

A Governance Perspective on the Role of Cooperatives in the EU-25

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“He who has visions should go and see a doctor.”

Helmut Schmidt, German Chancellor

Introduction

In the rural areas of Europe, cooperatives not only fulfill important functions for their members, but also for the communities in which they operate. Most cooperatives are part of complex, cooperatively-owned network structures that combine diverse functions such as finance, auditing, insurance, marketing, education, consulting and lobbying across regions, branches and sectors. Over the last 150 years, similar structures have emerged in countries like France, Germany, Italy, England, Austria, Switzerland, Denmark, Holland, Sweden and Finland. These structures have decisively contributed to the development of rural economies across Europe.

This paper investigates the cooperative association as a means of solving particular problems of rural governance. I argue that in order to understand the potential of the cooperative association as a governance structure, it is not adequate to merely apply a comparative static analysis of its relative market performance vis a vis other organizational types. Such a comparison cannot explain why cooperatives exist in large numbers, because a competitive market environment provides only limited incentives for organizing business as a cooperative (Schoppe 1996).

From a governance perspective, the interesting characteristic of the cooperative association is not that it creates economic benefits to its member owners, or that it is subject to market constraints. The interesting aspect of the cooperative is its “dual nature” (Draheim 1952) as a business enterprise on one hand, and as a social group organizing collective action in a specific social context on the other.

As a consequence, in order to understand what cooperatives do, one has to analyze cooperatives in the context of the economic circumstances in which they emerged, e.g. in situations in which the important elements that constitute markets, for example, easy access to information about actors, choice alternatives, information about goods, qualities, prices and technical know how, are missing. After that, one has to analyze cooperatives as groups with particular resources and attributes which develop in a socio-political context.

This poses a challenge to contemporary analysts because over the last 150 years of cooperative development, both, economic circumstances and the socio-political context in which cooperatives emerge have dramatically changed. Today, most cooperative organizations operate in highly competitive business environments (Bijman 2003). Can one understand the cooperative organization from a today’s standpoint?

Several research strategies may illustrate the analytical problem. One is to ignore history and social context and analyze the cooperative as a business enterprise and compare its relative performance to its competitors on the market. Another strategy is to empirically analyze cases of the formation of relatively new cooperatives in Europe. A third strategy is to evaluate the work of analysts who witnessed the cooperative movement themselves, which would ensure that enough attention is paid to the particular context of the phenomenon of cooperative emergence¹. All strategies are riddled with analytical problems. I believe, that each produces important insights in the cooperative as a governance structure. A combination may be most suitable to capture the dynamic character of cooperative governance.

In this paper I will combine the three strategies in order to sketch the elements of a “Dynamic Theory of the Cooperative”. In order to understand this type of governance, we have to explain why cooperative associations have evolved, and why, unlike other organizational types, cooperative associations became a social movement in Europe and enjoyed the attention of scholars such as Mill, Cairns, Pareto and Pigou, and why cooperative associations have vanished

¹ A fourth strategy is to analyze cooperative formation in developing countries or in post-socialist countries which may make it hard to compare social and cultural contexts.

from most economic textbooks and today enjoy relatively little publicity. Why would rational actors, in the pursuit of their economic interest, bind themselves to one man-one vote rules, undertake collective investments and deliberately pool risk and information with often larger groups of individuals? Why would the founders of an enterprise willingly rule out that member owners profit from the growing value of their firm as shareholders – in short: how do cooperatives do business while at the same time solve the well-known dilemmas of collective action in groups?

I claim that these questions afford an inquiry into both sides of the cooperative organization, the cooperative as a business organization and the cooperative as a social group with its general constitutional principles.

In what follows, I briefly review the arguments of Transaction Cost Economists and also of prominent scholars of the classical and neoclassical tradition. After that, I take a closer look at the morphological characteristics of cooperative group organization. Then, I examine the formation of cooperatives in new areas and branches of the economy. Finally, I draw some conclusions about the suitability and for the future of this governance type in the EU-25.

1 The Economic Analysis of the Cooperative Association

A cooperative is a collectively-owned firm established to further the wellbeing of its members. In contrast to investor owned firms, co-op members are not primarily interested in financial return on investments but in the maintenance of services provided by the co-op. By definition, co-ops are firms that are not tradable. Being owned by their customers, cooperatives are unable to move to another region or other business activities when the respective branch or sector of their activity is in crisis. Members do not participate in the growth of the monetary value of their cooperative firm. When leaving, they get back their (nominal) membership share, which may be quite different from the actual monetary value of their ownership share.

These characteristics show that compared to other governance structures, a cooperative may be a quite inflexible way of doing business. In the presence of hundreds of thousands of cooperatives worldwide there must be strong economic incentives behind cooperative organizations that

outweigh the aforementioned deficiencies. The economic analysis of cooperative associations aims to identify these drivers of cooperative organization.

The challenge of explaining the emergence and performance of cooperatives is not as daunting for contemporary theorists as it was for the eyewitnesses of the “cooperative movement” at the beginning of the 20th century. Today the emergence of new cooperatives in the traditional branches of the cooperative economy (banking, agriculture, housing) is a relatively rare event. Transaction Cost theorists have identified various arguments in favor of vertical integration and, in turn, of the cooperative organization. However, as we will see, to explain why cooperatives are formed, it is much easier to apply the logic of economic thought in a historical context than to the situation of cooperatives in modern market economies.

1.1 Transaction Cost Economics

In New Institutional Economics (NIE) the explanation of the cooperative firm is derived from the discussion about the economics of vertical integration. Transaction cost arguments (“make or buy”) together with agency problems and the question about the optimal allocation of control and ownership rights are involved (Grossman and Hart 1986). Since the proportion of asset-specific investments in agriculture and food processing is high compared to other industries, farmers protect their otherwise appropriable quasi-rents (hold-up) by vertically integrating production and processing.

The organization of dairy cooperatives is a prominent example for high, specific investments on both sides of the food chain. The farmer invests in cows, milking equipment and cowsheds, the dairy in cooling, quality assessment, transportation and marketing.

Because the flexibility of labor organization and control in a family farm outperforms any other organizational type in agricultural production (Allen and Lueck 1998, Schmitt 1993), farmers do not integrate farms by merging into one production unit, but prefer to choose a governance type that combines the advantages of farming independently with the advantages of marketing or processing in one unit, which is co-owned by member-customers.

In terms of the economic theory of the agricultural contract (Hayami and Otsuka 1993), cooperatives provide the means for farmers to remain self-employed while enjoying the business opportunities of large scale processors and traders (Eschenburg 1971).

This brings us to another argument often raised to explain rural service co-ops. Processing, packaging and retail can only be organized in firms which are able to exploit economies of scale. Two arguments are relevant in this context: First, co-ops realize production cost advantages from large scale processing and packaging. Second, co-ops realize bargaining advantages vis a vis traders who would otherwise charge monopoly rents.

Transaction Cost arguments in favor of the cooperative organization of the rural economy have been subject to critique (Hanisch 2003: 40-48, Deininger 1995). Bonus (1986, 2001) reviews the literature on rural co-ops, and, drawing on Eschenburgs example of the canning industry, he finds the hypotheses of bargaining power and scale economies erroneous. From his thought experiment on canning cooperatives, he concludes that cooperatives are neither the best governance structure for effectively countervailing monopolistic structures in the market nor are they suitable for reaping the benefits of smaller or larger economies of scale:

If larger economies of scale are present, on the other hand, then our hypothetical cooperative factory would be unable to take advantage of the full potential for cost reduction, because it would operate on a relatively low scale compared to the largest producers (...) thus neither economies of scale, nor monopoly power, nor the combination of these factors provides sufficient justification for establishing a cooperative association. The *raison d'être*² of cooperatives must lie elsewhere. (Bonus 1986: 8).

A closer look at the dairy cooperative reveals that private dairies in the form of joint stock companies frequently exist next to their cooperative counterparts. But how do these governance structures survive in an environment which creates all the incentives for hold-up and quality shirking problems? Bonus argues that it is “trust capital” (Albach 1980) which controls shirking inside the social group of the dairy cooperative.

An equivalent to trust capital solving such problems inside a dairy cooperative is the reputational capital that exists between a single farmer and a private dairy.

Once established, a company’s reputation becomes a highly-valued asset that must not be jeopardized by opportunistic policies. Under these circumstances, the farmer’s dependence on a private dairy will not become an acute problem. (Bonus 2001: 325)

² The reason for their existence.

In short: in a competitive market environment, reputation becomes a production factor and those firms with a bad reputation will not survive competition from fairer service providers. In such an institutional setting, private dairies with reputational capital may fulfill the same purpose as the dairy cooperative.

This raises the question of the role of local information for shaping governance structures. How do people inside and outside a particular community know whom to trust?

In the development context, this argument has often been used for explaining the outstanding success of micro-finance systems. Because locals know best about the qualities of the people they live with, a self-organized micro-credit system is suitable for internalizing the credit risk that an outsider organization would otherwise have to bear. In the early credit associations of the Raiffeisen type in Germany, members were jointly responsible and indefinitely liable for each credit granted. This is why they had every incentive to participate in the final discussion about credit granting among members of the cooperative. More effective than any other mechanism outside the village, the credit association pooled local knowledge for the purpose of informal risk rating. This is the strategy that eliminated a considerable amount of the cost of credit risk and therefore the well-known system of middlemen and usurers. This argument forms the link between classical arguments and transaction cost arguments. The problem of economizing on the cost of local information as the main advantage rural credit cooperatives could realize was first described by Pigou (1923), then reinvented by Bonus (1986). It is a classical argument because it explains cooperative emergence in the historical context of the 19th century and was published in 1923 (Hoppe 1976: 153) but clearly belongs to the transaction cost type of arguments that have come about more than 50 years later.

1.2 Classical Economics

The transaction cost analysis of the rural credit, processing and service cooperative illuminates important governance problems in the rural economy. However, comparing cooperatives with their shareholder-oriented competitors in an environment which is shaped by choice alternatives, competitive prices and strong capacities of local and regional administrations, TCE cannot convincingly point out the transaction cost advantages that modern cooperatives realize. This supports the hypotheses that from today's comparative, static perspective, it is difficult to understand which particular functions rural cooperatives fulfill.

At the end of the 19th century, the historic context of industrialization, emerging socialism and the social question constitute the background before which the so-called “cooperative movement” took place. How to explain the emergence of more than 30,000 cooperatives in Germany, 60,000 in England and 65,000 in France within less than three decades? The phenomenon attracted widespread interest among economists of that time. Important contributions to the cooperative theory stem from scholars as prominent as Mill (1897, 1929) Walras (1865), Schulze-Delitzsch (1855), Marshall (1925), Pareto (1896, 1926), Cairnes (1873, 1874) and Pigou (1923).

Following a libertarian tradition of economic thinkers, their aim was to explain what cooperatives did by integrating them into strands of utilitarian theory, such as price theory, welfare economics or the theory of the labor market and the theory of market failure. This was in contrast to the emerging movement of cooperative socialism, which was highly influenced by French Utopians such as Lasalle, Fouriers, and Blanc. Accordingly, each theorist delivered his own interpretation of the role of the cooperative association within his particular field and theory. All authors have in common the assumption that social reform is the unintended but desirable byproduct of cooperative development.

The emancipation of women and cooperative production are, I fully believe, the great changes that will regenerate society. (Mill 1924: 450)

Mill allocates a strong educational role to the consumer cooperative. In this tradition, cooperatives educate the laborers, pioneer the perfection of competition, release unnecessary labor from business and rationalize the supply of consumers with goods.

For Cairnes, the main task which co-ops fulfill is the increase of competitive forces in the economy and the equilibration of consumer prices and interest rates. Another important function mentioned in his empirical analysis of the Slate Quarries in North-Wales is illustrated by his observation that successful associations change the living conditions and therefore the attitudes and self-esteem of laborers.

Now these qualities once developed in a human being do not operate exclusively in any one direction: they affect his whole character, and manifest their influence on his conduct in his matrimonial and domestic relations, as well as in every other part of his life. (Cairnes 1874: 350).

Walras and Marshall were fascinated by the cooperative movement and wrote whole books on cooperative associations. Walras also commented on the academic debate between Schulze-Delitzsch, the founder of the German cooperative law and Lasalle, a French scholar. Walras shared Schulze-Delitzsch's standpoint that any support from the state would corrupt the cooperative principle of independence and self-help.

For Walras, not the consumer cooperative but the credit association was the most promising application of the cooperative idea, because he saw capital accumulation among the economically weak as the most promising means of pioneering their social emancipation (Hoppe 1976: 90). In his book about associations, Walras gives advice on how to establish, manage, finance and distribute surplus in a cooperative association.

For Pareto, cooperatives were an effective means of fostering competition and fair pricing. Where competition is almost perfect, he sees no role for cooperative associations. Cooperatives are not only self-help associations for their members, but they also help society as a whole because they occupy and improve the market situation in niches of weak market development (Hoppe 1976: 103).

For Marshall, the effect of voluntary cooperation among independent individuals is the important aspect of associations. He also distinguishes between productive and destructive cooperation, with destructive cooperation being the joint struggle for distributional advantages among rent seekers.

1.3 Neoclassical Economics

For Marshall, the realization of economies of scale is the most important function of cooperative associations. Marshall also distinguishes between internal and external economies of scale; internal scale economies benefit cooperative members, while external economies of scale benefit society as a whole. Especially for rural areas and agricultural production, Marshall sees important tasks for cooperative associations:

Cooperation might seem likely to flourish in agriculture and to combine the economies of production on a large scale with many of the joys and the social gains of small properties. (Marshall 1920: 655)

Pigou sees an important role of cooperatives as equilibrating marginal returns among the different sectors of the society. Another important task of cooperatives is economizing on the cost for otherwise ruinous competition between small producers.

In “The Economics of Welfare”, Pigou (1932: 157) explicates the argument regarding information cost reduction in credit associations; this is the same argument later used in Bonus’ Transaction Cost analysis of the Cooperative (Hoppe 1976: 153).

1.4 Preliminary Conclusions

The economic analysis of the cooperative has occupied prominent scholars of classical, neoclassical and neoinstitutional schools of thought. Most arguments of the Transaction Cost Theory stem from classical and neoclassical scholars. In this tradition, the existence of cooperative associations is explained as the consequence of immature market developments or market developments in a non-productive direction. Classical and neoclassical scholars do not describe the cooperative association as a business enterprise per se. Instead, the emergence of cooperative associations is understood in the context of social reform and the pressing social questions of the late 19th century.

In summary, classical and neoclassical theorists allocate important roles to cooperative associations: (1) Cooperatives occupy niches of market development and integrate them into the overall system of capitalism. (2) Cooperatives change the preferences, habits and characters of their members and thereby trigger economic development and social reform. (3) Cooperatives manage to exploit local knowledge as an otherwise costly production factor. (4) Cooperatives allow the farmer to remain independent.

2 The Morphological and Dynamic Character of the Cooperative Group

2.1 Morphological Characteristics

Draheim (1952) speaks of the dual nature of the cooperative. His argument deserves special attention because it characterizes the co-operative as a specific mechanism to do business while at the same time providing incentives to form a group of independent actors connected by their demand for certain services and democratic decision-making rules. As such, the cooperative is a “janus-faced organization” constrained by both the forces of the market and group psychological forces. The morphological difference between the cooperative and other forms of governance structures in business is the “business style” of the cooperative association (Draheim 1967: 17). For Draheim, the origin, economic situation, profession and skills of group members determine the ways in which they constitute themselves and do business. The style of doing business in a cooperative has often been named “solidarity”.

Draheim considers solidarity to be a misleading concept for characterizing the cooperative organization. Instead, he suggests characterizing the orientation of a cooperative association with the provision and maintenance of self-help and service as opposed to the profit orientation of the shareholder firm. The question regarding the advantage of the cooperative association compared, for example, to a limited liability company or a joint stock company is the result of ignoring the morphological differences between these governance types (Draheim 1952: 48). In other words: One cannot compare the efficiency of governance structures which follow different economic objectives. The cooperative association is then a governance structure “sui generis” which is to say that the skills, needs and characters of those who demand and self-organize services that do not yet exist, constitute the resources and determine the feasible modes of producing these services.

As soon as there are choice alternatives other than the ones provided by the cooperative, competition sets in and becomes an engine of constant change regarding the technical know how and managerial talents used to produce services. This may change the style of doing business because it changes the morphological attributes of the group members (skills, situation,

profession). Where there are no choice alternatives from outside the group, the village or the region, (niches) the cooperative association is the only means of vertically-integrating the “markets” for local talent (leadership), the production and the consumption of helpful services and the mechanism to reveal the preferences of the service demanders. Given the existence of powerful informal rules which constitute boundaries, cooperatives may produce private, collective, or public services and so “help” to rural citizens. As such, the cooperative protects members from the vagaries of monopolies or immature markets while producing the information about their preferences for help and services.

2.2 The dynamics of changing the “cooperative style”

By the end of the 19th century, the process of cooperative formation is success story because the cooperative business is based on the tradition of voluntary associations, which, in the 19th century, fulfilled various economic and non-economic functions in the cities and villages. The European cooperative movement developed on the grounds of what Putnam has called,

...pre-existing social connections between individuals to help circumvent problems of imperfect information and enforceability. (Putnam 1993:169).

The success of the cooperative as a business organization and as an engine of social reform lies in their ability to make use of the social capital produced by other associational forms. Putnam illustrates this point:

Rotating credit associations are often found in conjunction with cooperatives and other forms of mutual aid and solidarity. In part, this is because all these forms of voluntary cooperation are fed by the same underlying stock of social capital. (Putnam 1993: 169).

The link between associations, cooperatives and economic development has to do with the educational role Mill, Cairnes and Pareto have identified in their analyses of the cooperative association. This important effect of cooperative governance is often overlooked by Transaction Cost economists. In rural areas, cooperatives are experimental stations for the organization of

both, private and public service industries. In a dynamic perspective this explains why cooperatives later experience competition from the emergence of two different sides.

In rural cooperatives, members learn to articulate preferences, screen membership for management and leadership talents, control quality, observe the market, and exploit local information in order to calculate and manage risks. These skills are the prerequisites for the development of private entrepreneurship, which became one of the sources of competition which rural cooperatives have to face today.

But the interesting aspect is that cooperative emergence is not a spontaneous occurrence. Rural cooperatives are not initiated by private entrepreneurs. It is well documented that the founding fathers and promoters of credit, consumer and rural service cooperatives are the mayors and higher administrators of their communities. Raiffeisen, the founder father of the system of rural credit cooperatives was a mayor. Schulze-Delitzsch the founder father of the German cooperative law was the son of a mayor and a judge and later on a member of the Prussian parliament. With the development of the rural economy tax revenues increase and are redistributed to the countryside. Public entrepreneurs no longer have to engage in efforts to create and maintain self-organized units for the creation of collective services for the rural economy. With the evolution of the welfare state, they become managers of communal and public provision units of „help and services“. Their activities in managing the provision and production of public services financed by taxes becomes another important source of competition for rural cooperatives.

2.3 Preliminary Conclusions

In joining an association or group, people change their attitudes and self-perception. In the presence of less than perfect markets, people learn about taking opportunities and reducing threats in the world around them. Initially, they produce “market surrogates”. In other words, they form groups of producers and consumers in one and the same organization and with clear boundaries – the rural cooperative association. This enables them to realize benefits from internal economies of scale (Marshall 1925) and other “pioneer advantages” that arise from the fact that they start to organize in a non-market environment. Self-organized saving activities produce collective capital. This is the prerequisite for integrating the economically weak into a (in the eyes of utilitarianism) premature capitalistic system: they become owners of the means of production.

In doing so, they learn to play the game of the market, to produce and price new goods, to judge and take risks, to allocate voice, to trust those who have proven leadership skills, to avoid the harmful effects of competition, to discover and reveal their preferences and to remain as independent as possible while pooling personal, local information which could otherwise not become a production factor. Over time, cooperatives change the situation, skills and professions of their members and thereby their – in the words of Draheim (1952) – business style.

This is the beginning of private competition and the loss of cooperative identity and group cohesion. In order to survive competition from private firms, cooperatives have to supply services based on market prices instead of members' preferences. As a consequence, they become more and more indistinguishable from their private competitors.

At the end of the 19th century, public entrepreneurs in rural and metropolitan areas communicated the heatedly-discussed vision of the cooperative society. They aimed to organize collective action in order to improve the living conditions of their clientele: farmers, craftsmen and laborers. With increasing tax revenues and the emergence of the welfare state, public entrepreneurs became managers of sizeable public help and service industries, which more and more competed with the idea of self-organized help organizations and service cooperatives in the rural areas of Europe.

3 The Emergence of New Cooperatives in Rural and Metropolitan Areas

In the previous paragraphs I have analyzed the cooperative association as a governance structure for solving several problems of governance in the pace of social change. The findings of the economic analysis of the cooperative association show that it doesn't make sense to analyze the cooperative isolated from the historical context of social reform which brought it about. It also doesn't make sense to analyze the cooperative without realizing the effects growing competition from other service and help providers may have on their "business style" and their identity as a social group. There is not doubt about the important role of this governance type for the development of capitalism and democratic society. However, from what was said before, is it

possible to draw general conclusions about the future importance of cooperative associations for society? Is it overly pessimistic to assume that the cooperative is a governance type that has outlived his “raison d'être” (Schoppe 1996: 178). In the other vain, optimists have to develop educated guesses about the potential functions cooperative may fulfill in a developed market economy with a powerful public services industry.

Nobody can realistically answer these questions. However, looking at the areas in which new cooperatives form today may reveal some of the likely characteristics of the cooperatives of the future. One of the reasons for the shrinking importance of cooperative structures was their historical success in helping and educating economic actors. Once cooperative services are established, the organization of private service industries is much easier. Once credit cooperatives, or insurance companies are successfully established, popular banks or insurance companies may be easily installed by the state.³ Is there a role for cooperative governance in situations in which the private or public service industry has failed to satisfy citizens? In other words: Are new cooperatives the means to reform societies that suffer from overly bureaucratic public service industries? In other words: Can they again play the role of experimental stations for the definition of goods and service characteristics, firm boundaries of service industries and for detecting preferences of certain groups in society?

In what follows I will describe two situations of government failure in which citizens clearly declare their preferences for self organization as opposed to public or private services. Both situations resulted in the formation of a new type of cooperative.

3.1 Narrative 1, The Alstetten Cooperative:

Between 1970 and 1990, the city of Zurich established 19 public swimming halls, none of which covered the cost of their maintenance. In the mid-1990s it became clear that the city would have to close down or privatize half of the swimming halls. In 1995, the city decided to privatize the swimming hall of Altstetten, a district of Zurich, changing its concept from a sport facility into a “fun pool”. The swimming hall of Altstetten was among those swimming halls which had the

³ In Germany for example, popular banks „Sparkassen“ which are a development initiative of the welfare state are the main competitors of rural credit cooperatives.

worst cost coverage. Less than 20% of the maintenance cost of 900,000 EUR per year was covered by entrance fees.

The citizens of Altstetten actively protested against the plan to change the concept of their sport swimming hall. As a result, the private investor withdrew his project application and in 1996 it went public that the Altstetten swimming hall was to be closed and demolished. This came as a shock to the users of the sport facility, mainly sport swimmer's associations, kindergartens physio-therapists and schools.

In April 1997, a group of local politicians, together with the former protesters, suggested to form a cooperative with the sole task of running and maintaining the Altstetten swimming facilities. The city made it a condition for further exploration in this direction that the initiative would bring up a minimum of 200,000 EUR to guarantee liability and liquidity. Six months later, this group had collected 187 members with a capital basis of 260,000 EUR. Today the swimming hall is operated by a cooperative, the "Betriebsgenossenschaft Altstetten". The city of Zurich also became a member of the cooperative and now has to bring up less than half of the former yearly expenditures for the maintenance of the pool. Given the fact that operating a public swimming hall never covers costs, the reduction of the expenditures by more than 50% is evaluated as a big success for the city. The change of the governance structure into a private/public partnership in the form of a cooperative has completely changed the standpoint of the city government vis a vis the Altstetten swimming hall. Comparing maintenance costs, it has changed from the least cost-effective public pool in (1993) to the most cost-effective pool of Zurich (2004). The experience with Altstetten has initiated a vivid debate about necessary reforms in the communal sector in local newspapers.

3.2 Narrative 2, The Ellerhoop Water Cooperative:

The Community of Ellerhoop in Northern Germany has a population of 1,400 citizens. Until 1990, only 90 households were connected to the central well of the community water supply system, the Ellerhoop water works. The remaining households operated their own wells. In 1990, the community council decided to connect the village to the central water supply system, operated by an interregional public service industry. In this case, the law foresees the cost of establishing this system as being distributed among future users, the households of Ellerhoop. From comparisons with similar projects and the connecting tariff lists of the central water

industry, information about the potential costs of this project quickly circulated in the village. Between 5,000 - 10.000 EUR per unit seemed to be a realistic figure. But this estimate raised opposition from the Ellerhoopers, who demanded a plebiscite in which they voted against the project. First there were two groups: on the one hand were the 90 households connected to the community waterworks who preferred the status quo and suggested renovating the communal well. On the other hand were the several hundred other households which depended on private wells. The latter wanted to be connected to the community well, which would result in improved water quality and pressure but would also overstrain the well's capacities. In 2002, the Ellerhoop water works cooperative was founded. In 2003, the community transferred ownership and management to this cooperative and also became a member. Within a year (2003-2004), 71 households had joined the cooperative, each contributing 500 EUR per share for capital, while other households remained customers. Because of this investment, a credit for renovating the waterworks has been granted to the cooperative.

The purpose of the cooperative is to stepwise connect members to the community waterworks, survey the quality of private wells and supply members with water at a reasonable price. Profits from selling water are reinvested in order to increase the capacity of the waterworks. Money that is not allocated for this purpose is reimbursed to co-op members. Water prices in Ellerhoop have increased from 69 cents in 1990 to 1.25 EUR per cubic meter in 2003. This is a steep increase but still below the average rate paid in the surrounding communities, where citizens have already paid the high connection prices to the interregional public service industry. The average water price for 1,000 Liters in Germany is 1.72 EUR. This is why the management of the Ellerhoop waterworks cooperative expects a steep increase in membership in upcoming years. The regional federation of North German Cooperatives (GVN) reports a growing interest in this model of self-organized water supply, especially from smaller rural communities.

3.3 Conclusion

Throughout this paper I have sketched the elements of a dynamic theory of cooperative development. In doing so, I have revealed the economic drivers of the cooperative movement in the past and the mechanisms which are responsible for the relatively little publicity that cooperatives are given today in academic discussion or economic textbooks.

Section 3 started with a question: Is there still a role for cooperative governance in competitive market economies with established public service industries such as the ones in contemporary

Western Europe? The answer to this question is not straightforward. This has to do with the difficulties of assessing the relative efficiency of public goods provision and distribution by highly centralized public service industries (Samuelson 1954: 387-389, Tibeout 1956: 416-424, Ostrom and Ostrom 1994: 163-197). One reason for the inefficiency of the public service industry is that one cannot force consumers to reveal their true preferences for public help and services and then in turn tax them appropriately. Another reason is the boundary problem caused by the non-exclusive nature of public goods and services which stimulates free-riding. This makes it especially interesting to analyze situations in which citizens openly express their discomfort with some products of the public service industry. If this happens in rural areas, on a local level the boundary and the hidden preferences argument may no longer hold true. This is precisely the situation in which new cooperatives may play the roles that they have always played – producing decentralized help and service structures to their members while managing the usage of local knowledge and increasing the capacities of their members, be they from the private or the public camp.

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