The Case of the Missing Organizations: Co-operatives and the Textbooks

Roderick Hill

> The form of association . . . which if mankind continue to improve, must be expected in the end to predominate, is not that which can exist with capitalist as chief, and workpeople without a voice in the management, but the association of the labourers themselves on terms of equality, collectively owning the capital with which they carry on their operations, and working under managers elected and removable by themselves.
>
> —John Stuart Mill, *Principles of Political Economy*

Virtually all introductory economics textbooks provide some description of the basic institutions around which production is organized. Aside from the household itself, these are commonly thought of as either proprietorships, partnerships, or corporations. For example, a leading American textbook states that "Business firms in the United States take one of three legal forms: proprietorship, partnership, or corporation" (Stiglitz 1993, 543). The theory of the firm is then set out as a model of what happens in these organizations.

However, there is one form of economic organization in which millions of North Americans participate in various ways. It even dominates some sectors and has a long and interesting history. Yet it remains almost invisible in the textbooks. It is the co-operative. Co-operatives (or co-ops) are not just another form of an investor-owned corporation. Investor-owned firms, at least in principle, are controlled by capital owners in proportion to their share of the capital. Co-ops may be controlled either by those who sell to the co-op (a producer co-op), by those who buy from it (a consumer co-op), or by those who work there (a worker co-op).

The International Co-operative Alliance (ICA) has recently defined a co-op 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 . . . based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. (ICA 1996, 1)

It is this democratic control structure that leads me to focus on the neglect of co-ops rather than the neglect of employee-owned firms and the nonprofit sector more generally in textbooks.

Roderick Hill *is an associate professor of economics at the University of New Brunswick* (e-mail: rhill@unbsj.ca). *The author is grateful to Michael Bradfield, Hirschel Kasper, and three anonymous referees for their helpful comments. This article is dedicated to the members of the Taco Pica Worker Co-operative.*

Co-operative principles developed from the experience of 29 weavers in Rochdale, England, who founded the first successful consumer co-op in 1844. These principles were formally stated recently by the ICA (1996). Briefly, they are:

1. Voluntary and open membership.

2. Democratic member control; a "one-member, one-vote" rule in contrast to the "one-share, one-vote" rule in investor-owned firms.

3. Economic participation of members who contribute to the co-op's capital, part of which usually becomes common property. The return (if any) on co-op members' capital has an upper limit. The co-op's surplus may be re-invested in the firm or distributed to producer or consumer members in proportion to their transactions with the co-op. In worker co-ops, the distribution is often based on hours worked.

4. Autonomy and independence; agreements with other organizations, including creditors, must ensure continued democratic control by the co-op's members.

5. Education, training, and information are provided to members, managers, and employees, and information is provided to the public about co-ops.

6. Co-operation among co-ops; co-ops seek to link themselves to other co-ops, locally, regionally, nationally, and internationally. Behind this lies the idea of a "co-operative economy," in which the primary sector, manufacturing, service sectors, and the financial sector consist of networks of interlinked co-operative firms. A prototype of such a co-operative economy exists in the Basque region of Spain—the famous Mondragón co-ops,a complex of more than 80 co-ops owned and operated by about 30,000 worker-members that developed from a single small co-op founded 40 years ago (Whyte and Whyte 1991; MacLeod 1997).

7. Concern for "sustainable development" of their communities.

Considered together, these seven characteristics make co-operative firms distinctly different from the types of economic organizations commonly encountered in textbooks.

In this article, I provide evidence for my assertion that co-ops are largely absent from the introductory economics textbooks in North America. I then set out a case for dealing more appropriately with this form of economic organization.

CO-OPERATIVE FIRMS IN THE TEXTBOOKS

Co-operative firms could appear in a variety of places in introductory texts. They could be mentioned in the typical account of the alternative forms of business organization and of who controls the firm or in a discussion of comparative economic systems. Co-operative firms are also found in the financial sector in the form of credit unions (or *caisses populaires* in French-speaking Canada), so the money and banking portions of the texts may discuss them.

I focus on introductory textbooks here because the majority of students who study some economics are exposed only to these books. These textbooks set the framework within which students are taught to think about the economy. The 19 books whose contents are surveyed here are a combination of American and Canadian textbooks. Five are purely American; 8 are "Canadianized" versions of well-known American books whose contents closely parallel the American originals; and 6 are written only by Canadians. (The appendix lists the books surveyed.)

Table 1 summarizes the findings regarding co-ops and credit unions. There are 17 distinct books if the Canadianized versions of the American texts by Stiglitz and Colander are not counted. Eight of these 17 books make no mention of co-operative firms at all, with the exception of credit unions, discussed later. Of those that do, coverage ranges from a passing mention to up to one page (in 5 cases). Only 6 of the 17 books sampled offer any discussion, however brief, of the pros and cons of this (or some closely related) form of economic organization. The existence of credit unions is mentioned in almost all texts, but why they exist is discussed in only one.

PUTTING CO-OPS INTO THE TEXTBOOKS

Clearly, in most introductory textbooks, co-operative economic organizations are entirely ignored or receive only a passing mention. I argue that this is unsatisfactory, although I am mindful of

> the resource allocation problem that faces any textbook writer: how to allocate the relatively scarce space available in the textbook of reasonable size—and the relatively scarce time of the students. (Stiglitz 1988, 175–76)

Any suggestions should also follow Colander's (1992, 111) advice that when proposing changes in the way things are taught, only gradual, not wholesale, changes are realistic.

I first make a case for acknowledging the existence of co-operative firms in the introductory textbooks. But a passing mention in a large book would not solve the problem. I also make the case that a practical remedy would be a discussion of alternative forms of economic organizations (including co-ops) in the early chapters where the central framework is set out, and the core economic questions are asked. In addition to raising basic questions about authority and democracy in economic institutions, co-operative firms are useful in illustrating ideas about such things as people's responses to economic power and about how problems of incentives and market failures can shape economic institutions.

The first and most basic point is that co-ops exist, are widespread, and are important in some sectors. It is wrong for many textbook authors to ignore them and so implicitly to deny their existence. Their absence is all the more remarkable because academic economists work in organizations that resemble nonprofit worker co-ops (James and Neuberger 1981)!

In Canada, co-ops developed after the turn of the century. By the end of the 1980s, some 7,000 co-operative firms existed with assets totaling more than $100 billion (Canadian). Of the largest 100 enterprises in Canada, 4 are co-ops. About 12 million Canadians, slightly more than half of the adult population, are members of at least one co-op (Quarter 1992, 15).

Co-operative firms are especially important in particular types of activities, markets, and regions. Producer co-ops dominate much of the agricultural sector

TABLE 1
Co-operatives and Credit Unions in the Introductory Textbooks

	Co-operative firms			Credit unions		
Textbook	Mentioned	How much	Analysis	Mentioned	How much	Analysis
*Baumol, Blinder, and Scarth 1994	No	Nothing	No	Yes	1 time; no definition	No; M2+ dismissed
Blomqvist, Wonnacott, and Wonnacott 1990	No	Nothing	No	Yes	3 times; no definition	No; M2+ evaluated
*Case, Fair, Strain, and Veall 1998	Yes	In passing, 1 sentence	No	Yes	2 times; no definition	No
#Colander 1993	No	Nothing, but workplace democracy discussed (1 page)	Yes, for workplace democracy	Yes	2 times; no definition	No
*Colander and Sephton 1996a & b	No	Nothing, but workplace democracy discussed (1 page)	Yes, for workplace democracy	Yes	5 times; definition	Some; M2+ evaluated
Fellows, Flanagan, Shedd, and Waud 1993	Yes	2 sentences + glossary definition	No	Yes	2 times; no definition	No
#Heyne 1994	No	Nothing	No	No	Nothing	No
#Hunt and Sherman 1990	Yes	1 page on co-operative socialism; 4 pages on Yugoslav self-management; 1 page on economic democracy	Yes	No	Nothing	No

Lipsey, Courant, and Purvis 1994	No	Nothing	No	Yes	1 time; no definition	No
#Mankiw 1997	No	Nothing	No	n/a	n/a	n/a
*McConnell, Brue, and Barbiero 1996a & b	Yes	1 time; no definition	No	Yes	3 times; glossary definition	No
Parkin and Bade 1997	No	Nothing	No	Yes	5 times, including one paragraph; definition	No
*Samuelson, Nordhaus, and McCallum 1988	Yes	½ page; 300 words	Yes: pros & cons	Yes	As co-op; once in passing	No; M2+ not mentioned
Sayre and Morris 1996a & b	No	Nothing	No	Yes	2 times; no definition	No
Stager 1992	Yes	1 page + glossary definition	Yes: pros & cons	Yes	1 time; definition	No
#Stiglitz 1993	Yes, but not with types of firms	1 page, including Yugoslav experiments	Yes: pros & cons	Yes	1 time; definition	No
*Stiglitz and Boadway 1997a & b	Yes, but not with types of firms	1 page, including Yugoslav experiments	Yes: pros & cons	Yes	4 times; definition	No
*Taylor and Johnson 1997	No	Nothing	No	Yes	3 times; definition	No
Vogt, Cameron, and Dolan 1993	Yes	1 page + glossary definition	Yes: pros & cons	Yes	2 times; definition	Only as per co-ops generally

*Denotes a Canadianized version of an original American text; #denotes an American text. All others are Canadian texts. n/a denotes not available.

with sales exceeding 50 percent of the market in dairy, grains, and poultry products (Canada 1998a, Appendix F). Measured by revenues, the $4-billion-a-year Saskatchewan Wheat Pool is the largest Canadian co-op organization. Its 74,000 members produce about 60 percent of all the wheat in Saskatchewan, but the organization also markets livestock and sells farm supplies (Canada 1998b).

Consumer co-ops are most prominent in western Canada. The Calgary Co-op Association is the largest single consumer co-op in North America, with sales amounting to 40 percent of the local retail market (Canada 1998a, ii). The British Columbia-based Mountain Equipment Co-op has more than a million members (Canada 1998b).

Workers'co-ops numbered only 244 in 1996, with 15,000 members. Forestry co-ops accounted for most of the sales of this sector (Canada 1998a, iv).

In Canada, credit unions and *caisses populaires* provide about 10 percent of all consumer credit and mortgage credit. Their deposits are almost a quarter the size of the deposits held by their major rivals, the chartered banks (Bank of Canada 1998, Table E1). They are much more important in French-speaking Canada. In Quebec, the *caisse populaires* have more branches than any of the chartered banks and hold a third of all deposits (Quarter 1992, 23). In New Brunswick, 70 percent of French-speaking adults are members of the Acadian *caisses populaires*, and for almost 90 percent of them, it is their principal financial institution (Desjardins and Robinson 1998).

In the United States, the first worker co-ops appeared in the 1790s. Worker co-op formation intensified during the late 19th century industrial struggles between workers and firm owners. These struggles involved both resistance to the increased automation of work and the efforts of workers to have a greater say in their work. Further periods of growth occurred during the 1930s, when the founding of co-ops was assisted by government to alleviate unemployment, and in the period since the 1960s (Jackall and Levin 1984, 4). However, the worker co-op sector remains small, perhaps 750–1,000 firms in 1980 (Jackall and Crain 1984, 88).

As in Canada, producer co-ops are common in U.S. agriculture. They process and market goods and sell equipment and supplies to their members. Many different types of consumer co-ops exist, providing such things as food, housing, child care, funeral services, and insurance or health care to members. According to the International Co-operative Alliance, there were 27,000 co-operative societies in the United States in 1998 with 156 million members (see their Web site, www.coop.org). Among these (as of 1997) were 10,417 credit unions with 68.4 million members (World Council of Credit Unions 1998). As of 1997, they held $360 billion (U.S.) in assets and accounted for more than 20 percent of auto loans and 10 percent of consumer instalment credit (Center for Credit Union Research 1998).

According to the ICA, worldwide there are about 725 million members of co-operative societies in 93 countries and about 197,000 co-ops of all kinds.

THE CASE FOR DISCUSSING CO-OPERATIVES

Although the existence of co-ops should be acknowledged in the textbooks, how much attention should be paid to them is another matter. Co-operative firms may be widespread and a large fraction of people may have some contact with one, but, a few sectors aside, they account for a small share of total economic activity. For example, Sweden has a strong co-operative sector, but it accounts for only about 8 percent of gross domestic product (GDP) (Normark 1996). Italy has the largest worker co-operative sector in absolute numbers, but as of the early 1980s, it only employed 2.5 percent of the nonagricultural labor force (Bonin, Jones, and Putterman 1993, 1291). Do co-ops deserve a mention but only a passing one?

One of the functions of textbooks is to filter the results of economic research into a form fit for popular consumption. Research about co-ops has expanded considerably in the last few decades. It can be found in general journals as well as in such specialized journals as *Annals of Public and Cooperative Economics*, the *Journal of Comparative Economics*, and *Economic and Industrial Democracy*. A serious study of much of the economics of co-operative firms would be out of place in an introductory course, but the questions this research raises can be discussed at the most elementary level.

Consider the basic economic questions set out at the beginning of every introductory text: What is to be produced? How is it to be produced? Who receives how much of the product? To these could be added the neglected question, Who makes these economic decisions and by what process? Stiglitz (1993) asks this very question in the first chapter of his text, but identifies only government and private individuals as the decisionmakers. In his chapter, "Financing and Controlling the Firm," he considers only whether shareholders can effectively control management.

In the remainder of this section, I argue that asking who makes the decisions in firms and why and using the example of co-operative firms raise a variety of interesting positive and normative questions.

Authority versus Democracy in Economic Institutions

Colander describes the philosophy of the democracy-in-the-workplace movement as follows:

> For one group—the owners of stock—to have all the say as to how the business is run, and for another group—the regular workers—to have no say, is immoral in the same way that not having democracy in deciding on government is immoral. According to this view, work is as large a part of people's lives as is national or local politics, and a country can call itself a democracy only if it has democracy in the workplace. (1993, 702)

One can agree or disagree with this normative view, but it is worth raising for consideration. It is better to ask whether authority can be justified rather than to take it for granted.

Do Co-operatives Behave Differently?

Economic democracy is not an issue of positive economics if the firm's inner structure does not affect its economic decisions. Demsetz (1988, 189) writes:

> It is a mistake to confuse the firm of economic theory with its real-world namesake. The chief mission of neoclassical economics is to understand how the price system coordinates the use of resources, not to understand the inner workings of real firms.

This may be why textbooks usually treat firms as "black boxes" or production functions.

The empirical evidence shows that worker co-ops behave differently than comparable investor-controlled firms. First, co-ops have different objectives (Craig and Pencavel 1993). Some maximize employment given capital invested and given some minimum acceptable return on capital. Other objectives could include maximization of income per worker or of the present value of the workers' dividends (Bonin and Putterman 1987, 2).

Craig and Pencavel (1992) studied U.S. worker co-op plywood firms to see how the firms responded to changes in output or input prices, compared with the responses of comparable investor-controlled firms in a perfectly competitive environment. In response to output price changes, employment and hours worked in worker co-operative firms are more stable than in investor-owned firms; co-ops adjust wages instead, reflecting the employment concerns of their members (Craig and Pencavel 1992, 1094). A rise in the price of raw logs, their major input, lowered output, employment, and hours, but not wages in investor-controlled firms. In co-ops, output also falls (although by less), real wages decline, employment and hours decline comparatively little.

The plywood co-ops also have *no* pay differentials between workers: Everyone receives the same hourly pay, even top managers, if they are co-op members (Craig and Pencavel 1992, 1085). If students regard large wage differentials as a fact of life, the successful existence of such egalitarian wage setting could be surprising. (In general, wage differentials do exist in worker co-ops, although these may be limited by policy.)

Because of difficulties of finance and adverse incentives to retain earnings (discussed later), worker co-ops are predicted to be less capital intensive than comparable investor-controlled firms. But Doucouliagos (1997) finds that these differences are not significant.

Co-operatives, Incentives, and Public Goods

The unique structure of co-operative firms also makes them useful in examining the "issues of economic incentives and of the processes by which decisions get made," topics that "*should* be central in any textbook in economics" (Stiglitz 1988, 176, his emphasis).

The idea that superior work incentives in the worker co-operative lead to higher labor productivity goes back at least to J. S. Mill (Mill 1965, 791n). Investor-controlled firms have been led to experiment with profit-sharing and increased worker participation in an attempt to increase productivity (Blinder 1990). Doucouliagos (1995) summarized the empirical literature using meta-analysis and found that the productivity effects of both worker participation and profit sharing were higher in worker co-ops than in investor-controlled firms with worker participation. Productivity in worker co-ops benefits from workers' superior incentives to maintain the firm's capital, to monitor each other, to quit less frequently, and to provide better on-the-job training to co-workers (Levin 1984).

The empirical evidence suggests that productivity and productive efficiency are no lower in worker-controlled firms than in comparable investor-controlled firms, but in many sectors, there are no worker-controlled firms. Without a better understanding of why worker-controlled firms are absent, one cannot conclude that all investor-controlled firms could in principle be replaced with worker-control with no loss in productive efficiency.

Incentive problems can arise if the co-op becomes large. Member participation in management meetings is like a voluntary contribution to a public good and tends to decline as the co-op becomes large and its management becomes professional. This was a problem, for example, in the Canadian grain growers' co-ops, which grew quickly into organizations of tens of thousands of members. As MacPherson (1979, 7) put it,

> marketing grain . . . was a complex, absorbing task; trying to ensure member interest and control was discouragingly difficult; and the tendency to develop disciplined, remote bureaucracies was almost irresistible.

Further, decisionmaking in democratic organizations becomes difficult if the members have very different tastes or interests. Some, for instance, may be members only in the short term and might not support long-term investments. Although the public-good character of workplace conditions "is an argument in favor of participatory governance, heterogeneity of preferences may explain why worker control is rare except in small co-operatives with unusually homogeneous workforces" (Bonin, Jones, and Putterman 1993, 1316).

Co-operatives Illustrate Problems of Power

The introductory textbooks focus on perfectly competitive markets where no one has any market power and no one exerts any visible power over anyone else. As Sayre and Morris (1996, 488) rightly note, except for the narrow idea of market power defined as power over prices, the concept of power is virtually absent from modern economics (see also Galbraith 1973; Bartlett 1989).

Worker co-ops and power in the labor market. The typical introductory textbook offers a supply and demand diagram of the labor market in which it is implicitly assumed that it is a perfectly competitive spot market where firms and homogeneous workers costlessly transact. In this situation, employers have no power over the employed.

Alchian and Demsetz (1972, 777) compare the relationship between employer and employed to that of a shopper and a grocer. Firing workers is no different than some shoppers deciding to buy their milk from a different grocer. One party has simply decided not to continue with the spot contracts but leaves the other party no worse off than if they had never traded. If a worker cannot sell to one employer, another can be costlessly found who will buy at the same wage. In a more realistic setting, with imperfect information, transactions costs and incomplete contracts, a worker who lost a job could suffer substantial losses; there is plenty of evidence that this is the case.

The ability of employers to impose costs on workers by firing them could give rise to institutional responses to try to limit this power, such as unions and labor law. Another response is for workers to manage work collectively and set the conditions themselves for membership in the firm and for conditions of work. Interest in worker co-ops and greater local and community control of economic development may naturally increase in an era of corporate restructuring and rising economic insecurity.

Consumer and producer co-ops, monopoly and monopsony. Consumer and producer co-ops in Canada and elsewhere have employees just like investor-controlled firms, and so must exist for different reasons than do worker co-ops. These co-ops developed as a countervailing power in the face of monopsony and monopoly power (Galbraith 1952). For example, western Canadian grain farmers' co-ops formed to offset the monopsonistic power of the owners of the major grain companies. Their example prompted the development of other farm co-ops (MacPherson 1979).

University students have long faced the monopoly power of textbook stores and university food services. This has led to the formation of student co-op bookstores and student housing co-ops. Canadian and American student co-ops are linked through the North American Students of Co-operation, located in Ann Arbor, Michigan. (They have an informative Web site at www.umich.edu/~nasco.)

The textbooks always set out the problems of monopoly, but the response to it is invariably presented as a response by government (such as nationalization, competition policy, or regulation). The collective action of consumers themselves in forming co-operative firms remains unmentioned.

Credit unions and credit market failures. Credit unions also developed, in part, in response to problems of power. Ordinary people have long had difficulty getting access to credit from financial institutions. Pawnshops and loan sharks arose as a result. The founding of credit unions was a further response.

The first credit union (or *caisse populaire*) in North America was begun in Quebec in 1900 by Alphonse Désjardins, who had learned of the difficulty farmers and workers had in obtaining credit at anything other than usurious interest rates of sometimes more than 1,000 percent, even for small loans (Moody and Fite 1971, 19). Désjardins studied the experience of the credit unions that had first evolved in mid-nineteenth century Germany and Italy. He applied these ideas in Quebec and was remarkably successful.

Désjardins organized the first credit union in the United States in 1909 among Franco-Americans in New Hampshire. People in the United States working to improve credit conditions for urban workers and farmers contacted him, and with their efforts, credit, unions slowly spread across the United States (Moody and Fite 1971).

The problems that led to the formation of credit unions have not entirely gone away. In both the United States and Canada, low-income people are having increasing difficulty obtaining access to banking services as banks target their services only to their most profitable clients. As Désjardins and Robinson (1998) point out, credit unions now face the challenge of continuing to offer to their membership services that are competitive with those available from the banks, while their membership is increasingly composed of persons the banks find unprofitable.

Are There Alternative Economic Systems?

The textbooks present students with the story of the perfectly competitive market economy with profit-maximizing investor-owned firms and some imperfectly competitive variations on this theme. To contrast with this, an alternative economic system has often been described, which has typically been the Soviet-style centrally planned economy. Although this system was hardly a serious alternative for those living in the industrialized world, it served to show the efficiency both of the price system in conveying information and of a decentralized system of economic decision making. Since central planning ended in Eastern Europe, textbooks have been discussing the transition to capitalism. But then is there no alternative to existing economic institutions?

As the initial quotation from J. S. Mill shows, a comparison of a decentralized economy with authoritarian investor-owned firms to a decentralized economy with democratic co-operative firms, and how one might evolve into the other, was a matter of considerable interest in the middle of the 19th century. Such discussions have virtually disappeared from the textbooks. In a rare departure from convention, Colander (1993, 77) writes, "in the debate about the possible future evolution of capitalism, the question of who controls business decisions is likely to take center stage." Although he does not discuss the co-operative firm, per se, he sketches out the idea of a market economy where stakeholders—workers, customers, and citizens in communities where the firm operates—could all have a say in the firm's operations.

Jackall and Levin (1984, 11) comment that

> [i]t is precisely because worker co-operatives are anomalous, contradictory organizations that they are worth pondering. They allow social thinkers to look two ways at once—toward the established order which co-operatives implicitly critique and toward an alternative future, the outlines of which they intimate.

Will economic institutions evolve in this direction, or is the democratic firm doomed to remain a sideshow? This question has no definitive answer, but it immediately raises another question of why there are so few worker-controlled firms. Why, in other words, is capital generally observed to hire labor and not vice versa?

Why Does Capital Generally Hire Labor?

The main points in this unresolved debate are simple enough to be sketched out for introductory students.

1. Some claim that if both types of firms compete on an equal footing and investor-controlled firms dominate the economy, then this proves their superior profitability and productive efficiency. Otherwise, workers would start their own firms, an argument cited by Bonin and Putterman (1987, 152).

2. Some doubt that workers can escape the current system in that way. People with common interests have first to find each other to form a worker co-op. If external finance is sought, the financiers would have no control of firm governance. They could require a large risk premium for any substantial commitment of funds or they could require that workers, who have both better knowledge of their own creditworthiness and control over the firm's governance, place considerable equity of their own in the firm. This would ensure that the workers would have strong incentives to care for the firm's assets.

However, credit rationing and credit market imperfections may mean that workers cannot supply enough of the initial capital, which is why they could have to seek external finance in the first place. If workers had the funds, they might prefer to diversify their investments. If workers' ownership claims in the firm are not transferrable (or are only imperfectly so), the workers' willingness to provide funds would be unduly limited. This combination of problems with internal and external sources of finance could hinder both the initial formation of worker co-ops and subsequent investment in them. (Bonin, Jones, and Putterman [1993, 1308–17] contains an extensive discussion of this problem with many references.)

3. Doucouliagos (1993) suggests a "cultural inertia" hypothesis. Conditions during industrialization may have favored capital hiring labor because of workers' lack of access to finance, for example. This institutional form became the norm, "supported by a formidable array of institutions—legal, political, economic and social—all of which reinforce and perpetuate the status quo" (1993, 250). Bonin, Jones, and Putterman (1993, 1312–13) observe that if potential lenders are not familiar with worker co-ops, transactions costs will be higher, inhibiting their growth and keeping their numbers low.

4. To overcome these problems of risk-sharing and capital market failures, Meade proposed a labor-capital partnership in which firms would be jointly run by workers and the providers of capital. The residual would be divided between them according to their contributions of work and capital, reflected in the labor shares and capital shares held by members of each group.

> In this structure neither capital hires labor nor labor hires capital, but worker and capital partners together decide on the management of the firm including decisions about the terms on which new worker or capital partners should be engaged by the firm. (Meade 1993, 194)

He hoped that this institution would reduce the conflict of interest between labor and capital, lessen the problem of risk-bearing faced by workers in labor-managed firms, and promote a more equitable distribution of income.

These perspectives suggest that what might be more socially desirable forms of economic organization will not evolve on their own in a decentralized market economy. So instead of the rarity of worker co-ops being a reason *not* to discuss them, this fact instead raises many interesting and instructive points about why the predominant economic institutions have the form they do.

CONCLUDING REMARKS

Co-operatives in their various forms are an actually existing example of the possibility of extending democracy to economic life. By their general neglect of democratic forms of economic institutions, such as co-operatives, the introductory textbooks fail to describe adequately actually existing institutions, ignore questions of economic democracy, and miss an opportunity to offer some interesting lessons in the basic principles of economic organizations and their development.

APPENDIX
Textbooks Surveyed

*Baumol, W. J.,A. S. Blinder, and W. M. Scarth. 1994. *Economics:Principles and policy.* 4th Canadian ed. Toronto: Dryden.

Blomqvist, A., P. Wonnacott, and R. J. Wonnacott. 1990. *Economics.* 3rd Canadian ed. Toronto: McGraw-Hill Ryerson.

*Case, K., R. Fair, F. Strain, and M. Veall. 1998a. *Principles of microeconomics.* 1st Canadian ed. Scarborough: Prentice-Hall Canada.

———. 1998b. *Principles of macroeconomics.* 1st Canadian ed. Scarborough:Prentice-Hall Canada.

#Colander, D. C. 1993. *Economics.* Boston: Irwin.

*Colander, D. C., and P. S. Sephton. 1996a. *Microeconomics.* 1st Canadian ed. Toronto: Irwin.

———. 1996b. *Macroeconomics.* 1st Canadian ed. Toronto:Irwin.

Fellows,C. M., G. L. Flanagan, S. Shedd, and R. N. Waud. 1993. *Economics in a Canadian setting*. New York: HarperCollins.

#Heyne, P. 1994. *The economic way of thinking*. 7th ed. New York:Macmillan.

#Hunt,E. K.,and H. J. Sherman. 1990. *Economics:An introduction to traditional and radical views.* 6th ed. New York: Harper & Row.

Lipsey, R. G., P. N. Courant,and D. D. Purvis. 1994. *Economics.* 8th Canadian ed. New York:HarperCollins.

#Mankiw, N. G. 1997. *Principles of microeconomics.* Fort Worth: Dryden.

*McConnell, C. R., S. L. Brue, and T. P. Barbiero. 1996a. *Macroeconomics: Canada in the global economy.* 7th Canadian ed. Toronto: McGraw-Hill Ryerson.

*———. 1996b. *Microeconomics:Scarcity, wants, choices.* 7th Canadian ed. Toronto:McGraw-Hill Ryerson.

Parkin,M.,and R. Bade. 1997. *Economics:Canada in the global environment.* 3rd ed. Toronto:Addison-Wesley.

*Samuelson, P. A., W. D. Nordhaus, and J. McCallum. 1988. *Economics.* 6th Canadian ed. Toronto: McGraw-Hill Ryerson.

Sayre, J. E.,and A. J. Morris. 1996a. *Principles of macroeconomics.* Toronto:McGraw-Hill Ryerson.

———. 1996b. *Principles of microeconomics.* Toronto: McGraw-Hill Ryerson.

Stager, D. 1992. *Economic analysis & Canadian policy.* 7th ed. Toronto: Butterworths.

Stiglitz, J. E. 1993a. *Principles of macroeconomics.* New York: W. W. Norton.

———. 1993b. *Principles of microeconomics.* New York: W. W. Norton.

*Stiglitz, J. E.,and R. W. Boadway. 1997a. *Principles of macroeconomics and the Canadian economy.* 2nd ed. New York: W. W. Norton.

*———. 1997b. *Principles of microeconomics and the Canadian economy.* 2nd ed. New York: W. W. Norton.

*Taylor, J. B., and D. R. Johnson. 1997. *Economics*. 1st Canadian ed. Toronto: ITP Nelson.

*Vogt, R., B. J. Cameron, and E. G. Dolan. 1993. *Economics: Understanding the Canadian economy.* 4th ed. Toronto: Dryden.

Note: * denotes a Canadianized version of the original American text, and # denotes an American text. All others are Canadian texts.

REFERENCES

Alchian, A., and H. Demsetz. 1972. Production, information costs, and economic organizations. *American Economic Review* 65 (December): 777–95.

Bank of Canada. 1998. *Review* (Summer).

Bartlett, R. 1989. *Economics and power: An inquiry into human relations and markets*. Cambridge: Cambridge University Press.

Blinder, A., ed. 1990. *Paying for productivity: A look at the evidence.* Washington: The Brookings Institution.

Bonin, J. P., and L. Putterman. 1987. *Economics of co-operation and the labor-managed economy*. Chur, Switzerland: Harwood.

Bonin, J. P., D. C. Jones, and L. Putterman. 1993. Theoretical and empirical studies of producer co-operatives: Will ever the twain meet? *Journal of Economic Literature* 31 (September):1290–320.

Canada. Co-operatives Secretariat. 1998a. Co-operatives in Canada. Ottawa: Agriculture Canada. Available from Agriculture Canada at www.agr.ca/policy/coop/contents.html.

———. 1998b. Top 50 Canadian co-operatives—1997. Available from Agriculture Canada at www.agr.ca/policy/coop/97top50e.html.

Center for Credit Union Research. 1998. Credit union FAQ. Available at wiscinfo.doit.wisc.edu/bschool/cufaq.html.

Colander, D. 1992. The microeconomic myth. In *Educating economists*, ed. R. Brenner and D. Colander. Ann Arbor: The University of Michigan Press.

Craig, B., and J. Pencavel. 1992. The behavior of worker co-operatives: The plywood companies of the Pacific Northwest. *American Economic Review* 82 (December): 1083-105.

———. 1993. The objectives of worker co-operatives. *Journal of Comparative Economics* 17 (June): 288–308.

Demsetz,H. 1988. The structure of ownership and the theory of the firm. In *The organization of economic activity*, vol. 1: *Ownership, control and the firm*. Oxford: Basil Blackwell.

Désjardins, P.-M.,and G. Robinson. 1998. The impact of globalization on co-operative holdings: The case of the *caisses populairees acadiennes*. Mimeo,University of Moncton.

Doucouliagos, C. 1993. The economics of capital hiring labour and labour hiring capital. *Annals of Public and Cooperative Economics* 64: 227–56.

———. 1995. Worker participation and productivity in labor-managed and participatory capitalist firms:A meta-analysis. *Industrial and Labor Relations Review* 49 (October): 58–77.

———. 1997. The comparative efficiency and productivity of labor-managed and capital-managed firms. *Review of Radical Political Economics* 29 (June): 45–69.

Galbraith, J. K. 1952. *American capitalism: The concept of countervailing power.* Boston:Houghton Mifflin.

———. 1973. Power and the useful economist. *American Economic Review* 63 (March):1–11.

International Co-operative Alliance. 1996. Statement on the co-operative identity. February. Available from the University of Wisconsin Center for Co-operatives at http://www.wisc.edu/uwcc/rin.html.

Jackall, R., and J. Crain. 1984. The shape of the small worker cooperative movement. In *Worker cooperatives in America*, ed. R. Jackall and H. M. Levin. Berkeley: University of California Press.

Jackall, R., and H. M. Levin. 1984. Work in America and the co-operative movement. In *Worker cooperatives in America*, ed. R. Jackall and H. M. Levin. Berkeley: University of California Press.

James,E.,and E. Neuberger. 1981. The university department as a non-profit labor co-operative. *Public Choice* 36: 585–612.

Levin, H. 1984. Employment and productivity of worker co-operatives. In *Worker cooperatives in America*, ed. R. Jackall and H. M. Levin. Berkeley: University of California Press.

MacLeod, G. 1997. *From Mondragon to America:Experiments in community economic development.* Sydney, Nova Scotia: University College of Cape Breton Press.

MacPherson,I. 1979. *The co-operative movement on the prairies,1900–1955.* Ottawa:Canadian Historical Association.

Meade, J. E. 1993. *Liberty, equality and efficiency: Apologia pro agathotopia mea.* London:Macmillan.

Mill, J. S. 1965. *Collected works. Vol. 3: Principles of political economy, ed. J. M. Robson (Books III–V)*. Toronto: University of Toronto Press.

Moody, J. C., and G. C. Fite. 1971. *The credit union movement: Origins and development, 1850–1970.* Lincoln:University of Nebraska Press.

Normark, P. 1996. A role for co-operatives in the market economy. *Annals of Public and Cooperative Economics* 67 (September): 429–39.

Quarter, J. 1992. *Canada's social economy: Co-operatives, non-profits, and other community enterprises.* Toronto: James Lorimer.

Sayre, J. E.,and A. J. Morris. 1996. *Principles of macroeconomics.* Toronto:McGraw-Hill Ryerson.

Stiglitz, J. E. 1988. On the market for principles of economics textbooks:Innovation and product differentiation. *The Jsournal of Economic Education* 19 (Spring): 171–77.

———. 1993. *Principles of microeconomics*. New York: W. W. Norton.

Whyte, W. F., and K. K. Whyte. 1991. *Making Mondragon: The growth and dynamics of the worker co-operative complex*. 2nd ed., Revised. Ithaca, N.Y.: Industrial and Labor Relations Press.

World Council of Credit Unions. 1998. International credit union statistics. Available at www.woccu.org.