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Cooperative Enterprise Development as a Key Aspect in Rebuilding Solidarity-Driven Local Economies in the Aftermath of Thirty Years of Destructive Local Neoliberalism

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1. Introduction

With global neoliberal capitalism coming within a hair's breadth of entirely collapsing in late 2008,[1] and with many resigned to the fact that there is a lot more deprivation, pain and humiliation to come, the search for a far more stable, equitable, dignified, environmentally sustainable and democratic/participative economic model is now more urgent than ever for humanity. This paper is about the construction of the economic model that embodies all of these important aspirations – the <u>solidarity economy model</u> – and the central role that <u>cooperative enterprises</u> will play in this important endeavor. I argue here that the key practical task involved in promoting cooperative enterprises involves 'getting the local institutions right'. I maintain that the optimal way to promote the solidarity economy is through the adoption of a '<u>local developmental state</u>' (LDS) approach, an approach that has achieved much more success around the globe than many analysts are aware, and which in future can and should be directed towards building the solidarity economy model from the bottom-up through a strategic and determined focus upon cooperative enterprise development.

2. Cooperative enterprises as the core of the solidarity economy model

A cooperative enterprise is an enterprise that is owned and controlled by its members, who may be basic producers (e.g., farmers), workers, savers, customers, the local community, and other cooperatives. The cooperative movement was born during the rise of industrial capitalism in the early part of the 19^{th} century. Cooperatives were seen as a much more democratic, fair, humane and also a more efficient enterprise structure into the long-term than investor-driven capitalist enterprises, though, as we shall see, their establishment and operation in a hostile 'capitalist sea' was not always straightforward.[2] But in spite of many obstacles, the cooperative sector soon began to register dramatic expansion right across the world. By the 1900s, the cooperative sector was a major component of all of the world's capitalist economies, and in some sectors, such as agriculture and housing finance, agricultural and financial cooperatives respectively actually played the dominant role.

From the 1950s onwards, the success of the cooperative enterprise led some to envisage an entirely new economic model – the <u>solidarity economy model</u> – which, in so many obvious ways, constituted a far better economic model for humanity to aspire to than free market capitalism.

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[1] This has been quite openly accepted by two of the main global cheer-leaders for neoliberal capitalism – the *Financial Times* and the *Economist*. The *Financial Times* discussed just how close things came to total collapse in 'The future of capitalism', a two-month series of major articles and think-pieces, web-based discussions and video presentations starting in April 2009. Meanwhile, the thoroughly anti-state *Economist* magazine was forced to admit that capitalism was only saved at the very last minute thanks to the 'biggest, broadest and fastest government response in history' - see 'The Great Stabilisation', *The Economist*, 19th December 2009.

[2] One of the leading Guild Socialists in the early 20^{th} century, G.D.H. Cole (1913) feared that the obvious advantages of the cooperative enterprise to humanity might still prove insufficient to replace the capitalist system. He correctly predicted that the most powerful elites within capitalism – the old landowning class, the new class of capitalist industrialists, and the emerging class of media barons – would not simply concede their power, prestige and privilege in the face of the cooperative movement, but would instead defend themselves by taking every opportunity to denigrate, undermine and marginalize it.

From the mid-to-late 1800s onwards, Italy was a trail-blazer for many of the most important advances in the cooperative sector. But it was from the 1950s onwards in Northern Italy that the first European region most closely approximating to the solidarity economy model began to emerge. By 2003, the region of Emilia-Romagna had both the highest number of co-operatives in Italy, the highest proportion of non-agricultural workers employed in cooperatives (nearly 10% in 2001), and the highest proportion of economic activity – more than 40% of its GDP – generated in the co-operative sector. Perhaps most important of all, Emilia-Romagna has regularly topped European 'Quality of Life' surveys thanks to the very high levels of social capital generated through the cooperative-based economic model. According to Stefano Zamagni of the University of Bologna, "*Social capital is highly associated with quality of life everywhere (and) it seems that the co-operatives' emphasis on fairness and respect contribute to the accumulation of social capital here.*" (quoted in Logue, 2005: 25). Importantly, this enormous success was achieved thanks to a raft of local institutions coordinated and financed by newly elected communist and socialist regional governments, especially in 'red' Emilia-Romagna. New and established cooperative enterprises benefitted from affordable finance, thanks to networks of financial cooperatives and Special Credit Institutes (SCIs), but they also received quality support from various local institutions offering business planning, technology acquisition and transfer, member training and education, creative public procurement policies, networking and clustering of cooperatives, and accessing new markets (especially abroad) through trusted intermediaries (Bateman, 2007).

The Basque country of northern Spain soon followed as the other important West European example where moves to build a (regional) solidarity economy have been very successful. Beginning in the town of Mondragon in the late 1950s, the Mondragon Cooperative Corporation (MCC) was to transform the Basque country from one of the poorest regions in Spain into one the richest. MCC's interlinked network of worker cooperatives now spans the entire Basque region, employing nearly 80,000 member-workers in more than 100 cooperatives. Just as in Northern Italy, Mondragon's long-lasting success can also be attributed to a dense network of financial and non-financial support institutions, two of which were decisive here: the *Caja Laboral Popular,* an institution that mobilized savings within the Basque region and then very carefully intermediated these savings back into sustainable cooperative development projects; and, second, an enterprise development unit - *División Empresarial* – that was able to provide individual cooperative projects with quality business planning, member training, contact making, product and process development advice, help to access the right technologies and many other forms of support (Bateman, Girard and McIntyre, 2006).

Finally, very important lessons can be learned from the experience of the first fully-functioning solidarity economy model to emerge at the country-level, in the former Yugoslavia. This was Yugoslavia's pioneering system of 'worker self-management', a solidarity economy model that was established in the early 1950s and was to last until the late 1980s. Although operating imperfectly in many respects, just as under capitalism where the practice greatly diverges from the 'pure' theory that lies behind it, economic performance under worker self-management was initially very sound indeed, and at several times during the 1960s Yugoslavia was officially the fastest growing economy in the world (Horvat, 1982). Once again, the activity and innovation of local institutions proved vital in successfully promoting new and supporting existing worker self-managed enterprises, largely in order to create and preserve decent employment opportunities and expand the local tax base (Bateman, 1993). The system's eventual demise in the late 1980s was mainly related to renewed political interference and other factors unrelated to the operation of the worker self-management system itself (e.g., Yugoslavia's incipient separationist movements).

These three pioneering experiments need to be examined closely by policymakers with an interest today in promoting the solidarity economy model. Indeed, as the neoliberal experiment began to wreak havoc across the developing world in the 1980s and 1990s, these and many other important cooperative experiments were revisited and reevaluated very positively by those who now lie behind the modern solidarity economy movement (Santos, 2006). But if the ultimate aim is becoming clear enough, the core implementation question still remains: *how best to actually create and maintain genuine cooperative enterprises?*

3. Cooperative enterprise development as an aspect of local economic development policy – policy choices to make

Thanks to a much more accurate depiction of the real economic history of the developed capitalist economies, as well of the more recent East Asian 'miracle' economies, we now understand that the common element in this success was not 'free market forces', as many quite wrongly claim (famously in the case of Friedman and Friedman, 1980), but actually the quality of strategic state support that went into the enterprise development process. This fundamental insight from economic history has given rise to what is known as the 'developmental state' model (Amsden, 2001: Chang, 2007, 2011). The most successful economies are those in which the state (national, regional and local) has most competently supported the 'right' type of enterprises, with 'right' broadly defined as small, medium and large enterprises that are:

- formally registered
- operating at or well above minimum efficient scale
- as much as possible operating on the technology frontier
- innovation and skills-driven rather than (just) low labour cost-driven
- horizontally - clusters, networks- and vertically - sub-contracting, supply chains, public procurement - productively inter-connected with other organisations
- able to continually facilitate the creation of new organisational routines and capabilities

At the same time, and for very good reasons (Bateman, 2010, 2013: Bateman and Chang, 2012; see also Baumol, 1990), the 'developmental state' model effectively ignored the 'wrong' enterprises, loosely defined as simple, informal/illegal, isolated, low/no technology, petty trade-based microenterprises and one-person self-employment ventures.

Crucially, this revised understanding of the role of institutions within enterprise development is not just confirmed by the growth of investor-driven enterprises; it is also very much confirmed by the bottom-up country and regional cooperative development experience adumbrated in Section 2 above. What this means then, I suggest, is that if the solidarity economy is to become a genuine reality through the accelerated promotion of cooperative enterprises, *the local institutional support structure issue is an absolutely pivotal one to get right.*

A variety of local institutional models exist that are geared up to supporting enterprise development of all kinds. The precise design of these local institutions is important in very many ways, affecting not only the strategic capability of the institution but also its everyday operational efficiency. The principle design constraints under neoliberalism were ideologically driven ones: first, the imperative that the local institution does not expand state capacity, and, second, that there is no cost to the state. Accordingly, it was required under neoliberalism that all local enterprise development institutions be (re)configured as for-profit non-state bodies operating with a primary mission to 'earn their keep on the market' in order to achieve 'full cost recovery' (Bateman, 2000). Apart from the obvious cost minimization argument, neoliberals also argued that such a for-profit institution would ensure that the services provided were of good quality (so as to win business) and genuinely demanded (evidenced by the fact that there was a willingness to pay). Supporting a for-profit private institution was preferable to support for state capacity, which many neoliberals instinctively felt should not be encouraged or even publicized, *especially when the results were manifestly positive*.[3] For most of the last thirty years, this neoliberal approach to local enterprise development institutions has dominated in international development policy circles.

However, the rather awkward fact is that the neoliberal approach to local institutions does not work. This, for example, was the conclusion of the largest evaluation of such institutions established in post communist Eastern Europe, which found that almost none of the EC-funded local institutions could survive by 'earning their keep on the market' whilst retaining their original mandate to support small businesses and local development (see EuropeAid, 2000). When it became clear that they could generate far more revenue by working with large companies, the government and the international development agencies themselves, most EU-supported local enterprise development institutions simply abandoned their original mandate. In the absence of such revenue streams, however, the typical response was to simply close down, as indeed almost all such local economic development institutions have done in Eastern Europe since 1990 (Bateman, 2005a).

This well-documented record of abject failure was confirmed once again in 2012 in the context of Latin America. A major study contracted out to the author by UNDP (Bateman, 2012) was tasked to look into the operation of the network of 'market-driven' Local Economic Development Agencies (LEDAs) established in Latin America with UNDP technical and financial support. For a long time claimed by UNDP, and especially by its own consultants (Canzanelli, 2010),[4] to be making a

[3] For example, Germans neoliberals were very reluctant to publicise the very central role the state played in bringing about their "*Wirtschaftswunder*" (economic miracle) because of the fear that it would give succor to the planned economies of the East (including the former GDR) during the long years of the Cold War, and to their ideological opponents in the western economies. Although privately very uncomfortable with the significant degree of state intervention in the former West Germany's economic development, in public Germany's neoliberals cynically went along with the propaganda that 'the market' was responsible for West Germany's stunning post-war success (Weiss, 1998).

[4] Prior to the 2012 study by Bateman, all previous evaluations of the LEDA network in Latin America had been undertaken by the same small group of individuals who helped to design and establish the LEDAs and who for many years thereafter provided private consulting services with regards to the

‘major contribution’ to the economic development of local communities right across Latin America, UNDP’s LEDA model was actually found to be in deep crisis everywhere. Most worrying, the very *worst* outcomes were registered in the one country - Colombia – where the LEDA network had been portrayed as the best-performing in *all* of Latin America (Canzanelli, 2011; Las agencias de desarrollo económico local, ADEL, 2011). The principal problems among the many found in Colombia (and elsewhere in Latin America and around the world) included the following: with one exception, Colombia’s LEDAs were clearly financially unsustainable; they generated almost no additionality, because they simply competed with other existing local development institutions and Universities for the same projects and clients; they were unable to meaningfully promote public-private dialogue, because they competed with most key public-private stakeholders for the same contracts; and, finally, staff in the one and only LEDA in Colombia that proved successful in raising funds by charging user fees and obtaining consulting contracts after competitive tender procedures, openly admitted to being on course to be sold off to its current and previous managers for that very reason. Notwithstanding, such was the euphoria created over the self-declared success of the LEDA program in Colombia that both the Colombian government and the EU aid office operating in the country were both persuaded to invest even *more* resources into the LEDA network. [5]

Not least because of the adverse outcomes of the market-driven neoliberal paradigm of local institutional support, many developing countries have begun to experiment with more development-driven local institutions capable of offering consistent and quality support to local enterprise development, including to cooperative enterprises. The alternative to the market-driven neoliberal approach to the operation of local development institutions is to be found in a new approach based on an ‘empowered’ local state. This is the local variation of the ‘developmental state’ model discussed above, which is known as the ‘local developmental state’ (LDS) model. The LDS model specifically holds that local governments and associated local institutions have played a decisive strategic planning and promotional role in many of the most successful episodes of local economic development, and in enterprise development in particular (see Bateman, 2000, 2001, 2005b, 2010 especially chapter 7).

4. The LDS model and cooperative enterprise development experience in Latin America

The LDS approach has strategic importance in the context of cooperative enterprise development, and so also in terms of building the solidarity economy. Partly in order to replace the unworkable market-driven model, such as the LEDA’s promoted by UNDP, since 2000 many countries in Latin America have increasingly begun to experiment, not unsuccessfully, with variations on the LDS model in order to support cooperative enterprises, as the following examples very usefully demonstrate.

4.1. Ecuador

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management and expansion of the LEDA program: in other words, individuals hardly likely to want to be critical of their own program design and management.

[5] However, as several confidential informants close to the LEDA project openly admitted to the author after the report had been completed, the real reason that UNDP solicited the Colombian government and other organisations to fund the LEDA network was precisely in order to avert its impending collapse.

For a long time marked out as a country with high levels of social inequality, fragility and with generally much more than half of the population below the poverty line, Ecuador has been one of the most active in terms of pioneering a new economic and social model for the 21st century that will remedy the situation. Recent changes in government policy associated with President Rafael Correa, assisted by significantly increased revenues derived from the oil and gas industry and rising agricultural exports (bananas, shrimp, cut flowers), have begun to change matters in a far-reaching way. Principally this is evidence in the radical plans to promote a 'social economy' model as the replacement for the old neoliberal model of economic development that was de facto based on rising inequality, unsustainable resource use, and the effective disempowerment of the poor.

It is envisaged that the economic and social structure in Ecuador will end up as a mixture of small-scale capitalism, cooperativism and democratically-mandated state activism through public ownership. In order to establish this new social economy program, the Ecuadorian government has also embarked on a major program of decentralisation. Local-regional state and quasi-state sub-national institutions are now being given more responsibility, encouragement and financial resources than at any time in Ecuador's history. This very real empowerment of local government has allowed some pro-active LDS-type institutions to emerge and to register some important local development successes.

CONQUITO

One of the local institutions established under the direction of the municipality of Quito, with the support of UNDP, is CONQUITO (*Agencia Metropolitana de Promoción Económicá*).[6] CONQUITO began operations in 2005 and is registered as a private entity owned by the city and other local state authorities. It has seventeen member organisations/shareholders, of which two - the Chamber of Small Industries and the Municipality of Quito – are the key founding partners. UNDP is one of the founder members of CONQUITO and it remains a member of the directive committee with a voice but no vote. Other partners include the Chamber of Industry, Entrepreneurs Association, Commercial Chamber of Quito, National Finance Corporation and other similar civil society organisations. CONQUITO has 70 staff and a budget in 2012 of $6.5 million. Of this amount, in 2012 $1.5 million came from the Municipality of Quito as core budget, with the remaining amount derived from its implementation of a variety of state (national, regional and local) projects