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Cooperatives: Importance, Resilience and Rationality

Introduction

Chapter 3 highlighted the shifting boundaries between ownership and control. We saw that such a shift was closely connected to the debt trap seen in Chapter 2, which we identified as being one of the main mechanisms having led to the global crisis, and that it was causing an increasing loss of control by the real stakeholders in economic entities, hindering economic sustainability and, in the long run, wealth creation. Where can solutions come from?

In the present fading of old certainties and the quest for new ideas, theoretical insights re-emphasizing control by the real stakeholders and the priority of the common good over the systematic predominance of financial short-term profit are obtaining due recognition.[1] In this debate, cooperatives, which offer the advantage of being an existing type of economic organization, and not purely a theoretical alternative model, may be worth looking at. Their experience and internal control mechanisms could prove to be of importance beyond their own bounds, as they could make a good case for debate, practice and policy. However, we should first make sure if, and to what extent, they are both a sufficiently important economic actor in the world and a sufficiently differentiated model of economic organization on the ground, in particular in terms of their control mechanisms and their specific regard towards capital and debt.

Cooperatives assert that they have a different redistribution system and are geared towards members' needs. They herald a moral value system, with such declared values as democracy, equality, equity, solidarity, honesty and social responsibility. They lay a strong emphasis on education and training, and claim to be concerned with the community. Are these only noble ideals, or do cooperatives act as full-fledged enterprises while practising such values? Are they true to their claims in the first place? Is there anything flawed in the way they act on the market?

More widely, can the model of joint control and democratic checks and balances which cooperatives claim to practise be useful in tackling the increasing lack of control by stakeholders which feeds the debt trap, as we saw in Chapter 3? Can cooperatives *truly* be the promoters of a 'stakeholder economy' as opposed to a 'shareholder economy', one which can work for the common good and the creation of shared wealth? These questions must indeed be addressed.

We attempt to respond to them in this and the following chapters. But, in order to do so, we cannot overlook some of the most important critiques that have been formulated against cooperatives in the recent past. Therefore, in the first section, we briefly review some of these critiques, without arguing whether they are correct or not, as this is something that we will gradually find out through the general data and the concrete examples that we will see throughout the rest of this book.

We then attempt to gauge the importance of cooperatives in the world: are they, globally, an important economic actor? How many are their members–owners? What is their impact on employment?

In the following section, we look at the response of cooperatives to the ongoing global crisis. Have they maintained their activities and their jobs better than other enterprises? Have they even developed?

We move on to delve into the underlying rationality of cooperatives: what is their main *raison d'être*? What are their common standards and how were they elaborated? How do they organize internally? What do they want to achieve? What is their system of capital accumulation and profit distribution? Do they avoid falling into the debt trap? We also briefly mention the common points and differences between cooperatives and mutual aid societies (not to be confused with 'mutual funds').

The final section places the evolution of cooperatives' standards in a political economy perspective, linking up on the one hand internal debates and international organizations' definitions, and on the other the wider context of world economic restructuring.

Critiques of cooperatives

Ideas and theories that are critical about cooperatives have been expressed by a number of scholars and have inevitably had some bearing on public opinion, especially over the last few years.

One theoretical strand maintains that cooperatives are responses to niche markets and market failure. It considers that many cooperatives are born out of a struggle by small producers or consumers against cartels and monopolies, and maintain their *raison d'être* until the market failures are overcome. When the market and competition become effective, this *raison d'être* allegedly disappears. Daniel Côté illustrates this theory by using the example of ULN (Union Laitière Normande), a French milk cooperative group that was born as part of a struggle by local farmers against cartels and ended up in demutualization 45 years later, when the original cartel conditions had changed completely.[2] The theory appears to suggest that large cooperatives in highly competitive markets are either non-existent or exceptional: we will check whether this is correct or not.

Since cooperatives are supposedly born to overcome market failures, they would tend to have a merely transitional role, and be bound to disappear in a modern economy – 'only in the special case of chronic market failure would an infinite life be predicted', according to Laurence Harte.[3] Thus, whereas no enterprise in the world pretends to be destined to eternal life, cooperatives supposedly have a shorter lifetime than conventional businesses. In the following sections and chapters, we will try to gauge the actual longevity of cooperatives.

When they do manage to survive under complete market conditions, cooperatives are allegedly not adapted to the needs of the modern economy. According to Harte, this is because they are more prone to financial risk.[4] On the contrary, for Henry Hansmann, employee-owned enterprises are particularly risk-averse, in that 'workers, lacking the ability to diversify risk by taking jobs in a number of different firms simultaneously, are in a worse position than investors to bear the risks of fluctuating residual earnings'.[5] We will eventually try to see whether cooperative businesses are more or less risky than others, and whether cooperative members are more or less prone to take risks than other types of business owner.

Another issue is the cost of decision making. Hansmann considers that cooperatives are characterized by a very high cost of collective decision making,[6] as underlined by the new institutionalist school and, in particular, by Oliver Williamson, who heralds the beneficial impact of vertical and hierarchical decision making in centralized management upon decentralized and participatory management, which he brands as 'communal'.[7] Robert Schediwy applies this theory to the German cooperative banks: he maintains that the sharp increase of competition and the tendency of competitors to merge makes the traditional three-tiered cooperative system (with banking structures at the local, regional and national level) of the German Raiffeisen cooperative banking group increasingly obsolete and irrelevant.[8] In Chapters 7 and 8, we will examine concrete cases of complex decision-making processes in cooperative groups such as Raiffeisen, and see whether this practice should be seen as a cost or, rather, as an investment.

If they do happen to become big, according to Hansmann, cooperatives tend to turn into something barely distinguishable from ordinary public limited companies (PLCs), until 'the enterprise has essentially assumed the character of an investor-owned firm'.[9] According to Serge Koulitchisky and René Mauget, in order to adapt, cooperatives allegedly evolve towards hybridized forms of management between elected decision makers and managerial decision makers. This is because, according to these authors, the demands of modern-style management and the challenges of globalization are obliging many cooperatives and cooperative groups to hire managers with appropriate technical skills and expertise, which, in turn, allegedly reinforces a tendency towards increasing concentration of power into the hands of a reduced managing techno-structure that leads the cooperative with a 'heavy hand' and a techno-language that the ordinary members can no longer understand.[10] Chaves and Monzón argue that this phenomenon, in turn, tends to create an ever deeper gap in terms of enterprise culture and endangers the active democratic participation of members within the system, making them more prone to opt for demutualization and the adoption of capitalistic legal forms and vertical governance.[11] In the empirical cases and general considerations throughout the remainder of this book, we will check whether this evolution towards less democracy and more technocracy in cooperatives is inevitable and whether it is actually taking place.

The Kerry dairy cooperatives in Ireland have been mentioned as a classical example of a *gradual* (but seemingly inevitable) demutualization process due to the inability of the cooperative form to adapt to modern economic realities because of its higher transaction costs. The control power of the members, through the elected Board, gradually decreased in favour of management. No surplus was distributed to members, who lost interest in the cooperative and, in turn, wanted to enjoy a market value for their shares and additional capital for the growth of their farms. Part of the cooperatives were then acquired and turned into PLCs. One cooperative has been maintained but exercises all its activities through a company in which it has a 55 per cent controlling interest. In the other PLCs, surviving milk cooperatives are now minority members. The author studying the case, Harte, considers this phenomenon as being an inevitable evolution of the Irish milk industry. The demutualization process, according to the author, was bound to take place, and should in fact have taken place sooner had the cooperative form of organization not inhibited the needed change for some time.[12]

Cooperatives are also criticized for being artificially promoted through specific tax, legal and policy advantages.[13] According to Harte again:

> the efficiency of cooperatives is not proven by their survival and development over so many years, as cooperatives in most countries have been favoured by government policies (and sometimes have been used as instruments of government policy) through tax breaks and other direct and indirect supports.[14]

This critique was relayed by the European Commission in 2008, when Competition Commissioner Nelly Kroes dealt with a set of complaints filed against Italian consumer and credit cooperatives for the specific tax regimes related to cooperative surpluses earmarked for indivisible reserves. Kroes expressed the opinion that large cooperatives had very probably lost their cooperative character and advocated the need to develop a 'pure mutual cooperative model', thereby indirectly questioning the Italian cooperative legislation and going beyond the European Commission's mandate.[15] In the next sections and chapters, we will verify whether cooperatives generate specific social goods and financial reserves with specific property regimes, which would then justify corresponding compensatory policies and tax regulation.

It should be noted that most of the above theories on cooperatives were formulated between the second half of the 1990s and September 2008, namely the formal beginning of the crisis. This period was characterized by a highly self-confident and upbeat approach to the mainstream economic and entrepreneurial stock-market model (in spite of significant failures such as Barings or Enron, which were decoded as being the exception that confirmed the rule, constant rescue packages and debt made public to save private 'too big to fail' enterprises in so many countries, and the string of subsidies and tax breaks granted to TNCs). Many scholars were, during that period, under intense pressure to comply with this dominant stream of ideas. Nowadays, it is not only these specific theories on cooperatives that are put in doubt, but the whole frame of mind that until recently conditioned research on the economy and economic entities.

Since these theories are part of a wider frame of mind which is being questioned, we will not refute them, but put them to the test. Through the discussion on the role of cooperatives in the world (next sections) and the empirical cases (Chapters 5, 6, 7 and 8), we hope to gradually 'falsify' them, namely to check whether they correspond to reality or not. Meanwhile, let us keep them in mind.

The economic and social importance of cooperatives in the world

Economic importance

Table 4.1 provides an indication of the contribution of cooperatives to the GDP of the ten biggest economies of the world (most of which are at the centre of the global crisis) in 2008, which in turn constituted 73 per cent of world GDP that year. We observe that the aggregate turnover of cooperatives in these countries is around 10 per cent lower than the GDP of Italy, and makes up just under 5 per cent of the aggregate GDP of this group of countries.

A number of considerations should be made about these data. First of all, the estimate is conservative, since, in part of these countries, not all cooperatives have been accounted for (in particular cooperative banks). In addition, the count does not include mutuals (in the sense of 'mutual aid societies', rather than 'mutual funds') which, at least according to the international understanding of the term, are very close to cooperatives, as we will explain below.

Second, these conservative estimates only concern the aggregate turnover which cooperatives produce *directly*, and do not include the sales generated by producers who belong to cooperatives in order to benefit from key common inputs, such as independent bakers, butchers, mechanics, shopkeepers and other types of self-employed people, nor the sales generated by the millions of small businesses which contract productive loans with local credit cooperatives and cooperative banks. Nor do they take into account the uphill, downhill and sideline businesses which the activities carried out by cooperatives generate.

We will return to the economic contributions of cooperatives that cannot be retrieved from GDP ratios at the end of this section. For the moment, let us limit ourselves to examining the *direct* share of the cooperative economy in some key sectors.

In banking, the 7,708 US credit unions had, in 2009, over $899 billion in assets and held 6 per cent of the market share of financial institutions' assets.[16] The cooperative banks of the EU have total assets worth $7,768 billion and, in 2008, held 18 per cent of EU market shares in deposits and 16 per cent in EU credit.[17] At the national level, the corresponding percentages are, for example, 19 per cent and 16 per cent for Germany, 34 per cent and 32 per cent for

Table 4.1 Aggregate turnover of cooperatives in G10 countries and their share of nominal GDP

Country	GDP (2008) in million US$	Coop aggregate turnover in million US$	Coop percentage of GDP
United States	14,256,275	652,903	4.7
Japan	5,068,059	184,104	3.2
Germany	3,352,742	244,098	7.3
China	4,908,982	221,065	4.5
United Kingdom	2,183,607	56,568	2.1
France	2,675,951	207,166	7.7
Italy	2,118,264	157,285	7.4
Spain	1,442,704	90,050	6.2
Canada	1,336,427	39,216	3.4
Brazil	1,574,039	48,200	2.3
Total G10	38,917,050	1,900,654	4.9

Sources: The country GDPs are the nominal 2008 GDP figures provided by the World Bank, see http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP_PPP.pdf. The sources for the national cooperative aggregate turnovers are: for the US, Research on the Economic Impact of Cooperatives by the University of Wisconsin's Center for Cooperatives, 2009, available on http://reic.uwcc.wisc.edu; for Japan, communication from Yoshiko Yamada, Japan Worker Cooperative Union based on the figures published by the Japanese Joint Committee of Cooperatives (JJC) (2009); for Germany, see www.dgrv.de; for China, communication All China Supply and Marketing Cooperative Federation and all China Handicraft Industry Cooperative Federation; for the UK, Cooperative UK's Cooperative Review 2009 available on http://www.cooperatives-uk.coop/live/images/cme_resources/Public/CoopReview/2009/Review09.pdf; for France, Chiffres Clé 2008 des organisations cooperatives adherents au GNC, Groupement National de la Coopération.; for Italy, see Legacoop: Imprese, occupazione e valore aggiunto, 2009; for Spain, see www.cepes.es; for Canada, communication from the Canadian Worker Cooperative Federation based on CCA and CCCM figures; for Brazil, communication by OCB.

Finland, 37 per cent and 32 per cent for Austria, 42 per cent and 46 per cent for France, and 43 per cent and 30 per cent for the Netherlands.[18]

In insurance, the global market share of cooperatives and mutuals (a type of economic organization which, as mentioned above, is very similar to cooperatives, as we will examine later) in 2007 and 2008 was 24 per cent. In other words, cooperatives and mutuals cover almost one-quarter of the global insurance market.[19]

In agriculture, cooperatives in the EU as a whole have a share of over 50 per cent in the supply of agricultural products and of over 60 per cent in the collection, processing and marketing of agricultural products.[20] Cooperatives account for 83 per cent of Dutch agricultural production.[21] Finnish cooperatives are responsible for 74 per cent of the meat products and 96 per cent of dairy products.[22] Swedish cooperatives are responsible for 60 per cent of the national forestry market. This is not a EU-only phenomenon: 30 per cent of farmers' products in the USA are marketed through cooperatives.[23] In Brazil, cooperatives produce 40 per cent of the agricultural GDP.[24] In New Zealand, they are responsible for 95 per cent of the dairy market, 70 per cent of the meat market, 50 per cent of the farm supply market and 70 per cent of the fertilizer market.[25] In Japan, they make up 95 per cent of all rice production and 90 per cent of the fishing trade.[26] In India, they account for 46.2 per cent of the production of sugar and 26.5 per cent of the production of fertilizers.[27]

In retail and distribution, consumer cooperatives' share of national retail markets is 55 per cent in Singapore,[28] 43 per cent in Finland, 38 per cent in Denmark, 24 per cent in Norway, 21 per cent in Sweden, 17 per cent in Italy and 14 per cent in Hungary.[29] Japan's consumer cooperatives report a total of 5.9 per cent of the food market share.[30] And 25 per cent of all retailers in France are grouped in cooperatives,[31] whereas in New Zealand, cooperatives make up 62 per cent of the grocery market.[32]

In housing, cooperatives make up 8 per cent of Austria's total housing stock, 10 per cent of Germany's total renting stock and 15 per cent of Norway's housing market (40 per cent in Oslo).[33] In the health-related sectors, cooperatives account for 21 per cent of the Spanish health market,[34] and in Belgium, the market share of cooperative pharmacies is 19.5 per cent.[35] In Italy, cooperatives are the first private supplier of social services.

The above data do not pretend to be exhaustive. They are only examples aimed at making it clear that cooperatives are a substantial economic actor in general and in several key sectors in particular, using the most conventional measurement system (market shares). In addition, these market shares have been maintained, and many instances have increased, since the advent of full-fledged global competition. Although the development of cooperatives throughout the various sectors is uneven in different countries (for a number of historical reasons that exceed the scope of this book), the school of thought mentioned above, according to which cooperatives develop mainly in quasi markets and cannot fully expand under full market conditions (not to mention under a globalized economy), simply does not resist the analysis of available data. The other main critique mentioned above, that most of those that grow large lose their cooperative nature, can only be fully addressed by understanding the underlying economic rationality of cooperatives, which we will examine later in this chapter, and how this rationality translates into practice, which we will verify through the four empirical cases in the following chapters (Natividad, Ceralep, Desjardins and Mondragon).

Social and employment importance

The aggregate number of cooperative members in the world who are part of the system of federations that are directly or indirectly members of the International Cooperative Alliance is above 906 million.[36] A number of national cooperative organizations and experts, however, point out that there is bound to be a substantial amount of double counting in this overall figure. But, even if all cooperative members in the world were members of two cooperatives, their actual number would be as high as 450 million. However, it is common knowledge that the majority of cooperative members are members of only one cooperative, and that members of more than two cooperatives are unusual. Therefore, even if we take double counting into account, and if we hypothesize that half of cooperative members are members of one co-op and half are members of two co-ops, the actual number of persons in the world who are members of one or more cooperatives should be higher than 650 million: around one tenth of the world population,[37] or around 15 per cent of the world adult population. Although the individual experience and awareness of being a co-op member varies greatly from one situation to another, it remains the case that, through the cooperative system, hundreds of millions of ordinary people in the world are co-owners of hundreds of thousands of cooperative enterprises, a social and economic phenomenon that cannot be overlooked.

Figures may be more consistent sector-wise, because it is more difficult for there to be double counting. For example, cooperative banks in the EU have 50.5 million members-owners (10 per cent of the EU population, and up to 17 per cent among the six founding nations of the EU), whereas the US credit unions have 91 million members (30 per cent of the US population).

Employment-wise, cooperatives are also an important actor. They *directly* employ 4.7 million persons in the EU,[38] 4.58 million in China,[39] 2.14 million in the USA,[40] 1.2 million in India,[41] 285 155 in Russia,[42] 171 000 in Brazil[43] and 150 000 in Canada.[44]

But cooperatives are even more important in terms of *indirect* employment or self-employed activities which depend on transactions with a cooperative: for example, 15.4 million self-employed persons in the case of India.[45] In Germany, ‘approximately 60 per cent of all craftsmen, 75 per cent of all retail traders, 90 per cent of all bakers and butchers and over 65 per cent of all self employed tax advisors are members of a cooperative’.[46] The figure also includes the hundreds of millions of farmers and fishermen around the world who are members of an agricultural or fishery cooperative. For example, almost all German farmers, gardeners and winegrowers are members of a cooperative.[47]

Another key social contribution is that cooperatives are a substantial contributor to housing and other services of general interest. In the European Union, they provide housing to an estimated 28 million citizens.[48] In Italy, the over 7,000 social cooperatives constitute the first provider of social services with 3.3 million users, and of work integration of disadvantaged citizens with over 30,000 disadvantaged workers.[49]

Economic and social contribution that cannot be measured by conventional methods

The quantified contributions of cooperatives to the economy and society, mentioned above, are measured through traditional measurement tools such as GDP, market shares and employment numbers and ratios. Although, as we can see, cooperatives can claim substantial figures according to these measurement tools, the latter cannot fully reflect the specific contribution of cooperatives to the economy and to society. Indeed, none of these measurement tools can calculate the longevity of cooperatives, or their capacity to innovate or to adapt to change, or their capillarity in the locality, or their capacity to share the produced wealth instead of concentrating it in reduced islands of prosperity, or the sustainability of jobs, which contribute to their expansion.

A number of national case studies have shown that cooperatives tend to have a longer life than other types of enterprise, and thus a higher level of entrepreneurial sustainability. In Canada, for example, a governmental survey found that the rate of survival of cooperatives after three years was 75 per cent, whereas it was only 48 per cent for all enterprises put together, and that, after ten years, 44 per cent of cooperatives were still in operation, whereas the ratio was only 20 per cent for all enterprises.[50]

The longevity of cooperatives also appears in research conducted by the ICA about the world's top 300 cooperatives and mutuals (or groups of cooperatives or mutuals). Apart from their strong economic importance (in 2006, they had an aggregate turnover of $1.1 billion and total assets worth $9.5 billion), the longevity of these cooperative or mutual enterprises or groups is striking: as many as 25 of them were established in the nineteenth century, 67 during the first half of the twentieth century, and 38 between 1950 and 1980, the trend being that the oldest ones are also the largest and strongest entrepreneurially.[51]

In the same vein, IMF experts have recognized that the stability of cooperative banks was even stronger than that of commercial ones. A 2007 IMF study concluded that:

> cooperative banks in advanced economies and emerging markets have higher z-scores than commercial banks and (to a smaller extent) savings banks, suggesting that cooperative banks are more stable. (…). We suggest

> that this observed lower variability of returns (…) may be caused by the fact that cooperative banks in normal times pass on most of their returns to customers, but are able to recoup that surplus in weaker periods. To some extent, this result can also reflect the mutual support mechanisms that many cooperative banks have created.

The authors add that the:

> high presence of cooperative banks appears to weaken commercial banks, in particular those commercial banks that are already weak ... This empirical result can be explained by the fact that a higher cooperative bank presence means less space for weak commercial banks in the retail market and their greater reliance on less stable revenue sources such as corporate banking or investment banking.[52]

Referring to this document, Ghislain Paradis from the Desjardins banking cooperative group commented at a UN 2009 panel on cooperatives and the crisis that: 'Put in other words, cooperative banks collaborate not only to stabilize the market, but also to "purify" it and to force corporate and investment bankers to improve their risk management'.[53] This important economic function, of course, does not appear in GDP ratios.

Another feature which cannot be deduced from GDP ratios shown in Table 4.1 is the capillarity of the cooperative presence. As we will see in Chapter 7, the Desjardins banking group is the only banking institution providing financial services to local people and local businesses in as many as 600 Quebec municipalities. Similarly, there are over 20,000 outlets of cooperative banks in France,[54] and if you travel through French villages, you will find out that, very often, the only local bank is a cooperative bank, the only insurance company is a mutual one, and the only grocer is part of the 'Super U' grocers' cooperative network. In the USA, rural electric cooperatives, which distribute 10 per cent of all kilowatt hours sold in the country, operate 42 per cent of the electric distribution lines, covering three quarters of the US land mass and providing service to 42 million rural people (12 per cent of the total US population), as well as to 18 million businesses, homes, schools, churches, farms, irrigation systems, and other establishments in the countryside.[55]

In addition, as will be shown in the following chapters, it should be underlined that jobs in cooperatives tend to be more stable and last longer than those in other enterprises, because, as we saw above, cooperatives tend to have a higher longevity and because, being based on local members, they normally do not delocalize.

In 2009, Joseph Stiglitz, advised by Amartya Sen, chaired a commission which drafted a manifesto explaining why and how GDP should be supplemented as the *de facto* measure of progress, while other dimensions such as material living standards, work, education, health, political voice, among others, should be taken into consideration.[56] Such new measurement tools would certainly better value the contribution of cooperatives to shared wealth. We will return to this argument in Chapter 9.

The resilience of cooperatives to the crisis

Since the crisis began, cooperatives have displayed a comparative strength in terms of resilience, in spite of the considerable difficulties that the economic situation has inevitably caused to their activities, as emerges from a number of reports from various cooperative sectors.

Since September 2008, most cooperative banks, generally small local banking structures grouped in horizontal *ensembles* (such as the Desjardins group in Canada), have continued to serve chiefly local users. In the USA, loans by credit unions increased by 6.68 per cent in volume between 2007 and 2008, whereas those granted by the 8,300 US traditional banks decreased by 0.39 per cent over the same period.[57] The growth of credit union loans continued to rise in 2009, though at a lower pace (1.2 per cent) but the growth of their productive loans reached 11 per cent that year, against a fall of 15 per cent for conventional banks. At the same time, in 2009, the growth rate of US credit unions' total savings and assets reached their highest figure since 2005, with respectively 10.3 per cent and 8.9 per cent.[58] Their capital adequacy ratio in 2009 was 9.9 per cent (more or less the same figure since 1994), which 'well exceeds the 7 per cent ratio needed to be classified in the highest category of "well capitalized"'.[59]

In the EU (where, as we saw, cooperative banks represent 19 per cent of all bank deposits and 16 per cent of all bank loans), no cooperative bank has failed, whereas several public and commercial banks have.[60] They continue to have an average market share in SME financing of around 29 per cent.[61] Whereas French Crédit Agricole's central bank experienced huge financial losses in 2008 for having traded derivatives through its commercial subsidiaries (after which, in keeping with the cooperative democratic control pattern which we will examine in the next section the leadership of the group was dismissed by its constituent cooperatives),[62] its own autonomous local banks, like those of all large cooperative banking groups in France, Germany and the Netherlands, have been largely unaffected by the financial storm.[63]

The European Association of Cooperative Banks explains that:

> Satisfactory solvency ratios (the overall tier-1 ratio of European cooperative banks on 31 December 2007 was 8.6 per cent) mean that European cooperative banks are not being forced to resort to the recapitalization plans introduced by government authorities. In the few instances in which cooperative banks have resorted to these facilities, they have done so with the intention of sustaining a rate of growth in their lending

> tailored to a severely degraded and risky environment, such as in Austria or in France with subsidiaries.[64]

In France, the Crédit Mutuel – CIC group (Crédit Mutuel is a cooperative banking group and CIC is a controlled subsidiary; the whole group is France's fourth banking institution and second for retail banking) had an 11.8 per cent tier-one capital ratio in 2009 (against 9.8 per cent, in 2008 and 9.3 per cent in 2007). In spite of the slump in demand, the group increased its credit by a8.6 billion to reach a304.2 billion (plus 2.9 per cent) in 2009 and gained 0.6 per cent in the national credit market share, reaching 17.5 per cent. In addition, Crédit Mutuel is the first French banking institution to have repaid (in October 2009) the aid provided by the state (a1.2 billion out of a20 billion as part of a support package provided to the French banks as a whole), including principal and interest.[65]

In Germany, where cooperative banks provide 19 per cent of bank deposits and 16 per cent of bank loans:

> the issuance of credit to enterprises by cooperative banks increased by 2.1 per cent in the first half of 2009, while the large banks (minus 2.4 per cent), the landesbanken [commercial banks] (minus 1.4 per cent) and regional banks [public banks] (minus 4 per cent) reduced their credit award. The cooperative banks deliver such an important contribution that a general credit clamp has not occurred in Germany … Admittedly, cooperative banks have undergone problems with value adjustments and reductions in the cases of Lehman Brothers and the Icelandic banks. However, the cooperative banks as a whole have been less affected than most private banks and regional banks. As a consequence, the cooperative financial system is the only one of the three pillars of the German banking sector that has not relied on state reinforcement measures.[66]

The Dutch cooperative bank Rabobank has maintained its dominant national market share in savings during the crisis, in spite of a slight downward trend (40 per cent in 2009 against 41 per cent in 2007), and consolidated its market shares of loans to SMEs (41 per cent in 2009 against 38 per cent in 2007) and in mortgages (30 per cent in 2009 against 28 per cent in 2007).[67] In January 2010, the Dutch government invited them, as a success story, to a public hearing on the crisis.[68]

By contrast, a series of ex-member-based British Building Societies (akin to cooperatives) that had earlier been *de-mutualized* (namely converted into conventional banking entities) against small windfalls distributed to members (e.g. Abbey National distributed £130 to each ex-member) distinguished themselves for being at the very heart of the banking crisis in the UK, and did not survive (Northern Rock, Abbey National and Halifax being the three biggest casualties). According to Alan Cole, Director of the

UK Building Society Association, branch closure in the remaining building societies amounted to a reduction of 2.8 per cent, against 4.0 per cent in conventional banks between 2000 and 2003, the main hypothesized reason being that 'public companies [namely those listed on the stock exchange] are under more pressure to make cost savings as they are driven by the necessity of producing value for shareholders. Such pressures … led to banks closing not merely branches that were losing money, but also branches that were profitable, *but just not profitable enough*'.[69] Cole adds that, on average, 'management expenses plus dividend payments are 30–35 per cent higher than management expenses alone in the converted institutions,[70] thereby weakening their entrepreneurial sustainability.

Consumer cooperatives in Europe have been substantially affected as has, indeed, the whole distribution sector, especially hypermarkets. Nevertheless, the percentage of sales of the coop brands has increased, as well as the number of members of this type of cooperative.[71] The Italian Coop enjoyed a 0.9 per cent increase in sales in 2009 as compared to 2008, with a rise of 1.1 per cent in the number of employees and 3.5 per cent in the number of members, whereas, over the same period, Carrefour saw its sales decrease by 24 per cent and was partially or completely withdrawing from a number of countries, laying off many workers,[72] as we saw in Chapter 3.

The resilience of housing cooperatives to the crisis has been stronger in the case of rental housing cooperatives (namely cooperatives where members pay rent), whereas ownership housing cooperatives (namely those where members own their houses) have suffered more because of the shortage of mortgage loans and the fall in asset values, which have affected the whole housing market (see Chapter 1).[73] A central problem for both types of housing cooperative is the availability of credit, and solutions are being put in place or currently being discussed. For example, 40 out of the 2,000 German housing cooperatives have established saving institutions of their own.[74]

Industrial and service cooperatives have been unequally affected, depending on the economic sector, but, even in those most affected, they have generally managed to resist better than other enterprises by resorting to special measures decided by their worker-members, such as the non-distribution of annual surpluses, reduction or, in extreme cases, even temporary suspension of wages. Almost all national responses to two successive world surveys in 2009 and 2010 conducted by CICOPA, the global organization of industrial and service cooperatives, indicate that the economic situation of the enterprises had generally worsened within one year (although this depends on the sectors: for example, social services are even undergoing a phase of expansion; innovative practices by cooperatives in some sectors have been successful, such as some Spanish construction sector cooperatives having converted to solar energy).[75]

However, the level of indebtedness of industrial and service cooperatives is reported to be lower than that of traditional enterprises of the same size and in the same sectors. As for enterprise mortality, it has remained minimal and has also been more modest than in other types of enterprise; most of the cooperatives that have closed down already had problems before the crisis, the latter providing the *coup de grâce*. Those with the strongest level of reserves and those that are best integrated in cooperative groups (such as Mondragon, which we will examine in Chapter 8) are resisting best.

Employment-wise, the situation in industrial and service cooperatives in Europe has indeed worsened, but the percentage of job losses is, again, lower than in other types of enterprise in the same sectors. For example in Spain, job reduction in industry between 2008 and 2009 was 6.4 per cent in cooperatives, against 11.9 per cent in other types of enterprises. In parts of the world other than Europe, job losses in industrial and services cooperatives are reported to be less important or nil. It should also be noted that successful transfers of businesses in crisis to the employees under the cooperative form, with net job salvation, are intensifying under the crisis, in particular in Southern Europe and South America.[76] In Chapter 6, we will examine one case of this kind in some detail.

The above data, though incomplete, are largely sufficient to demonstrate the relative resilience of cooperatives to the global financial and economic crisis. In order to understand why it is happening, we now need to analyse the rationality of cooperatives: what are these enterprises for? Whose interests do they serve? What do they want to achieve? How do they function?

Understanding the essence of the cooperative rationality

The underlying rationality of cooperatives remains largely misunderstood. However, if the cooperative mode of economic organization is to be seriously considered as one which can contribute to solving the debt trap (Chapter 2) and the issue of control in economic entities (Chapter 3), its underlying economic rationality should first be properly analysed and comprehended.

The international cooperative standards

In spite of regional and typological variations, all cooperatives in the world that are part of the organized system of representation linked to the International Cooperative Alliance (by far the largest part of them) refer to a single and explicitly worded set of world standards that defines their underlying value system, their socioeconomic objectives, their internal modalities of ownership and control, and their surplus distribution mechanisms, all of which distinguish them from those of conventional businesses. Therefore, if any common rationality and organizational pattern is to be found in cooperatives at the global level, it should be sought through these standards.

Defining a cooperative has been a unique historical process. It started as early as 1844, when members of a consumer cooperative in the Manchester suburb of Rochdale spelt out five organizational principles defining the functioning of a cooperative business.[77] These original cooperative standards have remained basically unaltered to this day, even though they have undergone several amendments. It should be emphasized that they have been defined, updated and disseminated (first across Europe, but very rapidly within the Americas, Asia and Africa) through democratic procedures, with debates and general assembly decisions. Although Rochdale is conventionally upheld as the first cooperative experience, probably because of its written principles or standards, we have historical evidence of cooperatives that were established earlier, e.g. in France and in the USA.[78] In turn, Rochdale signals the beginning of the cooperatives' standardizing process.

The cooperative standards initiated at Rochdale have gradually been translated into national laws regulating the functioning of cooperatives, as well as their supervision and sanctions enacted against non-compliance with the model, in the vast majority of countries in the world, China being among the latest with its first national cooperative law (Law on Farmer's Professional Cooperatives, 2006). This huge body of national laws has contributed to clarifying the cooperatives' rationality and organization, although some weak and incoherent provisions still remain.

The most recent version of the international cooperative standards was approved at the 1995 Congress of the International Cooperative Alliance (ICA) in Manchester, through a text called the *Statement on the Cooperative Identity* which had previously been debated in depth within the ICA member organizations. Seven years later, the contents of this cooperative identity statement were enshrined in full in Recommendation 193/2002 of the International Labour Organisation (ILO) with the unanimous approval (barring one abstention) of all 105 governments that were formally present, as well as national trade union confederations and employer organizations from all over the world, thereby transforming a cooperative internal and private standard into an international public norm.

ILO Recommendation 193/2002 on the Promotion of Cooperatives superseded the previous ILO Recommendation 127 of 1966, which was limited to developing countries. The universal character of the new ILO recommendation was ushered in by a resolution voted one year earlier by the General Assembly of the United Nations, called 'Cooperatives in Social Development' (UN Resolution 56/114). In 2004, two years after the approval of ILO Recommendation 193, the European Commission published its Communication 'on the Promotion of Cooperative Societies in Europe', the first-ever EU policy text exclusively dedicated to cooperatives, also explicitly recognizing the international cooperative standards.

Through the whole drafting process of ILO Recommendation 193, the international cooperative standards, earlier defined by cooperatives themselves, were to be tested during the international debates among states, trade unions and business representatives which took place under the ILO coordination between 2000 and 2002. Extensive preparatory work included an in-depth survey conducted by the ILO in 2000 with member governments, trade unions and employer organizations (the three ILO constituencies) as well as with cooperative organizations across the world.

At the 2001 and 2002 sessions of the International Labour Conference, two intense rounds of negotiation of two weeks each between the three ILO constituencies as well as cooperative representatives[79] took place. Indeed, a small group of cooperative representatives (around 10)[80] were accredited in either of the three ILO groups (governments, trade unions and employers) and could thus take part in the discussions of the drafting commission and hold specific meetings with various groups of representatives in between formal meetings. Among many contrasting opinions, which were expressed and dealt with throughout the discussion, these cooperative representatives had to explain in detail the underlying rationality of the cooperative standards. They had to provide examples and facts, in order to convince all other parties that these standards should be inserted in full in the Recommendation and in this, they were successful.[81]

The fact that governments, trade unions and employers from all over the world agreed in a final consensus to incorporate the ICA 'Statement on the Cooperative Identity' in full in the Recommendation shows that the underlying rationality of the cooperative type of economic organization had gradually become clear to them.[82] Let us now examine this rationality in the light of the international cooperative standards.

The first layer in understanding the cooperative rationality: the international definition

According to the international definition approved internally within the ICA and inter-governmentally within the ILO,[83] a cooperative is an 'association of persons' carrying out certain types of activities 'through a[n] (…) enterprise'. The word *through* indicates that the 'enterprise' character of the cooperative, although full-fledged, is subordinated to its character of 'association of persons'. This latter expression is in contrast with associations of capital, which conventional enterprises, based on the remuneration of capital, can be considered to be. Being an association of persons entails that the decision-making system is also based on persons and not on capital, and that, therefore, such persons are considered as equals in the internal business decision-making process, just in the same way as they are equal in the UN Universal Declaration of Human Rights or in the constitutions of virtually all countries of the world. Therefore, in a cooperative, the 'association of persons' develops its activities through an enterprise that is 'jointly owned and democratically controlled' (in its entrepreneurial processes and activities). Although they can delegate day-to-day management onto one or several appointed professionals, such persons ultimately take decisions jointly and jointly control the enterprise.

It is interesting to note that, whereas, in Chapter 3, we had observed an increasing dissociation in the globalized economy between ownership and control among key stakeholders (investors, producers, consumers), the cooperative definition, in turn, clearly affirms that cooperatives are characterized by a conjunction of ownership and control by the persons involved in the 'association of persons', leaving no room for external control. The concrete examples that we will analyse in the following chapters will show that the complete blending, in cooperatives, of associative and entrepreneurial characters and of ownership and control is not only possible, but can even be a source of long-term entrepreneurial development.

Broadly speaking, the double nature (entrepreneurial and associative) of the cooperative economic organization tends to make some international actors (e.g. some international development banks and multilateral institutions) as well as some national entrepreneurs and trade union bodies uncomfortable at the conceptual or theoretical level. There is difficulty in accepting that the two natures are not mutually exclusive, not even partly. But, with the crisis, the recognition of limitations in economic theory will probably operate paradigmatic changes, hopefully allowing for the due recognition of this double nature.

In order to go one decisive step forward in our understanding of the cooperative rationality, we need to examine the remaining part of the definition. The cooperative, it says, aims to enable the persons who own it jointly and control it democratically to 'meet their common economic, social and cultural needs and aspirations'. Indeed, 'Meet[ing the](…) common economic, social and cultural needs and aspirations' of persons is *the* key element in the economic rationality of cooperatives. In the case of cooperatives, the needs and aspirations that are common to many people, be these needs and aspirations of an economic, social or cultural nature, are met through an economic entity (an enterprise). Indeed, a cooperative is meant to solve needs and aspirations of persons *by means of entrepreneurial activity in the private sphere*. Otherwise, other types of institutions, such as clubs, associations and NGOs among others, can be established.

What types of persons could thus be motivated to come together to '*meet their common economic, social and cultural needs and aspirations*' in an enterprise-type structure? Key typologies of such individuals are, for example:

- Bank account-holders (private individuals, farmers, small entrepreneurs, owners of SMEs etc.) who want to save, obtain credit or get insured with a high level of guarantee and with the best possible services at the fairest possible cost, ensuring the permanence of financial services in their locality (particularly if it is rural and remote), as in the case of the Desjardins group which we will examine in Chapter 7.

- Users of essential distribution systems such as water, electricity and telephone who want to guarantee access to such goods and some level of price control over them, in particular in rural and remote areas.
- Consumers who want to ensure the permanence of a commercial outlet in their town or village, and/or the price and quality of the goods they consume.
- Workers and people in search of a job who want to establish or reinforce stable employment in competitive industrial or service enterprises, or who want to save their jobs when the enterprise risks closing down (as we will see in Ceralep in Chapter 6).
- Farmers who transform their agricultural produce in common, carry out joint purchases of inputs, or share access to machinery.
- Fishermen who sell their fish together, or share and distribute quotas and fishing areas (as we will see in the Natividad Island cooperative in Chapter 5).
- Craftsmen, such as bakers, mechanics or masons, small traders, or self-employed professions such as doctors, architects or lawyers, who want to mutualize a series of common services.
- People seeking housing at a reasonable cost and in a controlled environment.
- Persons who want to carry out cultural or sport activities (e.g. cultural centres, music bands, folklore troupes, festivals, football teams, etc.) in an economically sustainable way while keeping control over them.
- Local communities of citizens who want to ensure basic general interest services (e.g. health, education, social services, transports, etc.) that are not (or no longer) managed by the public authorities, and who want to maintain adequate control over the quality, affordability, geographical accessibility and long-term sustainability of these services.

Looking at the various typologies of persons mentioned above, one fundamentally finds all major basic *stakeholders* that are found in society. Cooperatives therefore systematically develop a ‘stakeholder economy’, by which these stakeholders give themselves the possibility to ‘meet their common economic, social and cultural needs and aspiration’ either because it is the only way they can possibly do so, or because the cooperative allows them to do it under better conditions of price, quality, accessibility and long-term economic sustainability than they could get on their own or through economic organizations that they would not control and which would have another type of rationality. It can thus be easily understood that *joint ownership and democratic control* exerted by the stakeholders over the enterprise is fundamental in order to guarantee the maintenance of such conditions. As we can see, cooperative members, like cooperative enterprises, are characterized by a double nature: both stakeholders and owners–controllers.

The second layer in understanding the cooperative rationality: the operational principles

The second layer in understanding the rationality of cooperatives is the analysis of the seven operational principles which condition their functioning and define (a) the relation of the enterprise with its surrounding environment; (b) the internal organization of the enterprise; and (c) the system of financial accumulation and distribution.

The relation with the surrounding environment

As a first consideration, the cooperative is defined as being an autonomous and independent enterprise (fourth cooperative principle, 'autonomy and independence').[84] Considering a cooperative as a para-public type of business is often the result of confusion between the concepts of 'public' and 'common'. In spite of their 'joint' characteristics (joint control, joint ownership, joint stakeholder approach etc.), cooperatives are full-fledged private enterprises enjoying complete autonomy and independence from the state or any other third party. They develop what one could call a 'common-private' economy ('common' in the sense of 'common good' mentioned at the beginning of this chapter, as opposed to 'individual'), where there can be partnerships, but in no case confusion, with the public sector. The empirical cases presented in the following chapters will make it easier to grasp this (apparently contradictory) 'common-private' character.

Another characteristic is that cooperatives do not limit themselves to satisfy the needs and aspirations of a closed group of citizens, but, instead, are meant to be open to all the persons who share the same needs and aspirations as those served by the cooperative (first cooperative principle, 'voluntary and open membership'), which depends on the typology of stakeholders which it has the mission to serve.[85]

This openness towards the outside world, however, is conditioned by concrete limitations, such as the geographical area served by the cooperative, the pace of its entrepreneurial development, or the necessary skills required for a new job in a cooperative among workers. Economic development being crucial for this openness to be really effective, the cooperative's pace of openness must be controlled if it is to fulfil its mission. This is something that we will see in the case of the Mondragon cooperative group (Chapter 8): only through gradual economic development geared towards the long term can new workplaces be created, and then new worker-members be admitted. In the Natividad island Divers' and Fishermen's Cooperative (which we will examine in the next chapter), the slowness in admitting new members is linked to the policy of conservation of natural resources, and therefore, ultimately, to the long-term viability of the business as well. In some cases, this conjunctural contradiction between economic development and the pace of openness of cooperatives can lead to painful decisions, such as the one not to admit all workers in cases of business transfers to the employees, as we will see in the case of Ceralep (Chapter 6).

A wider interpretation of the first cooperative principle could nip the business transfer project in the bud, thereby destroying the very purpose of the cooperative being established, and all the potential jobs along with it.

As a logical consequence of being both open to the surrounding community and oriented towards the satisfaction of needs and aspirations of important categories of stakeholders active in the locality (as we saw in the cooperative definition above), cooperatives are inherently linked to the development of the surrounding community, even when they are not directly and explicitly involved in community development (seventh cooperative principle, 'concern for community').[86] Accordingly, cooperatives 'work for the sustainable development of their communities': at the same time, the private character of cooperatives is reaffirmed, as their contribution to the community must be carried out 'through policies approved by their members'. From the small Natividad cooperative in Mexico (Chapter 5) to the large Mondragon group in Spain (Chapter 8), we will see how decisions having a local or regional impact are taken by the cooperative members through democratic procedures.

The cooperative standards also contain a principle (the sixth one, 'cooperation among cooperatives') referring to a wider 'cooperative movement' to which individual cooperatives belong and contribute,[87] namely an open and dynamic community of human beings, with a mission towards socio-economic development, in line with resolution 56/114 of the UN General Assembly, '[r]ecognizing that cooperatives in their various forms promote the fullest participation in the economic and social development of all people'.[88] Cooperatives in many parts of the world have displayed a strong capacity to develop mutualized and democratically controlled business support institutions and horizontal groups among themselves, allowing them to become mainstream economic actors in the globalized economy. The examples of Desjardin and Mondragon are particularly developed models of cooperative groups, as we will see, but they are by no means the only ones: we find very important cooperative groups in other countries, including the vast majority of the G20.[89] In the case of Ceralep, we will see how a number of cooperative actors (a regional federation, a bank, three non-banking financial institutions) mobilize themselves to save an artificially liquidated SME and turn it again into a viable business; similar examples from the UK, Italy, Spain, Brazil, Argentina, Canada or China, among others, could also be documented. In terms of representation of interests, the cooperative system has managed to gradually put in place federative systems, with national, continental, and sectoral structures with one global umbrella organization, the International Cooperative Alliance.

The fact that cooperatives declare support for each other as stipulated in this sixth cooperative principle does not mean that they will automatically help each other *directly* in the same sector or among sectors, for example cooperative banks financing industrial cooperatives. Some cooperative banks such as Crédit Coopératif (one of the banks of the French Banques Populaires group), or the Caisses d'Economie (a fraction of the 481 credit cooperatives of the Desjardin group – see Chapter 7), or the Mondragon group's Caja Laboral bank (see Chapter 8) have indeed been playing the role of development banks for cooperatives or for a wider stakeholder-based economy, as per their founding mission. In turn, most cooperative banks are not based on such founding mission, but, in turn, are dedicated to the development needs of millions of farmers, small craftsmen and SMEs, the regional economy needs or the consumer needs of millions of citizens who co-own them: there is no reason why they should change their founding mission. In the same vein, there is no reason why housing cooperatives should be obliged to cater for the housing needs of the workers of worker cooperatives, unless, of course, they both share the same need and agree to it. In turn, indirect support to the wider cooperative system is a common practice among cooperatives, including very large ones, through federation fees, contribution to development funds, sharing of know-how, etc. Cooperatives act in this fashion to help develop the cooperative system, not to gain market shares nor acquire or control start-ups, restructured enterprises or other types of economic entities.

The internal functioning of the enterprise

The cooperative standards specify that the democratic control by members which we saw in the cooperative definition above must be implemented not through a one-share-one-vote system but through strict one-*person*-one-vote procedures (second cooperative principle, 'democratic member control').[90] Here, the cooperative emerges as a citizen-based enterprise, as part of the *politeia*. The cooperative is controlled by local long-term stakeholders who change neither identity nor socioeconomic stakes overnight (producers, workers, inhabitants, account-holders, borrowers etc.), rather than by managers working in the interest of external shareholders whose behaviour is dictated by the highest possible return on investment. They, therefore, tend to opt for more long-term enterprise strategies, based on the stability of the enterprise within its locality, on sustainable jobs and sustainable operations. They aim to create wealth, and thus must remain profitable together with a long-term strategy (thence they are not likely to fall into the debt trap!).

Democratic member control, if properly carried out, makes it far more difficult than in conventional enterprises for an external person or entity to control the firm, and impossible through acquisition, unless the enterprise has first been 'de-cooperativized', or, in other words, once the members have legally and definitively renounced their democratic control and joint ownership rights over the enterprise. Only then may the activity and equipment be sold.

On the other hand, democratic control by members is not simply limited to formal procedures in general assemblies. In other words, it is not only an Athenian, 'agora' type democracy, but also a 'republican' democracy: like the separation of powers in a modern state, cooperatives are characterized by checks and balances exercised by various internal instances. While checks and balances are fundamental in a single cooperative, this is even more so in complex cooperative *ensembles*, as we will see in the cases of Desjardins and Mondragon. These complex spaces of negotiation and elaboration of strategies make it possible to jointly adapt to the unknown and the unexpected.

In a separate but related principle (the fifth one, 'information, training and education'), the cooperative standards underline the importance of both information and training.[91] Information is fundamental for whoever needs to control and manage a business, independently from whether there is an external 'controller' as in global chains (Chapter 3) or joint internal 'controllers' as in cooperatives. A whole body of literature has focused on the problem of information asymmetries in enterprises.[92] However, information is not sufficient in itself. If cooperative members are only provided with information, without enough training on how to deal with it, they will most probably not be able to process and articulate it, and, in that case, they will not be able to use it in order to exercise their control over the enterprise. The more complex a cooperative system in which ordinary members are joint 'controllers' is, the more difficult it is to process and articulate such information without appropriate training.

On the other hand, members of a cooperative have, as we saw, ordinary economic or social roles such as farmers, fishermen, consumers etc., and they are not all holders of an MBA. Nevertheless, they do have to take 'hard' entrepreneurial decisions as joint 'controllers', owners and managers of the enterprise. Therefore, the only way in which 'democratic member control' can be ensured effectively in stakeholder-based enterprises such as cooperatives is to invest strongly in training and education, not only for board members and higher executives, but for ordinary members as well.

However, education and training are not only instrumental to implementing democratic member control: they are also at the very core of the cooperative rationality. A cooperative is a type of enterprise by which ordinary citizens have a unique chance to become fully trained in shouldering entrepreneurial responsibilities and in being involved in economic democracy. For example, tens of thousands of ordinary citizens who are board members of the Desjardins local credit cooperatives undergo systematic training, as we will see in Chapter 7.

Cooperative education, though, is not only about enterprise management. Desjardins, as we will see, also organizes wide-ranging educational programmes on how to manage a family budget: as a financial movement for a whole region, it is a core part of the group's mission to enable ordinary citizens to better manage their own finances. Similarly, we find participative educational activities launched by consumer cooperatives, such as 'consumer circles' in Argentina, where topics such as 'food and health', 'prevention of illnesses', or 'protection of the environment' are discussed,[93] a 'coop school' in Italy for training on 'awareness in consumption',[94] etc. These examples are about educating people to fully shoulder their responsibilities as specific stakeholders (consumers, fishermen, etc.), but also, more generally, as fully aware and responsible citizens, and not only as joint owners–controllers of a business.

The system of financial accumulation and distribution: the third cooperative principle

The third cooperative principle, 'member economic participation'[95] is the most relevant one to the topic of this book, and derives from the other six. It contains four parts which we will now analyse separately.

1 *Contribution in, and remuneration of, capital*

'Members contribute equitably to, and democratically control, the capital of their cooperative'.[96] Members subscribe certain amounts of share capital. Depending on the different cooperative sectors or regimes, the amount subscribed can be symbolic or substantial, equal among all members or different (but in all cases, as mentioned above, the 'one person one vote' principle will be maintained). In some cases, such as in the Mondragon group, the worker–members invest an amount equal to one year's wages in cooperative shares. In addition, in order to 'democratically control' the share capital, members must hold in their own hands the totality, or at least the overwhelming majority, of the latter.[97] Barring a few borderline and rather isolated exceptions, the cooperatives are therefore not listed on the stock exchange and cannot be in the hands of private equity investors either (unless they are first 'de-mutualized'). Even in the case of national provisions allowing for minority shares to be in the hands of external investors, such provisions can be implemented only if the cooperative's general assembly approves it, and always up to a fixed threshold, generally not more than around 30 per cent. The internal shares in the hands of cooperative members cannot be traded with the outside world nor can they be traded among members themselves. The redemption and thus release of cooperative shares do not take place as commercial transactions, and thus need the approval of the cooperative decision-making bodies. This ensures that cooperatives respond to the economic and social needs which they aim to satisfy, and avoids the establishment of vertical power.

'Members usually receive limited compensation, if any, on capital subscribed as a condition of membership'.[98] This provision is aimed at preventing the capital subscribed from devaluating, rather than to enable members to obtain an income from it. Generally speaking, the rate of interest provided is similar to, or slightly higher than, the rate paid on an ordinary deposit account in a bank. In any case, it can never constitute a financial motivation.

2 *Surpluses returned to members*

'Members allocate surpluses for … benefiting members in proportion to their transactions with the cooperative'.[99] Part of the surpluses is normally redistributed to members. However, this type of redistribution has nothing to do with shareholders' dividends, since, as we saw above, only marginal remuneration of the members' capital invested in the enterprise is allowed in a cooperative. Surplus redistribution in a cooperative is, in fact, a year-end adjustment of the average *price of the transactions* (unlike ordinary transactions carried out between buyers and sellers or between job-providers and workers) carried out between the cooperative and its members during the year.

In order to explain the reason for this price adjustment, one needs to understand that the price of any given transaction between the cooperative and its members is, in essence, an advance payment on the definitive price. Indeed, since the cooperative members are its co-owners and not ordinary clients, the 'correct price' of the transaction with members can only be known once the annual accounts have been closed and when the annual surplus has been calculated. This price adjustment can be on the purchasing price (in the case of a cooperative among individual producers), on the selling price (in the case of a cooperative among users), or on the price of labour remuneration (in the case of a cooperative among workers). Indeed, before this price adjustment, the transactions with the producers, consumers or workers are only advance payments on the final price.

3 *Reserves*

'At least part of [the] capital [of the cooperative] is usually the common property of the cooperative ... Members allocate surpluses for … developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible'.[100] The systematic and long-term constitution of reserves in cooperatives is an important protection against the debt trap. We will see in later chapters the importance that the constitution of common reserves including at the group level has played in Desjardins and Mondragon's economic development and resilience to successive crises covering decades. They have the same importance in all cooperatives in the world, of different sizes and scopes of activities, and this for two main reasons.

First, as we saw above, the share capital of cooperatives is made up of members' shares, and cooperatives as such have no access to ordinary financial markets. Some, like Mondragon's Eroski distribution chain, do issue bonds without voting rights. A number of non-banking financial institutions belonging to the cooperative system exercise a lever effect on banks, and some of them issue non-voting 'participative certificates' (assimilated to own funds), as we will see in Ceralep's case (Chapter 6). But these financial instruments can hardly compensate for the concrete financial limitation which many cooperatives are faced with in terms of share capital. Reserves are therefore essential. In many cooperatives, having experienced a steady expansion over decades, reserves are often ten times as high as the amount in share capital, or more.

The second reason is that if cooperatives aim to have a long-term economic life, they need to protect themselves as much as they can from market volatility, and times of crisis invariably show they are correct, considering their long-term objectives. Cooperative reserves are generally invested in the long-term development of the enterprise, but can also be used as collateral or common guarantee systems when it is necessary to negotiate urgent loans with the banks, as has often been the case during the ongoing crisis. In cooperative banks, the fact that a high percentage of capital is constituted by reserves rather than share capital tends to substantially raise its quality and rating, as we saw earlier in this chapter and will further discuss in Chapter 7.

This third cooperative principle, as we saw above, also mentions the possibility that part of the reserves 'would be indivisible'. Indivisible reserves are assets that can never be redistributed to members even in case of winding up of the cooperative. They have so far been more widely used in countries with Roman law traditions than Anglo-Saxon ones. Countries such as France, Italy, Spain, Portugal or Argentina make such reserves mandatory. Interestingly, though, the UK, which previously made indivisible reserves only an option, recently passed a 'Community Interest Companies' law (under which cooperatives or other types of business can be registered) in which an 'asset lock' is mandatory.[101] This tendency is spreading, as can be seen in recent legislation trends in different parts of the world.

Under an indivisible reserve regime, if the enterprise is closed down, its reserves (if there are any after payment of any outstanding debt) are transferred to a federation, a cooperative development fund or a similar institution promoting cooperatives. Therefore, indivisible reserves make the 'common-private' nature of cooperative ownership even clearer. They establish a specific property regime in no way comparable to individual private ownership. For this reason, they are generally submitted to a different tax system than divisible reserves in traditional enterprises (and this 'falsifies' the last critique in the first section).

In addition, indivisible reserves are a powerful deterrent against fraud as well as de-mutualization and external take-over attempts. Indeed, the external acquirer needs to convince cooperative members to renounce their democratic control power through a general assembly decision. Even when the enterprise has been de-mutualized and acquired, the acquirer can never claim possession over such reserves.

Indivisible reserves provide us with another fundamental clue in the underlying rationality of cooperatives, which are seen as belonging not only to their present members, but also to their past and future ones. This is logical, because if a cooperative is indeed a 'common-private' economic entity, its membership should indeed be seen in a time perspective, across generations.

4 *Funds for the development of the cooperative system*
'Members allocate surpluses for … supporting other activities approved by the membership'.[102] In a number of countries, part of the surplus is earmarked for funds which are not to be used by the cooperative itself, but for the development of the cooperative system at the national level. This financial mechanism is one possible way to carry out cooperation among cooperatives (a concept enshrined in the cooperative standards, as we saw above). For example, the Spanish cooperative legislation, in the wake of the Mondragon experience, earmarks different percentages of surplus (depending on the region of the country) for an education and promotion fund. In Italy, a national law obliges all cooperatives with positive results to transfer 3 per cent of their surpluses to cooperative solidarity funds aimed at promoting cooperative entrepreneurial projects (start-ups, transformation, development, etc.), therefore generating thousands of jobs and hundreds of economic activities, including in the field of social services.

Cooperative values

Last but not least, the international cooperative standards include a set of simple and easily understandable values which almost every business would probably claim to adhere to: 'self-help, self-responsibility, democracy, equality, equity and solidarity; as well as ethical values of honesty, openness, social responsibility and caring for others'.[103] The major distinctive feature, though, is that, in the case of cooperatives, these values are not justifying ones but underlying ones, in the sense that they must be translated into concrete organizational and financial provisions: indeed, they are at the very basis of the cooperative definition and the cooperative operational principles that we saw above. We do not maintain, of course, that they cannot be upheld by other types of business as well, but that, in the case of cooperatives, they should be underlying values (so long, of course, as cooperatives follow the model). Therefore, cooperatives have a fundamental contribution to share in terms of underlying economic values, and in terms of mechanisms to implement these values in practice.

The present crisis, precisely, is offering an open forum for many people (scholars, opinion leaders, ordinary people) to reflect on values. To some extent, it is also a crisis of values. What, in the end, does the economy aim to achieve? What values should be promoted? To what extent must human beings master the economic system on the basis of underlying values or, in turn, let the economic system be fully dominated by values such as greed, inequality, unfairness, egoism, individualism, dishonesty, shadiness, irresponsibility towards fellow human beings and our common environment? Which founding economic values do we want to bequeath to our children?

Mutuals, a very similar type of economic organization

A terminological confusion should be dispelled at the outset: a 'mutual' (also called 'mutual aid society' or 'friendly society') is a completely different concept from a 'mutual fund'. According to the *Oxford Dictionary of Finance and Banking,* a mutual fund is 'the US name for a unit trust', which is 'a trust formed … to manage a portfolio of stock-exchange securities, in which small investors can buy units. This gives the small investor access to a diversified portfolio of securities, chosen and managed by professional fund managers, who seek either high capital gains or high yields'.[104] We saw an example of such 'mutual funds' in Chapter 1 with Washington Mutual or Wamu. This type of economic entity has absolutely nothing to do with cooperatives.

In turn, according to the same dictionary, a mutual is 'a company that has no issued stocks or shares and is owned by its members or depositors. Most UK building societies and some insurance companies have this structure'.

According to the UK's 'mutuals manifesto', jointly published by the UK Building Societies Association, Co-operatives UK, the UK Employee-ownership Association, and the UK Association of Financial Mutuals, mutuals encompass a wider reality than cooperatives, while including the latter: they 'take many forms and operate in a wide range of business and social environments'. But their common denominator is that they 'are organizations that are owned by, and run for the benefit of, their current and future members'; they are 'membership based organizations' which share 'a common heritage and ethos – to serve their members and work in the wider interests of society'.[105]

The generally agreed international understanding of a mutual, which is enshrined in many national laws, is not as broad as the one existing in the UK, but remains very close to that of a cooperative. According to the Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE), a mutual, like a cooperative, 'is collectively owned by its members' and is characterized by the 'congruence of ownership/control'; 'every member of the mutual has an equal vote in members' meetings'. The main difference with cooperatives is that 'mutuals are not established through the provision of capital by their members', although, like cooperatives, they 'have the possibility to re-distribute profits to membership, e.g. via refunds and rebates'.[106] In other words, mutuals explicitly differ only on one of the four provisions included in the third cooperative principle described above. They do not explicitly have the fourth principle (autonomy and independence), the fifth (information, training and education) or the sixth (cooperation among cooperatives), but they generally behave in a similar way to cooperatives under these aspects as well. However, mutuals do not possess such clearly codified international standards as cooperatives have, even though their model of economic organization is very comparable, to the extent that, from a number of standpoints, they could be examined together with cooperatives.

Most mutuals are active in the insurance sector, either general insurance (life, risks, etc.) or health insurance, and, in this sector, they have generally become more important than cooperatives.

A political economy approach to cooperatives

The evolution of cooperatives as we know them today is linked to two socioeconomic factors that have intensified in Europe since the nineteenth century, and then gradually extended to other parts of the world: (i) the transformation of traditional socioeconomic structures and (ii) two successive waves of economic globalization.[107]

The partial or complete *transformation* of *traditional structures* (corporations, extended families, clans, etc.) through which the socioeconomic needs mentioned in the previous section were channelled, brought about new forms of solidarity and economic association between persons. With the Industrial Revolution, the social protection mechanisms, which had earlier prevailed, broke apart, as Karl Polanyi described in *The Great Transformation,* strongly encouraging the requirement for labour flexibility to direct migratory flows towards the new workplaces.[108]

In nineteenth-century Europe, debates on cooperatives were related to the transformation of industrial society. A book, published in 1839, discovered at Heudicourt Castle in Normandy mentions cooperatives in relation to poverty and the need to find responses to the marginalization of the working classes that could endanger the social and political order. This nineteenth-century debate is having some resonance at the beginning of the twenty-first century. Likewise, today, authorities speak of the struggle against marginalization and for social inclusion while being concerned with the long-term unemployed and immigrants, thinking of cooperatives as a key actor to deal with such concerns. However, while authorities tend to see cooperatives only as a means to ensure social peace, cooperative members also see their economic future through the building of strong economic entities.

The second factor in the evolution of cooperatives is constituted by two successive *waves of economic globalization* which the world has experienced. In the wave which took place in the nineteenth century, increasing competition and enlarging business scales pushed ordinary people to share their common knowledge, information and resources to better satisfy their needs when confronted by an increasing level of economic concentration. Indeed, the cooperative system makes it possible for ordinary citizens to reach economies of scale which can, in certain cases, be significant. In the most recent wave of economic globalization, dating from the beginning of the 1990s, cooperatives regained dynamism in various sectors such as industry, services, banking, insurance, etc., with many requests for support and exchanges originating from developing countries.

Following the Great Depression in 1929 until the 1970s (except for the Nazi–Fascist period and centrally planned communist regimes), many nation-states implemented social welfare policies that either channelled the added value of cooperatives or let the latter act as a factor of social cohesion. Except for some ‘developmentalist’ regimes in developing countries, they did this while preserving their autonomy. Since the 1980s, nation-states have retreated amidst structural reforms and the construction of a global market of services in phase with economic globalization. Questioning cooperatives has become fashionable, including their characteristics in terms of socioeconomic organization and embeddedness in the local economy.

Cooperatives have been under pressure to dismantle and become companies listed on the stock exchange, such as the ex-UK building societies mentioned above. With economic globalization, the trend towards standardization and the building of global chains have heightened such pressures.

It is in this overall context that the above-mentioned ILO Recommendation 193 initiative took place. Thanks, partly, to the mobilization among the representative organizations of the cooperative movement, Recommendation 193 finally incorporated the cooperative standards elaborated earlier by the cooperative movement itself, thereby recognizing the latter as an entrepreneurial actor with its own characteristics and standards, distinct from other types of enterprise. In addition, the Recommendation calls for the responsibility of nation-states in promoting cooperatives through a regulatory framework complying with the cooperative standards. But the ILO text is not exclusively the result of the mobilization of the cooperative movement. Indeed, with each financial and economic crisis (as seen under the ‘liquidity trap’ in Chapter 2), the stock market and the financialization of the economy both come under the spotlight, and other paths tend to be explored and promoted.

Against all odds, the pressures to deprecate the cooperatives’ distinctive type of economic organization may have led to an improbable outcome: a slow mainstreaming process may be under way. The international recognition of the legitimate and identifiable existence of this type of economic organization across the world now includes developed countries as well, and not only developing countries as before. We may thus be slowly witnessing a new thinking about economic entities in general.

Let us now turn to a few empirical cases of cooperatives and see what has happened to them over the last few years amidst the global financial crisis.