# Cooperative associations. Europe's Third Way?

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#### Abstract

The main stream literature on social justice and European integration distinguishes between three models of providing social justice in Europe: the family, the market and the state. Markets have demonstrated their limitations in the current economic crises, and New Public Management quickly disappears behind the horizon. The Welfare State appealed to many and was a main driver of European integration, but its fiscal implications and its normative bias toward social engineering render it practically impossible. The family does well, these days, as a coping model, but individualization is widespread and this makes it impossible to view the family as a prime base for social justice in the European Union in the decades. So, where do we turn.

Literature shows us two directions. One is communitarianism: a principle thought defunct, but revived and seemingly alive and kicking. Many these days look at informal ties and connections within communities as a source of social justice. The other one, not as well based in the literature, is the cooperative. Once THE model for organizing joint enterprises and social justice in the 1930's Europe, exported to far-away places like Latin America and Israël after WW II, the cooperatives are back. Most of the former cooperatives like the German Raiffeissenbank have been transformed into private sector entities in the past 30 years, and harmonization of European Law and the Services Directive has done the rest to drive most cooperatives out, but they are back.

And how. Spanish villages are setting themselves up as cooperatives in the midst of a worldwide economic crisis, offering their members housing at a rate of 15 euros per months – provided they are members of the cooperatives. Throughout Germany, housing owners in areas affected by demographic shrinkage organize themselves as cooperatives, buying dilapidated estates and transforming them into livable housing areas. Meanwhile, in medical care, Dutch patients entitled to home care constitute cooperatives to combine their acquiring powers and pursue what really matters to them.

Is the cooperative a viable means for providing social justice within the framework of the European model. What are its disadvantages? This papers seeks to draw lessons from Spanish, Dutch, Polish and German experiences.

### 1. Association and the European state

In the history of the European nation state, associations often formed the basis for and the corollary of state-formation (Raadschelders 1998). Associations of noblemen, assembled at the court, negotiated over the terms for their subjectivity with the monarch. Religious associations founded and maintain important functions such as schools and hospitals. In the 19<sup>th</sup> century, the fledgling nation-state could only reinforce its grip over the nations social life by involving, concerting and eventually integrating social action through associations into the state's fabric. Major social functions such as education, welfare, health and even public utilities were initiated, carried out and implemented nationwide by associations (Streeck&Schmitter 1985). Over the course of a century, most of the modern European states

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grew by assuming functions hitherto performed by associations, transforming the 'night-watch state' into 'social market-economies' where public regulation transformed associations into public services supported by the state and civil liberties were backed by social rights.

The 20<sup>th</sup> century first saw the prevalence of the state over associations, and then the predominance of the firm over associations (Trommel 2009). Associations were quietly embedded and then marginalized into the fabric of the public sphere, and then reduced to 'civil society organizations', with the predicate 'civil' referring to the constituent factor of the public sphere. The "greedy state" nationalized large parts of the domain hitherto under the control of associations and redubbed what was left of it as 'civil society', as an indication of the dominant view that associations of civilians were there to uphold the state. After WWII, state-centrism took two very different paths in Europe. In the Soviet-controlled Central and Eastern Europe, associations were colonized and integrated into the public sector, as an auxiliary means to improve the state's social control. 'The right to associate' retreated to ancient, hard to abolish institutions like the Church. In Western-Europe, the strife for a social market-economy led to a renewed interest in associations. Democratization of education and the media and the relative wealth of the middle-class eroded the monopoly of the elites over state control through concertation.

More technical, professional modes of governance supplemented the older cultural approach to governance. Participation in the process of EU-integration proved that such technical, more horizontal forms of governance were feasible. Contracting and subventions became popular means, replacing the age-old preference for hard legislation. The toolbox of Western governments vastly expanded to include a wide variety of soft-law and even market-oriented means (Hood 2007). Associations were contracted as 'service providers' and 'stakeholder control', to such an extent that eventually many of them lost touch with their members and constituents. No longer were housing associations, pension funds, electrical companies, water boards and other social organizations recognized as 'our own'. Mutuality and shared risks disappeared from the hearts and minds, and participation in associations was more and more seen as 'voluntary work'. Associations had become part and parcel of the state and were often referred to as 'semi-public', 'third sector', 'parastatal' or 'quasi autonomous non-governmental organizations' (Kendall&Knapp 2005).

# 2. Associations and EU-market oriented integration

From the end of 1980s on, the demise of associations as an independent sphere of life went through a new phase: marketization. The use of private sector management techniques to improve the functioning of public and 'semi-public' organizations eventually led to a wholesale restructuring of state-society organizations into contracts between principals and agents. Society was seen as level playing field, and the European Union set itself to the task of eliminating 'unfair competition' and 'monopolies' (Pestoff&Brandsen 2006). Governance was predominantly seen as a question of management-control, and the public manager replaced the public and social leader. More and more, associations were challenged in their 'effectiveness' as service-providers. Since mutuality and shared risk-taking had been eliminated in most associations, question-marks were raised at their orientation on membership and the fairness of promoting the interests of members over other interest. Great

efforts were made to formalize their mode of operation by including them into national accounting systems – subsequently enabling states to start taxing their operations (Monzon & Chaves 2008).

With many Central-European countries joining the European Union in the 1990s, it was this model of 'civil society', 'technical service provision', 'contracting out' and 'level playing fields' that was exported as a precondition for EU-membership. The remnants of independent associations that had survived over 40 years of state-centric real socialism, were pushed aside as 'contaminated' by socialism' or 'cultural peculiarities', and technical assistance from Brussels focused on building marketized social-economies. Membership of associations dwindled, and before long countries such as Poland were known for their shortcoming in terms of having 'a civil society' (Koncz, 2005). The Neo-Weberian state-model that was constructed combined elements of a legal orientation on governance with a great love for free market economy's spirit of enterprise and deeply engrained mistrust of clique-like 'associations' (Osborne 2008).

Twenty years of modern public management has bestowed many blessings on our European systems of public administration. They have become efficient, much more effective, and much better rooted within society. Globalization within the financial world has brought governments possibilities hitherto unthought-of, with public investment, procurement and consumption soaring both in Western- and Central-Eastern Europe. Instead of coming to a halt, as it seemed to be the case in 1980s, European integration has sped up, to such an extent that nowadays our economies are inextricably linked together. Spanish mortgage portfolio's are owned by a multitude of European system-banks. Even European SME's are tied to international partners in a myriad of ways, and a systemic failure in one member-country has huge implications in terms of bankruptcy in all the others.

The downside of this process of ever-increasing integration is that the social buffer between the state and private interests is no longer in place. Market-crises turn into public crises almost instantaneously, in directly affecting the lives of many millions of private citizens. The old pension funds, for instance, have quickly eroded away, because their wealth was used to serve public goals, and their operations were directly tied up with the private sector's way of organizing and funding projects. The mutual *Sparkasse*, where neighbours, colleagues, fellow-parishioners weekly and monthly put in their savings so that would be secure when public or private crises one day might hit their lives is no longer in place. The association, and the social domain, has been eradicated from our statehood-models as independent, self-constitutive part. Or hasn't it?

When the market fails, and the state appears to be incapable of providing shelter in a highly complex and turbulent world, people turn to each other (Esping Andersen 2002). In the past few years, lecturing my students on social justice, the European social model and European integration, I have witnessed how time and again they turn to the missing variable in European integration: the social sphere, occupied by independent social organizations, constituted by fellow-citizens who believe that together they are much stronger than on their

own, and there is more security offered in trusting thy neighbor than in signing up to a grand scale savings fund.

Moreover, in times of crisis, associations seem to return to life as if they have never been absent. In Spain, with housing cooperations and the mortgage-market collapsing, people start constructing projects together, become cooperative owners that mutually guarantee housing costs one-fifth of a privately owned house - provided you share ownership of a house that formerly wasn't yours in the first place – it belonged to the banks. In the Netherlands, housing cooperations have announced they will no longer be active in peripheral regions because demographic change and migrations threaten their business models, making it impossible for them to garner the number of clients and returns necessary to maintain a viable operation. In Germany, state- and market oriented systems of providing health care are supplemented by cooperative schemes that offer cheaper, better, more personal and better accessible health service than the grand schemes – because they are built on mutual support and involve local contributions, reforming 'voluntary work' into 'community work'. In Poland, with so little formal civil society organization present according to the statistics, neighbours stand up for each other and cooperate in times of crisis, as witnessed during recent flood incidents in the past ten years. Recent publications seem to suggest that the formal definitions of civil society organization, focusing on formal institutional aspects such as structure and regulations, are tainted by a public sector preference, and might not fit the peculiarities of Polish civil life (Giza-Poleszczuk 2009).

Somehow, associations are much more tenacious than expected. Maybe, our definitions are wrong, and it precisely because we use private or public sphere models and concepts to identify social sphere phenomena (Brandsen, Van de Donk& Putters 2005). If that is the case, then we are in need of redefining and reclaiming the social sphere and the organizations that constitute it: associations, cooperatives, and cooperative associations. Our quest will be oriented on the more formal models of associations that can be connected and tied into the discussion on the financial and fiscal crisis of the European state-model, as a third way of organizing for the common good.

This paper seeks to answer the following questions:

- What is an association?
- What is cooperative?
- What are cooperative associations?
- What do cooperative associations have to offer to European integration?

#### 3. Associations

The debate on how to organize for the common good has been with us since ancient times. Cicero spoke about social forms of organization in 'De Legibus' under the header 'Pro public Bono', and the topic was central to much of early modern thinking on state-creation in countries as far apart as Spain, The Netherlands and Poland. Social forms of organization, generally referred to as 'associations', have been constitutive of institutions we now refer to as 'democratic': self-rule by, through and for the people.

The concept of 'association' rests on a fundamental distinction between three spheres: the public sphere, the private sphere and the social sphere. It is these three that the German sociologist Weber refers to as the distinction between individual actors and collective 'Gemeinschaft' und 'Gesellschaft' (Weber 1976). Associations, in this line of thinking, connect the three spheres by organizing a medium that can serve to represent interests, to deliver services and other functions and organize accountability to maintain the equilibrium.

Building on earlier sociological work on organizing for the common good, the famous sociologist Esping Andersen (Esping Andersen 2002) distinguishes between three worlds of welfare capitalism: government (public), the market (private), and associations (social). Associations can be founded on all sorts of characteristics, interests and values that members have in common. There are professional associations ('guilds'), economic associations (cooperatives), religious associations (churches), kindred associations (families), geographical associations (neighborhoods) and leisure associations – to name but the most obvious distinctions. All of these types of association have a number of characteristics in common:

- Associations rest on the basis of mutuality and reciprocity. Members pool resources to be assured of performance on a 'do ut des'-principle<sup>2</sup>;
- Associations are in principle self-supportive, in that the members fund and perform all major functions internally;
- Associations are self-constitutive: members decide on regulations and form the board;
- In comparison with private and public models of organization, associations show only a limited degree of formalization, relying on participation as much as possible;
- Associations are highly constitutive of identities;
- Associations are exclusive in that they require (active) participation, and inclusive in that they offer a wide variety of forms to allow for participation in the greatest possible variety;
- Associations rest on the principle of co-creation instead of distribution or competition;
- Associations typically fulfill a combination of three social functions: representation of interests in private and public life; service provision to its members; and watchdog over the other circles of life.

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<sup>&</sup>lt;sup>2</sup> The formula *do ut des* ("I give so that you might give") expresses the reciprocity of exchange between human being and deity in Roman religion. Roman religion was highly secular, and deities represented social strata and social institutions. Thus, exchanging gifts between the individual member (human being) and society (the god(ess) implied a direct mutual obligation. Max Weber perceived 'do ut des' as purely formalistic ethic in his Sociology of Religion. Emile Durkheim, however, in 'The elementary forms of religious life' noted how 'do ut des' reinforced the mechanism of the system of giving itself as an exchange of mutually invigorating good deeds.

# 4. Cooperatives

In contrast to the concept of 'association', and adding to it, 'cooperatives' focus on mutual benefits. Members ('associates') construe legal entities to work together to attain certain benefits, often financial. The most well-known, within the European context, form of cooperative associations are farmers cooperatives driving the agricultural technological innovation in the second half of the 19<sup>th</sup> century. Nowadays, the most well known models are:

- Retailers or marketing cooperatives, often in the form of franchise-organizations
- Worker or producer cooperative, such as Spanish farmer cooperatives
- Volunteer cooperatives, such as the Lion's Club and the Rotary
- Social cooperatives, notably the Italian system of type 'A' cooperatives binding producers and beneficiaries of social services together as members, and type B cooperatives geared towards the re-integration of unemployed, under-skilled or handicapped within an existing organization of permanent workers
- Consumers cooperatives: businesses owned by their members, notably strong among supermarkets and other retail organizations that have strong direct links to their clientele,

Most analyses of cooperatives focus on individual members' profit, cost and risk. Until recently, therefore, in-depth analyses of the ways cooperatives work were limited to formal economic activities. One of the disadvantages of this focus is that obscures the mutuality. Profits and risks are defined within fixed-time frames, and exchange is only assumed if there is a visible quid-pro-quo within a feasible term (often 5 years), making it possible to tie the cooperative's activities into public and private taxing and funding schemes. 'Quid pro quo' differs from 'do ut des' in the direct causal linkage between exchange. In less formal, more associational forms of cooperatives, members know that their lives are connected over long time spans, and it is exactly this long time frame that they seek to overcome. Many of the newly founded Spanish housing-cooperatives, were instance, are deemed impossible in this perspective: there is a quid for some members, but the tangible for most is far away in the future. Nonetheless, members join. Why? Because identity and community are not purely formal concepts; they are real and constitutive, even if not tangibly producing tangible benefits right now, and sharing in the associations' rites confirms identity and offers shelter in dire times.

To illustrate this point. Two years ago, I visited the German Fläming, some 60 km south of Berlin, Economic restructuring, demographic change and migration had taken its toll. The region had been stripped of all its assets, and now the question was: how do finance our future? Urban reconstruction, road maintenance, facilities such as schools and hospitals, but also the physical maintenance of the landscape and even physical security from (for instance) flood and bushfires? The formal economy had contracted dramatically, the relative size of the active population had greatly deteriorated. And nonetheless, investment was found. From bank accounts that had been inactive for decades, precisely because people did not trust formal bureaucratic representatives nor foreign businesses to represent and handle their interests adequately. But when local government was recreated after German reunification and age-old associations were revived, a regional infrastructure for social action was available

to start and build new businesses on. People joined hands and set themselves to work because they belonged there, because they wanted to guarantee a good future for their offspring.

Identity and informal activity does not easily fit formal economic schemes. The formal profits garnered are insufficient in the views of the Revenue Service to guarantee the existence of cooperative associations as formal enterprises, and should lead to bankruptcy: because investors withdraw, because clients can seemingly get a better price/quality ratio elsewhere. But identity matters, also in the formal world.

# 5. Cooperative associations

This is where the distinctive value of 'cooperative associations' comes in<sup>3</sup>. Cooperative associations, in my definition, are associations of individual members that:

- 1. together constitute a *community of interests* that can/will not be served adequately trough public or private models of organization
- 2. *durably* work together (i.e. for the long term)
- 3. *combine* their capabilities (time, money, knowledge, influence) to secure those interests together
- 4. wish to be able to remain as *flexible* as possible to allow for dynamism and complexity and therefore minimize their formal arrangements as much as possible.

The *community-of-interests* element pertains to the friction between practiced identity and organized, that is reified, models of collaboration. Often, a strong distinction is assumed between structure and culture. Etienne Wenger is his analysis of complex organization nicely demonstrated how to the two are a precondition to one another and are tied into a type of yinyang relation (Wenger 2000). In contrast to Wenger, I distinguished between three independent, separate spheres: public, social, private, each following its own logic. Cooperative associations, negatively defined, fill the loopholes in the two other models of social organization: government and the firm. They differ from the firm, and add to it, in that they stress the importance of identity and point to the limitations to the private firms definition of benefit or profit. The firm-model, as defined by Coase for instance (Coase 1937), rests on the premise that there is tangibly, temporary relationship between investment and result. The cooperative model eases that dimension, allowing for a much broader and wider analysis of economic activity than formal models allow for.

The *durability*-criterion points to the way the Tragedy of the Commons dilemma is solved. Cooperatives escape from the prisoner's dilemma in that they are there for the long run. Every action that is detrimental to another member will inevitably re-bounce. 'Do ut des', we stated above, differs starkly from 'quid pro quo' But this is only half of the story.

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<sup>&</sup>lt;sup>3</sup> By choosing the concepts of 'cooperative' and 'associations' I try to avoid the fuzziness of concepts such as 'third sector' organization. The debate over 'hybridity'in EGPA-circles, for instance, shows how limited the concept of hybridity is (<a href="http://www.egpa-thirdsector.eu/">http://www.egpa-thirdsector.eu/</a>). In this paper, I am not interested in private sector or public organizations; I treat voluntary associations as a given, without trying to categorize them in terms of their public or private functions.

The *combination*-criterion points to the formal aspect of the association: the members construe and constitute an organization wherein their investments are combined, integrated and applied. This criterion requires members to invest in an infrastructure that goes beyond their immediate joint-businesses at hand; that is there for the long run, and not only fulfills external functions (representation, watchdog) but also internal functions (service-delivery). Cooperating affects one's own private way of organizing of doing business, leads to a distinction between activities performed in the cooperation and outside of it. A balance between these two types of activities is necessary to remain a vital and fruitful cooperation.

The *flexibility*-criterion offers a critical rule of thumb for all operations: the most-flexible solution is the best solution. The unique value of the cooperative is that it provides a basis to stabilize joint endeavors in the long run under uncertain, turbulent, shaky conditions. The cooperative offers and guarantee mutual support for the ceteris paribus clause in shorter terms contracts or redistributive schemes.

Just to give an example from present day Europe. Many countries have witnessed the rebirth of cooperative health care. Large and grant state health programs have proven their inefficiency and ineffectiveness in the past 20 years. In most of these countries, private business and equity has been invited to try and do it better. Mixed health models with public and private health care have added to the array of services available as well as the quality of service-delivery, but the total costs of health care has only soared higher and the rift between haves and have-nots has only grown. One needs to question oneself if European public health has really deteriorated to such an extent, or that other, more perverse incentives are at work? Either way; the present way of organizing health care medicalizes, professionalizes, rations unevenly and discriminates.

In the past decade, all over Europe, cooperative models of organizing health care are being rediscovered (Brandsen et.al. 2005). What once were member-operated Green Cross health care service-delivery organizations are reconstituted into HealthCooperatives. Religious organizations pick up their old legacy of work among the poor, often together with local residents. Pensioners are more and more active on important crossroads in our society: childcare, welfare – not because they must, out of financial need, but because there is a social need. The results are mixed. Cooperative heath care (in terms of cost and quality) only works as long as all the members contribute, either through financial contributions or through physical participation. Moreover, they require a fine balance between active members and paying members. Consumerism is always a danger, and there needs to be a direct link to the sense of the community to sustain the operation.

## 5. Added value: cooperative associations and European integration

What do cooperative associations have to offer to Europe? How do they relate to the other existing models, more notably: the firm and government? In this first brief glance over the debate, I distinguish four added values of cooperative associations.

### 1. Flexibility.

In terms of their legal basis, cooperatives have always formed a corollary, based on legal provisions that create civil liberties and demand accountability. Cooperatives have no special predilection for either a public law or private law basis, and their formal form differs from country to country. Countries such as the USA require a private law registration and apply large parts of regular business law to the ways cooperatives functions. Other countries, such as Spain and Italy, allow cooperatives to function in ways similar to public organizations. Their independence makes them perfect for organizing watchdog and feedback-cycles. Form follows function here, so to say. This from-freeness renders cooperatives extremely interesting in a EU-perspective. In an effort to improve policy feedback ánd mold the memberstates into a self-locking integration processes, the European Union has created its own statute for European Cooperative Societies<sup>4</sup>, believing these so-called *SCE*'s are vital cartilage in the ever-growing complexity of the European multi-level governance system.

# 2. Lean operating

In terms of the operating model, there is clear distinction between administrations, firms and cooperatives that cuts across cultural differences between legal orders. In contrast to private firms, cooperative members share equally on financial burdens and gains. The aim of cooperatives is not to amass wealth for the firm and its shareholders, it is to attain a fair and equitable distribution of costs and gains among its members. In many countries, this provision leads to special taxation status for cooperatives. This orientation towards equity is an attractive route to social and territorial cohesion, a longstanding European Union goal and a prerequisite for further integration. INTERREG and other cohesion-schemes aimed at national states have done little to increase cohesion and diminish differences. In fact, in 40 years of EU-policy, socio-economic differences within Europe have grown rather than diminished. Cooperatives provide an alternative route to state redistribution through taxation, levies and subsidies (government) or stimulating competitiveness (firms). The operating costs of such programs, moreover, are limited, in comparison with the administration of EU-funds or the regulatory control of EU level playing field regulations.

### 3. Bottom-up governance

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<sup>&</sup>lt;sup>4</sup> The Statute for a European Co-operative Society was adopted on 22nd July 2003 (OJ of 18th August 2003 (L207) Its objective is to provide co-operatives with adequate legal instruments to facilitate their cross-border and trans-national activities. The Statute for a European Co-operative Society parallels the Statute for a European Company (SE), adopted in 2001, but has been tailored to the specific characteristics of co-operative societies. The Statute is not only of interest to co-operatives. It also provides an ideal legal instrument for companies of all types wishing to group together for their common benefit, for example in order to access markets, achieve economies of scale or undertake research or development activities. The Statute also enables 5 or more European citizens (physical persons) from more than one Member State to create a European Co-operative Society. As such it is the first and only European company form which can be established from scratch and with limited liability.

One of the cooperative's strongest attractions to Brussels policymakers is its democratic potential. In a time where representative democracies across Europe lie under siege, international business is accused of having provoked the worst financial crisis in 80 years and Brussels is increasingly unpopular for its lack of democratic procedure, cooperatives provide a democratic boost to Europe without have to redesign national and European state structures. The ideal of civic representation and participation in democratic processes has given way for a call on governments to work the other way around and start participating in 'civil society' – which still implies a top-down perspective, but it does open up possibilities and venues hitherto barred.

#### 4. Social return on investment.

The fourth and last big distinction between governments results from added values 2 and 3. European nation states (and therefore the European Union) go through a prolonged period of fiscal scarcity that in all probability will still be felt in 20 years time. Only with a drastic overhaul of state-society-business relations can the current living conditions and investment levels be maintained. In the past 20 years, large parts of Europe's economic growth was ade possible through fiscal bubbles and the export of financial risks to other continents. It seems that that era has come to an end. The tightly coupled governance system that the European Union was has reached its limits, existing business-models are defunct, stock exchanges have collapsed, and it seems Europe is out there on its own. With drastically reduced public budgets, the only possible source for sustainable growth is the involvement of private citizens working together to attain a fair and just distribution of wealth and risks that can be formed and tuned according to local conditions and needs. In short: the involvement of cooperatives in securing the social return on investment.

#### 6. Conclusions

In this brief paper, I have done nothing than putting forward the thesis the cooperatives are an essential element of European integration. Europe's brief history of the nation state has for a long time obscured the vitality of cooperatives in European state formation and Europe's economic success, trivializing their existence and directing them to sidelines of EU-governance. The growing complexity of the EU's multi-level governance system, the need for a democratic renaissance and the deep systemic economic and fiscal crisis have made it clear that markets and governments do not possess the answers.

Cooperatives work like cartilage. It connects bones and body-parts that would normally be disjointed; it accommodates sudden strains and blows that the muscle-tissue of our societies and the economic tides exert; and it monitors and if necessary remedies faults and flaws within either muscles or bones.

Markets and governments have closely worked together to construct an EU-governance model that is sometimes referred to as the 'regulatory state' (Levi-Faur 2006). Three years of hampering EU-problem solving in the current fiscal-economic crisis have learnt that regulation and bureaucracy are an ill match for the current 'directly deliberative polyarchy' that has originated (Büchs 2009). A further improvement of structures seems to be ill at ease

with the polyarchy that we live in, and an investment in economic muscle alone will only result in ruptured tissue and broken bones. It is time to shift our attention to the cartilage: cooperative associations.

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