

## The Economic Philosophy of Professor Stefano Zamagni

by Robert Williams\*

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How does one begin to explain Stefano Zamagni, the magnificent scholar of Bologna, Italy? Stefano, well over six feet tall is a powerful presence, but more importantly Stefano is a giant because of the gifts he brings to economic scholarship. Like his fellow citizens of Emilia Romagna Stefano is forever involved in acts of community building and reciprocity. Whether it's the need for, and construction of a hospice in his home city, the need to direct a non-government relief organization for refugees in Kosovo, the need to pioneer new methods of social service delivery, changing the nature of IMF intervention in Argentina, drafting the legislation for cooperatives in Italy, changing the policies or attitudes of the powers that be in Rome.... There you'll find Stefano Zamagni, and nearby you'll find his equal; Vera Negri Zamagni, Stefano's wife and fellow academic.

Stefano Zamagni is fascinated by the concept of using cooperation and the cooperative form as a means of building both the economy and community. It is not surprising that this should be so, after all Bologna and the Emilia Romagna region may well be the most developed cooperative economy in the world. At the same time this region has an enormous number of highly entrepreneurial, pluralistic, small private enterprises – one enterprise for every ten citizens.

In many societies these two things might seem contradictory, but not in Emilia Romagna, where they continue to braid both competition and cooperation in a more creative manner than anywhere in the world. Within this marvelous, highly networked, socially active region of four million people Stefano Zamagni more than anyone else has developed the theoretical underpinning and deep intellectual understanding of the nature of cooperative enterprise and the civil economy. Stefano, the former Dean of Economics at the venerable University of Bologna now directs the world's only post graduate program in cooperative studies.

Quality of life would clearly seem to be the goal of Professor Zamagni and his fellow citizens of Bologna and Emilia Romagna, a long-sought goal in a region that was the first to free itself from feudalism in Western Europe.

This valley of the Po River is Italy's finest agricultural region, a region where people early on realized they had to cooperate in order to survive and flourish. The river Po frequently overflowed its banks, so dykes and levees were needed, and that required cooperation. Cooperation was also needed if water was to be shared for irrigation or the many early mills that needed the water. Sharing became part of their way of life.

At the same time these were an entrepreneurial people who were amongst the first to establish rules for commerce and banking, like their more famous brethren in Florence and Tuscany. Indeed when their brother citizens felt the political heat in Florence they would escape to Bologna until the politics at home cooled off, as was the case with Michelangelo. The lustre of Florence and Tuscany improperly leaves the marvelous City of Bologna and its equally intriguing region of Emilia Romagna in its shadow. Given the grand art of the renaissance, the sponsorship of the Medicis and the Pope, that may not be surprising. But it is not entirely justified.

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Unlike Florence, so much of which is a modern city, Bologna's ancient city is virtually intact. The active modern city centre is still the within the old buildings in the original medieval city. Traces of earlier city walls are found as you move toward the Piazza Maggiore, the ancient Roman square which is still the vibrant heart of this amazing region. Via Zamboni one of the radial streets leading from the two towers takes you to Piazza Scaravilli and the Economics faculty of the University of Bologna and Stefano Zamagni's office. Within these confines, and indeed throughout Bologna, Stefano is truly Prince of the City. Strolling out of the professors busy, cluttered, but ordered office, leaving the countless calls and visitors behind, one continues to meet Stefano's admiring and respectful students, his many colleagues and political power brokers while on a short journey for a cappuccino at the hidden bar around the corner. Inside you might meet a Professor off to Berkley, his colleague Flavio del Bono, the Minister of Finance for the region, or Ivano Barberini, head of the Lega, the league of cooperatives for the whole country. With each of these people Stefano is dispensing thoughtful commentary, urgent messages, or political directions. In a sense no time is wasted, yet it's a highly social occasion. Occasions like going for coffee in this highly social region are also a means of connecting, and impacting others, and networking in a way that either changes policy or moves the community forward. In that sense, Stefano is not unique...this is what most of these people do. This may be the worlds' most highly networked community, one that both cooperates and competes...and they would not be who they are today without those two threads that they continue to braid into their daily lives. It seems amazing that we in North America still see competition and the commercial capitalist market place as virtually the only "driver" in our economic world. In a sense we are incomplete as citizens compared to the Bolognese.

In a world that barely tolerates the idea of the cooperative firm, here in Emilia Romagna we have this dynamo of a man arguing passionately for the model that has transformed his region, making it now one of the top ten regions in Europe in terms of GDP per capita. Indeed, the success of the region has been so great that the European Union now favours the Emilian model for the underdeveloped parts of the European Community.

Zamagni and his team of young Professors at the University of Bologna seem like renaissance men given their broad interests and concerns. It is fun however to see them use John Nash's game theory to turn modern economics "winner take all" sense of the competitive market and turn it around, showing the multiple win that is possible with cooperative enterprise. Stefano's young colleague Pier Luigi Sacco is able to match his senior colleague in this sector.

For those of us who are interested in economics, yet despair at the narrowness of the discipline, and its seeming irrelevance when it comes to the important issues of our time, Stefano strides across the economic landscape like Gulliver in the land of Lilliput. Why do I say that? I say it because Professor Zamagni integrates the real world into the economic world. In a discipline that has often confined itself to marginal utility and efficiency, it is almost breathtaking to find an economist concerned about reciprocity, redistribution, equity, public welfare, relationship goods, social entrepreneurship and cooperative enterprise. All of these fascinating issues that concern Professor Zamagni are generally pushed aside by other economists as unimportant "externalities". These are the issues that are almost of daily concern in Stefano's extraordinary region.

The old Chicago school view of economics as "only an exchange of equivalents" in a commercial marketplace is a view that is unacceptable to Zamagni. At the same time Stefano Zamagni is no statist. That being said, the Professor views the modern attempt to build the welfare state as a highly motivated goal that has gone somewhat awry because of the nature of state delivery systems and the lack of reciprocity in the relationship between the provider of

welfare and the client; a pattern that is complicated further by the differing values of the politician and bureaucrat involved in the process.

Cooperatives are appealing to Zamagni because they promote social order in the process of carrying out their business functions. They are equally appealing in that they move us toward equity and redistribution of wealth in a world actively moving in the opposite direction. And, as Stefano sees it, equity and social justice are necessary if we are to sustain a modern liberal democracy. Needless to say, Zamagni notes that "stability is not possible if we become a nation of extremes and social order is threatened".

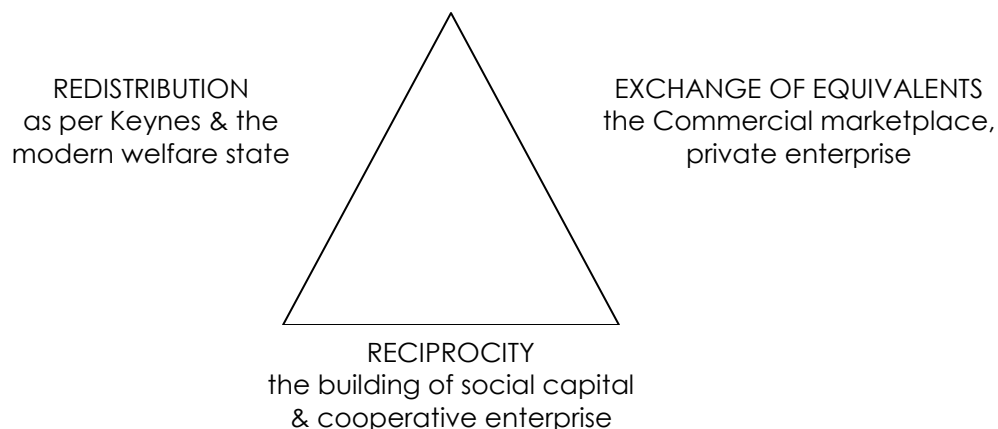
The equity question remains highly significant for Stefano Zamagni even though the current majority in the west seem to have forgotten this fundamental issue. The coop model, Zamagni would argue, moves us toward greater equity, patterns of reciprocity, and, the building of social capital. In addition, to use the European term, they would argue that it also builds solidarity (a term that seems to have less currency in English).

The principle of reciprocity is one that is deep in the consciousness of the people of this region, indeed, at times Stefano senses that "its part of our DNA". It would be very rare indeed for people from this part of Italy to ignore the possibilities that flow from reciprocal arrangements. That being said, there must literally be many millions of reciprocal acts underway at any given time in Emilia Romagna. Like some of our own internal family arrangements these are all unreported decisions or transactions that redistribute wealth and social capital. One senses, after spending some time in the region that the countless reciprocal acts that take place all of the time maybe the grandest shift of wealth imaginable and occurs "under the radar" enhancing well-being dramatically while being an everyday occurrence.

Stefano would argue that the modern progressive state or decent society should be in balance between three areas, namely:

- market transactions or exchange of equivalents;
- redistribution; and,
- reciprocity.

Most modern western states accommodate the first two main points, but do not practice reciprocity to the degree the Italians do. Stefano magnificently argues that the civil economy, or civilized economy requires all three of these elements. Only recently has Professor Zamagni tied these ideas together around what I might call his progressive triangle.



Indeed, Stefano says, "the civilized economy is where all three of these principles find a home". Stefano would argue, as did Lord Beveridge after World War II that we cannot ignore the poor, the handicapped, and the marginalized. But equally important, Stefano points out "we cannot ignore the negative side of state intervention and state delivery systems". Those problems include the sense of entitlement that attaches to many state welfare systems, and equally worrisome is "the over empowerment of the bureaucracy and the professional classes" that Stefano, and many of us see.

Because the market carries with it an uncivilized side, many philosophers have argued for the destruction of the market. Stefano Zamagni cannot accept this fundamentalist view which is held by Marxists and Polyani, even though he fully understands the limitations of markets. Zamagni believes the market can be civilized if society pursues his "progressive triangle".

This "three-piece" world of Stefano Zamagni creates the building blocks of a truly free society, which is of course the ultimate value, for as Stefano says "without freedom you are a minor society." And in the richest sense the professor argues that this should mean "the freedom of self-realization." This description of freedom may have been the fullest definition that one has yet heard. So what Zamagni is working towards is far more than the socialists historically asked for...freedom from ignorance, freedom from hunger, freedom from illness. Many of these earlier goals have been achieved to varying degrees in western society, however, Stefano Zamagni argues, "it is not sufficient."

"The freedom to actualize; this positive freedom is what is needed."

And the freedom to actualize "is where solidarity comes in" Stefano argues. "And solidarity always comes from the bottom, not the top" he claims. That of course is where Cuba fails, for there freedom from hunger and education and illness may have been achieved, but the freedoms in that country are only the ones the state will allow. At the same time full freedom has not been achieved in America where there has not been an adequate redistribution of wealth, and where reciprocity is scarce. To the Americans Stefano would say "society and community have certain duties to people, and those duties cannot be dependent on philanthropy or compassionate conservatism."

After all, Stefano claims "philanthropy segregates society between the giver and the recipient, while reciprocity builds society because of the individualism, generosity, and sense of community that is involved."

The challenge in building the decent society involves far more than the efficiency of the market, it requires redistribution of wealth, or sharing and reciprocity. All three sides of Zamagni's triangle are necessary, and all of them should be autonomous and independent. That is his all encompassing thesis.

If we are to achieve or build a society that links the three sides of the triangle, then the cooperative firm is absolutely necessary as an instrument of reciprocity, in Stefanos' view.

Reciprocity, Stefano argues, creates networks while philanthropy segregates society between the giver and the recipient, and in the end creates a pattern of paternalism which is always detrimental because the liberty of the recipient is destroyed in the process. Loans without reciprocity Stefano argues "poison relationships". Stefano senses that reciprocity creates a kind of "bonding" and a pattern that suggests "in order to affirm my own personality, I also need you."

It is critical therefore to have economic institutions where people can practice reciprocity. Strangely, there is very little in the literature on reciprocity. Indeed, only after experiencing the cooperative regions of Northern Italy does one realize what an enormous gap this is in the world of economics. Zamagni is the first modern economist to begin to define that gap and sketch out its significance as a critical part of the civil economy.

Conventional economists continue to ignore the cooperative model, failing to document it, they assume that the natural form of the firm is the capitalist one, taking a kind of non-thinking elitist view of the modern corporation... "its natural, therefore it does not have to be justified."

Zamagni argues that these broad ideas are not new in his own country. He points to Italy's first great economist (who wrote well before England's Adam Smith) back in 1753 – Antonio Genovese of Naples who wrote "Lectures on Civil Economy". Genovese was a moral philosopher who had a great impact on Smith. Indeed, history shows that Adam Smith went to Paris before he wrote "Wealth of Nations". Many of Genoveses' people, the Neapolitans, were in Paris at that time and had a huge impact on Smith's subsequent treatise.

Today, however, Stefano argues, we are in a "post Fordist" or post mass production society where we must actively rebuild reciprocity and solidarity. The need is becoming more critical "because redistribution is jeopardized by globalism". "Therefore the third sector must be revitalized," Zamagni maintains. And we should remember that the history of cooperatives is one of responding to the malfunction of both the market and the state. Back in Scotland (Rochdale) cooperatives were created in 1844 to overcome the inadequacies of both the market and the state of that time. In Italy the first consumer cooperatives were created in 1854. These cooperatives made survival possible in desperate times. These answers of 150 years ago were a response to negative conditions, "now is the time for cooperatives to play a positive role again" Stefano argues.

Professor Zamagni's "Progressive Society" would be one that readily accommodates the three sectors of:

- private goods;
- public goods; and,
- relationship goods.

The first stages of society work to produce and satisfy private goods – food for example. Zamagni believes that basic goods are private, goods that are not exclusive and cannot be consumed collectively.

Then as society evolves, there are more and more public goods, many of a cultural nature, many of which can be collectively consumed. There is also a need for "relational goods", where the utility depends on the identity of the supplier, and the relationship between the buyer and the seller....for example in care services such as child care or seniors care. We have too few of these goods, Zamagni claims, and probably too many private goods and public goods.

The Professor finds himself reflecting more and more on relationship or relational goods, a phrase he coined himself, I believe. Stefano senses that "only in relations with you can I discover myself...these things are instrumental, the relationship itself is of value, and important to my well being."

What the progressive society requires, Stefano argues is progress in all three areas of his "progressive triangle".

In a sense, even the giant modern corporate sector is shifting toward recognizing these issues and recognizing the shift in societal attitude by seeing corporate responsibility as a new role in recent times. Now corporate leaders feel they have to justify their profit making role in other ways. This in itself is a far cry from the “profit justifying all” of the Chicago school a generation ago.

Zamagni sees this shift as a kind of “contamination” from the third sector or cooperatives, and he genuinely believes, “good practice is more contagious than bad practice”.

And while this sweet contamination of the cooperative and third sector is indeed civilizing the market Stefano realizes that the globalization of the corporate sector does require global governance, otherwise only the corporate world’s exchange of equivalents will predominate.

Another way of making Zamagni’s case is as he says “to move from the welfare state to the welfare society, and a more pluralistic civil model.

“It’s time for the public sector to stop rowing” Stefano says and “share duties on the tiller of the ship with civil society”. Thus he claims, we could end the paternalism that is part of state social delivery systems. If this ideal is to be reached, then the organizations in civil society must become more entrepreneurial. And as Stefano makes clear, “to be entrepreneurial does not mean you must be a capitalist”. Being an entrepreneur involves “risk-taking, innovation and creativity”. Civil entrepreneurs must have independence and autonomy Stefano argues, and must not be dependent on the state. More critically, the pattern must change from one of financing supply in the social sector to that of financing demand for those people in need. This is a paradigm shift away from a too often less than creative state bureaucracy.

As Stefano’s thinking has evolved in this sector he sees the route of financing demand for those in need in the form of a social voucher toward the creation of what Stefano calls a social market. Stefano has already undertaken pilot projects for seniors home care that indicate the great potential of this model. This would be a grand shift in thinking – giving the poor, or the client, the control of the relationship with the service provider, and would be “a reflection of the relational side of the service”.

Cooperatives, Stefano argues, are the natural vehicle for much of this work; and unlike the major corporate sector “create positive externalities resulting in new social capital”. We also live in times when it is more and more feasible to measure these beneficial externalities, both social and environmental. In a sense it is only fair that the social sector receives compensation for these social values that have been delivered. That may be a new state obligation. That may mean a new indirect role for the state, one without the negative side effects of a more direct action past.

At a joint lecture in Vancouver with Professor John McKnight of Northwestern University one of the issues Professor Zamagni discussed was the challenge represented between the necessities of guaranteeing freedom while at the same time maintaining economic order.

In so doing Zamagni recognized the need for the authority associated with the state in order to provide:

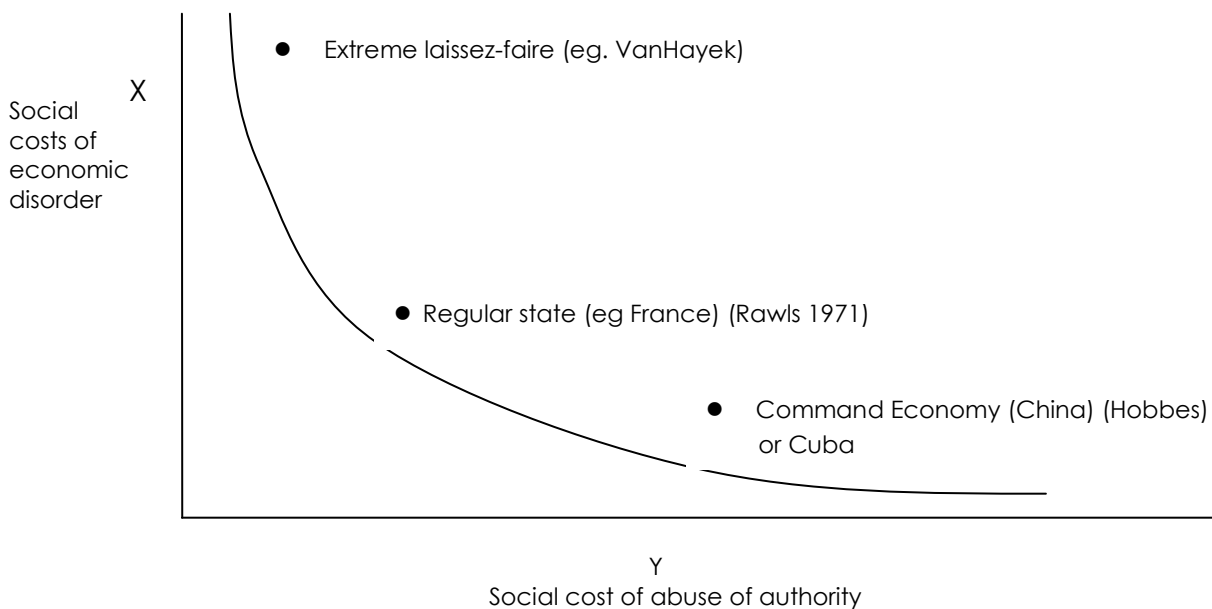
- property rights;
- contract enforcement in a market economy; and.
- interpersonal litigation.

While recognizing these fundamental needs which are necessary for economic performance Professor Zamagni more than recognizes the potential negative impact that the strong state can also represent, such as:

- abuse of authority;
- bribery; and,
- rent seeking.

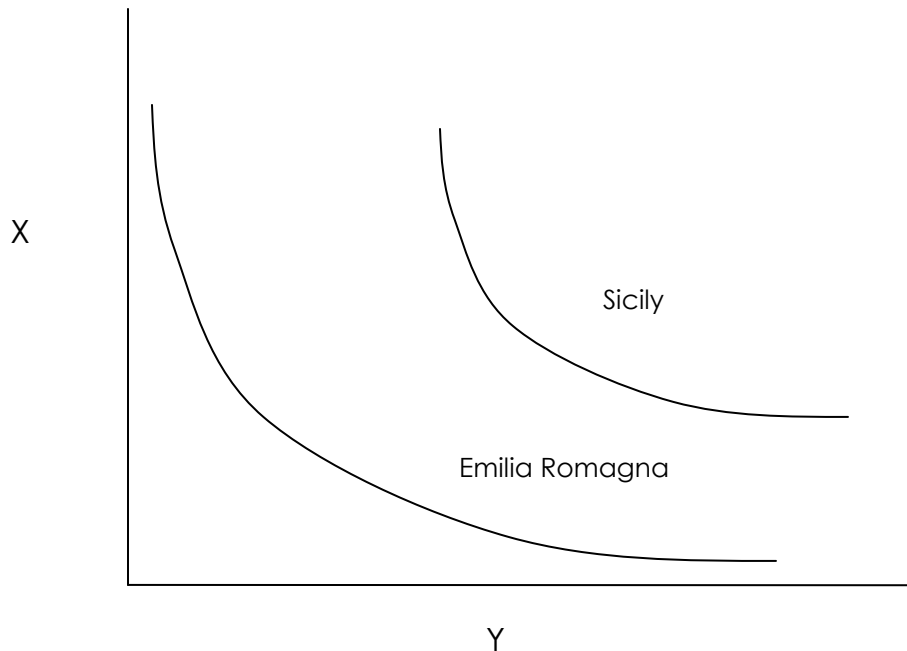
Which represent a serious challenge that the traditional left has not addressed.

In a neat graph Stefano defines the challenge. In this graph, the X axis represents the social costs of economic disorder and the Y axis represents the social cost of the abuse of authority.



This traditional academic tool shows the extremes, such as China or Cuba, where the high social cost of the abuse of authority shows up on the right hand side of the Y axis and an extreme laissez-faire economy is indicated at the top end of the X axis. The more common liberal Western democracy is shown half way up to curve, balancing these two concerns.

All this is interesting enough, but Zamagni takes it a further step and talks about the location of the curve, and argues that the closer the curve is to both the X and Y axis is a reflection of the amount of social capital in society. So, societies with social cohesion and high levels of social capital provide a curve that tends to hug closely to the X and Y axes.



In the case of Emilia there are few costs associated with economic disorder, indeed it is a very orderly and highly cooperative region. At the same time the abuse of authority is very modest.

This indeed, is Stefano Zamagni's "Progressive Society" of the Bolognese whereas Sicily, without a history of cooperation or a clean liberal modern state pay a high premium both in terms of order and freedom, losing on both counts.

Once again Stefano Zamagni uses traditional economic tools to tell a new story and explain the grandest issues in the simplest way. For this writer that capacity has always been the hallmark of a great mind.

What that simple graph also does is explain the Sicilian unemployment rate of 24% versus the Emilia Romagna effective unemployment rate of zero.

Zamagni also would argue that the difference in interest rates that prevails between Bologna and Palermo in Sicily is also a reflection of trust and ends up costing the Sicilians 200 basis points more to borrow compared to their Northern brothers.

What then, Stefano asks is the strategy to achieve more social capital? The answer he argues is "to establish trust relations", and that, he maintains "is based on reciprocity". Certainly the experiences of the networks of trust that exist in Northern Italy are "the reflection of their culture, and neither right wing or left wing". And of course Stefano concludes, the cooperative firm is "the firm most able to create trust relationships based on mutuality or reciprocity".

Stefano's wife and colleague Vera Negri Zamagni in turn argues that too often "severe competition destroys trust", and that education in America "mainly fosters competition", which they would argue severely limits the building of social capital.

The phenomenon of the social cooperative in Italy as a replacement for state or government delivery systems has allowed some academic review of this appealing way of carrying out this important work. Zamagni, looking at social coops finds they appeal to him as an economist

because if total revenue exceeds total costs they carry on whereas the private firm would not carry out any activity that was below actual cost. It appeals further to Stefano "because the social coop is the only place where demand and supply sit around the same table". In recent years the European Union has indicated support for the social coop model and more recently produced a publication making the case for social cooperatives.

Finally, as Stefano states, "if you believe in the dignity of human beings, we must all have the ability to participate both at work and in the community." "Compassion", Stefano argues "is not enough, the best way to humanize society is to allow everyone to participate". Speaking at another gathering, putting the point in another way, Stefano made the point, "if our activity is irrelevant in the labour market, then humiliation is the result". "So the just society sought by early welfare idealists, is not enough".

All these thoughts have led Professor Zamagni to conclude that a social market is the next step in building the decent or progressive society. The shifting from state centered and managed welfare systems means that "politicians or bureaucrats must give up power which is an act of humility that is not easy". And that may be the understatement of the year.

Not only is that shift of power necessary, but "NGOs and coops must become entrepreneurial risk takers", as part of the great transition to a social market that the professor envisages. That transition, Stefano says in an aside, "will require financial services cooperatives to help them handle the risk".

Many of these notes were culled from Stefano Zamagni's lectures in Vancouver in 2003 as part of the Bologna Summer Program on cooperative enterprise and the civil economy. The program is jointly supported by VanCity Capital, a subsidiary of Vancouver's largest credit union Vancouver City Savings Credit Union, the University of Bologna and the BC Cooperative Association. The following thoughts and notes resulted from Stefano's final public speech in Vancouver at the Wosk Centre for Dialogue. The subject of the Professor's talk was "Economics as if People Mattered".

Stefano began the talk noting that in these modern times, while wealth is growing dramatically, we continue to suffer enormous inequalities and insecurity. We have terrible environmental degradation and many new pathologies. "We have wealth greater than the world has ever known, and yet 800 million people go to bed hungry, every day...it is our greatest scandal".

"And economics, as a discipline, is silent on these things." "Why is it so?" Stefano asks, "that economics seems to have such a limited conception of wellbeing and the common good?" The current definitions of economics are not good enough, Stefano maintains. "Our present definitions confuse wellbeing with welfare, and of course, they are not the same". At the same time "current definitions see the common good as the sum total of individual goods, and that too is wrong". These comments represent a profound counter to the conventional "wisdom" of our times.

As Zamagni sees it economics is an individual science, and as a result these other many important areas get ignored. And so, the Professor argues, "we must rethink the whole discipline from its foundation". "It is unacceptable that economic relations are reduced to the exchange of equivalents" in the commercial market place. After all family, politics, and associational life can be destroyed if we live by the market alone, rather than having reciprocal relationships.

Economists have wrongly argued that their discipline is the science of scarcity. "Not so" says Zamagni, "it is the science of decisions". Being able to make good decisions is an issue that has

captured Stefano's attention ever since his grandfather told him about the story of a donkey who was equidistant between two haystacks. The poor donkey was unable to choose between either stack because they were both the same distance away. As a result, the poor beast died of hunger. And so, the how and why of decision making may be what the discipline of economics is about. Indeed, the breakup of the broader discipline of earlier centuries, separating out philosophy, sociology, and political science from economics is seen by Stefano as a great flaw in modern academic thought.

Economics must also relate to motivation and "motivation of course relates to the value system". The discipline of economics, Professor Zamagni believes, has suffered too long from "this reductionism behaviour. More than that economics has also foolishly linked utility with happiness".

Again, reaching back to childhood experience Stefano recalls reading the Robinson Crusoe story as a youth. Crusoe was of course able to deal with his core needs of food and shelter: "he was a utility maximizer to use the jargon of economics." But not until he found Friday did Crusoe fully appreciate that the human relationship was what he had missed the most. Zamagni points out that most of human history has required great struggle to simply achieve our basic needs. For most of us in the developed world that is no longer the case. And most of us now know that more and more money is not the ultimate key to happiness.

Family, associations, cooperative and reciprocal relationships create a world we all can savour. Unfortunately Stefano argues competition in the modern world has moved more and more toward what he calls positional competition, "which requires that if I win – you must lose". And then he senses it can grow even worse and have the perverse effect of not improving one's own lot, but in destroying the competition. Stefano sees these extremes as "destructive of human relations and the social structure." "How else do you explain peoples' insecurity?" he asks.

The economists, Stefano concludes, have disarmed critical thinking, so the constant challenge is to put people in the centre. And Stefano once again reaches back to Antonio Genovese and paraphrases him, saying

*"most pleasures, not all, but most, become actual pleasures, only if other persons join in , participate, and enjoy them with you."*

And if Genovese's ideas of the 1700's are not current enough, Stefano points to the strike of the economics students at Harvard a year ago, when they struck because they felt that traditional economics and the conventional arguments of the economic establishment were neither appropriate nor relevant for the world they see around them.

After all, as Zamagni points out, even in progressive Italy the relative poor represent 15% of the total population now compared to 6% some fifty years ago. And here in North America, more and more we see a strangely distorted labour market that has switched from a pyramid structure with routine jobs at the bottom and top professionals at the top to what Zamagni calls an "hour glass" configuration with a tightened middle where the labour market has shrunk dramatically. We still have a large base at the bottom of traditional low paid workers, and a large growing elite at the very top who are highly paid. We now find this squeezed middle group of reasonably well educated people who are filling the ranks of the unemployed: "they are the new poor," Zamagni claims.

And so once more, Stefano Zamagni sees the need for his “progressive triangle” and the increasing need for cooperatives and non profit firms, in a world that also balances the market place with significant redistribution.

The Italians are telling us that the big gap in the modern world is the sharing, caring world of reciprocity.