1. Introduction

Historically, cooperatives came into being after capitalist enterprises and began to expand, in various modes and at different paces, in all the advanced economies. In a way, then, cooperatives can be seen as an unexpected fruit of industrial civilization that ripened during the “Belle époque”. Two main interpretations of this historical fact have been suggested. One explains the cooperative movement as the response to a specific “failure” of the capitalist form of enterprise, a sort of remedy or compensation for what businesses could not provide. The other considers the phenomenon as a more advanced form of enterprise in advanced societies. That is, the movement is seen as crowning the aspirations of those who consider labour as the opportunity for self-fulfilment and not just as a productive factor. This is the interpretation suggested by the great liberal thinker John Stuart Mill when he added the following passage to the third edition of *Principles of Political Economy*, published in 1852: “The form of association, however, which if mankind continues to improve, must be expected in the end, to predominate is not that which can exist between a capitalist as chief and work-people without a voice in the management, but the association of the labourers themselves on terms of equality, collectively owning the capital with which they carry on their operations and working under managers elected and removable by themselves” (p. 772).

The two interpretations obviously carry different practical consequences. The first relegates cooperatives to a niche, useful and effective to be sure, but always an exception to the rule. On close inspection, the reasoning behind this interpretation is the same as that of those who want the market to compensate for government failures and non-profit organizations to compensate for market failures. This interpretation, albeit with significant differences of shading and nuance from author to author, fundamentally guides a whole school of thought ranging from the pioneering work of Benjamin Ward (1958) to Henry Hansmann’s excellent study (1996). The second interpretation sees the cooperative as the form of enterprise to which the capitalist firm could converge in the long run in the advanced market economies.

I concur with this latter perspective, which can be set forth succinctly as follows. The twentieth century was marked by the confrontation between two modes of production, two socio-economic models: capitalism and so-called “real” socialism. As we know, perhaps the crucial difference was between private and public (or collective) ownership of the means of production. The century ended with the triumph of capitalism, and writers like Francis Fukuyama too quickly announced the “end of history”. For the fact is that ownership is not the sole relevant factor characterizing economic organization. Much more important today is the question of control – knowing who in the final instance controls the process of production. My own conjecture is that the new century will be marked by a dialectical confrontation between the two principal modes of control within the enterprise:
by capital and by labour.¹ That is, the confrontation will no longer turn on the nature of ownership, which will certainly remain largely private. (Indeed, if public enterprises do remain, they truly will be consigned to niches). Rather, it will involve who ultimately controls the enterprise: the providers of capital, as in the business corporation, or the suppliers of labour, as in cooperatives.² Milgrom and Roberts (1990), though with a different theoretical intention, also saw the question of control as central: “The crucial characteristic of differentiation of the enterprise is not the model of ownership of its equity, but the substitution of centralized authority in the place of the relatively infinite negotiations that characterize market transactions” (p. 72).

If we are to conjecture as to whether the capitalistic or cooperative form will ultimately prevail, we need a theory that can take the strengths and weaknesses of each into account and explain why the capitalistic form is dominant today. Gregory Dow (2004) properly asks why – given that no few of the problems of contemporary society, such as worsening work alienation and inequality, the happiness paradox, or the various types of poverty traps, could be mitigated by an economic organization in which workers controlled the enterprises where they work – the capitalistic firm is still so strongly prevalent. A serious, credible answer must avoid a merely ideological stance – say, blaming the “establishment” and its power in influencing government action, or the contrary position according to which the rarity of cooperatives would imply their inability to coexist with capitalistic firms. Instead, we must find persuasive arguments that, from one hand, properly identify the forces that can guide economic and institutional evolution towards a final equilibrium in which the cooperative form is preponderant, and, from the other hand, show how the unquestioned advantages of the capitalistic firm in access to capital and risk diversification can be combined with the advantages of cooperatives in motivating workers (hence fostering productivity gains) and attenuating the distributive conflict.

This essay, then, is intended as a ground-breaking work, towards a new economic theory of cooperative enterprises. “New” here means not just a refinement or reinforcement of existing theory but a different view of reality. In fact, every theory is a particular way of seeing reality. The argument requires two key premises, set forth in the next two sections.

2. The market economy and the capitalist economy

The idea that the market economy is identical, co-extensive, with the capitalist economy is the source of intellectual confusion, generating serious misunderstandings and pointless debate. This identity is belied by history and unfounded in theory. As I have shown elsewhere (Bruni and Zamagni, 2007), there arose in Umbria and Tuscany, between the end of the 13th century and the mid-16th century, a social order for which Italy was justly renowned, that of “urban civilization”. This order was sustained by thinkers whom Garin (1947) and Pocock (1995) called “civil humanists”. Let me recall a few of them:

¹ For ease of exposition, the present discussion of cooperative enterprises refers only to the type where persons supply labour. But the reasoning would not change if it were broadened to suppliers of raw materials or to customer-consumers, as in production, consumer, and credit cooperatives.
² The standard of “ultimate control” stems from the need to avoid the many misunderstandings raised by the presence of managers who run the firm. At least since the original work of Berle and Means (1932), economists have recognized the separation of ownership and control. The type of control considered in the present paper, however, is essentially different. For cooperatives too can – and in practice do – entrust operations to professional managers. However, they are always accountable and answer to the providers of labour, whereas in the capitalist corporation managers answer to the holders of capital.
Matteo Palmieri, whose *Della vita civile* dates to the 1430s; Leonardo Bruni, chancellor of the Florentine republic; Antonino of Florence, the Dominican bishop of the city; Benedetto Cotrugli, whose treatise *Della mercatura e del mercante perfetto* was written in the mid-15th century but not published for another hundred years; Bernardino da Siena, the author of a celebrated series of sermons, *Prediche volgari*, in 1427. The key institution of “urban civilization” was the market economy as we know it (not just, as in the ancient world, the “market” as the locus of exchange). The Franciscans’ systematic reflection, practically the world’s first school of specifically economic thought, clearly identified three principles as the pillars of the market economy.

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 to procure what they need by themselves. As Palmieri observed in *Della vita civile*, “Of all beings, the most useful to man is man. He cannot hope to get from others those goods that he can obtain only from his fellow men.” The true significance of this first pillar is encapsulated in the Franciscan maxim of the day that alms help you to survive but not to live, because living means producing, taking part in the creation of the common good and alms do not help to produce. At the same time, the division of labour increases productivity through specialization and in practice obliges men to recognize their reciprocal ties. This observation underlies the development of the principle of reciprocity, as complement and counterweight to that of exchange of equivalent values, already known to the Scholastics. In a remarkable piece of work written in 1503 (*Enchiridion Militis Christiani*), Erasmus of Rotterdam elaborates the idea that, by recognizing themselves as mutually dependent, human beings are incentivized to cooperate among themselves and to preserve peace, since conflict would be too costly. (An idea that will be later developed by Montesquieu and Kant).

The second pillar is the centrality of the notion of development, hence accumulation. Wealth needs to be accumulated, in this view, not only as a reserve against future contingencies, but also out of responsibility to future generations. Thus a portion of the social surplus must be allocated to productive investment, which expands the productive base and, ultimately, turns the economy into a positive-sum game. This spurred the organization of manufacturing labour, fostered the practice of training new workers through apprenticeship, and created an incentive to improve the quality of products by requiring craftsmen to produce a “masterpiece”. The same process led to the institution of standards and the control of weights and measures, making the market more trustworthy and drastically lowering what today we call “transaction costs”. A particularly eloquent definition of the concept of development 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 life of many” (cited in O. 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*”).

The third fundamental principle of the market economy is freedom of enterprise. Those endowed with creativity, a good propensity for risk and the ability to coordinate the work of many others – the three essential qualities of the entrepreneur – must be left free to undertake initiatives without the need for prior authorization from a sovereign or underling, because the active and industrious life (“*vita activa et negociosa*”) is a value in itself, not just a means to other ends. Considering the qualities that an entrepreneur needs, Cotrugli wrote: “And let them be patient, those ignoramuses who upbraid the
knowledgeable merchant. Indeed, they lapse into still greater insolence in wishing the merchant to be illiterate. And I say that the merchant must be not only a good penman, abacus-man, and book-keeper, but also a man of letters and a good rhetorician” (Cited in O. Nuccio and F. Spinelli, 2000, p. 275). At the same time, freedom of enterprise implies economic rivalry, i.e. the particular form of competition that takes place in the market. The merchants had the task of opening up new markets, even in distant cities, as export outlets for manufactures and sources of imported raw materials. Entrepreneurs were not only the most active agents of opening to other cultures but also the most active innovators – both in business organization, with the “commendam” (forerunner of the limited liability company) and double-entry bookkeeping (which the Franciscan monk Luca Pacioli put on a systematic basis in 1494); in the economy overall, with such practices as insurance, the merchants’ fair, pledge banks (instituted for the express purpose of combating usury and providing access to credit), i.e. modern banking and stock exchanges; and in legal and institutional affairs, with the Lex mercatoria (law on markets) and the Law of the Sea, eloquent evidence that not all law is the exclusive prerogative of the State. Without these institutions, self-sustaining and diffuse economic development would have been impossible.

It was not until the 17th century that the market economy began its transformation into the capitalistic market economy, and the definitive triumph of capitalism as a social model did not come until the industrial revolution. Capitalism added a fourth pillar, namely the profit motive (Sen, 1983). Productive activity was now directed to a single purpose, the maximization of profit for distribution among all the providers of capital in proportion to their individual share. With the industrial revolution, the principle “fiat productio et pereat homo” was finally enshrined, sanctioning the radical separation between the suppliers of capital and the suppliers of labour and definitively abandoning the old principle of things made to the measure of man (“omnium rerum mensura homo”) that originally underlay the market economy. The simplest way to see that the profit motive as such is not a constituent element of the market economy is to read the civil humanists. A constant theme in their work is that market activities need to be oriented to the common good, which alone justifies them. It is worth stressing that “common good” is quite a different concept from “total good” (or the sum of the welfare of all individuals). It was the utilitarianism of Jeremy Bentham that postulated their coincidence – an error still widespread today.

Bernardino da Siena, in his “38th Sermon”, said: “To make myself better understood, I would say to you that six are the considerations that one must apply to those who engage in commerce . . . The first is to consider the person who engages in commerce. Second is to consider the soul of him who engages in commerce. Third, one must consider the way in which commerce is conducted. Fourth, one must think of the place in which commerce is conducted. Fifth, one must consider the time when commerce is conducted. Sixth, one must look at the community in which commerce is conducted. And let us add a seventh, which comes from Duns Scotus: ‘Commerce must be exercised for the common good’” (p. 1101). Further on, Bernardino concludes “It is a necessary thing for a City or a Community that there be those who work products into another form. As there is wool and it is turned into cloth, it is legitimate that the wool-maker gain. Every one of those can and should gain, but with discretion. With this, it being always understood that in the trade you exercise you must always be straight-forward. You must never use cunning; never falsify your goods, you must make them proper and if you know not how, first you should let it be done by another who can do it right, and then gain is licit” (p. 1138).
In this context, let us cite Fernand Braudel’s authoritative view that market economy and capitalism cannot be said to coincide because capitalism, in order to work, needs the State, to enforce contracts. But the nation-state did not begin to form until the Peace of Westphalia, long after the advent of the market economy (see Jossa, 2004, for a more thorough examination of the point). For Max Weber, capitalism arose in the wake of the Protestant Reformation at the end of the 16th century – again, a couple of centuries after the advent of market economy.

How does all this relate to our theme here? The point is to reassure the advocates of the market economy – of whom I am one – that a possible convergence of enterprises on the cooperative form in no way implies the disappearance or deligitimation of the market. Actually, it would greatly reinforce the market because, as Rajan and Zingales (2003), among many others, note: “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.292). 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.293).

It is because we continue to confuse – to melt together, etymologically speaking – “market” and “capitalism” that so many academics, not only politicians, 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, as the great economist Léon Walras (1874) was among the first to recognize in theory with his general equilibrium model. To be sure, Adam Smith’s *Wealth of Nations* (1776) had already made it clear that the vertical division of labour does not, per se, preclude the possibility of labour “hiring” capital and so controlling the enterprise. Hansmann is perfectly right in closing his work (1996) with the assertion 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”. This is tantamount to classifying the market economy as a genus, of which capitalism is only one species. Another way of putting it is that where market capitalism puts its ultimate legitimacy in the principle of efficiency, the legitimacy of the market economy in its civil form lies in the value of liberty. (It is not by chance that history indicates the possibility of several “marriages” between capitalism and dictatorship).

### 3. From social utopia to the modern cooperative movement

Let us turn to the second specification mentioned in the introduction. The idea of the worker-controlled enterprise was not born in 1844 when the Rochdale Society of Equitable Pioneers created the first successful cooperative. In fact, what those thirty weavers led by Charles Howart founded was a cooperative grocery store to better the members’ economic and social conditions. Earlier, towards the beginning of the century, under the influence of utopian thinkers like Charles Fourier and especially Robert Owen, a strong cooperative movement had arisen. A good number of complex cooperatives were formed: the most renowned were New Harmony in the United States, Orbiston in Scotland, and Queenswood in England. In 1828 the physician and social reformer William
King founded the journal *The Co-Operator*, and in 1830 the Brighton Co-operative Trading Association, grouping more than 300 consumer co-ops. But within the span of a few years, all these initiatives had failed miserably. Why?

The theoretical approach of the “father” of the cooperative movement centred on a pessimistic view of human nature. Robert Owen was a strange sort of “socialist” who did not believe mankind had any inborn aspiration to freedom. Instead, he thought man’s character could be moulded by changing his living conditions. Assigned by the House of Commons to coordinate the parliamentary commission of inquiry into the application of the Poor Laws, Owen took the chance to draft a report, “Villages of Cooperation”, setting out his radical views on social transformation. Naturally, the Commons rejected it. Essentially, Owens proposed a social organization whose main purpose was upbringing, and he sought to realize this model in the textile mill he owned. For him, as for all the advocates of organicistic socialism, the factory was the core of the new, reconstructed society. The factory was to be run cooperatively. Goods would be exchanged on the basis of the labour they contained – as the orthodox theory of value of David Ricardo dictated. Society would see not only to the planning of production but to the spiritual and intellectual education of the workers. Government was to be the prerogative of elders, and the entire hierarchy of power underlying social relations would be based upon age.

It is easy enough to see that experiments based on this line of thought could not but fail. Not only did Owens’s cooperative oppose private ownership (of the means of production); it was anti-market. In fact, Owen regularly refused to help the new-born English consumer co-ops – and the future Rochdale co-op – arguing that the society for retail distribution is “not the social system we envisage” (cited in Birchell, 1994, p. 22). This is the clearest possible example of the harm done by ideology when, in the name of the collective good, one rejects the common good. Luckily, the Equitable Pioneers were not blinded by ideological furor or misled by bad theory and so succeeded in drafting the “Rochdale Principles” for the cooperative movement. One of the key principles was the need to ensure members’ loyalty through distribution of the surplus, dividing profits among the members in proportion to their purchases. Three other principles were crucial to the development of the cooperative movement: trade at market prices, capital to be raised from members, and the allocation of a portion (5 percent) of the surplus to research and member education.

The central idea that has underpinned the entire cooperative structure since Rochdale is first, that members’ needs must be satisfied directly through mutual benefits and not indirectly, as in redistribution of dividends or a share of profits; and second, that the manner of doing so is the exercise of an enterprise, so that members become entrepreneurs and not just the objects of benevolent action by philanthropists or benefactors. In other words, to do good one must do it well, not destroying the self-esteem of the person in need.

An instructive figure for understanding the transition from the paternalistic to the cooperative model of social economy is Alfred Marshall. In “Cooperation” (1889), the illustrious Cambridge economist did not fail to highlight the great virtues of cooperative enterprise: fostering the generation of “excellent human beings” and contributing to the full use of people’s labour power. He writes that in a cooperative “the worker does not produce for others but for himself, which unleashes an enormous capacity for diligent, high-quality work that capitalism suppresses. There is one ruined product, in the history of the world, so much greater in importance than all the others that it can truly be called the ‘wasted product’ – the best working capacities of most of the labouring classes.” (cited in Jossa, 2001, p. 130).
In France, the man who played a role comparable to that of Owen in England was Frédéric Le Play, who founded his Société d’Économie Sociale in 1854. He conducted a vast range of studies to foster “harmony among people cooperating in the same job” (cited in Latouche, 2003, p. 61) and to popularize the idea of corporate philanthropy. Such businessmen as the Schneiders of Le Creusot, the Michelin in Clermont-Ferrand, Ernest Solvay in Belgium and then Tuscany, Alessandro Rossi near Vicenza, and others in Lombardy and Veneto created structures in which workers were cared for from cradle to grave: maternity, crèches, schools, music societies, pensions, places of worship, all governed, ordered, with strict hierarchy.

This was the paternalist model that spread throughout Europe and, towards the end of the century, in the United States as well. This came to be known as “social economy” and would cast a deep shadow over the nascent cooperative movement, engendering suspicion and grave misunderstanding. John Stuart Mill was one of the earliest critics of philanthropy as the offspring of the “theory of dependence and protection”. With great insight he observed that “Of the working classes of Western Europe, at least, it can be safely said that the patriarchal or paternalistic method of government is one of those to which they no longer wish to be subject” (cited in Latouche, 2003, p. 63).

What is the significance of these brief historical annotations? For one thing, they show the importance of theory. The cooperative movement could have avoided a good many strategic errors and failures if it had had a sound basis in economic theory. Second, they demonstrate the ethical anchorage of cooperative action, based on the ethics of virtue as set forth by Adam Smith in his fundamental Theory of Moral Sentiments (1759), successor to the thought of the civil humanists. Social institutions, he argued, must be such as to foster civic virtues among the citizenry. If economic agents’ preferences do not already include those values that need to be observed in practice, there will be scant remedy. For the ethics of virtue, in fact, the application of the rules depends first and foremost on the moral constitution of individuals, their inner motivations, more than on outside enforcement. It is because there exist people, like cooperative members, who have ethical preferences – that is, who assign value to equitable business practices and act to ensure personal dignity, independently of material advantage – that such instruments as the charter of values or ethical codes of conduct can be effective even in the absence of enforcement mechanisms such as those based upon reputation. This is not the case with capitalist enterprises, where those very same instruments act, essentially, as constraints of the objective function to be maximized, i.e. profits, not as an argument of the function itself.

The key to the ethics of virtues is the capacity to resolve, to transcend, the conflict between self-interest and the interests of others, between egoism and altruism. This opposition, the product of the individualist philosophical tradition, is what prevents us from grasping our true self-interest. The virtuous life is the best life not only for others – as the various economic theories of altruism would have it – but also for ourselves. This is the meaning of the notion of “common good”, which can never be reduced to an aggregation of individual welfares. Rather, the common good as interpreted by the cooperative enterprise, is the good of acting in common – the good, that is to say, of forming part of a common structure of action endowed with specific features that will be described below (section 6).

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3 Typical were such men as Andrew Carnegie and John D. Rockefeller. The first American theorists of cooperatives were the California lawyer Aaron Shapiro (1884-1959) and Edwin Nourse (1883-1974), a Chicago economist and the co-founder of the International Cooperative Alliance. Shapiro unsuccessfully advocated large cooperatives, unlike Nourse, whose calls for a federation of small and medium-sized co-ops won a more significant following.
4. On comparing capitalist and cooperative enterprises

The yardstick elected by the bulk of the literature over the past forty years to gauge the relative performance of the two types of enterprise is “efficiency”. Obviously, there is a definite reason behind this choice. Since in a market economy only the efficient firms can meet the test of “survival of the fittest”, determining which form of business is more efficient is tantamount to predicting the long-term success of one type or the other.

How does this methodological choice translate into practice? The starting point is the observation that a firm is a coalition of persons who supply the inputs required for production and then sell the output in the market. As the relationships between these persons and the firm are governed by inherently incomplete contracts, it follows that one of these economic agents must be assigned to control productive activity. The only possible candidates for this role are the suppliers of capital and the suppliers of labour (for the sake of simplicity, we ignore other persons, such as suppliers of raw materials and consumers; see footnote 1). Needless to say whoever has the control, it cannot be denied that authority always entails the risk of abuse of power. Indeed, the person in control can impose costs or grant benefits for the other members of the coalition, who can do little to mitigate the impact. Basically, this is because within the firm – unlike the market – no short-term negotiations between controller and controlled are possible. As Dow (2004) correctly notes, Coase theorem does not apply within the firm. Only in extreme cases of grave abuse of power will the other members exercise the “exit” option. Finally, starting from this frame of reference, analysts look for the causal factors that explain the differential capacity for ultimate control of the providers of capital and of labour. The winner, the one that will eventually prevail in the market, is the type of enterprise that is more efficient in the exercise of control.

A critique of this conceptual basis is set forth in section 5, but first a brief survey of the recent economic literature is in order. One strand stems from the pioneering work of Ward (1958), which attributes the behavioural differences between the two types of firm to the difference in their objective function. The model makes two basic assumptions: that market and technological conditions (expressed by a neoclassical production function) are the same for both firms; and that the objective of the capitalist firm is to maximize total profit while that of the co-op is to maximize net earnings per unit of labour (or per member, if all the workers are members of the cooperative). The results that Ward derives from this model are the notorious “perversities” of which so much has been made. First, the co-op’s short-term supply curve has a negative slope; that is, if the sale price rises the volume of output falls, and with it the amount of labour employed. Second, the co-op’s response to changes in market parameters – input prices and the form of the production function – runs counter to the conventional laws of microeconomic theory. The adverse impact of these apparently innocuous findings on the economic credibility of the cooperative movement simply cannot be overstated; the movement was forced to deploy very substantial intellectual resources to defend itself against the accusation of being a “minor” form of enterprise.

A third perverse result comes from the model of Furobotn and Pejovich (1970), namely the purported “underinvestment” (hence, undercapitalization) of co-ops. These authors show that whenever the time horizon of the median member (his remaining time within the co-op) is shorter than the economic horizon of the investment (the time during which it generates positive returns), the democratic, governance based upon the “one head, one vote” principle will produce a sub-optimal investment strategy, condemning
cooperatives inescapably to smallness and a niche role. The explanation of this perverse result is simple enough. If the members’ assembly is composed by a majority of “old” people, close to their retirement age, these will not likely vote in favour of long-run investment plans, for obvious reasons. This is not the case with the shareholders of a capitalist firm. If s/he decides to leave the company, s/he can always hope that the selling price of his/her shares will embody, proportionally, the present value of the net future benefits of the investment. Here, too, very substantial damage was inflicted on the image of the cooperative movement, which failed to respond quickly enough to the charge of being unable to offer sufficient theoretical grounds to explain the actual expansion of its enterprises. (Needless to say, the response in practice was forthcoming, and convincing, but as we have known since Ricardo, that is never enough to overturn a “proven” theory.)

What, actually, underlies these “perverse” results? Essentially, what we are confronted with is just an epistemological error. In this literature, the capitalist firm is examined in the framework of a supposedly perfectly competitive market, precluding any sort of market failure. The analysis of the cooperative enterprise, by contrast, is always subject to the constraint that there is no market for members’ rights; given such a market, in fact, a member who has decided to leave the co-op could gain the present value of future earnings by selling his/her position to a new member or to the co-op itself. Schlicht and Weiszacher (1977) were the first to show the perfect functional equivalence between the capitalist stock market and the market for co-op members’ positions. Positing a membership market, then, the phenomenon of underinvestment is eliminated. And so are Ward’s perversities, in that the members’ rights market does for co-ops what the labour market does for capitalist firms.

We must dispose at once of a twofold objection. It may be asked whether the membership position market is compatible with the nature of the cooperative enterprise. The answer is certainly affirmative: as long as the enterprise is controlled by those who provide labour, the identity of the co-op is safeguarded, not threatened. A second objection concerns the practical feasibility of such a market. We are well aware of the obstacles to its implementation. Dreze (1993) and Bowles and Gintis (1993) have pinpointed the capital constraint on worker members (lack of personal wealth and various forms of credit rationing) as the main cause of the practical difficulty of creating a members’ position market. This is a totally different question, however, because the “perversities” stem from theoretical models, not practical analysis or empirical inquiry, and on the theoretical plane nothing prevents us from positing that the cooperative enterprise can count on a membership market.

The truth is that the comparison of the two types of enterprise is not made on an equal footing, in that the co-op is never allowed the same degrees of freedom as the capitalist firm. For example, why should the latter’s putative objective be to maximize total profit and not – as, for symmetry, it should be – profit per unit of capital? As Paul Samuelson (1957) clearly anticipated, in a perfectly competitive environment with truly equal conditions, “it doesn’t matter who hires whom”: an economy in which workers rent machinery (say, under leasing contracts) and one in which capitalists “rent” workers through labour contracts will yield exactly the same results in terms of efficiency. Three decades later this conclusion was demonstrated in formal terms by Dreze (1989), but it is virtually never acknowledged in the debate.

A second line of analysis – represented by such scholars as Hart and Moore (1996), Kremer (1997), and Bacchiega and De Fraja (1999) – traces the cause of the relative inefficiency of cooperatives to the heterogeneity of members’ preferences. In their interesting contribution, Hart and Moore observe that under the democratic governance of the cooperative, the winning option (an investment project, say) is the one favoured by the
median member, while the cost is sustained by all members equally. Consequently, the more the mean distribution of members’ preferences diverges from the median, the greater the risk of inefficiency for the cooperative by comparison with its capitalist twin. In other words, whenever the cooperative’s assembly is fragmented among different groups of members characterized by highly heterogeneous preferences, it is clear that unlike the capitalist firm, with its “one share, one vote” principle, the cooperative inevitably risks the tyranny of majority, whence decisional paralysis or else the de facto transfer of control to the managers. In one case we have inefficiency; in the other, the perversion of the cooperative identity.

Kremer (1997) obtains partially similar results in a model in which members pay in a fixed amount to constitute the co-op’s capital. The assembly of members adopts a wage policy depending on volume of output. If the skill (or effort) of the median member is lower than the mean of the efforts of all members, this policy will redistribute income from the more to the less productive members. But the more productive cannot leave the co-op, on pain of losing their initial payment. This, supposedly, explains the relatively flat earnings curve of cooperative as against capitalist enterprises and highlights inefficient wage policy as an alleged impediment to growth. Where is the flaw in this argument? It is in the unstated, and quite unjustified, assumption that the motivations of the agent who elects to join a cooperative are exactly the same as those of the agent who decides to invest in the shares of a capitalist firm. That this is not so in reality is abundantly confirmed by the empirical evidence and is common knowledge to all, save those who construct models to demonstrate what is already implicit in their premises. For instance, as Borzaga (2001) observes, all we need do is include in agents’ utility function a parameter to reflect the preference for fairness – as it is done in ultimatum game models – to completely or at least partly undo the results of Hart and Moore or Kremer.

Particularly useful to help us to clarify the point just raised is the essay by Bacchiega and De Fraja (1999). In a comparative setting that focuses on constitutional design of the firm, typified by the procedures for making decisions at the general membership or shareholders’ assembly, the Authors posit that technological possibilities, prices, and utility functions are all the same. The agent’s utility function is of the following type: \( U_i = U(c_i, E, w_i) \), where \( c_i \) denotes the consumption good of the \( i \)-th agent, \( E \) is a local public good, and \( w_i \) is the usual stochastic variable. In a world of complete contracts the choice of the firm’s institutional set-up would be perfectly indifferent: in any case one would get the first-best solution, the one that maximizes the sum of individual utilities. With incomplete contracts, however, the authors show that organizing common action to achieve the production target in cooperative fashion leads to underinvestment, hence an inefficient outcome. The reason, basically, is that the worker member has a rational inducement to make less of a financial contribution than the capitalist shareholder to the common action that is the object of firm’s activity.4

The intuitive explanation is that any common action always implies the production of some public local good, and such goods always raise the problem of free-riding. Now in a cooperative the members although knowing they will derive a low benefit ex-post from an insufficient production of public good are not stimulated to contribute to it ex-ante. Not so in the capitalist firm where a minority of shareholders with a majority of shares can always take decisions against the majority of members. This means that capitalist shareholders are motivated to contribute resources so as to “buy the power to make

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4 Observe that while in the Furobotn-Pejovich model the co-op’s underinvestment is due to the divergence between the time horizon of the median member and the economic horizon of the investment project, here the same result comes from the specific form of the agents’ objective function.
decisions”. This incentive overcomes the problem of free-riding, which exists, as such, also in capitalist enterprises. It is worth stressing the implication: what makes the difference between the outcomes of the capitalist and the cooperative enterprise is the asymmetrical holding of capital among the shareholders of the capitalist firm. (This implies that if the latter had the same number of shares they would behave like the members of a co-op).

Now what is wrong with this way of comparing the two types of enterprise? Here, again, the behaviour of the agents in the two types of firms is not accorded the same treatment. Why should the cooperative worker’s utility function be the same as the capitalist shareholder’s? Isn’t it true, rather, as we shall see in section 5, that the very choice of joining a cooperative instead of a capitalist firm postulates what Schumpeter called a “pre-analytical” judgment, a value judgment involving in particular personal autonomy? How can one miss the fact that working in a company as a subordinate is quite a different thing from working in a firm that you yourself control? So while it is perfectly legitimate to posit the shareholder’s utility function as above, that of the co-op worker cannot fail to include, as an additional argument, at least the enjoyment of the relational good that always forms part of cooperative action (Bruni and Zamagni, 2004): \[ U_i=U(C_i, E, R_i, w_i) \], with \( R_i=0 \) if the agent decides to become shareholder in a capitalist firm and \( R_i>0 \) if s/he decides to join a co-op as worker member.

On this basis, we would find that the consumption of \( R_i \) is capable of countering free-riding, and considerably more so than is “buying the power to make decisions”. The extensive literature on the theory of organizations, in fact, teaches us that the relationship between an individual and an enterprise does not consist solely in the economic exchange. It also includes a sense of belonging that expresses people’s fundamental need for identity, engendering a psychological exchange involving such intangible but real objects as loyalty, mutual trust, a sense of fairness (Rousseau, 1995). No one can fail to see that in analyzing the decision whether to join a cooperative these relational incentives cannot be ignored. If the only incentives considered in comparing the two types of enterprise are material incentives, then the ultimate judgment handed down on the cooperative – inefficiency – is obviously inevitable from the start.

A third analytical approach is also relevant, namely the neo-institutional or transactional school associated above all with Oliver Williamson and Henry Hansmann. Their analysis explains the existence of different types of enterprise as depending on the differing ability of the various classes of stakeholders to minimize the total sum of the costs of contract (those due to ex-ante market power, ex-post market power and informational asymmetries) and the costs of exercising ownership rights (those of controlling managers, making collective decisions, and risk-taking). Again, that is, it is the differing ability of the different classes of stakeholders to perform efficiently that determines whether the enterprise “should” be structured in the capitalist or the cooperative form.

The point can be illustrated with a couple of examples. For the cooperative, as long as the members’ quotas or retained earnings are sufficient to guarantee expansion, cooperative governance raises no problems. But when venture capital has to be raised from outside, the prospective investors – fearing abuse of power by the worker members who exercise ultimate control - will not invest as much as is needed for growth. This is why there are so few cooperatives in capital-intense industries, or where members are “too poor” to endow the enterprise with the requisite capital, or again when the necessary capital goods are hard to lease. The capitalist firm’s difficulties are analogous, but symmetric. How to motivate employees to supply information and exert optimal effort? The employee is unlikely to disclose his/her real ability to perform his assigned tasks,
fearing that those exercising control gain a unilateral advantage. Moreover, while the capitalist firm requires employees to make a specific investment in human capital, it offers no guarantee on the duration of the labour contract. This gives workers an incentive not to overdo specialization, to avoid the lock-in effect. So we can see why the cooperative form will be successful whenever, for technological reasons, workers have to make a large, specific investment in a skill and where tacit rather than codified knowledge is a strategic factor in the enterprise’s development.

As we can see, unlike the situations posited in the sections above, according to the neo-institutional approach the outcome of the comparison between capitalist and cooperative firm is not a foregone conclusion – that is, the result is not already implicit in the premises. This itself is major progress. What, then, are the shortcomings of the approach under consideration? The first – basically minor – limitation is that the standard of efficiency is applied to the single firm in isolation. This excludes from the efficiency calculus both the externalities involved in the firm’s operation (positive and negative) and also strategic complementarities between firms. Now while this neglect does not produce major problems as far as the capitalist firm is concerned, for cooperatives it does. Notoriously, in fact, cooperative enterprises form a system – the so-called “intercooperativism” – characterized by a series of relational agreements and contracts among the cooperatives themselves whose practical effect is to cut transaction costs those costs that constitute the core of the approach we are examining. Leaving this factor out of Hansmann’s algorithm affects considerably the efficiency ranking.

A second and certainly more serious limitation involves the very significance and suitability of efficiency as the only basis for comparison, which we discuss in section 5. Before doing so, however, let us consider the argument of Dow (2004), which to my mind is the most convincing and robust in the literature. For Dow, the most important asymmetry between inputs of capital and of labour is that capital is transferable from person to person while labour is inalienable. This means that a firm can get the capital it needs either from a stock of goods that it owns or from a flow of services (leasing). But labour services can be had only as a flow, as (slavery being ruled out) there is no stock of workers. Further, while a person’s work time is subject to a natural limit, there is no cap to the amount of wealth an investor may have. Finally, people who provide labour cannot avoid having personal relations with the other suppliers of that input, and no one can be in two workplaces at once, while the supplier of capital can be far from the production process to which she provides his/her “machinery,” which she can also supply to different places at the same time. What is more, labour services are inherently heterogeneous insofar as they are bound up with the characteristics of people who provide them, while financial capital is homogeneous. Essentially, this means that when control rights are assigned to those who provide labour, it is impossible to transfer control from A to B unless A’s labour services are replaced by B’s; whereas in the capitalist firm the voting rights attaching to shares can be transferred from A to B with no effect whatever on the capital goods at the firm’s disposal. In short, what truly marks the profound difference between capitalistic and cooperative enterprises, hence the difference in their relative efficiency, is - as Dow correctly stresses - the inalienability of labour and the alienability of capital.
5. **Why efficiency is not a sufficient standard**

What are the arguments against taking efficiency as the *sole* benchmark for comparing the performance of capitalistic and cooperative enterprises? Let me set out three. First, the conventional view to the contrary notwithstanding, efficiency is not a value-neutral concept. That is, it is not a positive but a normative category of discourse. For it postulates Benthamite utilitarianism as an ethical precept. Whether you adopt Pareto’s ordinal version or the cardinal notion of efficiency defined as a measure of the gap between a given result and the “first best” solution, utilitarian philosophy is always the frame of reference. So how can it be maintained that the comparison between the two types of firms, insofar as it is based on the efficiency calculus, is technical in nature and therefore objective?

Second, as Sacconi (2001) notes, “The basic factor in the efficiency of non-profit organizations is the availability of ideological principles and self-regulatory ethical codes. These have a twofold effect: providing additional motivation and incentive to the members and at the same time serving as an instrument for making the organization known to donors and to the beneficiaries of its social services” (p. 1). Though Sacconi refers to non-profit organizations, the argument applies all the more to cooperatives. Now precisely because the cooperative’s extra resource is the intrinsic motivation of its worker members, the comparison in terms of efficiency cannot be conducted under the rational choice model (with its consequent algorithms), because rational choice is a teleological model and as such incapable of taking agents’ motivations into account. In other words, instrumental rationality simply cannot assign sufficient weight to motivation, social or ethical as it may be. In fact, in this literature, motivations are “reduced” to specific arguments of agents’ utility functions or to particular forms of those same functions, which is precisely what the motivations cannot stand. John Dewey himself, the founder of pragmatism as a philosophy, warned that human action cannot be explained solely by ends and beliefs – as if inherent motives and the environment counted for nothing – nor by motives and environment alone – as if ends and beliefs exerted no effect. So when Stigler and Becker, in their renowned article (1977), maintain that a change in observed behaviour must be explained as a rational agent’s response to changes in incentives alone, they show that they are infected by naïve realism, because incentives can never be defined independently of the motivation of the person to whom they are directed.

What consequences follow from the above? If the calculation of efficiency excludes all the factors that motivate people to join a cooperative (subjective self-fulfilment, the psychological benefit of avoiding work alienation, sharing common purposes, the sense of fairness), then obviously the analysis is biased towards the capitalist firm. The costs for the cooperative (in raising capital above all) are emphasized but its potential benefits are ignored, for the simple reason that they do not concern the capitalist firm.

The third argument involves social externalities, which any firm’s mode of operation generates. The fact is that social externalities are never factored into the

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5 Epistemologically, the problem raised in this section is that of incommensurability: say there are two options, x and y (in our case, the capitalist and the cooperative enterprise) and two standards, $S_1$ and $S_2$ (Pareto efficiency and effectiveness), such that $x$ is better than $y$ in respect of $S_1$ and worse than $y$ in respect of $S_2$. In such cases, before proceeding to a comparison it is indispensible to define a system of trade-offs between standards, to determine how much the relative advantage of one option over the other in $S_2$ compensates for its relative disadvantage in $S_1$. But the literature, even the most highly specialized, shows no trace whatever of any such attempt, which is a serious problem. On this, see Lukes (1997).
efficiency calculation. The most important is the democratization of society. If, as I believe, democracy at the workplace facilitates and helps to establish democracy in the political sphere, and if democracy is accepted as functional to progress, including economic development, then a comparative analysis that neglects this aspect is unjustifiably partial. As Robert Dahl (1985) observed, “If democracy is justified in the governance of the state then it is also justified in the governance of the firm” (p. 57).

We can grasp this point with the help of the 18th-century Italian thinker Cesare Beccaria. In *Dei delitti e delle pene* (“On crimes and punishments”) he wrote: “If we want a Republic of families, then we will have a Republic of heads of family, and so a democratic Republic of these heads, but each family will have a hierarchical structure, a structure of slavery. Yet if we want a real Republic, we must count on the individual person.” Beccaria went to the heart of the question: If the head of the family represents the entire family, then what happens within it is totally irrelevant, and public affairs can ignore it. And if we replace “family” with “firm” and “Republic” with “market economy”, we can see how we can have freedom of enterprise without genuine freedom for citizens, because people working in firms governed by the principle of hierarchical command would be unable to experience freedom at the workplace. Surely there is no denying that an economic system in which those who work in a company also own and ultimately control it is “better” in terms of positive liberty than one in which workers are subject to hierarchical rule and the narrowing of their personal freedom and independence.

This observation brings with it a broader question. Even the most cursory reflection reveals that the capitalist economy is subject to a serious, pragmatic contradiction: while the two founding principles of modern society – individual freedom and formal equality – are both recognized within the market arena, within the firm itself the hierarchical principle prevails. Bruni (2004) wonders “why, even though the origins of the modern economy were intimately bound up with the principles of equality and liberty, its core institution, the firm, is founded upon hierarchy” (p. 378). From another perspective, Zingales (1998) formulates the same basic question in these terms: “Governance is synonymous with the exercise of authority, direction, and control. These words have a strange sound, however, when used in the framework of a free market economy. Why should we need any form of authority? Isn’t the market supposed to be capable of allocating all resources efficiently without the intervention of an authority?” (p. 497).

Karl Marx had seen clearly that the first cause of the lack of freedom and equality within the capitalistic firm was “capital as a social relation”. Whereas in his younger days, following Hegel and Feuerback, Marx had identified capitalism with private ownership of the means of production, in his maturity he came to see that the fundamental institution of capitalism, from which manifold effects derive, is the labour contract. Essentially, as Screpanti (2004) explains, the confusion between company contract or professional contract, on the one hand, and labour contract on the other, has caused no little misunderstanding of the real differences between the cooperative and the capitalistic enterprise. For while in a company contract two or more persons contribute property or services for the exercise in common of an economic activity for the purpose of sharing the profit (net product) and in a professional contract one party engages to supply a work to another, without hierarchical subordination; in an labour contract one person cedes his/her decision-making power to another for a certain period of time in exchange for a compensation (a wage) that is set in advance, independently of the results.

Further, in the company contract the power of decision belongs to all the partners or shareholders, and the subject of the transaction is the amount of labour services that each will contribute, in addition to any capital conferred. In the professional contract, compensation and nature of the services provided are defined in advance, but the way in
which the latter are performed is decided by the worker himself/herself. The labour contract, however, is not for the exchange of a definite good or service but an engagement to obedience, and the wage can be described as the price of renunciation of the intangible good of personal freedom. “The worker’s obligation of obedience in the labour contract institutes the capitalistic firm, which can be defined as an organization based on a power hierarchy for the production of profit. The capitalistic firm is a nexus of labour contracts, which is the exact opposite of what the theorists of ‘contract nexus’ view of the firm think” (Scerpanti, 2004, p. 12). These theorists confuse the nature of labour contract with other kinds of contract, as if they were all of the same sort.

Now we can see the key to the cooperative enterprise. By enabling its members to control their productive activity, it applies internally - i.e. within itself – those principles of freedom and equality that characterize the market economy itself. In this way, at least in principle, co-ops resolve the pragmatic contradiction mentioned above. Postulating that independence is a value per se, whether it produces higher or lower economic outcomes, then we can appreciate Cicero’s opinion: “Ignoble and mean are the gains of wage-earners, whose labour and not whose art is paid: for their wage is the price of their servitude … Sordid is the employment in which workmen find themselves, for nothing truly free is to be found in a workshop” (De Officiis, cited in Scerpanti, 2004, p. 18).

In short, the cooperative is the type of enterprise preferred by people whose scale of values begins with personal independence and freedom. Which suggests what I view as quite a plausible explanation for the relative rarity of co-ops in our societies: that the passion for freedom (“positive” freedom, i.e. “freedom to”) does not yet rank first among most people’s preference orderings. Meaningful in this regard is the famous expression by . Or as Walter Benjamin so aptly put it: “The pain that accompanies submission is preferable to the pain that always accompanies freedom.”

6. The “fundamentum divisionis” between capitalist and cooperative enterprise

At this point, the crucial question cannot be put off any longer: Where to place the ultimate discriminant between the two types of enterprise? Let us begin from the observation that any kind of economic action is always a common action, “an action, that is, which in order to be undertaken requires the deliberate participation of two or more persons” (Viola, 2004, p. 14). The fact is that the division of labour itself makes all economic action a common action. So a market economy, necessarily based on division of labour, is a world densely populated with common actions. According to Viola, three features define the common action. First, all participants must be aware of what they are doing: the mere co-presence of a number of different individuals is not sufficient. Second, each participant is responsible, accountable, for what she does. This is what distinguishes common from collective action: in the latter the individual and his/her identity vanish, and with them so does his/her personal responsibility for his the action. Third, there must be a joint effort on the part of the participants to achieve the same objective. The interaction of a number of persons in a given context is not, in and of itself, common action if they are pursuing different, not to say conflicting, ends. Thus the economic enterprise, which possesses all three attributes, definitely constitutes a common action.

There are various types of common action, depending on what is held in common, which may be the means or the end. If it is the means, the enterprise will be of the capitalistic type, and interpersonal relations will typically take the form of the contract. In a contract, of course, the parties do work in common for its realization, but each pursues
his/her own ends, which may perfectly well conflict. Think, for instance, of the contract between vendor and purchaser, or labour contract itself. When what is in common is the end, the enterprise is cooperative. The essential difference is between a situation in which it is agreed that each party is to pursue his/her own end (as in the capitalist firm) and one in which a common end is shared. This is the same difference as that between a common good and a local public good: in one case the benefit that each person draws from use cannot be separated from that drawn by others. In other words, the interest of each one is realized together with that of each other, not against as it is the case with private goods or regardless as it is the case with public goods. Essentially, while public is opposed to private, common is opposed to self. What is common is not solely one’s own nor indistinctly everyone’s.

What is the consequence of this distinction, from the economic point of view? That when the “common” action is limited to means alone, the basic problem to be solved is the coordination of the actions of many agents. This is what management science has done, at least since the pioneering work of F.W. Taylor (Principles of Scientific Management, 1911) and, after the Second World War, of Herbert Simon. But when “common” also covers the ends, the problem is how to achieve cooperation among the people involved. To avoid misunderstanding, let us specify that our concept of cooperation here must not be confused with the concept employed in game theory. A game is defined as “cooperative” when there is some enforcement mechanism to ensure that players do not renego on their commitments, but obviously each has his/her own aim, which typically differs from the others’. In formal terms, a problem of coordination arises from the strategic interdependence of a number of persons; one of cooperation arises from their axiological interdependence. This is tantamount to saying that according to our concept of cooperation inter-subjectivity is a value, where as in game theory it is a mere circumstance.

A notable fact to be remarked is that, notwithstanding what agency theorists seem to believe, the coordination of decisions within the firm is based on non-market mechanisms. Almost never are prices used within a firm to coordinate the division of labour. So one simply cannot concur with Alchian and Demsetz (1972) that “telling an employee to type a letter instead of filing a document is like telling a grocer to sell this brand of tuna instead of that brand of bread” (p. 777). This for the simple reason that it is utterly unrealistic to conceive of the firm as a sort of market sui generis, because the people who work within a firm are guided not only by orders but also by informal rules of conduct that make up the enterprise’s specific culture. It does not take any great amount of acumen to see that the effects of these norms on human behaviour are vastly different from the effects of the prices that govern market relationships.

The way a consumer reacts to a change in the price of a product she intends to buy is certainly different from the way a worker reacts to the positional competition that the firm triggers (Sacco, Vanin, Zamagni, 2007). Price changes affect my purchasing decisions, not my model of behaviour; but the informal rules within the firm that I work for create a habit of life, definite expectations of rights and duties. As Schlicht (2003) shows, the fundamental problem for a business organization is “psychological consistency” between social norms and work styles on the one hand and orders and formal rules on the other. If a manager’s orders are perceived as inconsistent with the informal norms, you get organizational chaos. That is, where as a command to a machine does not affect the machine’s response to other commands, with people every order creates a precedent, the expectation that in the future similar situations will be handled in like fashion. And if they are not, workers will react by shirking or refusing to put their tacit knowledge at the service of the firm.
It can be shown that the coordination model does not avoid the risk of psychological inconsistency, and consequently that of organizational inefficiency (see, among others, Dassein and Santos, 2003). But the model of cooperation does, because it gives workers the decision-making discretion needed to adapt to local circumstances. For adaptation always requires local information associated with a given task, information that is held only by the worker assigned to it. It is common knowledge by now that the present technological trajectory is such that a key problem for modern enterprise is mutual adaptation between organization and productive structure to exploit potential resource complementarity to the hilt (Trento and Warglien, 2001). In this respect, cooperation is definitely superior to coordination.

The question, then, is what to do to positively resolve the problem of cooperation. A convincing answer, to my mind, is that suggested by Bratman (1999), setting forth three conditions. First is the condition of mutual responsiveness: every participant in the common action believes that the intentions of the others are important, that they deserve respect, and knows that this belief is reciprocated. That is, it is not enough that the members intend to undertake the same action; they must also want to do it together. Second is commitment to the joint activity, which means that it is impossible, in practice, to measure the specific contribution of each to the joint product. Third, finally, is commitment to mutual support, whereby each engages to help the others in their efforts to attain the best possible final result. Note that this mutual support must come in the course of the joint activity, not apart from or after it. So this commitment is not to be confused either with self-interest or with disinterested altruism. There being a joining of interests, in helping the others each is also pursuing his/her own self-interest. In other words, it is precisely because of his concern for his/her own welfare that the cooperative member is concerned for that of the other members (Dworkin, 1992). This is the cooperative enterprise’s particular interpretation of the principle of reciprocity of reciprocity. Let me recall that the principle runs like this: I do something for you (or give something to you) under the expectation that you in turn can do something for others or, possibly, for me. By contrast, the principle of exchange of equivalents that underlies capitalistic action runs: I give something to you under the condition you will give me something of equivalent value. While the exchange relation is premised upon the principle of equivalence, the reciprocity relation postulates proportionality.6

What does a cooperative have to do to satisfy these conditions? First, it must facilitate communication among members. At the same time it must practice equity, avoiding both subjection and exploitation. Let me explain. Communication is not the same thing as information. While full information is all that is needed for the coordination of decisions, cooperation presupposes the practice of a special form of deliberative democracy: the exercise between members of the “voice” option. For the key distinction between “voice” and “exit” option, we are indebted to A.O. Hirschman, who went on to say that while the ideal-typical field of application of the former is the economy, that of the latter is politics. Well the proper significance of cooperative action is that of extending the “voice” option to the sphere of economic relations. As we know, the process of deliberation posits the possibility of self-correction, hence that each person admits, at the outset, the possibility of changing his/her own preference in the light of the arguments of others. This means that the deliberative method excludes all those who declare, in the name of hierarchy, that they are impermeable to the reasons of others (Zamagni, 2004).

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6 Note that the relation of philanthropy is altogether different. It is a one-directional relation from A to B, whereby A freely gives to B under the condition that B gives or does nothing to A. Philanthropy or pure altruism, therefore, is perfectly consistent with capitalistic action, while reciprocity is ruled out. For more on this theme and a discussion of the consequences implicit in the three principles, see Zamagni (2002).
With this in mind, then, deliberation necessary presupposes communication. According to Joshua Cohen (1989), cooperation is based on “deliberation focusing on the common good”, in which all participants are willing to question their initial preferences, because “the relevant preferences and beliefs are those that emerge from or are confirmed by the deliberation” (p. 69). A cooperative that ignored this specific trait and, in the name of efficiency, aped the modus operandi of the capitalist firm – where by definition there is no place for a deliberative process – would be suicidal. Especially since co-ops are quite a bit better equipped than their capitalist sisters to exploit the potential of the network as an endogenous form of organization that allows its users to benefit from dynamic externalities, strategic complementarities and cumulative gains. True enough, constructing a network requires coordination, but it is equally true that the network structures provide their greatest benefits when Bratman’s three conditions are satisfied (Bratman, 1999).

The other prerequisite mentioned is the commitment to internal equity. The prime reason that motivates the members to come freely together to form the co-op is to banish subjection and exploitation. The precept of cooperation is set apart from coordination by the fact that it posits not hierarchy but the equal dignity of persons and of the areas in which they work. As John Rawls observes, cooperation is much more demanding than coordination, as it is based on rules and procedures that have to be agreed to by all participants. To be sure, every common action, hence every enterprise, needs someone to exercise the command function to get the wills of the different individuals to converge. But whereas in a capitalist firm command flows from the power hierarchy, which may be more or less authoritarian as a matter of personal style, in the cooperative command depends on authority in a way that makes it impossible for anyone to impose his/her own concept of the common action on the others.

In short, a cooperative whose governance followed the hierarchical model rather than that of authority would deprive itself of its best chance to capitalize on its own specific identity. Let me explain. Besley and Ghatak (2004) define a “mission” as a set of attributes of a project such that the persons involved value its success more highly than the money income they earn from it. In this sense a cooperative is a mission-oriented organization whose strength springs from the motivation of the agents. A motivated agent is one who pursues a given end because he knows that doing a certain thing or acting in a certain way carries an intrinsic benefit. Clearly if having a mission reduces the need to negotiate pecuniary incentive schemes, it increases the importance of the non-monetary features of organization in optimizing the agents’ efforts.

In symbolic terms, this means positing, for a generic $i$-th agent, a utility function of the type $U_i=a w_i + (1-a) m_i$, where $w_i$ denotes monetary compensation, $m_i$ the intrinsic motivation, and $a$ $(0<a<1)$ the weight assigned to the first component and $(1-a)$ that assigned to the second. Now as intrinsic motivations will differ from person to person, there is a drastic alternative. Either a mission-oriented enterprise such as a co-op succeeds in organizing this diversity and consequently achieving substantial gains in productivity, or it fails and is paralyzed by internal conflict. That is why the cooperative manager must be as “capable” as his capitalist counterpart and must also be capable of something else, namely getting the right mix of $w$ and $m$, that is material and relational incentives. If the co-op manager is seized by the mania for emulation and a sense of inferiority and stresses $w$ only, in the end he/she will provoke the crowding-out effect discussed by Frey (1997), in which the intrinsic motivations are “narcotized” by the extrinsic.

In another context, Gibbons (1998) absolutely does not rule this contingency out, observing: “A worrying possibility is that management practices based on [traditional] economic models may reduce or destroy non-economic facts like intrinsic motivations and social relations” (p. 130). What an irony it would be if just now, when the most
authoritative studies of capitalist corporate organization are beginning to discover that economic sustainability cannot be ensured by controls and monetary incentives alone, the leaders of the cooperative movement let slip the chance to use their specific form of enterprise to attain objectives that mere coordination cannot. As Falk and Kosfeld (2004) have shown experimentally, insofar as material incentives signal the principal’s mistrust of the agent, they significantly reduce the latter’s willingness to act in the former’s interest.

So to speak, incentives turn against the principal, and the agent’s performance is worse than it would be otherwise. This is because trust augments self-esteem (which Adam Smith considered so important), and this in turn not only increases productivity but also diminishes the inevitable risk associated with trust. As we know, the employment relationship between firm and worker can be a “social exchange” or a “market exchange”. The former involves such intangibles as loyalty, honesty, and reciprocity, which cannot be subject to contract: they cannot be verified. We know well enough that it matters greatly to a firm’s performance whether the relationship is of one type or the other. But it is evident that a worker will accept the “social” rather than the “market” exchange only if he/she considers the enterprise as a moral subject that agrees to implement the principle of cooperation whereby workers can freely choose the projects that maximize their benefits (Aghion and Tirole, 1997).

7. In lieu of a conclusion

How can we summarize the meaning of the considerations set forth here? That in the long run the sustainability and the potential of the cooperative enterprise basically depend both on the “relative price” that the workers decide to assign to freedom as against security – let me repeat Walter Benjamin’s representative declaration that “The pain that accompanies submission is preferable to the pain that always accompanies freedom” – and on the ability of the cooperative movement to realize the organizational differentiation which alone can bring out the specificity of common action when “commonness” embraces ends as well. I certainly don’t intend to deny or downplay the difficulties, above all that of procuring capital on market terms. But I do not think that these are the decisive problems that could lead cooperatives to adapt to the prevailing organizational model, which would bring them within a short span of years to be essentially undifferentiated with respect to the capitalist corporation, save for some additional constraints to which the latter are not subject.

In a historical era like the present, with the end of Taylorism, when capitalist corporations themselves are induced to introduce organizational schemes and principles typical of the cooperative enterprise, cooperatives were to continue to try to imitate the capitalist firms’ style of governance, with a lack of consciousness of what they are and what they do. This is why we need a new, i.e. a different, economic theory of the cooperative form of enterprise, a theory that can suggest a societal governance based on the symbolic medium of the commitment to value, i.e. the internalization of the enterprise’s ends by all the members, to which the means – capital and power – must be subordinated.

In The Baron in the Trees, Italo Calvino reminds us that there are human needs that cannot be made into civil or political rights. The protagonist, finally, “understood this: that the associations make man strong and throw the best qualities of individuals into relief and give joy – seeing how many good, honest capable people there are, for whom it is worth the trouble to wish the best – that one rarely attains living on one’s own; while living on one’s own account the opposite occurs more often, to see people’s other side, for which
you need to keep your hand on the haft of your sword” (2002, p. 129). If we got to the point of understanding what the Baron finally saw, we would at last grasp why our society, now more than ever, needs a massive injection of cooperative culture and cooperative practice.
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