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THE ROOTS OF COOPERATIVE CREDIT FROM A THEORETICAL AND HISTORICAL PERSPECTIVE

Silvio Goglio and Andrea Leonardi¹

Abstract

Credit is indubitably one of the most important sectors in which the supply of goods and services by cooperatives has arisen. Given the importance of the role of cooperative banks in the development of other sectors and of the territories or communities in which they operate, and the economic and political power that they consequently confer on those who manage them, some of the inherent problems distinctive in general of not-for-profit organizations become critical. In particular: in the case of rapid growth beyond the original group and area, the possibility of maintaining the principles of reciprocity and participation; the role and motivations of the social entrepreneurs acting in the bank; the corporate social responsibility, which, in the case of a bank, is closely connected to how the community's savings are employed and how investments are selected. As with other cooperative enterprises, credit can be supplied in a variety of forms with different purposes and with different positive and/or negative externalities. Evaluation of the respective advantages and disadvantages must bear in mind the different contexts in which individual banks operate, considering both theoretical aspects (potentialities) and historical ones (past and present modes of operation). These inherent problems are discussed in the first part of the work from a theoretical point of view; while in the second part the first applications and the debate that accompanied them are analysed, given their importance in determining the features of subsequent experiences. In particular, we shall show that they stem from two different interpretations of solidarity and reciprocity: the first one, theorized and, to a certain extent, realized in the Raiffeisen model, is mainly ethical in nature; the second one, typical of the Schulze Delitzsch model, is more closely tied to individual interests tempered by social responsibility.

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1. Socially responsible production and cooperative credit

*I would as soon trust a man whose interest binds him
to be just to me, as a man whose principle binds himself*
D. Defoe, Captain Singleton

*Never before has one been subjected
to so many ideas distant from common sense,
nor for that matter ones better argued, more controlled...*
P. Valéry, L'Idée Fixe

1.1. Individual interest and extended interest

The recent economic crisis has reinvigorated the debate on the potential conflict between the maximization of personal interest and public well-being, and on the relationship that should exist between private initiative and regulation. More specifically, the financial origins of the crisis, at least in its more contingent and immediate dimension, and the responsibility or connivance of banks in its regard, have again raised the issue of the extent to which the system of controls should be expanded to prevent the most deleterious effects of the maximization of profit in a sector so vulnerable and prone to degeneration – in the sense of social irresponsibility – but also vital for the economy². Of course, the current crisis has dimensions that lie deeper and are therefore less immediately perceivable (for instance, those of the real economy, energy, and the environment), but these too can be related to so-called market fundamentalism.³

Strong doubts on the reliability of private self-interested action in promoting the interests of the collectivity (the *polis*, Christian community or nation-state) were already present in Greek thought, in that of the scholastics, the mercantilists, and the physiocrats.⁴ These schools differed in their conceptions of collective well-being (social stability in Plato and Aristotle, Christian justice in Thomas Aquinas, development and state power through the accumulation of precious metals for Colbert, or through the growth of net product for Quesnay and Mirabeau). But they were identical in their distrust of unfettered private interest and their identification of the solution in extensive regulation of economic activity.⁵

It was only with Adam Smith that self-interested behaviour found legitimacy in an analytical scheme, although this was significantly distorted by the classical economists of the early 1800s. Smith, in fact, did not rest economic salvation on a single

² On the dissonance between the bad reputation of financial activity and its very positive social role, see Sen, 1991.

³ The principal characteristics of market fundamentalism are the following: financialization of the economy, the deregulation of markets, the liberalization of international capital movements and the consequent stimulus to financial speculation, delocalization of production, the privatization also of goods and services which by their nature are unsuited to supply by the market, the consideration of nature as a mere production factor, the progressive marketing of science, the subordination of politics/policies to the economy, the claim that the only way to manage the economy and society is on liberalist principles (Burlando 2009).

⁴ On this see Medema 2009.

⁵ A position shared, despite a certain common opinion, also by the physiocrats: their appeal for the slackening of restrictions (the well-known “laissez faire, laissez passer”) concerned only agricultural production, deemed the sole source of net product, and it was flanked by demands for state measures in favour of agriculture in place of mercantilist policies.

motivation, and he did not “assign a generally superior role to the pursuit of self-interest in any of his writings. The defence of self-interested behaviour comes in specific contexts, particularly related to various contemporary bureaucratic barriers and other restrictions to economic transactions which made trade difficult and hampered production” (Sen 1987: 25). It was the classical economists who supposed that individual interest,⁶ regulated on an explicit and direct costs/benefits calculation, was the fundamental, if not the unique, incentive for economic action, leaving only the market self-regulated by competition with the task of channelling these forces driven by non-altruistic impulses towards greater social well-being. By doing so, the classical economists not only misinterpreted Smith’s complex position on markets and the motivations of economic action⁷, but they also neglected his ethical analysis of sentiments and behaviour. It is precisely this “narrowing of the broad Smithian view of human beings, in modern economies, that can be seen as one of the major deficiencies of contemporary economic theory” (Sen 1987: 28).

The classical paradigm was disputed from the mid-1800s onwards, until in the first half the 1900s an alternative paradigm emerged that was sceptical of the self-regulatory capacity of markets and confident in the normative role of the state. The main cause of the market’s failure to maximize social well-being⁸ was identified – besides in imperfect competition⁹ and the inevitable formation of more or less monopolistic positions – in its twofold inability (i) to induce individuals to consider the creation of positive and negative externalities in their costs/benefits calculations; (ii) to encourage individuals to produce public or collective goods, given their characteristics of non-excludability and non-rivalry in consumption.¹⁰ It was therefore the state’s task to improve social well-being on the one hand by forcing economic agents, through its normative and coercive apparatus,¹¹ to consider social costs and benefits as well, and on the other, by supplying the necessary public goods. In its

⁶ Contrary to Sen (1987), who tends to equate selfishness with self-interest, Medema (2009:1) argues that self-interest should not be confused with mere selfishness and that economists would never have assumed that people think only about themselves or that they are greedy. “What they *have* consistently assumed is that people will do the things that they believe will make them the happiest, given the various circumstances of their lives, and that businessmen will pursue profits. Yes, there are variations on this assumption – from the notion that people behave ‘as if’ they were pursuing their self-interest, to the idea that people ‘tend to’ pursue their self-interest, to the very strong assumption that people are rational maximizers of their satisfactions who function as lightning calculators of benefits and costs. The common denominator, though, is that self-interest is a motivating force in individual behaviour”.

⁷ Alfred Marshall was aware of this misinterpretation, to the point of suggesting that “Adam Smith’s doctrine, carefully interpreted supports [government’s] active intervention in many affairs in an age in which it has acquired the power and the will to govern the people wisely, and the people have acquired the power and the will to govern their Government with knowledge, discretion and restraint” (Marshall, 1923: 719; see Medema, 2009: 58).

⁸ The market’s failure does not necessarily mean that it does not exist, as in the case of the non-supply of public goods, but rather that the market is inefficient, in that prices differ from marginal costs, with the consequence that the market does not maximize social well-being.

⁹ Only subsequently was imperfect information more expressly considered.

¹⁰ The two aspects partly overlap, in that positive externalities often consist of public goods. In fact, “a collective good for some groups is nothing more than some aspect of the state of the world that all members of the group wish to see brought about” (Schofield 1985: 207). According to the level of possible exclusion (nil or partial), we have pure or impure public goods, and the most efficient consumption unit may be a very large group or a small one (the optimal size will depend on the equilibrium between the possibility of reducing the supply costs at the margin and the increasing marginal cost of congestion).

¹¹ The state does not obtain respect for its institutions (norms) only through the use of coercion: to reduce the costs of enforcement, it fosters their internalization through a process of ideologization. Still valid, however, is the ultimate recourse to the coercive monopoly which distinguishes the state from any other legal organization.

turn, this paradigm was contested in the second half of the 1900s¹² on the basis of two arguments: first, that the state's choices and management was also a matter of individual interest for voters, politicians and bureaucrats, which gave rise to state failures in the maximization of social well-being; the second, that the market can remedy its failures with appropriate legislation.

This oscillation between the two paradigms is indicative of a certain degree of not only indeterminacy but also incompleteness in the analytical framework of the dominant economic theories, and in the policy directions that refer to them. The opposition between market monetary incentives and public coercion, in fact, implies that there is a unique pattern of human action based on self-interest and on the greater or lesser need to control it and integrate it with state intervention. Only recently has analysis begun of this incompleteness. It has been conducted by various currents of sociological thought; by the new theories that view the firm as a coordination mechanism intended to solve collective problems through the production of goods and services; by the behaviourist school and by experimental economics, which show that economic behaviour is also influenced by a general propensity for reciprocity and the quest for justice and equity¹³. Nevertheless, despite all the criticisms and the fact that empirical evidence for the universality of the principle of self-interested behaviour is scant or non-existent – the success of a free market “does not tell us anything at all about what *motivation* lies behind the action of economic agents in such an economy” (Sen 1987: 18) – this assumption is still the basis of the dominant economic theory and the theory taught.

Put in more detail, but mainly considering the supply side, reducing the motivations for economic behaviour to individual interest and government coercion is to neglect the following aspects:

1. Individuals are simultaneously members of several communities or groups of different level and extent,¹⁴ which intermediate between one individual and the others and influence decisions to an often significant extent. “Actions based on group loyalty may involve, in some respects, a sacrifice of purely personal interests, just as they can also facilitate, in other respects, the greater fulfilment of personal interests” (Sen 1987: 20).
2. The environmental conditionings transmitted through acculturation processes inspire both ethical considerations based on the sense of justice, solidarity and reciprocity, and desire for acceptance, as well as customary and gregarious behaviours.¹⁵ Reciprocity is promoted by trust in similar behaviour by others, which may generate a moral obligation of reciprocation, that is, a normative value with interiorization of the norm.¹⁶ Indeed, interiorization of the norm may induce instinctive compliance with it, even without specific justification and rationalization, thereby strengthening a tendency to conform (see Boccaccio 2007).

¹² Contestation led by the economists of the Chicago and Virginia schools.

¹³ On the limits of the mainstream economic approach to understand in general the pluralism of the motivations to economic action and to explain in particular the role of cooperative and social enterprise, see Borzaga, Depedri e Tortia, 2010.

¹⁴ “individuality exists, but only internally to ... social contexts” (Etzioni 1988: xi).

¹⁵ Imitative behaviour consists in observing and then imitating, with a temporal sequence, other people's behaviour, frequently that of leaders.

¹⁶ The normative notion of reciprocity extends the restricted one first analysed by Axelrod, 1984, whereby, under certain conditions, individuals who pursue their interest can learn to collaborate, particularly when they adopt “tit for tat” strategies. See also Axelrod 1997.

3. Social contexts express not only shared values but also power structures reflected in exchange relationships: individuals and organizations thus deploy both economic and political power to pursue their economic interests.
4. Since needs also have a moral, environmental and expressive nature, they cannot be ordered and regulated by prices alone. This has profound consequences on objectives, evaluation criteria, and the choice of the means to achieve objectives.
5. The supply of private goods and services is not the prerogative of for-profit enterprises or the state alone, but also of households and not-for-profit enterprises, which respond to different incentives. In particular, it is not only for-profit enterprises that operate and compete on the market, so do a heterogeneous array of enterprises that differ in their objectives, ownership arrangements, and forms of governance.
6. Every economic organization operates on the basis of internal cooperation which, also in the case of for-profit enterprises, is not induced by self-interest alone. Hence the relationships among agents within an enterprise are not only and necessarily competitive. Moreover, individuals also gain satisfaction from direct and personal participation in the management of production, as well as from opportunities to express their creativity.
7. The deliberate supply of public goods is the prerogative of not only the state but also of not-for-profit organizations (households, enterprises, foundations, etc.), as well as of for-profit enterprises, which therefore establish cooperative relations with the outside. The collective interest is therefore defined and also pursued by private agents autonomously (subsidiarity principle) and not only through delegation to the state. There consequently arises a corporate social responsibility attentive to social and environmental sustainability besides the economic kind that varies according to the type of enterprise and from one enterprise to another.

As Hollis maintains (1998), it is therefore possible to complete the paradigm based on the hypothesis of rational self-interested behaviour aimed at the maximization of utility with the hypothesis of reciprocating behaviour. The utilitarian calculation that drives the decisions of individuals, and accordingly those of organizations, is influenced not only by limited knowledge and bounded rationality but also by ties with several communities, by considerations of reciprocity that may have moral, customary and emotional roots, and considerations concerning power or expressing the personality.¹⁷ The interest that guides the costs/benefits calculation is therefore an extended (or mediated, indirect)¹⁸ interest produced by the integration of immediate individual interest with the assumption of social responsibility, this being understood as awareness of, and concern for, the externalities created by one's action and the desire to contribute to the supply of collective goods.¹⁹ Therefore, personal interest may fluctuate from the exclusive concern for own utility to the concern for other people's welfare (see Ben-Ner, Montias and Neuberger 1993: 210). The greater the social responsabilization, the more externalities are spontaneously considered – with the internalization of negative ones and the production of positive ones – and the greater becomes the private supply of collective goods. In this way, benefits are

¹⁷ Hence, besides *homo oeconomicus*, there is also a *homo sociologicus*, a *homo ethicus* and a *homo faber*.

Happiness therefore does not coincide with hedonistic pleasure but also comprises sociability and appreciation by others. As Sen emphasises (1987: 15), reducing rationality from the internal coherence of choices wholly to the maximization of self-interest, excluding anything else, is to reject any ethical motivation of decisions.

¹⁸ In Cooter's (1994) terminology, "thick self-interest" as opposed to "thin self-interest".

¹⁹ "The mixture of selfish and selfless behaviour is one of the important characteristics of group loyalty" (Sen, 1987: 20).

transmitted to the members of society, in that individuals voluntarily abide with a given type of behaviour which may (though not necessarily) be ratified in a contract or encoded in a custom. There are two significant differences with respect to state regulation of individual behaviour and the coerced acceptance of norms: first, there is greater efficiency and equity, because bureaucratic costs and compensation for damages, not always entirely transferable to the persons responsible, are avoided; second, change is made to the "social preference function", that is, the composition of the supply of goods and services and the distribution of income desired by the collectivity.

It should be pointed out, however, that extended interest and social responsabilization do not necessarily have the same configuration for all individuals. This will depend on three factors: the individual propensity to collaborate or defect;²⁰ what are the groups towards which the individual feels interest and responsabilization (the family, the firm, an association, a given territory/community, the state, the whole world, etc.); and how s/he reconciles possible contradictions among these multiple responsabilizations²¹. Depending on how individuals feel and reconcile their affiliations and loyalties, and according to how groups apply systems of incentives and sanctions,²² different aggregate outcomes ensue, often territorially connoted according to the cultural heritage and its conditionings. In other words, there will arise different levels and forms of cooperation, different levels of efficiency and social well-being, and therefore different needs for intervention by the state as the ultimate regulator. The mix between maximizing behaviour and reciprocating behaviour (both cooperative and defecting) may therefore give rise to a multiplicity of equilibria, thus once again contradicting the orthodox hypothesis – never verified empirically – of the uniqueness of the equilibrium.

1.2. Not-for-profit production

The production of private goods and services comes about through organizations (households, for-profit firms, not-for-profit enterprises, the state) which differ in various respects: in their goals, internal forms of cooperation and the motivations for it, responses to incentives and disincentives, and therefore in the creation of externalities and public goods (in terms of both quantity and composition), production and transaction costs, viability, and functioning. These organizations sometimes operate in exclusive contexts, at other times in competition with each other. In this case, efficient choice among different solutions requires diversified regulation which puts these organizations on an equal footing, so that each can maximize its potential, without establishing legal regimes which favour some of them for ideological reasons. Otherwise, there arise risks of staticity, corporativism and allocative inefficiency.

The internal cooperation necessary for every productive organization rests on interpersonal relations (or relational goods), not necessarily market-based, which give rise to regulation and coordination functions, and on the diffusion of knowledge. According to the type of organization, internal cooperation therefore depends to differing extents on voluntary non-coercive mechanisms based on an extended conception of individual interest. The property of not-for-profit organizations is

²⁰ Individual preferences are not homogeneous: people have different tolerances of other people's defections, also in their reaction times.

²¹ On the role of social identity, the possibility of multiple alternative identities that may be in competition in a given context, and on the space that choice and reasoning may find in this role, see Sen, 1999.

²² If the group is cooperative, i.e. complies with reciprocity rules, the signalling of it and the punishment of deviants is beneficial to it.

grounded to a greater extent than that of for-profit organizations on interpersonal exchanges regulated by contracts, accords, and spatially or sectorally localized community customs: cooperative behaviours, in fact, are significantly more numerous among the members of a community than among people who do not belong to the same group (Goette, Huffman and Meier 2006). The widespread interest in the production and enjoyment of externalities and the possibility to exert control over other people's behaviour (so that it is not opportunistic) means that strategies of behaviour are based on a matrix of payoffs modified to a greater extent by the enlargement of satisfaction than is the matrix deriving from the mere satisfaction of individual interest. These are organizations which seek to benefit both their members and the community: they do not maximize profit, they have distributive constraints, and ownership and control rights are often assigned to the stakeholders as well the shareholders.

These enterprises, besides undertaking a role alternative to those of for-profit firms and the state, may also perform a role complementary to them. Whilst on hasty inspection, the market too may appear composed, and to a remarkable extent, of personal relationships, more careful analysis reveals that these relationships concern externalities or public goods deriving from behaviours in principle extraneous to the market: reciprocity strengthens the market and compliance with private contracts by restricting the opportunistic behaviour due also to contractual incompleteness. By remedying the market's shortcomings in creating trust, responsibility, and social capital, cooperative enterprises create intangible goods as well as economic value. Not-for-profit organizations therefore perform a twofold function in regard to the market: substitutive, where only cooperative action makes the supply possible; and integrative, because such organizations improve efficiency in the use of resources, particularly when markets are characterized by imperfect competition, inadequate information, delays in adjustments, and high transaction costs. In this way, not-for-profit organizations not only create public goods, on the basis of specific agreements or contracts to coordinate and mobilize resources different from the public goods obtained through the normal acceptance of shared values;²³ they also select the public goods to be introduced into the economic system. They therefore go beyond a generic and "spontaneous" coordination of the communities to an outright attitude. With respect to norm-making by the state, where strategies of behaviour derive from a matrix of payments modified by sanctions, reciprocity strengthens the social contract by enhancing the sense of belonging.

To use Hirschman's (1970) terminology, we may say that cooperation is an extension of "voice" from the political sphere to the economic one, and therefore of democracy to enterprise management. This facilitates the shared pursuit of the objective, which becomes the common good (that is, a good for which the advantage deriving to the individual is inseparable from that deriving to others).²⁴ It is nevertheless evident that the democracy of the cooperative enterprise may be jeopardized by growth in its size, in the extensiveness of its interests, and in its economic and political power – all of which are elements that increase its heterogeneity. As Hansman (1996) has shown, cooperatives prosper the more their members have homogeneous preferences. Consequently, their difficulties grow the more the heterogeneity of their members and conflicts of interest increase – all the more so if the decision-making process is

²³ "In abiding by unenforced rules for behavior in social intercourse, individuals create 'public good'" (Buchanan 1975: 14).

²⁴ In the case of a common good the interest is realized together with that of others, while for a private good it is realized against the interests of others, and for a public good regardless of them (Zamagni 2006: 230).

appropriated by a particularly active, capable, and/or interested minority (of members and/or managers) which progressively ousts the less involved majority.

It would therefore be unrealistic to analyse the behaviour of cooperative enterprises solely on the basis of the principle of extended reciprocity, excluding more strictly self-interested considerations. Cooperative enterprises may pursue both a common objective and individual benefits in a context of exchange. This applies especially to cooperative banks, for two reasons: the first is that they operate in an open market subject to competition, at least potentially,²⁵ and cannot simply be considered the response to a specific failure of the capitalist form of enterprise; the second is that, given the power that derives to cooperative banks from the control of often huge financial resources, they probably lend themselves more readily than other cooperative enterprises to considerations of individual interest, both economic and more generally concerned with power – as we shall argue in the next section.

1.3. The social entrepreneurial function²⁶

How do not-for-profit supply organizations (in the form of enterprises or otherwise) arise and maintain themselves, given that they cannot rely on direct individual interest and lack coercive force? In general, cooperative action involves an interaction that guarantees a sufficiently high level of reciprocity among the individuals making up a sufficiently large group interested in both the private good or service and in the public ones that may derive from it. For potential to be exploited efficiently, it is necessary to reach a critical mass that allows the formation of new equilibria.²⁷ Given that it is not possible to use coercion, a unanimous collective agreement constraining participation in the supply must be reached. This involves huge transaction costs which, if they cannot be abated, reduce the incentive to participate in the collective action, even among those most willing to contribute.

If the good to be supplied is local – that is, concerns a relatively small group – reaching the agreement and enforcing compliance will entail lower costs: the smaller the group, the more likely become repeated games where continuous voluntary relations among players favour knowledge and the predictability of others' behaviour, as well as making reprisals possible.²⁸ Moreover, and partly as a result of this, the group may have a tradition of collective action – a collective memory – which generates positive expectations and therefore fosters cooperation. In other words, also as a result of small size, there may have been an accumulation of social capital whose "re-investment" favours its growth. This capital, which consists of shared reciprocity norms producing trust, solidarity networks, a spirit of collaboration, and a sense of community, facilitates the pursuit of common objectives and discourages forms of opportunistic behaviour. In a context of this kind, a certain number of defections do not necessarily undermine group trust: rather, it is the overcoming of a certain threshold, not necessarily identical for all groups given the heterogeneity of tolerance, that determines the end of trust and the onset of negative reciprocity, that is, widespread free-riding. These complex equilibria forebode significant problems if the supply expands beyond the original boundaries of the group.

²⁵ Paradoxically, one could argue that, given the high level of collusion in the banking sector, cooperative banks are among the elements which give it greater competitiveness.

²⁶ This section draws on Goglio (1999).

²⁷ Understanding the process that may lead to attainment of critical mass requires analysis of phenomena such as tipping, feedback, path dependence and lock-in (see Schelling 1978).

²⁸ Knowledge about other people's behaviour and its predictability are favoured more by voluntary interaction than by compliance with norms through state intervention (see Taylor 1982).

Although a local environment is characterized by lower transaction costs and easier control over opportunistic behaviour, it does not necessarily give rise to the cooperative supply desired. The fact that the action that must lead to the supply agreement is feasible in principle does not mean that it will assuredly be undertaken. As in the case of for-profit supply, there must be a single or collective figure that assumes the task of appraising the likelihood of success and takes the initiative in starting the collective action by investing resources, energy, time, and reputation, and by assuming the connected risk of possible failure. The not-for-profit supply therefore depends on a social entrepreneurial function and on the willingness of the individuals concerned to cooperate with it. In other words, the entrepreneur must ensure that the investment gives rise to a set of shared norms that "creates, or evokes, a sense of obligation in the players concerning the strategies that they follow" (Cooter 1994: 218). Whether or not this result is enshrined in a formal agreement, strengthened by reference to the state's power of enforcement, is irrelevant from the theoretical point of view, because compliance with the action is a voluntary act performed to reinforce internalization of the norm – that is, the willingness to cooperate. Because internalization of the norm modifies the payoff matrix, it creates tension between immediate and mediated interests: the social norm rests on consensus among the members of the group, on the fact that cooperating is beneficial and that non-cooperation is harmful for that group, and therefore indirectly for single individuals.

Why should a social entrepreneur want to start up a not-for-profit supply, given the unlikeliness of direct economic profit? Firstly, providing a service and creating positive externalities for the community are not necessarily distinct from the pursuit of a broader individual interest. The entrepreneur may be personally interested in the availability of the good in question and be prepared to furnish greater effort, making his/her own skills available, to achieve this outcome. It may also be, however, that the social entrepreneur has no particular interest in the availability of the good: in this case, s/he may aim to gain him/herself particular credit in the community in order to reinforce a social position, political influence and power, or a certain ideology, Or else s/he may act out of altruism. This latter possibility, however, is not theoretically dissimilar from the previous one; nor is it always easily distinguishable from it in reality, given the close interweaving between altruism and ideology whereby the former can yield an ideological benefit.

Of particular importance is the case of socially influential or ambitious figures with political aims, or goals of power or career advancement, because they exacerbate the contradictions and risks inherent in the principal/agent relationship. As politicians, public administrators and officials perform their supply roles, they have their own interests as well, which may divert collective action from its initial goals and lead to less efficient solutions. The problem is potentially more serious if the role of social entrepreneur is undertaken by influential individuals without a direct interest in the availability of the good, because activation of the cooperative supply may be an intermediary goal towards final objectives not necessarily positive for the group. In general, the greater the direct interest of the social entrepreneur in the availability of the good in question, the lower the likelihood that his/her initiative will be instrumental to other ends.

1.4. The cooperative supply of credit

Credit is indubitably one of the most important sectors in which cooperative supply has arisen. Given the importance of the role of cooperative banks in the development

of other sectors, and of the territories or communities in which they operate, and the economic and political power that they consequently confer on those who manage them, some of the inherent problems described for not-for-profit organizations in general in this case become crucial. In particular:

1. if the cooperative bank grows and extends its interests beyond the original group and area, it may find it difficult to adhere to the principles of reciprocity and participation on which it was founded and then consolidated. Put otherwise, how far can extended interest be pushed without losing its operational force?
2. the growth of the cooperative bank and social and economic changes in the community where it operates may have significant consequences on the role and motivations of the social entrepreneurs acting in that bank;
3. in the case of a bank, corporate social responsibility is closely connected with how the community's savings are employed and how investments are selected. The growth of a cooperative bank and changes in the role and motivations of entrepreneurs alter modes of management and objectives, and in so doing they may have important repercussions on the so-called "social responsibility of savings".

As with other cooperative enterprises, credit as well can be supplied in a variety of forms, with different purposes and with different positive and/or negative externalities. Evaluation of advantages and disadvantages must bear in mind the different contexts in which individual banks operate, considering both theoretical aspects (potentialities) and historical ones (past and present modes of operation). To this end, in what follows we shall analyse the first applications of the principles of solidarity and reciprocity in the financial field and the debate that accompanied them, given their importance in determining the features of subsequent experiences. In particular, we shall show that they drew on two different interpretations of solidarity and reciprocity: the first one, theorized and, to a certain extent, realized in the Raiffeisen model is mainly ethical in nature; the second one, typical of the Schulze Delitzsch model, is more closely tied to the individual interests tempered by social responsibility.

2. Cooperative credit: its initial role and early development

2.1. The Schulze Delitzsch model

The origin of cooperative credit dates to the mid-nineteenth century in Germany. This was immediately after the first cooperative of modern form, the Rochdale Pioneers' Equitable Society, had been founded in December 1844 in the English industrial region of Lancashire, subsequently serving as a model for mutual enterprise in Europe and throughout the world.²⁹ Nevertheless, whilst in England consumer cooperation generated an array of other organizational forms which spread into the field of production and work, from the outset the German movement attributed a central role to credit and the social entrepreneur in proposing a new model of growth and development for marginalized areas both urban and, especially, rural. This was in an economic and social context characterized by hardship and poverty, often exacerbated by forms of abuse, but also distinguished by expressions of authentic civil and moral sturdiness, often supported by firmly-rooted ethical values.

The first mutualist initiatives in the banking sector were undertaken in urban areas by Hermann Schulze Delitzsch, the first convinced proponent of credit cooperation, the

²⁹ Birchall 1994; Birchall 1997; Leonardi 1998.

inventor of people's banks³⁰ and a model of mutuality that placed the production function at the centre of a complex system.³¹ Schulze's liberal education induced him to consider capital as a decisive economic factor, but he did not neglect intelligence and moral virtue. Whenever the efforts of the single individual were not enough, free association should intervene "to complete and achieve through the strengths of many the result that would be awaited in vain from that of just one".³² The prime duty of these associations would be to respect the individuality of each of their members. However, at the basis of the associative experience should be some sort of collective will which completed and developed the personal abilities of single individuals. This would require employment of each member's intelligence, as well as his or her compliance with moral and economic laws.³³

The foundations of a renewed social system should therefore rest upon associations able to take different forms according to the purposes pursued. This was an extremely complex construct, with utopian overtones, which saw production cooperation as the best way to create a better society where the most severe economic-social injustices had been eliminated. Despite Schulze's endeavours, however, this system never materialized, like numerous other projects based on radical forms of mutuality. Once Schulze realized that the integral model that he envisaged could not be accomplished in the short period, he became a strenuous defender and tireless propagator of urban credit associations, which he termed *Volksbanken* or People's Banks.³⁴ Such institutes were novelties in Europe: indeed, they were studied and introduced outside the borders of the German Reich because they proved to be efficient means with which to issue credit to social classes usually excluded from the banking system's range of operations.³⁵

Schulze had seen how technological progress compelled small urban entrepreneurs, above all artisans and traders, to acquire capital with which to renew their businesses and have sufficient working capital. The credit institutes existing at the time, which usually intermediated large sums requiring collateral, did not meet the needs of such operators, who were therefore forced to resort to private agents who, by practising usury, often increased their difficulties.³⁶ It was therefore necessary to create institutes able to issue credit, even for small amounts, to clients who could offer only personal guarantees like their own labour, productive capacity, commitment, and honesty.³⁷

In some German areas, attempts were made to solve the problem, but without significant results, by founding credit institutes which based their operations on charity bestowed by affluent citizens.³⁸ The money collected by means of donations and interest-free loans, however, inculcated in the recipients the idea that the grant

³⁰ Born at Delitzsch in Prussian Saxony in 1808, Schulze Delitzsch died in 1883 after seeing people's banks proliferate (Albrecht 1958; Aldenhoff 1984; Schulze-Delitzsch 1987; Mandle, Swoboda 1992: 566-567).

³¹ Hermann Schulze's general model for social reform and improvement of the conditions of the working class, and of which the people's banks would form just one component, was set out in various publications between 1855 and 1869: Schulze-Delitzsch 1855; 1858; 1863; 1865; 1869.

³² Tamagnini 1960: 739.

³³ Lorenzoni 1901: 10-11.

³⁴ After theorizing these institutes in 1855 (Schulze-Delitzsch 1855), Schulze further refined his ideas in subsequent editions of the work, fully six of them during his lifetime, followed by three others after his death (Schulze-Delitzsch 1926).

³⁵ Sassen 1914, Gierke 1963; Hoppe 1976; Kluge 1992; Hofinger 2009; Kaltenborn 2006.

³⁶ This was given particularly clear emphasis in a pamphlet published posthumously: Schulze-Delitzsch 1910.

³⁷ Tamagnini 1960: 744; Kaltenborn 2006.

³⁸ Tenfelde 1987.

was some sort of welfare benefit. As a consequence, the conviction spread among the least wealthy classes that they would never be able to overcome the constrictions of their social condition without recourse to charity.³⁹ According to Schulze, it was important to create credit institutes based instead on the concept of *Selbsthilfe* (self-help)⁴⁰, together with that of joint and several liability, and on the capacity to self-create capital.⁴¹ The banking system could refuse loans to single individuals unable to offer the necessary guarantees, but it would have no reason to reject applications by an association consisting of all those in need of capital, and able to guarantee the loan with the assets of all its associates, as well as with its own capital. It was in fact unlikely that the risks which might make some individuals insolvent would affect all the others at the same time. The people's bank was therefore envisaged as a society of consumers where the aggregative element was the need to obtain low-interest loans.⁴²

For Schulze, joint and several responsibility and unlimited liability were essential because they enabled associations of this type to procure from the banking system the capital necessary for the exercise of credit intermediation towards its associates, given that the first group of members would not have been able to contribute capital sufficient for exercise of the enterprise. The guarantee to the *Volksbank's* creditor banks would therefore have been provided by the members themselves, who answered for its actions with all their assets.⁴³ Awareness that they had risked all their possessions with the society that they had voluntarily joined would also induce the members to concern themselves with its administration, to attend assemblies, to feel that they belonged to a collective organization that sought to provide its associates with the means necessary for them to conduct their activities positively. It would help them acquire a sense of personal dignity and regard themselves as equal to others, thus increasing self-respect, and the conviction that only through their own efforts could they escape from economic marginalization.⁴⁴

Another essential requirement for the constitution and activity of people's banks was that they should endow themselves with their own capital, which, together with unlimited joint liability, would provide security for both the society's creditors and its members, since such capital would be the first to be used in the case of losses. It had to be constituted through participating shares acquired by individual partners, which therefore constituted stock, but had different functions. They served first of all to restrict access to the society to people able to help themselves.⁴⁵ The possibility of paying small monthly sums up to the amount of a shareholding in the society was therefore used to select among the potential associates of a people's bank. It was supposed that workers, artisans, or shop owners who were unable to pay the periodic dues were either lacking moral qualities, such as diligence or thrift, or were in a state of such indigence that they would be unable to repay loans granted by the people's bank. The obligatory acquisition of one or more capital shares also served the purpose of stimulating members to form their own capital, thus helping transform those members from the poorest social classes into "capitalists". This change could contribute to maintenance of social peace by opposing the systematic division between capital and labour ongoing during maturation of the industrialization process.

³⁹ Schulze-Delitzsch 1926: 68-69; Thorwart, Treue 1990.

⁴⁰ Schulze-Delitzsch 1926: 69-70; Zerchen 2001.

⁴¹ Schulze-Delitzsch 1926: 70-72.

⁴² Tamagnini 1960: 744

⁴³ Schulze-Delitzsch 1926: 116.

⁴⁴ Tamagnini 1960: 745; Zerchen 2001.

⁴⁵ Schulze-Delitzsch 1926: 116.

Moreover, the people's banks had to pay their members dividends deriving from operating profits. Dividends, in fact, would attract to the bank people wanting to invest their savings advantageously, but also encourage poorer members to increase their capital contributions.⁴⁶

As regards the operations of these institutes, Schulze foresaw that loans, usually of small amounts, should be mainly granted with bills of exchange. They should generally be of three months' duration, though renewable in particular cases, and thus cater to the needs of shopkeepers and artisans.⁴⁷ Long-term loans would have encouraged negligence, disorder, and slackness among debtors, thereby discouraging the sureties⁴⁸ without which the bank would have been unable to operate, given that it had to ensure repayment of the sums loaned. Therefore, whilst on the one hand the obligation to contribute participating shares largely excluded "bad" members, on the other, the presence of one or more sureties guaranteed the debtor's solvency.⁴⁹

The linking of this practice with the payment of dividends to partners required individual *Volksbanken* to perform a large number of operations involving relatively small sums. Consequently, the geographical area in which a people's bank operated could not be too small in size. Moreover, the interest rate applied to loans and its differential with respect to passive interest rates should be such to yield an operating profit sufficient to allow the distribution of dividends among members. Consequently, if the bank was to operate to the best of its abilities across a broad area, it had to endow itself with qualified personnel, both as administrators and employees. This evidently made management costly. The salaries of employees should therefore be calculated in function of the bank's revenues and the gross amounts collected, so as to ensure constant commitment and the propensity to increase the amounts intermediated by those responsible for the bank's management.⁵⁰

The *Volksbanken* became definitively established from 1852 onwards. They also expanded beyond German borders, an evident sign of their efficacy in remedying situations of real economic hardship. They were intended to constitute – as emphasised in Italy by Luigi Luzzatti – a "school of civic education" able to teach "the value of work and respectability, fostering honest habits and good husbandry".⁵¹ Nevertheless, they were unable to take root in rural areas. The needs of a peasant society intent on emerging from marginalization were too different from the ambitions of artisans and shop-owners in urban areas. It was consequently necessary to re-interpret Schulze's model of cooperative credit so that it matched rural realities and convincingly proposed itself to the most vulnerable workers in those areas.

2.2. The Raiffeisen model

In the first half of the nineteenth century, German agriculture had seen, particularly in the Prussian countryside, the advent of numerous large market-oriented firms, but

⁴⁶ Ibid.:165. Because of these rules the *Volksbanken* were regarded as "bulwarks" against socialism, in that the fruits of labour were deposited in them and, as their Italian promoter, Luigi Luzzatti, argued: "if a socialist revolt explodes, he [the worker-member of a people's bank] will place himself under the flag of the order, and if his heart or most generous instincts do not persuade him to withstand those wretched temptations, selfishness will make him a defender of society" (Luzzatti 1997: 102).

⁴⁷ Kaltenborn 2006; Hofinger 2009.

⁴⁸ Schulze-Delitzsch 1926: 237-243.

⁴⁹ Ibid.: 244-246.

⁵⁰ Ibid.: 303-305.

⁵¹ Luzzatti 1997.

also the progressive elimination of small farmers. The principal cause was an insufficiency of capital, both fixed and working, which precluded modernization of either the agrarian structure or production processes. As the market developed, producing for self-consumption was no longer enough, not even on disadvantageous economic conditions.⁵² It was necessary to specialize and to introduce innovative methods in order to have products placeable on the commercial circuit. This would be made possible only by furnishing the necessary capital to small farmers, at reasonable rates, and without requiring particular and burdensome collateral. Thus usury could be combated.⁵³ The challenge of identifying in small German rural communities the latent resources able to engender change was taken up by Friedrich Wilhelm Raiffeisen,⁵⁴ who is rightly considered the father of the particular form of rural cooperation which, by valorizing the social function of credit promoted in mutual terms, would grow to such proportions in all the countries of the West. Raiffeisen realized that small farm businesses could not be freed from the vicious circle in which they were trapped by relying on help from outside, but only on the energies present within the system, and by applying the principle of *Selbsthilfe*.⁵⁵ However, the needs, the economic structure, the nature of rural people, and above all, the time necessary for investment to become profitable, differed from those of the urban areas where the *Volksbanken* operated.⁵⁶

Raiffeisen's ideas⁵⁷ were formed gradually and with the occurrence of direct experiences.⁵⁸ While his first initiatives were still permeated with welfarism, he subsequently became convinced that interventions from the outside could at most provide an initial stimulus, in that opportunities of economic growth should arise from the self-propulsive capacities of rural communities.⁵⁹ In 1864 Raiffeisen transformed an association founded a few years previously at Heddesdorf, in Rhineland Westerland, from a benevolent society into a cooperative bank. This was the first *Darlehenskassenvereine* (Social credit bank),⁶⁰ and it was patterned to a large extent on Schulze's model. The first statute, in fact, stipulated substantial capital shares, the accumulation of working capital, the allocation of dividends, and a territorial area comprising several villages.⁶¹ However, it differed from Schulze's model by obliging gratuitous administration and the formation of indivisible capital.⁶² The subsequent

⁵² Of considerable detail, and extendable from Austria to other Central-European areas, is the discussion by Bruckmüller 1977. See also Conze 1958.

⁵³ Hasselmann 1984; Hönigsheim 1953; Klein 1997.

⁵⁴ Born in 1818 at Hamm in Rhineland Prussia, Raiffeisen died at Neuwied in 1888 after devoting his life to spreading his cooperative model (Sinning 1968; Klein 1997).

⁵⁵ Froschauer, Sandgruber, Schneider 1994.

⁵⁶ Leonardi 2000.

⁵⁷ Set out for the first time in an 1866 publication, which subsequently went into several editions, entitled "The credit banks as a means to fight the misery of the rural population as well as the urban artisans and workers": Raiffeisen 1866.

⁵⁸ In 1847 at Weyerbusch in the Rhine Westerland, where he was mayor, Raiffeisen founded a sort of consumer cooperative (Maxeiner 1988; Klein 1997). Two years later, at Flammersfeld, he tried a new approach to the problem of rural poverty by creating an association for the aid of poor farmers. This association was constituted as a limited liability company and its main purpose was to eliminate usurious trading in livestock (Lorenzoni 1901, vol.II: 130 -154). In 1852, at Heddersdorf, Raiffeisen founded a benevolent society whose priority was to satisfy the money needs of its members (Klein 1999).

⁵⁹ Raiffeisen 1866: 7-10.

⁶⁰ Raiffeisen 1866; Krebs 1943; Klein 1997; Klein 1999. His organizational commitment not only to cooperative credit but to agricultural cooperation as a whole was essential referent for the cooperative movement, and not just in Germany (Krebs 1943; Sinnig 1968; Faust 1977; Hasselmann 1984; Froschauer, Sandgruber, Schneider 1994; Klein 1997; Klein 1999; Maxeiner 1988).

⁶¹ Leonardi 2000; Libbi 1984.

⁶² Koch 2000.

transformation of this credit cooperative in 1869 brought the substantial novelty of administration among equals.⁶³

The *Darlehenskassenvereine* (known in Italy as *Casse Rurali* or rural savings banks) were born to a large extent separately from the *Volksbank*, which had chronologically preceded them by some years, although they were evidently influenced by the mutualist experiments developed by Schulze-Delitzsch, and also by their shortcomings when introduced into rural areas.⁶⁴ They were aimed at the economic, social and moral regeneration of rural society in a climate of strong evangelical solidarity.⁶⁵ For Raiffeisen, in fact, besides economic motivations, also ethical ones were essential. Hence, Social credit banks were to be the means to constitute a new "social order"⁶⁶ based on Christian love.⁶⁷ However, ethical motivations did not signify that the *Darlehenskassenvereine* were to be charitable institutions: their members could only be persons of proven moral worth who had also demonstrated that they could meet their commitments to the cooperative by increasing thrift and diligence in their work. These were concepts cherished by the reformed Christian churches and had already been expressed half a century before by the Central-European proponents of the first savings banks.⁶⁸ The task of assuming an active and constructive role in credit cooperatives fell to well-off members of the community, who undertook it for free in that they were induced by religious motivations. For Schulze, the affluent joined the people's banks simply because they were motivated by the prospect of large dividends.⁶⁹

Unlike in the case of the people's banks, the essential rule in the operational practice of the Social credit banks was that they must restrict the geographical area in which they operated as much as possible; that is, to the parish and its inhabitants. This would allow members to have perfect knowledge of the economic and moral situations of co-members, so that when a member requested a loan, they would be able to appraise his solvency without risking losses. However, not only was ability to repay the loan to be assessed, but also how the capital advanced would be used, with the exclusion of applications that would not have led to a productive investment. No credit, even if sufficiently guaranteed, would be granted to applicants who did not possess solid moral qualities.⁷⁰ A small territorial area and therefore a limited range of activity, moreover, would also make it possible to adapt to the mentality of country residents mistrustful of novelty, as well as to operate gratuitously, with notable savings for the cooperative.⁷¹

Since the task of a cooperative association was to obtain credit on the best terms possible, and to furnish it to members at the lowest cost, admission was allowed to all the inhabitants of the district in which the Social credit bank operated, without regard to their economic situation, unless their behaviour had shown that they were

⁶³ Maxeiner 1988: 122-124.

⁶⁴ As emphasised at the beginning of the twentieth century by Giovanni Lorenzoni (Lorenzoni 1901, vol. I: 11 - 12) and reiterated by contemporary scholars (Froschauer, Sandgruber, Schneider 1994).

⁶⁵ Sinnig 1968; Engelhardt 1977; Faust 1977; Hasselmann 1984; Klein 1999.

⁶⁶ Raiffeisen 1866: 12-26.

⁶⁷ Maxeiner 1988: 124-126.

⁶⁸ Wysocki 1994; Leonardi 2001: 3-28.

⁶⁹ Despite its different structure, the *Heddesdorfer Darlehenskasse* initially belonged to the organization of *Volksbanken* created by Schulze, although it stressed the need for clear organizational distinctions so as to meet the needs of rural residents better; Libbi 1984: 71.

⁷⁰ Raiffeisen 1922: 34-42.

⁷¹ Müller 1901: 198-201.

unworthy.⁷² Unlike the people's banks, the Social credit banks did not require the payment of capital shares, these being deemed unnecessary either to increase guarantees for creditors or to foster moral behaviour by members. Selection among applicants for membership of the Social credit bank – who would have to guarantee with all their assets (properties, livestock, equipment) the initiatives undertaken by the institute – was based less on entrance fees than on mutual knowledge and respect among members.⁷³ Moreover, Raiffeisen was convinced that their free administration was necessary in order to guarantee security for the members of a credit union, to encourage solidarity, and to curb spending. Because the administrators were not remunerated and were subject to the social responsibility constraint, they would be meticulous and prudent in assessing guarantees and in granting loans, undertaking only operations with nil or minimal risks.⁷⁴

This procedure would also make it possible to save on management costs, thus reducing the interest rates on loans, granted for both the brief and long term on the basis of synchronization of the loan's expiry with its use. The forms of payment, therefore, had to correspond to those of the yield on the investment. This was because, unlike urban producers, small farmers realized their profits once a year, when crops were harvested or livestock was sold. Because the capital borrowed could not be easily repaid, either in the short term or in a lump sum, long periods of repayment with the possibility of instalment amortization were therefore necessary.⁷⁵ This aspect was criticised by Schulze-Delitzsch and by the supporters of the people's banks on the grounds that it might provoke financial difficulties, given the need of these banks endowed with relatively scant deposits and savings to rely on large credit intermediaries and the constraints imposed by them.⁷⁶

However, every loan granted by the cooperative had to be guaranteed, given that the *Darlehenskassenvereine* had no intention of dispensing charity.⁷⁷ The most frequently used form of guarantee was the surety, while bills of exchange were not accepted, being deemed inappropriate and unadvisable because they did not match the mentality and the needs of the rural population. Moreover, it might have recalled, albeit improperly, the so-called "slip-noose" method used by usurers.⁷⁸ The borrowing rate of interest had to be fixed by the general assembly, which also decided the maximum amount of loans issuable. Money would nevertheless not be granted at rates lower than the market one, because as an undervalued commodity it would not have been held in due consideration. Interest receivable, however, would not be collected in advance, as at the people's banks, but in deferred form throughout the duration of the loan.⁷⁹

Operating profits were to be set aside in an indivisible reserve fund which served as guarantee for capital borrowings. But when it reached an amount that made the

⁷² Raiffeisen 1922: 44-48; Lorenzoni 1901, vol.I: 16-17.

⁷³ Raiffeisen 1866: 41-42. Whether or not capital shares were opportune was a matter of dispute between Raiffeisen and Schulze. In the normative definition issued in Germany also through the efforts of Hermann Schulze-Delitzsch, a deputy in the Reichsrat, the system that he imposed on institutes prevailed over Raiffeisen's, to the point that credit cooperatives in Germany were obliged to constitute capital stock in order to operate (Müller 1901: 152-164; Koch 2000; Gros - Hüttl 2008).

⁷⁴ The work of the administrators should be a mirror of their Christian action (Raiffeisen 1866: 52).

⁷⁵ Raiffeisen 1922: 34-42; Krebs 1943; Bruckmüller 1977.

⁷⁶ Schulze-Delitzsch 1875.

⁷⁷ Müller 1901: 158-167.

⁷⁸ Raiffeisen 1866: 78.

⁷⁹ Ibid. 69-70.

cooperative financially solid, it could also be used for works of public utility and for social and cultural improvement. It therefore performed a declared solidarist function which extended beyond mutualism.⁸⁰ If the cooperative was dissolved, the fund was not to be separated among members, as in the case of the people's banks, but instead made available to societies of the same type.⁸¹ Operating profit was not divided among the members in the form of dividends, also because, given its often negligible amount, it would not have contributed to improving their circumstances. Conversely, the constitution of cooperative equity in a rural society constantly subject to property variations would have enabled the accumulation of common assets to the advantage of the district in which the bank operated, and which would have served for its recovery if hit by an unforeseen crisis. The non-distribution of profits, besides giving greater financial stability to the society, also had the educational function of reviving and consolidating the spirit of solidarity.⁸²

Whilst the primary function of the banks created by Raiffeisen was to enable access to credit to people who would otherwise have been excluded from it, one should not forget the encouragement that they gave to savings formation in rural society. Besides guaranteeing loans on advantageous conditions, they allowed the deposit of savings in a secure and remunerative manner. Savers knew who administered their savings and could evaluate their use, something which they could not have done with the ordinary banks, nor even with the savings banks located at a distance from their places of residence.⁸³

The *Darlehenskassenvereine* were characterized, like all cooperative societies, by a democratic administration whose main organ of governance was the general assembly, in which sat side by side, with the same rights and duties, affluent members and those less endowed with resources. Election of the executive and control bodies followed the "one man, one vote" principle. The assembly could decide on any problem connected with management of the enterprise, even though its commercial nature – with the consequent need to take decisions rapidly – induced delegation of certain powers to the other administrative organs. However, the assembly always retained competence to fix the amount of capital to lend, determine interest rates and commissions, the maximum credit limit that could be granted to a member, the terms for repayment of loans, and the treasurer's remuneration.⁸⁴ Attendance at meetings was considered an obligation,⁸⁵ so as to prevent entry into the cooperative of members who interested themselves in its management only when they needed a loan. The assembly, moreover, was also an important occasion for members to obtain information and learn cooperative culture.⁸⁶

The other governance bodies of the cooperative were the management board and the supervisory board. The former was the executive organ for the assembly's decisions. It therefore examined loan applications, evaluating not only the guarantees provided, but also the necessity and expedience of the projected loan. The task of the supervisory board was to conduct a three-monthly review of the cooperative's management and accounts.⁸⁷

⁸⁰ Froschauer, Sandgruber, Schneider 1994: 23-26.

⁸¹ Raiffeisen 1922: 84-87.

⁸² Lorenzoni 1901, vol. II: 131-148.

⁸³ Raiffeisen 1866: 56-57.

⁸⁴ Ibid.: 56-57.

⁸⁵ To the point that it was possible to sanction members that failed to attend meetings.

⁸⁶ Ibid.; 58.

⁸⁷ Ibid.: 55-56.

The success of Raiffeisen's cooperative at Heddesdorf rapidly attracted attention in the surrounding rural areas, and similar initiatives were launched in numerous German towns.⁸⁸ As such cooperative societies spread, it became opportune – and soon necessary – to aggregate them for the purposes of coordination and promotion.⁸⁹ The objective was not only that of having them assume a common and uniform regulatory regime, which would help them consolidate and expand; it was also to “govern” the assets and requirements of the individual Social credit banks.⁹⁰ The creation of the regional federations served the former purpose; the introduction of central cooperative banks served the latter.

The task of the federations was to foster the growth of cooperative societies by assisting them and providing them with every kind of consultancy and representation towards third parties. They therefore acted as associations of protection, representation and promotion. They also assumed the task – essential for the survival of individual cooperatives and for guarantees towards third parties – of periodically auditing their member-societies, reporting possible accounting anomalies, errors, or management practices in contradiction with cooperative principles. This external and impartial control guaranteed for both third parties and members the regularity and legality of the cooperative enterprise's management, as well as the veracity of its financial statements.⁹¹ The central cooperative banks instead acted as clearing houses, which guaranteed secure investments for the credit cooperatives with surpluses of liquidity with respect to local demand and extended credit to those in financial deficit.⁹² To this end, and in keeping with self-help principles, the credit cooperatives established their first networks in the form of regional cooperative banks, which also operated for exclusively mutualist ends and therefore excluded profit-seeking. They were based, in fact, on the founding principles of the individual cooperative banks and therefore on the unlimited liability of their members, which could only be Social credit banks operating in the region.⁹³ Second-level organizations were also created for a series of other collateral activities undertaken by the *Darlehenskassenvereine*, primarily the purchase of agricultural supplies.⁹⁴

2.3. The two models compared and the synthesis by Haas

The models developed by Raiffeisen and Schulze-Delitzsch both envisaged the credit cooperative as the pivot of a complex system of associations operating in the area of

⁸⁸ Kluge 1992; Klein 1997.

⁸⁹ The best known journal in which Raiffeisen advocated this development was the *Landwirtschaftliches Genossenschaftsblatt*, published from 1880 onwards (Klein 1997: 85-92).

⁹⁰ Klein 1999.

⁹¹ Lorenzoni 1901, vol. I : 36-38.

⁹² Raiffeisen 1866: 101-104.

⁹³ This arrangement was strongly criticised by Schulze and, following his intervention in parliament, the central cooperative banks which had arisen from such principles were dissolved in 1876, and then shortly afterwards revived in the form of joint-stock companies until 1889, the year of enactment in Germany of the new law on cooperatives, which allowed the foundation of central cooperatives consisting of other cooperatives (Schulze-Delitzsch 1875; Schulze-Delitzsch 1878; Koch 2000).

⁹⁴ The creation of these organizations led to the development in Germany of a tendency for the upwards specialization of functions, while different economic purposes were pursued by first-level societies. In effect the credit cooperatives increasingly flanked traditional credit activity with the distribution of agricultural supplies, given that the presence of central consumer cooperatives made the management of local cooperatives much simpler and less risky. Müller 1901: 154-159; Hasselmann 1984; Libbi 1984; Leonardi 2000.

consumption as well as that of production.⁹⁵ This view was indubitably a novelty, in that the cooperative model devised at Rochdale and already widespread in Europe posited consumer cooperation as the point of departure for the development of other forms of cooperation.⁹⁶ However, there was no homogeneity in the German cooperative approach and, although Raiffeisen started from theoretical considerations similar to Schulze's, the debate between them and between their supporters was sometimes heated.⁹⁷

Both the promoters of cooperative credit attributed a strategic role to the institutions which they had brought into being. The basic difference sprang from different ideal aspirations and from the overall purpose of the cooperative.⁹⁸ In the Raiffeisenian conception, unlimited liability, the accumulation of an indivisible fund, the granting of credit to meritorious applicants, the unpaid nature of administrative offices, and in general the tendency not to seek profit for its own sake but for the benefit of all members alike, were concepts consequent upon convinced commitment to the Christian message of brotherly love.⁹⁹ Cooperatives based on Schulze's model applied their founding principles¹⁰⁰ with a view to immediate economic utility and the psychological and moral features of those to whom they were addressed. Whilst in the former case rules were applied as a matter of principle, in the latter the same rules were applied pragmatically, and they could be altered as circumstances changed, thus giving flexibility to the organization. On the one hand, cooperation was considered to be a religious "derivation" representing a branch of the social activity of a Christian community, whether evangelical or Catholic;¹⁰¹ on the other, it was considered an essentially economic movement where there was a place for all regardless of their religious beliefs. As emphasised from the end of the nineteenth century onwards, the force of Schulze-Delitzsch's message lay in its highly pragmatic capacity to meet the needs of the lower middle class. By addressing artisans and shopkeepers, Schulze – as the economist Gustav von Schmoller pointed out in 1890 – "had no need to appeal to vague philosophical and social systems, but to the good commercial sense and the narrow mentality of the petit bourgeoisie".¹⁰² For Raiffeisen, by contrast, the cooperative creed drove a universalist endeavour to render social co-living more harmonious.

Raiffeisen's vision of cooperative enterprise provoked fierce criticism from the outset, not only from Schulze-Delitzsch,¹⁰³ but also from observers attentive to the immediate economic effect of cooperative action. It was pointed out in particular that the much proclaimed love for one's neighbour was often more theorized than practised, being present only in statutory principles. The proponents of the "economicist" approach to cooperation criticised the Raiffeisen model on the grounds that its religious-mystical apparatus was only a propaganda device, so that disinterested love for one's

⁹⁵ Hönigsheim 1953; Hoppe 1976; Koch 1991; Kluge 1992; Froschauer, Sandgruber, Schneider 1994.

⁹⁶ Birchall 1997.

⁹⁷ Engelhardt 1977; Koch 2000.

⁹⁸ For Raiffeisen the aim of the cooperative bank was "to improve the material and moral conditions of its members, to undertake suitable initiatives, in particular procuring and guaranteeing the financial means necessary for loans to members, and especially to collect money in interest-bearing accounts", Raiffeisen 1866: 171-172. For Schulze "the purpose of a credit union [was] to procure for its members, by means of common credit, the money necessary for the exercise of their shops", Schulze - Delitzsch 1855: 373-374.

⁹⁹ Klein 1999.

¹⁰⁰ Schulze-Delitzsch 1987; Gros-Hüttel 2008; Hofinger 2009.

¹⁰¹ Significant in this regard is the late nineteenth-century testimony furnished by the parish priest Sell: Spar- und Darlehenskassen 1897: 26-28.

¹⁰² Schmoller 1890: 358-359.

¹⁰³ Schulze-Delitzsch 1875; Schulze-Delitzsch 1878.

neighbour was embraced as long as it cost nothing.¹⁰⁴

This dispute between two personalities starting from different social and cultural experiences and origins was now joined by Wilhelm Haas, who was distinguished more as a tireless organizer than a theoretician.¹⁰⁵ In 1883, Haas founded the Union of Agricultural Cooperatives, doing so with the approval of Schulze-Delitzsch, who was now convinced that it was impossible to unite urban and agricultural cooperation within a single federation. The underlying principle was, as Raiffeisen had argued, that rural society required an autonomous and independent cooperative union. Nevertheless, the cooperatives founded on the new pattern were distinct from those based on the Raiffeisenian model because they did not accept, and indeed regarded as superfluous, any mystical and religious vocation. One of the mainstays of Raiffeisen's conception was thus gainsaid by the conviction that that pure cooperation was possible by adapting Schulze's commercial ideas to the countryside, without sentimentality or mysticism. According to Haas, the cooperative enterprise should pursue only those goals, such as economic ones, able to unite; while those that might divide, such as religious inspiration, were to be postponed, especially in a multi-confessional country like Germany.¹⁰⁶

Although at first glance the structure given by Haas to the German cooperative movement might seem to have rejected the Raiffeisenian doctrine, in fact it faithfully interpreted one of its core notions: the neutrality of the cooperative instrument, even if it was of Christian inspiration. Once space had been created, also in organizational terms, for a neutral notion of cooperation, after Raiffeisen's death in 1888 Haas was able to organize German agricultural cooperation on broader and more composite bases by merging all other forms of agricultural cooperation into credit cooperatives.¹⁰⁷ Moreover, farmers not only gained greater self-confidence,¹⁰⁸ but they performed an important function of diffusing new agronomic techniques, thus contributing to the renewal of work methods and increasing the German countryside's productivity.¹⁰⁹

This model – despite the criticisms of the socialists, who viewed it as an attempt at the “embourgeoisement” of the working class and therefore only condoned production and consumption cooperatives, but not cooperative banks – was soon studied and adapted in several regions of Europe. At the end of the 1870s, it was possible to verify the extent to which the idea first formulated by Schulze, then adapted to the rural context by Raiffeisen, and finally revisited by Haas, had proved fertile. Amid the “great deflation” and the spread throughout Europe of the crisis provoked by the collapse of agricultural prices, the *Raiffeisenkassen* traversed Germany's borders. Their operational capacity was successfully implemented in the rural areas of Belgium, France, the Habsburg Monarchy, and various parts of Italy. The model also crossed the Atlantic,¹¹⁰ although it was much less frequently adopted in the Mediterranean basin.¹¹¹

¹⁰⁴ Lorenzoni 1901, vol. I: 29-30; Maxeiner 1988: 85-88.

¹⁰⁵ Libbi 1984.

¹⁰⁶ Hoppe 1976; Faust 1977: 277-279; Kluge 1992.

¹⁰⁷ Ertl, Licht 1899; Bruckmüller 1977.

¹⁰⁸ Draheim 1955; Koch 1991: 68-74.

¹⁰⁹ Klein 1997; Klein 1999.

¹¹⁰ Faust 1977; Kluge 1992; Froschauer, Sandgruber, Schneider 1994; Leonardi 2000; Hofinger 2009.

¹¹¹ However, a rural savings bank was created in Greece.

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