[Economic Growth in a Cooperative Economy](#)

CFM-DP2021-01

Thomas Brzustowski[1] and Francesco Caselli[1,2,3]

[1]Centre for Economic Policy Research, [2]Centre For Macroeconomics, [3]London School of Economics and Political Science

For the first time in many decades the capitalist organization of production is under discussion in several Western societies, with significant sectors of public opinion, the political world, and academia expressing interest in considering new forms of economic organization giving greater relevance to objectives other than the maximization of shareholder value. Macroeconomists have yet to make significant contributions to this important debate, and yet the institutional changes under discussion cry out for rigorous analysis of their general equilibrium and dynamic implications. This paper attempts to take a first step towards filling this gap.

We study an economy in which the basic production unit is the worker cooperative. Consistent with real-world arrangements, we conceptualize cooperatives as *labor-managed* entities which allow *no individual ownership* of their assets. In our model this implies that cooperatives, and not any individuals, own their own capital stock, and that young workers come together to produce and collectively choose investment plans to maximize the present value of their (common) lifetime utility. As in the capitalist economy, these cooperatives supply their output on a perfectly competitive product market.

One of our main goals is to identify an appropriate equilibrium concept for a dynamic cooperative economy. This is challenging because it is not a priori obvious how young workers will sort themselves into the cooperatives that exist when they join the labor market, and also under what conditions they will decide to form new cooperatives rather than joining an existing one. Furthermore, any worker allocation rule has repercussions for investment, as a cooperative's current workers incentive to invest depends on the expected employment of the cooperative in the future.

After developing the framework and the equilibrium concepts for a cooperative economy, we study examples in which we characterize the growth path of the cooperative economy and compare it to the growth path of the same economy when production takes place in the “standard” capitalist firms which feature in neoclassical growth theory. In these examples, the cooperative economy converges to a steady state level of income per efficiency unit of labor - just as the capitalist economy is well known to do. In general, steady state income, consumption, and welfare can be higher or lower in the cooperative economy, depending on parameter values. We also present an illustrative calibration which quantitatively compares steady-state incomes in a cooperative and in a capitalist economy.