenant-owner one vote, and all the important decisions concerning the housing society are made collectively.

While the housing cooperatives in Pakistan are generally successful in developing land on a large-scale and filling in the vacuum created by the state's inability to provide houses; some cooperatives, in the past, have been guilty of corruption and mismanagement leading to their permanent ban by the state

³¹ Coop, "Pakistan Archives," Cooperative Housing, Accessed July 7, 2021, <https://www.housinginternational.coop/co-ops/pakistan/>.

³² Ibid.

³³ Coop, "Pakistan Archives."

authorities, hence, harming the reputation of other cooperatives as well, that were conducting their business with honesty and integrity. This shows that even cooperatives are not immune from misgovernance, ill-intentions, and greed, and therefore, prospective worker-owners or tenant-owners need to remain cautious. Table 1 shows the total number of cooperatives existing in Pakistan and their division in the agricultural and housing categories:

Table 1: Cooperatives in Pakistan

	Total Cooperatives	Housing Cooperatives	Agricultural Cooperatives
Punjab	2570	669	1,901
Sindh	3,605	1,275	2,330
Khyber Pakhtunkhwa	662	232	430
Balochistan	1,236	511	725
Total	8,073	2,687	5,386

Source: Cooperative Housing International.

WCs and Pakistan: A New Labour Policy

Having done a thorough review of cooperatives literature, this paper now returns to the research problem of this study, i.e., the ubiquitous unemployment issue in Pakistan - exacerbated by the COVID-19 shock - and its potential to create a security dilemma, and what to do about it.

After analysing in detail, the merits, effectiveness, and efficacy of WCs, especially in juxtaposition to capitalist firms, the paper now proposes a new 'National Worker Cooperative Labour Policy' for Pakistan, akin to the Italian Marcora Law. While referring to

Marcora Law, it is imperative to note that unlike Italy, Pakistan is not a welfare state that does not (and cannot) support its unemployed citizens via the mechanism of social security and unemployment benefits. It means that unlike unemployed Italians, unemployed Pakistanis cannot have access to the start-up capital needed to start a WC. However, inability to get equity capital from the state should not stop unemployed Pakistanis from setting up a WC, for there are other alternatives which are discussed in the subsequent section.

In the first step, the Federal Government can launch a national Cooperative Entrepreneurship Scheme titled *Khushhal Samaj* open to all Pakistani citizens but with preference given to unemployed youth, women, minorities, and people from periphery areas. Next, the government can provide training to enrolled people, educating them about all aspects of WCs. Note that this is a critical step as there is a considerable gap in information about cooperatives, and hence, is essential for any successful cooperative start-up. At the same time, this study recognises that Pakistan's government, at present, lacks the resources, technical expertise, and wherewithal to undertake the ambitious task of providing training and education for *Khushhal Samaj*. Fortunately, however, many bodies are active globally to provide support to budding WCs in the form of training, education, consultancy, and even sometimes venture capital. 'Working World', 'Democracy at Work', and 'International Co-operative Alliance' are examples of such organisations. So, as a next step, the Federal Government can partner with these organisations and develop an online interactive platform to dispense training and education. This can happen in the form of compulsory online courses (similar to Massive Online Open Courses [MOOC] format) and live training, which will also serve to connect enrolled students with their mentors.

Once the period of mandatory training and mentorship is over, the government can organise the participants into different groups based on their stated area(s) of business interest and region. This study's recommendation is a minimum of ten people in a group;

however, it can be adjusted based on the unique needs of a start-up and the conditions of the relevant industry or geographical region. The only important thing in this regard is to ensure the democratic structure of the proposed start-up, where all members work on the principle of 'One Worker, One Vote.'

The next step in this process will be securing funding for the start-up cooperative. This is where the participants of *Khushhal Samaj* will take a proactive role, with the government acting merely as the facilitator. Organised in groups, the participants of *Khushhal Samaj* will apply for business loans from various commercial banks of Pakistan. In doing so, the participants will follow all the rules, regulations, and procedures of Pakistan's banking system. For instance, they will still need to offer collateral and pay interest to the banks. However, the silver lining is that since they will be soliciting funds as a group, their burden will be shared, and risk will be significantly mitigated. This is the beauty of a WC as all aspects of the business - from risk to potential rewards - are equally shared and distributed. In addition, since the *Khushhal Samaj* is being proposed as a national level scheme of the Federal Government, the commercial banks can consider the loan application of participants on a preferential basis. The government can further incentivise banks by offering tax breaks to those banking companies which process the maximum number of loan applications of *Khushhal Samaj* participants.

This scheme still leaves out people from very low-income or marginalised backgrounds, i.e., those who cannot afford bank collateral, even in a partnership. In such cases, Catherine Mulder, a leading academic expert on WCs, recommends that the government itself should offer the banks (or other similar financial institutions) a guarantee on behalf of future worker-owners. In case they fail, the government can repay the bank or bail out the loss-making WC. This amount can easily be recovered by taxing other profit-making WCs, which will be up and running by that time, hence

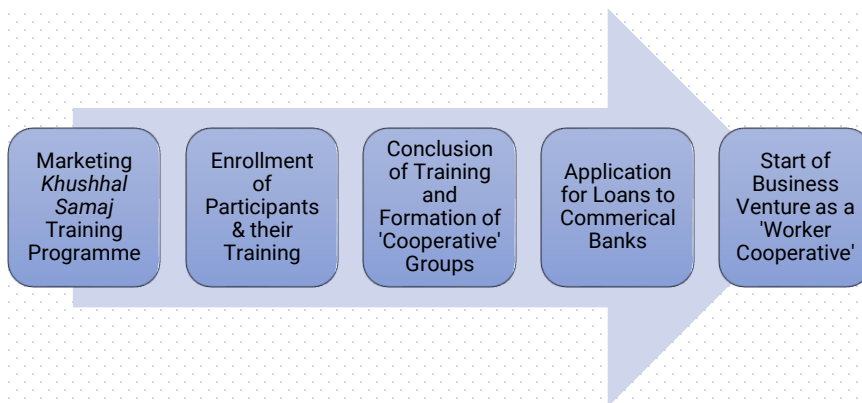
mitigating any loss to the national exchequer. Mulder³⁴ calls this 'reverse revenue stream' which is usually greater than the original amount lent in finance or as a bail-out.

While cooperative societies in housing and agriculture already exist in Pakistan, this idea has never been applied to start-ups, Small & Medium Enterprises (SMEs), and the corporate sector. And as the international best practices covered in the literature review reveal, cooperatives have enormous potential for job creation, quality output production, and inclusive profit generation without creating any negative externalities for the community in which they operate. Thus, it will be a unique and novel experience in Pakistan's labour market to create and promote an organisation type that simultaneously balances the social mores of democracy, egalitarianism, and collectivism with economic considerations of profit-making and employment creation.

Lastly, it should be noted that even as of this writing, the Federal Government of Pakistan is running a youth entrepreneurship programme *Kamyab Jawan* aimed at inculcating entrepreneurial skills among the unemployed and disadvantaged youth. It works by first providing enrolled students online training and then referring them to commercial banks to solicit funds. The *Khushhal Samaj* programme will complement *Kamyab Jawan* in dealing with the menace of unemployment, which is increasingly posing an ominous threat to Pakistan's social fabric and internal security. While *Kamyab Jawan* embraces the principle of individual entrepreneurship, *Khushhal Samaj* will espouse community-based entrepreneurship, and together they can eliminate the scourge of unemployment from Pakistan.

³⁴ Catherine P. Mulder, *Transcending Capitalism through Cooperative Practices* (New York: Palgrave Macmillan, 2015).

Figure 4: Khushhal Samaj Summary Schema



Source: Author's own.

Conclusion

Pakistan is at a crossroads. On one hand, it has the highest birth rate in South Asia, and on the other hand, it has the lowest Human Development Index (HDI) in the region, making it poorly equipped to deal with economic challenges, in particular, poverty and unemployment. Besides, any exogenous shock, such as a natural disaster, epidemic, financial crash, and so on, further exacerbates the economic conditions making life more challenging for Pakistani people. This was evident recently when the COVID-19 pandemic broke out early in March 2020. As a result of this pandemic, close to 1 million Pakistanis lost their full-time jobs, and many more were threatened to slip into poverty. It further adds to the troubles of millions of Pakistanis - especially the youth - who were already struggling to get jobs even before the pandemic began. If this situation is not accounted for immediately, then it can lead to social unrest, as poverty and unemployment pose serious security challenges.

To address this challenge, this paper presents a hitherto untested labour policy of generating employment by promoting a community-based entrepreneurship programme. Known as

Khushhal Samaj, this plan aims to foster self-reliance in youth and other unemployed people by setting up Worker Self-Directed Enterprises (WSDEs), also known as 'Worker Cooperatives' (WCs).

WCs are well-represented both in theory and practice. For instance, available research on cooperatives suggests that they are more efficient, less unequal, counter-cyclical, and more resilient than the alternative capitalist styled firms. In addition, they also preserve jobs better in a business cycle downturn. The Mondragon Cooperatives Corporation (MCC) of Spain serves as the international best practice of a cooperative, while the Marcora Law of Italy shows the way forward for a successful public policy revolving around WCs. Thus, in this backdrop, it is hoped that the *Khushhal Samaj* workers cooperative or community entrepreneurship programme will become an engine of business growth and employment generation in Pakistan while simultaneously assuaging any security concerns that may otherwise arise owing to redundancy and lack of respectable employment.

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