ICA CCR EUROPEAN RESEARCH CONFERENCE 2022

"*Rethinking co-operatives: From local to global and from the past to the future*"

13-15 July 2022, Athens Greece

Organizers:

The economic rationale of limited liability legislation for cooperatives

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Abstract :

The economic rationale of the limited liability company was the incorporation of a legal entity, separate from the owners, having legal property rights of a real person. Beyond the separate entity, limited liability relates exclusively and specifically to the business entity's membership. The introduction of limited liability was a critical event that contributed to the institutional evolution of the capitalist firm. It served as a measure against the counter-incentive for investors to be unlimitedly liable for business risks and as an incentive for investors to have a diversified share portfolio. Also, the limited liability principle ensured "longevity" to business ventures since they could exist beyond the lifetime of any of its members.

If the limited liability company is the dominant paradigm in the current capitalist economy, which paradigm of liability do cooperatives follow? Which was the rationale of several parties that demanded it? Which were the peculiarities of cooperatives, and the impediments by the disputants that delayed the limited liability principle adoption from cooperatives? The constitution of cooperatives as limited liability entities has been available to cooperatives in several countries, albeit at different times and under varying conditions. When and under which conditions was limited liability principle adopted by cooperatives? Was it provided with a special law for cooperatives, or it was an amendment in commercial or company law?

The apparent variation in cooperative law is the outcome of a path-dependent process through which cooperative law regime have co-evolved alongside cooperatives, capitalist firms and markets. We examine the contemporary limited liability law provisions for cooperatives in a few European countries. We compare them with the relevant legal provisions for capitalist firms, as well as their impact in terms of governance.

Keywords: limited liability, paradigm, cooperative law, governance

1. Introduction

Limited liability for the shareholders of a conventional capitalist enterprise is the norm for its establishment and operation in the modern economy. However, this rule has not always been the case. It was not introduced by the state for the sake of the shareholders, but historically there has been a need for the provision of limited liability. It was an invention that favored shareholders to protect their personal property and also to motivate them to invest in various business ventures.

In the article we analyze the milestones that led to the institutionalization of limited liability. We identify the most important events that contributed to the institutionalization of the limited liability rule. Until the industrial revolution, limited liability was mainly de facto and was not provided by the state through the legislative framework. In many cases it was provided by the monarchs and mainly for ventures related to maritime trade. The social and economic transformation during the Industrial Revolution contributed to the emergence of the need for limited liability in business at that time. Furthermore, cooperative enterprises also emerged during this historical period.

Co-operative enterprises are often seen as a different kind of enterprise. The fact that they operate in an environment that was shaped mainly by capitalist enterprises forced cooperative enterprises to adopt some elements of capitalist enterprises. One of these features is the rule of limited liability. Modern cooperative legislation in Europe is based either on commercial law or on company law. In this article, we analyze the contemporary cooperative legislation in European countries based on the limited liability. We discuss the effect of limited liability on the governance of the cooperative firm, and the role of members in relation to their respective shareholders in a capitalist firm.

2. The institutionalization of limited liability

Despite the late institutionalization of the rule of limited liability, there are much historical evidence that it was used widely in sea-trade. In this section, we discuss the historical evolution and uses of limited liability rule. We elucidate what problems did limited liability solve and create. The rule of unlimited liability dominated for a long time before the institutionalization of limited liability in business ventures. Many reasons such as religion, dogmas, traditions, or policies had contributed to the endurance of unlimited liability. First, we discuss the historical evolution of limited

liability from the conception milestones of Roman peculium, the Byzantine Chreokoinonia, the Islamic qirad, the Italian commenda and statutes that were provided by monarchs.

2.1 Forms of limited liability in economic history

It is difficult to distinguish discrete historical periods until the formal institutionalization of limited liability. As the aim of the paper is not to discuss the evolution of limited liability itself, we highlight the key milestones until its legal provision by the state. We distinguish several innovations mainly in sea-trade and in business statutes, which led to the institutionalization of limited liability. Early features of limited liability can be detected during the Roman era, the Byzantium and the early Islamic law.

In the Roman Empire family was the core corporate form. According to (Gillman & Eade, 1995) the corporate was de facto and not a matter of law. (Johnston, 1995) Johnston, (1995) exemplifies the principle of liability in Roman law by stating that there was "*no liability for the actions of others unless they were in one's own power*". That principle had two discrete versions, the *actio de peculio*[1] and the *actiones institoria*[2] *and exercitoria*[3]. In the *actio de peculio* the creditor had rights in paterfamilias'

[1] The action was activated if a contract had been formed with a slave of filius familias who had received a peculium from his master or his pater (de Ligt, 1999). Filius familias is the son who is under the power of his father (LAWi, 2019). The latter was liable for the debts incurred by the son or the slave up to the amount of the peculium (de Ligt, 1999).

[2] "*This action closely resembled the actio exercitoria. If a slave, a filius familias or a person sui iuris had been appointed as manager of a land-based enterprise (e.g. a taberna), anyone who had made a contract with him in connection with the business of that enterprise could sue the principal for the full amount*" " (de Ligt, 1999).

[3] "*This action could be used if a contract had been concluded with someone who had been appointed as captain of a trading ship, regardless of whether the individual appointed in this capacity were alieni iuris (under the legal authority of another) or sui iuris (of one's own right). The principal was liable for the full amount (in solidum)*" (de Ligt, 1999).

ownership, to the amount of the *peculium*[4] (Johnston, 1995) The second version was modified according to two similar actions: the *actiones exercitoria* and *institoria* (Johnston, 1995). These cases of liability were early versions of limited liability based on contracts, not in legislation. It was imprinted in family traditions and business relations and functioned as a protection to paterfamilias' assets.

One of most cited innovations towards limited liability was the appearance of the *commenda* in Italy during the 10th -11th century. It functioned as a contract between the investor or a group of investors and an agent-manager. Its duration was a single voyage. Commenda was highly influenced by prior forms of "corporations" that had adopted a type of limited liability. Hillman, (1997) Sandor, (2009) and Pryor, (1977) discuss the relational effects of Islamic qirad[5], "*the nauticum fenus*[6]*, the societas*[7]*, the 'isqa*[8]*, the*

[4] Peculium was the savings by hard-working and skilled slaves, with which they could acquire their "freedom and was protected by law from the slave's owner" (Temin, 2006). "*Consists of whatever a slave has been able to save by his own frugality or whatever he has been given by a third party for meritorious service or whatever his master has allowed him to keep for his own*" (Translation from T. Mommsen and P. Krueger, eds., Corpus Iuris Civilis, 3 vols. (Berlin, 1953-4)) (Robinson & Hardy Jr, 1990)

[5] A profit sharing arrangement in which the merchant receives money from the *"investor in order to work with it without any liability to himself".* "*The investor could not stipulate that liability would be borne by the merchant. The merchant had complete discretion on trading policy, but the investor could assert control over broader matters such as the nature of goods that the merchant could buy and sell and the locations where the agent could travel. Profits were evenly divided between the merchant and the investor, although the parties could agree on different proportions that each would share"* (Hillman, 1997).

[6] A Roman sea loan, which was unique regarding the other inland types of loans. It had the same duration as commenda. The lender was liable for any loss incurred in the sea, and the loan was repaid by the safe arrival in port with its cargo (Pryor, 1977).

[7] The basic difference between commenda and the societa of labor and capital: *"it allowed a capital-investor to take only a half of the profit when the labor investor was not liable for any loss of capital"* (Pryor, 1977).

[8] It was a Jewish contract, described by the *Babylonian Talmud as a "semi loan and a semi trust"* (Pryor, 1977). The capital was provided by a single capital-investor. The half of the capital was an

Chreokoinonia[9]*"* and the close historical relationships between Byzantium with Amalfi[10] and Venice. Commenda's managers had unlimited potential debt but the passive partners (investors) only limited liability (Gillman & Eade, 1995). On the other hand, the *compagnia*[11] or *societas* (maris) (partnership) did not offer the option of limited liability to the passive investor (Hillman, 1997). A reason that limited liability was not at least exercised in partnerships could *"be found in the use of insurance as a means of limiting certain risks"* (Hillman, 1997).

Commenda dominated it the Middle Ages. A significant change from the 16th century and thereafter, was that corporate charters were provided with king's or monarch's consent. The purposes of those first corporate charters were overseas trading and included several privileges such as tax exemptions, monopolies and legal persona (Djelic, 2013), which could be granted only by monarchs. During the 17th century, corporate charters were granted more broadly in several sectors (banking, insurance, and mining). Thus, stock exchanges emerged, and brokers started their activities in England, Scotland, France and the Netherlands (Djelic, 2013). The appearance of joint

interest-free loan and had to be returned regardless of the outcome of the venture. The other half was considered "*as a trust and had to returned with a share of any profit made on it*" (Pryor, 1977).

[9] The Byzantine Empire, during the 7th century's raids by Arabian and Slavic pirates, had established a mode of raising capital in sea ventures, the *Chreokoinonia* (Hillman, 1997). Hillman, (1997) and (Laiou & Morrisson, 2007) argue that Chreokoinonia was a type of loan, with duration a voyage, which provided limited liability to the creditor but provided a share in the venture's profits. That mode of business is confirmed in both Ecloga and the Rhodian Sea Law, and there were similarities with the later Italian commenda (Laiou & Morrisson, 2007). It seems that chreokoinonia exerted influence on the configuration of the commenda and the future "descendants" of corporation.

[10] "*Venetian legislation used the name collegantia and Amalfitan legislation the name societas maris for both forms of commenda"* (Pryor, 1977)

[11] A bilateral contract of commenda. One group of associates in contrast to commenda which counted two groups (Djelic, 2013)

stock companies during the Age of Exploration (Hansmann , et al., 2006) led to the legitimation and growth of the pursuit of conquest and profit.

After the Bubble Act of 1720, which actually prohibited the joint stock company[12] in the United Kingdom, several steps in favor of limited liability were made in company law by the end of the 18th century. The Bubble Act did not manage to "*end the use of unincorporated joint-stock associations",* the unincorporated companies *"achieved de facto limited liability through the use of trusts[13] and contract terms limiting creditors to corporate assets*" (Carney, 1998). Such steps, not only in the United Kingdom but also in France and United States of America, were the Anonymous Partnership Act of 1782, the statute of the Associated Manufacturing Iron Company of the City and County of New York in 1786, the Code de Commerce[14] in 1807, the general Massachusetts statute of 1808, the New York's Act of 1811, the Limited Partnership Act of 1822 in New York, the repeal of Bubble Act (1720) in 1825, the Companies Act of 1837, the Joint Stock Company Registration and Regulation Act of 1844, the Companies Acts 1844-1862 including the Limited Liability Act of 1855 and the

[12] *"A joint stock company is a form of partnership, possessing the element of personal liability where each member remains financially responsible for the acts of the company. It is not a legal entity separate from its stockholders. A joint stock company differs from a partnership in that the latter is composed of a few persons brought together by shared confidence. Partners are not free to retire from the firm or to substitute other persons in their place without prior assent of all the partners. A partner's death causes the dissolution of the firm"* (Lehman & Phelps, 2005).

[13] *"An example of the trustee device in practice is the scheme devised in 1749 for the (unincorporated) Confactors of London. The property on which the Corn Exchange was built was conveyed to three trustees by lease for 500 years in trust for the proprietors. The trustees were to 'receive the rents and disburse the surplus under the direction of the general meetings of the proprietors. The proprietors agreed with the trustees that the latter would hold all stock legally in trust. The trustee device allowed for a significant reduction in the transaction costs associated with investment by the firm on a number of occasions."* (Anderson & Tollison, 1983).

[14] *"It was the first significant act of legislation containing limited liability as a standard of corporate law. Furthermore, the code de commerce served as governing law in German territories occupied by the French in the beginning of the 19th century and offered a source and inspiration for later acts of legislation."* (Kuntz, 2018).

Companies Act of 1879. The most prominent milestones of limited liability institutionalization that had much impact on the economic system are considered the New York's Act of 1811 in the USA and the Limited Liability Act of 1855 in the United Kingdom (Djelic, 2013; Hansmann, et al., 2006; Carney, 1998; Ireland, 2010; Saville, 1956). The New York Act of 1811 provided company members the right of being responsible to the amount of their shares of stock and no further in case of dissolution (Kempin, 1960). The increased demand for company charters with the pressure from other states, resulted in limited liability adoption from other states between 1816 in New Hampshire and 1847 in Rhode Island (Carney, 1998). With the Limited Liability Act of 1855 (an extension of Joint-Stock Companies Act of 1844), English "*Parliament granted limited liability to members of registered joint stock companies*" (Carney, 1998). According to Ireland, (2010) the free incorporation[15] by registration with the 1844 Act and the limited liability with the 1855 Act were the two core features that dominated business organization.

2.2 The de facto limited liability before and during the Industrial Revolution

Apart from contracts, which were usually bilateral agreements, and corporate charters, which were granted by monarchs, much emphasis, on the literature, is put on the breakthroughs in company law during the 18th and 19th century. Much of the English language liability legislation literature focus on the case of the United Kingdom, since it affected a big part of trade corporates worldwide and played a critical role in the Industrial Revolution. Other country cases such as Germany or France are less documented. That short historical period is characterized by high density in interactions between community, social movements, political parties, and corporates and it is well documented. Here, we try to outline the causations and the incentives, which led to general limited liability institutionalization. We briefly distinguish the pressure groups against and for limited liability institutionalization and analyze their incentives/disincentives.

[15] The incorporation process also involved important indirect costs. A firm was effectively announcing its existence to the regulatory authorities. Firms engaged in legal and mundane lines of business also had an incentive to evade regulations (Anderson & Tollison, 1983).

2.3 Supporters and disputants of limited liability

> "*At the beginning of the 19th century, though, a new speculative boom was in process and many unincorporated joint stock companies were created – in blatant disregard of the Act's provisions. Debates resurfaced and critics of the Bubble Act became vocal. Their key argument was that the Bubble Act was an outmoded and stifling legal constraint that blocked the industrial development of the country*." (Djelic, 2013).

Those legislature steps were the result of severe debate between several parties representing arguments against and for limited liability. The report of 1854 by the Royal Commission on the Mercantile Laws and the Law of Partnership expressed the opposition to limited liability due to the fear that corporations with limited liability would "suffocate" financially the traditional partnerships, since they could drain capital more easily (Djelic, 2013).

> *"In point of legal principle the reluctance to allow or recognize limited liability in joint stock companies, in the English practice prior to the Companies Acts, was of much the same nature as the current reluctance to allow an alienation or abridgment of a workman's individual responsibility for the terms of his employment and the consequences following from it. It was felt that a pecuniary liability was a personal matter, of which the person was not competent to divest himself under that system of mutual rights and duties in which the members of the community were bound together. Impersonal, collective, and limited liability won its way, as against the system of natural liberty, in this field by sheer force of business expediency. In a conflict of principles between the main proposition and one of its corollaries, the corollary won because the facts had outgrown the primary implication of the main proposition*." (Veblen, 1904).

During the limited liability battle in England there was much skepticism, initiated by the Chartists, which subsequently evolved in the agenda of the "*progress of the working class*" (Djelic, 2013). Several parties demonstrated their skepticism. An argument against limited liability that was supported by Adam Smith was that corporation would create a second layer of governance problems due to the separation of ownership and management. There was fear that corporations with limited liability

would "suffocate" financially the traditional partnerships, since they could raise capital more easily. (Djelic, 2013). The extension of limited liability created an imbalance against creditors. Bankers considered that shareholders' limited liability transferred part or most of the risk to creditors. Therefore, bankers were generally opposed to the extension of limited liability to the insurance and banking system. (Djelic, 2013). Most conservative politicians were doubtful regarding limited liability. They argued that Britain's industrialization was in fast pace and there was no shortage of capital. They promoted the view that limited liability was appropriate for economies whose investment was sluggish such as France or Ireland. (Djelic, 2013) (Bryer, 1997). Limited liability contradicted the "natural justice" which has to do with individual responsibility and implied unlimited liability (Bryer, 1997). *"Society is founded on the principle that every man and set of men shall be responsible, in the widest sense of the term, for his or their proceedings" (McCulloch, 1856, p. 14)*.

2.4 Limited liability as an institution

Even if the principle of "limited liability" can be traced back to the Roman era, it was eventually institutionalized with its modern version during the mid-19th century in England and early 19th century in USA. Most academic articles focus on English legislation case, because of two main causes. First, it apparently influenced a big part of the economic world, as the British Empire and its colonies, which lasted, in terms of *imperium*, until 1914 and the eruption of First World War. Second, the British case is comparatively better documented, less are known about the German or French debate.

Djelic, (2013) underlines three causations that led to limited liability. First, limited liability became an issue when to the "*debate surrounding incorporation was settled in 1844". Second,* during that period, in several countries in the world, limited liability "*was still a highly marginal principle in economic life"* (Djelic, 2013). Third, the struggles regarding limited liability in the *"broader ideological and political debate reflected a highly charged social context"* (Djelic, 2013). For example, the Chartist movement was seeking an identity in the conservative Britain, and sometimes "*joined forces with, the liberal movement"* (Djelic, 2013).

From an economic perspective, Anderson and Tollison (1983) asserted that limited liability functions as a means of *"investor asset insurance, which, due to transaction costs*" can be provided more efficiently from a firm than an individual investor. From a historical perspective, such insurance was provided long before governments legislated it. Djelic, (2013) argues that supporters of limited liability, before the 1844

Incorporation Act, viewed it as an "*instrument for building local communities and binding them together through a common project and shared investment".* Carney, (1998) argues that the origins of limited liability discourse can be traced in England and focused not on the "*efficiency of externalizing the costs of firm activities, … rather on the increasing agency costs of firms with passive investors and management separated from ownership*" (Carney, 1998).

In the period between the Partnership Act of 1782, which actually "*permitted the creation of limited partnerships by a process of registration"* (French, 1990), and the Joint Stock Company Registration and Regulation Act of 1844 which made incorporation accessible by simple registration (Carney, 1998), social supporters of limited liability framed it as "*the cause of the working class, serving the goal of the 'enfranchisement of men'* " (Djelic, 2013). Djelic, (2013) asserts unlimited liability as a barrier "*to self-help within the middle and working classes*".

Djelic, (2013) describes the story of limited liability as a "*social movement story*" and a "*story of institutional change*". Although the formal institutional change occurred rapidly in the British legislation, in less than twenty years (from the Joint Stock Company Registration and Regulation Act of 1844 to the Joint Stock Companies Act of 1862), the overall timeline is much longer and the transformation occurred via several overlapping though successive stages (Djelic, 2013). Limited liability was *"against the background of Chartism, the ten hours question, and the "condition of England" debates"* (Loftus, 2009). The reforms that happened during these twenty years signified a move from the retributive and evangelical model of economics to a more "expansionist" and "cosmopolitan" (Hilton, 1988). Similarly, Loftus, (2009) argues that limited liability functioned, in the same period, "*as a mechanism for social reform"* which could limit state intervention and advance *"laissez-faire political economy".*

Philanthropists, in early 1850s, exercised pressure for limited liability because they were "*seeking a safe investment for the savings of working people"* (Carney, 1998). Their argument was that the 1844 act did not attract investors to new businesses. Actually, "*investors were discouraged from participation*" (Carney, 1998).

From the political perspective, the statist tradition addressed limited liability as a privilege, which was provided by government to promote specific modes of economic activity (Carney, 1998). Bainbridge, (1993) doubted the argument that "*limited liability is a privilege conferred by society"* regarding "*the public and private functions of*

limited liability". Another explanation regarding English law development towards limited liability is "*the cycles in the supply and demand for law*" (Gillman & Eade, 1995). Gillman and Eade, (1995) provide two core dimensions of the cycles: "*efficiency trends and redistributional events causing inefficiency*". The economic perspective of limited liability clarified the legal and financial intricacies of reform. However, the political and social dimensions have been merely marginalized or considered in different context "*in the social history of English labor*" (Loftus, 2009).

3. Early cooperatives: an early adoption of limited liability principle?

In this section we discuss how limited liability was introduced in cooperative law and which were incentives of the stakeholders to introduce limited liability in cooperative law. Comparing the years between the first establishment of cooperatives and the first cooperative law in each country, we can notice that in most countries, cooperatives preceded the cooperative law. Also, there are countries in which the first cooperative law was a transfer from Commerce or Company Law.

The period from mid-18th century to mid-19th century is distinguished by extensive experimentation in the cooperative movement. That experimentation was not cast in legislation until 1852 in United Kingdom, with the Industrial and Provident Societies Act. That Act is considered as the first cooperative legislation in the world. According to Shaffer (1999) institutional experimentation took place not only in the U.K., where by 1830 more than 300 cooperatives had been officially recognized in the form of Friendly Societies[16], but also in France, the USA and Germany.

What can be learnt from the limited liability institutionalization, is arguably the late provision by the state, even if it was provided in various versions by the markets long before. It was seen as a necessity, not only from capital holders who joined business

[16] "*In 1793 the first Friendly Societies Act was passed. Its avowed object was to protect and encourage societies of good fellowship, formed for the purposes of the mutual relief and maintenance of the members in sickness, old age, and infirmity, and the relief of the widows and children of deceased members, and effecting those purposes by means of the voluntary subscriptions of the members. Later Acts have enlarged this definition, but the keynote of all legislation in this country with regard to such societies is struck by that Act.*" (Institute and Faculty of Actuaries, 1889)

ventures, but also from the working classes too, which were seeking better living and working conditions. There is much emphasis, in literature that working classes via social movements (Chartists[17], Factory reform movement[18], "Ten hours" movement[19]), especially in United Kingdom, acted as a pressure lever to the institutionalization of limited liability. The case of the United Kingdom is salient due to the Industrial Revolution, which caused several economic and social implications, such as the suppressed working classes or the emergence of the modern corporation. Those implications were merely the causes for the emergence of social movements and consequently the cooperative movement. Similarly, several societies in Europe faced equivalent conditions during the broader Industrial Revolution era, which lead in the emergence of cooperatives.

In this section, we analyze the conditions and the legal framework in which cooperatives appeared. We discuss the terms and reasons that limited liability was provided for cooperatives. Last, we examine the incentives and dis-incentives for gaining limited liability in cooperatives and discuss the option that limited liability rule was borrowed, in many cases, from Company law or Commerce code in cooperative law.

[17] "*Chartism took its name from the six political reforms its adherents supported. The Charter demanded universal manhood suffrage, no property qualification to gain the vote, payment for members of parliament, annual parliaments, the secret ballot, and equal electoral districts. Chartism was more than a political movement, however*" (Cordery & College, 2003)

[18] The factory reform movement demanded "*for legislative reform of working conditions in the textile industries*" between 1830s and 1840s in Northern England (Ward, 1962), (Ward, 1962)

[19] *"Individual Pioneers were also actively involved in the humanitarian campaign for factory reform, through the 'Ten Hours' movement"* (Walton, 2015).

Table 1: Establishment of first cooperatives and the provision of cooperative law

	First cooperative	**Year of establishment**	**Legislation**	**Year of provision**
Austria	1. "Aushilfskasse" (a preliminary version of a cooperative bank). A Schulze-Delitzsch credit society, was established at Klagenfurt (then Celsvec). It began a movement within the then Austro-Hungarian Empire which spread rapidly and was extensive enough to federate nationally in 1872. 2. Building cooperatives 3. A parallel development of credit cooperatives among farmers led to the formation of the Austrian Raiffeisen Union	1. 1850 2. 1869 3. 1898	1. Initially cooperatives were established under the Association Act (Vereinspatent). 2. The Austrian Cooperatives Act (GenG- Genossenschaftsgesetz)	1. 1852 2. 1873
Belgium	1. The first Belgian cooperative (of bakers), initiating a type of worker productive activity that would be emulated and become an important part of the consumer movement as it developed. 2. The first cooperative credit institution	1. 1848 2. 1860	1. Cooperatives were introduced through the Belgian Commercial Code, because of the nineteenth century socioeconomic situation.	1. 1873
Bulgaria	1. The first credit society. 2. The establishment of the first agricultural credit society (Oralo, at Mirkovo, now part of Sofia), the first consumer cooperative, and the first production society (Rabotnik).	1. 1863 2. 1890-1900		
Cyprus	1. Establishment of the first cooperative (agriculture and savings)	1. 1909	1. The passage of the first cooperative law	1. 1914
Chech Rebublic	1. The beginnings of organized cooperation in the Czech Republic (then Bohemia and part of the Austro-Hungarian Empire) were set when the first savings and first food purchasing groups were established in Prague. 2. The first consumer society came into existence 3. Agricultural cooperatives were initiated. 4. Establishment of a central union 5. Worker productive cooperatives emerged and by 1897 were being serviced by a central supply union	1. 1852 2. 1870 3. 1880 4. 1896 5. 1890s	1. The first cooperative legislation was enacted	1. 1873
Denmark	1. The first society. 2. The first agricultural, consumer, credit and production cooperatives emerged,	1. 1851 2. 1850s and 1860s	1. The Danish cooperative law has not been codified yet, since it remains non-statutory. The Danish law commissions had submitted proposals for an act in 1910, but it had not reached "*to Parliament due to substantial resistance form the cooperative sector*".	1. 1910
Finland	1. Organized cooperative activity began in Finland (at the time a part of Russia) with the establishment of consumer cooperatives in the communities of Viiperi and Tampere.	1. 1870 2. 1880	1. The introduction of cooperative law dates back in 1901 when Tsar Nikolai II of Russia signed into Law on Cooperation	1. 1901

	2. The first agricultural cooperative		(Osuustoiminatlaki) the bill that the Diet of the autonomous Grand Duchy Finland had adopted unanimously.	
France	1. Several cheesemakers' established mutual societies in the Franche-Comte region. 2. The first agricultural, consumer and worker productive cooperatives were organized and the different facets of the cooperative movement began to proliferate. 3. Association Chetienne des Bijoutiers en Dore 4. The first credit cooperative focused its assistance on workers' ' groups,	1. 1750 2. 1830s 3. 1834 4. 1863	1. The first proposal of cooperative legislation was made, and a law was enacted two years later, in 1865. 2. A special chapter on companies having a variable capital was introduced, in 1867, in the Companies Code. Special regulations for agricultural co-operatives were added later as part of Code Rural (Munker, 2016). Till the first legislation of 1867, dedicated to cooperatives, and was characterized as the first critical reform of company law. That late reform was due to period of repression against the organizations suspected to the revolution of 1848, among which the cooperatives. With that reform Napoleon III adopted a more liberal approach by aiming to cooperatives' development and providing a more favorable legal framework. However that legal framework for cooperatives, according to Hiez (2013), was inserted into company law and was not "specifically dedicated to cooperatives, but rather dealt with companies with variable equity". 3. According to Munker, (2013) the French state watched co-operatives with suspicion. The legalized freedom of associations was only provided in 1901.	1. 1865 2. 1867 3. 1901
Germany	1. the beginning of cooperatives in Germany. It was the year in which the first German society was organized in Chemnitz, and Victor Aime Huber was advocating cooperation as an economic solution, particularly for the problem of housing. 2. Friedrich Wilhelm Raiffeisen began his work in support of cooperation 3. Herman Schulze-Delitzsch's establishment of cooperatives for shoemakers and joiners.	1. 1845 2. 1846 3. 1849	1. Schulze-Delitzsch, during his membership in the Prussian Parliament, engineered the passage of the first German cooperative legislation in 1866. 2. The private law included the Act relating to the status of co-operative societies and followed the recommendations made by Shulze-Delitzsch. It was promulgated in 1867. A year later "*the Act was applied to the territory of the Northern German Federation of States and as of 1871 to the entire German Reich*" (Munker, 2016) 3. "Schulze-Delitzsch's Co-operative Societies Act was developed from the by-laws of the first societies and accordingly, close to practice. After being passed by the Prussian Diet in 1867, it became law in the Northern German Federation (Norddeutscher Bund) in 1868 and in the entire German Reich in 1889" (Munker, 2013). The unsatisfactory legal status, around ten years after the establishment of cooperative associations by Schulze in	1. 1866 2. 1867 3. 1869

			Delitzsch, remained unsolved. The Prussian legal system was unsatisfactory regarding the available forms. The first form was that of private associations, which it did not satisfy Schulze. The legislator actually excluded "business activities" of private associations, a core feature of cooperative. The other form, the "Societät des Römisch-Deutschen Privatrechts" was inadequate, since it did not allowed membership changes, but only in critical circumstances. For Schulze, continuous membership changes were imperative for a cooperative. "*Co-operative societies (initially called associations) were construed as business associations. In order to compete with large scale enterprises, craftsmen and retail traders needed access to low priced raw materials and goods of high quality. To achieve this, co-operators in one town or region had to pool their purchasing power and buy jointly*" (Munker, 2013).	
Greece	1. One of the earliest cooperatives in Europe, the Red Yarn Society, was established at Ambelakia. 2. There were island shipping and mining cooperatives. 3. The modern cooperative movement in Greece is essentially a 20th-century phenomenon with the first agricultural cooperatives dating from 1900. 4. The first federation/union	1. 1780 2. 19th century 3. 20th century 4. 1924	1. First cooperative law	1. 1914
Hungary	The first Hungarian cooperative, a credit association at Beogterce,	1850	1. The first cooperative legislation was passed in 1875, which remained in effect until 1947. The introduction of cooperative law lies in the period before World War II.	1. 1875
Iceland	1. The earliest stirrings of organized cooperation 2. The first permanently established cooperatives were two supply and marketing cooperatives. 3. The first consumer cooperative. 4. the first national cooperative federation, a forerunner of the Iceland Cooperative Federation	1. 1830 2. 1882 3. 1886 4. 1902	1. The enaction of the first cooperative law	1. 1937
Ireland	1. The first consumer cooperative was established in Dublin 2. The first agricultural society	1. 1859 2. 1883	1. The Industrial and Provident Societies Law 2. The Friendly Societies Law	1. 1893 2. 1896
Italy	1. A workers' collective dairy established at Osoppo. 2. the ferment of cooperation began to regularly produce lasting results in Italy, in the form of mutual aid societies, joint purchasing of agricultural supplies, a printing works, the first	1. 1806 2. Mid-1800s	1. The first cooperative legislation was passed in 1886, the organization of the first national cooperative federation, Federazione fra le Cooperative Italiane, and the publishing by Ugo Rabbeno of La Cooperazione in Italia, a study of the emerging Italian cooperative movement. Civil law was the main	1. 1886

	consumer society, and a workers' bank established in Milan in 1860 by Luigi Luzzatti.		source of cooperative law. "*The general regulation of cooperatives may be found in articles 2511–2545octiesdecies of the Civil Code of 1942 (CC), as amended by Legislative Decree 17 January 2003, n. 6, on the reform of company law. Therefore, in the Italian legal system, cooperatives enjoy a specific regulation and represent a legally distinct subject matter*" (Fici, 2013).	
Latvia	1. The earliest cooperatives in Latvia date from the latter part of the 19th century, when Latvia was ruled by Russia. Early cooperatives developed in patterns similar to those of other European nations.	1. Late 19th century		
Lithuania	1. The first consumer cooperative having been founded while Lithuania was part of Russia	1. 1869		
Luxembourg	1. Agricultural cooperatives, the first of which was established in 1808, have historically been the predominant cooperative sector in Luxembourg 2. A home builders' association reflecting cooperative housing interests had its beginnings in 1855, 3. Raiffeisen rural banks date from 1925	1. 1808 2. 1855 3. 1925		
Netherlands, The	1. The first cooperative (a consumer society) was founded in 1860, precursor of a large and successful network. 2. Agricultural credit cooperatives had achieved a sufficient degree of organization, so that a cooperative union of Raiffeisen-type credit cooperatives (predecessor of the current Rabobank) had been organized.	1. 1860 2. 1890s	1. Legislation dealing with cooperatives was adopted in 1855, two years after the United Kingdom	1. 1855
Norway	1. The first cooperative (a consumer society) came into being, a product of a social, semi revolutionary movement headed by Marcus Thrane. 2. A cooperative cheese factory became the agriculturalists' first formal cooperative structure.	1. 1851 2. 1856	1. The cooperative law in Norway was eventually codified in 2007.	1. 2007
Poland	1. The first cooperative-like organization Hrubieszowskie Towarzystwo Rolnicze Ratowania sie˛ Wspo´lnie w Nieszcze˛s´ciach ("Hrubieszo´w Agricultural Society for Common Rescue in Misfortunes") 2. There was an increase in cooperative activity and, by the time Poland regained its independence after World War I, a basic cooperative infrastructure had already been established involving	1. 1816 2. 1860s	1. The first cooperatives were founded and operated under the legislations of the occupying countries. On Prussian controlled territory this was the Cooperative Societies Act of 1867. On the territory under Austrian rule cooperative activity was regulated since 1873 by a separate law concerning cooperatives. 2. The most difficult situation was in the part of the country occupied by Russia where there were no specific regulations regarding cooperatives, and where until 1905 the legislative	1. 1867 2. 1905 3. 1920

	agricultural, credit and banking, consumer, dairy and industrial cooperatives.		system was extremely restrictive with respect to independent initiatives. 3. The first cooperative law was enacted in 1920 and a State Cooperative Council formed that same year.	
Portugal	1. Cooperative activity of a rudimentary nature has been identified 2. The first formal cooperative was recognized 3. Organized efforts were undertaken to really expand the cooperative effort in an organized fashion, particularly with consumer cooperatives.	1. 1850s 2. 1871 3. 1920s	1. The first general law was introduced in 1867 and provided cooperatives a distinct legal status. 2. In 1888 cooperatives were subsumed under the new Commercial Code, and they were considered as a special mode of commercial company.	1. 1867 2. 1868
Romania	1. The first cooperative was a credit society. This was followed shortly by craftsmen's cooperatives and other credit societies. 2. A federation of Raiffeisen credit cooperatives was organized	1. 1852 2. 1887		
Russia	1. A group of "Decemberists," who had participated in a revolt against the Czar that year, were exiled and imprisoned in Chita, later Petrovsk, in Siberia. They turned to cooperation as a means of their own and their families' survival. In the process they developed rules of procedure that were very similar to those of Rochdale. 2. Mutual aid societies similar to cooperatives emerged in various places 3. Formally recognized cooperatives, consumer and agricultural credit, were established and emulated in different parts of the country	1. 1825 2. 1830s 3. 1860s		
Slovenia	1. The first cooperative in Slovenia, then part of the Austro-Hungarian Empire, was a credit cooperative established in Ljubljana	1. 1851		
Spain	1. While the first Spanish cooperative, an association of stock breeders, was established in 1838, it was worker productive and consumer rather than agricultural cooperatives that were to be the principal early cooperative structures in Spain. 2. Weavers' Association of Barcelona or the Paper Makers' Association of Bunol (province of Valencia)	1. 1838 2. 1840	1. The first cooperative law was a special section of the Commercial Code and was enacted in 1885 to deal with the emerging cooperatives. 2. The first general law on cooperatives was passed in 1931. However there were cooperatives since the mid 19th century. The legal establishment and operation was governed by the Associations law of 1887. They were excluded from the Code of Commerce of 1885 and from the Civil Code of 1889 because they lacked a profit motive.	1. 1885 2. 1931
Sweden	1. The first agricultural cooperative, a wholesale purchasing society, was established by farmers in 0rsundsbro; it was designed to provide a way of making group purchases of agricultural inputs and consumer goods.	1. 1850 2. 1852	1. Passage of the Freedom of Commerce Law was passed 2. Specific cooperative legislation established the legal position of cooperative societies in 1895.	1. 1864 2. 1895

	2. Associations of tailors and typographers were organized to work together as an alternative method of production to those of individual entrepreneurs; this presaged some 50 or so worker productive cooperatives that emerged in the next 25 years.			
Switzerland	1. Cheesemakers' societies in Bern and Fribourg 2. Bakers' cooperative in Geneva 3. A consumer cooperative 4. the first agricultural cooperative established at Schwanden 5. The establishment of the Swiss Popular Bank in Bern	1. 1816 2. 1837 3. 1850 4. 1860 5. 1869	1. Initial cooperative legislation had been enacted	1. End of the 19th century
United Kingdom	1. Organized cooperation is associated with the establishment in London of a mutual fire insurance society. 2. Organization of weavers into cooperatives and the establishment of collective mills in England and Scotland. 3. Emergence of joint building societies, cooperative-like organizations that attempted to deal with the appalling housing conditions brought on by rapid rural to urban migration. 4. Experiments with shops organized along cooperative lines 5. Organization\ of the first formal consumer cooperative in Brighton by Dr. William King, also known for his establishment of The Cooperator, the first cooperative newspaper. 6. The establishment of the Rochdale Society of Equitable Pioneers. It was regarded as inaugurating the modern cooperative movement, was preceded in the U.K. and elsewhere by almost 100 years of cooperative thinking and experimentation, of which the Rochdale society was a product.	1. 1750s 2. 1760s 3. 1770s 4. 1800s 5. 1820s 6. 1844	1. It was registered as Friendly Societies and as of 1852 Industrial and Provident Societies (Munker, 2016). Until 1852 cooperatives were registered as Friendly Societies. The Industrial and Provident Societies Act (IPSA) of 1852 became a law due to the request of cooperatives and for their benefits. The cooperatives gained the right to register under a specific legal form instead of registering as friendly societies (mutual insurance bodies). 2. The updates of IPSA in 1862 and 1867 gave a full legal basis for the operation of cooperatives and that legal framework gained strength in further IPSA's of 1876, 1893 and 1965 (Snaith, 2013).	1. 1852 2. 1862 & 1867

Source: Authors' elaboration, from Shaffer, (1999)

Shaffer (1999) (Shaffer, 1999) concentrated in his book (*Historical Dictionary of the Cooperative Movement*) the historiographical information about when the first cooperatives were established and when the first cooperative laws were introduced in each country. In the Table 2, we classify the bundle of European countries according to which event occurred first.

Table 2: First cooperatives and the first cooperative laws in Europe

Sequence of events	Countries
The first cooperative law was introduced before the establishment of the first cooperative.	Netherlands, The.
The first cooperative was established before the introduction of the first cooperative law	Austria, Belgium, Cyprus, Chech Rebublic, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Poland, Portugal, Spain, Sweden, Switzerland, United Kingdom
There are no information available about the first cooperative law	Bulgaria, Denmark, Finland, Latvia, Lithuania, Luxembourg, Norway, Romania, Russia, Slovenia,

Source: Authors' elaboration, from Shaffer, (1999)

The majority of the first cooperatives in each country were established before the introduction of the first cooperative laws. In the countries that cooperatives appeared before cooperative legislation, the need for a cooperative law became necessary. Until its introduction, cooperatives were experimenting in structures or forms, or they were registered as other forms of entities. The period mid-18th century to mid-19th century is characterized by extensive experimentation for the cooperative movement. That experimentation was not translated into legislation until 1852 in United Kingdom, with the Industrial and Provident Societies Act. That Act is considered as the first

cooperative legislation in the world; still, it did not provide limited liability[20] to cooperatives. Concisely, that Act brought the following modifications. Cooperative societies that previously were registered under the Friendly Societies Act, could sell to non-members and expand their activities. The trading societies of more than 25 members had previously been forced to operate as joint stock companies if they wanted to be legally protected for their activities. (Lambourne, 2008)

According to Shaffer (1999) extensive experimentation took place not only in the U.K., where by 1830 more than 300 cooperative societies had been officially recognized as Friendly Societies[21], but also in France, the USA and Germany. In the next section, we discuss how limited liability was introduced in cooperative law and which were incentives of the stakeholders to introduce limited liability in cooperative law.

4. Limited liability in modern cooperative laws: governance implication on cooperatives

From the first cooperative laws to the present, several legal modifications and ammendments have been made. The cooperative law in European countries is characterized by a high degree of variation. This variation is due to path-dependence of each country's legislation and merely due to the economic, social and political conditions. In this section, we search the cooperative law, towards limited liability, in

[20] "Limited liability could be secured at that time by Act of Parliament or by Royal Charter, but the price of the former varied from £1,000 upwards whilst the latter could rarely be obtained for less than £800 or £1,000 (Lambourne, 2008). According to THE NATIONAL ARCHIVES, (2020) £1,000 correspond to 80,186.10 (2017 prices). Such expenses addressed mostly to wealthy capitalist and not to working-men associations. As Ludlow said, "*the law is manifestly unfair: it shelters the rich, but it does not protect the poor*" (Ludlow, 1851)

[21] "*In 1793 the first Friendly Societies Act was passed. Its avowed object was to protect and encourage societies of good fellowship, formed for the purposes of the mutual relief and maintenance of the members in sickness, old age, and infirmity, and the relief of the widows and children of deceased members, and effecting those purposes by means of the voluntary subscriptions of the members. Later Acts have enlarged this definition, but the keynote of all legislation in this country with regard to such societies is struck by that Act*." (Institute and Faculty of Actuaries, 1889)

European countries in order to explicate the governance implications in cooperatives. (Fici, 2015) mentions that company law scholars identify *"five basic legal characteristics of the company which are legal personality, limited liability, transferable shares, delegated management under a board structure and investor ownerships"*. Such governance implications are the mechanisms of accountability, performance measuring, audit, participation in governance mechanisms and the processes of cooperative members' exit. We figure out the differences between the capitalist firms and cooperatives in terms of governance.

According to (Hansmann and Kraakman, 2000), two types of asset partitioning are found in cooperatives: priority with liquidation protection and member limited liability, which is found in a business corporation as well. The majority of cooperative laws provide these two types of asset partitioning (Table 3).

Table 3: Current cooperative law and liability provisions

	Current cooperative law		Liability provisions	
	Which is the mode of the modern cooperative law in each country? Is it a separate law or can be considered as a supplement of Commercial Code, Companies Act or other forms of legislature work?	**Single cooperative law or separate addings for each type of cooperative (rural, consumer, worker, credit, housing)?**	**Which are the provisions for liability in the cooperative law?**	**Does liability depend on factors such as type of cooperative, size, incorporation or past legislation work?**
Austria	The Cooperatives act of 2006, and the GenG in sec 1 par. 1 lists "credit, purchasing, retail, consumer, collecting, utilization, housing, and housing estate cooperatives." Special laws are for auditing (Austrian Law on Cooperative Auditing (Genossenschaftsrevisionsgesetz, GenRevG)), , merges (Law on the Merger of Cooperatives (Genossenschaftsverschmelzungsgesetz, GenVG)) and bankruptcies (Law on the Bankruptcy of Cooperatives (Genossenschaftsinsolvenzgesetz, GenIG)	Credit cooperatives follow the Austrian Federal Law on Banking (Bankwesengesetz, BWG), and housing cooperatives follow the provisions of the Austrian Non-profit Housing Act (Wohnungsgemeinnuetzigkeitsgesetz, WGG).	The Austrian Cooperative law (GenG) provides several forms of liability: unlimited liability, limited liability, a special case of liability. The case of unlimited liability was proposed to be abolished due to its practical irrelevance.	In sec 2, par. 3 GenG a special case of liability is provided to members who belong to certain economic and business cooperatives, whose activities are carried out exclusively for their members. Members are liable only for the amount of shares held by each member.
Belgium	In 1991, two forms of cooperatives were introduced: cooperative with limited liability and cooperatives with unlimited liability. In 1995 the Social Purpose Company was introduced (SPC).	No reference for separate additions in the cooperative law.	A cooperative with limited liability has to issue annual accounts that have to be controlled by an accredited auditor. Small cooperatives with unlimited liability may issue annual accounts in a reduced model, and do not have the obligation to file the annual accounts with the National Bank	The minimum fixed share of capital depends on the type of the cooperative. For the limited liability cooperative is set at €18,550, whereas for a social purpose cooperative at €6,150 .
Finland	The law on European cooperatives (Eurooppaosuuskuntalaki 19.10.2006/906) is another source of cooperative law in Finland. It has general law provisions for the cooperatives and implements the EC	The Cooperative Law (Osuuskuntalaki, 28.12.2001/1488 regulates all types of cooperatives in all sectors. The Law on Cooperative Banks and Other Credit Institutions in the Form of Cooperatives pertains to a	Cooperatives gain legal personality after the registration. Before the registration, those who act on behalf of the cooperative are jointly and severally liable. After the registration,	In case of bankruptcy or liquidation, the by-laws may stipulate an additional limited or unlimited member's liability per capita, share or otherwise according to Chapter 15, Sections 1 and 11, i.e. a liability to further calls or

	Council Regulation 1435/2003 on the Statute for a European Cooperative Society (SCE. The new law of as 2014 (Osuuskuntalaki 14.6.2013/ 421) expands the by-law autonomy. The new law is even further aligned on that of the Limited Liability Companies Act.	few special organizational features. There is a special law on housing stock companies, that is the reason of a low number of housing cooperatives.	the liability is transferred to the cooperative.	reserve liability (lisamaksuvelvollisuus €).
France	In 2001, Law 2001/624 of 17 July, created a new kind of cooperative: the collective interest cooperative company (SCIC). The law defines five types of membership: workers; users; volunteers; public bodies and investors. Three at least types of members are required for the establishment, and at least two must be of the first three	Cooperative have to comply with: special cooperative laws, the general cooperative law, and all the company law provisions that cooperative law does not contradict.	The cooperative members have the option to choose the form of any company. Nevertheless, cooperative laws refer actually only to two forms the "private company" (socie´te´ a` responsabilite´ limite´e) and the "public company" (socie´te´ anonyme). The nets assets of a dissolved cooperative must be assigned to another cooperative or a social enterprise (Pönkä, 2018).	Cooperatives as companies have has to register with the Registre du commerce et des socie´te´s. The cooperative's legal personality results from this registration
Germany	The German Cooperative Societies Act (Genossenschaftsgesetz–GenG) applies to all types of cooperatives. With all the amendments, the GenG is more oriented to the needs of large cooperatives. Its current version took force in 2006 together with the law on the application of the SCE Regulation in Germany (SCE-Anwendungsgesetz–SCEAG), introducing the European Cooperative Society (SCE) into German law.	The GenG is supplemented by provisions contained in the Commercial Code (Handelsgesetzbuch—HGB), the law on worker co-determination, conversion law, KonTraG, competition law, tax law, and for cooperative banks the Banking Act (Kreditwesengesetz—KWG).	With the amendments of 1973, cooperative societies have the option in their by-laws for member liability limited by shares. Other new provisions dealt with the option to make members participate in the losses of a cooperative society (§87a GenG) and to allow departing members to claim part of a special reserve fund (§73 par. 3 GenG). *"Members have the right to the dissolved cooperative's net assets unless otherwise provided in the by- laws"* (Pönkä, 2018)	For the sake of strengthening the creditworthiness of the cooperative, members have the option to agree to pledge their liability for the debts of the cooperative society in case it becomes bankrupt.
Ireland	The IPSA, 1893, remains the principal legislation for cooperatives. Cooperatives have the option to incorporate as industrial and provident society or may register under the Companies Acts 1963–2012. The IPSAs do not provide any recognition of the distinct characteristics of	Ireland is one of the few countries without a specific cooperative law.	Registration under the Acts renders a society a body corporate with limited liability. The word "limited" must be the last word in the name of every society registered under the act. There is no requirement to use the word "cooperative".	There is some prohibition, as a matter of policy but not statute, on the use of the word "cooperative" by groups that are incorporated but not registered under the IPSA

	cooperatives or any reference to cooperative principles			
Italy	A relatively recent event concerning Italian cooperative law is the reform of company law by Legislative Decree 17 January 2003, n. 6. The regulation of cooperatives in articles 2511 ff. CC has substantially changed, also due to the concomitant reform of the public company (societa` per azioni: SPA) and of the private company (societa` a responsabilita` limitata: SRL), whose regulations may additionally and residually apply to cooperatives (see infra, sec. 22.2).	The legal types provided for by the CC are: the simple partnership (societa` semplice); the general partnership (societa` in nome collettivo); the limited partnership (societa` in accomandita semplice); the public company (societa` per azioni); the private company (societa` a responsabilita` limitata); the limited public company (societa` in accomandita per azioni); and the cooperative (cooperativa). Incorporation of EU legal types (the European company and the European cooperative society) is of course possible as well.	After the registration the cooperative acquire legal personality, thereby the cooperative is liable for its obligations, while member liability is limited to their contributions. The personal creditors of the members may not levy execution on its share or stocks, as long as the society is in existence. The nets assets of a dissolved cooperative must be assigned to a federation of cooperatives (Pönkä, 2018).	
Netherlands	The primary source of legislation with regard to cooperatives is the Second Book of the Netherlands Civil Code on Legal Persons (NCC). However, there is no section in the code containing all the provisions with regard to cooperatives.	Apart from ‘cooperative’ insurance companies (or mutual companies), there are no specific regimes for different types of cooperatives	In the event of insolvency or liquidation of the cooperative, its members are jointly and severally liable towards the receiver of the insolvent or liquidated cooperative, to pay for the total deficit. This regime of statutory liability (wettelijke aansprakelijkheid) in case of liquidation is the default rule in art. 2:55 NCC, and may be subordinated in the articles of association and replaced by either restricted liability to pay for the deficit (restricted to a maximum amount to be paid by a member) (beperkte aansprakelijkheid) or a complete exclusion of liability of the members (uitgesloten aansprakelijkheid). The restriction or exclusion of membership liability has to appear in the name of the cooperative in order to rely upon it vis-a`-vis third parties (art. 2:56 NCC).	The configuration of the cooperative has become common practice for Netherlands agricultural cooperatives since the beginning of the 1970s, and has been explicitly accorded in a 1989 adjustment of art. 2:53 NCC. The advantage regarding liability was the creation of the benefit of limited liability and asset partitioning.

Norway and Scandinavian countries	The Norwegian Cooperative Societies Act, 29 June 2007, n. 81, came into force on 1 January 2008. From that point, it was no longer possible to establish cooperatives on the basis of unwritten law Most Swedish cooperatives are regulated by the Act on Economic Associations (lag 1987:667 om ekonomiska fo¨reningar). This is not solely a cooperatives act; economic associations with a cooperative character are the dominant form under the act. There is no separate act on cooperatives in Denmark. The Consolidated Act on Certain Commercial Undertakings § 4 contains a definition of cooperatives,12 but leaves almost all other relevant matters to by-laws and case-based law.	Act 81/2007 governs all types of cooperatives, except building and housing cooperatives and mutual insurance associations. Housing cooperatives are subject to specific legislation	According to the Norwegian Cooperative Societies Act, art. 1, par. 2, none of the members is personally liable for the debts of the enterprise, either in whole or for parts, which together comprise the total debts. *"Members in Sweden and Finland have the right to the dissolved cooperative's net assets unless otherwise provided in the by- laws"* (Pönkä, 2018)	As a general rule, the members are not personally liable for cooperative debts in any of the Scandinavian countries. However, cooperative entities may also be founded and registered as partnerships with member liability, i.e., under a different set of rules. In Denmark, it is also possible to register such entities as cooperatives
Poland	The system of legal regulations concerning exclusively cooperative organizations consists of: – Act of 16 September 1982 The Cooperative Law (CL); – Act of 22 July 2006 on the European Cooperative Society (ASCE).	Separate amendments are the following: – Act of 14 December 1995 on cooperative savings and credit unions (ACU); – Act of 7 December 2000 on the functioning of cooperative banks, their associations and associating banks (ACB); – Act of 15 December 2000 on housing cooperatives (AHC) – Act of 27 April 2006 on social cooperatives (ASC)15; and	The cooperative is liable for its obligations with the whole estate (art. 68 CL).). However, the liability of a member is limited to the amount of his declared shares (art. 19, par. 2, CL); his personal estate is not liable for the cooperative's obligations to creditors (par. 3).	European Cooperative Societies with their registered office in Poland are subject to the same registration procedure as public limited liability companies (art. 3, ASCE).
Portugal	The legislation regulating cooperatives in Portugal is found on two hierarchically connected levels: the	No reference for separate additions in the cooperative law.	As for member liability, art. 35 states that, "member liability is limited to the amount of share capital subscribed,	The complementary legislation applicable to each branch may autonomously stipulate the type of

	legal-constitutional level and ordinary law. The first concerns rules enshrined in the CPR, while the second involves those included in the CC decree-laws regulating the various cooperative branches, and the decree-law covering cooperative re´gies The relative autonomy of cooperative law does not preclude recourse to a particular area of commercial law to fill regulatory gaps found in it With regard to ordinary law regulating cooperatives, in order to correctly understand the system of sources of cooperative law, art. 9 of the CC must be mentioned, which states: "Any shortcomings in this Code that cannot be remedied by recourse to the complementary legislation applicable to the various branches of the cooperative sector may be made good through recourse to the Commercial Company Code, specifically to the precepts applicable to limited liability companies, to the extent that they do not disrespect cooperative principles."		without prejudice to whether the cooperative's statutes determine that member liability is unlimited or limited in relation to some and unlimited in relation to others." What is more, according to art. 14, par. 1, the very name of the cooperative shall make mention of "limited liability" or "unlimited liability" (or their respective abbreviations), as applicable.	liability admitted, as happens with mutual agricultural credit institutions, which, under the terms of art. 3 of the legal system regulating them, included in Decree-Law n. 24/91 of 11 January 1991, take the form of "limited liability cooperatives." However, one should stress that the option for unlimited liability is rarely, if ever, chosen in Portugal.
Russia	Cooperatives defined in Civil Code RF	Cooperatives are addressed by other acts, depending on the activity the founders propose to perform. A special act particularly addresses cooperation in agriculture (Zakon o sel'skokhozjajstvennoj kooperacii (Zakon) of December, 8th 1995, n. 193-FZ). Other acts set rules concerning cooperatives, aimed at developing certain business activities. These include: – the Zakon o potrebitel'skoj kooperacii (potrebitel'skikh	A productive cooperative under the Russian system is much more like a partnership than a corporation; hence, it may not issue share certificates. Consequently, members bear subsidiary liability for the debts of the productive cooperative. Art. 13 Zakon o proizvodvennikh kooperativakh describes the rules governing the liability of the cooperative and of its members for the obligations of the cooperative. Basically, the cooperative is responsible for its obligations and	All members of a consumer cooperative are jointly, but secondarily liable for the unpaid contributions of its members.

		obsˇcˇestvakh, ikh sojuzakh) v Rossijskoj Federacii of June, 19th 1992 N 3085-1, providing rules for consumer cooperatives (consumer societies and their unions) in the Russian Federation; – the Zakon o proizvodsvennykh kooperativakh of May, 8th 1996, N 41-FZ, regulating in detail the productive cooperative (proizvodstvennij kooperativ or artel'), i.e. a voluntary association of people, formed to conduct a joint economic activity or other activities, based on the work of each of its members and on their monetary contributions; – the Zakon o zˇilisˇcˇnykh nakopitel'nykh kooperativakh of 30 December 2004, N 215-FZ, and the Zˇilisˇcˇnij kodeks of January, 12th 2005, N 1-RG, both concerning the "housing savings cooperative"; – the Zakon o kreditnoj kooperacii of July, 18th 2009 N 190-FZ, regulating the cooperation in the banking sector.	these are to be satisfied with all its assets. Subsidiary liability of members is determined in the charter of the cooperative. No such liability shall arise until the cooperative's financial situation is sound.	
Spain	There is an infrequently applied national cooperative law (the Ley de Cooperativas or LC, Law 27/1999 of 16 July 1999 published in the Official Journal of the State—the Boletı ´n Oficial del Estado or BOE—of 17 July 19997) and 15 regional cooperative laws, although all of them possess a similar structure and there are few differences between them.	Specific national legislation has been enacted for particular classes of cooperatives: credit cooperatives (Law 13/1989 of 26 May 1989 and the regulations ratified by Royal Decree 84/1993 of 22 January 1993 and published in the BOE of 19.02.1993); insurance cooperatives (Revised Text of the Regulation and Supervision of Private Insurance Law 6/2004 of 29 October 2004, BOE 5.11.2004, and the	Liability for the cooperative's debts is limited to the member's capital contribution, but on leaving the cooperative and receiving reimbursement of the capital contribution, the member remains secondarily, but nonetheless personally liable for the cooperative's debts, up to the sum reimbursed, for five years (LC art. 15.4). The nets assets of a dissolved cooperative must	State law on cooperatives does not require a minimum share capital, but regional laws usually require 3,000 € (the same minimum that is required for a private limited company)

	The State cooperative law is applicable as a secondary law in the event of any legal omission in a regional law (CE art. 149.3).	regulations ratified by Royal Decree 2486/1998, of 20 November 1998, BOE 25.11.1998); and hauler cooperatives (Regulation of Overland Transportation Law 16/1987 of 30 July 1987, BOE 31.07.1987 and the regulations ratified by Royal Decree 1211/1990 of 28 September 1990, BOE 8.10.1990). Other lower-ranking rules and regulations govern specific aspects of other types of cooperatives, such as worker cooperatives, housing cooperatives or education cooperatives	be assigned to another cooperative or a social enterprise (Pönkä, 2018).	
United Kingdom	As a result, a group wishing to function as a cooperative in the UK is free to use any legal form it chooses. That includes registering under the Companies Act 2006 (CA 2006) or the Limited Liability Partnerships Act 2000 (LLPA 2000) or operating as a partnership under the PA 1890	The Industrial and Provident Societies Acts 1965 to 2003 (abbreviated to IPSAs 1965 to 2003 hereafter) provide a legal structure specifically designed for cooperatives. As a result, this chapter deals exclusively with the legislation governing industrial and provident societies as the UK cooperative law. Credit unions, a form of savings and loan cooperative, must register under the 1965 Act as adapted by the Credit Unions Act 1979 (CUA 1979) and are prohibited from otherwise registering under the IPSA's 1965–2003.	Once the society is registered, the FSA issues an acknowledgement of registration [sec. 2(3) IPSA 1965]. The society is then a corporate body, and its members enjoy limited liability for its business debts (sections 3 and 57 IPSA 1965). Any cooperative registering under the IPSA 1965 will confer limited liability on its members (sec. 3 IPSA 1965).	The Cooperatives UK Code for Worker Cooperatives acknowledges the use of a wide range of legal structures by worker cooperatives, which may use limited liability partnerships or companies instead of industrial and provident societies. Consumer cooperatives generally use the industrial and provident society structure.

Source: Authors' elaboration from (Cracogna, Fici and Henrÿ, 2013)

5. Concluding Remarks

Historically, the limited liability rule has been associated with the attempt by individuals to decouple their personal assets from the assets of the organization in which they have invested their capital. The article analyzed the milestones that led to the introduction of limited liability. Until the Industrial Revolution it was provided in different ways and under specific conditions. It was mainly applied in cases of maritime trade, such as with the 'invention' of the commenda in the Middle Ages. In this case the managers had unlimited potential debt, while the passive partners (investors) had only limited liability. In the 17th century, monarchs alone had the right to grant corporate charters in various sectors of the economy. Thus, the first forms of companies began to develop.

The beginning of the 19th century was a period of intense activity as regards the institutionalization of joint-stock companies and the relevant legislation. In practice, until the middle of the 19th century, the limited liability of shareholders was a de facto rather than a legal right. At the time of the institutionalization of limited liability, a wider ideological and political debate highlighted a highly charged social context in which there were both supporters and disputants.

In the highly charged social context, which was mostly spread over the geographical area of Europe, the cooperative ventures of that period could not be missing. Although the legal framework of that historical period did not provide for the establishment and operation of cooperative enterprises, there was intense experimentation and efforts. The rule of limited liability was provided to cooperatives after long deliberation. Focusing on the principle of limited liability and on the separate corporate personality, the domination of the corporate legal form was more the result of the increasing political power and the investors' needs than it was an economic imperative. This was due to the need to improve the living and working conditions of the lower and middle classes. Various social movements (Chartists , Factory reform movement , "Ten hours" movement) acted as leverage for the institutionalization of limited liability because it would enable the middle class to organize themselves into associations without the risk of losing their personal property. Co-operative enterprises expanded in the European area in an uneven way. However, what is perceived is that in most countries cooperative

laws are subsequent to cooperative enterprises. In many countries, the institution of the co-operative enterprise was incorporated into commercial law or company law.

Limited liability in the contemporary cooperative law can be considered as a financial right, since it provides a shield for the cooperative members against the claims of the cooperative's creditors (Pönkä, 2018). The principal trend in cooperative law is members' limited liability regarding the undertakings of the cooperative to capital contributions. Hence, limited liability is a core feature of cooperative membership. Cooperatives may be formed as a limited liability company but structure themselves internally to operate on a cooperative basis. It is worth stressing that the members of cooperative enterprises, in most cooperative laws, are provided the protection of limited liability in the same way as the shareholders of a conventional enterprise. Thus, cooperative law seems that operates similarly to company law.

Of course, this alignment of cooperative enterprises with limited liability shareholder corporations violates the cooperative law but it also negatively affects the identity of cooperatives. Regarding the management of cooperatives, symbolic contributions of capital, combined with limited liability, lead to reduced incentives to participate in the management and control mechanisms of the cooperative. Members of cooperatives have two types of relationship with the cooperative: the organisational relationship which derives from membership, and the transactional relationship which derives from being a producer, worker or consumer. The two relationships are linked because they coexist in the same legal entity, are difficult to distinguish but never overlap.

Cooperatives which have international economic activity may adopt the methods of capitalist limited liability shareholder corporations to cope with the severe competition, even if continue to uphold the cooperative values and principles in their production plants. In the case of small cooperative enterprises or in special cases of cooperatives (social inclusion, non-profit), limited liability may not be provided for or unlimited liability for members may be provided by law. The establishment and governance of cooperative enterprises with unlimited liability is easier. No complex legal procedures are required for their establishment, however, the price for this flexibility is joint and several liability on the part of the members of the cooperative enterprise.

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