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**THE CO-OPERATIVE AS INSTITUTION FOR
HUMAN DEVELOPMENT**

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HUMAN DEVELOPMENT**

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THE CO-OPERATIVE AS INSTITUTION FOR HUMAN DEVELOPMENT (*)

Sara Vicari* and Pasquale De Muro**

Abstract

Toward a reassessment of the role of co-operative enterprises as a tool for fighting poverty both from the academic community and the international organisations, the paper aims at contributing to the understanding of the added value of the co-operative form of business especially in a people-centred development setting. In particular, in applying the human development and capability approach to co-operative economics and therefore by linking co-operatives to the concept of well-being, the paper contributes to shifting the co-operative thinking beyond the *homo oeconomicus* rational choice perspective bringing it closer to the reason why people adhere to collective livelihood strategies, thus providing greater insight for policies and practice.

Key words: *co-operative enterprises; human development; capability approach; institutions; economic democracy; poverty eradication*

JEL classification: O150; B520; P130

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1. Introduction

According to the Human Development and Capability Approach (HDCA) development cannot be reduced in terms of economic growth, but it “can be seen...as a process of expanding the real freedoms that people enjoy” (Sen, 1999).

Focusing on the opportunities for people to choose the lives that they *value* and *have reason to value*, this approach is concerned not only with achievement in terms of people’s well-being, but also with the process and institutions which lead and foster such human development, where they play a participatory and dynamic role. In fact, people are seen to be at the centre of the stage and active agents in their own development, aiming at increasing their real freedom, while GDP, production and distribution of commodities are considered relevant as well as important means to help in achieving this end.

Taking into consideration institutions able to foster human development, the paper aims at exploring the co-operative, a unique enterprise that, when genuinely in operation, is characterised by placing people at the heart of its business and making participation its way of working.

Founded during the Industrial Revolution in Europe, the co-operative movement has received controversial recognition throughout its history, especially concerning its role in tackling poverty in developing countries. Literature expounding co-operative failures in reducing poverty is not lacking, while co-operative economic academics, from both neo-classical and institutional backgrounds, have mainly focused on evaluating co-operative performance under the lens of efficiency criteria.

Consequently, the paper attempts to contribute to the literature regarding the role of institutions in human development, introducing the co-operative as a relevant candidate institution for expanding of capability.

It seems it is possible to identify a useful convergence between the literature on human development and capabilities (specifically regarding studies on the role of institutions) and literature on co-operative economics. In fact, on the one hand, the debate on Human Development¹ has become increasingly concerned with the issue of the participation of people in their development, specifically regarding individuals and active group participation in shaping the future of their lives, and, therefore, with the associated issue of appropriate institutions which can foster such participatory processes. On the other hand, literature on co-operative economics is still predominantly focused on investigating co-operative performance based on efficiency criteria, thus undervaluing one of the most important co-operative features for development, that is, it being a participatory democratic form of enterprise.

In such a way, the paper aims at investigating whether co-operatives may represent a relevant institution able to foster the expanding of capability and, more specifically, at identifying which dimensions are more affected by co-operative membership and which factors from the context where the co-operative acts (i.e.

¹ See e.g. Alkire, 2010

conversion factors) play a major role in facilitating/impeding such expanding of capability.

Therefore, an evaluation of the role of co-operatives in development, based on the evaluative framework provided by the capability approach, could contribute, on the one hand, to identify which dimensions of well-being are most affected by co-operative membership, and consequently, on the other hand, to actually enhance the co-operative advantage, specifically relevant to potential in poverty eradication.

Based on these considerations, the paper is divided into four sections. Section two provides an overview of the Human Development and Capability Approach (HDCA), focusing on the role of institutions in Human Development, also revealing the different importance that they hold in such an approach compared with New and Old Institutional Economics.

Section three overviews the literature on co-operative economics, mainly classified into two approaches: the neo-classical approach (Ward-Domar-Vanek and Meade) and the institutional one (Alchian and Demsetz, Grossman, Hart and Moore, Hansmann, Williamson, Hodgson). Despite substantial differences between the two approaches, both consider co-operatives as a residual component of the market economy and they are particularly concerned with the level of efficiency of co-operatives compared to that of conventional companies. Moreover, both of these approaches are based on individualistic methodology, considering members as self-interested rational actors. A third approach has been developed, especially among Italian academics², which considers the co-operative as an advanced form of business-making. Indeed, the paper belongs to this line of thinking, specifically investigating this “advanced form of business” in the framework of the Human Development and Capability Approach.

Therefore, in section four, the co-operative form of enterprise is conceptualised as an institution able to foster at least some of the main dimensions of Human Development. Here, some remarks on the mainstreaming of co-operative economics from the HDCA perspective are provided. A particular comment points out that Hansmann, one of the main institutionalist economists dealing with co-operatives, has already acknowledged the importance of participation in co-operatives but, in his approach, democracy is considered a limitation since it negatively impacts co-operative efficiency. On the contrary, once we refer to HDCA, where social opportunities and institutions should be evaluated to the extent that they contribute to expanding people’s substantial freedom, Hansmann’s acknowledgment regarding participation becomes a constitutive component of co-operatives as institutions for Human Development, and not a limitation.

Finally, section deals with the role of co-operatives in poverty eradication. In studying the role of co-operatives in poverty eradication, only and exclusively “genuine co-operatives” are considered, which are institutions for Human Development, authentically democratic, bottom-up and member-owned enterprises. In local communities in developing countries, these kinds of co-operatives especially hold the double identity of self-help associations and enterprises, generally bringing

² An eminent representative is Stefano Zamagni

together people with similar needs and social values. Once poverty is defined in the HDCA as deprivation of basic capabilities, co-operative contribution to expanding capabilities is explored, analysing the impact on its multi-dimensionality. In particular, capabilities such as having adequate shelter, education, nutrition, access to healthcare, to decent work, to land, market and credit (economic freedoms) are investigated. The impact of co-operative membership on more complex capabilities, such as participation in community life and in household decision-making, and on people's agency and community development is also studied. In conclusion, a scheme is drawn up, taking into account conversion factors as elements which can facilitate/impede the achievement of such capabilities through participation in co-operatives. These conversion factors can be personal, environmental or social ones. Social conversion factors are particularly relevant and gather social norms, the role of the state (including the legislation framework), the economic framework and participation in networking. Stressing the importance of conversion factors raises the important issue of not attaching any romantic idea to co-operatives, thus, underling the importance for the right policies in creating an environment able to foster genuine co-operatives and authentic participatory paths of development.

2. Which institutions for Human Development?

2.1 An overview on the Human Development and Capabilities Approach

In the literature on development economics, generally speaking, three levels of development can be identified (De Muro and Tridico, 2008). The first one is *economic growth*, which only involves the GDP dimension. The second one – which can be called *economic development* – involves, along with GDP, the quality of growth, the process of institutional change, and other structural changes that go beyond GDP. The third level is *human development*, which is concerned with the improvement of people's well-being and freedoms.

Specifically, human development is defined in terms of expanding the real freedoms that people enjoy in order to pursue the objectives that they have reason to value. Therefore, expanding human capabilities, and not just income per-capita or GDP, is the central feature of the process of development³ (Sen, 1999; Drèze and Sen, 2002). According to Sen (1992), there are two main components of a person's well-being: "functionings" (or achieved component of well-being, their "beings and doings") and "capabilities" (their freedom or real opportunities to function in ways alternative to their current functionings). People's lives and capabilities represent the focal space in evaluating human development (Alkire, 2010). In fact, regarding this, it is important to underline that the HDCA is not a theory to explain poverty, inequality or well-being, but it provides concepts and normative frameworks within which to conceptualise, measure and evaluate these phenomena, as well as the institutions and policies that affect them (Robeyns and Crocker, 2009).

The HDCA clearly differs from the welfarist approach since, as Robeyns (2005, p.97) points out, "while income generally is an important means to well-being and freedom, it can only serve as a rough proxy for what intrinsically matters, namely, people's capabilities". Sen deeply criticises utilitarianism and related welfare economics, arguing that an analysis focused only on individual utilities is affected by a poor informational base (Sen, 1982, 1985, 1999). In fact, what Sen is pointing out, along with all scholars dealing with the multi-dimensional nature of development and poverty (e.g. Alkire, 2002a, 2002b; Comim, Qizilbash and Alkire, 2008; Robeyns, 2003, 2005), regards the fact that the same distribution of individual welfare may co-exist with very different rankings in other dimensions that are, instead, important for social evaluation.

³In *Development as Freedom* Sen (1999, p.6) affirms that "Development can be seen (...) as a process of expanding the real freedoms that people enjoy. Focusing on human freedoms contrasts with narrower views of development, such as identifying development with the growth of gross national product, or with the rise in personal incomes, or with industrialization, or with technological advance, or with social modernization. Growth of GNP or of individual incomes can, of course, be very important as *means* to expanding the freedoms enjoyed by the members of the society. But freedoms depend also on other determinants, such as social and economic arrangements (for example facilities for education and health care) as well as political and civil rights (for example, the liberty to participate in public discussion and scrutiny)".

The HDCA is “essentially a people-centred approach, which puts the human agency⁴ (rather than the organisation, such as markets or governments) at the centre of the stage. The crucial role of social opportunities is to expand the realm of human agency and freedom, both as an end in itself, and as a means for the further expansion of freedom” (Drèze and Sen, 2002, p. 6). In fact, the HDCA is very concerned with the opportunities that people have to improve the quality of their lives. Moreover, such opportunities, as Kabeer (2003 p.83) points out, depend both on personal circumstances and on social constraints, since capabilities, representing elementary as well as more social complex aspects of people well-being, concern not only what a person can choose, but also what they are able to achieve.

Nevertheless, HDCA has been criticised for its too individualistic approach, thus, missing the relevance of people inter-connection and inter-dependence in expanding their own capabilities. This criticism could be appropriate to this evaluation, when we aim at exploring social opportunities and institutional framework where people live and act.

In responding to this, Robeyns (2005, p. 108) argues that the “CA embraces ethical individualism, but does not rely on ontological individualism”. It means that even if HDCA is concerned with individual well-being, it does not imply that only individuals matter and all social entities can be identified by reducing them to individuals. Sen and Drèze (2002, p.6) clearly state that individuals and their opportunities are not to be considered in isolated terms. In fact, they argue that “the options that a person has depends greatly on relations with others and on what the state and other institutions do. We shall be particularly concerned with those opportunities that are strongly influenced by social circumstances and public policies”. Thus, it is believed here that the debate regarding collective capabilities, defined as the ones which “are only present through a process of collective action and that the collectivity at large – and not simply a single individual – can benefit from these newly generated capabilities” (Ibrahim, 2006, p.398) should be reviewed with this argument in mind.

While some scholars argue that, especially among the poorest, a person’s ability to choose the life that they have reason to value is greatly linked to their possibility of acting with others (Deneulin and Stewart, 2001; Evans, 2002; Stewart, 2005; Ibrahim, 2006), Sen (2002 p.85) argues that “the intrinsic satisfactions that *occur in* a life must occur in an individual’s life, but in terms of causal connections, they *depend* on social interaction with others”. Thus, while Sen rejects the concept of

⁴ The agency of the people is defined as “what a person is free to do and achieve in pursuit of whatever goals or values he or she regards as important” (Sen, 1985, p.203). The concept of agency and the one of well-being (which represent, together with achievements and freedom, the two cross-cutting distinctions of the Capability Approach) are related but do not always move in the same direction, since acting to achieve a valued goal (and thus, expanding the agency of freedom and/or achievement) can expand a person’s well-being but, at the same time, it can also reduce it, as happens, for instance, with political prisoners who act pursuing valued objectives but sacrificing their personal present well-being (Sen, 1985, 1992). Thus, an expansion of agency does not always imply an expansion of well-being, as the goals that a person might value can be linked, or not, to their own well-being.

collective capabilities, he recognises the existence of “socially dependent individual capabilities” in every person’s life, and of “genuinely collective capabilities” as the ones related to humanity as a whole, such as the capability to cut drastically the world child mortality rate.

Clearly, Sen’s insistence on focusing on individuals is valuable considering that inequality in a group might affect individual achievement and the concept of collective capability might undervalue this aspect. In any case, HDCA does not underestimate the institutional framework where people make choices and identify their opportunity set. Indeed, institutions are very important in HDCA.

2.2 Institutions and the Human Development and Capability Approach

Institutions are very important in HDCA, which is particularly concerned with processes, specifically, democratic and participatory ones, enabling people to expand their capabilities.

According to Sen (1999, p. 142) “Individuals live and operate in a world of institutions. Our opportunities and prospects depend crucially on what institutions exist and how they function. Not only do institutions contribute to our freedoms, their roles can be sensibly evaluated in the light of their contributions to our freedom...”⁵

North strongly contributes to the spread of the idea that “the rules of the game in society, or the humanly devised constraints that shape human interaction” (1990, p. 3), namely institutions, are a key factor in development economics. In fact, ‘*Getting institutions right*’ has become a key priority in development policy. Thus the main focus of mainstream economists has been on particular rules, such as property rights, regulatory institutions, macro-economic stability and social insurance as the main institutions enabling the economy – especially markets – to work well (Johnson, 2009).

Broadly speaking, institutions entail “formal” and “informal” institutions. Informal institutions are behavioural rules, social customs, relations of trust and behaviour between economic agents and so on, while formal institutions include organisations, the legislative framework and the economic agents, themselves. Depending on the relative weight assigned to institutions, theoretical approaches to institutional economics vary consistently.

In the HDCA, institutions are particularly important as mediators between economic growth and human development. Economic growth plays a fundamental role for human development, as it is recognised, *inter alia*, by Ranis *et alii* (2000) who identify a bi-directional relation between economic growth and human

⁵ “...Even though different commentators have chosen to focus on particular institutions (such as market, or the democratic system, or the media, or the public distribution system), we have to view them together, to be able to see what they can or cannot do in combination with other institutions. It is in this integrated perspective that the different institutions can be reasonably assessed and examined” (Sen, 1999, p.142).

development⁶. The indirect role of institutions is vital - only appropriate formal and informal institutions can convert effectively and efficiently the resources generated by economic growth into sustainable human development. Although in the long term human development is generally associated to economic growth, the conversion is not automatic (UNDP, 1996).

De Muro and Tridico (2008) provide an extensive comparative analysis of the value of institutions between Old Institutional Economists (OIE), New Institutional Economists (NIE) and HDCA. As they explain, the OIE approach rejects the concept of *methodological individualism* and the concept of a rational individual who simply maximises his own utility. Instead OIE emphasises the role of habits, behavioural rules and social rules as the basis of the human action. The OIE develops an alternative concept of economic behaviour that finds its own origins in institutions. Institutions are the rules according to which enterprises and consumers respectively “satisfy”, but not “maximise” their own return and utility. In this approach of institutional economics, “*institution matters*”. The institutions are not necessarily created to be socially and economically efficient, but conversely they are created to serve and to preserve the interests of some social groups and to create new rules. Institutions, therefore, can be said to be efficient as long as they are committed to their original aims. On the other hand, the New Institutional Economics (NIE) “retains its general attachment to neo-classical economics with its emphasis on individual maximization and marginal analysis, but with attention on transaction costs, information problems, and bounded rationality” (Libecap, 1998) and “institutions (...) represent the way through which the several economics face the market failures” (North, 1990).

While OIE shares with HDCA the rejection of methodological individualism and all the three approaches give importance to institutions in economic life, a significant difference between ONIE and HDCA is about the value assigned to institutions. For ONIE, institutions are merely instrumental in guaranteeing a stable and sustainable economic development, which could also be possibly translated into a better quality of life - institutions are valued in terms of their suitability to support economic performance. For HDCA, institutions play both an instrumental and a constitutive role. The instrumental role is the same as for ONIE, but there is also a constitutive role given to those institutions that foster human capabilities without having any necessary economic justification - their value is straightforward, not mediated by income or wealth. An example is the laws and organisations that protect workers’ rights (ILO, 1998) - “being able to work as a human being, exercising practical reason and entering into meaningful relationships of mutual recognition

⁶ According to Ranis et alii (2000), human development is viewed as the central objective of human activity and economic growth as potentially a very important instrument for advancing it. Achievements in human development themselves can make a critical contribution to economic growth. They identify two distinct causal chains to be examined: one runs from economic growth to human development, as the resources from national income are allocated to activities contributing to human development; the other runs from human development to economic growth, indicating how, in addition to being an end in itself, human development helps increase national income.

with other workers” (Nussbaum, 2000, p. 79-80) is a valuable capability that does not need any economic justification.

Another important difference between ONIE and HDCA regards people’s agency and social change. In the ONIE, a “structuralist” approach prevails leading to a top-down institutional design, often based on mainstream/orthodox economics, on conventional wisdom, or finally on modernisation theories. According to the NIE, for instance, there are “sound” or “modern” institutions to introduce (such as property rights) through “institutional reforms” (such as Structural Adjustment) to replace “traditional” institutions (such as the commons) that hinder economic performance. According to other institutionalists, older social rules that prevail in “developing” or “transition” countries need to be changed because economic development also requires a cultural change.

In these views there is very little room for people to have a pro-active role. The need for structural/institutional change is prescribed by external experts. Quoting Sen (1999), people are considered as *patients* rather than as *agents*. On the contrary, in the HDCA agency plays a central role in the development process - people are the main actors of social change. Changing institutions, i.e. older or traditional rules, social norms or culture, should be eventually decided on through public discussion and the participation of people in collective choices.

In fact, as Johnson (2009) underlines “The specific contribution of the human development and capability approach to this [institutional] framework is the recognition of the critical importance of political participation in creating and reforming institutions, whether market or non-market, so they can provide opportunities for people to live the lives they have reason to value”.

In this perspective the importance of democracy, particularly deliberative democracy clearly emerges. Indeed, Sen (1999 p.148) recognises that democracy has a direct importance in human living associated with capabilities (including that of political and social participation) and an instrumental and constructive role in enhancing the hearing that people receive in expressing and supporting their claims to political attention (including the claim of economic needs) and in the conceptualisation of “needs” (including the understanding of “economic needs” in a social context).

In conclusion, even if the human development approach is broadly known for being embedded in the Human Development Index, the concept of human development is much more complex and broader than its measure, and also those of UNDP recognize that human development is not equivalent to social development combined with equitable economic growth. To some extent, prioritising capabilities has policy implications, which correspond to a shift in focus from social and economic policies to political institutions and process.

It especially requires giving priority to those institutions that foster people participation. As Fukuda-Parr (2005) points out, strategies for human development must deal with expanding participation through democratic institutions within stronger governance. In fact, collective action has been the essential motor behind progress in achieving major policy shifts necessary for human development.

2.3 Exploring the co-operative enterprise as one of the possible relevant institutions for Human Development

Among the institutions which foster people's participation and expand people's well-being, it is the purpose here to explore a specific form of business organisation, that is, the co-operative enterprise, a particular business form that places people at the heart of its organisation and that is based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity (ICA, 1995). However, even though the International Co-operative Alliance⁷ (1995) defines the co-operative as "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise", literature on co-operative economics has usually devoted less attention to such a democratic way of working as a possible co-operative advantage, basically focusing their analysis of co-operative performance based on the criteria of efficiency.

⁷ ICA is an independent, non-governmental association that unites, represents and serves co-operatives worldwide. Founded in 1895, ICA has 260 member organisations from 96 countries active in all sectors of the economy. Together these co-operatives represent nearly one billion individuals worldwide. (<http://www.ica.coop>).

3. Co-operative Economics: a literature review

3.1 *The early stage of co-operative economics*

The first experience of a co-operative enterprise, recorded in modern times, dates back to 1844 in Great Britain, when the Pioneers of Rochdale set up the first consumer co-operative.

Since this experience, the central idea that underpins the co-operative movement is that member needs should be satisfied directly, through “mutual benefit” and not indirectly through the redistribution of dividends or the sharing of profits. Secondly, members should satisfy their needs by participating actively in the enterprise, so that they themselves are entrepreneurs and not mere recipients of assistance from benevolent philanthropists (Zamagni, 2005a).

Nevertheless, the role of the co-operative enterprise in the market economy has always been the focus of economic debate.

A first important acknowledgment of the co-operative form of business can be found in John Stuart Mill’s writings. Indeed, he still remains one of the most important economists to praise co-operatives, considering them as an advanced form of business able to accomplish a “moral revolution in society”, promoting the dignity of labour and the “conversion of each human being's daily occupation into a school of the social sympathies and the practical intelligence”⁸. In the 1852 edition of the *Principles*, Sir J. S. Mill stated that:

“The form of association... which, if mankind [continued] to improve, must be expected in the end to predominate, is not that which can exist between a capitalist as a chief, and workpeople without a voice in the management, but the association of labourers themselves on terms of equality, collectively owning the capital under which they carry on their operations, and working under managers elected and removable by themselves” (p. 772).

Nevertheless, Mill himself had already identified the risk of co-operatives’ demutualisation. In fact, he argued that such co-operatives, once they have achieved some kind of success, they might “abandon the essential principle system and become joint stock companies to a limited number of shareholders.” In such a way, they would not succeed in the long run, since they are in fact abandoning the only competitive advantage they have over individually managed companies, that is the valuing of the “common interest of all the workers in the work”.

Other acknowledgements of co-operatives as advanced forms of business can be found in Marshall⁹ and Walras¹⁰.

⁸ In his words, the “moral revolution in society” that co-operatives will accomplish is “the healing of the standing feud between capital and labour; the transformation of human life, from a conflict of classes struggling for opposite interests, to a friendly rivalry in the pursuit of a good common to all; the elevation of the dignity of labour; a new sense of security and independence in the labouring class conversion of each human being's daily occupation into a school of the social sympathies and the practical intelligence”.

⁹ *Principles of Economics*, 1890.

Industry and Trade. A Study of Industrial Technique and Business Organisation and of their Influence on the Conditions of Various Classes and Nations, 1920.

Marshall emphasised the great potential of co-operatives as emancipatory forms of business, especially regarding the working classes (Raffaelli, 2000 p. 59). However, in Marshall's writings, problems related to management and lack of leadership in co-operatives emerged for the first time as critical factors, a forerunner of the theories of contemporary scholars of institutional economics (Borzaga and Tortia, 2005 p. 229).

On the other hand, Walras highlights that economic actors, such as co-operatives, are fully qualified to operate in market economies, and represent an advanced and innovative business form which is able to combine labour and capital in a way that is more favourable to working classes.

Criticisms of co-operatives can be found in writings of scholars in the period from the end of XIX century and the beginning of XX century, such as Pantaleoni and Pareto. They strongly criticised the co-operative form of business, highlighting that co-operatives do not differ from other typologies of enterprises, since members are motivated by feelings of self-interest as all economic rational actors. Moreover, they considered co-operatives as a residual component of the market economy.

3.2 Co-operatives and neo-classical economists

Since the beginning of XX century up to the period after the Second World War, debate on co-operatives among economists did not reveal any important or innovative contributions. The most famous and innovative contribution dates back to Benjamin Ward in 1958. All of the authors mentioned in the previous section only recognised the importance of co-operatives, but they did not offer a proper theoretical framework. Ward was the first to propose a theoretical model, which has since been revised by others, mainly Domar (1966), Vanek (1970) and Meade (1972).

Referring to a neo-classical theoretical framework, the Ward-Domar-Vanek model of worker-management leaves aside issues of ownership and financing, by assuming them as a fixed price regarding capital or land, presumably rented by the enterprise but fixed in quantity in the short term. In contrast, the number of member workers is taken to be variable, and the enterprise's main decisional problem is to select a level of this input (Putterman, 2006a). Co-operatives (or better worker co-operatives, Labour Managed Firms) are defined in the mentioned model as enterprises which, instead of maximising profits, maximise the net income per member worker. This is considered to be the only real difference between conventional companies and co-operative enterprises. Consequently, according to this model, co-operative members are considered as self-interested rational actors - everyone knows that maximising the total income means maximising their own income and related utility. These co-operatives are enterprises managed by members (workers) who hold the difference between the revenues and the costs. For Ward (1958), such a scenario implies two main "perverse" behaviours. Firstly, the co-

¹⁰ Les associations populaires de consommation, de production et de crédit, 1865.

operative's short term supply curve is in negative, that is, if the sale price rises the volume of output falls, and with it the amount of labour employed. Secondly, the co-operative's response to changes in market parameters – input prices and the form of the production function – runs counter to the conventional laws of micro-economic theory, thus, laying off workers when output price rises in order to divide increased profits among fewer members. In fact, Ward concludes that, even if in the long term (when profit in a conventional company is zero) *ceteris paribus*, the output of the co-operative is the same as for the conventional company, in the short term the co-operative performs less efficiently.

However, these short term perverse supply responses could be caused by a variety of factors. A first analysis can be found in Domar (1966), who shows that the propensity of LMFs to take on additional workers as output prices fall or as net revenue is reduced by higher costs of fixed factors, could be annulled by including in the model the labour supply of the enterprise¹¹.

Vanek contributes to the debate begun by Ward and Domar on the efficiency of co-operatives, providing “The General Theory of Labour Managed Market Economies” (1970), considered one of the best textbooks on co-operative economics from a neo-classical perspective. As in Ward, the main objective in Vanek's co-operative is assumed to be the maximisation of return per worker. The main characteristics of the form of enterprise that Vanek investigates can be summarised in collective partnership among workers to run the enterprise; hired capital; competitive behaviour on the market (that is, workers sell the products of the enterprise at the best prices they can obtain in the markets for inputs and outputs); and finally, the entrepreneurial risk is shared among workers, who distribute the possible surplus among themselves, each of them receiving an equal share of such surplus. Vanek mainly identifies some differences between co-operative and conventional companies¹². He confirms the Ward perverse effect and he underlines that the most efficient scale for a co-operative is likely to be smaller than for a conventional company. However he (1970) highlights that this perverse effect can be restored admitting the free entry of new enterprises and this could contribute particularly to achieving full employment in the economic system. In fact, Vanek considers that in the long term, under the assumptions of a free and costless entry of the enterprises and of a perfect competition, the co-operative and conventional company, *ceteris paribus*, will reach the same Pareto-optimal equilibrium situations¹³. Concerning a monopolistic situation, Vanek demonstrates that the co-operative will tend to be smaller than the corresponding conventional company and to produce less. However, he points out that in a co-operative system there will be

¹¹ Other factors tending to weaken or reverse the “perverse output supply response” are listed by Domar as: (a) use of variable inputs additional to labour, (b) flexibility of working hours, (c) reallocation of labour between product lines in multi-product firms, (d) reluctance to vote for the expulsion of incumbent members, perhaps because the voters face similar probabilities of being selected for expulsion, and (e) tradable membership rights (Putterman, 2006a).

¹² An exhaustive review is found in Meade (1972).

¹³ That is, when the value of its marginal product is equal to the average earnings of the existing workers in that firm (Meade, 1972).

more competing enterprises than in a capitalistic system. This argument is based on the assumption that in a system made up of co-operatives, unemployment is no greater than in the equivalent system made up of conventional companies. In fact, he argues that if there is the same number of enterprises in the two systems, considering that co-operatives are smaller, there would be more unemployment in the co-operative system. But, if these unemployed got together and set up new co-operatives, then there would be more, even if smaller, enterprises in the co-operative system than in the capitalistic system. Thus, as Meade points out (1972) “This in Professor Vanek's view justifies the view that in a very real, and desirable, sense the Co-operative economy will be more competitive than the Entrepreneurial economy”.

A last conclusion regards the effect of macro-economic policies, being a direct consequence of the mentioned perverse effect. In fact, expansive Keynesian policies which will lead to some degree of inflation, in a conventional company context, if there is any considerable initial volume of unemployment, will also lead, importantly, to increased employment and output. On the contrary, for the co-operative enterprises, in times of unemployment, such policies will be at best ineffective, and at worst, may lead to a reduction in output and employment. This is why Vanek argues that unemployment in a co-operative system may occur, but it should be faced through long term structural policies aimed at promoting the setting up of new co-operatives by the unemployed. Even if it is clear that in the short term the conventional company is supposed to provide a better answer to the issue of unemployment, Vanek points out that, in the long term period where the co-operative system has reached full employment, it will be much easier to maintain this full employment than would be the case in an ordinary conventional company system. This is due to the fact that fluctuations in total demand will no longer lead to large fluctuations in output and employment.

Summing up, in his work, Vanek (1970) admits that LMFs tend to employ less labour, use more capital-intensive techniques, and respond more sluggishly to the changes of the economic environment. However, the entry of new firms would consume the “extra-rents” from the economy, thus, restoring full employment. Moreover, since the LMF have weak incentives to grow, monopolistic competition and the welfare losses associated with it would be much smaller than in capitalistic economies. These arguments lead, in the first part of his book, to establish the equivalences of the two systems from a neo-classical efficiency perspective. Then, in the second part of his book, he attempted to highlight the superiority of LMF compared to conventional companies because he considered the latter to be less “humane” (Kalmi, 2003). Even if this last assumption was not demonstrable through neo-classical tools, he argued that the real power of self-management lies in the incentives based on job effort and quality of work life.¹⁴

However, evidence supporting the paradoxical behaviour of co-operative enterprises is lacking. A review of the empirical economics literature is found in Bonin, Jones, and Putterman (1993) who gathered studies concentrated in Western

¹⁴ This last contribution, that Vanek (1971) elaborated also in his *The Participatory Economy*, will be considered as a starting point for further analysis in §3.4.

Industrial countries focused on industrial production co-operatives. Specifically, their purpose was to verify, compared to conventional companies, whether such empirical studies have led to any conclusions regarding the existence of Ward's perverse effects; the impact of participation in decision-making on worker motivation and productivity; and the impact of the co-operative assignment of property on investment and capital creation. In brief, they found that empirical work generated no evidence of short-term inefficiencies and rejected the notion of a negative supply curve in a direct test. Moreover, dividend-maximisation was rejected as the sole objective for the studied co-operatives and employment concerns were identified as having a significant influence on co-operative decision-making (Smith, 1984; Berman and Berman, 1989; Craig and Pancavel, 1992)¹⁵. Concerning this, Hansmann (1996) highlights that the empirical evidence is missing because, in fact, the Ward-Doma-Vanek model relies on assumptions which are not observed in reality.

However, in co-operative economic literature, alternative behavioural models from a neo-classical perspective have been proposed. One of them is explained by Meade (1972, 1989), who, with his conceptualisation of the inegalitarian co-operative and labour-capital partnership, attempts to overcome some of critical aspects of LMFs. He considers a co-operative where the early members can decide if the surplus share is to be ascribed to later members. The possibility of paying lower incomes to later members compared to that of earlier members results in overcoming the Ward effect, since the optimal level of employment becomes that where labour marginal productivity equalises income that workers receive in enterprises where they earn less (thus, participation in the co-operative is just convenient). Therefore, in equilibrium the average income per worker will equalise his marginal productivity.¹⁶

Another alternative model has been proposed by Sen (1966) who examines wages according to work and to need. The contribution of Sen to the debate on optimal allocation in a co-operative offers an important insight, including the inner motivation of members which could be other than the maximisation of individual net income, and thus, avoiding considering members as *homo oeconomicus*. In fact, still in a neo-classical framework, he included into the analysis the possibility for members to feel a sympathy for other co-operators leading to valuing the well-being of other co-operators to the same degree as their own. In such a way, Sen came to the following conclusions: in a system based on distribution according to needs (i.e. a share of the co-operative total revenue) tends to result in under-allocation of labour in a co-operative enterprise; distribution according to work (i.e. salary proportional to

¹⁵ Quoted in Bonin, Jones and Putterman (1993).

¹⁶ Meade's analysis went even further, since his inegalitarian co-operative was able to overcome issues linked to the short term, but not under-investment and financial matters, considered important limitations of co-operatives. Thus, Meade (1989) in his *Agathotopia* explained the so-called "Discriminating Labour-Capital Partnership" (DLCP). In this economic institution, workers and those who provide the risk capital jointly manage the enterprise as partners. Features of capitalistic and co-operative enterprises are put together to create the "Agathopian" enterprise. Several critics have leaned towards the Agathopian institution, first of all, regarding it a real possibility to be implemented. Nevertheless, Vanek (1993, p. 87) argued that, the Agathopian institution would be, in any case, inferior to true economic democracy.

the amount of work provided) tends to result in over-allocation of labour in a co-operative enterprise; optimisation requires a mixed system of distribution according to needs and work; generally, worker effort depends on social preferences. In particular, Sen comes to the conclusion that in a system characterised by equal sharing, a degree of altruism or sympathy would help to raise incentives, although these would remain sub-optimal unless the high level that he calls “complete sympathy” is obtained. However, it is in the case of the mixed system of payment-by-work and equal sharing that Sen finds results which seem counter-intuitive. In fact, Sen demonstrates in his model that when sympathy is not complete, the optimal proportions of work-linked distribution and equal sharing are not a function of the degree of sympathy. These findings suggest looking for an alternative form of inter-dependent preference that seems to play an even more important role in group behaviour, and which Putterman (2006b) identifies in the concept of reciprocity.

3.3 Co-operatives between New and Old Institutional Economics

We can find a second approach to co-operative economics, other than the neo-classical framework, in co-operative literature. Indeed, this other line of thinking inaugurated by Alchian and Demsetz (1972) and which is based on institutional economics, acknowledges the existence of non-capitalist forms of enterprises in a system actually dominated by conventional companies, even if these alternative forms, namely co-operatives, are considered as a response to market failures, existing only in certain markets and considered to be economically unsustainable in the long term.

This second theoretical approach to co-operatives belongs principally to new institutionalist economics (NIE)¹⁷. Such theorists address to explain why certain ownership structures are observed, attempting, in particular, to understand why co-operatives are not as widespread as we could expect. Here, academics mainly consider three institutional aspects of enterprises which may have an impact on their effectiveness - the problem of free-riding, the issue of property rights and the existence of transaction costs.

Alchian and Demsetz (1972) provide one of the most exhaustive analyses regarding the reason why the capitalistic form of enterprise prevails over the co-operative one. Their argument regards the presence of certain behaviour among workers, such as “shirking” which can be avoided, in conventional company, by the presence of an entrepreneur who functions as inspector. The fact that in a co-operative the surplus is shared amongst workers, and, consequently, the monitoring activity is not in the hands of a single individual, explains why conventional companies are more widespread than co-operatives. Two main criticisms can be identified about Alchian and Demsetz’s theory (Jossa, 2005). Firstly, since in a co-operative workers share the surplus amongst themselves, they, themselves, act as inspectors, since all members control each other. Moreover, in a co-operative the

¹⁷ For a review of institutional economics in comparison with HDCA see §1.2

issue of reciprocity and trust among workers has a very strong impact on enterprise performance, surely more than in a conventional company. A second criticism is based on the argument that a co-operative, similarly to a conventional company, can hire an external inspector, who receives a wage for his job. Experiences of an external supervisor in co-operatives can be found in Israeli kibbutzim and in the Basque Mondragon co-operatives.

A further approach on this issue, following on from Alchian and Demsetz, is found in Holmstrom (1982). He argues that, under the assumption that in team work there is a link between effort input and team output, whereby the latter is the only verifiable one, it is impossible to devise a contract that elicits efficient effort levels. In fact, there will always be a problem of free-riding, since as long as the entire output of the team must always be distributed among its members, increasing incentive for one team member necessarily decreases incentives for someone else. Thus, he asserts that the Alchian and Demsetz dilemma can be resolved by punishing all team members simultaneously when any individuals shirk their responsibilities.

Property rights in co-operatives have mainly been investigated by Grossman, Hart and Moore. The starting point of their approach is that property and control are coincident. According to them, property is important because it is a source of power in the context of incomplete contracts and it focuses on enterprise assets. Indeed, in this situation, whoever holds the property rights decides on the physical and human capital in order to achieve the highest surplus in running the enterprise. In fact, in the case of incomplete contracts, the owner of an asset bears the residual return, that is, the difference between profit and what others receive as their right. Concerning this, Stiglitz (1994, p. 165) underlines that “the heart of ownership, Grossman and Hart contend, however, is not in residual returns, but residual control: all those rights to do particular things with the asset in different states of nature that are *not* stated in the contract belong to the owner; that is, if the contract does not *obligate* the owner to do a particular thing, then anything can be done with the asset”.

Thus, according to Hart and Moore (1996) the choice between conventional companies and co-operative enterprises depends on which of these two forms of business is more efficient with respect to investments to be made. In fact, as Dow (2003, p. 171) clarifies, we should expect a conventional company when investment in specialised machinery is more important for productivity than investment in specialised skills, as giving control to capitalists will enhance their bargaining position and increase the return on machinery investments. We should expect the opposite choice when investments in specialised skills are more important for productivity.

However, among these institutionalist approaches to co-operatives, the transaction costs approach has become quite predominant. One of the most important contributions in this literature is provided by Hansmann (1996), who argues that the enterprise chooses ownership structures that minimise transaction costs. The existence of market imperfections makes it convenient for “patron”, who is usually affected by the related costs, to own the property of the enterprise. These costs of contracting arise, for instance, from informational asymmetries and strategic behaviour (pp. 24-34). However, according to Hansmann (1996, p 35), every kind of

ownership structure holds three different costs, associated to peculiar characteristics of this structure - agency costs (costs of controlling managers), costs of collective decision-making and costs of risk-bearing. Costs of controlling managers and of collective decision-making are associated with the exercise of control, while costs of risk-bearing are associated with the receipt of residual earnings.

As Hansmann points out (p. 47) “the efficient assignment of ownership minimizes the sum, over all the patrons of the firm, of the costs of market contracting and the costs of ownership. If the class of patrons for whom the costs of market contracting are highest is also the class for whom the costs of ownership are lowest, then those patrons are unambiguously the most efficient owners”. With regard to co-operatives, he points out that, among all mentioned costs, those related to collective decision-making are the most important. In fact, he observes that even if costs associated with collective governance are not a real problem, worker ownership should be much more widespread than it actually is. Hansmann specifically stresses that it may not be the case that the decisions taken by worker-owners are necessarily inefficient compared to decisions made by investor-owned firms, but, rather, the problem is the time-consuming and possibly time-inconsistent process of making decisions. Of course, he does not forget the benefits that participation in collective decision-making can also yield for the patrons involved. He identifies three benefits (p. 43): the intrinsic benefit associated with the experience of participating in collective decision-making, considering that such experience is valuable in itself; the psychological satisfaction linked to the experience of control; and the fact that on behalf of worker ownership, participation in collective decision-making within the firm may be useful training for participation in the democratic political processes of the larger society. While the first two benefits are related to the individual, the latter is a benefit that involves the whole of society. This last benefit could be of such importance to warrant some kind of public subsidy, but, he concludes, it is not actually the case, due to the fact that costs, especially such costs associated with collective decision-making, are high.

All these arguments rely on the assumption that only efficient ownership configuration survives in the market. If a particularly inefficient ownership structure were adopted, the owners could benefit by selling the enterprise to more efficient owners and, in any case, less efficient ownership structures cannot survive in competitive markets. This assumption is clearly evident also with other NIE scholars. As Williamson (1980, p.35)¹⁸ points out “it is not an accident that hierarchy is ubiquitous within all organisations of any size. In short, inveighing against hierarchy is rhetoric; both the logic of efficiency and the historical evidence disclose that non-hierarchical modes are mainly of ephemeral duration”.

These arguments have been criticised by the so-called Old Institutional Economists, such as Hodgson (1996). Beyond considering that “support for the proposition that participatory and co-operative firms enjoy greater productivity and longevity comes from a large amount of additional case studies and evidence”, he (1996, p. 100) asserts that the important point that Williamson ignores is that “the

¹⁸ Quoted in Hodgson (1996)

selection of the fitter in evolution is not simply relative to the less successful but it depends upon the general circumstances and environment in which selection takes place". Indeed, Hodgson (1996, p. 109) suggests being generally very cautious with the idea that competitive natural selection works in favour of efficient firms. He points out the importance to focus on the institutional and cultural context in which competition takes place, since in the context of modern industrial structures, path-dependency may be relevant in the evolution of organisational form, and, as also North recognises (1990), surviving managements are not necessarily the most efficient.

3.4 New perspectives in co-operative economics: beyond efficiency as the only criteria of analysis

Beyond the literature reviewed above, recently in the co-operative economics debate "there is a mood of reassessing features of co-operation that make the difference – in business terms and ethically" (Spear, 2000, p.507). In fact, Spear agrees that "the theoretical basis for co-operative advantage is unclear and so cannot inform such activities. It is essential that this is addressed to help tackle the problem and capture the spirit of reasserting co-operative advantage".

To achieve this, both neo-classical and institutionalist approaches seem to be limited. They assume that members are self-interested and because of that, they cannot explain in-depth the social dimension of co-operative enterprises (Borzaga and Tortia, 2005). A third approach is developing in co-operative studies aimed at exploring the co-operative added value. As Zamagni (2005b) asserts, there are two possible ways to consider a co-operative enterprise. The first, relying on neo-classical and institutional economics, leads to the relegation of co-operatives to a residual position, destined to remain the exception to the rule. The alternative approach considers co-operatives as a more advanced form of doing business in socially advanced systems. Such an approach takes into account member motivation and, consequently, evaluates the co-operative enterprise as an organisational institution that enables workers to achieve self-realisation. The co-operative is considered to be the result of a common action¹⁹, whereby participants come together and organise themselves for a specific end. Thus, in a co-operative the interests of each person are pursued together with those of others, relying on the concept of reciprocity - each person commits to mutual support, helping others in their efforts so that the final result will be the best possible²⁰. Finally, this approach suggests the need for a "*different* economic theory of co-operatives, capable of suggesting a type

¹⁹ According to Viola (2004, quoted in Zamagni, 2005b), three elements distinguish a common action: (i) it cannot be concluded without all those who take part being conscious of what they are doing; (ii) each participant in the common action must retain title, and therefore responsibility, for that which he does; (iii) unification of the efforts on the part of participants in the common action for the achievement of the same objective.

²⁰ Zamagni (2005b, p.26) stresses that "this kind of reciprocal aid must manifest itself while the joint activity is being carried out, not *a latere*, nor at the end of the activity. Such a commitment should not be confused with self-interest, nor with disinterested altruism".

of societal governance based on the symbolic medium of the commitment to value, on the interiorisation of the objectives by all the members, to which the media of capital and power are subordinated” (Zamagni, 2005b, p. 30). Thus, this approach evaluates differently the intrinsic motivation of members, not considering them as “selfish rational actors” but “social responsible agents”.

Regarding agent motivation in theories that deal with the organisation of production, Sen (1993, p. 279) has already stressed that “the usual characterisation of team work in decentralised decision-making raises deep questions of individual motivation and social psychology that are rarely addressed [by modern economic literature]”.

Vanek (1971, p. 30), himself, considered that all the results achieved by economic theories regarding a labour-managed economy were actually based on unrealistic assumptions, such as the fact that enterprises maximise income per person with each worker supplying work of equal and constant quality. He defines this assumption as “dehumanised” and incomplete, and, in fact, a part of his analysis is devoted to understanding the added value of participation in co-operatives regarding its contribution to the workers’ quality of life. He analysed the participatory economy as a possible strategy for economic development, since he considered it to be “an inherent institutional structure that lends itself well to over-all direction towards socially desirable objectives” (Vanek, 1971, p. 34).

On the other hand, even if at least Hansmann, among New Institutional Economists, takes into account the individuals’ benefits linked to participation in decision-making, the cost-benefits approach adopted in his analysis leads him to consider the co-operative form of enterprise only as a response to specific market failures. Here, Zamagni (2005a) argues that there are three reasons why the comparison between co-operative and conventional companies should not be made only based on efficiency criteria. Firstly, the notion of efficiency is not exempt from value judgments since it is founded on the Benthamian concept of utility as an ethical assumption. Secondly, an analysis based on efficiency is built on the rational choice model, which is in clear contrast with the intrinsic motivation of agents who join co-operatives, thus, missing one of the main added values. Finally, efficiency analysis does not consider the social externalities generated by the enterprise’s actions, among which the promotion of democracy is surely the most important one.

Also Stiglitz (2009, p. 357) considers democracy one of the most important reasons for the success of co-operatives in a market economy. He argues that “greater internal democracy can foster not only a better workplace but also a more innovative workplace and a more innovative society.” According to him, worker participation in decision-making can enhance efficiency and productivity, but it is not enough, since the co-operative advantage can be identified, above all, in contributing to the increase in worker satisfaction and the well-being of society.

Thus, in order to examine the contribution of co-operatives to society’s well-being, and particularly, in reducing poverty, being the aim of this study, it is important to go beyond approaches based on methodological individualism and which consider income and utility as the measures of well-being. And it is here, that the Human Development and Capability Approach seems to be an appropriate

evaluative framework able to take into account individual motivation and to evaluate co-operative added value, not in terms of efficiency, but in terms of expanding capabilities.

4. Co-operatives as Institutions for Human Development

4.1 *Remarks to mainstreaming co-operative economics from a HDCA perspective*

As explored in section three, mainstreaming theories on co-operative economics are concerned with efficiency as the only criteria to evaluate the performance of co-operatives. Concerning this, Zamagni (§ 3.4) highlights three main reasons why the comparison between co-operative and conventional companies should not be made based only on efficiency criteria. In this section, such criticisms from a HDCA perspective will be explored, commenting on why the HDCA seems to be an appropriate evaluative framework which is able to overcome the mentioned limitations of the mainstream approaches.

4.1.1 *HDCA and the Benthamian concept of utility*

Zamagni's first argument (2005a) is that the notion of efficiency is not exempt from value judgments, since it is founded on the Benthamian concept of utility as an ethical assumption.

Similarly, the HDCA provides an evaluative framework, based on the concept of substantial freedoms, which surpasses the Benthamian concept of utility as an ethical assumption. Indeed, as Sen points out in *Development as Freedom*, "in utilitarianism's classical form, as developed particularly by Jeremy Bentham, utility is defined as pleasure, or happiness, or satisfaction, and everything, thus, turns on these mental achievements. Such potentially momentous matters as individual freedom, the fulfilment or violation of recognized rights, aspects of quality of life not adequately reflected in the statistics of pleasure, cannot directly swing a normative evaluation in this utilitarian structure" (Sen, 1999, p.56). Briefly, the main criticisms of Sen (1999) regarding the utilitarian approach are related to the distributional indifference, as this approach ignores the existent inequalities in the distribution of happiness; the presence of adaptive preference, because it is highly probable that people adapt their ability for desire depending on the context; and the neglect of rights, freedoms and other non-utility concerns because they are not considered to be of intrinsic value. The last criticism particularly shows here an interesting insight. In fact, the non-utility information that is excluded by utilitarianism could also be social or moral, such as, the principle that men and women should be paid the same wage for the same work (Robeyns, 2005). Indeed, these social or moral issues may be the underpinning motivation for the decision of members to found or join a co-operative. This consideration leads to the second criticism.

4.1.2 *Co-operatives and the inner motivation of members*

Zamagni's second argument is that an analysis based on efficiency is built on the rational choice model, which is in clear contrast with the intrinsic motivation of agents who joint co-operatives, thus missing one of the main added values.

Birchall and Simmons (2004a) assume that members are motivated by a mixture of self-interest and concern for others. They base their analysis both on the

individualistic approach, which assumes that people are motivated by individual rewards and punishments, and on the collectivistic approach, which interprets human behaviour very differently, assuming that people participate because of shared goals, shared values and a sense of community. They show that, from among the participants interviewed in the survey they carried out, collectivistic explanations were decisive, and that the influence of individualistic incentives was not necessarily unimportant, but definitely secondary. Furthermore, Hirschman (1988) sees participation in co-operatives as one of the manifestations of collective action. He suggests that motivation to found or join a co-operative can be observed also when there are not explicit reasons for collective action. In fact, it is evidence of what he defines as “Social Energy”, that communities can conserve and mutate over time.

In his studies, Sen (1999) points out that individuals are not motivated only by reasons of self-interest, but also by sympathy and commitment, and these arguments had already been underlined by Smith in his *Theory of Moral Sentiments*. Indeed, Sen recognises that Smith had already emphasised the importance of broader motivations in dealing with problems such as distribution and equity and rule-following to generate productive efficiency. Sen also stresses the importance of a balance in considering behavioural assumptions. On the one hand, he suggests to avoid considering that everybody is noble-minded but, on the other hand, he does not agree that values and motivations have no impact on human actions and choices.

Economists studying co-operatives do not exclude that members could also be moved by altruistic feelings, but such a possibility is not taken into consideration in their models. Jossa (2005) argues that it is important to be prudent and to consider individuals as selfish rational actors in order to understand whether co-operatives can really work. He also admits that if, in reality, members are motivated by altruistic feelings, co-operatives could only perform better than what is forecasted in neo-classical theory. It means that in the latter approach, concern for the community or the individual value of solidarity and participation are not valuable outputs of co-operatives and nor can they be considered intrinsic motivations of their members. Jossa concludes admitting that other analyses including altruistic motivations might be an enrichment of those based on egoistic behaviours. Also Sen, in his essay published in 1966, began to analyse, even if still from a neo-classical viewpoint, the allocation of resources in a co-operative considering member motivation, and in fact, he came to the conclusion that when there is “perfect social cohesion”, the co-operative allocation is Pareto-optimal (cfr. § 3.2).

However, it might be observed that co-operatives must be able to satisfy two constraints - the one of solidarity and the one of managerial efficiency. Surely, the constraint of solidarity has prevailed over managerial efficiency in the past, allowing critics to assume a trade-off between solidarity and efficiency, but nowadays, as Zamagni (2000) argues, solidarity that is not able to match itself with efficiency, will gradually disappear, as citizens would no longer be able to bear the costs of an inefficient way to practise solidarity.

Furthermore, as Alkire and Deneulin (2002 p.52) argue, “the assumption that motivation is exogenous and can be assumed to be self-interested can be actively detrimental to economic activity. Policy and incentive structures based on the

assumption of exogenous and self-interested motivation can undermine other sources of motivation and have negative effects both on co-operative behaviour and also on economic efficiency.”

In brief, also assuming the concern for the managerial efficiency of a co-operative, the intrinsic motivations of the members should be properly taken into account as they are likely to enrich and clearly explain the co-operative advantage.

Moreover, since social arrangements should be evaluated on the basis of the freedom that people have to promote or achieve the objectives they value (Sen, 1992), the motivations of people must be considered.

Some motivations that might be at the basis of co-operative behaviour, and which seem to be especially valuable in a co-operative enterprise, are listed by Alkire and Deneulin (2002 p.72), such as:

- long term reciprocity, where self-interest is interpreted over the long term;
- *philia* and altruism, where the welfare of others is important to the individual;
- communitarian motivation where the “we” is important as well as the “I”;
- identities where the cooperation among members to achieve group objectives (COOP) is a significant element of a person’s identity;
- social norms which favour the COOP;
- ethical convictions enhancing the COOP.

Clearly, referring to the *homo oeconomicus* in order to understand the co-operative advantage is definitely reductive. Thus, in referring to the co-operative enterprise, it could be affirmed that the co-operative business form is exactly the type of enterprise preferred by people who have reasons to value and appreciate their own autonomy and real freedoms. Indeed, because members are able to control their own productive activity, this kind of enterprise enforces those principles of equality and freedom which distinguish the market economy. All these considerations make sense only by assuming that real freedoms have an intrinsic value, regardless of whether important economic performance is achieved or not (Zamagni, 2005a).

4.1.3 Co-operatives, participation and economic democracy from a HDCA perspective

Zamagni’s third argument is that efficiency analysis does not consider the social externalities generated by the enterprise’s actions, among which the promotion of democracy is surely the most important one.

In *Valuing Freedoms* Alkire (2002a p.129) affirms that “participation refers to the process of discussion, information gathering, conflict, and eventual decision-making, implementation, and evaluation by the group(s) directly affected by an activity.” In the same essay she also points out that the purpose of participation is both to obtain outcomes that people value and choose, and to support a choice process that may be intrinsically valuable or “empowering”.

Indeed, in Sen’s conception of development, popular participation is one of the pillars and, in fact, he states that the idea of development cannot be dissociated from it. However, in assuming that participative freedoms are only related to the political sphere is certainly a mistaken interpretation, since, for Sen, participation has, first of all, an intrinsic value in itself, as Alkire also pointed out. Indeed,

referring to co-operatives, in his presentation at the Legacoop International Congress held in Bologna in 1998, Sen (2000) praised the co-operative movement precisely for its ability to adopt participation as a way of working.

Thus, the same foundation of economic and political participation is recognised, *inter alia*, by Dahl (1989) and by Gould (1985). Gould (p.209) specifically asserts that:

“workers’ self-management is therefore analogous to democracy in political life, in which the equal right to participate in decisions concerning common actions is recognised. The argument is similar in both cases: free agents have the right to self-determination or self-rule, which, therefore, implies an equal right to co-determination concerning all social activities in which they engage, whether political or economic.”

Worker participation is seen by the author as a requirement that emerges from a more general framework of the idea of justice, in which justice is understood as fundamentally involving equal positive freedoms. She underlines that economic justice pertains not only to the distribution of goods, but also to the distribution of rights and power that are involved in economic production, since these rights and powers are among the social conditions necessary for agency. Very important among such rights, is the right to participate in decisions or choices concerning the productive activities in which one engages jointly with others. This right to participate in decisions concerning joint production activities represents the right to the democratic sharing of authority in economic production, or, in other words, to economic democracy. The connection between economic and political democracy is evident not only in recognising the same justification, but also in considering that “there is strong evidence that economic and political freedom help to reinforce one another, rather than being hostile to one another (as they are sometimes taken to be) (Sen, 1999, p.xii).

On the one hand, political democracy is important for the spread of genuine co-operatives, as autonomous and own business enterprises. Attwood and Baviskar (1989), recognising that co-operatives created by local initiatives are the more successful, wonder what kind of social and political system allows these initiatives to emerge. They closely observed that successful experiences in India are related to the presence of a democratic regime, where co-operatives are integrated into the local political and economic life, based on an existing community and relying only partially on state support. On the other hand, economic democracy can be considered an essential component of political democracy, because democracy in working life may foster an attitude in workers promoting citizen participation in political debates, even more actively than what happens nowadays in a parliamentary democracy. Indeed, this aspect has been particularly stressed by Hansmann (1996)²¹.

It might be argued that an effective participation could be observed only in primary co-operatives, where the number of members is kept down. Alkire and Deneulin (2002) assert that motivation for co-operative behaviour is likely to be a stronger determinant of action where the size of the group is relatively small and,

²¹ See section 3.3

therefore, social interaction and its effects are perceptible. On the other hand, the empirical research of Birchall and Simmons (2004b) has shown that despite the old generalisation about democracy – the larger the size of the organisation, the lower the level of participation – there might be some truth in this, but there may be room for here for larger co-operatives to improve their governance. Improvements could be especially made by providing members with sufficient resources to participate effectively, such as capacity-building in terms of education and training, adequate information to support their involvement in the governance structures, and sufficient compensation to ensure that opportunities are open to the widest pool of members.

Clearly, even if theoretically co-operatives are a democratic form of business, where it supposed that workers control the enterprise and decision-making based on the principle one person-one vote, empirically, the behaviour of different co-operatives can be quite varied.

As Zamagni (2008) underlines “a co-operative whose governance followed the hierarchical model rather than that of authority would deprive itself of its best chance to capitalize on its own specific identity”. This assumption merits to be explained better. Referring to Bratman (1999)²², conditions for co-operation (which are mutual responsiveness, commitment to joint activity, commitment to mutual support), the author identifies two main actions which co-operatives must implement in order to actually operate in a co-operative way. The first one is communication as an essential requirement for the deliberative process, admitting the possibility of self-correction, resulting in a member changing their preference in the light of the arguments presented by others. The second one is the commitment to internal equity, which should be a direct consequence of the member’s motivation to join a co-operative. Here, Zamagni considers that every common action requires that someone exercises the command function to get the will of the different individuals to converge. However, this command can flow from the power hierarchy, as happens in conventional companies, or it can depend on authority so that it is impossible for any one person to impose their own idea of common action on others, as should be the case in a co-operative enterprise.

Thus, once co-operatives actually work genuinely, they can be a significant example of institutions that can foster Human Development. In fact, based on a participatory process, while contributing to the workers’ incomes and a country’s GDP, they can expand some members’ capabilities, fostering more democratic communities.

4.2 Co-operatives as special institutions for Human Development

As Hodgson affirmed (2006), organisations are special institutions that involve (a) criteria to establish their boundaries and to distinguish their members from non-members, (b) principles of sovereignty concerning who is in charge, and (c) chains of command delineating responsibilities within the organisation. Thus, we

²² Reference quoted in Zamagni (2008).

can definitely say co-operatives are special institutions. The important point is that, once co-operatives actually act in a participatory way, and, thus, they can be considered genuine democratic forms of business, they are also important institutions which can foster Human Development. As explored in § 2.2, institutions for Human Development (De Muro and Tridico, 2008):

- play an instrumental role - they guarantee a stable and sustainable economic development;
- play a constitutive role - regarding those institutions which foster human capabilities without any economic justification;
- have a participatory approach - people are the main actors of social change and institutions should be created and modified by people themselves through deliberative processes.

Genuine co-operatives satisfy all of the above-mentioned features. We know that co-operatives are one of the main actors in local development, able to contribute to the creation of wealth, in a sustainable way, and to economic and social cohesion. In evaluating co-operatives as organisations of local development, deeply rooted in the local communities, Becattini (2000, p.228) affirms that “If the conditions for a local profitability are lacking, [the co-operative] will eventually close down but only after a long-fought resistance that has called upon all the reserves of its members. However if, at the end, it closes, this will not be simply mean the winding up of a distributive (or productive) apparatus in a place, but it will mean the coming apart of the weave of a network of ethical and socio-cultural relations on which it existed”. Indeed, as Salani (2005) also points out, nowadays, co-operatives contribute to the creation of civic participation in a more sustainable way than other participatory organisations, due to the fact that co-operatives rely on their economic nature. In fact, Salani suggests considering co-operatives as catalysts of relational social capital, and so attributing to co-operatives and their members a new and broader role in community development. This argument recalls the second and the third characteristics of institutions for Human Development. Indeed, the autonomy and the meaningful relations that members establish in a co-operative have an intrinsic value, without any economic justification, thus, representing one of the main motivations for members to join a co-operative. In such a way, motivated members actively participate in the managing and decision-making of the co-operative, and through a deliberative process, they are actors of social change.

If these considerations are valuable for any community, at any level of human development, the intention here is to explore whether co-operatives can be a strategic means for expanding human capabilities (analysing specifically which capabilities) in communities at a low human development level, and, thus, becoming a tool to be acknowledged by policy makers in strategies to fight global poverty.

5. Co-operatives as a means for poverty reduction

5.1 Lessons from the past

The academic community (e.g. Sen 2000; Birchall 2003; 2004; 2006; Stiglitz 2004; Simmons and Birchall, 2008) and the international organisations (UN 1992-2011²³; ILO 2002a) have taken a renewed interest in co-operative enterprises as a tool for fighting poverty, especially in a people-centred development setting.

Notably Sen (2000, p.116) asserts that:

“The co-operative movement’s rich experience has a lot to offer to a world going beyond the mere relationships of production and trading and that covers the basic issue of the relationships among individuals. It is not a matter of expanding international aid but of acknowledging the interdependence among people through and beyond frontiers. Basically, it is a matter of reflecting clearly and effectively on the relationships between people and institutions. The future of the world may depend on it.”²⁴

Despite these recent acknowledgments, the idea that co-operatives have failed in their purpose is quite widespread, especially in developing countries, based on the experiences that those countries have had in the last half century. The main criticisms of the role of co-operatives in development were related to their inability to bring about structural change, thus benefiting the poor. Furthermore, critics asserted that co-operatives suffered from bad management and were limited by government interference (e.g. Lele, 1981; Attwood and Baviskar, 1989; Holmén, 1990; Thorp, 2002). However, it might be observed that, after the Second World War co-operatives were considered by national governments and international aid agencies as a tool to deliver economic growth and to that end they were used in a planned, top-down approach. The majority of those co-operatives closed down in the 1980s with the advent of ‘structural adjustment’ programs, thus in the minds of scholars and policy makers there remained the idea that co-operatives as a tool for fostering development, had failed (Birchall, 2003; 2004). In fact, until the 1980s, co-operatives in developing countries did not exhibit the features which characterise “genuine” co-operatives as democratic forms of enterprise. As Birchall (2004, p.3) argues “co-operatives – as autonomous member-owned businesses - had rarely been tried. The form that had been promoted had never really developed into the kind of people-centred business that had, over the previous 150 years, produced such spectacular gains for farmers, consumers and workers in the now developed world.”

Thus, the renewed interest regarding co-operatives as a tool for fighting poverty is related to a genuine, participatory form of business, which often is the result of a common action. Consequently, in the analysis that follows, we will refer exclusively to genuine co-operatives.

²³ Since 1992, the UN Secretary-General has issued the “Report on Co-operatives in Social Development”. They are available at <http://www.copac.coop/publications/unpublications.html>

²⁴ Author’s translation

5.2 Co-operatives as a means to expand human capabilities

In looking at basic capabilities, such as the opportunity to be well educated, nourished, sheltered, employed and provided with health care, it can be observed that, at least some of these can be achieved as they constitute the main objective of co-operatives. Birchall (2004) observes that co-operatives are essentially self-help groups of people who get together to meet their needs, and that they can come in several forms, according to the need that members would like to satisfy.

First of all, the frequent use of the word “need” in the language of the co-operative movement and academics begs for a more in-depth definition of that of basic capability given by Alkire. She asserts that “a basic capability is a capability to enjoy a functioning that is defined at a general level and refers to a basic need, in other words, a *capability to meet a basic need* (a capability to avoid malnourishment, a capability to be educated, and so on)” (Alkire, 2002a p.163).

Thus, different co-operatives can be realised with the aim of enhancing different basic capabilities. For instance, consumer co-operatives provide their members with food and other products they need, while housing co-operatives provide shelter and worker co-operatives provide decent work. Agricultural co-operatives help farmers to organise the inputs they need to grow crops and keep livestock, to access the market and to process their products, while credit co-operatives provide savings and credit facilities (Birchall, 2004).

5.2.1 Co-operative contribution to expanding basic capabilities: a possible list

A possible list of basic capabilities which can be increased and improved through co-operative membership could include the following:

a) *Economic freedoms*

Economic freedoms which could be achieved through co-operative membership are related to markets characterised by imperfect competition, being them monopsony or monopoly/oligopoly. Setting up or joining a co-operative enables members to increase their bargaining power and therefore to obtain the freedom to access output or input markets, among which credit and natural resources’ markets are particularly important.

One of the most recognised contributions co-operatives have made in economic literature is related to the economic freedom to market access for agricultural production (Torgerson, 2004). In fact, especially in rural areas, farmers join a co-operative in order to escape from the monopsonistic power of a very few business people, who buy their production (that is often a commodity production) for a very low price. Joining a co-operative allows small farmers to effectively access the market and to improve their contractual power. The importance of this on member capability is clearly visible once we refer to Sen’s considerations about markets and economic unfreedom. He asserts (1999 p.7) that “The denial of access to product markets is often among the deprivations from which many small cultivators

and struggling producers suffer under traditional arrangements and restrictions. The freedom to participate in economic interchange has a basic role in social living”.

b) Nutrition

Co-operatives can also contribute to improve people’s capability to be adequately nourished. This capability is well expressed by the concept of food security analysed at a household level (Burchi and De Muro, 2007). According to the definition given during the World Food Summit in 1996 “Food Security exists when all the people, at all times, have the physical and economic access to sufficient, safe, nutritious food for a healthy and active life”. There are four components of food security:

1. Availability of food, which is a necessary but not sufficient condition for food security.
2. Physical access to food, which stresses the role of distance, infrastructures, transportation.
3. Economic access, which depends on the economic condition of the household or individual.
4. Utilisation, which focuses on different dietary needs of people, methods to cook food, and cultural acceptability of certain types of food.

The role of co-operatives in enhancing food security has been investigated mainly regarding agricultural co-operatives (e.g. Chambo, 2009) and consumer co-operatives (e.g. Birchall, 2004). Consumer co-operatives usually provide members with food of higher quality and at lower prices and, above all, when they are settled in isolated areas, they guarantee food availability - a precondition for food security. Agricultural co-operatives contribute to food security in several ways: by increasing members’ incomes, they increase their purchasing power; by diversifying food production, they increase food availability, and they usually also increase the quality of food, since co-operatives are often committed to the production of organic foods, at least those linked to the fair trade chains. Moreover, training courses provided to members improve member knowledge regarding nutrition, and often leading to the adoption of better household dietary habits.

c) Decent work

The co-operative contribution to decent work has been particularly emphasised by researchers at ILO.²⁵ They have observed that, people organising themselves into a co-operative could be seen as one step on the path towards formalisation. Many co-operatives start as informal group enterprises and later, as they grow and become viable businesses they are registered as companies. The

²⁵ Decent Work refers to opportunities for women and men to obtain work in conditions of freedom, equity, security and human dignity. According to the International Labour Organization ILO, Decent Work involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organise and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men.

advantage of co-operatives in the informal sector is that they can provide individuals with the same benefits as those of larger institutions (ILO, 2002b). In this sense, work provided by a co-operative is not just a source of income, but also of social protection and job security, and more in general, of a better quality of working conditions and environment. Furthermore, it is broadly recognized that employment can provide a sense of self-respect and fulfilment (Sen, 1975) and being a co-operative member may improve those outcomes underlined by Sen. Indeed, considering job activities as merely an execution of duties, as an employee usually does, is extremely different to considering these duties as an entrepreneur's actions, as a co-operative worker does. In fact, the participatory process of a co-operative enterprise may have a great impact on members' self-esteem and psychological well-being.

d) Health care and Education

Regarding the provision of social care assistance, health co-operatives provide people with the possibility to access affordable healthcare insurance, or they actually provide healthcare. Co-operatives have also been effective in the provision of primary healthcare. Social co-operatives²⁶, especially experimented with in developed countries, are an effective way to cater to members' welfare. While it is arguable that this kind of service should be provided by local government, co-operatives have often covered the lack of such services by public authorities, especially in rural areas. Indeed, a number of multi-purpose agricultural co-operatives have provided their own hospitals in rural areas. It is also the case for education as even if co-operatives are not usually directly involved in providing primary school education, they often use their own funds to build and support local schools. However, co-operatives can contribute to the members' capability of being well educated providing support for adult education along with training in trades and as well, in understanding co-operative principles. Indeed, one of the co-operative principles concerns "Education, training and information"²⁷ originating from the commitment of when the Rochdale Pioneers provided education courses for their illiterate members (Birchall; 2004). Furthermore, notably, co-operatives, enabling members to be directly involved in entrepreneurial management, might contribute to members' education also activating "learning by doing" processes.

²⁶ Social co-operatives are very common in Italy and they are arousing the interest of developing countries. Their objective is the general benefit of the community and the social integration of citizens. Especially "Type B co-operatives" integrate disadvantaged people into the labour market. The categories of disadvantaged they target may include people with physical and mental disabilities, drug and alcohol addiction, developmental disorders and problems with the law. They do not include other factors of the disadvantaged such as race, sexual orientation or abuse

²⁷Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation. (ICA, 1995)

5.3 Co-operatives, agency and empowerment

While the involvement of co-operatives as base service suppliers clearly shows their concrete contribution to many of the Millennium Goals linked to basic capabilities, as has already been broadly explored, the potential of co-operative enterprises, as one of the best known examples of a self-help group, emerges to its fullest when we look at the existing inequalities in more complex capabilities (Ibrahim; 2006; Birchall, 2004; 2006; 2008). Heyer *et a.* (2002, p.12) argue that groups based on co-operative behaviour “can develop and reinforce socially desirable characteristics in individuals and bring about socially desirable consequences. For example, they can contribute to empowerment, self-confidence, individual responsibility and within group equity.”

Co-operatives can help in generating empowerment and giving a voice to the poor, also allowing them to organise federations and alliances. In patriarchal contexts, mixed co-operatives, which address gender issues, can contribute to gender equality, also at household level, while women co-operatives can help to strengthen women’s empowerment (Mayoux, 1993, 1995). Moreover, efforts in promoting empowerment and participation of the poor in strategies aimed at reducing poverty should make use of the co-operative model because of its values and principles that place importance on social responsibility and community development. In fact, co-operative membership, enhancing members’ agency, also reinforces their ability to achieve basic capabilities by enabling them to interact with policy-makers and to demand public services in their communities.

From the vast literature on empowerment²⁸, we can find two major classifications of definitions of empowerment (Alsop *et al.*, 2006). The first one considers empowerment as an expansion of agency, that is, the ability to act on behalf of what you value and have reason to value (Rowlands, 1997; Ibrahim and Alkire, 2007). The second focuses on the concrete material, that is, the social and institutional preconditions required to exert agency (Narayan, 2002; Alsop and Heinsohn, 2005). This is the approach followed by the World Bank in the 2000-2001 World Development report, where empowerment is defined as a process of “enhancing the capacity of poor people to influence the state institutions that affect their lives, by strengthening their participation in political processes and local decision-making.” Similarly, Narayan (2002) defines empowerment as an “expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control and hold accountable institutions that affect their lives”. She develops this framework mainly into two blocks: institutional climate and social political structures (to build the opportunity structure); and poor people’s individual assets and capabilities and poor people’s collective assets and capabilities (to build agency). In this approach, empowerment is a product of the interaction of these two blocks, while in the approach followed by Ibrahim and Alkire, empowerment is exclusively considered as an expansion of individual agency. Certainly, the

²⁸ For an accurate literature review on empowerment see Ibrahim and Alkire (2007)

institutional context where the choice is made and the power is wielded is extremely important, and concerning this, Ibrahim and Alkire (2007) agree that “clearly a process of empowerment is incomplete unless it attends to people’s abilities to act, the institutional structure, and the various non-institutional changes that are instrumental to increase agency”²⁹.

One could say, that the co-operative, which could be considered as an organisational asset and, so, be part of the opportunity structure in the definition of empowerment by the World Bank, is not an indicator of empowerment in itself, but is an important institution that can have an impact on people’s agency.

Seeing a person “not merely as the patient whose well-being commands attention, but also as the agent whose actions can transform society” (Drèze and Sen, 1989), is surely a fundamental requirement for a genuine co-operative, and it can be observed in all of the other domains of an individual’s life. Thus, considering empowerment of members as a dynamic and multi-domain process, participation in a co-operative may be considered the manifestation of agency in a particular domain, that is, the one of participation in collective actions. While the existence of this kind of agency could be considered as a precondition for a genuine co-operative, co-operative behaviour can foster changes in the power dynamics and could have a strong impact on the relational and individual dimensions.

However, it has to be recognised that the creation of a co-operative requires exerting agency, and thus, some preconditions are essential. Indeed, only has to look at Rowlands (1997, p.115) concerning the existence of a circular inter-relationship: “participation in the group may feed the process of a personal empowerment, and vice-versa”.

For this reason, empowerment cannot be considered as a single variable but, in order to be explored and then measured, it must be declined in different domains of a person’s life. Ibrahim and Alkire’s approach to empowerment derives from Rowlands’ conceptualisation of power, who (1997) introduced four categorisations of power: *power over* (the ability to resist manipulation); *power to* (creating new possibilities); *power with* (acting in a group) and *power from within* (enhancing self-respect and self-acceptance). In order to understand the co-operative’s contribution to members’ empowerment it is very important to further explore the above-mentioned categorisations of power (Table 1). The concept of “power over” is more static and does not evaluate the processes that may enable individuals to participate effectively in the decision-making process. It means that the economic democracy aspect of a co-operative, where the principle “one person-one vote” is followed, does not mean

²⁹ It is important here to underline that expansion of agency and empowerment cannot be considered as synonymous. In fact, according to Sen (1992, p.56) “a person’s agency achievement refers to the realization of goals and values she has reason to pursue, whether or not they are connected with her own well-being”. Agency differs from well-being in that agency does not only involve the goals resulting in an individual’s personal welfare, but in the totality of their considered goals (Crocker, 2008). This distinction is important as one can pursue objectives that may reduce one’s well-being. From this viewpoint, empowerment is a subset of agency - empowerment entails agency expansion, but not necessarily vice-versa (Alkire, 2005).

at all, that all members are aware of their role and vote freely and consciously, without any constraints.

Table 1 Impact of different typologies of power on co-operative member empowerment

Typology of POWER	Interpretation of power	Definition of empowerment	Co-operative members and empowerment.
POWER OVER	<i>Controlling power, which may be responded to with compliance, resistance or manipulation (Rowlands;1997:13)</i>	<i>Empowerment is bringing people who are outside the decision-making process into it. (Rowlands;1997: 13)</i>	Co-operative economic democracy allows members to participate in the decision-making of the enterprise, overcoming the unequal distribution of decisional power in other formal or informal typologies of employment
POWER WITHIN	<i>The spiritual strength and uniqueness that resides in each one of us and makes us truly human. Its basis is self-acceptance and self-respect which extend, in turn, to respect for and acceptance of others as equals (Rowlands;1997:13)</i>	<i>Empowerment is concerned with the process by which people become aware of their own interests and how those relate to the interests of others, in order both to participate from a position of greater strength in</i>	Effective participation in a co-operative may enable the person to feel the enterprise as their own business, whose sustainability depends on the efforts that each member undertakes. Participation in co-operative activities and achievement of co-operative goals may have an impact on member's self-esteem and perception of themselves.
POWER WITH	<i>A sense of the whole being greater than the sum of the individuals, especially when a group tackles problems together (Rowlands;1997:13)</i>	<i>decision-making and actually to influence such decision. (Rowlands;1997: 14)</i>	Undertaking efforts together enables members to create a sense of community and solidarity and feeling of inter-dependence to the extent that the co-operative is not just an individual's business, but the members' own business.
POWER TO	<i>Generative or productive power which creates new possibilities and actions without domination. It is a kind of leadership that comes from the wish to see a group achieve what it is capable of, where there is no conflict of interests, and the group setting its own collective agenda (Rowlands;1997:13)</i>		Co-operative behaviours experimented in a co-operative can be transmitted to other dimensions of people's lives, especially to household decision-making. It can also have an impact on members' bargaining ability with public authorities in requesting public services for the community.

Thus, focusing on the process of how the co-operative works is extremely important, as it could undermine the effective achievement of members' capabilities and it could make the difference between a successful and an unsuccessful co-operative. The other three categorizations of power are surely more interesting in this analysis. As Rowlands points out (1997, p.14), empowerment, related to *power within*, *power with* and *power to* "is concerned with the process by which people become aware of their own interests and how those relate to the interests of others, in order both to participate from a position of greater strength in decision-making and actually to influence such a decision".

While referring to co-operative members, a certain circularity can be identified in terms of *power with*, due to the fact that a genuine co-operative is, in itself, a result of a collective action, and categories of *power within* and *power to* can be evaluated as an outcome of member participation in a co-operative.

5.3.1 Co-operatives and household decision-making

As seen, participation in a co-operative may have an impact on power distribution among people, therefore enabling people who were excluded to participate in decision making process in the workplace. This aspect is particularly interesting once we look at power distribution within the household. In order to study intra-household inequalities it is necessary to examine whether, to what extent, and how, members of the household cooperate and share one each other. As suggested by Sen (1987, 1999), gender relations inside the household may best be thought of as a "co-operative conflict". This means that the relations are marked by some degree of conflict and competition as well as by a degree of mutual cooperation (Hicks, 2002). Even though bonds of kinship and care lead to sharing, people are influenced by traditional gender roles and they retain a degree of self-regarding interests that produce conflicts among household members.

However, it is still possible to leave the *status quo* and give birth to new social relations within the household. Quoting Hill (2005, p.126), "individuals reproduce social institutions over time as they behave in accord with accepted social practices [and that] change begins when individuals, who share a perception that change is necessary or desirable, initiate new practices." Our hypothesis is that the democratization process activated in the workplace through the co-operative enterprise may be then transferred to the household. Indeed, the same democratic practice and bargaining attitude, experimented with as a co-operative member, could promote a co-operative behavior in household decision-making process, prompting men as well as women to share decisions and responsibilities and, thus, reduce household inequalities. This participation in decision-making can be explored in different domains, such as children's education, health, household spending and work tasks.

Having the opportunity to participate in decisions regarding aspects of family life is a constitutive element of a person's wellbeing. It also holds an instrumental value, because a more participatory management in household decisions may lead to more efficient choices and, for instance, to more gender/age balanced resource allocation, improving the well-being of women and children (particularly girls).

Finally, it is important to stress that in communities where patriarchal dynamics prevail evaluating the outcome of cooperative membership as partners' attitude to share decisions in the household, means considering it as a consequence of: (1) male members' attitude to adopt in the household the democratic process they have experimented with at work, and (2) women members' demand for the democratic space in the household that they have obtained (or are practicing) at work.

A relevant empirical literature on gender equality in co-operatives and its impact on household dynamics is lacking. Nevertheless, Mayoux (1992; 1993; 1995a; 1995b) in her studies on co-operatives and women's empowerment points out that co-operatives do not automatically operate in favor of more gender balanced relations: they can contribute to it only if they are able to challenge pre-existent power structures and division of labor. Particularly, she stresses the importance of addressing "feminist" sensitive topics, such as reproductive issue or division of labor, through *ad hoc* training programmes, in order to enable the co-operative to work effectively for gender equality.

5.3.2 *Co-operatives as a source of community development*

Co-operative membership can have an impact not only on the level of individual empowerment and participation in the household decision making, but it can also represent a fundamental resource for community development. In fact, participation in a co-operative can have a strong impact on community development to the extent that it stimulates public debate on power dynamics, not only in the co-operative and in the members' households, but also in the community. It may occur, for instance, in gender roles, where, once women, who are members, challenge power relations in the co-operative and demand more effective participation in their household, the outcome of that debate can also spill over into community values concerning power relations between men and women. The same happens when poor farmers who are not co-operative members start to question power relations with dealers, because the existence of the co-operative in their community presents them with another way of working.

The indirect effects of a co-operative in a community could also be seen in the creation of new jobs and in new economic opportunities in areas that have often experienced economic hardship as a result of farming consolidation and depressed commodity prices (Leistriz, 2004). Furthermore, as underlined in § 5.2.1, sometimes, co-operatives use their own funds to build and support local schools and healthcare centres. However, it might be argued that this is not the best demonstration of co-operative added value and of its concern for the community. Despite this kind of commitment, it seems to be more important that some particular individuals in a co-operative use their sense of agency (related to the "power to") in order to demand better public policies for their community and to attract the needed services. Indeed, this aspect is crucially important in understanding the co-operative potential for community development, also because, in considering the co-operative as a self-help group does not mean that the poor can help themselves, only by themselves, without any important changes in terms of organisation (Stewart, 2005;

Berner and Phillips, 2005). As Berner and Phillips (2005, p.27) sum up, “The idea that poor communities can *develop themselves* – if it means that they require no redistribution of resources, if it means that the heterogeneity and inequities *within* a community can be glossed over, if it means that the macro structures of wealth and power distribution can be ignored –is flawed to the point of being harmful.” Stressing the role of the state is definitely important when dealing with co-operatives, because in rejecting the influence that state had in the past, imposing a top-down approach in co-operatives, must not lead to the misconception that the state has no role to play in development and people must help themselves, without any support. Indeed, first of all, the state plays a fundamental role in providing the legal framework enabling people to be free to participate and associate, and that can establish the legal framework that guarantees co-operative autonomy, avoiding the risk of being co-opted by the state or other institutions. Furthermore, the role of the state, as we have already stressed, is fundamental in providing people with those services that are related to basic capabilities, such as education and healthcare, which are one of the most important preconditions for an effective participation in public life.

Furthermore, while the concept of “power with” might be associated to the definition of “bonding social capital”³⁰ and it may be observed in the members of a co-operative, the concept of “power to” in the domain of community participation might be the resource that enables the “bridging social capital”, stimulating further collaboration between co-operatives or local groups. This attitude for the “power to” is individuated by Krishna (2001) in particular persons in the community, activating the propensity for mutually beneficial collective action, embedded in the social capital. Comparing the results from 60 villages in Rajasthan, India, he observed that “when the intermediate links are weak, as they are when agency is not capable, social capital does not translate readily into good performance”. Surely, over-stressing the role of agency might be criticised to the extent that this leadership could be replaced by local oligarchies, which would reproduce an unequal distribution of power, knowledge and resources as long as they were in control of co-operatives. (Bianchi, 2002). But this is not the case of a “genuine co-operative”, where members are supposed to actively participate and be motivated, and the leaders are supposed to be identified from among the members.

Creating networks between co-operatives and/or local groups could be a powerful path in community development. As Narayan and Chambers (2000, p.283) argue, “Local organizational capacity is a key element in building grassroots democracy, but without bridging social capital to link similar social groups across

³⁰ Narayan (1999) stresses that all societies are made up of social groups, but also of individuals, and that these groups determine the attitudes, beliefs, identity and values, as well as the access to resources and opportunities and power. Given that most societies are not similar, groups differ one from the other in accessing the resources and power. Much of social exclusion can be explained by the social capital as the same ties that unite, can also be those that exclude and the non-overlapping of the social networks of distinctive social groups leads to unequal opportunities in participation. The social capital within a group, even when it is solid (bonding social capital), is not necessarily a condition that allows it to link up with other groups (bridging social capital).

community, or groups with complementary resources, organizing local groups by itself is unlikely to move poor people out of poverty”. This argument could also be an answer to the critics who argue that the poorest do not benefit from co-operatives. In fact, the links between co-operatives in the same region and between co-operatives from developed and developing countries are an interesting strategy, oriented to strengthen existent co-operatives which lack resources and skills, or to promote the creation of co-operatives where local organisations are ready to move on from the informality status.

Clearly, also this kind of relationship has to be analysed from the perspective of the distribution of power. Indeed, Stewart (2005, p.197) points out that “where external actors act as catalysts it is important that they do not, thereby, create dependency, but assist in the formation of important external links”.

In this perspective, a crucial role can be played by the international co-operative movement which, through its network around the world, can facilitate partnerships and collaborations among co-operatives. Specifically, co-operatives from developed countries are seen as strategic actors of co-development, providing their support in development programs that are not aid-based but based on the sharing of common values and principles among co-operatives. Indeed, co-operatives from developed countries can provide capacity-building for co-operatives in developing countries, sharing co-operative entrepreneurial know-how, and facilitating access to international markets for co-operative produced products from developing countries (ICA and ILO, 2004; Develtere and Pollet, 2005; Bellanca et alii, 2011).

5.4 Avoiding any romantic idea: conversion factors

In agreeing with the position of those who are disappointed in and who reject the romantic idea of co-operatives (Attwood and Baviskar, 1989, Holmèn, 1990), assuming that co-operatives are not a panacea for development, it could be argued that the capability approach could offer a useful framework to evaluate how effectively a motivated member could take on a valuable role, participating in a genuine co-operative. As clearly explained by Robeyns (2005), the relation between means, on the one hand, and functionings and capabilities, on the other hand, is influenced by conversion factors. They are classified as personal, social and environmental, and explain how effectively characteristics of means (goods or services) can enable functionings. What is important, is that Robeyns’ clarification that “goods and services are not the only means to people’s capabilities. There are other means that function as inputs in the creation or expansion of capabilities, such as social institutions broadly defined”. According to this, the co-operative enterprise could be considered as a means that enables the achievement of valuable beings and doings, and how effectively this happens, depends on the influence of conversion factors.

As it has already been pointed out, the enhancement of a member’s capabilities through a co-operative is related to the enhancement of other members’

capabilities. This means that the majority of capabilities can only be achieved collectively. For instance, a member who joins a producer co-operative can improve their capability to access the market, but it is a result of a collective action, as the member would not have been able to achieve this by acting alone. Each member can access the market only if members as a whole can reach that goal. This argument might suggest considering capabilities achieved through a co-operative as collective capabilities³¹. In the analysis of a co-operative as a means for enhancing capabilities, collectiveness is obviously important, because, as has already been pointed out, some capabilities can exist for a member only if they exist for co-operative members as a whole. Clearly, Sen's insistence to focus on individuals is valuable in considering that inequality in a group might affect individual achievement and the concept of collective capability might undervalue this aspect. For instance, collective empowerment can be intrinsically valuable, as Stewart (2005 p.200) argues that "interaction among members of groups, including group culture (norms, values) are important for determining outcomes and transcend individual action". However it does not mean that every member who participates in a co-operative, can actually be individually empowered. For instance, a female member can participate in a co-operative collective action in order to achieve a common goal (e.g. a training course in a co-operative or a public school in the village) and her capability set is supposed to be enhanced, but it could be that she is not actually able to participate in the course because her husband will not allow it. Thus, while the concept of collective capabilities seems to be important in understanding the performance of a co-operative enterprise, the individual dimension has to be taken into account.

However, independently considering them as collective capabilities or socially dependent individual capabilities, conversion factors are definitely important in understanding how capabilities can be converted into achieved individual functionings.

As in figure 1, it is considered that it is possible to choose among different means, such as, a conventional enterprise, a co-operative enterprise or an informal local producer group, where it is assumed that the co-operative differs from the conventional enterprise in its level of economic democracy, and from the local producer group for its level of formality. Personal conversion factors are those that can impede individual participation in the social and economic life of a community, including their participation in a co-operative (e.g. physical condition, level of education, etc.). However, social co-operatives came about exactly for this reason, to include disadvantaged people in the labour market. Thus, some personal conversion factors, that might be generally considered to negatively impact the achievement of functionings, are not a constraint in the case of social co-operatives.

Environmental conversion factors (e.g. climate, geographic location), especially present in the rural context, can affect the regularity of an institution's activities, mainly due to the absence of infrastructures.

³¹ For a literature review on collective capabilities see §2.1

Finally, it would be very important to analyse in more depth those social conversion factors that could undermine the sustainability of a co-operative and the achievement of valuable functionings by its members.

A possible list of social conversion factors that could have an impact on a co-operative's potential to enhance its members' capabilities could include:

- Social norms (e.g. solidarity and/or egalitarian relations in the community; distribution of power among persons; gender relations).
- Role of the state (e.g. legal framework that guarantees freedom of association and that is favourable to co-operative autonomy and development, impeding co-optation).
- Economic framework (e.g. structural problems that affect markets; rules of international trade, such as *tariff escalation*).
- Networking – external links (e.g. connection with organisations, federations, alliances and other co-operatives in order to avoid isolation).

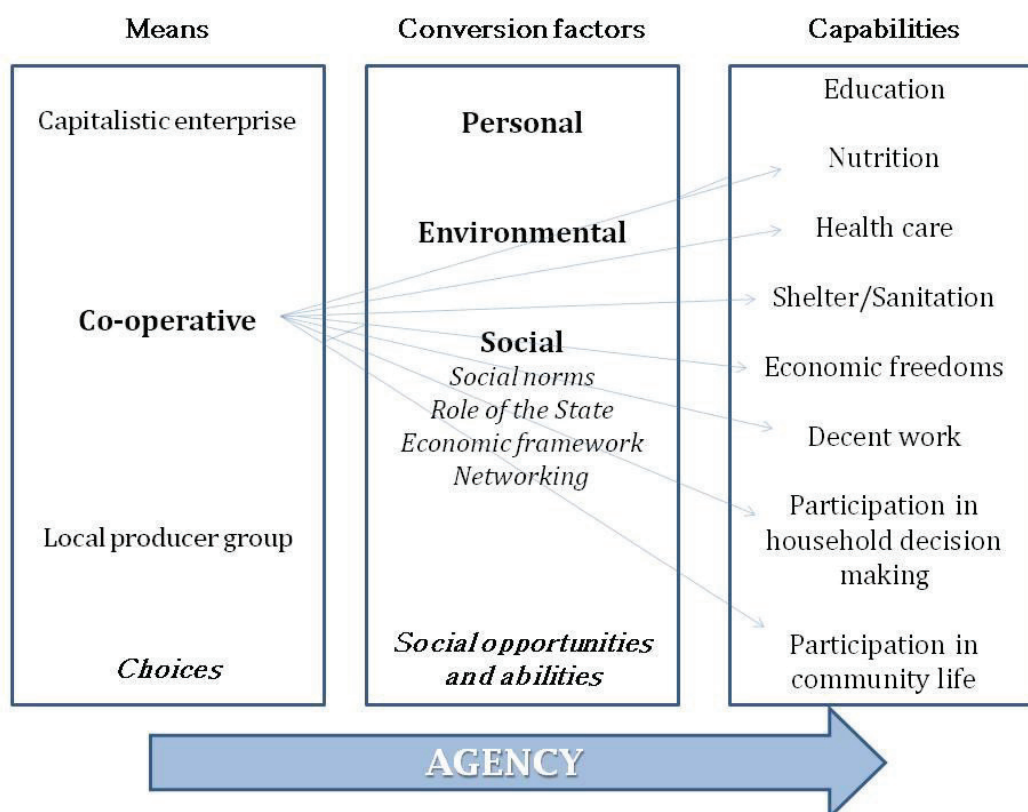


Figure 1 The impact of co-operative enterprises on members' well-being

Social norms could impact the process of member empowerment, affecting the distribution of power among members and impeding members consciously participating in the decision-making process, in feeling that they have no real possibility of influencing it. However, it is important to consider that debate within a co-operative could also stimulate debate outside, affecting social values and impacting people's lives in the co-operative and in the community.

As already analysed, motivated and aware members are the basis of a genuine co-operative. As well, absence of conflicts of interests, concern for the others and an attitude to collaborate may be crucial for sustainability. Surely, these attitudes are easier to find in an egalitarian society, but they can also be built up to the extent that people come together to demand their rights or to deal with common issues. While social norms and values conducive to co-operative behaviour are definitely important social preconditions for the spread of co-operatives in a community, the lack of egalitarian social norms and values may also be a source for fostering co-operatives, as is demonstrated by the evidence of co-operatives that were set up to challenge those dominant societal characteristics (Hirschman, 1988; Heyer et al., 2002; Bianchi; 2002).

The second conversion factor is broadly recognised in literature (Attwood and Baviskar, 1989; Holmès, 1990; Birchall, 2003; 2004), as well as in international institutions such as the UN and ILO, and is that the influence of the state can strongly impact the performance of co-operatives and past experience of failures prove this beyond doubt.

ILO (2002b) has adopted a recommendation where the guidelines for national and international policies are indicated, aimed at drawing up a framework, particularly a legal one that is effective in promoting co-operative enterprises as one of the pillars of a nation's social and economic development.

The main aim is to limit the possibilities for the state to co-opt co-operatives. As has already been investigated, a top-down co-operative undermines member participation and autonomy, denying added value even for the most important co-operatives and impeding the achievement of valuable capabilities. However, co-operatives can also impact the legal framework of a country. As Merrett and Walzer point out (2004, p.16) "co-ops and other forms of collective action can effectively generate political change, as exemplified in the evolution of laws related to co-ops".

The economic environment seems to be very important in order to understand broadly those structural problems which a co-operative has to tackle, and the way such problems could impact its performance and the achievement of its members' capabilities. For instance, the regulation of the global market, with the practice of *tariff escalation*, prevents small producers from processing their commodity (for instance in a co-operative enterprise) and selling their final products competitively on international markets and so gaining the added value of their production. Bianchi (2002, p.108) argues that "producer associations which qualify them as exceptionally successful relative to other similar groups, focus on the issue of protected market niches that are at the heart of their economic development". In fact, the strong link between co-operatives and fair trade movements³² found an answer in the structural problem of market entry, as fair trade rules enable co-operatives to sell their processed products in the richer Western markets.

This issue recalls the fourth conversion factor. Participation in co-operatives, federations, alliances and also in international networks, enables members to interact with other entities, resulting in positive growth and wealth creation and increasing

³² For an in-depth analysis: Develtere and Pollet (2005)

capacity-building and training. Simmons and Birchall (2008) explain, in detail, the fundamental role of the network aspect in appreciating the co-operative contribution to poverty reduction. According to them, “network perspectives can be applied at a number of levels – from local to global. Co-operatives generally represent networks of interest at the local level, as they need to network with various elites at the local level and beyond, in particular they need to maintain effective links with the state, and may benefit from becoming involved with global organisations. All of this means it is vital to understand the means by which networking happens successfully”. The autonomy of co-operatives is clearly important in their on-going effort to serve the interests of their members. However, equally important is their ability to network. Furthermore, this kind of participation seems to be an important in improving member empowerment and self-esteem, to the extent that they interact with public authorities, and they are involved in national/international meetings and conferences to exchange their experiences, to share strategies and perspectives and to find new business partners.

Finally, a crucial role is attached to members’ agency, being it enhanced by co-operative membership or already present in members’ attitude. In fact, the usage (or not) of members’ agency can significantly facilitate (or impede) the achievement of functionings, to the extent members use (or not) it to act for achieving all well-being related valued goals.

6. Conclusions and agenda for further research

Applying the human development and capability approach (HDCA) to co-operative economics, and therefore, linking co-operatives to the concept of agency and well-being, this paper aimed at contributing to shifting co-operative thinking beyond the *homo oeconomicus* rational choice perspective, and bringing it closer to the reason why people adhere to collective livelihood strategies.

Particularly, analysing co-operatives through the HDCA framework enables to fully enhance the importance of participation as main feature of genuine co-operatives. In fact, participation in political/social/community life helps to achieve commonly valued results, but it is also a process, intrinsically valid, because as such it enlarges the real freedom enjoyed by people. Therefore, within a genuine co-operative, where members have the right to self-determination, working together, sharing common interests and values, participating in decision-making, thus taking decisions in a “democratic” way, members find their way to expand their capabilities, empower themselves and increase their agency. It follows that participation is a core element of well-functioning co-operatives.

Therefore, as outlined in this paper, co-operatives, which actually act in a participatory and democratic way, can be defined as institutions which can contribute to fostering human development. In fact, genuine co-operatives held all the three main features required by these kinds of institutions. Specifically, co-operatives, set-up by members and rooted in local communities, are one of the main actors in local development, and thus, they can contribute to creating wealth, in a sustainable way, and to promoting economic and social cohesion. Furthermore, co-operatives contribute to creating civic participation in a more sustainable way than other participatory organisations, due to the fact that they are based on their economic nature. This argument recalls the second and the third characteristics of institutions for human development. Indeed, the autonomy and the meaningful relations which members establish in a co-operative have an intrinsic value, without any economic justification, thus, representing one of the main motivations for members to join a co-operative. As such, motivated members actively participate in co-operative management and decision-making, and through a deliberative process, they are the protagonists of social change.

The paper proposes the HDCA as an appropriate evaluative framework for investigating co-operative success in fighting poverty, examined in terms of member multi-dimensional well-being, even if the HDCA is criticised for being an “individualistic approach” and, thus, for not being appropriate to evaluate collective phenomena. With this regard, the paper supports the argument that the HDCA is an evaluative framework that embraces ethical individualism, but does not rely on ontological individualism. This means that even if the HDCA is concerned with individual well-being, it does not imply that only individuals matter and all social entities can be identified by reducing them to individuals. On the contrary, the HDCA is particularly concerned with those opportunities that are strongly influenced by social circumstances and public policies, and by focusing on the individuals’ well-being it provides a framework for shifting attention from monetary parameters to

multi-dimensional aspects of poverty and examining how institutions impact expanding the different real freedoms of people, being the main aim of development. With reference to co-operative assessment, evaluating its performance in terms of member well-being does not mean under-valuing its productive/entrepreneurial features, thus, risking placing co-operatives on the same level as associations/NGOs. In fact, many indicators of well-being are closely connected to the successful economic performance of the enterprise, but this economic performance also represents a means for human development, rather than its end.

Moreover, the paper asserts that it is very important to analyse the co-operative impact from a multi-dimensional perspective. In fact, co-operatives, as enterprises, are not required to expand all people's capabilities, thus, undermining the role of other important institutions in poverty reduction, such as the state, local institutions and other governmental and no-governmental organisations. First of all, co-operatives should expand the capability related to the mutual aim, the main reason they have been set up. Looking at basic capabilities, such as the opportunity to be well educated, nourished, sheltered, employed and provided with health care, it can be observed that, at least some of them can be achieved because, in fact, they constitute the main objective of the co-operative. In an agricultural co-operative it is food safety/security or in a housing co-operative, shelter, and so on. Other basic capabilities, such as education, or more complex ones, such as participation in community life or in household decision-making, can be the result of the participatory nature of the co-operative or of member commitment to their well-being and community development. In any case, the multi-dimensional approach in assessing a co-operative is crucial, as well as, the context analysis where the co-operative has been set up. It is here that conversion factors play a crucial role as they are contextual features which can impede/facilitate the transformation of co-operative membership into capability expansion. In particular, social conversion factors regard social norms (e.g. solidarity and/or egalitarian relations in the community; distribution of power among persons; gender relations); role of the State (e.g. legal framework that guarantees freedom of association and that is favourable at co-operatives' autonomy and development, impeding co-optation); economic framework (e.g. structural problems that affect markets; rules of international trade, such as *tariff escalation*); networking – external linkages (e.g. connection with organizations, federations, alliances and other co-operatives in order to escape from the isolation).

Thus, given the crucial role that genuine co-operatives can play to foster human development, policy makers should be particularly concern in creating the appropriate environment which enables their establishment and genuine operation.

The UN resolution which declared 2012 the International Year of Co-operatives clearly highlighted the important role of co-operatives in poverty reduction, thus confirming the importance of this field of research. Particularly, the resolution encourages Governments to establish policies, laws and regulation conducive to the formation, growth and stability of independent and sustainable cooperatives, particularly for socio-economic empowerment and the well-being of their members and the communities they serve.

To this aim, identifying appropriate methodology to assess co-operatives' impact on members' well-being and community development, may represent a valuable contribution to provide policymakers and practitioners with empirical literature as support for implementing co-operative development policies in developing countries. A specific role is envisaged here for action research, which based on participatory methods and involving members and local communities in impact assessment, might significantly contribute to identifying best practices as well as to improving grassroots' participation in local policy and decision making processes.

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