

## **Bologna and Emilia Romagna – A Model of Economic Democracy**

### **1. Introduction**

This writer, who has played a role in the evolution of Western Canada's largest financial services cooperative, Vancouver City Savings Credit Union over the past twenty years has long been intrigued by the impact that democratically based economic institutions can have on community.

In our continuing quest at VanCity to expand our role in improving community for our 300,000 members and the people of our region, we had determined we should play a greater role in generating employment in the Vancouver region. I was entrusted to Chair a small task force and business planning team to determine the best approach. Our mentors in this work were the Shorebank Group from Chicagos' South Side, highly regarded development bankers. The Chicagoans and others advised us that if we wanted to find a region that had advanced its economic base and might well be the great economic democracy in the West, we would find it in Emilia Romgna.

We kept all this in mind, while completing our plans for what ended up as the VanCity Capital Corporation a subsidiary of the Credit Union. Our new company is a business lender in the new economy that lends against cash flow on a subordinated debt basis. We also decided as part of our business plan we should lend in the social and cooperative sector on the same basis. Once we hired our new Chief Executive Officer for the company, Dave Mowat, a former Vice President with the Business Development Bank of Canada we recalled the earlier advice from Chicago. We traveled to Emilia Romagna and its capital City of Bologna.

What we found in this Po Valley region of Northern Italy was so impressive that we have returned every year.

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This year we begin an annual five-week study program with the University of Bologna and some thirty students from British Columbia in conjunction with the BC Division of the Canadian Cooperative Association. What we have found on each journey is that there is more depth, more history, and more amazing networks of social and economic activity than we had previously realized.

Robert Putnam, the Harvard academic in his seminal book “Making Democracy Work” carried out studies in Italy, after its massive decentralization, which began in the 70s. In that work, Putnam analyzed all the new regional governments and found that the most successful through the transition was Emilia Romagna.

This region with a long history of cooperation, entrepreneurship and good local government was probably the most ready to achieve much more in social and economic development – and they did.

On the industrial side in the region there was the huge success of their industrial districts and the facilitating agencies of ERVET in the various sectors. On the credit side there was coordination between the sectoral groups, the region and the coops. At the same time while still the region maintained a huge small-scale entrepreneurial base.

Indeed, the diverse, pluralistic entrepreneurial strengths of the region linked with the umbrella organizations of ERVET have created an immensely strong, adaptable economy.

Then of course there are the co-ops, some 8000 of them in the region that cover a complete range from huge industrial worker co-ops (as in the ceramic machinery industry to huge retail co-ops – the Iper co-ops, the superstores that dominate the Italian retail food trade.

In the social sector there are countless social co-ops that have replaced government as the deliverer of social services that the state pays for in the fields of health care, child care, seniors care and support for the disabled.

What especially impressive in the region is the networking that goes on between all these players, both formal and informal, giving this region, possibly the most developed civil economy in the world. As their great teacher, Stefano Zamagni would argue it is this rich cultural civil base that has created the perfect climate for all these achievements. The following pages will hopefully provide a basis for arguing that this is one of the great economic democracies in the world.

## **2. Background on the Italian Economy**

The best modern historical over-view of Italy is the recently published “Italy and its Discontents”, 1980-2001 by Paul Ginsborg, Professor of Contemporary European History at the University of Florence, published by Penguin, 2001.

Ginsborg points to the highly democratic constitution of 1948 “laid upon older & anti-democratic structures,” making for the complex nature of Italian society. Another touchstone in Ginsborg’s work is his view of the family as “a political institution of primary importance,” as is the case in China, Japan, Spain and Greece. And so it is with the ownership of firms, large and small.

Ginsborg points to the 1990 work of Harvard’s Michael Porter comparing national economic competitiveness, and much of what Porter had to say about Italian manufacturing is highly complimentary, “showing a remarkable ability to innovate in products, state of the art manufacturing, and other technologies in relatively small and medium sized firms”.

Ginsborg would argue that the most successful sectors are in “the electrical and non electrical machinery sector, especially machines for industry, mechanical components, and household appliances. Similarly, textiles, clothing, furniture, ceramics, leather goods, footwear, and some metalworking is strong.

From 1976 to 1990 the Italian real GDP grew by almost 50%, six points above the European average. Ginsborg argues that banking and financial services and insurance has been far less dynamic.

Looking at public services, Amato calls this area “one of the great historic weaknesses of the Italian state”; pointing to studies that show 15 to 20 working days are lost by every citizen in having to cope with state and local bureaucracy.

In the service world the great Italian characteristic is the million plus small retailers, and the added 250,000 bars, trattorias and restaurants. Manufacturing and construction has remained relatively strong over the last 20 years, employing 32% of the workforce versus 37% in 1980. The larger firms historically have been, private and public, the largest of the privates being FIAT and the largest of the publics being IRI and ENI generally have not been so successful. Of special interest to Ginsborg however, are the networks of small industry and industrial districts. Some have called this activity “molecular capitalism”. These areas have been described by Brusco and Paba as

“A community of persons and firms who operate in a limited territorial space, marked by the presence of economics external to the firms, but internal to the district in question. These economies solicit the formation and development of a specialized productive apparatuses, in which small firms have a highly relevant role”.

The examples Ginsborg points too are textiles at Prato and Carpi, furniture at Poggi-bonsi and ceramics at Sassuolo, shoes at Vigevano. A special case, which produces complicated machinery for agriculture is in Emilia Romagna, and precision instruments at Belluno. By 1991 it was estimated (S. Chiarloni) that the number of such districts was 238, with 1.7 million workers. As Ginsborg concludes “taken together these districts offer extraordinary testimony to the entrepreneurial vitality of much of the country, to its deep-rooted artisanal skills, and to its flair for design and export”.

Any discussion of Italy requires an understanding of the differences between the North and the South and their very different histories. The statistical differences between these areas are shocking. In the South in 1990 the number of unemployed youths between 14 and 29 “was a terrible 44.1% as against 14.6% in the Centre-North. Infant mortality remained 30% higher than elsewhere”. Despite all this, the standard of living has continued to rise. It is argued that the state transfers in the South have primarily been to individuals rather than to the public sector, so that “the lack of public services is today the real element of poverty in the South”. (C.A. Ciampi, *la Repubblica* 8 May 1994).

### **3. After 1970 the Great Shift to the Regions – The Views of Robert Putnam**

Robert D. Putnam in his widely noted 1993 publication “Making Democracy Work – Civil Traditions in Modern Italy” (1993 Princeton University Press) chronicles the fascinating evolution of regional government in Italy post 1970. The transfer of power to Italy’s historic regions Putnam quotes Sydney Tarrow as saying it was “one of the few recent attempts to create new representative institutions in the nation states of the west”.

As Putnam notes, “led by the independent minded regional government of Lombardia (controlled by progressive Christian Democrats) and Emilia Romagna (controlled by the Communists) and encouraged by a leftward tide in 1974-75, the regionalist forces renewed their attack. Regional governments of various stripes North, South, Red and White joined forces in the so called “regionalist front” (Putnam pg 21). In July 1975 Parliament Law 382 authorized the decentralization of important new functions to the regions. By June 1977, agreement was reached “on a packet of regulations (the so called 616 decrees) that dismantled and transferred to the regions 20,000 offices from the national bureaucracy including substantial portions of several ministries”. A quarter to a third of the national budget was transferred at the same time. Agriculture, health, hospitals and many social functions moved to the regions.

Putnam in his review and analysis of this grand period of change in Italy concludes “Twenty years into the regional experiment, sub national government is clearly more important on major issues of public policy in the early 90’s than 1970” (pg 60)

He states further, “on the positive side, the new institutions are closer to the people, as proponents claimed they would be. The regional governments are more familiar with regional realities and more accessible to regional demands than the remote Roman ministries they replaced. They provide multiple laboratories for policy innovation. They help to nurture or moderate a pragmatic, tolerant style of policy making and conflict management”.

Unfortunately, the deep-rooted difference between Italy's Southern regions and the Northern regions were exacerbated by the shift. As Putnam says:

“The reform freed the more advanced regions from the stultifying grasp of Rome, while allowing the more backward regions to fester”.

In his analysis Putnam found that some regional governments had been “consistently more successful than others, more efficient in their internal operations, more creative in their policy initiatives, more effective in implementing those initiatives.” (Pg 81)

The highest performing regions, by Putnam's measure were Emilia Romagna and adjacent Umbria, while the lowest performance was in the Southwest. Putnam saw a close correlation between a regions' “civic ness” and the performances of the regions.

In Emilia Romagna, Putnam found that citizens are actively involved in all sorts of local associations – literacy, local bands, hunting clubs, cooperatives and so on. He found that these people followed civic affairs avidly in the local press and that they engaged in politics out of pragmatic connection. (pg 97)

In viewing “the top of the civic scale, Emilia Romagna”, he found that it was: “Among the most modern, bustling, affluent, technologically advanced societies on the face of the earth”. In addition he found that, “It is the site of an unusual concentrations of overlapping networks of social solidarity, peopled by citizens with an unusually well developed public spirit – a web of civic communities”.

In reviewing the history of the regions, Putnam found that again, Emilia Romagna had the highest level of civic tradition in the period 1860-1920. In these more civic parts of Italy Putnam found much greater social capital and a history of reciprocity, which he described partly as “short term altruism and long-term self interest”. Reciprocity he says, (quoting Michael Taylor in “Community Anarchy & Liberty” Cambridge Press 1982), “is made up of a series of acts each of which is short-run altruistic (benefiting others at a cost to the altruist) but which typically make every participant better off”.

Finally, Putnam quotes Nobel economist Douglass North who says:  
“Networks of civic engagement embody past success at collaboration, which can serve as a culturally defined template for future collaboration. This cultural filter provides continuity so that the informal solution to exchange problems in the past carries over into the present and makes those informal constraints important sources of continuity in long run social change”. (pg 174)

As Putnam concludes:

“The civic traditions of Northern Italy provide an historic repertoire of forms of collaboration that, having proved their worth in the past, are available to citizens for addressing new problems of collective action. Mutual aid societies were built on the razed foundations of the old guilds and cooperatives and mass political parties then drew on the experience of the mutual aid societies. The contemporary Italian environmental movement draws on these early precedents”.

“Building social capital will not be easy, but it is the key to making democracy work”.

#### **4. Emilia Romagna**

This magnificent region centered on the Po River Valley is one of 20 administration regions in the Republic of Italy; its name comes from the ancient Roman road that marks the line between the northern plain and the mountains to the South. The population of this region nears four million people, while the most populous city is Bologna, which houses the oldest university in Europe.

The region is a region of small firms, “artigianati” or self-employed artisans account for over 40% of the companies in the region, and over 90% of these enterprises employ fewer than 50 people.

There are 90,000 manufacturing enterprises in the region, surely one of the highest densities per capita in the world! Small, medium, enterprises (SME's) predominate. One person in twelve is self-employed or owns a small business. In recent years the region has produced the highest GDP per capita in the country, and it now ranks with the ten best in Europe.

## **5. The Emilian Model**

The main feature of the region is its diverse entrepreneurial structure and its system for supporting cooperative relations among its small firms in order to create value-added products, linking many producers, creating local production systems, that secure global markets. More frequently than not, this involves linking many quality producers together. The beauty of all this is that the history of artisanship and quality is maintained, as is the pluralistic ownership. Cooperative and other links allow for a more complex value-added product in the end. As a result everyone wins, and the results are achieved without creating a single enormous corporation, pluralism is maintained, as is diverse ownership.

What they have created in Emilia Romagna is a diversified “cluster” model unlike the Spanish Mondragon model, which is highly centralized. Small firms operating in cooperative networks are the key to the Emilian Commercial economy.

## **6. Cooperatives in the Region**

This region with so many small firms also has Italy’s greatest concentration of cooperatives some eight thousand, making it the highest concentration of cooperatives in Italy. The dominant co-op organization in Emilia Romagna is the Lega, which is the leftist oriented, and largest cooperative group in the country.

Social cooperatives however originated in the Piedmont to the northwest and were quickly adopted in Emilia Romagna. Legislation for social coops was as recent as 1991. The purpose of these organizations is to “pursue the general community interest in promoting human concerns and the social integration of citizens. Social coops are engaged in the management and delivering of social, health, and educational services, known as Type B or social service cooperatives while Type A coops work toward the generation of gainful employment for the disabled and marginalized in society. The Type A coops serve the disabled, the elderly, youth, and marginalized. Many of these coops are multi stakeholder’s models including employees, volunteers, and user members. To a great extent these social coops are developed jointly with local government. There are significant regulatory and tax benefits for these cooperatives.

## **7. Emilia Romagna Department of Industry**

The local region is responsible for the SME's while the large companies are served by the central government in Rome. The SME's also benefit from lighter regulatory and tax regimes. The regional strategy is to improve the total system through selected policies and to improve the technical level of industry and the quality of products. Furthermore, the region promotes cooperation and networking among firms.

The region also has funds to reduce the rate of interest that enterprises pay for loans and has various other loan guarantee programs. These programs blended seamlessly with regional banks and the coop fond, which is the capital supplier in the cooperative sector and is funded by 3% of all profits in the sector annually. The linking of companies to work together on projects or parts of projects is often a criteria for government support. The region in turn is the main shareholder in ERVET, which supports the SME sector.

## **8. ERVET and the Emilian Model**

ERVET was created in 1974 as a private company to manage a system of services to specific sectors of the economy in the region, focusing on SME's.

The job of ERVET is to carry out SWOT analyses of the various sectors (strength, weaknesses, opportunities, threats) the services and infrastructure required, and the promotion of targeted services through service centers, which primarily supply the needs of very small firms, which require highly, targeted services. These service centers and the sectoral agencies are well covered in a paper on the Emilian Model: Productive Decentralization and Social Integration written by Sebastian Brusco in the Cambridge Journal of Economics, 1982, 6, pages 167-184.

Brusco notes that the proportion of the labour force employed in small productive units is always greater in this region than in Italy as a whole. These firms are frequently grouped in industrial districts according to the product they manufacture. There is usually "a low degree of vertical integration and the production process is carried on through the collaboration of a number of firms." "In these areas only a proportion of the small enterprises market finished goods: the others work as sub contractors, executing operations commissioned by the first group of firms". (p 169)

"The examples are knitwear in Modena, clothes and ceramic tiles in Modena and Reggio, cycles, motorcycles and shoes in Bologna, buttons in Piacenza, tomato canning and ham in Parma..." (P169)

“There are also engineering industrial districts; the production of automatic machinery and packaging machinery in Bologna, agricultural machinery in Bologna, agricultural machinery in Modena, woodworking machine tools in Carpi, food processing machinery in Parma.” (P 170)

“Importantly, the artisans and small entrepreneurs of the region have “created associations to provide administrative services for themselves and to coordinate purchasing and credit, thus establishing on a cooperative basis the conditions of achieving minimum scale of operation.” (P 173)

“These associations also establish technical consultancy offices, consortia for marketing and the purchase of raw and semi-fabricated materials, and most importantly, cooperatives which provide guarantees for bank loans which can thus be obtained at the lowest possible rate of interest.”

The municipal government in the region is seen as “extraordinarily efficient” in dealing with infrastructure and other problems (p 181), “no matter how complex.”

The mix that exists in Emilia Romagna argues Brusco is “a complex productive apparatus that gives workers a wide variety of choice and opportunities: for the more skilled to go into business for themselves, for others the ability to choose in which firm to work.

Brusco noted the work of Professor Francesco Cavazzetti, the President of ERVET, a public-private partnership created by the regional government with the support of the banks and industrial associations to promote economic development. In describing his work he noted the “ERVET’s most important activity is creating a network of industry – specific service centers.”

ERVET identified the introduction of new technologies and management methods, so that today, technology transfer and marketing service centers are targeted to the specific sectors which include CITER, Carpi’s knitwear district, CESMA, Reggio’s agricultural machinery makers, CERCAL for Rimini’s shoe firms, QUASCO for the regions construction industry, CERMET for the mechanical and woodworking industries and others. These are often referred to as “real service centers”, as opposed to government service centers.

In addition to these entities established by ERVET there is within the artisanal and small medium enterprise sector a governing entity, CNA. The CNA amongst many activities creates “guarantee cooperatives” amongst their members. These co-ops pool member contributions, creating material insurance funds to collateralize loans and leases. These associations and the local banks in turn have a long history of working together in a seamless way to facilitate entrepreneurship and production.

## **9. “Real” Service Centers**

The service centers established by ERVET serve the various sectors that have been noted and organizations with various acronyms abound. In fashion and textiles, it is CITER that serves the sector, while CERCAL serves the footwear sector, QUASCO serves building and construction, CENTRO CERAMICCO serves mechanical sector, CESMA covers agricultural mechanics, CEMOTER, earth moving while pan-sectoral innovation, internationalization, and technological development is all handled by ASTER. Local people refer to them as “real service centers”, rather than government service centers.

These agencies meet the concrete real needs of the various production processes, R & D consultation, technical services, and business development.

These centers are located within the industrial clusters in the various towns that specialize in these various sectors.

## **10. The CNA**

Confederazione dell’ Artigianato e della Piccola Impresa (National Confederation of Artisans and Small Firms).

The CNA is a post-second world war phenomenon, formed in 1946, and this sector like the cooperatives were recognized as a significant part of Italian society recognized in the nations new constitution. Artisan firms are those with less than 18 employees where the owner works directly inside the firm.

In Emilia Romagna there are 125,000 artisans of whom 45% are in manufacturing. The CAN provides and brokers services for these many players. Services include financial and legal, accounting, payroll, and employee benefits. They also provide marketing advice and facilitate export through consortia where they are often an investor and partner, as well as the services noted earlier.

## **11. Flexible Manufacturing Networks**

Bruce Herman, an Economic Analyst with the Port Authority of New York and New Jersey spent three years in Emilia Romagna conducting research on manufacturing networks for his PhD at Columbia University. The following few notes summarize his own summary of some of his work in a short paper entitled Industrial Development: Targeting New and Basic Industries, National Council for Urban Economic Development, October 1988.

Herman points out that Emilia Romagna with its 4 million people has 325,000 individual firms, and that more than 90% of them employ fewer than 50 people. It is a system that is both decentralized and integrated. The results he saw were as follows:

- Wage rates almost double the Italian average
- Productivity amongst Europe's highest
- Increasing exports
- Per capita income increased to number two in the country by 1988
- Between 1971-1988 the regional gross product increased by 50% (today it is the highest GDP per capita in Italy)

Describing how the flexible system began, Herman notes:

“Initially the small firms of Emilia Romagna served large enterprise as dependent sub-contractors. To overcome the negative consequences of this situation, small shops learned to diversify their client base through horizontal linkages to small firms. Relationships of trust grew as firms subcontracted among themselves rather than refusing to take on contracts too large for the individual shop.”

Flexible specialization evolved and this strengthened commercial linkages and these SME's then began to coordinate their respective enterprises, creating value-added partnerships and value-added goods.

This cooperation allowed these players to jointly bid on larger contracts, which led to the growth of flexible manufacturing networks. Herman compares this with some aspects of the film industry in the U.S. and urges an approach to replicate this successful model.

In a study by Lakey Broderius, in a paper prepared for Dr. Shapira at the Georgia Institute of Technology in 1998 the author argued that:

“The industrial district of third Italy illustrates the importance of network economies need to be supported by both public and private institutions. For example, in Emilia Romagna, local

government not only helps form financial consortia but also works with trade associations to create real service centers for small firms.”

In conclusion Broderius emphasizes:

“The most critical factor affecting the success of flexible manufacturing networks is the social cohesion within both the community and the network. All members of the alliance must understand the importance of each member firm and the role they play. The economic development planner able to facilitate and monitor the inner workings of the network will be the most successful.”

What is evolving through these flexible manufacturing networks is the linking of excellence with excellence. The Northern Italians have a tradition of great artisanship and are always concerned with quality, quality, and quality. The networks naturally evolve as better and better players become linked. The result is better and better products that represent much more added value for export.

## **12. Civil Society the Civil Economy, and Reciprocity**

In a short paper entitled “Cooperation in the New Economy, A Civil Economy Perspective”, Professor Zamagni of the University of Bologna outlined his views on the limitations of seeing the worlds’ various activities in a narrow market perspective, outlining the importance of reciprocity as a principle and the value of cooperatives which quite naturally adhere to a longer term reciprocal view.

Stefano argues we must create a new consensus and that “the new challenges cannot be met without a robust and viable cooperative sector leading the civil economy”.

This means to him that the principles of reciprocity must be applied, which means not only as a medium of mutual self-interest, but with “gratitude, consideration, empathy, liking, fairness and a sense of community. which are intrinsically valuable and valued by all”. For, as Stefano says, “the good society is made of good acts”. Don’t we all inherently know this from our own experience?

In turn Zamagni quotes Peter Drucker, who said,

“Above all we are learning very fast that the belief that the free market is all it takes to have a functioning society – or even a functioning economy – is pure delusion. Unless there’s first a functioning civil society, the market can produce economic results for a very short time...” (Relentless Contrarian, Ottawa Citizen 31 Dec 1996 pg A 11)

Zamagni refers to K. Arrows work, (Gifts and Exchanges, Philosophy and Public Affairs 13, No 2 1997 pg 5-28) “that one can plausibly maintain that most of the worlds’ backwardness can be explained by the lack of mutual trust.” The Italians readily agree because of their experience with their own different worlds in the North and South of their country so ably described by Robert Putnam in “Making Democracy Work”.

Zamagni maintains it is the civil society itself that fosters trust, “it is the ideal – typical place to cultivate trust and institutions that rely on trust; this is not the case with the private market, which is instead a trust consumer”.

Pursuing the issue of reciprocity within a broader societal spectrum, Zamagni argues that “The relative freedom in reciprocity allows us to see that market exchange occupies an intermediate position between coercion and reciprocity”. A rather bold view indeed. This is an area that has not actively gotten the attention of economists, yet is deserves attention, given the nature of the social reality of values in the community, family and society. These are grand issues, much broader than traditional market equations.

Reciprocity involves “bi directional transfers”, Zamagni argues, implying a balance between what one gives and what one expects to obtain. “The balance is not expressed in a definite exchange relationship (around a set price) since it can vary around moral sentiments like sympathy and benevolence” and, he argues

“the practice of reciprocity both presupposes and in turn reinforces the element of trust”.

In turn Stefano says:

“Traditional economics, whereby the only rational choice for a subject is one that maximizes their immediate commercial self interest, cannot account for reciprocity.”

Reciprocity is a principle consistently applied by family members in most societies. In Italy family is exceedingly important, probably more so than in most societies, which may partly explain their broader view of its role.

The co-op, Zamagni would argue, is the natural institutional vehicle to practice reciprocal arrangements. Because of the high level of trust that exists within coops, Professor Zamagni would argue that transaction costs (lawyers, contracts, and the like) are insignificant, unlike the case with the North American Corporation where they are a large part of the cost of doing business. More than that Zamagni sees the co-op as the natural vehicle for delivering “relational goods”, “those goods such as care-giving that are services to persons and that are characterized by the exchange of human relations. (In relational goods, the quality, of the personal interaction lies at the core of what

is exchanged between the provider and the recipient and can be optimally produced only by the provider and the recipient together).”

In areas where economics of scale and technological progress requiring large amounts of capital are necessary then Zamagni would argue that profit maximizing firms would hold a comparative advantage.

But Zamagni argues that the opposite is true in areas where personal relations are critical, and says that “research shows that cooperative firms hold a comparative advantage because capital is generic and labour is asset specific. The cooperative structure that employs the reciprocity principle in carrying out its functions will always perform better than a capitalist firm. Indeed, the history of cooperative firms offers an empirical confirmation of this principle.”

“Cooperatives provide just what post-industrial societies need: the ability to operate in the market at high levels of efficiency without destroying – and in fact regenerating – ethical values, without which the market economy cannot exist.”

Furthermore Zamagni claims:

“Due to their organizational peculiarities, co-ops are a suitable to the crisis in social security systems, a crisis due in large part to the inability of the public sector to respond to changing needs. Without the bureaucratic rigidity of the public sector, co-ops are flexible enough to meet those needs, thanks in part to their ability to manage the values of the market with the values of solidarity.” This is an intriguing argument, one that most Italians agree with.

Zamagni is saying that the culture of contract (the traditional modern market) and the culture of reciprocity (the civil economy and cooperatives) must become integral in what we do “or the system as a whole is going to be damaged – hence the urgent need to help the civil economy sphere to flourish.”

In this paper the professor says, “To conclude, the most detrimental effect of the self-interest doctrine and the culture of contracts based on it is to lead us to believe that behavior inspired by aims other than self-interest is conducive to economic disaster.”

This can only lead in the end “to greatly hamper the utilization for practical purposes of dispositions such as trust, reciprocity and altruism since it views them as merely intrinsic qualities of human nature, unrelated to the civilizing process society is undergoing.”

His conclusion:

“Market economies capable of facing the challenges of the future need to breathe with two lungs, the private economy, on the one hand, and the civil economy on the other.”

### **13. The State versus Civil Society in the future; where some of the Italian Intelligensia see the Future**

Stefano Zamagni who has been the Dean of Economics at the University of Bologna and now heads their postgraduate program on the Civil Economy and Cooperatives has been the major academic in Italy in this sector. At an earlier stage Stefano Chaired a Parliamentary committee that toured the country holding over 300 meetings prior to submitting the new cooperative law to parliament, which passed their statute with almost unanimous support.

Both prior to the statute and since, the evolution of the cooperative system in Emilia Romagna and their industrial districts has become a model for the European Union and indeed the world. At the same time, Zamagni and others have developed their own thinking to a greater degree and have a sense of where they want to go in the future.

Zamagni and his colleagues recognize the original altruism behind the establishment of the welfare state but have concluded that many aspects of the system, such as welfare itself, humiliate the citizens involved. The major evolutionary shift they see therefore, is the civil economy and social services functioning more and more within the market or social market.

At the same time, Zamagni sees the continued growth of cooperatives as the best vehicles for delivering “relational goods or services”. Cooperatives are steeped in the principle of reciprocity he argues, which involves a longer term view based on trust relationships.

Social cooperatives in Emilia Romagna have to a very great extent replaced state social delivery systems, nevertheless, the state remains a major supplier of some of these goods and services. Zamagni and his colleagues would see a continuing shift to the cooperative sector and a lessening of state control; all of it ultimately based in some market context. All this with the State paying most of the bill..

With the evolution of the modern regionalism, the Italians concluded (despite the left-wing politics of the day) that the state was a poor deliverer of social services. They were satisfied the state should pay the cost, and measure the satisfaction level of the citizenry, but other, more democratic, community-based organizations should be the delivery vehicle. This was a natural for cooperatives at the community level.

A panel of academics and practitioners participated in a conference at San Patrignano, the extraordinary drug addiction treatment center near the Adriatic coast in Emilia Romagna, discussing

the role of non-profits and the private society in the reorganization of the social state in 1997. San Patrignano was an appropriate place for such a session, founded by a wealthy hotelier from Rimini, treating 2000 former addicts annually, located on a grand private estate owned by the benefactors family foundation and run by worker cooperatives, peopled mainly by those who had graduated from the facility. San Patrignano is a magnificent experiment that works, one that has transformed the lives of thousands of addicts. San Patrignano only accepts money from the state on a very limited basis, namely for capital projects like their Olympic swimming pool, but never for their programs or operational costs. These practitioners value their independence too highly and realize they must be free to adapt programs and treatments quickly; changes they know would not be possible within a government hierarchy dominated by political considerations.

Entitled “The Second Mandatory Seminary, these discussions took place in San Patrignano, October 3, 1997. The product of that dialogue was a short “Report on the social society in Italy – the role of the private society (non-profit) in the reorganization of the state”. The major presentation at this session was by Antonine Wagner, President of “International Society Study Third Sector”, Switzerland. The Participants including Ivo Calozzie, lecturer in Sociology, University of Bologna, Abraham Irizarry, Vice President, “Delaney Street Foundation”, USA, Leonardo Mondadori, President “A. Mondadori Editore”, Italy, Piera Piatti, Psychotherapist, President LENAD, “Lega Nazionale Anti Droga”, Italy, Giorgio Vittadini, President “Compagnia Delli Opere Italy. The session was chaired by Stefano Zamagni, Lecturer in Political Economy, and the Dean of Economics at the University of Bologna, Italy.

Parts of this discussion are included here because it is such a rich dialogue, revealing the weakness of state delivery systems, the capacity of those in the civil economy, and the long-term direction – toward a social market – that Zamagni envisages. The region Stefano Zamagni comes from can be rightly proud of the great progress they have achieved throughout the social sector however the future Zamagni sees is one where the citizen is in more control of the social goods he or she wants. The Professor sees a social market as the way to get there, a view he is still refining. This dialogue shows why they want to move in this direction.

Antonine Wagner:

“My impression today in making the tour of this wonderful organization was that this is really a non-hierarchical organization where these kinds of transactions between equal partners is the most important type of transaction. I see a certain parallel between the economist J.R. Commons ideas of these transactions and our modern language of the state, the market, and the community. My

predication would be that those societies in the future would be the most successful which are able to organize themselves so that society works like a three-legged stool. A stool is stable when it has three legs: one leg is the market, another leg the government and the third leg is community. I would add a fourth sector that is sociologically more valid for describing contemporary life. I refer to relations with everyday life, with the family, small communities, relatives and neighbors”.

These various relations Wagner argues can be based on exchange, authority and command, or reciprocity. On the relation between the State and the Third sector?

“I believe as things stand today, transactions of full reciprocity certainly do not prevail. That is to say, there is no relationship of sharing between the state and the third sector. The prevalent relationship is based on authority.”

“I believe that the third sector today is treated in a way that tends to transform it essentially into a bureaucracy. That is, the State turns the third sector into an agent... of itself.”

Abraham Irizarry:

(Delaney Street)

“So please step aside and let us take charge, let us teach our people how to work and have some dignity by earning their way in life so that they don’t have to be on welfare and have what most citizens in the world want. An opportunity to work and provide for themselves and their families, so that they can be prideful and have some dignity.”

“When you look at this community here and at the people who needed a variety of services and were just running around like crazy people, causing the taxpayer money and family problems, with no dignity, no responsibility, no direction, when you walk through the facility here, what you see is a sense of pride.”

“I believe that I saw in each of the individuals who were touring us, is that they were in charge of their lives; they were actually earning their way back into society. They were being productive because they had an opportunity to work and make a living, and making this happen.”

Piera Piatte:

“The non-profit system enables the formation of an intricate web of services that can be put to use to respond to small needs and can adapt to changing circumstances with a rapidity that the public sector cannot, of course, match.

Non-profit organization is also needed because at a time of high unemployment it can offer a change of voluntary work to young people. These work opportunities offer not just the chance of

earnings but also of bringing forth the gift of humanity and giving to the ethical impulse that is so strong in so many of these young people.

We should recall that the first impulse for these centers, groups and non-profits agencies very often comes from a sense of solidarity, from a deep understanding of certain problems, and even more often, from the experience of suffering that these problems have caused. Through this deep knowledge non-profit work enables the response that would not have otherwise been as pertinent.”

Piatti points to the game the state and its bureaucrats can play in the name of participation pointing to one bureaucratic conclusion about their roles in quoting the response to a major session in Naples:

“The private organization evolves mainly around ethical, philanthropic, and legal criteria, while the public one seems to be more based on scientific and professional criteria.”

The statement is nonsense but drips with the vocabulary of the professional bureaucrat who is really only looking after his or her own turf, and dismissing civil players as those of lesser capacity, obliquely suggesting that the civil players are neither scientific or professional.

Piatti concludes:

“What is most depressing is the waste of talent and will which are expended for the most part in dealing with red tape or combating deficiencies...”

“Any new approach, plan or project that has not been vetted and approved by the powers that be is treated with indifference. This indifference extends to findings made at a great cost and through years of research. This, to my mind, prevents the possibility of enrichment and stimulus that would be generally and applicable and useful to everyone.”

Giorgio Vittadini

“When any grass – roots organization can construct something, the state should help and not substitute it.”

“...in the Italian situation it is very difficult to find any public administrator willing to admit he is inefficient and ineffective and therefore in need of help. Finding one would be like winning the National Lottery!”

“In Italy, non profit organizations, through not calling themselves such, actually pre date the state.”

Stefano Zamangi:

“To be independent however, means to be economically autonomous: there is no independence without economic autonomy. If to do the things I fully believe in I have to hold out a begging bowl, then I will never be independent.”

“A large part of the insufficiencies and inadequacies of our welfare model has to do precisely with the fact that we do not produce enough relational goods even though citizens are demanding them and would be prepared to continue to the cost of producing them.”

“So the positive definition that I would give of a non profit organization is that it is an entity that has a comparative advantage in the production of relational goods, that is to say, goods whose means of production and supply refer to the principle of reciprocity that I mentioned above.”

Zamangi is afraid his view of the third sector, between the market and the state is “between the devil and the deep blue sea”, in that the state is afraid of the loss of income and the private sector is afraid of a threat to private enterprise.

He argues:

“We must get out of this impasse by conceiving of the market economy as an institution, which, following well defined rules of course, the two forms of producing goods and services i.e. the private and what I like to call “the civil” but we can also call non profit, may both operate.”

In the discussion that followed a participant stated:

“I found the articulation of the concepts most interesting, but I should like these ideas to be translated practically into something real. When you say we must keep non-profit organizations in the market, I would like to ask how it is possible to maintain an organization lacking in assets that wants to offer the higher specialized services of a private sector body while charging only one third of what a private sector body would?”

Zamagni:

“You did well to say what you think and there is no need to apologize. What you say is right, what I was trying to indicate was the direction we should take for a goal that, for the time being is not immediately attainable. But it is still the direction in which we should move.

Obviously, we shall have to go one step at a time because we have to learn to be wiser.”

“We should start out with the idea that certain goods, and especially, for certain services, many citizens are prepared to pay in accordance with their means, if only they were allowed to do so.”

“That is why I insist on saying that the idea of non-profit service must be contained within a broader vision of the market, then the funding must come perforce from the state...”

“If we consider non-profit work as outside the market, then it clearly follows that we must get our pennies from heaven – and these days heaven isn’t giving out many pennies – or else we get them from the state. Thus we can never escape from our dependency, we shall never have real and proper autonomy.”

“If we want to bring autonomy and independence to these organizations, we have to be sure they are capable of “selling” their goods and services to citizens willing to pay, as long as they are not already forced to pay for them through taxes. This is the point. The first stage is defiscalization, and this holds true for schooling, health, and other services as well. So the basic principle is competition. We must allow citizens the freedom to choose....”

There, in these few notes from the 2<sup>nd</sup> mandatory seminary at San Patrignano in the hills above Rimini, Professor Zamagni and his colleagues clearly outlined the inadequacies of the state in the controlling and delivering of social services. The bureaucrats that run the system want, always, to be in control, to be the “gate keepers” of democracy, in order to make it “accountable” and yet the greater accountability is clearly at the community level with the civil economy and local decision making. The various speakers pointed to the way bureaucrats bend the “stake holders” to their will in a world where politicians move on and off stage in virtual revolving doors. They also showed the lack of adaptability in terms of serving real human needs.

The future that Zamagni and many of his colleagues see is the evolution of a social market. That’s not to say that he sees the end of public schools for he sees that as a key element of liberal democracies. What he does see however is greater choice, with low-income players supported by the state so that they, as well as the wealthy have greater freedom of choice in a social market place.

In another Zamagni paper, “Labour, Employment, Civil Economy” the Professor makes a similar argument to those made at San Patrignano.

Quoting A. Bononi (*Il capitalismo molecolare, La Societa al lavoro nel Nord Italia*, Torino, Enardi 1997.)

“In Bononis’ words, “society must be set to work” in such a way that the intermediate bodies of civil society may form a new institutional infrastructure of the past Fordist society. Within such a scheme, a two fold, momentous role would befall the nation state. On the one hand it would acknowledge (and not grant!) the self-organization of collective subjects in all these spheres where their members feel, in full autonomy, they have legitimate interest to protect. This conforms with the subsidiary principle – which strictly speaking demands; the superior authority body should not delegate or distribute sovereignty shares to the lower body....”

“The concept of competitive self organization as Rullani calls it – is what specifically defines the model for social order here defended. It singles out the need to grant individual and collective agents the power to decide freely how to offer the various categories of goods - from the private to the relationship ones – they demand, by using their purchasing power.

Freedom, that is, to decide both the composition of the set of goods produced whether private or more of relational goods, and in the way in which they are going to be supplied.

Here lies the profound significance of an authentic economic democracy that is not satisfied just by pluralism in the economic institutions, but demands pluralism of the institutions themselves.”

So the future that Zamagni sees for the cooperative movement in Italy is toward this new direction of a much freer market in relational goods. And Zamagni’s economic view is that this is the area that cooperatives have competitive advantage – relational goods. The cooperatives, should, he argues “revert to grand thinking, generate and foster bold projects. Zamagni says the movement knows the dangerous challenges “of passage between ... neo statism and its neo-corporatist method, and ... liberism and its method of social atomism...”

Nevertheless, given the grand journey of cooperatives in Italy, and especially Emilia Romagna to date, he naturally sees the cooperators as “bearers of a specific message of hope.”

#### **14. Summary**

I have provided a great deal of space in this paper for the views of Professor Stefano Zamagni of the University of Bologna because he may very well be the seminal academic on the civil economy and cooperatives. Indeed there is much more of Stefano’s work one might include, but the material we have used might whet reader’s appetites to search out more of his work.

It should be noted that Zamagni’s work in the civil sector follows a long grand tradition in the country. As Stefano himself notes the term “civil economy” was coined by one of Italy’s first great economists, Antonio Genovesi in 1753. Genovesi held the first chair in economics at the University of Naples. Indeed one of Genovesi’s thoughts from his “Discourse About the True Purpose of Letters and Science” in 1754, which Zamagni calls “a true manifesto of Neapolitan enlightenment”, is worth noting. Genovesi wonders why Naples, albeit well inhabited, well placed for trade, well gifted with bright minds, rich talents, and the like, is not so developed as a nation as others in Northern Europe.

Genovesi's prompt answer was that "Naples lacks love for the public good." Expanding on the point Genovesi says:

"The primary support of civil society, the most important of all, is love for the public good, which can preserve these societies in the same way it made them."

Furthermore he says:

"Societies where private interest reigns and prevails, where none of their members is touched by the love of public good, not only cannot reach wealth and power, but also, if they have already reached them, are unable to maintain this position."

All this before Adam Smith!

Returning however, to Emilia Romagna – how can one not be impressed?

As Dr. Vera Zamagni has noted (another Oxford graduate and an economic historian), the region has had a rich history of cooperation and entrepreneurship.

The Po River Valley with its rich agricultural lands was amongst the first in Europe to escape from serfdom and feudal times. The river itself, which often flooded required cooperative work to control its banks, and the delta areas required dyking on a joint basis as well. At a later stage there had to be cooperative sharing of the water resource by the many mills that were river-based in an earlier century. Emilia Romagna has been blessed with good regional government with a long history, of productive capacity, able to facilitate linkages between individuals and small corporations and provide both business and physical infrastructure in an atmosphere of trust and respect.

What comes through clearly is that this region with its lengthy rich cultural background is a marvelous mix of both competition and cooperation. The civil economy and cooperative sector is as vibrant as anywhere in the world, while the private entrepreneurial sector is active, pluralistic and highly productive. It is so because it is not fragmented and works closely with many other entrepreneurs to create greater value using cooperative structures to enhance their productivity. Furthermore, the role of the state in the region is more that of a facilitator, creating conditions for the civil and private sectors to play a more complex role in a highly networked cooperative milieu.

Think of it.

A region of four million people with 90,000 manufacturing enterprises (compare that with New York with only 26,000 manufacturers). A region of four million people and some 325,000 enterprises... one business for every twelve citizens!

A region that is so highly entrepreneurial and yet is also referred to as Italy's "Red Belt" because it has voted for the left consistently for over fifty years.

A region that has an alphabet soup of entities that are state, and private, or cooperative or joint, which help guide the many pluralistic individual entrepreneurs in business.

A region that houses the oldest university in Europe, the University of Bologna, teaching some 80,000 students a year. A university that now has the country's first postgraduate program on the civil economy and cooperatives.

A region with a center of regional government that has three towers in their complex, one for the regional government, one for the Lega or cooperatives, and one for small business.

A region that has created more cooperatives than any other region in the country.

A region where local cooperatives predominate in the delivery of social services, where two thirds of the citizens in Bologna belong to co-ops.

A region where 85% of the social services in their major city are delivered by coops.

A region where only a few firms have over 500 employees.

A region where 45% of the GDP is produced by coops.

A region where all credit decisions are made within the region.

A region that has now reached the top of Italy's economic ladder, and produces the highest GDP per capita in all of Italy.

This region is the Bologna – Centered region of Emilia Romagna.

If we are seeking a model of economic democracy there can be little question that one of the great models for the world is this magnificent valley that stretches from Tuscany to the Adriatic and from the foothills of the Alps to the hill towns of Umbria.

Clearly the degree of citizen participation in Emilia Romagna must be amongst the world's highest, which must surely be the critical test of economic democracy, or democracy itself. The citizens control their own economic destiny in this unique place through countless organizations, societies, non-profits, social cooperatives, industrial cooperatives, retail cooperatives, individual firms and corporations. More than that these same citizens network on a constant basis between these entities and countless others. The number of formal networks would exceed most any region in the world and the informal networks of the civil economy provide the historic cohesion that links it all even more effectively.

It would seem reasonable to conclude with a final quote from Stefano Zamagni:

“Political economy was essentially seen as the science of happiness. It was only with the marginalistic revolution of the second half of the nineteenth century that the category of utility completely superceded that of happiness. Since then, economics has managed to be referred to as the dismal science.”

Elsewhere, maybe. But not in Emilia Romagna!

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