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To *plurality*. The Association will encourage the free exploration of economic reality from any perspective that adds to the sum of our understanding. To this end it advocates plurality of thought, method and philosophy.

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world which is necessary to understand how to apply the theory; this extra material has to be organized and be brought into the classroom lessons. This requires a LOT of time and effort to FIND out where the material we are teaching is USED. It is a CHALLENGE for each teacher: FIND at least ONE REAL WORLD APPLICATION of your material. Typical textbooks provide FAKE real world applications – for example, Varian discusses the market for rentals of housing by students to illustrate concepts of supply and demand. However, assumptions that all houses are identical, that there is a single equilibrium price, there is full information, no one can rent a house at higher than equilibrium, these are all completely wrong, and make it impossible to match the theoretical concepts to the real world context that the students experience. So we have to look for REAL real-world applications – places where the theory is ACTUALLY used by practitioners like real-estate agents in pricing and selling housing.

The first difficulty for the teacher is to learn how to relate theories to the real world; this will have to be done by the teacher on his own, since typical courses do not do this. The second task which is required of the teacher is to create UNDERSTANDING in additions to TECHNIQUE. We need to teach CONCEPTS instead of calculations. To give a simple example, consider the addition of fractions. We can teach the student the rule that, to get the sum, multiply the two denominators to get the denominator, and cross multiply and add numerators and denominators to get the numerator of the sum. The student can learn this rule and learn how to add fractions, but he may have no understanding of what a fraction is, and what this rule means. To teach concepts, you have to start with small steps – take the simplest possible example. For example, consider adding 1/3 and ½. Take a circular pie and cut it into three and two and then put the ½ part together with the 1/3 part and ask how we can add these parts. Note that if the pie was divided into 6 – the common denominator – then we would have no difficulty in adding the parts. By explaining using a concrete example which the student can visualize and relate to his personal experience, the student will be able to understand the concept of adding fractions. Note that even if a student understand the concept, he may not have mastery of the technique, and may fail to be able to add complex fractions. Vice Versa, students who are experts in the technique may have no idea why it works and what it means. The two parts – the technique and the conceptual understanding – both have to be taught separately. OFTEN – the teacher will have to work to ACQUIRE the understanding himself, since it may not be available in textbooks.

The techniques which are taught correspond to the driving skills, but the understanding that lies beneath the surface corresponds to knowing where to go. It is necessary to learn both, and imparting this knowledge – both technical and the deep understanding – to students can create dramatic changes. Once they taste the thrill of knowing how to do something and ALSO understanding why to do it, and how it useful to achieve some real world goals, students will be inspired and motivated. One the light of the desire for learning is lit in the hearts of the students, there is no limit to what they can achieve. It is up to us teachers to nurture the seeds of potential in the hearts of all students, to enable them to grow into the amazing trees with branches reaching to the skies.

Redefining Governance in Cooperative Banks

By Mitja Stefancic, Silvio Goglio, and Ivana Catturani

Introduction

Recent research shows that the governance of cooperative banks is distinctive; as such, it cannot be adequately captured by using standard economic models (Jones and Kalmi 2015; Jones, Jussila and Kalmi 2016; Paredes-Frigolett, Nachar-Calderón and Marcuello 2016). At the same time, such governance is subject to change. Cooperative banks need to update their governance mechanisms in order to respond to challenges and slacks and in the same way, to avoid losing their specific features. Existing accounts are still incomplete since they are missing important points and so our paper aims to fill this gap.

From the outset, we ask whether the common reference to democracy, often made by cooperative banks' representatives, is grounded on a solid basis or simply cited for plain marketing purposes. The argument rests on the "one head, one vote" principle. The question therefore is whether this principle promotes true democratic management/governance, even if not clearly defined, or represents a system of governance in which strategic decisions pertain to restricted groups (Klingelhofer 2010).

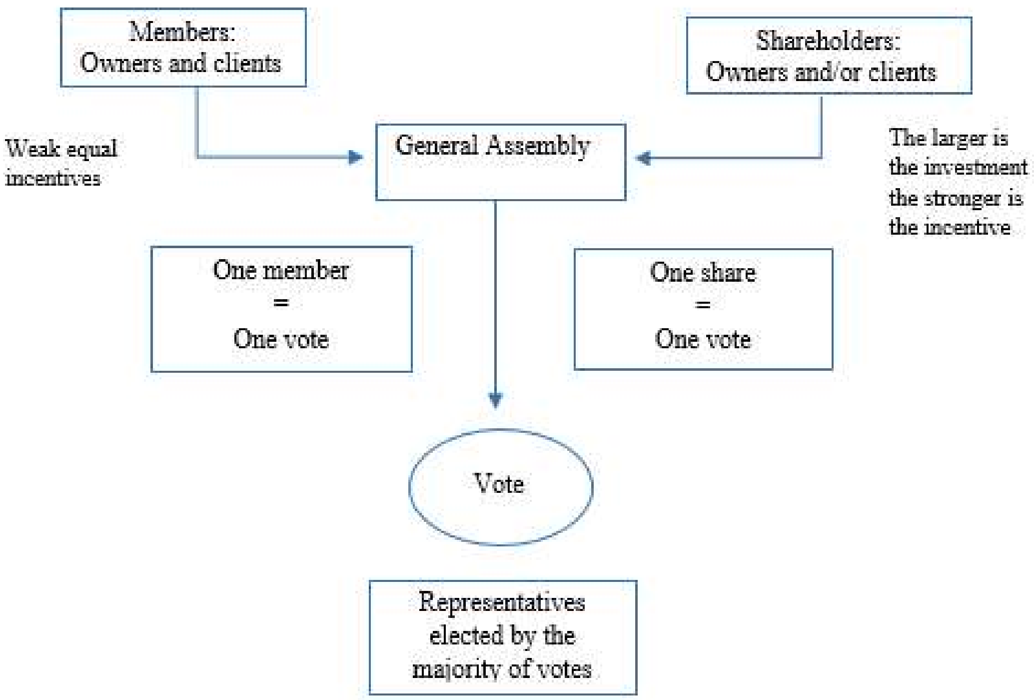
To assess the kinds of democratic governance mechanisms employed in different types of banks, we focus the discussion on their fundamental characteristics. The goal is to provide a novel discussion on the peculiarities of bank governance, comparing members' and shareholders' owned banks by referring to Albert Hirschman's seminal work *Exit, Voice, and Loyalty* (1970). Hirschman's framework is meant to be generic across firms. However, in our case it is important to adapt it by capturing the specifics of cooperative banks to gain a better understanding of their governance mechanisms and to provide proper contextualisation of relevant problems.

An economic model of the discontent of cooperative banks' members

When the banks' economic performance meets the expectations of both clients and owners (i.e., members or shareholders), the governance mechanisms are straightforward. **Figure 1** offers a simple representation.

In joint-stock banks, shareholders with sufficiently large amounts of shares sit in the general assembly and vote to elect their representatives. Smaller shareholders lack the incentives to sit and vote since their decision power is negligible. They implicitly transfer their property rights to larger shareholders whose interests are prominent and whose decisions should increase the value of their shares.

Figure 1: Democratic governance



In cooperative banks, members all have the same (weak) incentives to participate in the general assembly. Their vote has equal weight and should identify those administrators among the individuals of the local community who are able to represent the various interests of the territory.

According to Hirschman's framework, when trust in firms decreases, customers have the possibility to express discontent by either switching firms or voicing their dissatisfaction. Similarly, ordinary customers (i.e., not owners) of both joint-stock and cooperative banks can switch to other banks in cases where they are not pleased with the terms and conditions and services provided by a bank, its performance or general outlook. Matters become more complex when focusing on governance issues.

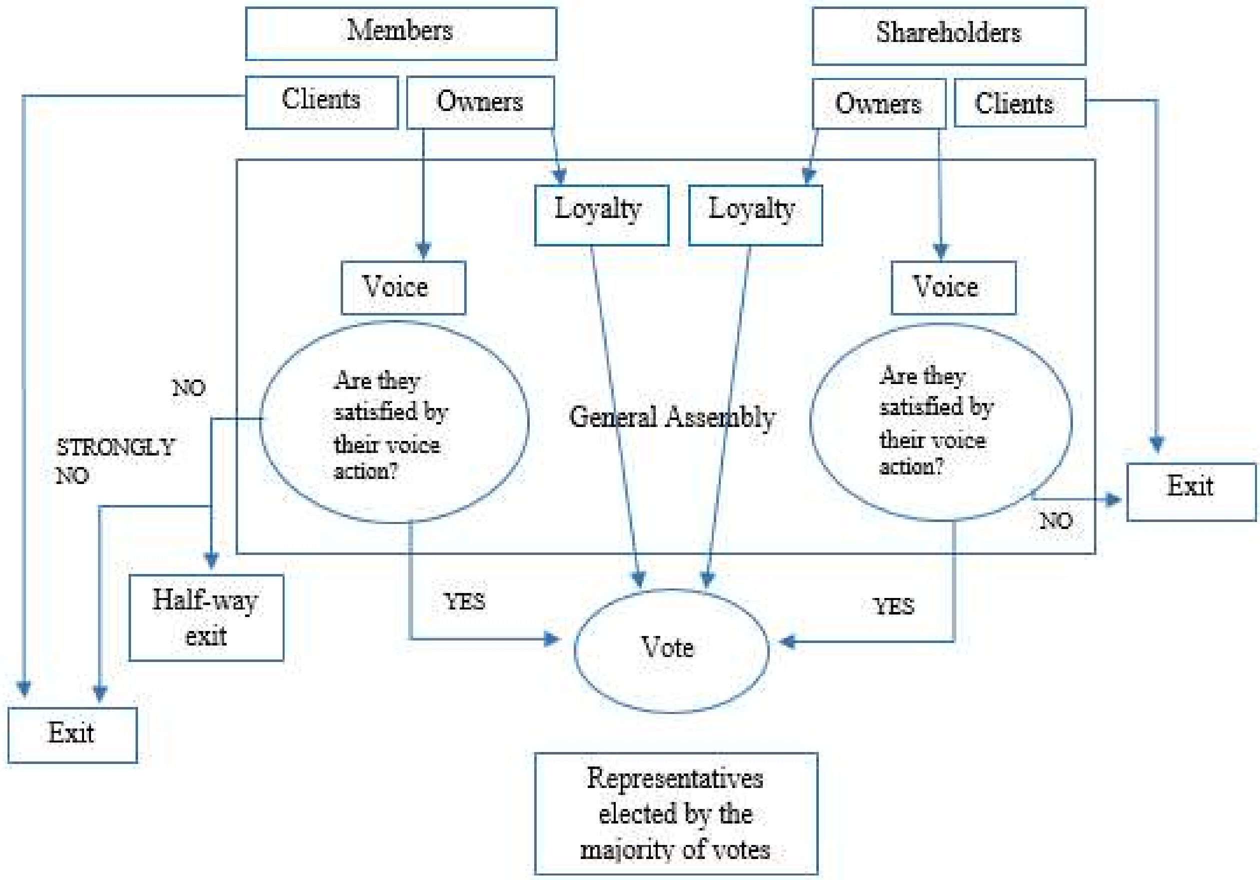
In joint-stock banks, as in shareholder companies, investors can decide to be loyal and wait for better times, especially when their number of shares is relatively small. Shareholders with stronger incentives might voice their discontent and try to influence the board's decisions by expressing their views about management at the shareholders' meetings. Powerful shareholders have the ability to effectively discipline a manager if the latter's strategies are not viewed as successful enough. Finally, they can sell their shares when the bank performance is below their expectations and their lobby pressure has no impact on the board.

In cooperative banks, shares are usually not tradable (Ferri, Kalmi and Kerola 2015). Instead, the most powerful tool in the hands of members is voice, or "utterance", to express their eventual dissatisfaction, concerns or disappointment in the bank. In other words, the general assembly is the place where participating members can direct their utterances to the cooperative bank managers and representatives. The problem is to clarify how often this tool is really used by cooperative banks' members when faced with adverse circumstances.

Several practical limitations are related to the model of governance in cooperative banks, all of which can in some way restrict the efficiency of the utterances of members during the assemblies. For example, cooperative banks' members may be loyal to their bank, may decide to remain so even during times of distress and may thus be unable to consider switching to another bank. From a theoretical perspective, cooperative values may thus function as deterrents to exiting the bank.

An alternative is that customers switch to different banks yet retain their membership in the cooperative bank. This "half-way exit" is a possibility that is not included in the original version of Hirschman's framework. Members as clients actually exit from the cooperative banks, while as owners, they become *passive*. Passive members do not sit in the general assembly, renouncing their property rights. There are various explanations for such behaviour, as follows: (i) Asking for the reimbursement of their shares will not give them any extra profits, especially in times of turmoil when only the actual value of the share can be paid back, not the entire fee. (ii) It is easier to switch back to cooperative banks when the negative period ends (see **Figure 2**).

Figure 2: Democratic governance with "half-way exit" option



"Utterance" might be an alternative when trust in cooperative bank managers and administrators decreases for some reason. However, it should be asked whether utterance is sensibly used to express a member's own disappointment with the management: utterance may be limited to members who are *willing* to say something and to those who are *able* to say something *meaningful*.

Technically, there can be no true democratic governance unless members are both able and encouraged to voice their dissatisfaction and criticisms towards the management because this is one of the few tools available for cooperative banks to obtain feedback and constructive criticism from their members, which are then useful for updating their strategies and policies. This would also be the way to provide arguments for a change originating within the bank.

Relevance

The most powerful tool for a cooperative bank's members to express their dissatisfaction is through utterances. To be effective, such a tool requires the members' strong commitment to monitor the bank managers' and the bank's performance. This seems an ongoing problem due to the consolidation process of such banks (e.g., through mergers), at least in the European context. Arguably, the larger the cooperative bank is, the more difficult it becomes to express discontent publicly as the general interest in the bank may decrease among members, with the growth of the latter.

While loyalty and trust should be constantly fostered by cooperative banks, this effort necessarily requires the members' commitment to the bank itself. Nonetheless, loyalty should under no circumstance preclude the possibility of utterance. Utterance in cooperative banks is essential to contrast the group desire for conformity. An organisation that recognises the positive effects of utterance is able to address the problem of groupthink (Janis, 1982), which can in turn function as a protective mechanism for bank directors and managers, even when problems emerge.

In comparing voice (utterance) with an "art constantly evolving in new directions", Hirschman (1970, p.12) recognises that voice should be cultivated, promoted, recognised and valued accordingly. This is essentially the task of proficient directors and managers serving the bank. In conclusion, our research suggests further improvements in the framework of democratic governance in cooperative banks by distinguishing between *public* and *private* utterance. While private utterance can be used as a tool to secure exemplary banking conditions in any type of bank, public utterance can be more effectively used in cooperative banks.

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The Biophysical Basis of Production and the Public Economy

*This is an extract from June Sekera, "Missing from the mainstream: the biophysical basis of production and the public economy", **real-world economics review**, issue no. 81, 30 September 2017, pp. 27-41.*

More than a century ago, the effective operation of the public economy was a significant, active concern of economists. With the insurgence of market-centrism and rational choice economics, however, government was devalued, its role circumscribed and seen from a perspective of "market failure." As Backhouse (2005) has shown, the transformation in economic thinking in the latter half of the 20th century led to a "radical shift" in worldview regarding the role of the state. The very idea of a valid, valuable public non-market has almost disappeared from sight.

In 18th and 19th century Germany, Kameralwissenschaft ("Cameralism") represented a form of public economics. Backhouse (2002, p. 166), describes this school as the era's "science of economic administration," which had three components: public finance, economics, and public policy. The "Historical School" of economics emerged in later 19th century Germany and viewed government positively as a system for promoting social well-being (Bogart, 1939; Shionoya, 2005). It stopped short, however, of explaining the operational or production aspects of the system. During the late 19th and early 20th centuries, economists wrestled with the question of how the "public economy" operates. A "voluntary exchange" theory of the public economy was advanced by Emil Sax, DeViti De Marco, Knut Wicksell and Erik Lindahl (Sekera, 2016). During the 1940s–50s, Richard Musgrave argued against the voluntary exchange concept and pursued a line of thinking that led to the construction of a concept of "public goods" that was eventually adopted, mathematicized and popularized by Samuelson (Desmarais-Tremblay, 2013). Samuelson's widely-disseminated 1950s formulation of public goods as stemming from market failure (following Musgrave) soon led to their devaluation, and a wholesale devaluation of government, by market centrists and libertarians, eventually by all tributaries of mainstream economics. What had begun as a serious effort to understand the important role of public sector production ended in its willful neglect.

In an important paper, Roger Backhouse (2005) describes the "profound changes in economic theory" that took place between 1970 and 2000. With the triumph of rational-choice economics came "a radical shift of worldview" and a "remarkable and dramatic change in