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**The creation of new entities:
stakeholders and shareholders
in 19th century Italian co-operatives**

Patrizia Battilani

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The creation of new entities: stakeholders and shareholders in 19th century Italian co-operatives

Patrizia Battilani, Economics department, University of Bologna

Abstract

The numerous studies made of the persistence of the co-operative movement during the course of the 20th century, have often distinguished between economic efficiency and the ethical values (or ideologies) in questionⁱ, as if the two were separate phenomena moving in parallel directions.

However, over the past fifteen years at least two approaches have led to an interweaving of the cultural aspects of co-operation with the question of economic efficiency: the Putnam's concept of social capital and the property rights model based on the work of Henry Hansmann.

In associating myself with an approach, where efficiency is linked with "culture", I wish to examine the cultural components of the Italian co-operative movement which emerged from three different socio-cultural traditions: liberalism, catholicism and socialism. Despite their differences, all three seem to share what we refer to here as the "**ideal of community happiness**", that is the ideal of a collaboration among citizens for the improvement of the standard of living of the whole community. In this paper we will measure the popularity of this culture in the various Italian regions by per capita welfare expenditure in 1880 and 1900. At that time everything spent for helping people in need was given by friendly societies, catholic charities and local councils and nothing came from the central state. Therefore only the spreading of non-profit societies and a pro-active attitude by local councils could generate high per capita welfare expenditure. Indeed, such indicator would seem to be closely linked to co-operative expansion during the second half of the 19th century, and would thus appear to provide an explanation for the non-homogeneous

geographical distribution of Italian co-operatives. The main conclusion of this essay is that in the early stages the link with the political and cultural movements was crucial not only for the emergence but above all for the viability of cooperative enterprises by reducing the costs associated with collective decision making.

Keywords: cooperatives, community happiness, Italy, XIX century

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Introduction

As a result of strong links with the most important socio-cultural issues of the 19th century, both the definition and promotion of co-operatives are interwoven with the development of the socio-political movements of that period. For this reason discussion of such issues was never confined to purely academic circles and a great deal has been written about the relationship between co-operation and ideologies or cultural and political stances. In Europe the focus has been on the influence that the various forms of Christianity have had on the co-operative movementⁱⁱ and on the impact of socialist ideology on the setting up of worker and consumer co-operativesⁱⁱⁱ. In the United States scholars have analysed the role played by the Grange (or Patrons of Husbandry) and the Farmers' Alliance in the promotion of insurance and farmers' co-operatives.^{iv} The growth of co-operatives has been the subject of theoretical analyses by famous economists such as Walras and Mill, and has enjoyed support from a growing school of thought embodied in the creation of socialist-inspired institutions (ranging from the Trades Councils to the Resistance Leagues^v), and from a section of the Catholic world (parish priests and parish associations) that associated this new form of enterprise with a more ethical approach to society and the economy.

The numerous studies made of the persistence of the co-operative movement during the course of the 20th century, have often distinguished between economic efficiency and the ethical

values (or ideologies) in question^{vi}, as if the two were separate phenomena moving in parallel directions. However, over the past fifteen years at least two different approaches have been adopted by economists investigating this question. This has led to an interweaving of the cultural aspects of co-operation with the question of economic efficiency. The first of the two approaches is that of Putnam's concept of social capital, while the second is that of property rights based on the work of Henry Hansmann^{vii}.

˘ In particular, the idea of social capital, understood as sustained group-level co-operative behaviour^{viii}, has been utilised to explain the non-homogeneous territorial distribution of co-operatives in Italy. This is true of two interesting studies, one by Galassi and the other by A. Hearn^{ix}. Both papers conclude by pointing out how the inefficiency of the southern co-operatives, and the impossibility of their remaining in the market, were the result of purely economic factors which, nevertheless, were deeply rooted in the cultural heritage and traditions of the Italian South. In associating myself with this approach, where efficiency is linked with "culture", I wish to examine the cultural components of the Italian co-operative movement which emerged from three different socio-cultural traditions: liberalism, catholicism and socialism. Despite their differences, all three seem to share what we refer to here as the "**ideal of community happiness**", that is the ideal of a collaboration among citizens for the improvement of the standard of living of the whole community. In this paper we will measure the popularity of this culture in the various Italian regions by per capita welfare expenditure in 1880 and 1900. As we will explain in paragraph 1.3, at that time everything spent for helping people in need was given by friendly societies, catholic charities and local councils and nothing came from the central state. Therefore only the spreading of non-profit societies and a pro-active attitude by local councils could generate high per capita welfare expenditure. Indeed, such indicator would seem to be closely linked to co-operative

expansion during the second half of the 19th century, and would thus appear to provide an explanation for the non-homogeneous geographical distribution of co-operatives.

We still need to identify what it is that links efficiency with the presence of the “**community happiness**” ideal. At this point, it would seem a good idea to refer to Hansmann’s analysis, according to which ownership (and therefore the form of the enterprise – co-operative or investor owned) should be assigned so that total transaction costs for all patrons (stakeholders)^x are minimized. In particular the transaction costs can be distinguished into two general categories: the costs of contracting for patrons who establish a contractual relationship with the firm, and the costs of ownership for patrons who own property rights in the firm. This last category can conveniently be subdivided into three other types: monitoring costs, collective decision-making costs, and risk-bearing costs. When ownership of a firm is shared among a class of patrons, a method of collective decision-making (generally speaking a voting mechanism) must be introduced. In many co-operatives this is a one-member-one-vote scheme. Of course such a mechanism will involve some kind of cost in comparison with the contracting solution, above all if patrons are heterogeneous and therefore have different interests. Subgroups of patrons could form coalitions so as to shift benefits to their advantage, and consequently substantial effort may be required to form and break such coalitions, increasing in this way the costs of ownership^{xi}. Besides a majority voting mechanism may yield decisions that are inferior to those that would be reached with a contracting mechanism - if the preferences of the median voter are not those of the mean. Therefore if we take into consideration the process of collective decision-making we can see that it involves high costs of ownership when heterogeneous interests are present^{xii}. In such cases the setting up of co-operatives could be less efficient than the creation of investor- owned enterprises that deal with workers, consumers or providers through market contracting.

Our point is that the link between cultural/political movements and the co-operative movement not only increased the level of inter-personal trust through a series of membership mechanisms, but it also meant that the interests of members were less heterogeneous than they had previously been: as a result, the costs normally associated with collective decision-making were reduced. Summing up then, the ideological-cultural component proved to be a vital factor in the development of co-operatives, not only because it spread knowledge of such undertakings, but also because it contributed towards their economic efficiency.

1. The slow construction of a new type of enterprise: the emergence of co-operatives in economic and juridical debate in Italy.

In terms of the history of business enterprise, the 19th century saw the emergence of alternatives to individual proprietorship: innovative forms of enterprise were being created in order to provide support to long-term investments and to share risk-bearing costs^{xiii}. This was the century in which the industrialised nations' commercial codes made it increasingly simpler to create limited liability companies^{xiv}. As the French jurist, Ripert, wrote, these were the years in which capitalism created its laws^{xv}. However, 19th-century institutional innovations were not all designed to strengthen investor-owned business corporations, but also included the introduction of an entrepreneurial undertaking in which ownership was assigned to stakeholders who were not investors – the co-operative in other words.

The importance of this novel form of economic enterprise is emphasised by the fact that the greatest economists of that age – including Walras, Mill and Pareto – felt the need to write about that form of undertaking which we now call the co-operative, but which at that time was known under a variety of names: sociétés à capitale variables, associations populaires, equitable pioneers, industrial and provident societies.

John Stuart Mill defined the co-operative as an association of workers with equal rights, each being a joint owner of capital stock, working under a management which the workers themselves choose and which the same workers possess the power to dismiss^{xvi}. Walras defined the *associations populaires* as companies whose capital stock was not created by an immediate, definitive underwriting, as occurs in the case of ordinary commercial and manufacturing companies, but through a gradual process consisting of the regular payment of membership shares by the cooperative's members. The French economist defined co-operatives in terms of two basic characteristics: their purpose, that is, the creation of capital (a sales outlet, a factory or a bank) that belongs jointly to all members, and may be used in their interest; and the means that are available to them, which basically consist in the regular, systematic withdrawal of a portion of wages and of company profits, that is, of the members' overall income, for the purpose of increasing capital stock^{xvii}.

Italy was involved in this debate from the very beginning, when a group of intellectuals, including the economists Ugo Rabbeno and Ulisse Gobbi, proposed their own definition of the co-operative enterprise as follows:

We can safely say that the defining characteristic of any cooperative undertaking is the joint running of the undertaking in order to produce that function needed by, and exclusively for the benefit of, its members.^{xviii}

Debate among 19th century economists, both in Italy and throughout the rest of Europe, focused exclusively on technical questions, such as the type of company liability (limited or unlimited), the nature of invested capital (variable or fixed), members' aims (to obtain ownership of capital through

work; to improve living standards by having access to cheaper goods, etc.), albeit within clearly defined cultural boundaries.

The development of the co-operative movement was set against a background of pauperism and the “social question”; indeed, the problem of pauperism was so great that Walras, the creator of the concept of general economic equilibrium, declared that “either society destroys pauperism or pauperism will destroy society”. The above-mentioned economists saw the co-operative movement as something that would enable the poor (that is, those who were capital-less) to enter the world of production, through the creation of shops, banks and factories, and thus as something that would help increase national wealth.

The Italian case is of particular interest because the co-operative movement was created as, and remained, an amalgamation of diverse cultural areas that was to generate a wealth of debate and theoretical writings. Co-operative ideals were first promoted in Italy by a cosmopolitan group of intellectuals from various fields: liberal-minded, lay thinkers such as Viganò, Rabbeno, Luzzatti and Wollemborg. They all perceived the co-operatives as enterprises that reconciled capital with labour, and as such, capable of guaranteeing the greater commitment of their workers. Rabbeno and Wollemborg’s writings clearly reveal their belief in the potential of the co-operative to create the conditions for social peace and the moral improvement of the individual, as the following extended two quotations indicate.

Smith’s school of thought is based on the totally mistaken idea that labour is a commodity just like any other ... The truth is, however, very different: the “labour commodity” is incorporated in the person of its seller, the worker; in other agreements, the seller may adapt supply to demand and thus influence price, whereas the worker cannot do this, because he cannot reduce himself; thus only the buyer establishes the

sale price and terms.....However, the conflict (between capital and labour) can never be completely eliminated, unless enterprises are modified in such a way that there is no longer any separation between the functions of entrepreneur and worker. Well, the manufacturing cooperative sets itself this “aim” ... to eliminate the said conflict... so that there is no longer any such division between entrepreneurs and wage-earners, and so that labour is not seen as a mere “commodity”, as it is now, but is once again granted economic independence, and is paid for in just measure, thus re-establishing the balance in production which has been missing until now...^{xix}.

This entails a re-awakening of popular morality and self-belief, with the knowledge that each individual, provided he is honest and capable of doing a useful job, may aspire to membership and to the benefits of credit. The following facts, among others, support this claim. Twenty-eight of the present members of the association learnt to write their names at the very least, so that they could sign the shareholders’ register. Several made a solemn pledge to change their depraved ways, and in fact managed to keep their promise. Finally, there were those who, having been rejected on the basis of their belonging to the local charity’s list of paupers, re-submitted their application after having applied to the religious charitable institute to be removed from its lists due to the fact that they no longer required charity, and were subsequently admitted to the association^{xx}.

Numerous co-operatives were the result of the work of men like Wollemborg and Viganò, especially in the banking and retail sectors. Generally speaking, the memberships of such co-operatives included a substantial share of middle-class individuals, but failed to include very many

from the poorer classes, as can be seen from the histories of the large 19th century consumers' cooperatives and from the social background of the co-operative banks' membership.

From the 1880s onwards, the worsening of the economic crisis and the increasingly difficult process of industrialisation, were accompanied by a flourishing of Catholic and Socialist associations. It is widely acknowledged that the greater social and economic involvement of the Catholics can be put down to the publication, in 1891, of the Encyclical *Rerum Novarum*, written by Pope Leo XIII, which was to shape the Catholic Church's social doctrine. At the same time, there was a growth in socialist-inspired associations, with the creation of the Trades Councils and the Leghe di Resistenza (Resistance Leagues). Here we see the emergence of two important new theoretical and practical approaches to the creation of co-operative undertakings.

As far as concerns the founding fathers of the Catholic co-operative movement, mention must be made of Chiri, Sturzo, Guetti, Portaluppi and Rezzara, all of whom contributed towards the expansion of co-operatives, and in particular of the co-operative banks, throughout Italy's rural areas. They defined the co-operatives' principal tasks as the improvement of the living standards of the poorer classes, and above all the creation of an economic order capable of overcoming the distinction between wage earners and capitalists.

Cooperation, regardless of its form, has to date managed to fulfil its initial purpose that of subtracting the poor and the weak from the unfair or excessive actions of the capitalist classes This task is of fundamental importance, but from now onwards cooperation has to raise the rural or industrial proletariat to the capitalist level, and to support small-scale enterprises in the face of competition from large companies The underlying aim is not so much that of raising the wages of rural or industrial workers by a penny or two, but of reducing the number of wage-earners by creating a strong,

constantly expanding core of small and medium-sized businesses in which the workers themselves own the means of production..^{xxi}.

The founding fathers of the socialist co-operatives, on the other hand, included the likes of Costa, Baldini, Vergnanini and Prampolini, for whom the co-operative undertaking represented the first step towards the complete transformation of the economy and society; in other words, they saw the co-operative as a form of enterprise that re-established the dignity of labour and helped to create a fairer, more egalitarian society.

Cooperation, in the face of pure resistance, represents the passage from a unilateral phase of opposition to a positive phase of reconstruction. In fact, several of Italy's cooperatives emerged at a time when the workers' struggle proved impotent or insufficient, and when the workers found themselves faced with the task of fighting something more terrible than capitalist oppression, something hidden in the shadows: the lack of workThanks to the creation of worker, producer and consumer cooperatives, the working classes moved up into the middle-classes' territory, that of the harsh world of business. They attacked capitalism on its own patch, utilising the same devices and means it employed to nourish itself, creating new centres of commercial and industrial life, around which there was a gradual convergence of part of those forces constituting the clientele of private speculation. Labour, organised in a cooperative manner, had declared war on private speculation; not only in order to reduce its dependency, but also to undertake practical, direct action aimed at challenging private capital's economic monopoly of society^{xxii}.

As we have already mentioned, the earliest co-operatives appeared in various different sectors of the Italian economy during the 1850s. In keeping with standard practice, at this point we would like to provide a few significant figures for this initial period of co-operative development: the year 1854 saw the foundation of Italy's first ever consumer co-operative, Turin's *Magazzino di Previdenza della Società Generale degli Operai* (the Workers' General Society outlet); in 1856, a group of former glaziers from the town of Altare (in the province of Savona) set up the first workers' co-operative; then in 1864, the first Italian Banca Popolare (Credit co-ops based on the Schulze-Delitzsch model) was set up in the town of Lodi; in 1883, at Loreggia (near Padua), the first Cassa rurale (rural cooperative bank based on the Raiffeisen model) was founded; and in 1884, Nullo Baldini, together with a group of farm labourers, set up Italy's first agricultural co-operative in Ravenna. Thus in the thirty year period stretching from 1854 to 1884, virtually all the various forms of co-operative enterprise that had been tried out in other European countries during the previous decades, made their appearance in Italy, as we see in table 1 and table 2

Table 1 Regional breakdown of coops in 1893 and 1910.

Region	Consumer coops 1893	Credit coops (Schulze-Delitzsch model) 1893	Rural cooperative banks (Raiffeisen model) 1894	Agricultural and worker coops 1894	Total coops 1893-4*	Consumer coops 1910	Credit coops (Schulze-Delitzsch model) 1908	Rural cooperative banks (Raiffeisen model) 1905	Total coops 1910
Piedmont	393	42	14	21	470	188	32	139	470
Liguria	42	6		6	54	68	6	2	245
Lombardy	195	60	50	76	381	484	77	192	1017
Veneto	58	58	149	87	352	143	75	450	431
Emilia Romagna	32	62	6	185	285	157	71	246	990
Tuscany	169	40	2	44	255	267	48	19	514
Marche	20	49		8	77	105	62	46	179
Umbria	5	16		6	27	38	17	4	61
Lazio	14	24	1	42	81	16	29	38	317
Abruzzi and Molise	1	50		1	52	32	45	19	53
Campania	11	127	1	22	161	35	104	9	163
Apulia	17	71		7	95	30	46	16	163
Basilicata	1	32		7	40	2	15	3	21
Calabria	24	25		6	55	28	29	5	58
Sicily	29	63		11	103	53	72	145	245
Sardinia	2	5	1	2	10	6	8	1	33
Italy	1013	730	224	531	2498	1652	736	1334	4960

Source: our reworking of data from Ministero dell'agricoltura industria e commercio, Direzione generale della statistica, *Banche popolari*, (Roma: Tipografia nazionale Bertero 1895); Ministero dell'agricoltura industria e commercio, Direzione del credito e previdenza, *Statistica delle banche popolari, decennio 1899-1908*, (Roma: Tipografia nazionale Bertero, 1911); L.Gheza Fabbri, *Solidarismo in Italia tra il XIX e il XX secolo. Le società di mutuo soccorso e le Casse rurali*, (Torino: Giappichelli, 1995); P.Battilani, A. Casali and V. Zamagni, *La cooperazione di consumo in Italia*, (Bologna: Il mulino, 2004).

Table 2 Cooperation and credit, 1870-1915

Year	Banche popolari –credit cooperatives (Schulze-Delitzsch model)				Rural cooperative bank (Raiffeisen model)			
	number	Market share*	loans/ liabilities	% overdue bills	number	Market share*	% overdue bills	Loans/ liabilities
1870	50				0			
1880	140		0.61	0.28	0			
1882	206		0.62	0.27	0			
1883	250	12.3			1			
1885	407			0.22	14			
1886	516		0.67	0.23	24			
1887	608	13.0			35			
1889	672				42	0.02		2.61
1890	694				44			
1893	730	11.1	0.62	1.55	129			
1894	720	18.8			224			
1895	714	18.8		4.5	370			
1896	710				628			2.22
1898	696		0.66	3.04	895			
1902	736				1099			
1905					1386		0.28	1.22
1908	736	17.0	0.78	0.99		1.00		
1910					1763			
1915					2594			0.68

Observations:

* Market shares have been measured as a % of deposits gathered by all types of bank.

Source: our reworking of data from Ministero dell'agricoltura industria e commercio, Direzione generale della statistica, *Banche popolari*, (Roma: Tipografia nazionale Bertero 1895); Ministero dell'agricoltura industria e commercio, Direzione del credito e previdenza, *Statistica delle banche popolari, decennio 1899-1908*, (Roma: Tipografia nazionale Bertero, 1911); L.Gheza Fabbri, *Solidarismo in Italia tra il XIX e il XX secolo. Le società di mutuo soccorso e le Casse rurali*, (Torino: Giappichelli, 1995)

2. *Co-operatives and the maximisation of members' satisfaction.*

We begin this section with the words of Maffei, pronounced in 1907, advocating the creation of an Inspectorate with the power to supervise and control the cooperatives, obviously managed by the co-operative movement itself:

If you, dear Sirs, were in my position, as Secretary of the National League of Cooperatives, and were to receive each day letters from the poor factory workers and farm labourers – letters full of mistakes, devoid of all syntax and grammar – but letters that document the incredible efforts and self-denial of the masses of poor folk, you would be moved by the miracles that cooperation manages to perform: our three thousand cooperatives are three thousand schools, three thousand humble colleges that instruct the most poorly educated workers to administer the interests of others; schools that prepare the masses to manage public affairs, and train them to take responsibility for public works^{xxiii}.

This passage, which in just a few lines describes the epic aspect of the emergence of co-operation, clearly illustrates what is meant by the economic and cultural promotion of co-op members. In fact, one of the characteristics common to all three cultural routes taken by Italian co-operation, is the idea that this is the only form of enterprise capable of associating monetary remuneration with the human and cultural growth of workers, of consumers and of co-op members in general. For example, the initial lines of the articles of association of all agricultural credit institutions indicated the purpose of co-operation as being “the improvement of the moral and material conditions of members, providing them with money”^{xxiv}. The same principle is cited in the majority of the agricultural co-operatives’ articles of association, such as the statute of the *Società anonima*

cooperativa di miglioramento fra lavoratori della terra di Fabbrico, drawn up in 1901, which was to provide the inspiration for many others thereafter:

The purpose [of the cooperative] is the gradual improvement of the economic and moral conditions of the rural working classes, by providing them with work and encouraging them to be prudent. In order to achieve this purpose, the cooperative intends: to manage rural land, the cultivation of which shall be performed collectively by the members of the cooperative and their families; to sell those agricultural products needed by farmers (fertilisers, sulphur, sulphates, tools, machinery, etc.); to run public works enterprises that are in some way related to the improvement of the land (land reclamation, river and canal banks, embankments, tilling the soil, etc.); to provide members with an education in farming practices; to set up a welfare fund for co-op members for when they fall ill or are in absolute poverty^{xxv}.

Another example is given by the sector of the manufacturing cooperatives, such as the Construction Co-operative set up in Milan in 1887. This cooperative of bricklayers was founded following a strike, and it aimed to prove that it was possible to compete in the market while paying workers a proper rate of pay and ensuring they worked no more than 10 hours a day. This co-operative pursued the well-being of its members through a variety of measures: it set up a pension fund for retired workers and for those no longer able to work; in 1888 it opened a technical school in the Municipal buildings (jointly financed by numerous public bodies, banks and the King of Italy himself)^{xxvi}. Likewise, the famous Altare glassmakers' cooperative – the very first workers' co-operative in Italy – was also committed to workers' welfare, as shown by its setting up of a pension fund and a mutual aid society.

Consumers' co-operatives also tried to distinguish themselves from private companies in their better "material" and "ethical" treatment of their workers. For example, the Milan Co-operative Union, headed by Buffoli – the largest consumers' co-operative in the whole of Italy and the most innovative business undertaking in Italy's retailing sector – implemented a series of measures for the benefit of its workers. In fact, it set up a Pension Fund (financed by 11% of its profits), introduced a day of rest for its workers, and set up a library offering workers free book loans; it also offered prizes to those workers who successfully attended evening and holiday classes, and in 1906 it set up its very own school (initially for 80 young workers) offering free courses to personnel during working hours^{xxvii}. Generally speaking, consumers' co-operatives, both large and small, often provided a further service in addition to their normal sales activities, namely the running of recreational clubs designed to promote the socialisation and education of members. In Lombardy, there were frequent cases of "conglomerated" consumers' co-operatives, consisting of a number of different co-ops and associations that were capable of meeting the various needs of their members. These included social insurance, consumption, the provision of recreational facilities, and even housing.

Overall, the co-operatives utilised three main channels in their attempts to look after their members' well-being: the price mechanism (higher wages paid by manufacturing co-ops, or lower interest rates to borrowers applied by the co-op banks); the introduction of some form of social security (in the case of accidents, illnesses or old age) designed to fill the gap left by the absence of state benefits; the promotion of activities designed to increase human capital (the creation of libraries or recreational clubs, where members could read, among other things, the local newspapers, and the organisation of professional training courses). The development of such additional services, aimed at promoting the cultural interests of co-op members, was in perfect keeping with the mutual aid associations which lay at the roots of an important part of the

cooperative movement, as we have already seen. The founding fathers shared the belief that such additional activities, designed to improve the education and culture of co-op members, should not be mistaken for charity. Indeed, these activities were designed to create the prerequisites for what we today would call “social mobility”.

3. The idea of community happiness underlying entrepreneurial success: the reasons for the territorial concentration of the co-operatives.

As we have already mentioned, the co-operatives’ expansion and market penetration was largely confined to central and northern Italy, and in particular to the regions of Piedmont, Liguria, Lombardy, Emilia-Romagna, Veneto and Tuscany. These regions were where the theoretical models of co-operatives were formulated, and were also the focal points for the experimentation and expansion of the earliest cooperative enterprises. It proved much more difficult, on the other hand, for co-operatives to gain a foothold in southern Italy, with the exception of certain successful banche popolari and communal leaseholds in Sicily, thanks to the commitment of Don Sturzo, and of a number of banche popolari and white-collar consumers’ coops in the Lazio region. This “map” of the early development of the co-operative movement in Italy does not, however, mirror the economic development of these regions compared with that of others: in fact, the regions with the greatest penetration of cooperative enterprises include both the country’s wealthiest regions (Piedmont, Lombardy and Liguria) and others where the level of economic development was comparable with that of the South (namely Emilia-Romagna and the Veneto).

A great many explanations have been proffered for this non-homogeneous distribution of co-operatives in Italy. Some scholars have tried to explain the phenomenon in terms of the presence of communal traditions related to woodland management (e.g. in Trentino or the Veneto)^{xxviii} or to

the management of waterways (in Emilia-Romagna)^{xxix}; others have focused on the presence of socialist or Catholic associations which aided the growth and promotion of the co-operatives^{xxx}; some have argued that it was the advent of industrialisation and the disruption to the existing economic equilibrium that triggered the creation of new forms of enterprise such as the co-operatives^{xxxi}. Personally, we believe that an explanation may be found in the relationship between cultural factors and economic efficiency, as we now argue.

Our starting point is the idea that in order for co-operation to prosper, it needs a strong social fabric which it, in turn, helps to reinforce. In fact, the expansion of an enterprise based on the principles of solidarity and the promotion of the well-being of its members, required a cultural framework in which solidarity was a recognised value, and in which the principle of community happiness countered the mere pursuit of individual gain or utility. In order to lend some weight to this hypothesis, we suggest that per capita welfare expenditure in the various Italian regions in the first fifty years after Unification (in 1861) be taken as an indicator of the extent of an institutional fabric and of a deep-rooted culture of community happiness. We take the years 1880 and 1900 as our benchmarks for the welfare expenditure and 1893 and 1910 for the number of co-operatives, as they are the years for which a considerable amount of data is available. Welfare expenditure is deemed to be everything that is spent in the form of subsidies and other measures, by the mutual aid societies, by charities and by local authorities (in particular by borough councils), in response to situations of need (illness, unemployment, old age, etc.). The reasons why this variable represents a good indicator of a culture of community happiness, and why we have included local government expenditure as part thereof, are as follows. Firstly, the historical period in question was one in which citizens' rights did not include welfare measures for the less well-off sections of the population: the state did not provide this kind of safety net, and any welfare provisions there were can be put down to the work of mutual-aid societies or charitable institutions; as such, they

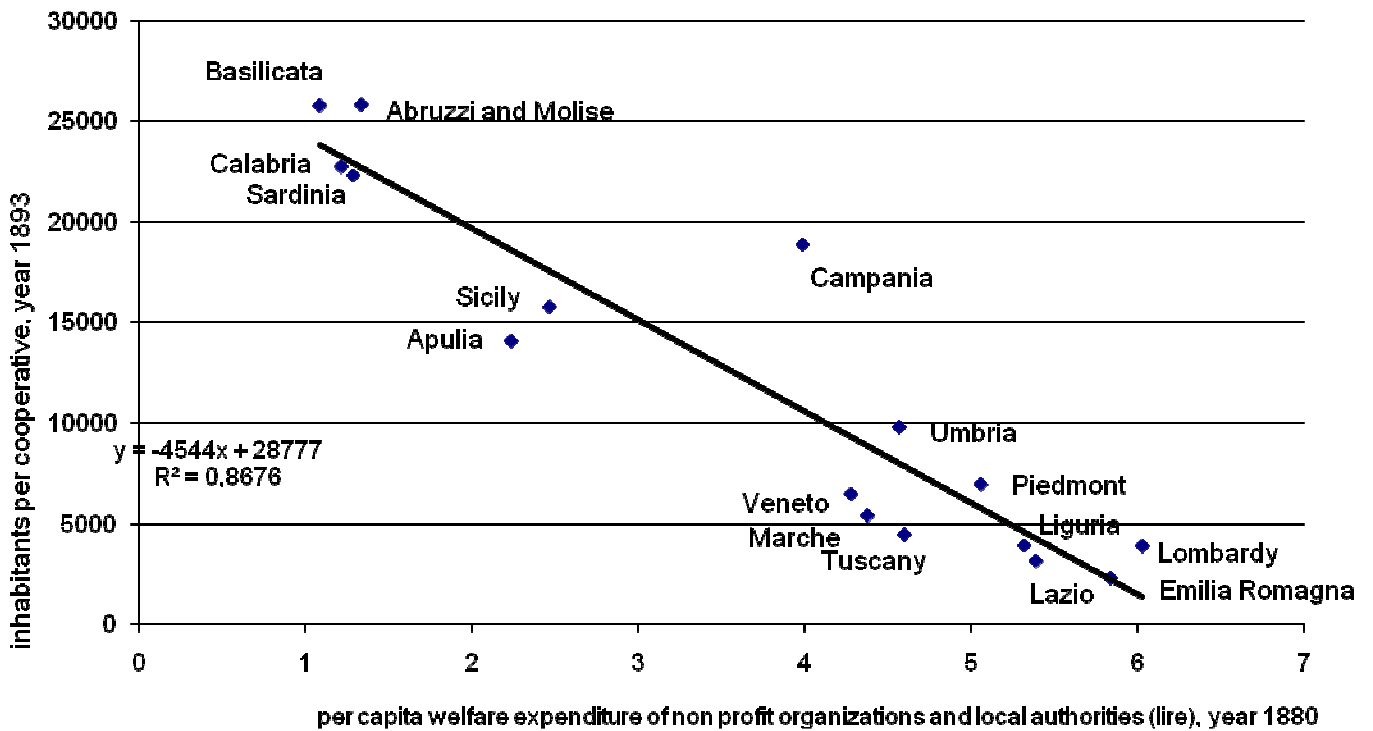
depended on the organisational capacities and energies of individuals. As regards the social policies of local councils and provincial administrations, it should be said that during this period, local authorities received no funds at all from central government, but were forced to tax residents in order to finance their own spending. In a situation in which the right to vote was strictly linked to wealth, the decision to increase welfare expenditure could only be explained in cultural terms. As figures 1 and 2 show, there is a direct relationship between the presence of a strong institutional fabric based upon the idea of community happiness, and the expansion of co-operative enterprises. The co-operative movement developed in those regional contexts with a stronger institutional fabric which, through non-profit-making associations and local council policies, spread the concept of community happiness and encouraged the adoption of a co-operative to remedy situations of need. This confirms what historians have traditionally affirmed, that charities and self-help associations played an important part in the initial development of the co-operative movement in Italy. In fact, it is no coincidence that in those cases where the penetration of such societies proved difficult, encountering insurmountable economic problems, cooperation came up against a great many other obstacles^{xxxii}.

The interrelationship between institutional fabric, local culture and the growth of the co-operatives also helps us to understand the reasons for the evident regional differences, which we shall now briefly describe, taking into consideration three different regions. Our obvious starting point is the Emilia-Romagna region, which in the 20th century was to become the capital of the co-operative movement. During the decades prior to the First World War, this Italian region saw the co-operative ideals embodied above all in farm labourers' co-operatives (there were already 185 such co-ops in 1894), and in workers' co-operatives, although co-operative credit also had a role to play, with the foundation of several co-op banks and agricultural credit institutions. Despite backwardness, which was only slightly alleviated by the existence of a dense network of small and

medium-sized towns, the region still managed to function as the theoretical powerhouse of the cooperative movement. The strong institutional fabric created by the emergent socialist movement, which at times flanked, and at others ran counter to, the existing Catholic movement (marked by the significant presence of religious charitable institutions), proved particularly well-suited not only to the creation of co-operative enterprises, but also to the gradual introduction of a managerial culture within the co-operatives.

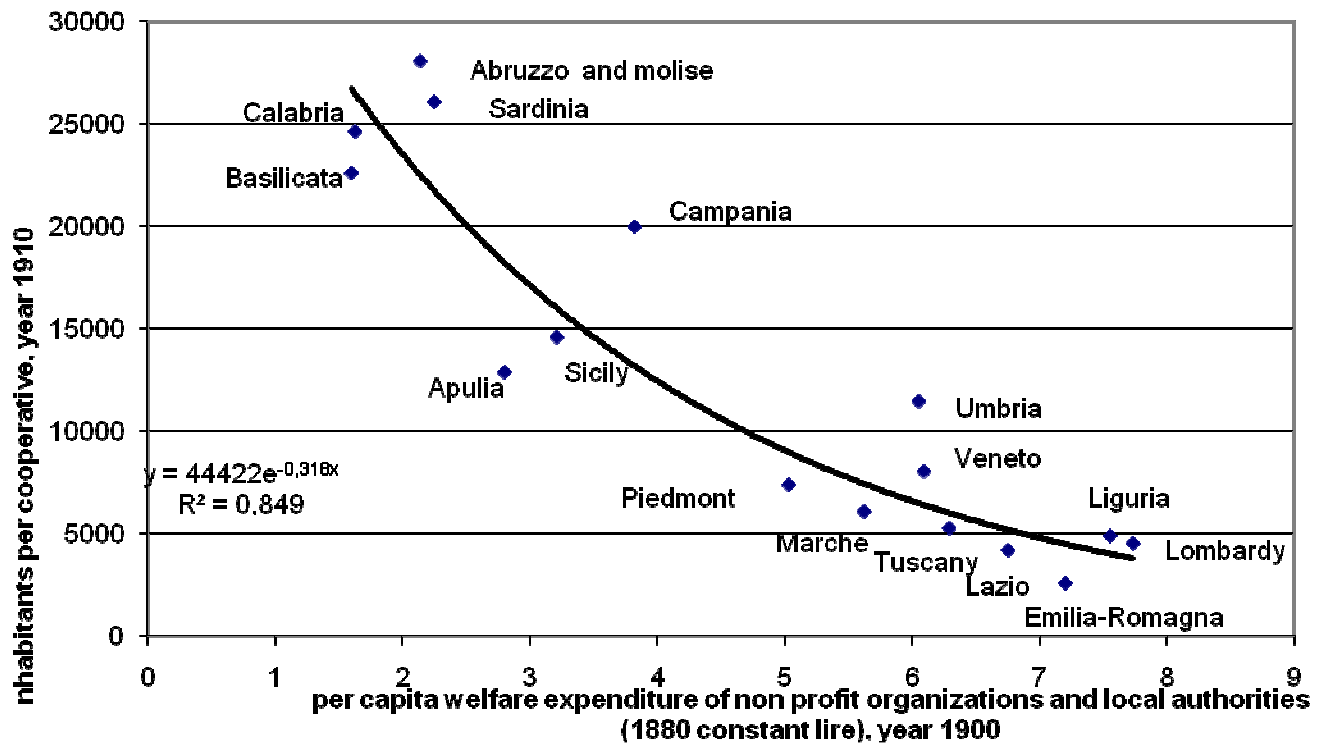
The other region that owes its growth to the expansion of co-operation is the Veneto. This northern Italian region has been rightly called the land of *casse rurali*, as a result of their considerable presence in the countryside, and of the role they played in aiding rural co-operation. Here it was the Catholic associations that mainly helped create that institutional fabric within which the cooperatives were created and gradually transformed.

Fig. 1 Relationship between institutional fabric and the expansion of the cooperatives- years 1880-1893



Source: with regard to per-capita welfare expenditure, see P. Battilani, *I protagonisti dello stato sociale italiano prima e dopo la legge Crispi*, in V. Zamagni (ed), *Povertà e innovazioni istituzionali in Italia dal Medioevo ad* (Bologna: Il Mulino, 2000); with regard to the expansion of cooperatives, see table 1.

Fig.2 Relationship between institutional fabric and the expansion of the cooperatives- years 1900-1910



Source: see figure 1

However, Lombardy remained the leading Italian region in terms of co-operation right up until the First World War. This region not only boasted numerous consumers' co-ops, building co-ops and banche popolari, but was also a step ahead of the others in terms of the size of its co-operatives: in fact, the co-operatives with the highest turnover and with the greatest interest in technological and organisational innovation were nearly all situated in Lombardy, thus confirming the region's

economic leadership and the greater presence of an entrepreneurial attitude. Furthermore, it was also the most important “think tank” for the elaboration of theoretical models of co-operation: a meeting place for academics, liberal politicians and the founding fathers of the co-operative movement. While the Milan area was characterised by the strong presence of liberal/lay co-operatives, supported in the main by the urban middle classes, the region’s other provinces were soon to witness the establishment of Catholic co-operation as well

4. Conclusion

The nineteenth century witnessed the setting up of co-operative enterprises in many European countries, in connection with the emergence of a crucial debate on pauperism and economic development. Italy was not an exception. However, from the very beginning the Italian co-operative movement differed in certain important respects from that of other countries. First of all it was never organized as a neutral, apolitical, non-religious movement so that the construction and diffusion of co-operative values became part of a wider cultural and political working out. Secondly it was never dominated by a unique ideology and it was supported by a plurality of cultural and political approaches, so far as separate umbrella organizations emerged. Despite this plurality of inspirations, the strong identification with some specific regions links all kinds of co-operative cultures. As a consequence the co-operative movement was closely tied to the local institutional fabric. This is why, although co-operatives took root across the whole of Italy, co-operation became stronger in certain regions than in others. In particular the regions with a stronger network of non profit and charity association (Trades Councils and Resistance Leagues included) and therefore with a deep-rooted culture of “community happiness” were those where co-operative enterprises emerged more rapidly and became more viable.

In conclusion, in contrast with what happened in other countries, Italian co-operatives can be considered the spin-off of long lasting civic traditions going back to at least the fourteenth century, when theses on the social uses of wealth and a general revaluation of human relationships, from family to city, emerged for the first time. Over the nineteenth century idealistic and inspirational co-operative undertakings picked up and in turn reinforced that tradition of collaboration among citizens for the achievement of common goals - and the egalitarian attitude connected to this. For the same reason the different history of Italian regions explains the non-homogeneous distribution of co-operatives across the countries. Indeed, each region found its own transmission channel: in Emilia Romagna the legacy coming from middle age was picked up by the socialist movement, while in Veneto by the catholic culture.

What about the consequences of the link between co-operatives and social, religious and political movements? According to some scholars, ideological claims restricted the economic choices available to individual co-operatives in the long run and limited the spread of an entrepreneurial culture, above all in the later stages of industrialization^{xxxiii}. In contrast with that interpretation we maintain in this essay that in the early stages the link with the political and cultural movements was crucial not only for the emergence but above all for the viability of cooperative enterprises by reducing the costs associated with collective decision making. Besides over the nineteenth century, in regions like Trentino and Emilia Romagna the co-operative movement itself played a crucial role in the articulation of an industrial culture. But that is another story.

ⁱ If, for example, we limit our analysis of the history of co-operation to the Italian case, we note that up until the 1970s, studies were predominantly of the political variety and focus on ideological issues; in the 1980s and 1990s, this type of study was gradually replaced by business histories, where the emphasis was on the competitive aspects of the co-operative enterprise. P. Battilani, G. Bertagnoni and S. Vignini, *Un'impresa di operatori, artigiani, camionisti. La Cta e il trasporto merci in Italia*, (Bologna: Il Mulino, 2008); P. Battilani and G. Bertagnoni, *Cooperation, network, service. Innovation in outsourcing*, (Lancaster: Crucible Books-Carnegie Book Production, 2010); P. Battilani, A. Casali and V. Zamagni, *La cooperazione di consumo in Italia*, (Bologna: Il mulino, 2004).

ⁱⁱ See for example the many books about the Italian catholic co-operatives. Sergio Zaninelli, *Mezzo secolo di ricerca storica sulla cooperazione Bianca: risultati e prospettive* (Verona: Società cattolica di cooperazione, 1996) and Andrea Leonardi, *Il credito cooperativo in una regione marginale. L'esperienza della Vallarsa* (Milano: FrancoAngeli, 2010). Also the history of the Dutch Rabobank is very interesting because this network of credit unions dates back to 1972 when both catholic and protestant inspired banks merged.

ⁱⁱⁱ See, for example, the studies that have been published of Belgian, English, Italian and Scandinavian consumer co-operation in the book edited by Ellen Furlough and Carl Strikwerda *Consumers against capitalism* (Maryland: Rowman and Littlefield publishers, 1999) and in the book *Consumerism versus capitalism? Co-operatives seen from an International Comparative Perspective*, (Ghent: Amsab-Instituut voor Sociale Geschiedenis, 2005)..

^{iv} Marc Schneiberg and Marissa King, 'Social movements and organizational form: cooperative alternatives to corporations in the American insurance, dairy, and grain industry', *American Sociological Review*, 73 (2008), p.635-667

v The first Italian trade unions took the form of mutual aid societies and advocated class collaboration. By 1860 these self-help organizations numbered over 150. In the eighties socialist inspired trade unions started to emerge with the name of League of Resistance. They organized the landless peasants of the Po Valley and launched many strikes in order to end exploitation in the agricultural sector. Urban proletariat began to organize itself only in the 1890s with the setting up of the Trade Councils first in Milan then in other cities.

vi If, for example, we limit our analysis of the history of co-operation to the Italian case, we note that up until the 1970s, studies were predominantly of the political variety and focus on ideological issues; in the 1980s and 1990s, this type of study was gradually replaced by business histories, where the emphasis was on the competitive aspects of the co-operative enterprise. P. Battilani, G. Bertagnoni and S. Vignini, *Un'impresa di cooperatori, artigiani, camionisti. La Cta e il trasporto merci in Italia*, (Bologna: Il Mulino, 2008); P. Battilani and G. Bertagnoni, *Cooperation, network, service. Innovation in outsourcing*, (Lancaster: Crucible Books-Carnegie Book Production, 2010); P. Battilani, A. Casali and V. Zamagni, *La cooperazione di consumo in Italia*, (Bologna: Il mulino, 2004).

vii Henry Hansman, *The ownership of enterprise*, (Cambridge MA: Harvard university press, 1996); Robert Putnam, *Making Democracy Work: Civic Tradition in Modern Italy*, (Princeton: Princeton University Press, 1993).

viii J. S. Coleman, 'Social capital in the creation of human capital', *American Journal of Sociology*, 94(1988), 95-120. J. S. Coleman, *Foundations of social theory*, (Cambridge, MA: Belknap Press of Harvard University, 1990). P. Dasgupta, "Trust as a commodity", in D. Gambetta, (ed), *Trust: making and breaking cooperative relations* (Oxford: Basil Blackwell, 1988). P. Dasgupta, "Economic progress and the idea of social capital", in P. Dasgupta and I. Serageldin (eds), *Social capital: a multifaceted perspective* (World Bank, Washington, DC: 2000). R.D.

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^{ix} Brian A'Hearn, 'Could southern Italians cooperate? Banche popolari in the Mezzogiorno', *Journal of Economic History*, 60, 2000, pp.67-93; Francesco Galassi, 'Measuring social capital: culture as an explanation of Italy's dualism', *European Review of Economic History*, 5, 2001, pp. 29-59.

^x By definition patrons are all the persons who transact with a firm: investors of capital, customers, workers or whoever.

^{xi} When patrons deal with the firm through market contracting, they can only threat of withdrawing, in contrast with a collective decision-making mechanism where subgroups of patrons can achieve great influence.

^{xii} Henry Hansmann, 'Cooperative firms in theory and practice', *Liiketaloudellinen Aikakauskirja (The Finnish Journal of Business Economics)* 4, 1999, pp. 387–403

^{xiii} This process dates back to the twelfth century with the shaping of the first kind of for profit enterprises, the commenda and the compagnia di negozio

^{xiv} In France, the government authorisation for the incorporation of limited liability companies was abolished by the 1867 Code, which also saw the introduction of the *sociétés à capitale variable*, a format including the cooperatives. In England the Joint-Stock Companies Act (1844) made incorporation possible merely by registration, and between 1844 and 1862 the full joint-stock company with limited liability for all shareholders became widespread. That same year, the 1862, saw the passing of the Industrial and Provident Societies Acts (I&P Act), which for the first time gave cooperatives corporate status, with the provision of a

proper legal framework for cooperatives. In Italy, cooperatives were legally recognised with the publication of the new commercial code in 1882, which at the same time abolished the need for governmental authorisation when creating a corporation.

^{xv} George Ripert, *Aspects juridiques du capitalisme moderne*, (Paris: L.G.D.J.,1951).

^{xvi} John Stuart Mill, *Principles of political economy: with some of their applications to social philosophy*, (London: Parker, 1852,vol. II, third edition).

^{xvii} Leon Walras, *Les Associations populaires de consommation, de production et de crédit. Leçons publique faites a Paris en 1865*, (Paris: Dentu,1865)

^{xviii} Ugo Rabbeno, *Le società cooperative di produzione*, (Milano: tipografia F.lli Dumolard, 1889).

^{xix} Ugo Rabbeno, *Le società*, cit, pp. 424-463.

^{xx} Leone Wollemborg, *L'ordinamento delle Casse di Prestiti*, Lecture held on 24th november 1884 at the Associazione agraria friulana, in Renato Marconato, *La figura e l'opera di Leone Wollemborg. Il fondatore delle casse rurali nella realtà dell'Ottocento e Novecento* (Treviso: La vita del popolo, 1984), pp. 251-258.

^{xxi} Giuseppe Toniolo, *L'avvenire della cooperazione cristiana*, (Closing speech held at the International Congress of cooperative bank, Paris,1900), in Giuseppe Toniolo, *Opera omnia*, section 4, *Iniziativa sociali*, vol. 3, *Iniziativa culturali e di azione cattolica*, (Città del Vaticano: Tipografia Poliglotta Vaticana, 1951), pp. 510-24

^{xxii} Antonio Vergnanini, *Cooperazione integrale*, (Report presented at the 7th ICA International Congress held in Cremona on 23rd-25th September, (Reggio Emilia: Cooperativa Lavoratori Tipografi, 1907).

^{xxiii} Quote taken from A. Basevi, *La legge sulla cooperazione e la sua applicazione*, (D.L.C.P.S. 14 settembre 1947, n. 1577), (Roma: la Rivista della Cooperazione, 1954, second edition)

^{xxiv} Lia Gheza Fabbri, *Solidarismo*, cit

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- ^{xxv} Giuseppe Raineri, “LE affittanze collettive in Italia. Inchiesta, (Piacenza: Federazione italiana dei consorzi agrari, 1906).
- ^{xxvi} Renato Zangheri, Giuseppe Galasso and Valerio Castronovo, *Storia del movimento cooperativo in Italia. La Lega Nazionale delle Cooperative e Mutue, 1886-1986*, (Turin: Einaudi, 1987), pp.60-62.
- ^{xxvii} Luigi Buffoli, *L’organizzazione delle società cooperative di consumo*, (Milano: società editrice Sonzogno, 1895).
- ^{xxviii} Marco Casari, “Emergence of endogenous legal institutions: property rights and community governance in the Italian Alps,” *Journal of Economic History*, 67: 1 (2007), 191-226; A. Leonardi, *Per una storia della cooperazione trentina, vol.I. La Federazione dei consorzi cooperativi dalle origini alla prima guerra mondiale (1815-1914)*, (Milan: FrancoAngeli, 1982).
- ^{xxix} Franco Cazzola, ‘Le bonifiche nella valle padana. Un profilo’, *Rivista di storia dell’agricoltura*, 27 (1987), 37-66; Franco Cazzola, *Equilibri idraulici, governo del territorio e società rurale in Valpadana, secoli XV-XIX*, in Giorgio Bigatti (ed), *Uomini e acque*, (Milan:Giona,1997).
- ^{xxx} Zangheri, Galasso and Castronovo, *Storia*, cit; Vera Zamagni and Massimo Fornasari, *Il movimento cooperativo in Italia, un profilo storico-economico (1854-1992)*, (Firenze: Vallecchi, 1997).
- ^{xxxi} Andrea Leonardi, *Cultura dello sviluppo e cooperazione*, (Trento: Federation of cooperatives Trento, 1996).
- ^{xxxii} See the numerous essays on the failure of the mutual aid societies to establish themselves in the South of Italy. Ennio de Simone and Vittoria Ferrandino, *Assistenza, previdenza e mutualità nel Mezzogiorno moderno e contemporaneo*, (Milano: FrancoAngeli, 2006). Gheza Fabbri,

Solidarismo, cit. Rosa Marucco, *Mutualismo e sistema politico. Il caso italiano (1862-1904)*, (Turin: Franco Angeli, 1981).

^{xxxiii} Zangheri, Galasso and Castronovo, *Storia*, cit; Marco Granata, *La Lombardia cooperativa. La lega nazionale cooperative e mutue nel secondo dopoguerra*, (Milano: FrancoAngeli, 2002); Tito Menzani, *La cooperazione in Emilia-Romagna. Dalla Resistenza alla svolta degli anni settanta*, (Bologna: Il Mulino, 2007).



Alma Mater Studiorum - Università di Bologna
DEPARTMENT OF ECONOMICS

Strada Maggiore 45
40125 Bologna - Italy
Tel. +39 051 2092604
Fax +39 051 2092664
<http://www.dse.unibo.it>