

# AN ENDURING PLATFORM FOR PUBLIC AND COOPERATIVE ECONOMICS RESEARCH: A CENTENNIAL PERSPECTIVE

by

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**ABSTRACT:** *In this short introduction, after briefly remembering the exemplary role played by Edgard Milhaud for the birth and development of Annals, we describe the content of the current special issue devoted to the 110 years of the journal.*

## 1 Introduction

For more than a hundred years, the history of *Annals* has been closely intertwined with that of the major political and economic events occurring in Europe and abroad.<sup>1</sup> It is worth recalling how the story begun. In 1908 Edgard Milhaud,<sup>2</sup> a young French professor of Political Economy at the University of Geneva and socialist militant, decided to start the publication of the *Annales de la Régie directe* (the *Annals of direct State and municipal services*). At that time Milhaud was personally involved in a campaign against private railway ownership in France. In what is nowadays considered a classic case of market failure, a railway driven for profit motives with no attention to passengers' safety,

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1 This was well documented in the 2008 special issue celebrating the centennial editorial activity of the journal (Fecher and Levesque 2008).

2 Edgard Milhaud (born Nîmes 1873, died Barcelona 1964) was a French economist very active in the socialist party in France and close to Léon Blum and Albert Thomas. He was also a strenuous pacifist, and was nominated three consecutive years for the Nobel Peace Prize. Author of more than thirty volumes and founder of CIRIEC, he was among the first theorists and promoters of democratic collective and social management of economic systems, including nationalization, municipalization and cooperative management of public services. For a encompassing account of his life, see, for instance, Gélard (1997).

Milhaud stood up as a fierce advocate of railway nationalization.<sup>3</sup> This is a topic lying at the core of the debate on public/municipal vs. private ownership of public services, and on which Milhaud was, at the time, a pioneer. To scientifically support his views, Milhaud decided to launch the *Annals*, without financial backing or publisher, relying only on his own effort.

Until the First World War, the *Annals* continued to publish articles with a special attention to the topics of nationalization and municipalization of public services. In 1925, an article dealing with the coexistence of cooperatives and municipalities appeared in the journal. Over the previous years, a range of similar topics, looking at the compresence of public and cooperative organizations for the provision of public goods and services, had featured in the journal. In 1925 the journal was renamed *Annals of Collective Economy* to accommodate this broad view on social matters.

During the Great Depression, the journal devoted some issues to the problem of the debt burden of many European countries. Also, other topics grew in relevance, such as workers' participation in civil services, the development of the cooperative movement, and the functioning of collective economies. The Second World War caused the journal to cease publication in 1943. It resumed in 1948, and new topics made their appearance, such as that of European integration, of developing countries and multinationals. At Milhaud's death in 1960, Paul Lambert took over as editor and, in 1964, on the occasion of the 35th issue of the English edition of the journal, *Annals* took its current name, *Annals of Public and Cooperative Economics*,<sup>4</sup> which also became the name of the French edition in 1974. Over the following years, the mix of topics of *Annals* slowly evolved into the one observed today.

As pointed out by Eric Geerkens (2008) in his paper on the journal history, it was only from 1988 that *Annals* started to fully comply with the standard academic procedures of scientific journals. Thus, the current issue is also a special occasion to celebrate the 30th anniversary of such a crucial step forward taken by CIRIEC. During this long period of time, many prestigious editorial board members contribute to the journal, and four people only were appointed editors-in-chief. These are Jacques Defourny from 1989 to 1997, Bernard Thiry from 1989 to 2000, Fabienne Fecher from 2000 to 2015 and Marco Marini from 2016 onward. We want to express here our deep gratitude as well as which of all CIRIEC members to the people who accepted to devote their time and energy to the scientific growth of the journal and to make advancements on the topics of public economics and social economy, broadly intended.

Now is also a timely moment to consider the future of *Annals*. The current issue highlights old and new research avenues considered of particular interest by the journal. Although the papers gathered here are not intended to represent the full range of topics of interest to the journal, they can be viewed as a shining sample of the innovative spirit pervading the journal.

This issue contains twelve papers ranging over four different groups of topics, all closely related and representative of the *Annals* production: (i) Public Economics;

3 Not surprisingly, this theme is still a hot topic in public debate; see, for instance, the recent proposal of the UK Labour Party to nationalize railway and electricity systems.

4 To be precise, until the end of 1988 the journal's name was *Annals of public and cooperative economy* and became *Annals of Public and Cooperative Economics* only afterward.

(ii) Cooperative Economics; (iii) Nonprofit organizations in developed and developing countries; and (iv) Alternative forms of employees' and citizens' participation.

## 2 Public economics

Well representing the *Annals* vocation toward a Public Economics deeply embedded in social economies, the first contribution by Giacomo Corneo, *Public Stock Ownership*, revisits in a quite original way an old proposal looking at public ownership of a commercial asset using public debt to employ its net returns with the purpose to improve the existing society equity-efficiency trade-off. Rather than land, as originally suggested by Walras (1880–1881) and Gossen (1927) in their seminal contributions, Corneo considers public ownership of stocks, by focusing on the possibility to earmark its net returns to finance a social dividend, a policy proposal not far from those made by Meade (1984) and Atkinson (2015). With the help of a simple model, the author shows how such a proposal can generate a Pareto-improvement when part of the population is financially passive and does not participate in the stock market, a condition which is likely to be met in most countries. Efficiency gains could also result from economies of scale and asymmetric information in the asset management industry. Therefore, the author shows how public stock ownership can be beneficial when embedded in a sufficiently well-designed institutional framework, endowed with a proper incentive structure and effective protection against opportunistic governments.

In the second contribution, *Private Partnerships in Europe for Building and Managing Public Infrastructures: an Economic Perspective*, Elisabetta Iossa and Stéphane Saussier consider the long-term contractual agreements between the public and private sector for the provision of public infrastructures and services. They note at the start that, as due to the tighter budget constraints and to the renewed interest in a greater involvement of the private sector in the provision of public services, the deployment of PPPs is likely to grow in the near future. In the paper, they review the economic theory and the European practice of PPPs, highlighting the potential role that PPPs can play in improving the quality of public services and reducing their costs, also identifying though a number of factors that can cause performance failure. In a final section, the authors illustrate their main claims by presenting the case study of Velib' in Paris and conclude by highlighting the future priorities for PPP policies.

In the third contribution on public economics, *The Public Economics of Long-Term Care. A Survey of Recent Contributions*, Justina Klimaviciute and Pierre Pestieau touch a very relevant topic in modern economies. In their article they survey a number of recent papers studying the possibility for the State to design a sustainable public long-term care scheme integrating both the market and the family. The paper starts by observing how long-term care needs are increasing rapidly and neither the market nor the family seem able to respond adequately. In addition, the existing public programs look both insufficient and uncoordinated. Thus, in the paper the authors advocate the development of full-fledged long-term care public insurance fulfilling two objectives: assisting those who cannot count on family assistance and do not have the financial means of purchasing LTC services as well as providing protection for middle class families against too costly spending.

### 3 Cooperative economics

In the work that opens the second part of the issue devoted to cooperative economics, *The Theory of the Labor-Managed Firm: Past, Present and Future*, Gregory Dow reviews the intellectual history of the research field on labor-managed firms, with critical remarks and proposals for its future development. As highlighted in the paper, the decades from the 1960s to the 1980s saw a burst of theoretical speculation that generally did not hold up well under empirical scrutiny. Moreover, by the 1990s, the progress on the mainstream theory of the firm was overtaking some of this early research. At the same time, a growing body of econometric work on labor-managed firms was providing new stylized facts for theorists to explain. Thus, Dow notices that while the earlier period was characterized by an excess supply of theories relative to facts, more recently the balance has begun to tip in the opposite direction. He closes by suggesting a set of new theoretical directions that might shed light on the empirical asymmetries between capital-managed and labor-managed firms.

In the second contribution on cooperative economics, *Meritocracy, Efficiency, Incentives and Voting in Cooperative Production: a Survey*, Carmen Bevia and Luis Corchon discuss how cooperatives may cope with the interplay between meritocracy and efficiency when public decisions are taken by voting and the labor supply is freely decided by each member. The specific features listed above lie at the core of the key trade-off faced by cooperatives. Specifically, one of the authors' main findings is that the degree of meritocracy is limited by three factors: efficiency, because too much meritocracy encourages too much work from the socially optimal point of view; meritocracy, which encourages sabotage; voting, because workers may prefer inefficient reward schemes when they are stacked in their favour.

The third contribution in this group of papers is devoted to the economics of all social, nonprofit and cooperative enterprises. In his encompassing essay *Reflections on the Future Evolution of Social, Nonprofit and Cooperative Enterprise*, Avner Ben-Ner explores the future changes of economic, social and technological environments and how they can impact on the demand for and supply of social, nonprofit and cooperative enterprises. He concludes that changes in the environment are like to generate conflicting trends, although a dominant trend may emerge: an increase in the number of social, nonprofit and cooperative enterprises that are oriented towards the satisfaction of needs of specific ethno-cultural groups. Moreover, he explains how this trend may be amplified by the widespread adoption of additive manufacturing (3D printing), which will facilitate local production where consumers are located.

### 4 Nonprofit economics

The third part of the special issue is devoted to the economics of nonprofits. This topic constitutes at the same time a traditional topic as well as a new field of interest for *Annals*, one in which to invest new intellectual energies.

We purposely open this group of contributions with *Development NGOs: Basic Facts* by Gani Aldashev and Cecilia Navarra, since they overview most of the existing results in the empirical literature on development non-governmental organizations

(NGOs). The main basic facts taken into account by the survey are the size of the development NGO sector and its evolution, the funding of NGOs, the allocation of NGO aid and projects across beneficiary countries, the relationship of NGOs with beneficiaries, and the phenomenon of globalization of development NGOs.

In the second contribution of the group, *Nonprofits in the Field: an Economic Analysis of Peer Monitoring and Sabotage*, Emanuelle Auriol and Stephanie Brilon study how peer monitoring can be used to control workers in situations where the nonprofit organization employing them cannot observe what they are doing. This is typically the case when NGOs are working internationally to provide humanitarian surge capacity or technical expertise. The paper shows that when there exist two types of workers, good workers who care about the mission of an organization and bad workers who derive pleasure from destructive behavior, the mission-oriented sector has to resort to higher monitoring to deal with the threat of sabotage. Thus, when standard monitoring is not possible, peer monitoring may deter bad workers from entering the nonprofit sector although this may reduce the output because of free riding and the higher compensation required to work in teams. It is shown that nonprofits implement peer monitoring only if the expected damage that bad workers can inflict is larger than the loss of productivity due to teamwork. Moreover, for senior staff with high reservation utility the paper shows that nonprofits turn a blind eye to serious sabotage if the likelihood of hiring a bad worker is perceived as small. But they almost systematically implement peer monitoring for junior staff.

In paper entitled *Is the Credit Worth it? For Profit Lenders in Microfinance with Rational and Behavioral Borrowers*, Jonathan de Quidt and Maitreesh Ghatak discuss the state of research on the role of for-profits in microfinance. They highlight three key issues. Firstly, regulators and researchers should not be lulled into a false sense of security by the existing microfinance literature, which tends to emphasize the surplus created by bankers to the poor. There is significant scope for market power, the effects of which have only just begun to be explored. Secondly, there has been almost no research in microfinance on the specific organizational issues typically associated with the literature on nonprofits, an area they believe is ripe for future research and of key interest to regulators in this sphere. Thirdly, regulators need to be attentive to cases where markets will not optimally serve behaviorally biased borrowers, potentially even exacerbating their biases. Evidence of the importance of these behavioral issues primarily comes from developed country contexts, such as credit card and payday lending. The authors note how there is great scope for careful theoretical and empirical work that brings the insights of behavioral economics to bear on the borrowing and saving behavior of millions of poor people around the world.

## 5 Employees' and citizens' participation

The fourth and final part of this issue is devoted to introduce a representative set of innovative topics which may gain increasing attention from the journal in the future. They concern new participative forms of workers' representation, firms' social responsibility and CEOs' activism and behavioural models of individual and social phenomena. In the first article, *Nonunion Employee Representation: Theory and the German Experience with Mandated Works Councils*, Stephen Smith and Uwe Jirjahn explore a

few recent forms on nonunion employee representation, looking at their impact on firm performance, market equilibria, and externalities on labor and society. Since mandated works councils in Germany provide a particularly strong form of nonunion employee representation, the authors provide a systematic review of research on this experience with mandated works councils and find generally positive effects, though they show that these effects depend on a series of moderating factors and some impacts remain ambiguous. Moreover, the authors review some key questions for empirical research on nonunion employee representation, which have previously been little analyzed in the literature.

In *CEO Activism and Supply Chain Interactions*, Harald Hinterecker, Michael Kopel and Anna Ressi demonstrate how hiring a manager with a propensity to overinvest in socially and responsible production can increase firm profits as long as customers not only care about the responsible behavior of the firm but also about the engagements of all players along the firm's supply chain. The new mechanism they identify relies on the complementarity of investments by the firm and its suppliers. They demonstrate that CEO activism of this kind might cause a win-win outcome where all parties along the supply chain, the firm's customers and society can be better off.

Finally, in his short note entitled *Democratic, Accountable States are Impossible without Behavioral Humans*, Louis Putterman argues that an accountable, democratic government is impossible when assuming that the self-interested, rational individuals of traditional economic theory are the only available citizens and officials. Approaching near-realization of such a form of government, as occurred in parts of the world during recent generations, required reconfiguring autocratic states with the aid of the actual human impulses that underlie attraction to norms of fairness, capacities to cooperate, desire for social approval, and anger at norm violators. Increasing our understanding of how accountable government began to approach realization during the past two centuries may aid society in preserving and building on this still-new political arrangement.

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