

A dog helps dog world

Ed Mayo



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A Bad Dream

In the crisis events of the credit crunch, the rapid decisions needed to subsidise the loss-makers, print money and pour funds into the interbank markets were successful in the sense of staving off a depression. It is not fashionable to praise this Government, but it is important to recognise that things could have got, and may still get, a lot worse.

At the time, both crisis and response left most ordinary people feeling like passive observers. Now, as the implications for national debt, public services, the retirement age and pensions becomes clear, we feel more like victims. With private gain and public pain, we have been mugged by the capital markets.

It is as if we are now shaking ourselves out of a bad dream - after years of being told to let markets rip and to set ourselves against others. As it fades away, we wonder that we were ever taken in. Was a world of bonuses larger than telephone numbers, a world of the 2% and the 98%, a world of fabulous inequality really what was needed? As Lily Tomlin once said that "the trouble with the rat race is that even if you win, you're still a rat."

Extending the animal metaphor, Woody Allen once decried the culture of relentless competition as not just 'dog eat dog', but worse too - 'dog doesn't return dog's answerphone message'.

I will stay with this metaphor for a bit, because the idea that dogs just want to eat dogs in the first place is poor natural science.

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Signs of co-operation

If anything dogs, in common with other social carnivores, such as lions and wolves, and eusocial insects (bees, ants, termites)¹ will co-operate with their own kind. In direct contrast to Hobbes' concept of nature and human nature being warring and brutal, modern evolutionary biology points to the extent which we are hard-wired to co-operate as well as compete, to have empathy as well as self-interest.

When we look at how Britain is responding to the credit crunch, similarly we can see signs of more co-operation and not less.

First, companies in the UK have not sacked staff or cut wages to the degree that market fundamentalists would predict. That may mean we have a jobless recovery, but it cushions the economic cycle.

Second, while unemployment is rising, what new research is beginning to show is that those who can move on from the genuine shock of losing your job are those that have the resilience of mindset and relationships to bounce back.

This is in line with health research which shows that survival rates after having a heart attack are three times as high for people with good social support – and you are four times less likely to catch a cold if you have strong social ties. In bad times, co-operation is good for your recovery, just as it is good for your health.

Third, consumer collaboration is on the rise. My analysis of consumer confidence is that we are significantly more risk averse in the current climate (especially in relation to big ticket expenditure, like homes, cars, white goods and financial products) and that mitigate some of this risk by sharing more of our experience as customers with others and looking to them for advice.

When consumers have a particularly poor experience with a company, only eight per cent of people will usually keep that to themselves. The proportion of people that speak out critically to people they know, to punish companies that they distrust, has increased to 82 per cent today, up significantly from 68 per cent just before the credit crunch.²

¹ See E.O. Wilson and B. Hölldobler, *The Superorganism: The Beauty, Elegance, and Strangeness of Insect Societies*, 2009, W.W. Norton.

² Consumer Focus, *Streetwise*, 2009

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The traditional stiff upper lip is trembling but it is not just when things go wrong – a similar percentage will tell others when they have a particularly good experience with a company.

Many of the recent advances in iterative games theory and experimental psychology stress that human behaviour is naturally co-operative in this way, but that our reciprocity is conditional. If people rip us off, we like to punish them. Indeed, as Elinor Ostrom, the wonderful co-operative theorist who recently won the Nobel Prize for Economics, would stress, punishment (including gossip and damage to people's reputation) is a vital part of stabilising systems of trust and co-operation.³

In the post credit crunch economy, market research suggests, trust has moved from a framework of 'deference' to one of 'reference', where we are more likely to trust people like ourselves - other consumers, ratings online, what we hear on the bus - than those in authority.

And this is not Dad's Army economics. These consumer conversations do have a magnifying force. People may be even less likely to shop where a friend has had a bad experience than if it had happened directly to them – because bad stories get 'talked up' in the retelling. From research in the USA, we can see that each person who has a bad experience tells an average of four other people. One in two shoppers chose not to visit a particular store because they have heard about someone else's let-down.

Those are three trends.

I could also have pointed to the success of the co-operative and mutual business models. Our figures, in the flagship Co-operative Review 2009, show 4,820 co-operative businesses in the UK with a turnover of 28.9 billion and 11.3 million members. Around the world, there has been a rush to trust in terms of savers switching to financial co-operatives and the UK is no exception. The co-operative Rabobank is the only bank in the world with triple A rated status from both Moody's and Standard & Poor's, while in the UK, the Co-operative Bank, newly merged with the Britannia Building Society, is flying high. Employee-owned companies are currently outperforming the FTSE 100 by over twenty percent.⁴ There is an increasing recognition of and interest in alternative models of business and, with the track record and heritage they have, the relevance of what has proved to be the 'co-operative advantage'.

³ See, for example, E. Ostrom, Understanding Institutional Diversity, Princeton Paperbacks, 2005

⁴ Field, Fisher Waterhouse, Employee Ownership Index, October 2009

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But co-operative businesses, from worker co-operatives to the big agricultural associations, are not immune to recession and some of the responses in regulation to the credit crunch make life more and not less difficult for them. It is bizarre for example that the assets of even tiny building societies are being raided by the regulator to prop up a compensation scheme to cover losses incurred by the risk-frenzied big banks and the demutualised societies they swallowed up.

Economic alternatives

To get things so back to front is symptomatic of a weakness that goes deeper in our economic culture than the periodic malpractice of bankers. I see this at root as a lack of pluralism and an intolerance of economic dissent.

There was never any shortage of critique: of the systemic risks of sub-prime lending; the reality of asset-price inflation in what we were told was an era of stable prices; of the way in which houses earned more than people; of rising levels of debt; of the drip-feed of financial scandals, including the still little-discussed way in which the financial industry earned more in charges than consumers received in returns on pension policies...I think of the work of Peter Warburton, Ann Pettifor, the work of my colleagues at the New Economics Foundation and National Consumer Council, Mick McAteer at Which and the Financial Inclusion Centre – but these were voices rarely heard. What passes for economic debate in the UK is in truth a shallow monoculture.

Even today, with honourable exceptions, there is astonishingly little real depth of debate about what financial services are for and how markets should operate – as yet no 'campaign for real banking'.

Bigger business

An example of missing debate is on one trend emerging across markets, which is that of bigger business.

We should expect a degree of market consolidation as the economy moves through recession at both national and international levels. But the combined impact of the credit crunch and recession, with business failures and a flight to stronger capital base, makes it look more than ever as if big is beautiful.

Mergers are on the rise again, with T-Mobile and Orange and the Kraft bid for Cadbury, and business leaders that have the capital all now have an eagle eye for acquiring rivals and innovators, from publishing to pharmaceuticals and airlines.

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But we already have more and more markets dominated by a handful of companies. Six companies in the energy market, five in mortgages, four in mobile phones, four in retail, two in payment systems, one in online advertising search ... in each case, a handful of companies control around seventy per cent or more of UK sales.

These are not the national champions of old, either. Increasingly, they are the same companies that dominate other markets internationally as well.

We have as a result something of an 'hourglass economy' which often turns on a small number of commercial buyers, the global giants, in the middle sourcing from millions of workers and small businesses and selling to millions of consumers. Consumers still want choice, but it should be of concern that the variations we can call on, of coffee, phone, food or finance, are supplied by a smaller number of companies.

It is easy in times of crisis for decision-makers to cling to the comfort of monopolies. This Government deserves credit for improving consumer protection over the last decade. But when it comes to the structure of markets, politicians have sided with big business rather than consumers.

A new anti-trust activism

Companies, particularly in network industries such as communications and energy, say that they need scale and market power because of their high level of investment. In financial services, they need it to meet the step up in regulatory requirements on capital adequacy. With public investment under pressure, government would like to encourage companies to invest. But big companies should always have big investment programmes. It is how they secure their future and they shouldn't get special deals as thanks for acting in their own self interest.

I don't believe in the conspiracy theory that says that big corporations rule the world. Big businesses can serve consumers, but if they are allowed too much control, then markets very quickly become fiefdoms and it can take years to put them right.

The economy is likely to see a wave of mergers before the political parties fight it out at election time. Whoever wins, we need a new anti-trust activism, combined with careful and thought-through limits to consolidation.

The competition authorities should investigate markets such as payment systems, the control of online advertising and mortgages where there are legitimate questions around market dominance.

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In some cases, we need good old-fashioned structural remedies to break up the big beasts where experience has shown that they can't be trusted to behave responsibly.

Energy is a prime case. The energy market is characterised by vertical integration and market consolidation at national (and extraordinary concentration at regional levels), the worst customer service across the economy and the loss of a 'competitive fringe' of smaller companies.

The Government is now talking about how to end up with more banks rather than less, but the risk is that these represent more of the same and, over time, will simply consolidate again. What we need is different banks. I accept that it is a slower return to the public purse, but, given the likely discounts on offer in current market conditions, the taxpayer could get a better deal through mutualisation of banks under current public ownership. Rather than look to private equity and overseas banks, the Government should test the ground for a mutual model, with current customers able to sign up as the first members. The Post Office could also, if freed from its current joint venture with the Bank of Ireland, develop a new model of banking. It would not be a bank itself, but would use its trusted brand and mass customer base to act as an 'aggregator' of banking services – like a wholesale consumer co-operative - using its potential buying power to design and tender for affordable and reliable banking products that serve the market better.

We also need a new structure of banking, as much as we also need more trustworthy banks. John Kay, Paul Volker, Mervyn King are among those that argue for separating out narrow, everyday services from 'broad', investment banking – a model of vertical integration that could be achieved through legislation. There is also a growing coalition of voices calling for a 'community reinvestment' model, with a social responsibility license to operate for banks and an expanded role for credit unions and community banks.

The case for a co-operative economy

But we have to go far further still, if we are to develop a more gentle and a more innovative economy that delivers wellbeing, security and stability.

Looking forward, the central economic challenges are all ones that require co-operation.

1. To reduce the stresses of inequality, we need to rebuild a culture of empathy and reassert the primacy of social norms of reciprocity.

This is true for the challenge of global poverty as much as it is domestic inequality. The reason that we have high levels of inequality is because we have a culture that tolerates it.

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It is a culture that is paraded to children from the earliest years, for example, through commercial marketing. As Agnes Nairn and I show in our book, *Consumer Kids*, children spend over twice as much time on screen as they do in the classroom and what is on offer, highly commercialised, promotes values of competitive materialism that run exactly counter to what parents would want for their children's true wellbeing.⁵

When your status is about where you are compared to others and your contentment lies in material possessions, there is never enough. In Silicon Valley, for example, millionaires report that they don't feel rich – as one said "a few million doesn't go as far as it used to" and another "here, the top one per cent chases the top one tenth of one per cent and the top one-tenth of one per cent chases the top one-hundredth of one per cent."

In this context, to rebuild a culture of fairness, we need in particular to rethink how we value leadership. Control theory in the natural sciences show that swarms of bees, schools of fish and flocks of birds are held together by short-range feedback loops. They are self-organising, they don't need leaders. Our culture, instead, is one of a ceaseless diet of uncritical praise of today's 'John Wayne' model of heroic businessmen, lone entrepreneurs and indeed social entrepreneurs.

And yet, as Herbert Simon, another Nobel Prize winning economist estimated, around 80% of the wealth generated today stems from the knowledge, infrastructure and assets that we inherit from previous eras. Today's leaders discount the shoulders they stand on and a good, perhaps majority, part of what they earn could be argued to be good old-fashioned unearned income.

2. To deal with climate change, we need co-operation. An approach of co-operation for Copenhagen, recognising the imperative of single planet living, is what Alan Knight and I have described, as "I will if you will". We can take action at different levels if we are not acting alone. In turn, our actions create a mandate for national and global institutions to accelerate what they can do to create a global framework for limiting the rise in temperature to something short of catastrophic.

⁵ Ed Mayo and Agnes Nairn, *Consumer Kids*, Constable Robinson, 2009

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Some of the most positive international models of dealing with wicked issues of sustainability, from the Forest Stewardship Council to the Fairtrade Foundation, are essentially organised as new models of multi-stakeholder co-operation. As games theory suggests, if you are oriented on the long-term, i.e. using a low discount rate for future costs and benefits, you are more likely to be a co-operator. Co-operation works well for long-term issues.

3. To find new solutions to public service problems in a context of tight resources, we need co-operation to create what David Cameron calls a model of 'social responsibility'. Much of this, in fields from social care to crime, is about a radical shift in resources, investing in prevention at the community level – the example, for instance of Stepney, whose work to improve housing led, over five years, to a sevenfold improvement in health and a sevenfold cut in healthcare costs.

Both this and the case of action on climate change are examples of what James Robertson has termed the shift from an 'income-generating' to a 'cost-saving' economy.

The forthcoming Commission on Co-operative and Mutual Housing is likely to point to some of the new models of integrated community-based housing and regeneration we need.

4. To deliver a stimulus in the form of Green New Deal, there is an opportunity for co-operative utilities for developing the new infrastructure the UK will need for water affordability, energy security and low-carbon living. We have emerging examples of co-operative energy generation, such as Energy4All, CoRE and Renew. I have suggested, for example, that we create a 'franchise' model in energy network regulation for low-carbon investment across the current fractured silos of electricity, gas and heat supply and demand.

5. To get British business back on its feet, a low pound helps but a high morale would help even more. My argument is not that every business should be a co-operative but that every business would benefit by being more co-operative. We know that the UK has a very high degree of workers - 23% - that are not engaged in their workplace and that this comes at a cost. Drawing on a methodology developed for the USA, I would estimate the annual economic cost of this failure for the UK at around \$56bn.

We could use the £1.2bn of annual tax concessions for employee share ownership (which are currently dominated by those on high not medium or low incomes) in a far more creative way to promote a participatory economy.

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There is a growing recognition of what makes for business excellence – a clear mission, better services and products, giving consumers power, nicer places to work, engaged staff, less social and environmental harm. There is good practice on some or other of these elements in many a workplace, but taken together, they are what those of us in the movement would describe as a co-operative.

6. To take advantage of the digital economy, we can embrace the creative commons of co-operation online, from open source to platforms for user generated content, rather than try to shore up traditional private business. If there can be increasing as well as diminishing returns to investment in a knowledge economy, then economic policy should encourage sharing and limit private monopolies, rather than increasing the protectionism of intellectual property as the UK and EU has done.

The time is right for a new agenda of co-operation. In one of the recent economics books of the year, *The Origin of Wealth* by Eric Beinhocker, you will find there are five times as many references to co-operation as there are to competition.

The co-operative movement has a proud history, but the best by far is yet to come. From small to large, co-operatives like Greenwich Leisure, Glasgow City Credit Union and the Co-operative Group are competing by working 'with' rather than 'against' those around them.

My working life has focused on one goal, which is to advance an ethical economy - from helping to start the Fairtrade Mark and bringing together the Jubilee 2000 coalition, through, more recently, to founding a new agency to speak for consumers in the UK. As part of Co-operatives UK, I can help build that economy in practice.

The co-operative economy has to be argued for, campaigned for, promoted and cherished. As I see it, this is the core role of Co-operatives UK, with its membership base of co-operative businesses, large and small, up and down the country. We lead the campaign for co-operation.

It will take effort and we will need our members and many friends alongside us but it will be worth it to move forward after the crash - not back to a new crash but in a new direction, towards what we should call a 'dog helps dog' world.