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The economic reasoning of cooperative law/institutions

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Aims of cooperative law

- “Promote cooperatives/ism”
- How?
 - Recognize status?
 - Provide for special/preferential treatment or establish level playing field?
 - Diluting value driven participation and cooperative culture
 - Establish framework of cooperative governance?
- or “regulate” cooperative practice?

Subject of core cooperative law

- Definition of cooperatives
- Membership/Ownership
- Rights
- Obligations?
 - Participation
 - Accountability
 - Audit and Control
 - Responsibility
- non-organizational law, such as labor-, tax-, competition-, and insolvency law, etc.

An attempt for an economic definition

- Cooperatives are **member-owned** clubs (not user or investor-owned)
 - Membership is non-tradable/transferable
 - No market for member rights
 - “Reverse limited liability”
 - Rules of allocation of rights?
- Questions on assumptions
 - Is it an issue of property rights or mode of production?
 - Fringe form of organization or antagonistic to capitalist mode of production?

Club

- “a group **sharing** a particular type of **impure public good**, characterized by **congestion** and *excludable benefits*” (Buchanan; 1965, Cornes and Sandler 1996; p. 4)

Theory of clubs

- “... provides the theoretical foundation for the study of **allocative efficiency** for an important class of **impure public goods**.” (Cornes and Sandler 1996; p. 12)
- “Gradually, the list of impure public goods expanded to include, among others, recreation areas, schools, highways, communication systems, information networks, national parks, waterways, and the electromagnetic spectrum.” (ibid, p. 4)

	Non-excludability of benefits	Excludability of benefits
Non-rivalry of consumption(?) indivisibility of benefits	Pure public good	Impure public good – Club good

Communities as Clubs

- “A community of practice is a set of relations among persons, activity, and world, over time and in relation with other tangential and overlapping communities of practice. **A community of practice is an intrinsic condition for the existence of knowledge**, not least because it provides the interpretive support necessary for **making sense** of its heritage.” (Lave and Wenger 1991, p. 98)
- Meaning – identity - trust – reduced coordination costs (Baumard, 1999, p. 210-11)

Institutional setup/form

- Ownership and/or Operation (member, firm, state/government)
 - Inclusion cost
 - Policy mandate - constitutional constraints
 - Critical mass - Scale economies, e.g. infrastructure or breadth of knowledge
- Asymmetries (cognitive, power, interaction), key actors
- Discontinuity
- Congestion: facilities, infrastructure
- Limits to returns from scale(?) – dynamic transaction costs
- Multiple products/benefits
- Authority structure,
- Network effects,
- **Proximity** (cognitive, organizational, cultural, spatial etc.)
- Formal and informal knowledge clubs
 - Unions, cooperatives, university departments, hospitals
 - Communities of practice, innovation clusters
- Imitation/absorption vs situated knowledge and path dependence

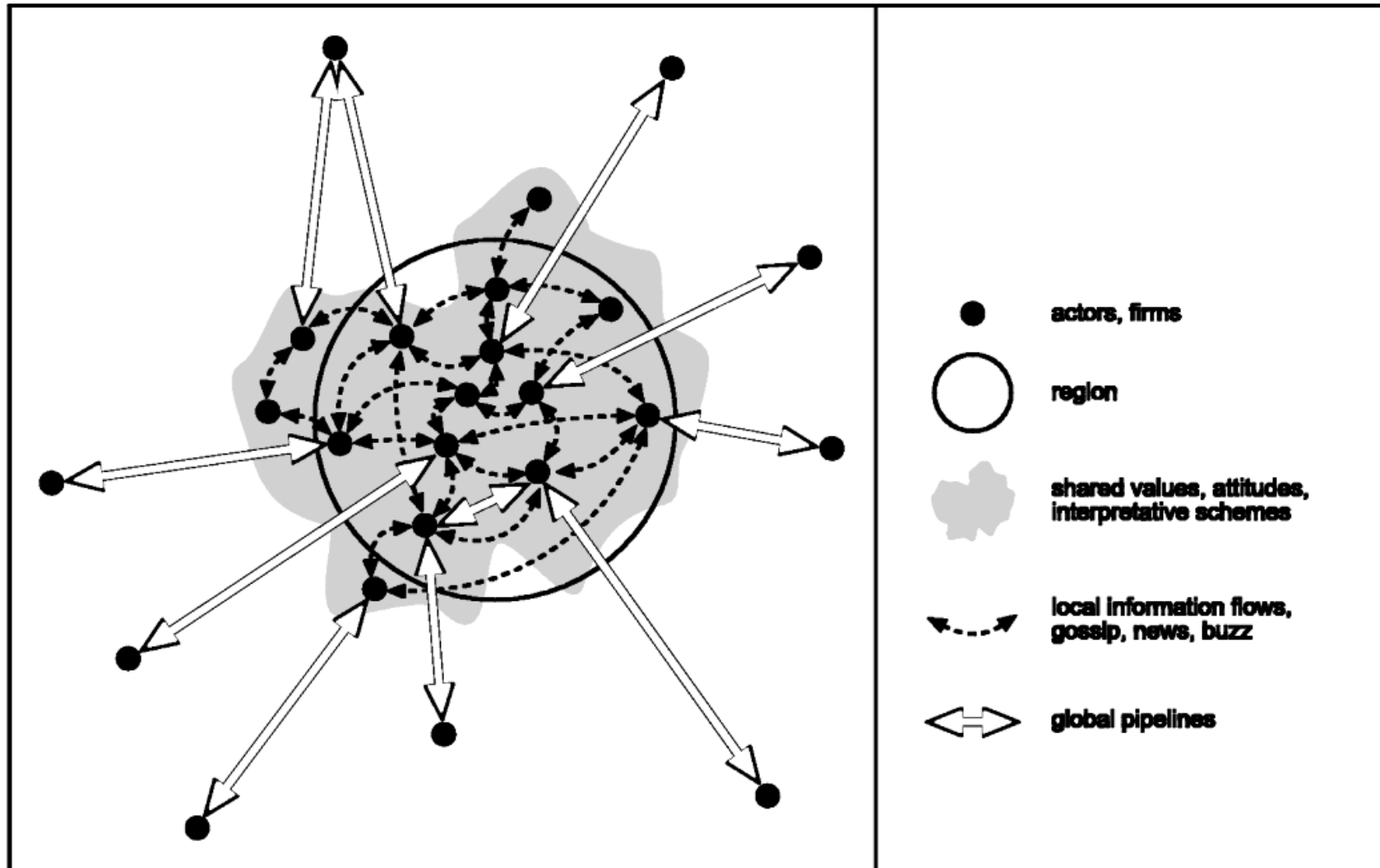
Principal-agent relationships in cooperatives

	Ownership	Governance	Principal-agent relationships	Moral hazard phenomenon
Consumer cooperative	Consumers. Small share of a large organization.	Little direct effect. Extended traditional model.	Among members and board members.	Increases without education and training.
Producer cooperatives	Producers (primary industry) who contribute according to their production.	Multilevel structures. Managerial and corporate model.	Hierarchical levels. Resembles with a capitalist firm.	Due to the lack of capital market discipline and profit motive.
Cooperatives of purchasing & shared services	Companies and small firms are members.	Members elect democratically board and policy makers. Extended traditional model.	Multiple relations, due to firms involved.	Firms try to serve their interests by undertaking management.
Worker cooperatives	Workers in various sectors. Workers are the exclusive owners of the organization.	Continuous relationship of control between management and members. Traditional model.	Among members, administrators, and board members. Increase depends on size.	Depends on the organizational complexity and on education.
Hybrid cooperatives	Various stakeholders. Multiple roles of members.	Try for allignment of conflicting interests. Managerial and corporate model.	Proliferate amongst the stakeholders.	Various stakeholders seek authority.

Passive vs Dynamic clubs

- **Participation**
 - **Passive:** members enjoy the benefits without active involvement (passive use/consumption)
 - **Active:** members involvement enhances efficiency and effectiveness, hence benefits (e.g. unions, knowledge)
- (Reverse) **tragedy of the club** - not free riders, but **collective *inaction***

Clusters as ensembles of clubs: buzz and pipelines



(Bathelt et al., 2004, p. 46)

Implications

- Focus on collective structures and ensembles beyond methodological individualism
- Policy
 - Barriers to inclusion
 - Club sustainability
 - Inter-club interactions
 - Access to global/foreign communities of practice
 - Enrollment as “institutional grafting”

Provisions for good/sustainable governance

- Delegation and agency
- Participation
- Legitimacy and effectiveness of representation

Beyond methodological individualism

- Need for a *structured* approach
- Reproduction mechanisms
 - Economic
 - Technological
 - Educational
- “Cooperatives of cooperatives” or associations?
- Diversity of membership (categories)
- Complexity of and cascading rights and obligations

Development of solidarity economy

- Cooperative ecosystem rather than individual cooperatives
- Beyond legalistic, normative, to polity approach
- Broader institutional framework for governance
 - Democratic participation vs “capital-market mediated control”
 - Beyond “benevolent leaders” ... and laws
- Ethical intelligence: individuals can flourish only when their community flourishes (Giorgio Gaber)
- Provisions for reciprocity:
 - not only for rights but also for obligations with provisions for penalties (?)



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