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# THE MACAU MANIFESTO – LEARNING FROM THE DEVELOPMENT OF COOPERATIVES

## 澳门宣言—— 合作社的发展教会我们什么？

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### THE MANIFESTO'S STRENGTHS AND WEAKNESSES

The Macau Manifesto addresses several important issues that could significantly contribute to human well-being. Some of them are well known and part of economic common sense. “Wellbeing for All” (headline of the Manifesto’s section 2) is the foremost goal of welfare economics, the normative nucleus of modern economics, and there should be no dissenting view on this goal. The Manifesto’s suggestions for action such as the development of technologies to advance people’s well-being or the promotion of education to empower people and allow them to develop their capabilities are well-known results from traditional economic theory and empirics. Moreover, the Manifesto’s emphasis of subsidiarity is well-based in fiscal federalism. Therefore, at least for these topics there is no “new economic paradigm” in the Manifesto.

But the Manifesto goes far beyond. It claims that there is a need for (new) common good entrepreneurship and that companies are to become socially progressive institutions. Investment decisions are expected to be based on Environmental, Social, and

Governance (ESG) standards. That is where the Manifesto is overloading its expectations on companies and presents a concept of man that may be wishful, but that is far from reality. The Manifesto's normative approach has some shortcomings that reduce the chances of implementing its suggestions for action.

First, some of these considerations are clearly within the scope of rule-setting government. It is the government's task to decide on topics like environmental protection and to enforce these rules. ESG standards may be a supplement to such government actions, but they are no substitute for these rules.

Second, companies and entrepreneurs create value for individuals by providing their goods and services to them. Demanding the additional consideration of a common good in the entrepreneur's decision means reducing the value created for the individuals or assuming that individuals do not realize what their real needs are. If the individuals have preferences for products that are produced in compliance with some standards of environmental and social protection, there will be entrepreneurs providing these goods. This can be observed in wealthier economies where demand for such products increase, but it also shows that there are trade-offs in the individuals' preferences that we do not find in the Manifesto and that are not solved in the Manifesto. Similarly, by declaring the absolute value of nature the Manifesto evades economic reasoning about trade-offs and wipes out any consideration of the individual's wishes and preferences.

Finally, the Manifesto does not consider the stability and sustainability of what it calls the "New Economic Paradigm". If companies are expected to "give" (action 3 of section 1 on subsidiarity) and if this "giving" goes beyond the companies' interest, if it is giving a favour, this favour may be easily withdrawn, when times change, and the company is no longer inclined to give the favour. Individuals depending on

such "giving" are not in a reliable and sustainable relationship and therefore this kind of "giving" is a weak and unstable basis for people's development. Similarly, common good entrepreneurs may face competition from other competitors focussing on the individuals' preferences instead of the common good. In consequence, market pressure may drive common good entrepreneurs out of the market and therefore the idea of the common good will not be sustainable if there are other market participants acting with different objectives.

### COOPERATIVES AS AN EXAMPLE

The Manifesto recommends cooperatives (esp. credit cooperatives) as an instrument to develop communities and to follow the – economically well founded – principle of subsidiarity. Cooperatives may teach a lesson how developments work and how organisational innovation finds its way without relying on unsustainable assumptions of human behaviour.

In stark contrast to the normative perspective of the Manifesto, cooperatives are based on the individuals' needs and preferences. They are deeply anchored in the real economy. Interestingly Friedrich Wilhelm Raiffeisen – one of the German founding fathers of credit cooperatives – started his idea of a cooperative as a concept of charity by handing loans to needy farmers in his underdeveloped Westerwald region. He swiftly learned that this approach would not be sustainable. Self-help developed as a guiding principle for his credit cooperatives. To produce, farmers needed credit cooperatives, which allowed them to get access to the necessary loans, that markets could not provide due to market imperfections. Therefore, they were interested that these institutions be sustainable, because the cooperatives were the enabler for their business and they understood that their credit cooperatives had to be successful and profitable. Without these credit cooperatives they could lose their

access to the (local) capital market which would impede or stall their economic activity. Thus, the cooperatives were established and proved to be stable not due to some moral superiority of their members but due to the stabilising interest in the working of the cooperative.

It may be that the objectives of the cooperative's members are in line with the common good objectives or other goals mentioned in the text, but cooperatives should not bear the burden of additional social requirements and interests of outside stakeholders. These requirements may reduce the cooperative's profitability and may therefore harm the development of the cooperative's members.

The development of cooperatives in the past teaches some more lessons. Although the members' close economic relationships contribute to the stability and to the success of cooperatives, it turned out that appropriate internal and external governance schemes are also necessary for the continuous existence of cooperatives. Cooperatives are founded and managed by individuals who are human beings and very often laymen in doing business. Consequently, there may be fraud in their relationships with each other or with the cooperative and there may be incapability to correctly organize the cooperative's affairs. Thus, cooperatives need a stabilising framework of internal and external supervision, and they need empowering educational institutions helping their managers to cope with the challenges of their business.

Development crucially hinges on the preferences and activities of the individuals instead of overloading economic activities with additional burden from a top-down perspective. Providing access to markets for these individuals and avoiding powerful market dominating companies will allow them to increase their welfare. It is the government's task to provide a framework for the governance of these cooperatives and companies, but it is not the task of the cooperatives and companies to carry out

the tasks of the government.



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