

# Cooperatives' contributions to a plural economy

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**T**he European research conference of the International Cooperative Alliance (ICA) took place in Lyon (France) on September 2-4, 2010. It was organized through a partnership between academia (Université Lumière Lyon 2, LEFI) and the Rhône-Alpes branch of a national network (CRESS) that promotes the social and solidarity economy<sup>(1)</sup>. The central theme of the conference was the contributions of cooperatives to a plural economy<sup>(2)</sup>.

A growing number of studies analyze and document the fact that production and exchange activities are driven by plural motivations. These studies can be found both in the literature on the social and solidarity economy and elsewhere, and some of them draw on Karl Polanyi's conceptual framework (a key reference in this area) while others do not. Joseph Stiglitz, winner of the Bank of Sweden's Prize in Economic Sciences in Memory of Alfred Nobel and well known for his work criticizing market fundamentalism, believes this plurality is a condition of a more balanced economy: "My research showed that one needed to find a balance between markets, government, and other institutions, including not-for-profits and cooperatives, and that the successful countries were those that had found that balance."<sup>(3)</sup> However, the

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(2) [http://www.cress-rhone-alpes.org/cress/rubrique.php3?id\\_rubrique=122](http://www.cress-rhone-alpes.org/cress/rubrique.php3?id_rubrique=122)

(3) Stiglitz J., 2009, "Moving beyond market fundamentalism to a more balanced economy, *Annales de l'économie publique, sociale et cooperative*", 80 (3), p. 348.

purpose of this introduction is not to provide a theory of economic plurality but rather to situate cooperatives within it.

Cooperatives are part and parcel of this plurality by offering in particular an entrepreneurial model that differs significantly from the dominant model. The cooperative model emphasizes the collective dimension of entrepreneurship rather than the figure of a charismatic entrepreneur; collective interest (primarily the interests of the members but potentially the broader interests of stakeholders) rather than the individual interests of shareholders looking to make a profit; and the search for social rather than technological innovation. The Statement on Cooperative Identity published by the ICA in 1995 alone shows that cooperation is not just a business vision; it also puts forward a view of the economy based on respect for people and a commitment to living and working together. Cooperation is thus the concrete expression of the idea of a plural economy.

The aim of the conference was to stimulate a discussion about the role of cooperatives in this plurality. Cooperatives can be seen as offering a way around certain problems that result from economic activities, including social and environmental problems, or providing solutions when the problems are unavoidable. Out of 92 papers submitted, 63 were accepted and presented at the conference. In general, they came from researchers in management, economics, law and taxation as well as a few practitioners reflecting on the issues and researchers involved in cooperative practice.

The discussions concerned both sector-specific issues and issues that cut across sectors. Unsurprisingly, two main types of cooperatives were particularly studied – cooperatives in financial services and banking, and agricultural cooperatives. A smaller number of papers looked at worker cooperatives. An area particularly examined from a cross-sector perspective was European taxation and competition law. Lastly, an important topic that most of the papers considered was the issue of the attractiveness of cooperatives. Analyzing the issue of attractiveness involves piecing together the connections between cooperatives and their environment, and this forms the central issue of economic plurality seen from a dynamic perspective when one thinks about a

“more balanced economy” in Stiglitz’s words. This book thus presents a selection of 29 papers grouped into four sections: attractiveness, Europe, financial services and agriculture.

## **Part One – The contrasting dynamics of cooperatives and the issue of attractiveness**

The first part of the book focuses on the challenges and problems of attractiveness for cooperatives. A distinction needs to be drawn here between cooperatives as a group and certain types of businesses in particular.

In order to be attractive, cooperatives need a favorable legal and fiscal regime, an issue that the second part looks at in a European context and that comes up again in the third part, which concerns cooperatives in banking and financial services. The attractiveness of cooperatives is also enhanced by a group of organizations and institutions that promote cooperative development, some of which provide support functions, including national and international representation and lobbying, access to finance, help in starting up and developing cooperatives, etc. The attractiveness of particular types of cooperatives depends on the conditions in which these businesses operate, such as specific legislation (which may apply to both cooperatives and other kinds of businesses in the sector, as can be seen in banking and agriculture for example), possible competitive advantages connected with the member status of users, customers, employees, etc. The articles in this part mainly deal with aspects of cooperatives’ attractiveness unrelated to taxation.

Four articles look at cooperatives in Austria, Israel and Portugal from a legal and historical perspective. Johann Brazda, Robert Schediwy and Holger Blisse survey the history of cooperative legislation in Austria since 1873. They show that the fragmentation of the legislation and the fact that so many of the norms were non-binding played a positive role in the growth of cooperatives by giving them ample leeway with their by-laws. In the present context of the drift towards the mainstream in which cooperatives have forgotten their heritage and blended into competitive capitalism, the authors note that cooperative practitioners are in no particular

hurry to obtain a unified set of laws, contrary to the concerns of academic researchers. In the case of Portugal, João Salazar Leite underlines that the Portuguese Constitution has explicitly included cooperatives since 1976 and the “social sector” since 1989, which together form a third sector. However, the cooperative sector remains little known and poorly understood even by its own members. Legal and perhaps constitutional recognition is essential but insufficient. The Israeli case is the subject of two articles. Reuven Shapira looks at kibbutzim and how the serious financial crisis that they experienced in the 1950s and 1960s was overcome by strengthening cooperative values, in contrast with the crisis since the 1980s, which has led to a profound retreat from cooperative values. The author’s analysis emphasizes institutional factors that are actually very human because they are related to the efforts of a charismatic leader supported by high-ranking officials in the Ministry of Agriculture. Also in an Israeli context, Yifat Solel highlights another crucial and, in this case, negative factor in the evolution of cooperatives – government policy. She presents an extreme case of the impact of government policy on the development of cooperative businesses with the demutualization of transportation cooperatives, which was carried out under the pretext of privatization for efficiency reasons. The Israeli case sadly underscores how damaging government policy can be. One can add that, despite the independence asserted by cooperatives, governments can still exert significant influence on cooperatives’ strategic decisions, as can be seen in the French case of the merger between the two cooperative banking groups, Caisses d’Epargne and Banques Populaires. One hopes for the best while fearing the worst.

Over the past few decades, the cooperative form has been generally and increasingly seen as just one possibility among others, as the waves of demutualization attest. Founders, managers or members have had to make a choice about the company’s form during moments of crisis. Two articles address this issue in two very different cases of worker cooperatives. Jacques Poisat, Daniel Goujon and Jean-Luc Mieszczak (founder of the company) examine the case of the French worker cooperative Côté Nature Bio in the extremely competitive textile industry. They highlight how a

cooperative has to juggle two potentially contradictory concerns – core democratic and social values on one hand, and the need to be competitive on the other hand. The failing cooperative was ultimately turned into a conventional company in which the main objective is economic performance. The opposite scenario, in which workers take over companies, was studied by Nils Solari in the context of the huge crisis in Argentina in 2001-2002. Of the hundreds of factories taken over by the workers, 94% became cooperatives. However, behind this figure lies a complex range of situations and orientations chosen by the workers for their cooperatives. Although the workers chose the cooperative form, heated debates could arise between wanting to stick closely to cooperative rules and practicing a potentially freer form of self-management.

Lastly, three articles look at cooperative developments from a theoretical perspective by examining the efficiency of cooperatives, the idea of efficiency itself, and the organizational flexibility that enables introducing new variations of the cooperative model. From the point of view of economic theory, the question of the attractiveness of the cooperative form might boil down to their efficiency compared to non-cooperative organizations. However, the idea of efficiency is biased by its lack of accounting for externalities, and consequently it is too often used against plural organizational production forms, which include cooperatives. While economic theory tends to emphasize the inefficiencies of cooperatives, Marius Chevallier thinks that it fails to take into account sources of efficiency that should also be considered. This would allow cooperatives to be seen differently instead of as outmoded or marginal organizational forms that have only survived because of market imperfections. Looking at cooperatives and social enterprises, Carlo Borzaga, Sara Depedri and Ermanno Tortia criticize two fundamental assumptions in economic theory: the utility-maximizing individual and the profit-maximizing firm. Based on these assumptions, economic theory has tended to underestimate the growth potential, economic weight, and role of cooperatives and social enterprises. The authors lay out the foundations for a new theoretical framework that incorporates behavioral economics and evolutionary approaches. The argument for

economic plurality is thus based on a plurality of motives for individual action and a broadening of the traditional, and narrow, view of efficiency. Efficiency should be defined differently than just by private profit and should include mutual and public benefits. Finally, Roger Spear looks at plurality in organizations themselves. Cooperatives are not exempt from changes stemming from internal or contextual dynamics that complicate the situation. While some of these adaptations respect cooperative principles, others result in hybrid forms where isomorphism, driven by competitive pressures, breaks with cooperative principles. Spear identifies three main kinds of cooperative hybrids derived from the ideal type of a trading cooperative democratically controlled by its members: manager-controlled cooperatives, business cooperatives, and public/welfare service cooperatives.

## **Part Two – Cooperatives in Europe: rules, government support, taxation and the European Cooperative Society**

The second part of this book looks at the situation in Europe, a topic which received special attention at the conference. There are several key areas in European legislation that concern cooperatives in the member countries of the European Union, including taxation, government support, competition law, as well as the European Cooperative Society statute (SCE, for the Latin term *Societas Cooperativa Europaea*) and the possible effect of these regulations on national laws. Maintaining cooperatives' unique features appears to be under threat from European regulations about the market and competition, which is paradoxical because the European Union adopted the regulation creating the European cooperative society in 2003. One of the uncertainties is whether indivisible reserves will remain exempt from tax, which many see as an unfair advantage for cooperatives. Proposing alternatives is obviously important but, assuming European regulations are a given, the central issue is less a question of rejecting than clarifying European regulations and identifying the ways in which they are compatible with the needs

of cooperatives, while staying on guard to alert the European institutions when cooperatives are truly threatened.

The article by David Hiez goes to the heart of the matter. Feeling under attack by developments in European legislation, the cooperative movement published a defensive petition in 2008 that could only have a political impact. The author shifts the debate to the area of law because effective ways of responding to the threats facing cooperatives may come from legislation itself. Since 2005, the cooperative movement has had an ace up its sleeve – the European cooperative society statute. The relation with public interest is another possible line of legitimacy and defense, but this has to be handled with care and circumspection.

Naturally, European regulations on cooperative taxation and state aid are also important topics of debate. In two different articles, Willy Tadjudje and Laurent Karlshausen analyze the relationship between cooperative rules and competition law. The very principle of the dual role of member/user and the cooperative contract between members can be seen as anti-competitive. Willy Tadjudje concludes that these practices should be tolerated when used by cooperatives and do not violate the principle of competition in the market. Laurent Karlshausen focuses on the issue of the compatibility of the tax regime for cooperatives with European competition law. He raises the question of whether cooperatives need specific rules for dealing with competition law and argues that European regulations and practices are already flexible enough to embrace the whole range of cooperatives. Ekaterina Isentyeva looks at the legitimacy of state aid to cooperatives and suggests linking it with the creation of European general-interest services, as Cooperatives Europe recommends.

Laurent Gros turns his attention to the European cooperative society (SCE) statute and attempts to assess its potential impact both on individual cooperatives in terms of their international development (cooperatives were already expanding across national borders before this ruling and have hardly benefited from it; only 17 SCEs were created up until 2010) and on the structure of cooperatives in general. While the legislation in some countries, including some significant cases (the United Kingdom), did not specifically

refer to cooperatives, this did not prevent the existence of cooperatives! Nonetheless, one of the benefits of the SCE statute is that it forms a common basis which member countries of the European Union can use for building their own laws. Franci Avsec and Primož Žerjav illustrate this in the case of Slovenia. The SCE model has made it possible to improve the legal framework for cooperatives there. However, the possible impact of this new legal form, and for that matter any law on cooperative business forms, should not be overestimated. Although laws on business forms are essential, laws and regulations governing businesses are just as important and can represent a constraint that hinders cooperatives or aligns them with other types of companies, as can happen for example in banking.

### **Part Three – Cooperatives in banking and financial services: cooperative features and the mainstream**

The third part of this book concerns banking and financial services, a sector that has historically been a major issue in the cooperative movement. Central to democratizing access to investment and credit, cooperatives in this sector also play a crucial role in financing social economy organizations and are thus one of the decisive factors in the social economy's development. Both low and middle income population groups as well as social economy organizations themselves have needed and still need today a plurality of banking and financial organizations. The articles here examine both the legal issues affecting the sector, adding to the discussion about the conditions for the attractiveness and growth of cooperatives, and the specific features of cooperatives in banking and financial services, which leads to discussions about the drift to the mainstream.

The legal issues are unquestionably pivotal and can have a substantial impact on the development of cooperatives. For example, a recent law in Spain has facilitated the conversion of credit cooperatives into conventional banks. Rita Lolli presents the implications of the differences between the two types of cooperatives



in the banking sector in Italy according to the banking law of 1993. While the cooperative credit banks fit a “mutualistic” model, the popular banks have been drifting towards conventional companies, particularly in the allocation of profits and reserves. Subsequent legal provisions threaten the mutualistic features of the cooperative credit banks and pose a real danger for Italian cooperatives in the banking sector. Simeon Karafolas looks at the 1992 law in Greece which established a precise legal framework for cooperative financial institutions and stimulated their growth. The law makes a distinction between cooperative banks and credit cooperatives, which are not allowed to perform banking operations. However, both remain very marginal. The author emphasizes the fact that the law concerning cooperatives constrains their competitiveness in the banking market. In the Finnish case, Panu Kalmi explains how the regulation of cooperative banks, which emerged in the early 20th century based on the Raiffeisen model, is connected with both internal factors (by internal governance mechanisms and a large degree of autonomy granted by the banking authorities) and external factors (through late legislation dating from 1970, which was heavily influenced by these same banks, as well as international constraints such as the Basel process, which applied to all banks). Jurgita Igaryte and Sigita Bubnys explain that credit unions in Lithuania emerged in the early 1990s based on the Canadian model of the *Caisses Desjardins*, which provided the initial financial support for the nascent sector. The Lithuanian law of 1995 and later regulatory changes have provided favorable conditions for developing credit unions, however they have been hindered by the ending of the exemption from corporate tax.

Laws clearly create and reinforce some of the specific features of cooperatives, but government policies (as Yifat Solel shows in the case of Israel), internal rules that are not legally binding (as Panu Kalmi highlights in the case of Finland) and the practices of organizations in a broader sense also play an important role. In the Canadian context, where financial services cooperatives are largely subject to the same legislation as the so-called commercial banks, Éliás Rizkallah and Inmaculada Buendía-Martínez examine whether cooperatives practice corporate social

responsibility (CSR) reporting, which is mandatory for the large federally chartered commercial banks. Competition could in effect lead to such an alignment. Their conclusion is ambivalent. While some cooperatives have an implicit communications strategy, others publish reports presenting their contributions to the community. Gérard Leseul and Nadine Richez-Battesti examine the French “cooperative exception,” i.e. the dominant role of the cooperative banking groups in competition in retail banking (nearly two-thirds of the market). They stress that the drift towards the mainstream need not be inevitable if other development models based on a revitalized membership were promoted. From a narrower angle, Georges Gloukoviezoff looks at the role of French cooperative banks in financial inclusion. His analysis reveals a mixed picture. Since the 1980s, French cooperative banks have been drifting towards the mainstream by following the practices of conventional banks. However, and despite significant differences among them, cooperative banks remain generally more innovative than conventional banks by offering solutions that promote the financial inclusion of vulnerable and marginalized individuals. He insists on the need for government policies that tackle financial exclusion, but this will not prevent the erosion of cooperative identity in the sector. The article by Jan Myers, Molly Scott-Cato and Paul A. Jones takes a very complementary approach by looking at how the government’s financial inclusion policy puts a strain on Welsh credit unions, a very recent movement that started growing in the 1990s. Welsh credit unions are caught in a balancing act between the demand for financial inclusion, which takes them back to a philanthropic approach, and the drive to become competitive credible players in the banking sector. In France, the financial services cooperative La NEF, which is not an accredited bank, is involved in a European merger project to create a European ethical bank. Béatrice Chauvin, Ariel Mendez and Nadine Richez-Battesti chart the stages in the development of this cooperative, starting from its origins as a nonprofit organization through to the planned European bank. They highlight what is at stake in this project and the threats to La NEF’s very strong cooperative identity. The process could end in the mainstream.

## **Part Four – Agricultural cooperatives: criticisms and potential**

The fourth and last section of this book concerns the vast agricultural cooperative sector. It looks at the role of cooperatives in rural areas, their social impact and their relationship to rural development through forms of cooperative action and partnerships across a wide range of areas, including dairy farming, rice production and agriculture in general in developing countries, cooperatives and farmers' associations in Greece, and farming entrepreneurship in France.

Can the cooperative form adapt to the new environmental and social trends in farming such as the development of producer-to-consumer schemes? The article by Jean Lagane looks at three non-cooperative schemes in France – a farmers' market, an AMAP (an association that supports small farmers through box schemes) and a subsidized greengrocer (the last two are nonprofits). The cooperative form is not excluded from this movement (for example, an AMAP can be set up as a social or community-interest cooperative), but the cooperative form is just one possible option among others. Stravriani Koutsou and Maria Botsiou focus on women's organizations in the Greek countryside comprising voluntary organizations and producer cooperatives. These organizations help revive rural areas and contribute to local development through economic, social and institutional change. Women generally distrust older agricultural cooperatives, which are associated with men and an obsolete past. Alemaheyu Dekeba provides a snapshot of dairy cooperatives in the Arsi region of Ethiopia and shows their importance for smallholder producers (they own slightly over two cows on average) in terms of marketing and transport as well as for raising standards and networking in the sector. However, he highlights the unfinished or partial nature of the work of these cooperatives. For example, information is not always properly shared, and smallholder producers still like to be involved individually in local markets. Based on an action-research project, Juthatip Patrawart and Saisuda Sriurai look at agricultural marketing cooperatives for small rice producers in Thailand. The aims of the

project were to increase the value added of their production and improve the performance of the cooperative while moving closer to fair-trade standards. Xiliang Wu and Zheng-Bing Wang present the recent developments in cooperatives in China, their importance and their problems. The cooperative world of Chinese communism is clearly a far cry from the cooperative ideal formulated by the ICA. However, the rapid transformation of the country since Deng Xiaoping has reshuffled the cards, and cooperatives have changed. A new national law in 2007 has sparked a boom in agricultural cooperative creation but leaves the authors doubtful given how much opportunism there seems to be. Cooperatives are primarily a tool for appropriating rents. Two major problems are identified: the lack of an emerging civil society in rural areas (contrary to urban areas) and the lack of a cooperative ecosystem to support the development of agricultural cooperatives.

It appears that cooperatives participate in economic plurality in several ways. First, they break the for-profit/public duality. Next, they are themselves plural because they have a very diverse range of forms, which further evolve through constant organizational innovations. Lastly, they are often involved in local development, where a plurality of stakeholders pursues objectives that are themselves both plural and irreducible to the profit motive alone. However, obstacles are never far off. Political misunderstanding, the drift to the mainstream by following the practices of conventional competitors, and forms of individual opportunism turn these living examples of economic plurality into practical utopian experiences.