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Community, Enterprise, and Self-help: The Coevolution of Capitalism and Non-profit and For-profit Businesses in Britain and Germany

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COMMUNITY, ENTERPRISE, AND SELF-HELP: THE COEVOLUTION OF CAPITALISM AND NON-PROFIT AND FOR-PROFIT BUSINESSES IN BRITAIN AND GERMANY

Heather A. Haveman and Nataliya Nedzhvetskaya

Abstract

This paper traces how in Britain and Germany, for-profit and non-profit businesses coevolved with political-economic institutions. Starting in the late eighteenth century, Britain embraced the logic of liberal capitalism, although the path was not smooth. Over the same period, German states balanced both liberal and social-welfare ideals. Social-welfare ideals did not gain support in Britain until the start the twentieth century. The market logic embodied by for-profit businesses was more congruent with liberal capitalism than with social-welfare capitalism, so business corporations thrived more in Britain than in Germany. Yet in both countries, the growing number and power of for-profit businesses created problems for farmers, workers, and small producers. They sought to solve their problems by launching non-profit businesses – co-operatives, mutual-aid societies, and credit co-operatives – combining the ideals of community, enterprise, and self-help. British non-profits gained support from authorities by emphasizing their self-help and enterprise ideals, which were congruent with liberal capitalism, over the community idea, which was not. In contrast, German non-profits gained support by emphasizing all three ideals, as two were congruent with liberal capitalism and all three with social-welfare capitalism. Our analysis reveals how the success of different forms of business, embodying different institutional logics, depends on prevailing political-economic logics. It also shows how the existence and technical success of various organizational forms shapes elites' perceptions and through them, societal-level logics of capitalism.

Keywords: [insert up to 6 keyword: capitalism, co-operatives, corporations, institutional logics,

In Europe and North America, business corporations have increasingly come under attack because they are stripping workers of protections and benefits, outsourcing work to temporary agencies, shifting workers from full-time schedules to part-time and on-demand schedules, and relying on "independent" gig workers rather than employees (e.g., Hudson-Sharp & Rungle, 2017; Kalleberg, 2011). These practices push economic risk onto workers, reduce their compensation, and harm their physical and mental health. Business corporations are also increasingly oligopolistic, as market concentration has risen over the past decades (Bajgar, Berlingieri, Calligaris, Criscuolo, & Timmis, 2019). As a result, firms have much more power over workers, suppliers, and customers (De Loecker & Eeckhout, 2018; Diez, Leigh, & Tambunlertchai, 2018).

The problems created by for-profit businesses, especially large corporations, have pushed many scholars to seek alternatives, such as employee-owned or community-owned enterprises (Davis, 2016; Marquis, 2020; Luyckx, Schneider, & Koroula in this volume). Others have championed benefit and certified B corporations, which constrain for-profit businesses to embody logics such as environmental sustainability (Gehman, Grimes, & Cao, 2019; Marquis, 2020), low-profit limited-liability companies (L^3Cs) in the US (Rawhouser, Cummings, & Crane, 2015), and "profit-with-purpose" enterprises (*sociétés à mission*) in France (Segrestin, Hatchuel, & Levillain, 2020).

In this paper, we argue that the social and economic problems caused by for-profit business corporations are not new. Instead, they date back centuries. We show how early business corporations created social and economic problems for workers, consumers, and small producers from the eighteenth to the early twentieth century. We also show how, to solve those problems, these groups launched three forms of non-profit business: co-operatives, mutual-aid societies, and credit co-operatives. We show how these organizational forms coevolved with political-economic institutions (specifically laws), and with for-profit business organizations. We focus our analysis on Britain and Germany, two countries that developed very different political-economic institutions and very different ecologies of for-profit business organization.[1]

We begin by laying out our theory of how societal institutions and organizations coevolve. After explaining our research strategy, we demonstrate how our theory applies to for-profit and non-profit organizations in Britain and Germany from the late eighteenth to the early twentieth century. We conclude by summarizing the implications of our historical analysis for coevolutionary processes.

Theory

To explain the development of non-profit and for-profit businesses, we examine their fit with prevailing political-economic institutions. We focus on business organizations' institutional logics, meaning the systems of cultural elements (values, beliefs, and normative expectations) by which people, groups, and organizations make sense of and evaluate their everyday activities, and organize those activities in time and space (Friedland & Alford, 1991; Haveman & Gualtieri, 2017). We compare the non-profit business logic to the for-profit business logic and to the macro logics embodied in political-economic institutions like the law.

We argue that societal institutions coevolve with organizations: they are mutually constitutive, so changes in both unfold in tandem (Haveman & Rao, 1997). In one direction,

[1] We generally use the term "Germany" for simplicity in exposition. Before German unification in 1871, we discuss specific German states when there are important differences across states, and discuss the German states in general when there are important similarities.

institutions like the law and societal norms determine opportunities for and constraints on organized action. All forms of organization seek legitimacy, which they gain by being congruent with prevailing norms and values (Douglas, 1986; Meyer & Rowan, 1977) or by being sanctioned by the state (DiMaggio & Powell, 1983). State authorities pass laws allowing some forms of organization and some organized activities, while prohibiting or severely constraining others. Norms not only undergird the law, they also shape how different forms of organizations are perceived by elites and the public, so all forms of organization must be aligned with societal norms as well as the law.

In the other direction, organizations render societal institutions material and thus capable of shaping human behavior. Organizations, through their existence and actions, shape understandings of what is (not) possible, reasonable, and acceptable. For example, in the U.S., early savings-and-loan associations embodied community and mutual aid, while later ones celebrated individual rationality and efficiency; both institutional logics were given strength by these organizations' rules and procedures (Haveman & Rao, 1997). The understandings embodied in organizations can bolster existing institutions or promote institutional change. For instance, Bay Area health-care organizations cycled through three different macro-level logics (Scott, Ruef, Mendel, & Caronna, 2000). First was an association logic, under which physicians' associations exerted normative-legal control and quality of care was valorized. Second was a state-control logic, under which governmental agencies exercised legal authority and equality of access was valorized. Third was a market logic, under which exchanges with staff, patients, and state authorities were governed by contracts, and efficiency was valorized. Under each institutional logic, the governance and policies of health-care organizations provided muscle to realize valorized ideals. And new kinds of organizations, such as health-maintenance organizations and surgicenters, were created that embodied and reinforced new logics, and undermined old ones.

The coevolution of institutions and organizations can be driven by external factors, such as mass migration or technological breakthrough. More commonly, though, coevolution is driven by internal forces, through the push and pull of multiple, often conflicting, institutional logics (Friedland & Alford, 1991; Schneiberg & Clemens, 2006). The proponents of different forms of organization, which embody different meso-level logics, vie to persuade state authorities (the source of the law) and the public (the repository of societal norms and values) that their logic is more appropriate.

Not only do institutional logics differ in content, they differ in status; i.e., in their position vis-à-vis powerful actors like the state and economic elites. Basically, state authorities and elites accept some meso-level institutional logics (incumbents) and view others (challengers) with suspicion (Fligstein & McAdam, 2012; Schneiberg & Clemens, 2006). For example, companies like Uber, which rely on "independent contractors" rather than employees to deliver services like car rides, have been subject to repeated legal challenges by municipal authorities. Because state authorities and elites are skeptical of challenger logics, their promoters need to collectively mobilize support to identify problems with the status quo, clarify how their forms of organization can solve those problems, and explain how those solutions are congruent with existing political-economic institutions and norms (Strang & Meyer, 1993). For example, American women's-movement organizations was able to champion interest-group politics aimed at government agencies because they adopted organizational forms (clubs and unions) from outside the political arena that articulated well with government agencies (Clemens, 1993).

Research Strategy

Because institutional logics are specific to time and place, we study coevolution using a historical approach, beginning our analysis around the end of the eighteenth century. Our analysis assumes path dependence in coevolution (Mahoney, 2000; Pierson, 2004). What happened in the past created the legal and economic structures and the cultural expectations within which business organizations, for-profit and non-profit alike, operated. Political-economic institutions and organizations are both “sticky” in that they resist change. When they do change, they often follow trajectories that are highly dependent on initial conditions and early efforts by both political and economic actors.

To trace the coevolution of political-economic institutions and for-profit and non-profit businesses, we combined insights from research published by historians, political-economy scholars in economics and political science, and historical sociologists. We wove together facts from these divergent sources into a single portrait of coevolution. We then interpreted these facts in light of our theory.

Our analysis focuses on Britain and Germany. Britain was the first country to industrialize and develop large business corporations (Cottrell, 1980; Harris, 2000; Johnson, 2010). Germany industrialized later than many other European countries, but it became an economic powerhouse by the end of the nineteenth century (Henderson, 1975; Herrigel, 1996). The two countries’ political economies developed along very different paths, yielding very different forms of capitalism (Hall and Soskice, 2001; Whitely, 1999, 2007). As a result, the two countries developed very different ecologies of for-profit and non-profit business organizations. This sharp contrast facilitates teasing apart subtle relationships between forms of political economy, for-profit business, and non-profit business.

Our analysis begins around the end of the eighteenth century and ends just before the outbreak of the First World War. We chose the start date because that is when both capitalist logics first emerged. We chose the end date because the First World War disrupted many societal institutions and greatly altered the ecology of business organizations.

The Institutional Logics of Business Organizations

We begin by detailing the institutional logics of for-profit and non-profit business. We then explain their relationships to each other and to the logics of capitalism.

For-profit business. All for-profit businesses, including corporations, embody a *market logic* (Thornton & Ocasio, 1997). They seek to earn profits by competing with other organizations for resources and customers. They also seek market power over suppliers and customers, and to harness economies of scale and scope in order to demand favorable terms of exchange and increase profits. Under this logic, legitimacy is derived from market position and moral worth from economic value.

Non-profit business. Co-operatives, mutual-aid societies, and credit co-operatives share the same institutional logic. To be clear about this, we first detail the three non-profit forms, then describe their institutional logic. *Co-operatives* are member-owned and member-operated, and seek to benefit their members through economies of scale and market power (Birchall, 1997; Bonner, 1961; Fairbairn, 1994). Consumers come together to purchase goods in volume at low prices and eliminate merchants' profit margins. Farmers and small producers combine to sell goods and services, and secure higher prices than otherwise they would have. And households unite to secure low-cost housing. Co-operative governance is democratic, with each member having a vote. In co-operatives, as in for-profit businesses, earnings in excess of expenses accrue to owners. But in co-operatives, unlike for-profit businesses, those owners are the people who purchase goods, services, and housing, or the people who create goods and services.

Mutual-aid societies are co-operative in nature, but we categorize them separately because they offer financial services and so benefit their members primarily by pooling risk rather than by capturing economies of scale and gaining market power. Members pay dues on a regular basis. These dues are pooled and used to help needy members and their dependents deal with illness, disability, death, pregnancy and maternity, losses due to fire, and unemployment (Börner, 2013; Clark, 2000; Cordery, 2003; Gosden, 1961; Johnson, 1985; Van der Linden, 1996). In Britain, mutual-aid societies are called friendly societies and, during our study period, varied greatly in the types of insurance they offered. Many were affiliated with unions or fraternal orders like the Oddfellows.

Credit co-operatives (also called credit unions and co-operative banks) are similar to mutual-aid societies in that they offer financial services, but those services are loans and savings accounts, rather than insurance. Members pool their savings and take out loans from the collective fund (Fairbairn, 1994; Guinnane, 2001). Thus, like mutual-aid societies, credit co-operatives share risk. But member-savers earn interest and, in return, face the hazard of default by member-borrowers. To reduce this risk, members rely on common social bonds derived from being participants in the same organization (e.g., a labor union or fraternal association) or occupation (e.g., teachers or tailors), or from living in the same community (e.g., a town or rural parish). Credit co-operatives are managed democratically, with each member having one vote, and with earnings above expenses returned to members. Britain has a variant of credit co-operatives, building societies, that bring people together to save to build or buy homes (Cleary, 1965; Michie, 2016; Price, 1958). Because they focus on expensive housing, they tend to have members with higher incomes.

Table 1 summarizes the features of all three forms of non-profit business. All three bring together people to reap the economic benefits of association, notably economies of scale, market power, and risk pooling.[2] All three forge bonds between members. All members are in the same position: all contribute to communal pools (of goods, services, or money) and benefit from how these communal pools are deployed. All members seek to harness business for the good of their group. And all members seek to improve their social and economic positions themselves, rather than through charity or welfare. Thus, all three forms embody three ideals: *community*, *enterprise*, and *self-help*.

[Table 1 about here]

The institutional logics of for-profit and non-profit businesses have a complex relationship. Non-profits' celebration of enterprise is highly congruent with for-profit organizations' market logic, although non-profits' ultimate goal is social good, not profits per se. But non-profits' celebration of community, which valorizes benefits for consumers or producers, clashes with for-profit organizations' market logic, which valorizes benefits for business owners. Yet, by designing organizations where owners are consumers or small producers, non-profit businesses could make community somewhat congruent with the market logic.

[2] Although the three forms are analytically distinct, in our study period they were related in practice. In Britain, some non-profits combined the services of friendly and building societies, while some co-operatives set up insurance and building-society affiliates (Birchall, 1997; Cordery, 2003; Davies, 1994). In Germany, some rural credit co-operatives ran agricultural co-operatives (Guinnane, 2001; Herrick & Ingalls, 1915). And the pioneers of German credit co-operatives had earlier founded agricultural, producer, and consumer co-operatives (Fairbairn, 1994; Herrick & Ingalls, 1915).

Two *logics of capitalism* are germane to our study. The logic of *liberal capitalism* celebrates individual self-interest expressed through market exchange (Mills, 1871; Smith, 1981). It requires the state to remove obstacles to exchange, through laws governing property rights and contracts that facilitate buying and selling (Atiyah, 1979; Friedland & Alford, 1991; Johnson, 2010). In contrast, the logic of *social-welfare capitalism* holds that the state has a responsibility to protect and promote the economic and social well-being of everyone, especially the old, sick, and poor (Bowen, 1947; Harris, 2004; Ritter, 1986; Thane, 1996;). This logic is instantiated in laws authorizing state-supported education and health care, public pensions, and public insurance.

The market logic of for-profit businesses is entirely compatible with the logic of liberal capitalism. In contrast, the triadic logic of non-profit businesses has a more complex relationship with the logic of liberal capitalism. Valorizing enterprise is congruent with the liberal capitalist logic. Self-help is also consistent with that logic, which assumes – even requires – individual responsibility. But valuing community requires contesting the ideal of individual ownership in favor of communally owned pools of resources. Instead, community is compatible with the logic of social-welfare capitalism because social-welfare institutions are communal in nature. For its part, the market logic is only partly compatible with the logic of social-welfare capitalism, which balances private ownership and market-based exchange with a communal safety net for the needy.

The Coevolution of the Logics of Capitalism and the Logic of For-profit Business

For most of history, business was organized as either sole proprietorships (the vast majority of firms) or partnerships (for large concerns, like maritime trading firms). Although the corporate form had developed during the Middle Ages,[3] it was not used to organize businesses until the development of joint-stock trading companies in the sixteenth century (e.g., the Muscovy Company, founded 1555). All early corporations, including business corporations, secured charters only by convincing authorities they would contribute to the public good; for example, by educating priests, promoting trade with foreign lands, or building canals or turnpikes. Corporate formation and functioning were severely restricted (Veldman and Willmott, 2022, in this volume). During the industrial revolution, which began in Britain in the mid-eighteenth century and in Germany a century later, technological innovations like steam-powered machines made possible the rise of large-scale businesses. These were increasingly likely to be incorporated, in part because they required large investments in plant and equipment, and the corporate form made it possible to pool funds from a large number of investors (Harris, 2000; Henderson, 1975; Johnson, 2010).

Our analysis focuses on three aspects of political-economic institutions that are most relevant to for-profit and non-profit businesses: business, employment, and social-welfare law. As the number and size of businesses grew during industrialization, these institutions changed dramatically. The timing of these changes was different in Britain than in Germany.

Britain

Business Law. Business law evolved from the 18th to the 19th century, in parallel with free-market ideals. In the sixteenth and seventeenth centuries, a handful of joint-stock trading

[3] In Western Europe, incorporated entities first appeared around the eleventh century, when towns and cities were granted charters by kings and other feudal lords (Bloch, 1964; Coleman, 1974; Weber, 1958). Later came incorporated religious societies and colleges. Medieval corporations were persons under the law, granted privileges in order to achieve social benefits, like educating clergy or managing mills. Corporations could hold, buy, and sell property; they could enter into contracts and take legal action against natural persons and other corporations; and they were subject to legal action in the form of fees or fines.

corporations were granted monopolies for trade with foreign lands in exchange for payments to the Crown and for funding embassies and military facilities. Seeking charters required entrepreneurs to demonstrate that they served the public interest. Joint-stock trading corporations dramatically expanded international trade. This was congruent with the prevailing macroeconomic logic of mercantilism, which sought to maximize exports and minimize imports. Over the next 250 years, incorporated businesses began to be used for domestic businesses like banks, mines, textile mills, and canal companies. But no significant legal changes occurred, except in 1720, when law-makers allowed joint-stock businesses to incorporate through acts of Parliament and prohibited unincorporated businesses from issuing tradable shares – although that prohibition was often flouted (Harris, 2000).

Restrictions on corporations began to be loosened in the nineteenth century, when railroads began to form, which needed large capital bases (Cottrell, 1980; Harris, 2000; Johnson, 2010). The increasing number of joint-stock companies made them more salient to Parliament and the courts. Starting in 1824, the idea that joint-stock corporations should operate as monopolies (Smith, 1981) was slowly eroded, after decades of lobbying by corporate promoters. This led to a boom in petitions to Parliament for incorporation. Crushed by the number of petitions, in 1825 Parliament passed a law directing that most business incorporations be granted by the Crown (i.e., the Board of Trade). The rising influence of members of Parliament who invested in or were directors of business concerns was also a factor in the liberalization of business law (Taylor, 2006).

In 1844, Parliament replaced chartering with incorporation through registration, impelled by concerns about the instability of unchartered businesses and the difficulty of suing their owners, and by legislators' recognition that economic growth was desirable and business corporations could contribute to growth (Harris, 2000; Johnson, 2010; Taylor, 2006). This legal change shifted business corporations toward the private sphere and away from the public sphere, freeing them from requirements to serve the public good. This change also reflected a slow acceptance of the market for corporate shares, in keeping with the liberal capitalist logic.

Then in 1855, prompted by concerns that unlimited liability allowed corporations to obtain funding too easily, shareholders of registered corporations were granted limited liability if they met certain capital requirements. Proponents argued that this would allow capital to flow more freely through the economy, without the need to petition state authorities, congruent with liberal capitalist ideals (Johnson, 2010; Taylor, 2006). Over the next seven years, limited liability came to be seen as the default, not a privilege, and capital requirements were removed. Despite later crises, incorporation with limited liability by registration persisted because elites believed that shareholders (and creditors) should be held responsible for their investments, which fits the individualism undergirding liberal ideals (Johnson, 2010; Taylor, 2006). In sum, British business law gradually embraced the logic of liberal capitalism, conceiving of for-profit business concerns, including corporations, as private entities (Johnson, 2010).

Employment law. Proponents of liberal capitalism argued against restrictions on the freedom of labor imposed by guild rules (e.g., Smith, 1981). This led to the repeal of guild rules on wage-setting and training in 1813 and 1814, respectively. But employment law did not always reflect liberal ideas – or rather, the ideals they reflected did not include the liberty of workers to negotiate higher wages. Labor negotiations were constrained because of the theory of the "wage fund," which involved an imaginary "equilibrium" wage rate dependent solely on the ratio of the working population to available capital (Johnson, 2010). Moreover, workers had little legal standing to unionize because the Combination Acts of 1799 and 1800, passed in reaction to the

French Revolution, gave magistrates authority to act against worker organizations.[4] And master-and-servant laws were used to punish workers who quit their jobs or performed poorly (Johnson, 2010). Indeed, at the behest of large employers, these punishments were made increasingly harsh (Frank, 2005). As a result, most workers had short-term contracts, in accordance with the liberal capitalist logic, and wages and working conditions were generally set by employers with little input from workers (Atiyah, 1979; Segrestin, Hatchuel, & Levillain, 2022, in this volume). Until the wage-fund theory was contested in the late 1860s, collective bargaining by workers was opposed by state authorities and employers alike. Only in the 1870s were unions legalized. Master-and-servant laws were not abolished until 1875, when the government sought to appeal to an electorate that had expanded to include more working-class men (Johnson, 2010).

Social-welfare Law. Up to the mid-nineteenth century, laws regarding social welfare were shaped by the liberal principles of individual responsibility and self-reliance (Ritter, 1986; Searle 1998). They were also shaped by a longstanding tradition of self-help manifested in mutual-aid societies (Ritter, 1986), which we discuss below. Under punitive "poor laws," assistance was meager, since recipients had to pass strict tests of need (Searle, 1998; Thane, 1996). As a result, only the severely destitute applied for relief; all others were expected to navigate the labor market on their own. Not until the late nineteenth century, pushed by Victorian concerns with visible poverty in urban areas and two decades of investigations into the causes of poverty, especially among the elderly, did a series of reforms usher in rudimentary social-welfare capitalism. Riots in 1886, 1887, and 1892–1895 also made the middle class fear that extreme poverty would undermine the safety of their property (Ritter, 1986; Thane, 1996).

[4] Skilled workers could openly organize craft unions because employers were reluctant to take legal action against scarce skilled workers (Rule, 1981; Thelen, 2004). But industrial unions organizing less-skilled workers were hampered by their lack of leverage over employers, so they did not develop until much later.

State-supported schools began to appear after passage of the Education Act of 1870, indicating erosion of liberal ideals about self-reliance (Thane, 1996). In 1891, school fees were eliminated and in 1909, free school meals were introduced. The Old Age Pensions Act of 1908 and the National Insurance Act of 1911 established public funding for retirement, unemployment, and health-care benefits. In 1909, the first minimum-wage law was enacted for some low-wage industries. That same year, the Labour Exchanges Act established structures to help the unemployed find work. With these social-welfare provisions, elites sought to ward off more extreme labor demands, such as a guaranteed right to work (Ritter, 1986).

As a result of Britain's early embrace of liberal capitalism (and its late and limited acceptance of social-welfare capitalism), it was the first country to see for-profit business corporations explode in numbers and grow immensely large (Cottrell, 1980; Harris, 2000; Johnson, 2010). The first decade after incorporation by simple registration was authorized (1845-1855), an average of 81 business corporations was founded each year (Johnson, 2010). That annual average rose to 1,018 in the 1870s, to 4,609 in the 1900s, and to 7,110 between 1910 and 1913.

Germany

To understand German political-economic development, we must recognize that until 1871, there was no "Germany." There was instead a mosaic of small sovereign states, dukedoms, and cities with mostly German-speaking populations. Between 1794 and 1815, several were under French control. After Napoleon's defeat in 1815, the Congress of Vienna forged a weak federation of 39 sovereign states. Prussia was the most powerful militarily and economically, so it dominated policy decisions. German states supported economic development by investing in mines and factories, assisting private firms financially, funding infrastructure like roads and canals, and responding to calls for integration, first economic and then political (Leixnering, Meyer, & Doralt, 2022, in this volume).

Business Law. German states' history of fragmentation spurred the development of two kinds of local political-economic systems: decentralized and centralized (Herrigel, 1996). In decentralized regions, closely held small and medium-sized firms were surrounded by many very small firms providing specialized inputs. To co-ordinate exchange across these local networks, relations had to be co-operative (Pohl, 1982). As a result, liberalism was blunted by concern for the common good, congruent with social-welfare capitalism. By contrast in centralized regions, large vertically integrated corporations appeared, and liberal ideals developed greater strength.

In addition to varying across regions, German political-economic institutions shifted frequently between liberalism and social welfare. The strength of each logic varied, but neither was ever fully dominant in any region. In a small step toward liberalism, in 1794 Prussia legalized some forms of association, including joint-stock business corporations (*Aktiengesellschaft*, or *AG*), provided they benefitted the public interest (Brooks & Guinnane, 2017; Leixnering, Meyer, & Doralt, 2022, in this volume). But this statute did not recognize associations as entities distinct from their membership. In any case, the French occupation rendered it moot for two decades. And in most German states, including Prussia, the landed aristocracy restricted the formation of associations in order to preserve their power (Tilly, 1966).

Restrictions on corporations did not ease until the mid-nineteenth century, when elites began to embrace liberal ideals and encourage industrial development to stimulate economic growth (Guinnane, Harris, Lamoreaux, & Rosenthal, 2008; Henderson, 1975; Leixnering et al., 2022; Stolleis, 2013). The customs union (*Zollverein*) of 1834 sought to implement free trade between German states. In 1843, the Prussian Joint-Stock Company Law made corporations legal persons, based on a broader interpretation of what constituted "public interest." In 1861, to further liberalize trade, most states agreed to a common legal business code, following Prussian law. In 1870, Prussia allowed incorporation by simple registration, embracing the liberal logic that business should be independent from the state (Leixnering et al., 2022). After unification, Germany followed Prussia's lead.

Employment law. In contrast to business law, employment law did not smoothly come to reflect either liberal or social-welfare ideals. Instead, cycles of liberalization and repression of workers' rights of association were set in motion by repeated political unrest. In reaction to the French Revolution, a 1798 edict rescinded rights of association for groups (like unions and political groups) deemed a political threat (Brooks & Guinnane, 2017; Ritter, 1986). It was revoked in 1816, but then in 1819, in an effort to staunch calls for stronger German unification, the four-year-old German Confederation reinstated those limits. Some states, such as Baden, tried to legalize political associations, but they were overruled by tightening confederation regulations. Restrictions on associations eased again in the 1840s, then tightened again after the 1848–1849 revolutions. Restrictions were softened in the 1860s, but strengthened again in the wake of strikes between 1869 and 1874, which threatened the middle class, and economic crises in 1873–1874 and 1879, which devastated the working class. Not until 1908 were rights of association fully liberalized. Thus, throughout most of the nineteenth century it was impossible to form or operate unions and most other civic associations.

Social-welfare law. The development of social-welfare policies began after the French Revolution, when German elites reacted by exalting a "corporatist" model under which the three traditional estates or *Stände* (the nobility, clergy, and commoners) would constitute a harmonious, "organic" whole (Bowen, 1947). This model held that rights and responsibilities were a function of one's estate and, within the commoner estate, one's occupation. Moreover, the nobility and the clergy had a responsibility to care for those in need (Stolleis, 2013). In 1794, the Prussian code declared that the state was responsible for helping the poor and unemployed (Henderson, 1975; Stolleis, 2013). As a result, a variety of organizations were created to care for orphans and the sick, teach children, and aid the poor. But social-welfare ideals met resistance when and where liberal ideals gained strength. Then, after the revolutions of 1848–1849, elites instituted social supports to fend off popular unrest by establishing protections for child laborers, inspecting factories' working conditions, and prohibiting payments to workers in goods rather than cash (Ritter, 1986; Steinmetz, 1993). Towns throughout Germany set up works councils to help the unemployed find work. After unification, to reduce support for the Socialist Party, the central state set up compulsory health and accident insurance schemes in 1883 and 1884, and a pension system in 1889 (Henderson, 1975; Kocka, 1981; Rimlinger, 1971; Steinmetz, 1993; Stolleis, 2013). In this regard, Germany was a quarter-century ahead of Britain. Social-welfare policies continued to be strengthened up to the outbreak of the First World War (Stolleis, 2013).

Although Germany was Europe's biggest industrial power by the late nineteenth century (Henderson, 1975), the coexistence of the logics of liberal and social-welfare capitalism and their associated institutions meant that Germany had far fewer corporations than Britain, because the market logic was less compatible with the social-welfare capitalist logic than the liberal capitalist logic. Between 1704 and 1850, only 150 corporations had been chartered in Prussia (Leixnering et al., 2022 this volume), compared to 216 chartered in Britain during 1850 alone (Johnson, 2010). In 1872, 479 corporations were founded in Germany (Eckhardt, 1973), compared to 1,116 in England (Johnson, 2010). In 1907, the numbers were 97 (Fohlin, 2005) and 5,265 (Johnson, 2010), respectively. Germany relied far more than Britain on small and medium-size familyowned firms, usually organized as sole proprietorships or partnerships, sometimes as privately held limited-liability companies (Guinnane et al., 2008; Harris, 2000; Henderson, 1975; Herrigel, 1996).

The Development of Non-Profit Business Organizations

Below, we detail the social and economic problems created by for-profit businesses, especially corporations, for ordinary people (workers, consumers, and small producers) and describe how they banded together to solve these problems by creating three kinds of non-profit business – co-operatives, mutual-aid societies, and credit co-operatives – despite opposition from elites. We explain whether and how these challenges overcame opposition.

Britain

Co-operatives. The rise of industrial manufacturing dramatically increased production, but standards of living for many workers declined from the late eighteenth to the mid-nineteenth century and life expectancies fell precipitously (Thane, 1996). Small farmers were forced by mill owners to pay high prices to mill their grain (Birchall, 1997). Mill, mine, and factory owners forced workers to purchase goods from owners' shops, often at inflated prices. The food sold at company and independent shops alike was often adulterated: watered-down beer, bread "whitened" with alum, tea mixed with grass clippings (Birchall, 1997). In response to these problems, workers, farmers, and small producers banded together to create co-operatives.

The first British co-operatives appeared from the 1730s to the 1760s as a means of breaking up local mill monopolies (Birchall, 1997). There were scattered foundings of consumer and producer co-operatives for the next six decades. Starting in 1826, the co-operative movement grew stronger under the leadership of philanthropic industrialist (no, this is not an oxymoron)

Robert Owen and physician William King, who championed consumer co-operatives imbued with a utopian socialist vision that celebrated the community ideal (Birchall, 1997; Bonner, 1961). About 400 consumer co-operatives were founded in the next seven years, but then the movement collapsed due to hostility from both state authorities and industrialists, as well as technical difficulties in distributing profits to members. Their community ideal was simply incongruent with the logic of liberal capitalism.

Technical difficulties were resolved by the founders of the Rochdale Equitable Pioneers in 1844. Their model provided affordable and high-quality goods for consumers through retail stores. Rochdale later added a wholesaling operation, the Co-operative Wholesale Society, "virtually invent[ing] modern retail distribution" (Birchall, 1997, p. 10). Commercial success increased public awareness of co-operatives, and people began to join them for practical benefits – lower costs for higher-quality goods – rather than ideological ones (Gurney, 1996). These more pragmatic members steered co-operatives to focus on the enterprise ideal rather than the more radical community ideal, thereby legitimating them in the eyes of state authorities and elites (Wolff, 1897). As a result, co-operatives were granted limited liability in 1862, seven years after for-profit business corporations were granted that right. Their numbers soared from 971 societies and 100,000 members in 1864 to 1,385 societies and 3.1 million members in 1914 (Birchall, 1997). Since there was typically one co-operative member per household, about 12 million Britons benefitted from co-operatives – a quarter of the population.

Mutual-aid societies. Mutual-aid societies first appeared in the mid-sixteenth century under the label "friendly societies," offshoots of medieval craft guilds (Cordery, 2003). After initial hesitation, state authorities encouraged them, believing they constituted less of a threat to the status quo than unions (Davies, 1994; Thelen, 2004). For their part, local elites hoped friendly societies would reduce the taxes they had to pay for poverty relief under the Poor Law. Elites went so far as to become patrons of friendly societies (Cordery, 2003; Morris, 1983), granting them respectability. Under the Friendly Societies Act of 1793, societies that registered with state authorities were exempted from taxes and allowed to incorporate. Incorporation gave friendly societies the right to sue to recover lost or stolen funds, greatly improving their stability. To encourage solvency and discourage political agitation, this act established rules governing how societies recorded flows of funds and how they invested funds, bringing them further into the liberal sphere.

After 1793, the number of friendly societies exploded (Clark, 2000; Cordery, 2003; Gosden, 1961). By 1803, there were almost 10,000 in England and Wales with over 700,000 members (Clark, 2000; Cordery, 2003), about 8% of the total population. By the 1870s, British friendly societies had 8 million members, about 20% of the total population (Gosden, 1961). By 1901, they had 4.1 million members – over 40% of adult males 20 years and older (Johnson, 1985). By 1904, they had 6 million members – half of all adult males (Cordery, 2003). When the 1908 Old Age Pension Act and the 1911 National Insurance Act were passed, friendly societies were so legitimate that they successfully lobbied to administer state insurance benefits, with state funds covering their administrative costs (Cordery, 2003; Gosden, 1961). By 1914, there were 29,000 friendly societies with 7.6 million members (Harris, 2000) – over 60% of adult males.

Credit co-operatives. Britain became a majority-urban society during the nineteenth century, with people drawn to jobs in increasingly crowded urban areas. The severe housing shortage and poor quality of housing stock loomed large in the minds of elites as well as the working class. But authorities were reluctant to provide public housing because they held liberal beliefs that all property – especially land and housing – should be private (Thane, 1996). Starting in the 1880s, the working-class housing crisis became more visible to elites, in part through early sociological analyses (Ritter, 1986; Thane, 1996). This prompted the creation of public-housing projects, but even so, the vast majority of the working class remained ill-housed or unhoused.

One form of credit co-operative, the building society, stepped in to fill the need for urban housing. Because loans to build or buy houses were larger than the sums borrowed in friendly societies, building-society members tended to be well-paid artisans, shopkeepers, and professionals. Their higher status allayed elite fears that building societies were cover for radicals. Building societies were first formed in England in the early eighteenth century and spread widely in the nineteenth century (Casu & Gall, 2016; Cleary, 1965; Davies, 1994; Price, 1958). But they did not have solid legal recognition until 1836, with passage of the Regulation of Benefit Building Societies Act, which extended laws about friendly societies to building societies (Harris, 2000, p. 277). In 1874, after a royal commission investigated building-society frauds and scandals, the Building Societies Act placed them under the oversight of the Registrar of Friendly Societies. It curtailed risky business practices by limiting loans to less than two-thirds of property value. In return, it allowed building societies to incorporate and their members to benefit from limited liability. In response to continued scandals, the Building Societies Act of 1894 mandated stricter oversight.

The number of building societies expanded through the nineteenth century, then contracted, due to amalgamation into national federations. In 1890, there were over 2,700 societies; in 1900, less than 2,300 (Davies, 1994, pp. 341–342). In 1910, there were just over 1,700 societies with some 600,000 members (Rex, 2017) – about 1.5% of the population. Building societies thus never served a large swath of the population, just part of the middle classes.

Britain did not see the rise of co-operatives offering credit to farmers, artisans, and shopkeepers. This was due to the popularity of rural savings banks, which first appeared in the late eighteenth century (Maltby, 2012). Elites viewed savings banks as a means to combat poverty by encouraging thrift; they often served as voluntary savings-bank managers, legitimating them. As a result, middle-class Britons had relatively easy access to credit and less need for credit co-operatives, except to build or buy homes with the help of building societies.[5]

Germany

Co-operatives. Co-operatives began to form in the mid-nineteenth century, influenced by the example of Rochdale (Fairbairn, 1994). Co-operatives formed later than in Britain because many of the problems caused by industrialization arose later in Germany. As in Britain, German co-operatives were formed to improve consumer access to low-cost staples, reduce farmers' costs while increasing their incomes, and give small producers a competitive edge. Although they were initially resisted by state authorities, they became accepted in the 1860s because they were deemed important for economic development, particularly in rural regions (Brooks & Guinnane, 2017). This was due to acceptance of rural credit co-operatives, which we discuss below and which spilled over to agricultural, consumer, and producer co-operatives (Peal, 1988). Acceptance culminated in passage of the Co-operatives Act in 1889, which granted limited liability in exchange for annual external audits.

There are no exact counts of German co-operatives (at least, no count separate from credit co-operatives) until 1905, when over 14,000 operated (Birchall, 1997). By 1913, there were over 15,000 co-operatives with almost four million members (Fairbairn, 1994), about 10%

[5] Savings banks' legitimacy also hampered early efforts by agricultural, consumer, and producer co-operatives to offer banking services, although those were impeded by legal limitations. But co-operatives could not offer banking services.

of the German population. Since membership was generally restricted to male heads of households, co-operatives touched the lives of one-third of Germans. They were so successful that even those who fought against co-operatives, such as independent shopkeepers, formed their own to achieve economies of scale and market power (Fairbairn, 1994).

Mutual-aid societies. Guilds persisted until well into the mid-nineteenth century, despite a ban under French rule (Rimlinger, 1971; Ritter, 1986; Thelen, 2004). Guilds established funds to help workers support their families if they were off work due to illness, accident, or job loss (Henderson, 1975; Stolleis, 2013). Starting in the 1830s, the middle class, based on the doctrine of social welfare, began to support benefit societies (*Unterstützungvereine*). They viewed these as alleviating visible urban poverty by replacing traditional social-support systems, which were being eroded by industrialization (Ritter, 1986). But bans on civic organizations, fueled by suspicion of radical political activity, hampered the growth of mutual-aid societies (Brooks & Guinnane, 2017).

After guilds were abolished in 1848, workers' associations began to play an increasingly important role in providing insurance (Ritter, 1986; Thelen, 2004). Several German states began to allow local authorities to mandate membership in mutual-aid societies for workers and employers (Hennock, 2007), although authorities in other German states could not overcome opposition from factory owners (Stolleis, 2013). Then, as explained above, an 1883 law made membership in mutual-insurance societies (state-run or independent) compulsory, first for workers in mines and manufacturing, then over the next decade for workers in many other industries (Henderson, 1975; Hennock, 2007). By 1913, over 60% of families had access to insurance against sickness, accidents, and old age (Henderson, 1975; Stolleis, 2013). Other workers were covered by central, state, or municipal governments. As government- and employer-provided funds became more common, voluntary mutual-aid societies withered.

Credit co-operatives. In the early nineteenth century, farmers, shopkeepers, and artisans had no easy source of credit beyond moneylenders (Guinnane, 2001; Herrigel, 1996, pp. 52–53). Urban banks (universal and savings alike) offered only short-term loans (three months maximum) at high interest rates (over 30%), and often required collateral that small borrowers lacked. Progressive reformers, seeking to add the working class after the German revolutions of 1848–1849, launched credit co-operatives (Fairbairn, 1994; Guinnane, 2001; Peal, 1988). German authorities accepted them because they promoted the liberal goal of economic development, especially in rural areas (Guinnane, 2001, 2012; Peal, 1988). The Prussian government formally recognized them in 1867. Then, the Co-operatives Act of 1889 allowed them to form centralized associations and granted them limited liability in exchange for annual external audits (Guinnane, 2001, 2012).

These legal moves allowed credit co-operatives to grow rapidly. In 1905, there were 14,000 of them. By 1913, their numbers had risen to over 19,000, and they had over two million members (Fairbairn, 1994; Guinnane, 2001). Since membership was generally restricted to male heads of households, in 1913, credit co-operatives touched the lives of over 15% of Germans.

Conclusion

Non-profit businesses – co-operatives, mutual-aid societies, and credit co-operatives – were created to solve the social and economic problems caused by the rise of for-profit businesses, especially corporations. During industrialization, the paternalistic bond between lord and peasant and between guild master and journeyman was broken, and no comparable bond between capitalist and worker developed to take its place. Workers left tight-knit rural communities for anonymous urban societies. Small producers struggled to compete with ever-larger business concerns, which benefitted from economies of scale and scope. Non-profit businesses solved these problems by managing production, distribution, and sales for the benefit of ordinary people and by providing credit to them. The institutional logics espoused by non-profit businesses celebrated three ideals: community, enterprise, and self-help.

Our analysis showed that Britain and Germany experienced different trajectories of industrialization and developed different political-economic systems. As a result, they had different ecologies of for-profit and non-profit business organization. The relative success of each form of non-profit organization was due to the congruence between their logics and the prevailing logics of capitalism. In Britain, mutual-aid societies came to predominate because elites perceived that they could reduce taxes for poor relief, which was compatible with liberal capitalism. Co-operatives eventually became common in Britain, but not until they turned away from the community ideal, which was incongruent with liberalism, and emphasized instead self-help and enterprise, which were congruent with liberalism. Credit co-operatives never became common because of British elites' early acceptance of savings banks, which espoused self-help and enterprise, in keeping with liberal capitalism. In Germany, co-operatives and credit co-operatives came to predominate, in large part because elites embraced social-welfare capitalism early on and so approved of communal goods and services. Mutual-aid societies were also accepted because they fit with social-welfare ideals. But state authorities' and elites' continued concerns about radical organizing made mutual-aid societies less common than credit co-operatives and agricultural, producer, and consumer co-operatives. That explains why they were replaced by state-run insurance schemes.

The existence of non-profit business organizations also had some effects on societal-level political-economic logics. In Britain at the turn of the twentieth century, the success of mutual-aid societies provided a solid example that helped pave the way for partial de-liberalization of capitalism and a shift toward social-welfare capitalism. In Germany, the growing strength of credit co-operatives, especially in rural areas, spilled over to other forms of co-operatives, strengthening acceptance of the community ideal. When and where non-profit business organizations were highly visible and legitimate, they could mobilize to be incorporated into the developing state-welfare system, as happened to mutual-aid (friendly) societies in Britain. But when and where non-profit business organizations were less numerous and viewed with suspicion, the state could obviate them by taking over their functions, as happened to mutual-aid societies in Germany. Thus, the impact, both organizational and cultural, of non-profit businesses depended on their numbers and reach.

Non-profit business organizations developed in response to the problems of capitalism and shaped the logics of capitalism in their respective societies. The success of these alternative organizational forms provided models for integrating and, in some cases, re-integrating societal values within regular business conduct. As we question the limitations of the present-day corporate form, it is worth examining the alternative organizational forms that have emerged in recent years. Like the co-operatives, mutual aid societies, and credit co-operatives that arose in the nineteenth century, today's alternative organizational forms may provide a tried-and-tested means of addressing future crises of capitalism.

B corporations, benefit corporations, low-profit limited-liability companies, and "profit-with-purpose" enterprises offer a means of recalibrating the goals of the corporation to better align with a sustainable and equitable long-term vision. Outside of purposeful corporate innovation, new technologies have spurred a wave of organizational innovation. Open source communities, crowdfunding platforms, and decentralized autonomous organizations each re-envision existing elements of capitalism–intellectual property, venture capital, and centralized governance– to more closely align with the ideals of their communities (Coleman, 2013; Gerber, Hui, and Kuo, 2012; Murray, Kuban, Josefy, and Anderson, 2019). Political-economic institutions lag behind these developments but, if history is any indicator, will critically shape the trajectories of these technologically innovative organizational forms once laws begin to formally recognize them. Examining these alternative forms gives us insight into both the problems we face as a society, as well as their potential solutions.

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Table 1: Types of Non-Profit Business Organization

Type (German terms)	**Earliest Date**	**Subforms**	**Organizational Goals and Activities**
Co-operative (*Genossenschaften*)	Br: late 18th century Ger: early 19th century	Consumer, Producer, Agricultural	Co-ordinate production to gain market power and high prices (producer, agricultural); pool funds to purchase in volume at low prices (consumer, agricultural); distribute profits to members
Mutual-aid Societies (*Ortskrankenkassen, Knappschaften, Hilfskassen, Unterstützungvereine*)	Br: mid 16th century Ger: late 17th century	Friendly Societies (Br)	Pool member dues to provide insurance benefits for needy members or their families – usually sickness, disability, and death benefits; occasionally pregnancy, maternity, losses due to fire, or unemployment

Credit Co-operatives (*Volksbanken*, *Darlehnskassen Vereine*)	Br: late 18th century Ger: mid 19th century	Building Societies (Br)	Pool member savings to fund loans; distribute profits to members; hedge the risk of loan defaults through common bonds rooted in organization (e.g., fraternal association), occupation, or residential community