CO-OPERATIVES UK

THINK PIECE 6

Co-op Capitalism

A new economic model from the carnage of the old

Noreena Hertz

"The conditions are in place for a markedly different economic model to emerge from the carnage currently being wrought."

A crisis of capitalism

There are some who say that this current global financial recession – this recession stroke depression that is being felt in London and New York, in Rome and Madrid, Berlin and Athens – will not impact upon the nature of capitalism. That we have been here before, faced and navigated our way through economic downturns, and that capitalism emerged unscathed. And that five years from now capitalism will basically look like it did before the economic crisis began.

I understand this caution about predicting anything new, a reluctance to call the past era of capitalism's demise. But I do not agree with it. I believe the conditions *are* in place for a markedly different economic model to emerge from the carnage currently being wrought.

For I do not believe that what we are seeing today is just a variant of the Russian crisis, the dot com crisis, the Japanese crisis – crises that happened and had consequences but did not impact upon ideology or the fundamental trajectory of political and economic policy.

This first full crisis of globalisation, this first collective lose-lose, this first blue and white and multicolour recession is *so* profound, is already negatively affecting so many people all over the world, and raises so many fundamental questions about the ideological doctrine of the past 30 years, that I believe it has a good chance of catalysing a radical change of capitalism, catalysing a radical change of the relationships between government, business, and society. Which will have massive implications for nations, supranational institutions, corporations and individuals.

Gucci Capitalism

I have named the past era of capitalism, Gucci Capitalism. Gucci Capitalism was an ideology born in the mid-1980s, the love child of Ronald Reagan and Margaret Thatcher with Milton Friedman its fairy godfather and Bernard Madoff its poster boy.

An era whose fundamental assumptions were markets should be left to self regulate, governments should be laisse faire, and human beings are nothing more than rational utility maximisers.

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In the era of Gucci Capitalism shareholders were king, or rather those with significant enough holdings to have some clout. Society, employees, customers, those impacted by businesses' decisions – decidedly relegated to second place.

It was a period that promoted an almost religious belief in the market's ability to not only be a distributive mechanism but a deliverer of equity, justice and even freedom, despite the mounting evidence that in reality that wasn't actually happening and that in the very countries that adopted Gucci Capitalism most wholeheartedly, a gaping chasm was emerging between the economy and social justice.

Under Gucci Capitalism, British bankers took home salaries as much as 100 times an ordinary worker. In the US Hedge Fund mangers could earn over a billion dollars. In Italy gaps between managers and workers similarly grew. While in both countries social mobility did not improve in 30 years.

It was a period in which Gordon Gekko's "Greed is good" mantra from the late 80's movie "Wall Street" remained the motto for the next two decades. Risk was promoted by politicians and lauded by society, but responsibility was not accordingly aligned. An era in which success increasingly became something that was only measurable with money – well-being, the environment, happiness, health and community didn't count – and in which money became, in the financial sector especially, increasingly detached from physical assets or realisable potential.

This was an era in which it became more shameful not to have the latest pair of Nike sneakers or Gucci Handbag than to be in debt. In the UK, two thirds of children at the age of just seven pester their parents for the right pair of trainers. As Robert, age 7, says: "if you were like going out with your mates you'd probably wear your cool stuff, because you don't want your mates to say they're rubbish." The average household debt in the UK, excluding mortgages, is £7,984. In the United States the average number of credit cards per person is nine.

"No wonder with this the driving force in society, it wasn't a matter of if, it was a matter of when, the whole pack of cards would come tumbling down."

No wonder in an era with this as its underlying ethos, regulators were too weak, bankers too powerful, checks and balances were not in place. No wonder in this era, the narrative that to be successful one had to have a bigger house, the newest line of the most fashionable brand, was actively fed by bankers, mortgage brokers, credit card companies and advertisers alike.

And no wonder with this the driving force in society, it wasn't a matter of *if*, it was a matter of *when*, the whole pack of cards would come tumbling down.

Once it did the hollowness of its firmaments, its lack of foundations, were revealed for us all to see. Gucci Capitalism was as lacking in real values, as focused on meaningless consumption, as short-termist and as superficial as its name suggests.

The end of Gucci Capitalism

But attacks and bouts of self-awareness can be short lived and paradigms are notoriously hard to shift. Are the conditions in place for a new form of capitalism, a form that I have named Co-op Capitalism with values of co-operation, collaboration, coordination, community and communication at its heart, to emerge in its stead? I believe they are.

There are three key reasons why I believe that the end of Gucci Capitalism is looming.

The crisis has prompted new thinking

Whilst for a period of 30 odd years, neo-liberal economics and monetarist economic policy were seen as the only credible ways of thinking about the economy, the financial crisis has prompted a whole rush of new thinking about how an economy should be structured, organised and valued and how the state, market and society should best interact. Whilst the post crisis downturn has prompted a rash of questioning about fundamental values, purpose and policy as well as of course a debate about who the burden of austerity programs and cuts should fall upon.

Whether it's been the re-emergence of Keynes as a serious thinker - or new thinking around measuring national economic success or new thinking on equality and redistribution of wealth, whether the Robin Hood Tax or the UK's High Pay Commission, or the rise of the Occupy Movement – what we are seeing globally is an explosion in new thinking on economics, a greater emphasis amongst these thinkers on economic, environmental and social justice and more critical analysis of the previous system than we have seen for decades.

Intervention is back in vogue

The second reason why the conditions are ripe for a new model of economics to emerge is because the market is no longer held in the esteem it once was and intervention is back in vogue.

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This is not to say that there has been a jettisoning of capitalism per se. But laissez faire is significantly less in favour than it once was. In a recent survey conducted in the United States, the most traditionally hostile environment to government intervention, over half of those surveyed now say that the free market should not be allowed to function independently. In Italy, as across Europe, confidence in the free market has fallen by 50% since 2008. This is a seismic shift that began at the time of the crisis and has persisted pretty much everywhere in the world.

Banks are the first to see the impact of this, with interventions being enshrined in law in the United States, the United Kingdom, the European Union and elsewhere on issues ranging from capital requirements, derivative products, speculative activities and even bonuses. In Ireland the government can now remove a bank officer or director immediately without giving any notice.

Although the types of intervention are far from comprehensive, and banks are lobbying hard to weaken their impact, what is clear is that governments are today significantly less restricted than they have been when it comes to reigning in the excesses of corporations.

This should send alarm bells to any company or any industry that could be perceived to be acting against the public good. Not just banks. Obvious industries to be targeted next are the fast food industry and big pharma.

With health costs soaring and governments needing to rein in expenditure, we predict more pressure on fast food companies to take responsibility for the obesity crisis and on pharmaceutical companies to deliver affordable medicines. Along the lines of what we've just seen in Denmark, where in October of this year a junk food tax was imposed on food manufacturers whose foods contain more than 2.3% saturated fat....

"Under Gucci Capitalism, governments mandating corporations to do things for a greater public good was rare. Now this looks likely to change."

Under Gucci Capitalism, governments mandating corporations to do things for a greater public good was rare. Now, given an ever louder braying public that is calling for greater oversight, this looks likely to change. And this is not a matter of Left or Right, we're seeing Centre Right governments instituting such moves too.

Other countries with other mindsets are in the ascendency

The third reason for why we are heading towards a new era of capitalism is because a new configuration of geopolitical forces is emerging as a result of the rise of China, Brazil and India and the emergence of the G20. This a new credible and cohesive body that is powerful, demands to be heard, and has limited if any allegiance at all to Gucci Capitalism. Indeed the very success of these countries may well be predicated on their having followed a very different economic model to the Gucci one with very different relationships of state, market, individual and society.

Brazil's emphasis on addressing inequality, China's on retaining a powerful state are hardly policies that fit with Gucci Capitalism. In the four BRIC countries (Brazil, Russia, India and China), fifteen per cent of their population are member-owners of co-operative enterprises, compared to less than four per cent who are shareholders. The belief that many in the North had until very recently that their way was the best way, has been shaken quite profoundly by recent events which have exposed the limitations of the Gucci model.

Co-op Capitalism

I have laid out three conditions that are in place that suggest a looming ideological shift: new thinking prompted by financial crisis; intervention back in vogue; other countries in their ascendancy. But what shape might this new form of capitalism – Co-op Capitalism - take? What are it's defining characteristics?

Let me take you through just four ways in which Co-op Capitalism is distinctly different to Gucci Capitalism.

Community is valuable of itself

Whereas Gucci Capitalism values the individual above all else, Co-op Capitalism sees value in the collective. This means outcomes such as inequality or policies such as the selling off of public space such as forests to private corporations – something the UK conservative government has recently threatened to do as way to raise moneys for public coffers – are seen as corrosive and detrimental.

“Co-op Capitalism believes that public goods must be managed in ways to ensure fair access and use by all.”

But not just because of their impact on individuals but because they also harm social cohesion and the collective, which itself is perceived as valuable. Co-op Capitalism believes that public goods must be managed in ways to ensure fair access and use by all.

How we interact matters

Gucci Capitalism is concerned with the outcome of transactions but neither their nature not the process. Co-op Capitalism, on the other hand, recognises that the quality of relationships – how an exchange takes place, the relative power of each side – also matters of itself and because this will impact or distort the outcome.

It understands that how a company relates to its employees, whether it supports them in times of trouble, whether it invests in a long term relationship with them, whether it provides training, will impact how loyal the employees are, how hard they work, levels of turnover and ultimately the performance of the company as a whole. Co-op Capitalism values processes not just outcomes.

The network has worth

Whereas Gucci Capitalism focuses on individuals – individual success, individual triumph – and does not explicitly value the network, Co-op Capitalism explicitly sees the worth in connections with one another.

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Connections often allow us to achieve things that we either could not achieve by ourselves, or could only achieve with great difficulty.

Recognising that connections have both an economic and a social value means that enabling connectivity becomes of itself a social, political and economic goal.

Collaboration can trump competition

For Gucci Capitalists competition is the only modus operandi. But Co-op Capitalism recognises there are times that collaboration is better. Take the practices of giving staff commissions on sales, when sales people are rewarded solely for their own contribution rather then the success so the entire organisation or group, ideas and information tend to be hoarded.

Co-op Capitalism explicitly values collaboration, explicitly sees the value in sharing ideas, puling together in common cause and working with shared purpose.

These four characteristics are just some of the defining traits of this alternative model of capitalism; a model which of course, is in its very early days, and which we are witnessing evolve in real time. These are not the only traits of course, but I hope they give a sense at least of how substantively this reformed version of capitalism may look like.

Evolution and co-operation

And already we can see that this co-operative model may well resonate much closer with our true natures than Gucci Capitalism ever did. The assumption of Gucci Capitalism that we, as individuals are selfish, super individualistic beings who only care about maximising our wealth, salaries, and resources, is proving to be more an expediency and a failing of mainstream economists than an accurate depiction of mankind.

While it is true that over the past two decades there has been a perceptible pressure to keep up with the Jones', and a growing obsession with material worth, this may be more a case of nurture than nature. Anthropological studies show that societies that have less, share more. Recent work in behavioural economics has confirmed that benevolence is not alien to human nature. In evolutionary biology we see that learning from others – sharing information with others – is the key to human success. Whilst recent findings in neuroscience alert us to the fact that we are most contented when helping others.

"Anthropological studies show that societies that have less, share more."

So whilst it may have been true that under Gucci Capitalism there was a tendency to bowl alone, it might just not be the case that we are essentially individualistic.

In fact much points to our predilection to do the opposite – to pull together – especially perhaps now in these difficult times, as we saw in similar difficult times in the past such as the Great Depression and the Blitz.

Whilst it is still early days to show mass manifestation of this, there are a few things we can point to: the meteoric rise of the global "free cycle" movement whose members give stuff away for free rather than sell their goods on ebay; the rise of sharing websites such as Zipcar which allows people to share cars; the rise of Couchsurfing dot com which helps people find someone who will put them up for the night abroad – 3 million people visited this site last year; the rise of collective purchasing co-operatives in the USA, where you can buy food, energy or phone services more cheaply; the rise in Japan of the notion of job sharing – where rather than sacking swathes of employees, employees are choosing to work less hours so as to soften the collective blow, a principle now being copied in parts of Europe… All these are signs of a new form of capitalism where collaboration, community and the collective count.

Co-operative business – the facts

For any sceptics who might argue that collaboration will never be able to deliver sufficient returns, that Co-op Capitalism can never trump Gucci, let me lay out some facts.

In business the co-operative model clearly does work. Italian co-operatives are some of the most successful businesses in Europe. The Desjardin Group, the financial co-operative in Quebec, is that region's leading employer. In Switzerland, co-operatives are the largest private employer. In the UK, the co-operative sector has a turnover of £33.2 billion, with 12.8 million members. The co-operative model of organisation has already huge impact on employment and economic success not only of course in the Global North but also in the South too. In Africa, one in every thirteen people is involved in a co-operative enterprise, providing vital support whether in terms of marketing for farmers or finance, through co-operative credit unions, for families.

And importantly in a time of crisis co-operatives seem to be able to endure and survive for longer than other companies. A recent Canadian government study concluded that co-operative businesses tend to last approximately two times longer than other businesses in the private sector. This is because when companies serve members as opposed to profit, are democratically run and collaborative, this tends to pay off. Community as we see in the case of co-operative businesses – but also in the wider case of a co-operative economic system – clearly does matter.

> **“In business the co-operative model clearly does work.”**

Indeed whilst the financial and ensuing economic crisis has had negative impacts on the majority of enterprises, co-operative enterprises around the world are showing resilience to the crisis.

Financial co-operatives remain financially sound; consumer co-operatives are reporting increased turnover; worker co-operatives are seeing growth as people choose the co-operative form of enterprise to respond to new economic realities.

Trust helps to keep your customer base – 79% of shoppers in the UK believe co-operative enterprises will act fairly, compared to only 18% for business at large. And although of course times currently are tough for everyone, and every organisation is having to adapt, when one looks at the overall picture it is clear that co-operatives are faring better than other forms of enterprise. Which raises of course the question: given the relative success of co-operative enterprises, should we see co-operative models spreading into other spheres? Such as taking over the running of public utilities like we see in other regions of the world? This is something to bear in mind as conversations about privatisation of state assets become more common.

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And then of course there's the rise and increased success of collaborative, co-operative sharing models on the internet which should not be seen as something apart from other sectors, but perhaps as a window into new models of ownership and participation that might now work elsewhere.

Whether it's the iPhone and Facebook's encouragement of programmers to create applications for them, or the rise of social networking sites such as Facebook and LinkedIn, or the success of the open source movement with its poster boy stories – Linux and Apache, or the "open movement" more generally, encompassing "open design" where, in Helsinki, for example, there has been a revolution in the way old people's homes are being designed with the elderly being part of the design process or open creation such as Wikipedia which now delivers more accurate information than Encyclopaedia Britannica.

While the models that underpin business and accounting regulation worldwide tend to recognise and reward only the shareholder PLC, what we are seeing is the flourishing of diversity. What we are seeing is collaboration as an increasingly exciting, dynamic, and successful model of enterprise.

Co-op Capitalism is another way of saying "Yes we can". With the emphasis on the *we* – a system with the potential to be more inclusive, more equitable and more participatory than what guided the world in the recent past.

Are we definitely heading there? As I said earlier these are the earliest days of change and it is impossible to crystal ball gaze with certainty. Although the signs are there of a new era of capitalism in which co-operation, sharing and collective interest rule, the future is never certain. Especially at a time such as this.

A critical juncture

Indeed I believe that where we are now is at a most critical juncture – a dangerous one even, when leaders in business, in government, in society have a choice to make.

Either to embrace the co-operative agenda, with its calls to act collectively nationally and globally to protect our environment and our citizens and our rights and our hopes.

This agenda that has a renewed idea of government as an institution whose primary allegiance is to humanity as a whole, however rich or able. A renewed idea of business as a force for innovation and improving the state of the world – that needs reining in where the pursuit of profits conflict with society's interests, and helping out when the short term finances for innovating for our future are not there. And a renewed concept of success that makes the air we breathe, the health of our children, the safety of our communities, the fulfilment of our employees be what matters, not just the money in our wallets or the balance of payments of our economy.

To build upon the co-operative values deep inside of us that have laid dormant for a while. And widen the activities of co-operative models within.

Or instead, to chose a very different path. The path of naked self interest, the path of dog eat dog, epitomised by the derivative traders in the financial sector at a local level, or by the lack of progress on climate change at an international level, or of course by the "me first", "selfish" worrying increasingly prevalent amongst many European leaders as the crisis deepens. A path that values particular groups more than others, ignores the inescapable truth that in an interconnected world we triumph or fail together, and treads a thin line, as history should remind us, between economic nationalism and xenophobia, between self interest and collective downfall. A path that leads us straight back to three years ago to when the financial crisis began.

This is a critical juncture, a dangerous one, because the stakes are so high and there's all to fight for.

> **"My hope is that our leaders have sufficient vision, and we the public have sufficient ambition, to turn the wreckage of the economic crisis, that still surrounds us, into an opportunity that we will all gain from."**

My hope is that our leaders have sufficient vision, and we the public have sufficient ambition, to turn the wreckage of the economic crisis, that still surrounds us, into an opportunity that we will all gain from. An opportunity to join forces to push for a more supervised, more equitable, economic system. One that tends to fair rules, social justice and sustainability and reconnects the economy with what is right and just and meaningful. An opportunity to pull together to co-create a better future, and really mean it when we say yes "we" can, and put the emphasis on the "we" when that is what we say.

An opportunity to widen ownership and share prosperity in a more inclusive way. To choose the open source version of capitalism, the multiplayer version in which one only wins when *all* parties work together in pursuit of a common good. To play our part not only in our collective economic recovery but also in our collective economic redesign. That we grab with both hands the opportunity to shop, not at Gucci... but at the Co-op.

ABOUT THE AUTHOR

Many have described Professor Hertz as a visionary and she is one of the most influential economists on the international stage. Her work is considered to provide a much needed blueprint for rethinking economics and corporate strategy. For more than two decades Noreena Hertz's economic predictions have been accurate and ahead of the curve. In her number one best-selling book "The Silent Takeover", Hertz predicted that unregulated markets and massive financial institutions would have serious global consequences whilst her 2005 best-seller, "IOU: The Debt Threat", predicted the 2008 financial crisis. Her books have been translated into 17 languages.

Co-operatives UK

Co-operatives UK works to promote, develop and unite co-operative enterprises. It has a unique role as a trade association for co-operatives and its campaigns for co-operation, such as Co-operatives Fortnight, bring together all those with a passion and interest in co-operative action.

Any organisation supportive of co-operation and mutuality can join and there are many opportunities online for individuals to connect to the latest co-operative news, innovations and campaigns. All members benefit from specialist services and the chance to network with other co-operatives.

This report represents the views of the author and should not be taken as a statement of policy by Co-operatives UK or any of it's members.

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2012 International Year of Co-operatives

In *Co-op Capitalism* Professor Noreena Hertz, one of the most influential economists on the international stage, explains why we are at a critical juncture, where the Gucci Capitalism based on self-interest and profit maximisation of the last 30 years looks set to be replaced by an open source, *Co-op Capitalism* based on collaborative and shared enterprise.

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