1. Introduction

1.1 COOPERATION AND THE CIVIL MARKET

The cooperative is a genuine, two-faced Janus. It combines two distinct if not conflicting dimensions: the economic dimension of an enterprise that operates within the market and accepts its logic; and the social dimension of an institution that pursues meta-economic aims and produces positive externalities for other agents and for the entire community. This dual nature is what makes the cooperative so difficult to explain and so hard to govern. If conventional economics has trouble explaining the conduct of an agent who does not pursue only self-interested ends, social science also has trouble understanding how an agent like the cooperative can successfully act through the market to forge strong ties of solidarity and advanced forms of participatory democracy.

What makes the governance of a cooperative enterprise arduous is the dual nature of the symbolic codes – market code, social code – that shape its identity. As more than a century of history demonstrates so well, there have been times or phases in which the market code has dominated, making it impossible to distinguish cooperatives from other corporations; and others in which the social code has enjoyed an excessive preponderance, leading to economic decline or marginal status. In both these cases, whenever one of these aspects is sacrificed to the other, the cooperative is denatured, losing its identity. Maintaining a dynamic equilibrium between the two codes and ensuring that the result of their mutual contamination is strategic complementarity is the great challenge for the cooperative movement in the twenty-first century.

Later on we shall discuss how that challenge can be met. Right away, though, we can see why cooperatives have been likened to bumblebees. According to the laws of Newtonian physics, apparently, the bumblebee cannot fly – its wingspan is insufficient to support its body weight. Yet bumblebees do, in fact, fly. In the same way, for conventional economic theory the cooperative cannot function in the long run,

because its non-economic purposes are seen as a stumbling block to the attainment of the economic ones. So if cooperatives do in fact survive over time, it is held, this is because exogenous, compensating factors are brought into play: tax allowances, favourable legislation, political support. That this is not the case is perfectly well known, even though in some historical settings those factors have played important roles, and notably so in Italy. So we must go beyond technicalities to the core of a form of enterprise such as the cooperative one that has originated and spread in nearly all the countries of Europe, and also in the USA and Canada as well as in Asia and Africa, in the presence of radically different legislations and tax provisions.

If Einstein's physics had to arise before the flight of the bumblebee could be explained, it will be necessary for economics to admit – with the proper dose of humility – that the rationality of individuals pursuing their own personal self-interest is not necessarily the sole economic rationality; and therefore that the economic action of enterprises like cooperatives, driven by a different set of motivations, also represents a form of rationality, albeit different from the merely instrumental rationality of the capitalist enterprise. Embarking upon this line of thought means acknowledging that the market economy is a genus and the capitalist economy, however important it may be today, but one species within it. Similarly, it means positing that in order to work properly a free market economy does not necessarily postulate Darwinian survival of the fittest, a market characterized by what the American economist Sherwin Rosen has called the 'superstar effect': winner take all, loser leave all.

Instead we must be prepared to recognize that there also exist civil markets, those that tend to close economic and social gaps and enable everyone – individuals and groups – to be a part of the economic game, activating inclusive mechanisms (Bruni and Zamagni, 2007). In civil markets those least endowed with resources or least efficient are cared for not by redistributing the wealth produced by those better endowed, but during the production phase itself, by allowing the disadvantaged too to participate. This, it turns out, is the prime mission of the cooperative movement today: to extend the space occupied by civil markets and so protect the market economy itself from the risk of a slow but steady degeneration. Even the Italian liberal economist Luigi Einaudi took a sympathetic view of the cooperative movement precisely because of its ability to strengthen the free market system. In 1941 he declared his admiration for the utopian socialists as 'among the greatest creators

and promoters of that grand cooperative movement, which has changed the face of some human societies’.

The practical example that best illustrates the civil market mode of cooperative enterprises’ operation is what is known as ‘cooperative promotion’. In Italy, for example, co-ops allocate 3 per cent of their net operating result each year to form or support, by creating mutual funds under the 1992 law,¹ other cooperative enterprises – which, when in operation, will be in competition with the former in the market. This is diametrically opposed to what happens in the Darwinian marketplace, where existing firms never seek to create or assist rivals. As Adam Smith (1723–90) had so clearly sensed, the more or less secret desire of any capitalist firm is to be the sole company in the market, so as to exert monopoly power. A close look at his works shows how concerned he was over the danger that successful firms would maintain their grasp on the society. In fact, just a few years after his *Wealth of Nations* in 1776, the founder of modern economics actually wrote to his publisher, fearing that the book would not sell because it was overly critical of the holders of economic power. Smith’s concern was not vain; and indeed it was not until more than a century later that a number of countries, first and foremost the USA, began to pass antitrust laws for authoritative government intervention to protect the market from its own inherent tendencies.

But we can see that cooperatives practiced inter-firm solidarity from the very beginning. One of the principles of the Rochdale Society of Equitable Pioneers (founded in 1844) reads: ‘Cooperation among co-operatives. Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.’ To be sure, the forms of promotion have evolved over the years, even radically. At first real services prevailed (consulting, tutoring, training). Today financial services are more important. But the spirit is the same: if cooperation is good for the society and not just for the co-op’s own members, then no cooperator must impede the market competition, the word itself deriving from the Latin ‘*cum petere*’ or literally, tend together to a common goal. That goal is to enable the citizen-consumer to exercise some sort of

¹ The four Italian cooperative umbrella organizations each have a fund: Legacoop’s ‘Coopfond’, Confcooperative’s ‘Fondosviluppo’, AGCI’s ‘Generalfondo’ and UNCI’s ‘Promocoop’. Co-ops not belonging to any of these four umbrella organizations pay their 3 per cent to the Ministry for Productive Activities.

sovereignty over the market – that is, to choose freely between the alternatives offered by rival providers.

The creation of these mutual funds demonstrates that the cooperative movement has fully understood Marshall's metaphor of the tree and the woods: there can be no lasting growth of the tree – the single cooperative – save as part of the harmonious development of the forest of cooperation in general. And above all it has understood that there exists an alternative to the typically capitalistic process that Joseph Schumpeter called 'creative destruction' – in which the capitalistic market creates while destroying and destroys in order to create. 'The kind of competition that really matters,' wrote the great Austrian economist, 'is not price competition but the competition that destroys the old commodity to replace it with the new' (Schumpeter, 1934, p. 74). We are well aware of the many economic advantages generated by this mechanism. But we are equally familiar with its brutality, its harmful social and political repercussions. And it is clear that if creative destruction may enjoy some legitimacy as long as the value of what is created is greater than that of what is destroyed, that legitimacy ends when – as is the case today – the relation is inverted. We call the specific form of competition practiced by cooperatives 'competitive cooperation', which is a powerful antidote to the damage that would be done by 'positional competition' – the sort of competition sparked by the superstar effect – if it were to remain the sole form of competition admitted in the market (Zamagni et al., 2006).

1.2 MARKET ECONOMY AND CAPITALIST ECONOMY

These considerations imply a broader question: can the reasons of the cooperative movement be defended within the framework of a market economy? This is no idle question, because as we shall see there have been a good number of attempts – in France, in Britain and in the USA – to use the movement for anti-market purposes. Yet as we shall show, not only is cooperation not antithetical to the market, it actually postulates a market economy. Where, then, does the concern implied in our question originate? It stems from a serious conceptual confusion, the tendency to see as identical, as co-extensive, the market economy and the capitalist economy. This identity has been negated by history – the market economy arose centuries before capitalism – and it is theoretically unfounded. Capitalism constitutes a model of society, but the

market is simply a way of organizing the economic sphere. Let us try to explain.

Between the end of the thirteenth century and the mid-sixteenth century there arose and flourished in Umbria and Tuscany a social order for which Italy was justly renowned, that of ‘urban civilization’. What were its distinctive features? First, to use a term from our own era, there was what we could call ‘participatory’ democracy. With its ups and downs, this democratic system admittedly left openings for autocratic government, but at the same time it established the desirability of self-government and collective responsibility for territorial management. Its units may have been small, but they were real cities to all intents and purposes, with the typical structure of urban life: a central square (*agora*), the cathedral, the town halls, the merchants’ and guilds’ hall, the marketplace (where negotiations and trade were conducted), the homes of wealthy bourgeois families, the monasteries and the churches, which were not only the locus of religious ceremonies, but also the seats of the town’s confraternities. It was in these places – not at all ideal-typical but practical and concrete – that these communities cultivated those ‘civic virtues’ that then as now define a truly civil society: trust, reciprocity, fraternity.

The economy of the Italian cities consisted of manufacturers and merchants, plus sailors in the coastal cities. To the merchants went the task of opening new markets, sometimes very distant markets (Marco Polo who reached China is an excellent example), for the sale of the products of manufacturing and the imports of everything that could be useful. The merchants were not only the most active agents for cultural exchanges but also the most active producers of organizational innovation for enterprises: the *commenda*, predecessor to the modern corporation; insurance; double-entry book-keeping, definitively systematized by the Franciscan monk Luca Pacioli in 1494; the chambers of merchants; letters of exchange; the *Monti di Pietà* (pawn banks), all institutions without which sustainable economic development throughout the territory could never have taken place (Bruni and Zamagni, 2007).

There arose, in these cities, two other dimensions to social life that are essential to understanding subsequent developments. The first was the continual reinvention of the present starting from the past. It was the humanists above all who vouchsafed this standpoint to the future of Western civilization. The texts and artefacts of ancient Greece and Rome were recovered, reconstructed philologically, interpreted and brought

out again for new reasons, new purposes, in which elements of the past and a new cultural temperament blended harmoniously to produce new 'modes'. The second was the patronage of artistic durable goods. The patron was not just a philanthropist, donating part of their income or wealth with no interest in how it was used. Typically, if not always, the art patron was an entrepreneur, putting resources and business know-how at the service of a cause that was in the community interest. A perfect illustration is the wool merchant/manufacturers of Florence – to whom we owe the project design, construction and financing of the city's cathedral. This was what lay behind the Florentine flowering of decorated churches, ever larger, ever more monumental, which gave rise to the market in art products.

It was the new bourgeoisie that continued with the building of public palaces, fountains and splendid private mansions, thus increasing the demand for the services of architects, sculptors, painters, decorators, furniture craftsmen, gardeners and so on. Meanwhile, dress too became more and more elaborate, more precious, while ceramics and silverware (another of the age's inventions) also grew into minor art forms. Income began to be invested in durable art goods – finally diversifying away from the only forms of expenditure practised until then: servants, victuals and equipment for hunt and warfare. By this point, a solid tradition had been established, but a long time would have to pass before it could reveal all its potential.

In a word, the linchpin of the urban civilization is the market economy, in its modern sense. Three pillars of the market economy can show us its specificity. The first is the division of labour, a way of organizing production that enables everyone, even the less physically or mentally gifted, to perform useful work. For without the division of labour only the more gifted would be able, unaided, to procure what they need. The second principle is the priority of growth, hence accumulation. Wealth needs to be invested productively, in this view, not only as a reserve against future contingencies, but also out of responsibility to the community and to future generations. A particularly eloquent definition of the concept of growth comes from Coluccio Salutati, who wrote, following his great predecessor Albertano da Brescia: 'To dedicate oneself honestly to an honest activity may be a holy thing, holier than living in idleness and solitude. Because holiness attained through the rustic life serves only oneself ... but the holiness of the industrious life raises up the lives of many' (cited in Nuccio, 1987). Clearly, here we are very far from the medieval canon condemning all economic production

in excess of the strictly necessary (*'Est cupiditas plus habendi quam oportet'*) (To possess more than what is necessary is greed).

The third principle of the market economy, finally, is freedom of enterprise. Those endowed with creativity, a good propensity for risk and the ability to coordinate the work of many others (*ars combinatoria*) – the three essential qualities of the entrepreneur – must be left free to undertake initiatives without the need for prior authorization from a sovereign or bureaucracy, because the active and industrious life (*vita activa et negocialia*) is a value in itself, not just a means to other ends. Freedom of enterprise implies economic competition. The *cum petere* that takes place in the market is the direct consequence of freedom of enterprise, and at the same time reproduces that freedom. In a competitive economy the final outcome of the process does not depend on the will of some overarching body – as would be the case in planned economies, now practically vanished, where the prices of goods and services, their quantities, employment levels and so on, are decided politically – but on the ‘free’ interaction of persons, each ‘rationally’ pursuing their own ‘objective’ under a well-defined set of ‘rules’. We must grasp the meaning of these four key words.

Saying that interaction must be ‘free’ means that no agent can be constrained by force or a state of necessity that deprives them of their freedom to decide. So a slave, a totally uninformed person, or a person in absolute indigence does not meet the requirements of freedom necessary to the correct deployment of the mechanism of competition. The qualification that one must pursue one’s interest ‘rationally’ postulates economic agents’ ability to calculate, that is, both to evaluate the costs and benefits of the options available and to adopt a criterion for choice. Note that despite what one so often reads, this criterion does not necessarily correspond to the maximization of profit (or utility). So it is not true that competition necessarily posits acceptance of the logic of profit. For the ‘objective’ of market participants may be self-interested or mutual; it may be directed to the well-being of a particular group or category of persons, or to the common good. What matters is that each person knows the objective they intend to pursue; otherwise the requirement of rationality is not met.

Finally, competition requires well-defined ‘rules’ known to all participants and enforced by an authority that is not party to the game. This authority may be the state or a supranational agency, or civil society itself, if properly equipped for the task. A concrete instance was the formulation of the celebrated *Lex mercatoria* and the Law of the Sea to

reduce the socially perverse effects of unregulated competition. These laws were designed and introduced by merchants themselves (Greif, 2006), not by any sovereign. It was not until the seventeenth century after the Peace of Westphalia and the birth of the nation-state that these laws came into state jurisdiction. They had two fundamental provisions: a ban on the concentration of power in the hands of one or a few agents in the form of monopoly or oligopoly; and a ban on fraud or deceit in market transactions.

Through emulation, competition stimulates the spirit of enterprise and imposes rational calculation. Where there is competition, positions of rent and privilege cannot prevail. To be sure, competition is costly, but it improves quality by leading to greater customization of products, giving them an identity; as in politics, where democracy certainly entails high costs but keeps the quality of civic life from deteriorating. As Bernardino of Siena said so forcefully in his ‘Vulgar Sermons’ in 1427, if the end for which an enterprise is conducted is the common good, the social costs of competition will never be too high.

Then, as now, freedom, rationality and rules are three elements that identify a market economy, whatever kind it is. What can vary is the fourth element, namely the specific end pursued by the participants: either the common good or the total good. The common good is the object of the civil market economy; the total good that of the capitalistic market economy.

1.3 COMMON GOOD VERSUS TOTAL GOOD

Starting in the seventeenth century the civil market economy began its transformation into the capitalistic market economy, though the definitive triumph of capitalism as a social model did not come until the industrial revolution. Capitalism gradually replaced the logic of the common good with that of the total good, that is, the ‘profit motive’. Productive activity was directed to a single purpose, the maximization of profits for distribution among the investors in proportion to their share of the capital. With the industrial revolution, the principle ‘*fiat productio et pereat homo*’ (production at the expense of man) was finally established, sanctioning the radical separation between the suppliers of capital and the suppliers of labour and definitively abandoning the old principle of action to the measure of man (‘*omnium rerum mensura homo*’) (man is the yardstick of everything) that originally underlay the market econ-

omy. The simplest way to see that the profit motive as such was not a constituent element of the market economy is to refer to the writings of the fifteenth-century civil humanists (such as Leonardo Bruni, Matteo Palmieri, Antonino of Florence and Bernardino da Feltre) and the civil economists of the eighteenth century (Antonio Genovesi, Giacinto Dragonetti, Cesare Beccaria, Pietro Verri and Giandomenico Romagnosi). A constant theme in their work is that market activities need to be oriented to the common good, from which alone they derive their legitimacy, or rather their justification (Zamagni, 2008).

The question is: what exactly is the difference between ‘common good’ and ‘total good’? A metaphor may serve. While the total good can be rendered by the concept of the sum, in which the addends represent the good of the individual persons (or groups), the common good is more like a product, in which the multipliers are the good of the individuals (or groups). The meaning of the metaphor is intuitive: even if some of the addends cancel one another out, the total may remain positive. Indeed, it could happen that if the objective is maximizing the total good, it may be best to cancel the good (or the welfare) of some persons, if the welfare gains of others more than offset the loss. In a multiplication this is not the case, because the reduction to zero of even one single factor makes the entire product nil.

In other words, the logic of the common good does not admit trade-offs. You cannot sacrifice the welfare of someone – whatever their life situation or social position – to better that of others, even if the gain is more than proportional to the loss, for the fundamental reason that that ‘someone’ always enjoys basic human rights. For the logic of total good, however, that someone is an individual agent, that is, a subject identified with a particular utility function, and utilities can be readily summed up (or compared), because they are faceless; they do not express an identity, a personal history. The principle of total good follows directly from the utilitarian philosophy of Jeremy Bentham (1789), by which the rational person choosing among two or more alternatives will choose the one that maximizes the sum of the individual utilities associated with the individual options. As the great liberal Austrian economist Joseph Schumpeter would write of utilitarianism (1954):

This system of ideas, developed in the 18th century, recognizes no normative principle other than individual interest. The essential fact is this: that whether it be cause or effect, this philosophy expresses only too well the spirit of *social irresponsibility* that characterized the secular, or secularized, state of the 19th century. (p. 127, emphasis added)

A twofold conclusion follows. First, it is simply not true that the action of enterprise is inevitably characterized by the search for profit; hence it is not true that the sole admissible form of enterprise is the capitalist firm. An entrepreneur is a person who, with the endowment mentioned, can produce value added, regardless of their motivation. The second conclusion is a reassurance to supporters of the market economy – ourselves included – that a future expansion of cooperative enterprise would in no way mean the disappearance or even the weakening of the market as an institution. Quite the contrary: it would significantly strengthen the market, in line with the urgings of many analysts concerned with the negative performance of the capitalistic market. Rajan and Zingales (2003), for example, write:

We believe that capitalism – today more precisely described as the free enterprise system – is, in its ideal form, the best system for allocating resources and incentives. But the form that capitalism assumes in the majority of nations is far distant from that ideal. Many of the accusations made against capitalism ... refer to existing corrupt and non-competitive systems, more than to the authentic free enterprise system. (p. 324)

And the authors continue:

The worst enemies of capitalism are not union agitators with their corrosive critique of the system, but the managers in pinstriped suits who sing the praises of competitive markets in every speech while they try to suppress them with every action. (p. 325)

It is because they continue to maintain that the capitalistic is the only possible form of market that so many academics, and no few policy makers, are so alarmed at the growth and spread of cooperatives and of social and civil enterprises generally. Certainly capitalism posits and guarantees free markets, but the converse does not hold. One can no doubt erect an economy based on the free market without adopting the principle of the total good but instead that of the common good. Henry Hansmann has written (1996) that

Freedom of enterprise is an essential characteristic of the most advanced market economies. Capitalism, by contrast, is contingent. It is simply that particular form of ownership of *patrons* that most often, but not always, proves to be efficient based on available technology. (p. 292, emphasis in original).

This is tantamount to classifying the market economy as a genus, of which capitalism is only one species. To generalize somewhat, we can say that the market economy is justified first of all by the principle of liberty, a liberty of which the capitalist economy is but one of various possible forms.