In our interests

building an economy for all

coop

the co-operative party

100 years of pioneering the future

1917-2017

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Foreword

Claire McCarthy
General Secretary, the Co-operative Party

Our country is at a crossroads.

Now, more than any time since the Second World War, the fundamentals upon which our economy and society have for so long been based, are being contested. We are debating who we are as a country and what we stand for. Our place in the world has rarely felt less certain.

But one thing upon which there seems to be a growing consensus is the need to change the way our economy works and delivers its rewards. The motivation behind this collection is to influence that debate. The essays contained in this pamphlet lay bare the inequality, unfairness, missed opportunities and rapid pace of change which typify the British economy in 2017. And offer a vision of the alternative.

The Co-operative Party is clear that the way to build an economy for all; that delivers rewards more fairly; successfully seizes new opportunities and effectively supports our people through the inevitable changes ahead, is one with co-operation at its heart. That means a larger co-operative sector – yes – but also the hard-wiring of co-operative values into the DNA of the broader economy. These principles; self-help, self-responsibility, democracy, equality, equity, solidarity, honesty, openness, social responsibility and caring for others provide a roadmap to a future around which people from all parts of the country and all backgrounds can unite.

'Take back control' was the rallying cry of the campaign to leave the EU and it is the rallying cry at the heart of this publication too. But the question is – control for who? Our proposition is that to rebuild our sense of national unity and restore faith that those who work hard can expect to receive a fair reward at the end of the month, requires a revolution in who owns and in whose interests the British economy is run.

Some clearly believe that a British economy outside the EU should be one modelled on the low taxes, light touch regulation and entrenched inequality of Singapore. There is an alternative. One where purposeful, values driven and productive companies create growth and jobs; where the fruits of this labour are fairly shared; where banks strive to meet the needs of individuals, businesses and communities not the other way around; where markets are shaped in the interests of consumers and companies pay their fair share of tax. In other words, control by and for the many, not the few.

The good news is that we don't have to imagine this alternative future, it's already out there. Across the World and across Britain, hundreds of thousands of co-operatives, with billions of pounds of assets, are showing that there is a better way of doing things. The essays in this collection draw inspiration from that movement to provide a radical vision for the future. Now it is ours to build.

Introduction

Mark Stears
Chief Executive, The New Economic Foundation

There has never been a greater need for a new economy or a more important moment to act to build one than right now.

A storm that has been gathering for decades is firmly upon us. More and more people feel that they are being left behind by changes in the economy, technology and climate, changes that are making them, their families and their communities worse off. And, at the same time, they feel these are changes that nobody asked them about and that they would never have wanted. For millions of people, the future looks harder than the past – less fair, less prosperous, less enjoyable – and their chance to make their own voices heard seem to shrink at the very same time. No wonder so many of them responded with such energy to the call for them to "take back control" in the UK's referendum on its place in the European Union.

Leaving the EU will likely be only a mirage to those lost in the desert of economic injustice. But, fortunately, there are more concrete and more real opportunities for change available to us right now. For in the midst of all the upheaval of the last for years, a surge of constructive energy is being generated across Britain that can crack open new possibilities for change. And can do so now, not at some vague, distant point in the future.

It is those opportunities which this extraordinarily timely pamphlet sets out. From reforms to our financial systems to better ways of grappling with new technologies, from a programme to return fairness to taxation to new ideas for placing the consumer at the heart of real economic decision-making, this pamphlet outlines a new agenda for the British economy.

But there is far more to this agenda than simply a series of individual ideas that offer the prospect of improving distinct issues within our economic life – although it does offer that.

Instead, the values that have always been at the heart of the co-operative movement, from its inception in the nineteenth century through the battles of the twentieth to our own time, are clearly present in the ideas that are set out here. The pamphlet thus reminds us of a distinctive way to bring about change as well the direction in which we should head.

We can see that most clearly when we realise that *three* fundamental insights that have always been at the heart of co-operation are also at the heart of the essays presented here.

The first of these insights is that the ideas that drive economic change to the benefit of working people, communities and our environment, very rarely emerge from the benign reflections of government, of whichever party. Ideas for change do not begin from plotting in the corridors of power or from the rarefied air of the seminar room. Rather, ideas for real change begins from observations of people's everyday lives. Real knowledge, profound knowledge, is thus rooted outside the traditional boundaries of politics and academia. It resides in everyday experience – be it what workers know about the shop floor, consumers know about the behaviour of large corporations, small business owners know about the operations of our banks, or families know about the strains placed on them and their communities by economic decision-making that is driven by short-term profit and nothing else. All of these essays bear witness to this fundamental reality.

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The second of these insights is that just as the ideas for change will not emerge only from traditional centres of power, so too the energy to drive that change forward will also come from beyond the mainstream. To develop the proposals outlined in this pamphlet will, of course, sometimes require legislative change from Parliament, but to truly presage an economy that works in our interests, it will require much more as well. For the proposals here to succeed, working people and others to forge new partnerships with institutions ranging from devolved government and city mayors, business and trade unions, communities, campaigns and movements. Indeed, without the energy that comes from these sources, they will be still born, nothing more than ideas on paper without the prospect of entering the bloodstream of our national economy.

These first two insights can take us, of course, from the national to the local, from the grand and the abstract to the grounded and the particular. They make the ideas here very *real*.

The third insight, however, is that we should not take this tendency for an absence of ambition. At times like these, we need to dream big. We need to be able to imagine an economy that works wholly differently to the one we inhabit now, one that values a different ethos and that shapes different patterns of reward and behaviour than we have grown used to for centuries now. The changes we make today have to offer the possibility of changing the entire system tomorrow. For some, this third insight may seem strictly at odds with the first two, or may at the very least seem paradoxical. How can an economic plan be at the same time realistic *and* imaginative, grounded in experience and open to entirely new horizons? Surely we have to choose one or the other? Either temper our ambition in the interests of getting things done or open ourselves up to flights of fancy that enable us to imagine different worlds?

In fact, however, the co-operative movement has always been about being *both* realistic and imaginative, concrete and utopian. The co-operative movement has always been located right at the heart of people's lives, cleaving tight to the places in which they live. But at the same time, its ambitions have never been small. As the great early co-operator George Holyoake described its ambitions, the goal of co-operation is to secure an economy in which:

> *"Knowledge is greater; Life is longer; Health is surer; Disease is limited; Towns are sweeter; Hours of labour are shorter; Men are stronger; Women are fairer; Children are happier; Industry is held in more honour, and is better rewarded; Co-operation carries wholesome food and increased income into a million homes where they were unknown before, and has brought us nearer and nearer to that state of society which [Robert] Owen strove to create—in which it shall be impossible for men to be depraved or poor."*

We may have long since abandoned some of those commitments, of course, but most endure. And it is striking that Holyoake himself was aware of the need to think both immediate – with wholesome food and increase income – and to think big.

Taken together, these three values outline the essence of a crucial theory of change, a theory that has driven co-operators for many decades and that offers a real chance for a future.

Set out more schematically that theory looks like this:

- Change *begins* when people recognise the spiralling chaos and insecurity that is part of the daily life of an unreformed capitalism and begin to see that such chaos is caused by concentrations of power and ownership – whether old or new – operating increasingly beyond their control.
- Change then *gains traction* when people are able to seize opportunities to take control over what matters most to them through a vast array of institutions, from their churches and mosques to their trade unions to local authorities and devolved assemblies, and not merely wait for it

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to be done to or for them by national government.

- Change can then begin really to *succeed* when people take control over their own future in everyone's interests, improving the place in which they live and shaping even the most powerful institutions, setting in train a new logic, from which the smallest initial intervention can play a part in the transformation of the economic order as a whole.

This is a theory of change that Robert Owen, George Holyoake and all of the great co-operators of the past would have easily recognised. Formed into a motto, it might read like this: if we really take control today, we can change the whole system tomorrow.

It is this theory that enables this pamphlet to be at once a compelling summation of a long tradition of economic thinking, and a bold and exciting programme for a better, fairer, more sustainable future.

Mutuality, meaningfulness and employee ownership

Ruth Yeoman
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Climate change, entrenched inequalities and technological advance are disrupting the world of organisations and work.

At the same time, the continued pursuit of shareholder value is degrading work, and reducing the share of value returned to wages. We risk a 'disconnected capitalism' Where corporate decision-making becomes remote from the local pressures facing managers and workers, and the agreements built up between them. This leads to corporate demands that employees exert high levels of discretionary effort whilst also shifting onto employees risks associated with precarious work and temporary contracts[1].

Repeated cycles of process redesign, automation and organisational restructuring have resulted in work intensification and loss of autonomy. UK work and employment surveys conducted by the UK government since 1986 show that people's sense of control over the work they do and the extent to which they are involved in organisational decision-making fell from 1992 to 2012[2]. Anxiety from work which does not pay enough to live on or which imposes stress, isolation and loss of autonomy is a reality for many.

The need for meaningful work is ignored or dismissed as a luxury. Despite the talk of employee engagement and organisational purpose, work for many seems pointless. In a 2015 YouGov Poll, 37% of UK workers said that their work makes no meaningful contribution to the world (25% of US workers)[3]. Organisations are not unaware of this, and they are starting to respond with a heightened interest in the meaningfulness of work, and its connection to a worthy purpose. So, Satya Nadella, Microsoft's CEO, talks about his aim being to create a '100-year old company where people find deep meaning at work'[4], and IBM's 2016 Employee Experience Index includes meaningful work[5].

This essay argues that employee ownership contributes to a stakeholder economy - which is grounded in the values and principles of mutuality - by creating the conditions for meaningful work. Here the mutuality and meaningfulness are proposed as organising principles for economic value creation which is directed towards the goal of developing the human capabilities we need for leading dignified lives[6].

Framing the Stakeholder Economy

> *"People are likely to become better stewards of all those systems of which they are a part – social, political, fiscal, cultural and natural – as they gain a personal stake in the economic system, with the rights and responsibilities that implies (Gates, 1998, p. xix)"* [7]

Economies are human creations. As such, we have considerable latitude to design economic institutions which are resilient against 'disconnected capitalism', and attend to the concerns of their stakeholders. An essential feature of a stakeholder economy is high levels of relational capital, fuelled by human values of inclusivity, equality, respect, dignity, fairness and care. Instituting such relationships involves answering questions such as: What is the connection of business to society? How do we harness corporate power for the common good? How do we guarantee that the contributions of stakeholders to production will be fairly rewarded and properly esteemed?

In addressing these questions, this essay proposes that a stakeholder economy can be structured by the principles of mutuality and meaningfulness, encouraging mutual organisations, such as employee owned businesses, and providing guidance for reforming shareholder ownership.

Mutuality is an organising philosophy which describes how we are to live with one another. As such, mutuality is concerned with the values, principles, and practices which specify the conditions under which we are prepared to join our effort to those of others in order to secure together what one cannot secure alone.

Mutuality fosters mutual relationships which conform to desirable civic and human values. The objective of mutual organisation is to distribute amongst all affected stakeholders a fair share of the benefits and burdens arising from their collective activities. In a mutual organisation, distribution is determined through fair procedures in which all affected stakeholders have a voice in influencing the rules governing such distributions, and furthermore are invested with joint control rights in determining the purposes and actions of the organisation.

A mutual philosophy can be taken up under any type of ownership, including shareholder ownership, committed to developing a stakeholder orientation. However, co-owned models, such as employee ownership, enjoy a distinct advantage because they hardwire the stakeholder perspective into the organisation's governance, placing an obligation upon management to institute an enduring voice system.

Mutual organisations have the ethical capacity to generate *meaningfulness*. Work is meaningful when it is judged by workers to be worth doing because it aims at a valuable purpose, and is emotionally attractive[8].

> Mutual organisations have the ethical capacity to generate meaningfulness. Work is meaningful when it is judged by workers to be worth doing because it aims at a valuable purpose.

The benefits of meaningful work accrue to society as well as to individuals. The epidemiological evidence of the link between work and health outcomes suggests that the damage caused by toxic psychosocial work environments can be mitigated by doing high quality work[9]. Such work allows for control over tasks, in organisations prepared to involve workers in decision-making, and underpinned by social welfare systems able to support an individual's capacity to cope with stress and reversal. Work structured by autonomy, freedom and dignity promote experiences of meaningfulness because under such working conditions, people are more likely to form emotional connections to persons, animals, objects and organisations of value, and to take up responsibilities to care for these things (Yeoman, 2014). Being able to fulfil such responsibilities depends upon belonging to organisations and societies which help their members to make decisions, mobilise resources and occupy roles requiring knowledge, skill and craft.

A stakeholder economy shaped by mutuality and meaningfulness can be encouraged through public policy and regulation. For example: a citizen's income, a good work index, work design, a guarantee of individual capability development, a framework for establishing direct and representative employee voice, an equal playing field for all organisational forms – and a general dismantling of hierarchies or networks which foster the arbitrary use of power through non-democratic authority.

In this endeavour, voice is key to integrating mutuality and meaningfulness, where voice means sharing with the others the responsibility and authority for forming the purpose, making the rules, and implementing the tasks necessary for promoting the good for valuable objects, or those objects for the sake of which the organisation exists. employee owned businesses are potentially supportive environments for experiencing meaningfulness because employee owners share responsibility to make decisions which attend to the interests of their stakeholders and the future of their organisation.

Stewarding the Stakeholder Economy

Whatever their ownership structure, many organisations are now engaged in stakeholder management. However, directors cannot fulfil their duties without calling upon the motivations and contributions of employees. Employee ownership represents one pathway for developing a stakeholder-oriented business model. The Employee Ownership Association describes employee owned businesses as those which are 'substantially or wholly owned by the people who work for them' (Lampel et al, 2014)[10]. Employee owned businesses can be single (employees alone) or multi-constituency (including other stakeholder groups), with indirect (trust based), direct and hybrid forms of share ownership. John Lewis Partnership, employing 90, 000 Partners, is the best known example of indirect ownership. Financial distribution is via annual dividend, with substantial participation by Partners in governance through elected representation at store, region, divisional and head office levels. Gripple, a manufacturing employee owned business of 460 employees, uses direct share ownership, requiring new employees to purchase £1000 of shares within a year of joining, supported if needed by a company loan[11].

However, formal ownership is not enough. For an employee in an employee owned business, ownership means 'having a stake in the business [...] when they have clear rights of participation and control, their intellectual capital and productive energy are released to be focused on productivity and the economic success of the firm' (Sauser, 2009: 151)[12]. A successful employee owned business becomes a lived reality when it unites formal ownership with an organising philosophy integrating ownership with values, culture and voice (Rosen, 2011; Poulain-Reim & Lepers, 2013)[13].

This sometimes involves more than one stakeholder group. For example, Rochdale Boroughwide Housing, an affordable housing provider, is a dual constituency mutual combining employee and tenant ownership[14]. Formally constituted as a mutual in 2012, RBH understood that this signalled the start of a profound process of organisational change in which employees and tenants would need to see themselves as joint owners with shared influence and responsibilities. The crux of the challenge was to create a power-sharing model which would transform the organizational system from hierarchical command and control to values-leadership, polyvocality, and co-production, held together by multi-stakeholder governance. The new mutual supported the formation of an owner identity amongst its members by reconfiguring governance, leadership, participation and metrics (Tischer et al, 2017)[15].

By involving employees in strategic and operational decision-making, successful transition underpins resilient firm performance over the business cycle. Employee owned businesses encourage a longer term horizon on returns with an emphasis on sustainable business development and encouraging innovation (Lampel et al, 2014). Examples of organisational practices consistent with an employee ownership philosophy include: a culture of values-talk, pushing decision-making to the lowest level necessary for resolution, mechanisms for high involvement and participation, employee board representation, information sharing using open book management, distributed and relational leadership. W.L

Gore & Associates is an employee owned manufacturing company of more than 10,000 employees, specialising in the flouropolymers used to create GoreTex fabrics, strings, and filters. The business is an exemplar of 'shared entrepreneurship', harnessing the value of freedom to create an innovation system grounded in shared ownership, leadership and collaboration.

The company has adopted a system of lattice management in which employees self-organise into work groups mobilised by temporary leaders (Shipper et al, 2014) [16].

New Kinds of Work

In employee owned businesses 'employees can no longer be seen simply as an input into the production. They are now seen to be valued, they have potential, can accept responsibility and are not passive, indolent and programmable'[17]. Oxfam, in a recent report on business structure and social impact, makes the case for employee-owned businesses in supply chains, arguing that employee ownership mobilises the bargaining power and voice of workers, leading to more decent work and fair wages[18]. To secure such gains, employee owned businesses must generate new kinds of human work with a core emphasis upon building relational capital between stakeholders – specifically, ethical work, relational work and complexity work.

Ethical work translates values into practices, and uses values to hold diverse perspectives in productive tension; *relational work* orchestrates multiple stakeholders into joint efforts by building trusting, mutually inter-dependent relationships; and *complexity work* uses knowledge and technology to generate system-level innovations in operating practices. This encompasses the identity work of employee owners in creating and maintaining their organisation's values and culture. Their status as employee owners confers upon them not only rights, but also obligations to bring the organisation into being, and to act as stewards of its long term health.

The Contribution of Employee Ownership

At its best, employee ownership is a way to direct corporate power towards meeting society's needs. Employee ownership works at scale, across sectors and for a great diversity of occupations, from care workers to knowledge workers. But to fulfil their promise, employee owned businesses must learn to think and act systemically. In developing his ideas for an associative democracy, Hirst understood the requirement for fresh sources of social solidarity. He argued that these could be 'built up from active co-operation in more complexly-divided and more individuated populations'[19]. Employee owned businesses contribute to creating this social solidarity, together with other corporate forms, when they are knitted into a stakeholder economy characterised by mutuality and meaningfulness. This labour, however, does not rest with employee owned businesses alone. What is needed also is an institutional framework in which different ownership forms operate under core values and principles, including a rehabilitated shareholder model. In other words, government, organisations and civil society must work together to establish new rules and mechanisms for economic production which benefits all stakeholders.

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Automation and the future of work

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The world of work is likely to be transformed over the coming decades as automation and artificial intelligence cease to be abstract ideas and become everyday realities.

The Labour party has to start thinking today about how these changes will impact the economy of tomorrow if we are to remain relevant in the new technological age and one way to make sense of the future is to study our past.

We remember the Victorians as great inventors, explorers, builders and social entrepreneurs. But they were also dreamers. In 1890, the year the Forth Bridge was completed – a monument to modernity constructed entirely of steel – The Commonweal Journal began to serialise William Morris's *News from Nowhere*, his vision of England as a rural idyll. In Morris' agrarian utopia, local collectives have replaced "wage slavery" and the distinction between work and pleasure has effectively disappeared. Morris' story was written as a direct response to a very different version of the future set out by American journalist Edward Bellamy in his 1888 book Looking Backward. Bellamy portrays a futuristic socialist paradise constructed around a centralised state that oversees every aspect of economic activity so that the terrible burden of work can be more equally shared. In his *Boston in the year 2000*, workers retire at 45 after 25 years of service in the national industrial army. Morris rejected state socialism and entrusted his revolution to of a very different army of craftsmen and women whose collective endeavours would do the state's job for it.

The brutality of work at the time when Morris and Bellamy were writing was impossible to escape. In February 1890, an underground explosion at Llanerch colliery in Wales killed 176 people. In America the previous month, the United Mine Workers was formed. Foremost amongst its eleven goals were a demand for an eight-hour day, wages commensurate with dangerous working conditions and an insistence that new technology be used whenever possible to minimise risks to its members. In the UK, the entire decade had been shaped by a severe depression which led to falling food prices and the collapse of the rural economy, driving tens of thousands of people into the country's rapidly-expanding industrial towns and cities looking for work. The increased labour supply pushed wages down and poverty and unemployment were rife. It was a time of huge social upheaval and political change. Morris and other leading socialists, including George Bernard Shaw and Annie Besant, witnessed the Bloody Sunday riots at Trafalgar Square in 1887, in which unemployed workers from the East End, many of them of Irish descent, clashed violently with the police and troops.

> Technological change may upend many of our assumptions about the world of work in ways we can't yet imagine. And – there are political choices to be made about how we respond to that change.

It is impossible to overstate the extent to which the industrial revolution transformed our country and our society.

The wealth generated by new forms of commerce paid for civic buildings that still dominate many of our towns and cities today. It built art galleries, town halls, great public squares and statues. But it also created slums and terrible working conditions, poverty and disease. It would take Parliament or local politicians decades to fix the problems created by the rise of new industries, most obviously the explosion in the urban population. It took enlightened capitalism and municipal leadership, together with reforming zeal and political will, to make this new world inhabitable.

There were many who resisted the arrival of modernity. At one point more British soldiers were being deployed to deal with the Luddites who smashed the new machinery than to fight Napoleon. Others sought to adapt by creating new institutions. The co-operative movement was formed by working people who could only afford even the most basic goods and services if they clubbed together to buy them. The Lancashire tradesmen who set up the Rochdale Society of Equitable Pioneers, did so as a direct response to the problem of mechanisation, which had reduced wages for many skilled workers.

You don't have to search too hard to find parallels between then and now. There are no riots against new machinery, but stagnating wages and living standards have arguably transformed the political landscape in the UK and the USA. The impact new technology is likely to have on the workplace in the coming decades could dramatically widen the growing gap between the richest and the poorest. At the very least, the widespread adoption of automation and artificial intelligence will shape our own era, just as mechanisation shaped the 19th century, with potentially profound consequences for our economy and our society. Technological change may upend many of our assumptions about the world of work in ways we can't yet imagine. And – again, just as in the 19th century – there are political choices to be made about how we respond to that change.

Any political party that doesn't try to understand the scale of the changes to come, and think about those political choices, is failing its existing voters and missing an opportunity to speak directly to many more potential supporters. For Labour – a party created to give working people a voice in Parliament – failing to anticipate the consequences of these seismic technological shifts would constitute a form of professional negligence.

Last year, I set up a Future of Work commission, which I co-chair, to identify some of the solutions to the public policy challenges posed by this new era of automation. I'm delighted that Claire McCarthy, the General Secretary of the Co-operative Party, has agreed to serve as a commissioner.

The studies and statistics on the likely impact of technology are hair-raising. The Bank of America has said automated systems will be carrying out nearly half of all manufacturing jobs within a generation, saving an astonishing $9 trillion dollars in labour costs. Consultancy firm Deloitte says that 35% of UK jobs are at risk from automation. This is not just about driverless cars or robots on assembly lines. Sir Christopher Pissarides, Regius Professor of Economics at the London School of Economic, told

Last year, I set up a Future of Work commission, which I co-chair, to identify some of the solutions to the public policy challenges posed by this new era of automation.

the first meeting of our Commission in December that, although machines have replaced labour since the beginning of organised production, it is only now that they are threatening jobs in the service industry that were previously considered "safe". Machines are not just replacing manual labour, they are starting to replace so-called "brain work". A generation ago, many schools began to teach coding, but in a decade's time there may be little point. In major financial centres including the City of London that task is now being carried out by computers using algorithms. When the world's most sophisticated financial traders can be swept away by this technological tsunami, what hope can there for the humble high street accountant?

The political ramifications of these changes shouldn't have to be spelled out. The effects of globalisation and the aftershocks of the financial crash helped to sow the seeds of disillusionment and despair that drove alienated voters into the arms of populists like Donald Trump and Nigel Farage. But even if the most cautious estimates about the transformative effects of the new technological revolution are accurate, we could be at the start of an era that will make those economic shocks seem like small tremors. To put it bluntly, low paid workers who currently face competition from immigrant workers at home or cheap labour from overseas may soon wake up to discover their rivals are machines who don't need to sleep or take holidays and will never demand better pay or conditions. Angus Deaton, the Scottish economist and Nobel prize winner, put it succinctly in a lengthy interview with the Financial Times at the end of last year when he said: "I don't think that globalisation is anywhere near the threat that robots are".

Deaton believes that in the US low wages and the decline of industry, along with the weakening of union power, means secure jobs and a feeling of belonging have been replaced by a sense of hopelessness in many blue-collar communities. Donald Trump was able to benefit from that in a way that the Democrats who traditionally represented these parts of the country were unable to do. In the UK, as in the US, it is hard to deny that the connection between these communities and many of the politicians who represent them has been fraying for years.

I'm no Luddite. It is worth noting that Deloitte and others believe the number of jobs lost through technological change will be outstripped by the number created. But we also need to acknowledge that, depending on the political choices we make, there may be human costs. In his own evidence to our Commission, Sir Christopher quoted William Baumol, now professor of economics at New York University, who said in 1967 that in the distant future people will only be employed in sectors that cannot be automated. Baumol said then that the only activity that could not be automated was the arts. The California computer scientists who created ALYSIA, a programme which takes lyrics and composes melodies to put them to, may disagree. The creative industries that depend on human inspiration are not immune from automation; the Press Association is already using artificial intelligence to write some sports reports. But in his evidence to the Commission, Sir Christopher said there are many other areas of economic activity that probably can't be automated, including labour intensive services that wealthier societies like our own will demand more of, like health and caring services. It could be that our aging population will require us to dramatically reassess the contribution that carers, in particular, make to our society - and perhaps even pay them accordingly.

Service sector jobs that aren't automated could become more attractive and prestigious. The status of different occupations has changed over time. Coal miners who worked underground in unskilled jobs became the heroes that risked life and limb to power our country. Personal trainers are now regarded as highly skilled and well qualified professionals who can command good wages. Chefs can enjoy significant rewards because wealthy societies value what they do and pay the best performers handsomely.

But in an automated economy where most of the financial benefits accrue to those who own or create new technology, rather than the people who use it, the risk is that inequality increases rapidly. Sir Christopher told us that low wages and uncertain and insecure unemployment are likely to replace unemployment as the main problem of the digital era. Uber is a good example of the way wealth can effectively be transferred from tens of thousands of small businesses and sole traders to the Silicon Valley entrepreneurs who own technology that can transform an entire industry at a stroke. The union movement has fought long and hard to secure employment rights for Uber drivers. But when the firm owns fleets of driverless cars, as it will surely do before too long, it will no longer have to negotiate over wages or working conditions.

One possible consequence of automation is that low paid jobs disappear, while middle class jobs are hollowed out. That means we need to answer question about the skills the workforce of tomorrow will need, and the type of training we should invest in as a country. It could be that further education colleges have a far bigger role to play when a job for life is the exception rather than the rule. If so, we may need more teachers, and we will need to find a way to pay for them. Many of the institutions created by working people in the past to provide a passport out of poverty can be adapted to the automation age. The advent of peer to peer lending provides an opportunity for credit unions and micro-lenders to expand their businesses, for example, providing regulators allow them to.

It is too easy to sound apocalyptic about this. Automation may one day bring John Maynard Keynes' famous prediction that we will one day work 15 hours a week – which he made just a year after the Wall Street Crash of 1929 plunged the world into the last great depression – closer to fruition. Automation may prove to be the midwife that helps give birth to a new world. I hope the Future of Work commission will guide Labour's thinking about how we respond to it. It's unlikely to come up with all the answers, but it may help us decide which are the right questions to ask.

A new common wealth: profit sharing

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The Brexit vote was driven by many things, but at least one factor was discontent with the economic status quo[1].

Despite headlines figures suggesting recovery for too many people, our economy and politics isn't working for them, and when given the chance, they voted to overturn the status quo, whatever the consequences[2].

Tinkering on the edges won't fix the economic conditions that helped drive the referendum result: that our economy is too unequal, that power is too concentrated, and that the benefits of growth aren't fairly shared. Instead, it will require an institutional rewiring of the economy to make sure it works for all of us, ensuring we all share in our common wealth.

Consider the evidence. While GDP may be 7% higher than before the financial crisis, if you adjust for population growth and income that has flown abroad, national income per head has barely grown since then. Moreover, estimates suggest that 70% of the UK's population has had flat or declining income over the last ten years, with a majority living through a standstill decade where real incomes haven't seen meaningful improvement[3].

> While the UK is by some measures an economically successful country, top-line successes mask fundamental and damaging weaknesses.

What growth we've had has also been unevenly divided, by class and region. Outside London and the South East, no region of the UK has seen GDP per capita recover its pre-crisis peak. The UK has the richest region in Northern Europe (London), but also nine of the ten poorest.

Moreover, a combination of economic, technological and political trends[4] suggest things will get worse on our current course: real disposable income is forecast to rise by just 9% in total by

2030 for middle income households and just 2% for low income households[4]. Inequality, meanwhile is expected to surge. The income of high-income households is forecast to rise 11 times faster than the incomes of low-income households during the 2020s.

At the same time, the economy continues to under-perform, constrained by under-investment, excessive short-termism, and stagnant productivity growth.

In other words, while the UK is by some measures an economically successful country, top-line successes mask fundamental and damaging weaknesses that we can no longer ignore. The shock of Brexit makes addressing these problems doubly important and pressing. It is for this reason that IPPR has recently launched its Commission on Economic Justice, a two-year programme of work whose goal is to help rewrite the rules of the British economy so that we have an economy that works for all of us[5].

Democratic profit-sharing is one example of a way new rules and institutions can help make the economy better work for everyone. 'Profit-sharing' refers to arrangements under which employees receive, in addition to their wages, a share in the profits of their company on some pre-determined basis. It is a form of economic rebalancing that gives labour a direct stake in how profits are distributed, and that can make a real difference to the household income of the average worker. In France, for example, where it is compulsory for firms with 50 employees or more to share their profits with their staff, with nearly 40% of the workforce covered, the average profit share received is around €1,250 per annum.

IPPR's report, *Fair Shares: shifting the balance of power in the workplace to boost productivity and pay*, set out how this might operate in practice[6]. We recommend introducing a national tax-advantaged profit-sharing scheme, whereby firms can access a form of tax advantage – for example, allowing employee profit-shares to be paid before corporation tax, effectively reducing company tax bills - if they share their profits with employees based on a democratically agreed formula. As in the French model of profit sharing, to ensure that profit sharing does not displace wage increases, the amount shared should not exceed a fixed percentage of the total gross wage bill.

The exact nature of any profit sharing scheme is best determined within each company with the involvement and consent of its employees. Nevertheless for any scheme to be eligible for tax advantages key requirements should be met, including being open to all employees and being based on a democratically agreed formula for distribution, for example as part of collective bargaining negotiations or as part of a company-wide ballot.

Importantly, there is strong evidence that collectively agreed profit-sharing schemes can open up new avenues for democratic participation, voice and reward at work that boost not only employee income but also productivity. From the US to Europe to the UK, across very different political economies, there is consistent evidence that workplaces that are democratic in ethos and inclusive in reward typically perform better, and have employees who enjoy more meaningful, productive work, than similar firms that are more hierarchically structured in terms of voice and reward[6].

Hardwiring profit sharing into British businesses will therefore help deliver a 'double dividend', ensuring employees receive a higher share of the profits that their collective effort helped produce, while driving up productivity.

Such a reform needs to be part of a patient but nonetheless thoroughgoing reform of our political economy to make it work better for the majority of people. Accommodation with the status quo will not suffice if we want to address the twin long-term challenges of increasing productivity and investment and improving living standards across the board. Brexit, meanwhile, means that even if we wanted to ignore the structural economic weaknesses facing the UK – which we surely shouldn't – we no longer can.

For progressives, institutional conservatism tempered by sporadic bouts of what Roberto Unger called 'vulgar Keynesianism' cannot achieve the radical, programmatic dispersal of economic power that is required[7]. Instead, a focus is needed on building new institutions of democratic wealth and influence in the economy that can drive innovation, competitiveness and a future of broad-based prosperity for all.

Ultimately, we can build the type of economy we want if we have the will, imagination and democratic commitment to change it. Stark inequalities of power and reward in the workplace are not arrived at by chance; they are shaped by the wider institutional architecture of the UK labour market, by how and by whom a firm is owned, and by each company's corporate governance regime. Democratic profit sharing is one mechanism to reorder who was voice and who shares in reward in the firm, broadening who has democratic and economic power at work.

1 Goodwin, M., & Heath, O. (2016). Brexit vote explained: poverty, low skills and lack of opportunities. Joseph Rowntree Foundation.

2 Haldane, A. G. (2016). Whose Recovery? Speech given by Andrew G Haldane, Chief Economist, Bank of England. London: Bank of England.

3 Jacobs M, Stirling A and Colebrook C (2016) Out of shape: Taking the pulse of the UK economy, IPPR. http://www.ippr.org/publications/out-of-shape

4 Lawrence, M. (2016) Future Proof, Britain in the 2020s, IPPR. http://www.ippr.org/publications/future-proof-britain-in-the-2020s

5 http://www.commissiononeconomicjustice.org/

6 Lawrence, M., & McNeil, C. (2014) Fair Shares. Shifting the balance of power in the workplace to boost productivity and pay. IPPR. http://www.ippr.org/publications/fair-shares-shifting-the-balance-of-power-in-the-workplace-to-boost-productivity-and-pay

7 http://www.bbc.co.uk/programmes/b01qw93v

The Governance Challenge

Reema Patel and Tony Greenham
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Corporate governance is not a phrase to set the pulse racing. It is one of those things that we don't notice when it works well and so never quite appreciate the value of.

But we certainly do notice it when things go wrong, as the endless hand-wringing following corporate failures from Robert Maxwell to Enron to BHS testify. Getting governance right is often framed as a defensive measure; a safety net to protect us from corporate failures. This is a missed opportunity.

This essay argues that reform of corporate governance is a positive lever of change to reconfigure the UK economy, enabling companies to be run in a way that distributes power, wealth and opportunity to those they employ and serve. In doing so this essay responds to the central challenge of this publication: what ideas should be pursued by those wishing to see power and wealth shared more widely? Achieving this requires us to transform our mindsets about what corporate governance is, the purpose of corporations and who corporations are meant to serve. We explore new and innovative ways in which corporate governance might be strengthened – drawing on approaches used in deliberative democracy, experiences of worker representation across Europe, on the experiences of co-operatives and employee trusts, and on new ideas and research about organisational management by thinkers such as Frederic Laloux.

Reframing corporate governance as a positive lever of change

Corporate governance has long been understood as a principal-agent problem. In this account, the agents are the company management and although they are entrusted to act on behalf of the principals - the shareholders - their interests are not aligned, leading to shareholders' interests being compromised. Consider Adam Smith's bleak assessment of joint stock companies in *The Wealth of Nations* (1776):

> *"The directors of such companies however being the managers rather of other people's money than of their own, it cannot well expected that they should watch over it with the same anxious vigilance which the partners*

in private copartnery frequently watch over their own … Negligence and profusion, therefore, must always prevail, more or less; in the management of the affairs of such a company" (Jensen and Meckling, 1976).

Surveying the landscape of corporate failures, from scandals such as those enveloping Sports Direct Chief Executive Mike Ashley for mistreatment of workers to outright corporate collapses such as Northern Rock and Lehman Brothers during the 2007-8 financial crisis, one might be tempted to consider Smith's words to be prophetic. But in truth such headline grabbing calamities are rare. The response has been a succession of committees, reports and codes of best practice, from Cadbury (1992)[1] through Turnbull (1999)[2] to Higgs (2003)[3]. These have been primarily regulatory rather than structural, with the emphasis on internal audit, ensuring good conduct and independence of directors and greater disclosure of remuneration and governance procedures.

> What if the principals of a company are not just shareholders, but anyone whose lives are significantly impacted by its activities? Don't they have a stake too?

It is notable that although these efforts may have improved governance practice, they have failed to prevent corporate failures.

However, this is not our central critique. The weakness of previous governance reform is that it has not challenged the underlying assumptions that shareholder owned corporations are the most efficient form of economic organisation, and that their proper purpose is to maximise value for shareholders.

From shareholder spring to stakeholder summer

In 2012 a series of revolts by normally placid institutional investors in the face of excessive executive pay awards was dubbed the 'shareholder spring'. The rebellion turned out to be short-lived as executive pay is soaring once more. The deeper problem with the shareholder spring was that it did not lead to a 'stakeholder summer' – the meaningful involvement of other stakeholders in the governance of corporations.

Let us return to the roots of corporate governance. We introduced the principal-agent problem to show the divergence between those who managed a company and made decisions on its behalf and those with a direct financial stake in the performance of a company (its shareholders).But what if the principals of a company are not just shareholders, but anyone whose lives are significantly impacted by its activities? Don't they have a stake too?

These stakeholders can include consumers, service users, beneficiaries, suppliers, employees and contractors, the local community and future generations. This broadens the conception of corporate governance to require that companies to have regard to promoting a more sustainable environment and protecting social and human rights (from creating and promoting more diverse organisational cultures through to safeguarding consumers and workers' rights).

The legitimate interest of stakeholders is enshrined in company law through section 172 of the Companies Act 2006, and many legal experts challenge the notion that shareholders are even the 'owners' of a company rather than simply owners of a financial instrument that gives them a certain bundle of contractual rights and obligations in regards to that company.

This leads us directly to the question of the purpose of the corporation - what a company is *for*.

From shareholder value to shared value

Prof. Michael Porter and Mark Kramer argue that companies are currently 'trapped in a narrow and outdated approach to value creation'[4]. They introduce the concept of shared value theory – the importance of companies seeking long-term success not through chasing short-term profits but identifying and addressing the greatest unmet societal needs.

Shared value theory suggests that companies redefine their purpose as generating economic value which also produces value for wider society. Corporate governance, when seen through the lens of shared value theory, has a responsibility to ensure that companies are able to align the purpose of the company with the interests of all stakeholders.

The biggest difficulty with moving from shareholder to shared value, and from shareholder to stakeholder governance, is the loss of clarity about goals and beneficiaries. How is it possible to pursue multiple goals and satisfy many stakeholders with potentially divergent interests. What kind of governance could deliver that?

The political philosopher Charles Blattberg criticises stakeholder theory for assuming that the interests of the various stakeholders can be compromised or balanced against each other. He is wary of the implied emphasis on negotiation as the chief mode of dialogue for dealing with conflicts between stakeholder interests.

Instead, Blattberg recommends conversation. We understand this as suggesting that deliberative dialogue are more effective at moving stakeholders towards focusing on mutually beneficial outcomes, or areas where there is common ground that might arise.

Deliberative approaches - stakeholder dialogue in an age of technological disruption

The RSA has undertaken extensive research on the extent to which workplaces are changing. We are confronted with the rise of globalisation, self-employment, gig work and the sharing economy, all driven by what some have coined the fourth industrial revolution of waves of new technologies from cloud computing to artificial intelligence.

In the face of such change, affecting everyone more or less, serious innovation in corporate governance must make use of a wider range of tools and opportunities that allow companies that are more global and dispersed to engage meaningfully with their stakeholders.

By opening up new and rapid channels of information to and from business decision-makers such stakeholder dialogue is not a 'nice to have' for the CSR department, but a core source of commercial success.

We believe that more deliberative approaches which support all parties to be more informed about the issues at stake and to consider the advantages and the disadvantages of decisions collectively have a critical role to play when faced with such challenges. Examples of such approaches are stakeholder dialogues deploying approaches rooted in conflict resolution and transformative mediation methodologies. Participants are paid for their time and their efforts to ensure financial barriers to participation are eliminated, usually in face-to-face dialogue, although these processes are often complemented by broader online and technology enabled deliberative processes to reach a broader group of participants.

Examples of companies that have used stakeholder dialogues include Shell (most recently in relation to decommissioning Brent Field). The UK government has also deployed stakeholder dialogues in relation to a wide range of contentious issues ranging from nuclear energy, legislating on mitochondrial transfer (genetics), and investment in synthetic biology through a government funded programme, Sciencewise.

The RSA's own Citizens' Economic Council is also using the principles underpinning deliberative democracy to explore national economic policy with citizens from across the UK.

Transforming organisational cultures

In his book, *Reinventing Organisations*, Frederic Laloux researched twelve organisations that use new ways to manage both work and their employees. Laloux refers to them as 'evolutionary teal' organisations – they are self-managing, adaptive, driven by values, mission and purpose, and deliver extraordinary results as a consequence of abandoning a heavily bureaucratic performance management culture in favour of a culture of trust and empathy.

Laloux introduces the importance of seeing organisations as 'living systems' rather than as machines. The organisations have been dubbed 'evolutionary teal' because Laloux considers them to be the forerunners of a fundamental shift required in managerial worldview for an economy and a society with far greater complexity than before.

The work of Laloux demonstrates the ongoing relevance of transforming management approaches so that they promote organisational cultures that lead to improved corporate practices and governance.

It echoes a wider message – to be truly effective, cultural and structural reform must walk together hand in hand.

Co-operative models

Sometimes the best innovations are those that have been around the longest. The more widespread adoption of co-operative models, first developed in earnest in the 19th century, can also be understood as promoting more effective forms of corporate governance through paying attention to both structure (one member one vote) and culture (the co-operative principles).

Other authors in this collection have discussed co-operatives in depth, but here we note the relevance to our principal-agent problem. In industries where customers suffer an inherent informational disadvantage and lack of agency over making good decisions, such as in personal finance, making shareholders and customers the same people neatly bridges the conflict of interest between them. Given the breath-taking scale of mis-selling of financial products by shareholder owned banks in the UK, the de-mutualisation of huge swathes of the financial industry in the 1980's and 1990's will surely be come to be seen as an act of economic and social self-harm.

Stakeholder representation within companies

The national discussion about governance models and structures was ignited when UK Prime Minister Theresa May spoke favourably about placing workers on company boardrooms. There is a wide variety of practice on worker representation across the 28 European Union member states, but it is undoubtedly the norm to have such representation.

Of the other countries that do not have generalised arrangements for worker representation on boardrooms (Belgium, Bulgaria, Cyprus, Estonia, Italy, Latvia, Lithuania, Malta and Romania), the only other large economy – Italy – also has a rich fabric of co-operatives across its cities and regions.

In Norway and in Sweden workers take their place directly on the Board of Directors within a single tier board structure. But in other countries (Austria and Germany), there is a Supervisory Board, which includes worker representatives and meets regularly to approve the decisions of the Boards of Directors. The supervisory board model has the benefit of enabling companies to engage with a broader range of stakeholders beyond workers – an approach we favour – and thus ensure that a wide range of voices are being heard and considered. It also offers a wider range of stakeholders the opportunity to deliberate with and respond to each other.

Towards change and economic democracy

To harness the potential power of corporate governance reform to drive positive economic change requires us to transform our mindsets about governance and who it is for – embracing the principles underpinning shared value and stakeholder governance.

As a progressive, 21st century enlightenment organisation, we contend that one of the key characteristics of a market economy that supports the pursuit of the good life is that all citizens experience real agency and participation in the economic institutions in their lives.

In short, power wealth and opportunity must be more evenly spread. Reforming the structures and culture of our corporations is an essential component of achieving this goal.

[1] Cadbury (1992) 'The financial aspects of corporate governance. The final report of the Committee on the Financial Aspects of Corporate Governance' (London: Gee & Co)

[2] The Turnbull Report. First published 1999 and updated October 2005 and published by the Financial Reporting Council as 'Internal Control: Guidance for Directors on the Combined Code'

[3] Higgs (2003) 'Review of the role and effectiveness of non-executive directors'. Department of Business, Energy, and Industrial Strategy

[4] Creating Shared Value – Michael E. Porter and Mark R. Kramer, Harvard Business Review - https://hbr.org/2011/01/the-big-idea-creating-shared-value

Building a more diverse financial sector

Jennifer Tankard
Chief Executive, Responsible Finance

The dominance of a small number of large banks in the UK's financial sector is unproductive, risky and ultimately unfair. It locks many people out of the financial services needed to live an ordinary life.

Championing models of responsible finance, this essay demonstrates the value of greater diversity in the financial sector, and points to policy changes to improve such diversity.

Everyone should have access to a comprehensive package of appropriate and affordable financial products. The last decade has seen significant changes, which make it essential for people to have better money management skills,tools and access to appropriate financial services. These include shifts in employments patterns, with more people becoming self-employed or employed on insecure contracts, an expectation that people will take on more responsibility for managing their finances, such as pension freedoms, and changes to the UK benefits system.

> Despite a raft of recent legislation and regulation to encourage competition, the UK banking sector remains highly concentrated and uncompetitive.

Alongside the challenges facing individuals, many small businesses continue to struggle to access the finance they need to start up, grow and flourish, thus holding back local economic growth. The financial services sector has also become more complex and harder to navigate. And eight years on from the global financial crisis and recession with scandals such as PPI fresh in people's minds, trust in the financial services sector remains low.

Despite a raft of recent legislation and regulation to encourage competition, the UK banking sector remains highly concentrated and uncompetitive. Certain groups of society, mainly those on low incomes, are either poorly served or not served at all by the main high street banks. As institutions driven by making a return for their shareholders, it is unlikely that these banks will ever provide a range of appropriate and affordable financial products for those on low incomes. These markets are not sufficiently profitable to incentivise them to do so.

The UK rightly claims to be a world leader in financial services. It should also aspire to become a world leader in tackling financial exclusion by improving access to financial services. To do this it needs a more strategic and joined up approach backed by political leadership and a commitment to investment in those institutions that have the skills and understanding to tackle financial exclusion at a community level.

Can competition improve access for everyone?

Over the last eight years, the UK's financial services sector has seen significant change. Challenger banks, financial technology (fintech) and peer to peer lenders (P2Ps) have, in some financial services markets, created more competitive markets and introduced some diversity in model and product, than previously experienced.

In 2016, By Taavet Hinrikus, CEO and co-founder, TransferWise, predicted that, due to fintech, in five years' time, the financial services sector will look completely different with a host of new providers and innovative new services.[1] And in ten years, it will be transformed. The government has placed a lot of expectations on competition from new entrants driving this transformation in order to improve access to financial services for all consumers and businesses.

Competition is welcome and has certainly given those consumers and businesses who already have access to mainstream financial services much greater choice. But, the costs of entering the financial services markets are significant, so it is hard to see how, without any incentives, new players would provide services to financially excluded groups who are often (although not always) higher risk. Those fintech companies that are developing products and services appropriate for those on low incomes have yet to reach scale to provide a universal solution or to demonstrate that their business model is sustainable.

Consumers who are financially excluded and businesses that typically struggle to raise finance are seeing few benefits from this more competitive market.

Can consumer power create change?

There has been an increasing expectation for individuals to tackle their own financial exclusion or to seek more appropriate financial products and services. For example, the recent CMA investigation into retail banking markets[2] recommendations made clear the onus was on individuals to drive competition by 'shopping around'. But there is an asymmetry in the availability of information about financial products and services, with larger players no longer having the capacity to make nuanced decisions about risk as well as becoming more risk averse since the banking crisis. As mentioned above, many financial services and products are not transparent in terms of clearly setting out fees and charges, having plain English terms and conditions and alerts when these change. Placing responsibility on individuals without placing responsibility on service providers to become more transparent will only lead to more people taking out inappropriate products and services and so further fuel the decline of trust in the financial services sector, which remains a significant issue, as a 2015 report by the FSCS shows[3].

Financial capability is also critical. The government has placed much focus on school based financial literacy activity to give children the skills they need to build financial resilience. But adults also need access to financial capability skills. Research shows that two-thirds of people in the UK feel too confused to make the right choices about their money and more than a third say they don't have the right skills to properly manage their cash.[4] And around one in four economically active adults in the UK is functionally innumerate; for example, only 36% of people understand that the term APR relates to payments. This falls further to 31% amongst young people aged 18-34. Research by the Chartered Institute of Payroll Professionals shows that sickness absence cost UK businesses £11.5 billion in 2014 or £380 per employee. The third largest cause of sickness absence is stress and mental health problems, which can be triggered by poor financial health.

This combination of a lack of trust in financial services institutions, low levels of financial capability and lack of transparency in financial services markets all act as barriers to consumer led change.

Local government can play a powerful role

Local government is in a unique position with local knowledge that can help inform local policy. Communities with a clearly defined access to finance or financial inclusion strategy have a more robust and coordinated community finance sector. For example:

- **Sheffield Money:** A partnership of responsible finance providers, credit unions, advice agencies and FinTech firms set up to tackle the use of high cost credit in Sheffield was launched by Sheffield City Council as part of their Fairness Commission. While this initiative is still in its early days, it is an innovate model bringing together existing organisations in a strategic way.[5]

- **Glasgow:** As part of Glasgow's financial inclusion strategy, the council developed Scotcash[6], a responsible finance provider, to provide an affordable alternative to dependence on high cost credit in Glasgow. Since launching in 2006, Scotcash is now an independent and sustainable organisation tackling financial exclusion in Glasgow.

- **New York City:** An international example of the city government creating an incubator for a range of organisations that tackle poverty, which together provided a "triage" of interventions[7]. As a result, New York City was one of the only cities in America to reduce its poverty rate since the year 2000.

The case studies above demonstrate the potential for mayors and local authorities to tackle financial exclusion in their communities when they are given a wide-ranging remit and leadership opportunities. This combined with bank lending disclosure data can give local areas the ability to understand local need and respond with an effective strategy.

Responsible finance providers reaching markets others can't reach

Accessing financial services and products can be complex and so there is a need for transparent pricing, plain English terms and conditions and alerts when changes are made to these. Integrating money management tools into products and services is one option, for example, Ffrees and the Change Account both allow customers to manage their money more effectively. Responsible finance providers have a key role to play in supporting customers to improve their financial capability skills while also providing access to appropriate financial products and services.

Responsible finance providers provide access to bank account and credit facilities to those who cannot access them elsewhere; they re-invest profits to deliver economic and social benefits;

> Responsible finance providers are driven by a social mission, and so are different to other financial institutions in the market in terms of the outcomes they seek.

treat customers fairly, with clarity and transparency about the costs of borrowing, lending only to those who can afford to repay and ensuring customers get the best deal and the best outcome; and providing a personal service, with decisions made by people for people. Responsible finance providers are driven by a social mission, and so are different to other financial institutions in the market in terms of the outcomes they seek. They are also quality-assured and professional, meeting all Financial Conduct Authority requirements (FCA) and complying with the Responsible Finance Code of Practice.

Conclusion

The UK has longstanding infrastructure in place for a financially included society: a strong banking sector, an alternative finance sector, innovation improving the delivery and cost of financial services. But so far, these factors have not functioned as an ecosystem or an inclusive and diverse financial services system. Given its strengths in the banking sector, the UK should aspire to become a world leader in financial inclusion.

Central and local governments could incentivize this by adopting the following actions:

- **Responsible Finance Fund:** Undercapitalisation of the responsible finance sector has long been identified as a significant constraint to growth. The creation of a dedicated government-backed Responsible Finance Fund – in the region of £150m – would unlock significant private sector investment (typical leverage is 1:3, which would equal a total of £600m). In the US, the government invests $200m annually into a CDFI Fund. The CDFI Fund has been an important force in allowing CDFIs to operate sustainably by providing them with equity and is cited as one of the major milestones in achieving their $45bn loan book.

- **Duty on large employers to provide financial capability for employees:** A healthy and scaled up supply side for affordable credit is important for consumers and businesses that cannot access finance from the mainstream. But financial education and literacy play a big role as well, ensuring that consumers are informed and understand their options. We suggest a duty on large employers to provide financial capability and literacy training for their employees.

- **Banks' 'duty to serve':** We recommend drawing on the USA's Community Reinvestment Act, which would (a) require banks to disclose their lending (which some do now on a voluntary basis) and be held to account by an independent regulator as to whether there is discriminatory lending activity; (b) require banks to invest in responsible finance providers as a way of demonstrating they are reinvesting into communities from which they take deposits.

- **High cost credit levy:** A levy should be introduced on all forms of high cost credit, such as payday lenders, retail store cards, home credit, white goods, etc., which will fund financial inclusion activity.

- **Proportionate regulation:** We recommend ensuring that regulation is appropriate and proportionate. Small social lenders, such as responsible finance providers and credit unions, are regulated by a regime that is designed for mainstream banks. Parts of this regulatory burden, such as the Approved Persons Regime or the Senior Managers Regime, can be disproportionate and are a barrier to growth in the sector, and directly reduces the resources available to support financial inclusion.

- **Reform of UK payments:** Access to the UK payments system should be widened to ensure more competition in the financial services sector, and for small scale lenders like credit unions and responsible finance providers to affordably access payments services.

[1] https://transferwise.com/gb/blog/transferwise-launches-future-of-finance-report

[2] https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf

[3] Chater, N. (2015). *Mind the Gap: Restoring Consumer Trust in Financial Services* . London: Financial Services Conpensation Scheme.

[4] Crystal and Erasmus+. (2015). *The state of financial education and financial literacy in the UK.* Fly-Project.eu.

[5] http://www.bbc.co.uk/news/uk-england-south-yorkshire-33844667

[6] http://www.gov.scot/Topics/Built-Environment/regeneration/pir/learningnetworks/cr/casestudies/Scotcash

[7] http://washingtonmonthly.com/2016/06/19/new-york-citys-turnaround-on-poverty/

Consumer rights for all

Baroness Dianne Hayter
Shadow Minister for Exiting the EU, House of Lords

President Kennedy, 1962:

> *All of us deserve the right to be protected against fraudulent or misleading advertisements, the right to be protected against unsafe or worthless products, the right to choose from a variety of products at competitive prices" with steps to increase inspection of foods, increase safety on the highways, cut back on deceptive trade practices, and high utility bills, and "a law to require consumers to know how much they are being charged in interest", plus "laws to tighten safeguards against monopolies and mergers which injure the consumer interest", these rights being "immensely important to the well-being of every American family."* [1]

Consumer interests have long been embedded in socialist and progressive thinking, most notably with the work of Beatrice Webb and the co-operative movement born in Rochdale in the nineteenth century. Given this, it is strange that the Labour and Co-operative Parties have been remarkably coy about trumpeting their considerable record of achievement in championing consumer rights. From the early consumer legislation of the 1960s and 1970s, to the establishment of the National Consumer Council (NCC); Consumer Panels allied to the Financial Conduct Authority, the Legal Services Board, and OfCom; the Food Standards Agency, the Financial Services and Legal Ombudsmen, the list goes on. Perhaps this is in part because, for much of our history, our politics has been dominated by a "producer versus worker" short-hand that too often drowned out the voices of those seeking to speak for the consumer.

UK politics is often viewed as being about creating the economic, social and environmental circumstances in which citizens can thrive, and assisting those most vulnerable to meet the demands they face in life. Today this includes a range of social policy areas, from environment, security, housing to education. But often politics concentrates more on the provision of services than supporting those who using services to have a voice. Similarly, in the market place, the interests and voice of the consumers have been poorly articulated. Yet in 1975 Barbara Castle wrote how socialism wasn't just about trade unionism, but also a "society in which every producer remembers he is a consumer too".

Consumers and the Labour Party are natural bedfellows, as recent preoccupations exemplify: energy prices, letting agents, landlords, banks, PPI mis-selling, nuisance calls, VW emissions, rip-off tickets for sports and music fixtures.

All consumers are vulnerable to mischiefs in the market, but some more than the average: the harassed single parent, those with low educational attainment, English as a second language, the aged, or those with a long term health condition. Indeed any of us at times of stress, dealing with bereavement, divorce, flooding, crime, or job loss. In a functioning market,

In a functioning market, knowledgeable, informed, empowered consumers can shop around, and thus drive up standards, supply and value for money, rewarding the best and forcing the others out of business or to improve.

knowledgeable, informed, empowered consumers can shop around, and thus drive up standards, supply and value for money, rewarding the best and forcing the others out of business or to improve. But where there are monopolies (or cartels), for vulnerable consumers, for non-repeat purchases (so we can't become knowledgeable consumers), where the buyer cannot judge the quality of the product (either because long term outcomes, such as for pensions, or the technicality of the service, such as financial, legal or medical advice), or where the wider environment makes the difference (safe bike routes, a universal postal service), then consumers need a party to "stand in their shoes", to be their voice, argue their claim, demand fairness from the provider, and ensure adequate redress systems are available.

Consumer policy should aim at intervening where there is effectively a monopoly (such as energy, despite nominally six providers, or banks which all provide essentially the same lack of client care), large public or private service providers where the consumer can't "shop around", or where there's an asymmetry of knowledge or no repeat purchase. Policy should place the users or beneficiaries of services at the heart of their design, accountability and operation, with a particular focus on vulnerable consumers.

Sometimes this means stepping in to regulate areas where there is no choice, where consumers can't judge quality, where there's a monopoly at the retail or wholesale stage, where a group of consumers are disadvantaged (delayed or cancelled trains) or where safety or health are at risk (poisonous paints, fire-risks, dangerous toys, faulty tumble-dryers; functioning carbon monoxide testers).

Sometimes, however, it's by empowering shoppers. Either through ensuring they have the information they need, or mandating their right to return faulty purchases or setting standards for the quality of goods and services. The 2014 Consumer Rights Act, plus the work of Trading Standards and the Competition

Markets Authority (CMA) does much of this unseen by the public.

Whilst the essence of consumer policy is not just about putting things right after someone's been ripped off but preventing such action in the first place, it is nevertheless essential to provide for proper complaints handling, allowing consumers to take unresolved complaints to an independent Ombudsman (statutory ones already cover legal, financial, social housing, local government and parts of the wider public sector).

The government's December 2016 draft Public Service Ombudsman Bill responds to consumer demands to merge the Local Government (LGO) and the Parliamentary & Health Services (PHSO) Ombudsmen, not least as health and social care are brought ever closer, making the existence of two separate bodies inefficient and confusing for the user. The Bill will also remove the need to take complaints to the PHSO via an MP – an unnecessary brake on consumer rights.

The ability to take complaints – whether about goods or services – to an independent redress body is a key way of driving up standards, and has long been championed by Labour and, latterly, by the EU. For example, last year it became mandatory (under an EU Directive) for every supplier of goods and services (from universities to coffee shops) to be able to name an appropriate "Alternative Dispute Resolution" body for their particular sector. Sadly, the EU Directive doesn't require business to allow consumers to take their complaints to such a body and the government failed to make good this oversight.

Today, however, a bigger challenge faces consumers – which is the threat to protections and rights as a result of Brexit.

Today, however, a bigger challenge faces consumers – which is the threat to protections and rights as a result of Brexit. Sadly, this aspect of the 23 June result has received precious little attention. Yet safe imports of EU products, food and services may be at risk (the production, processing, distribution, retail, packaging and labelling of food and drink is governed by laws, regulations, codes of practice and guidance, the majority at EU level). Indeed, DEFRA Secretary of State, Andrea Leadsom has said that farmers will face fewer inspections - hardly giving confidence to consumers[2].

Other rights might similarly be vulnerable. For example, will travellers still be able to use the E111 Euro health card? And what will happen to prices? If we leave the Customs Union and fall back on WTO rules, this could see our food industry facing 22% tariffs, with the NFU estimating that non-tariff barriers could add a further 8%. Whilst the farming industry might well respond to this, in order to become self-sufficient in chicken consumption, UK chicken flocks would need to double.

Looking at energy prices where the key to reducing costs is efficient supplies, and effective competition, this could be even more resistant to consumer pressure post Brexit. Added to a falling pound, which pushes up wholesale prices, consumers could be in for some high heating bills.Other, less obvious safeguards are in jeopardy. Few may realise that it is EU agreements which allow British Insolvency Practitioners, trying to track down resources squirrelled away by bankrupt firms or individuals elsewhere in the EU, to get hold of such assets which rightfully belongs to UK workers, customers or other creditors.

The government is being alarming coy about these issues. At present, victims of car accidents elsewhere in the EU can pursue any insurance claim in our courts, and consumers can get EU judgements enforce here, passengers flying in the EU can claim compensation for delays and cancellations through EU regulations, whilst the UK's membership of an EU Rapid Alert System means we hear quickly of dangerous products discovered elsewhere. In answer to my Written Questions on all of these, I've had only "we're looking at the options" responses.

There are other questions to be answered: will our Competition and Markets Authority continue to work with fellow EU bodies to tackle monopolies and the misuse of market power? Will our national Ombudsmen continue to channel UK consumers' complaints to EU producers, saving us from using EU jurisdictions? Will airline prices soar as UK airlines lose their right to run services within other EU countries, and reduced competition mean higher ticket prices? Will EU surveillance of food products – fresh and processed – be lost, risking more horse-meat scandals and health risks? Will imported car prices soar as tariffs are introduced? Will standard-setting exclude UK interests? Will our chocolate still be called chocolate when sold abroad? And, vitally, can we retain our membership of the European Medicines Agency, in the interest of patients throughout the UK?

Before June 2016, the forward march of consumer policy focused on increased access to ombudsmen (and better enforcement of their judgements), legislation to tackle nuisance calls, ticket-touts, dangerous household goods, rogue landlords, incompetent or criminal letting agents, and customer-unfriendly banks.

2017 will see different challenges as we need to document the consumer rights and protections guaranteed through EU membership, and seek to replicate these either within the Repeal Bill or – as importantly – in the Withdrawal negotiations and final agreement, since many will depend on continuing membership or, or co-operation with, EU Agencies.

However, on such issues, consumers are missing out on myriad of meetings now taking place with ministers. So whilst, to take one example, the NFU, and the Food and Drink Manufacturers are (quite rightly) meeting ministers Andrea Leadsom, Robin Walker, David Jones and other key players, the voice of the consumer to ensure food is wholesome, safe, varied and affordable is lacking.

There has been no organisation with responsibility for making the consumer case across the economy since the Coalition Government abolished the National Consumer Council. It gave some functions to Citizens Advice but not this wide-ranging remit. The independent "Which?" is doing some thinking on this, but without the structure or resources to tackle the whole field.

Labour and the co-operative movement must demand of government that a special way is found to ensure the voice of consumers is heard throughout the withdrawal process or else the people who will pay the heaviest price of Brexit will simply not be at the table.

This consumer voice still needs to be heard on domestic policy, whether in planning transport hubs, ticketing regimes, patient experience, town-planning and retail policy, or in housing and library services. Sector Ombudsmen can help put things right when something has gone wrong. But these are no substitute for getting things right in the first place. Consumers would prefer a product that works to a replacement for one that doesn't.

Consumers, like workers, have no power by themselves. Just as workers need trade unions to represent them collectively, to correct the imbalance between an employer and individual employee, so we need some counter-balance between consumers and corporations.

Not only is the power with providers, whether of goods or services, but so is their monopoly of information, access to markets, price and quality setting without a countervailing voice from users, purchasers, clients. What is required is a stronger consumer movement that fundamentally re-balances the power relationship within markets.

This has been needed ever since the abolition of the NCC, but even more so now, with the seismic shift in economic, standards, fiscal, tariff and trade relationships about to flow from Brexit. The CMA has failed to live up to its role as a champion of consumers, trading standards can correct mistakes but is not a lobby for consumers over future policy, and the government has no interlocutor on behalf of consumers to involve in Brexit negotiations.

The Labour movement also needs to hear this voice. As it launches its consultation on an industrial strategy, seeing to rebuilding the economy, it needs to hear from consumers as well as from business.

The Co-operative movement has long spoken for consumers, and long recognised that together we are stronger than as individuals. As it faces a new century, this is surely a role it could play, speaking for all consumers particularly in the years ahead.

[1] Special message to Congress on protecting consumer interest, 15 March 1962

[33] Defra, 4.1.17

Devolution and shared ownership

James Scott
Policy Officer, The Co-operative Party

The UK's regions have a proud history. They powered the industrial revolution, were the birthplace of technologies that changed the world, and traded goods and influence with all corners of the globe.

Political innovation followed; the co-operative movement emerged in the north west of England and spread across the country, founded by the belief that ordinary people can come together around a common purpose and improve their lives and their communities.

But today the UK's regions – meaning those areas that are sub-national but larger than any local authority – are too often overshadowed by a focus on the centralised power within London and the South East. Over the past forty years economic and political power has become increasingly concentrated in the capital, creating an unequal country where opportunities and wealth are stacked in the favour of those living and working within the M25.

This inequality has an adverse effect on the economy beyond the South East. While many areas remain highly productive, in other places economic traditions have been lost, populations have declined, and a shift to low-skilled service jobs has stalled social mobility. Even with the volume of capital that flows through London's financial centre, accessing investment and support is often a challenge for those starting or growing enterprise around the UK.

A new approach to local economic development is needed – one which recognises the importance of ownership. If wealth and productivity are to be retained within our regions beyond the south east, communities must be supported to establish, own and control enterprise.

How did we get here?

This can and should be a purpose of the Co-operative and Labour movements. Our histories are defined by a belief in the ability of ordinary people to come to together to solve their common problems. It was this belief that led municipal socialists in the late 1800s to use the levers of local government to own, run and supply to their citizens the necessities of life at that time – gas, water, sanitation and education. It was with a similar belief in the power of local action that George Lansbury led the Poplar rent strike in 1921, defying an unpopular central government policy from his base within local government.

Forty years later, this time from within central government, Barbara Castle recognised the need for regions to self-organise their own transport and created the Passenger Transport Executives. More recently, the 1997 Labour government led the way in devolution for Scotland and Wales, seeking to reverse the impacts of deindustrialisation within the regions by creating the Regional Development Agencies.

But this belief has not been enough to halt the centralisation and consolidation of ownership across many areas of the British economy. From utilities, to transport, to finance, many of the goods and services are now designed, produced and owned far from the lives of those who rely on them.

The history of the UK building societies typifies this process. First established in Birmingham in the 1700s as co-operative saving institutions, these highly local associations allowed members to pool their money, lend to those members wishing to build a home, and raise further collateral when needed.

Over the following centuries building societies spread from the pubs and taverns of Birmingham to most towns and cities across the UK before a period of mergers and then demutualisation in the 1980s and 1990s reduced their numbers to forty-four today. All ten of the building societies that chose to demutualise since the 1980s are now owned by conventional private banks. Northern Rock gained infamy when, having overextended itself since becoming a bank, it suffered the first run on a bank in 150 years.

It is often only when we are denied the goods and services we rely upon that the importance of ownership comes into focus.

The consumer banking sector is now dominated by the 'big four'. Together, Lloyds Banking Group, HSBC, Barclays and Royal Bank of Scotland control more than 77% of personal current account market and 85% of business accounts[1]. All but one of these banks are headquartered in London and all prioritise maximising shareholder returns over wider social value.

It is often only when we are denied the goods and services we rely upon that the importance of ownership comes into focus. A train company cancels a service at the last minute without explanation; a care provider only offers fifteen-minute visits to look after a vulnerable family member; your football club hikes up ticket prices again; the service promised by a broadband provider bears no resemblance to the service received.

The frustration felt in such moments is the result of a power imbalance between individuals and the private organisations that supply the essentials of life. When a faceless corporation wrongs us, and there is little or nothing we can do about it, we feel powerless. And it was in the vote to leave the EU, the election of President Trump, and in the rise of right wing populism across Europe that the political responses to this sense of powerlessness are being seen.

Where do we go now?

To challenge this emerging politics, and to rebalance ownership and wealth throughout our economy, we must seize the true potential of local and regional government.

Economic development strategies attempt to revitalise regional economies so that all have improved wellbeing and a higher quality of life. Over the past thirty years this has meant attracting inward investment, developing knowledge based economies and using cultural assets to fuel regeneration.

Such an approach has delivered gains for the UK's regions. Those cities and regions areas that bore the brunt of deindustrialisation have for the most part moved on from its worst impacts, with populations now recovering after long declines and productive industrial sectors beginning to fuel social mobility[2]. Indeed, many of the UK's regions are now thriving.

And yet, the wealth created in these areas is often lost, extracted by forms of ownership that seek short-term profits over long-term productivity. Local economic development strategies should be more assertive, seeking to build regional economies that are diverse, sustainable and resilient in the face of future economic shocks. This means supporting mutual and co-operative forms of ownership throughout their region, whose model locks in wealth for the benefit of each member-owner and the wider community.

The recently established combined city and county authorities have a critical role to play in this task. Alongside maximising the impact of the devolved budgets for economic development (ranging from £15m to £30m per year for thirty years), they will be able to use enhanced political leadership to alter commissioning practices and provide the infrastructure needed to put co-operatives at the heart of their regional economies. There are three practical steps they can take:

- Establish a co-operative investment fund, to be the depository of patient capital invested by public institutions in their region. This would provide start up and growth funds to co-operative, mutual and social enterprise businesses.

- Use their role as civic leaders in their region to broker commitments from 'anchor institutions' to invest patient capital in the new co-operative investment fund. Anchor institutions are those that very unlikely to up and leave – hospitals, university or football clubs for example.
- Use their position of authority to encourage their own and other public sector bodies in their region to procure goods and services from local co-operative and mutual enterprise when fiscally and administratively possible.

There will always be those who dismiss such actions as partial or inappropriate. Indeed such an approach to economic development is no panacea for the deep-seated inequalities dividing the UK. But there are many examples of how co-operative enterprise has, from small beginnings, gone on to transform regional economies.
The Mondragon Corporation is a federation of co-operatives that emerged in the 1940s in the Basque region of northern Spain. Suffering economic and political oppression under the Franco regime, the Mondragon co-operative allowed the Basque region to be more self-sustainable, both in creating and retaining wealth. From small beginnings as a worker-owned paraffin heating producer, the corporation now employees 74,000 staff in areas of finance, industry, retail and education. And in North America, the largest Canadian co-operative provides procurement and distribution services to other co-operative organisations within the region of Western Canada. Its success reflects the economic coherence of the Western Canadian region, and the prominent role co-operatives play in that economy.

We must also not dismiss the role that local and regional government can play in developing co-operative enterprise. For example, Germany's system of federal government facilitates the provision of banking and energy at the regional level. This has allowed co-operatively owned regional banks and energy networks to grow across Germany, rooted in the particular needs of the people they serve.

Conclusion

Power must be urgently and radically redistributed from central government to local and regional authorities, and then into the hands of communities.

For the left in the UK this means accepting and prioritising the role government can play in enabling self-help and self-responsibility in wider society. It means accepting that government is no longer about doing things to people, but laying the foundation for communities to do things themselves. Ultimately this will mean devolving and democratising ownership throughout our local and regional economies, ensuring our collective wealth is locked in and reinvested for future generations.

[1] https://www.ft.com/content/e5e64860-5df9-11e6-bb77-a121aa8abd9

[2] www.ippr.org/publications/the-state-of-the-north-2015

A fair tax movement

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It is unsurprising that the Co-operative Party should have an interest in Fair Tax. Co-operatives do, of course, operate in open markets and it is, therefore, vital to them that there is fair competition.

This is dependent on a number of things. The first is fair regulation that requires openness and transparency from all market participants so that a level playing field on which competition can take place is created. Then it is dependent on such regulation being properly enforced so that cheats cannot prosper. And it is vital that there is fair taxation that ensures that no one secures an unfair advantage over another with the result that market outcomes based upon best efforts are distorted.

It is an unfortunate fact that these conditions do not exist in the UK at present. We know that companies based in tax havens can compete unfairly with those based in the UK, and yet we know almost nothing about those entities, who owns them, how they are organised and whether they pay taxes, or not. We also know that hundreds of thousands of companies in the UK do not comply with the legal obligation that they file accounts each year. In some cases this omission will imply nothing more than the fact that company has not traded. In others it is highly likely to imply that trade has taken place and that no tax will be paid and no accountability is accepted. To put it another way: deliberate fraud is going on. Both appear to be openly tolerated: that is deeply prejudicial to honest UK businesses.

And we know that the tax system appears biased in favour of big business, who not only have better access and advice from HM Revenue & Customs that makes their task of being tax compliant easier to achieve, but who also seem to enjoy too cosy a relationship when it comes to tax avoidance, whether onshore or offshore.

The tax system itself also has biases built into it. Co-ops made up of worker participants will usually reward their staff under PAYE but this puts them at a competitive disadvantage with smaller businesses who reward their owners with dividend payments that attract much lower rates of tax.

At almost every level the tax and regulatory environment appears to be biased against co-operatives, despite the fact that they embody standards that many think should exemplify the desired role of smaller and mid-sized companies in the UK economy. Putting best practice at a disadvantage is bound to prejudice the prospects of the UK as a whole and co-operatives in particular.

The tax justice movement has worked to address these issues since 2003. The Fair Tax Mark has been a very visible part of this campaign in the last three years. I have had an involvement in both precisely because it is my belief that those who seek social justice have to understand that markets help people exercise the right to choose but market abuse of the types I have described threaten the well-being of everyone in an economy.

The question is, firstly, what can be done to tackle these issues in the current environment where the mood on tax appears (at last) to be changing and, secondly, how can co-operatives and the Co-operative Party take a part in this? As a seasoned campaigner it would be easy for me to come up with a long list of reforms but prioritisation matters. What follows are those options I think most important.

The first thing to note is that no one likes a cheat. Perhaps unsurprisingly, it also seems that those who cheat really don't like to be found out to be doing so. This is exactly why a focus on transparency has proved to be so productive in tax justice campaigning to date. What we now know is that fear of being exposed has resulted in a fall in some types of tax haven usage by up to 25%, and the trend looks to be continuing. We also know that large companies hate the risk that they might have their tax cheating exposed on the front pages of newspapers. We can be pretty sure as a result that the same might also be true of small businesses who were also found to be in breach of their obligations. The good news is that things can be done on all these issues.

As a result of pressure from the tax justice movement in 2015 the OECD - the closest thing we have to a body setting the rules for global taxation - decided that all large multinational companies should file what are called country-by-country reports with their tax authorities. These are designed to provide details on a company's trade, including its sales, number of employees, level of investment, profit and tax paid in each and every country in which it trades. At a stroke those authorities were to be provided with information that would disclose which companies were using tax havens and to what extent they were doing so to avoid tax. That's good news, and the UK has enacted law to require this, but one condition of the recommendation from the OECD was that all this data was to be kept secret: we, the public were not to be trusted with knowing this vital information that could deeply embarrass many of the world's largest companies and so encourage them to change their behaviour.

In September 2016 Caroline Flint MP guided an amendment to the Finance Bill through parliament to require the

Treasury to create regulations to require companies to publish this information. The trouble was the government would not accept that any date should be attached to this amendment. Demanding that this information be published as soon as possible is, then, essential and a first campaigning goal.

It's also essential that the UK continue to put pressure on its tax havens to improve their behaviour on tax. None of them currently require that companies formed there put their accounts on public record, and nor do they need to disclose who their real owners are. They are a cheat's paradise as a result and this is not only for tax; this behaviour also provides an artificial competitive advantage that distorts fair markets at cost to honest businesses. This is unacceptable and change is essential. Campaigning for tax haven reform is vital in that case.

Change on the enforcement of UK company law is also essential. It's a scandal that companies who do not file accounts and tax returns as required by company law currently get away with this without almost any real risk of prosecution arising. Simple changes in the law could correct this. Making the directors of companies who do not comply with the law personally liable for its tax debts would be a powerful deterrent.

Requiring UK banks to file a basic annual report to HMRC detailing all the companies they provide services to, what those company's bank account numbers are, where the company can really be contacted is and who the bank think really runs them would deny these cheats the cover they have enjoyed. This is an essential, cheap and easily deliverable reform to drive cheating out of the UK economy: the banks all have to have all this information already for reporting to some foreign countries in the case of companies owned by their citizens, so they must already have it for UK companies as well.

This would, however, only work if HMRC had the resource to chase the cheats down. So providing HMRC with the resources they need to do this is also an essential demand.

And it is vital that in some cases the law be changed: everyone wants to support small business but that some can still pay much less tax by paying dividends seems quite unfair, especially when the same rules also mean the very wealthy often lay less tax than working people. This then has to be addressed by better targeted taxes on dividends.

If this sounds daunting supporting the Fair Tax Mark is a way to do help achieve some of these goals in a very practical way. The Fair Tax Mark accredits companies who are trying to not just pay the right amount of tax, at the right rate, in the right place, at the right time but who also want to demonstrate this by what they publish in their accounts and on their web site.

Three years in to the Fair Tax Mark programme thirty or so companies have don this from FTSE 100 companies to start ups. Many co-ops are included in that number because they are keen to explain to their members just how their tax is paid. The Fair Tax Mark hopes to grow considerably over coming years and demonstrate that businesses are as committed as many in broader society to tax justice. It is notable that co-ops are playing a leading part in this process.

The logic of all this is that tax is at the heart of a fair society. That logic is one that is very obviously being accepted more widely now. However, if change is really going to happen this sentiment has to become part of a political process of change. Nothing else will eventually deliver tax justice.

Co-operative enterprise: a catalyst for change?

Cliff Mills
Anthony Collins Solicitors

What comes first if we want a much bigger co-operative economy?

Some would say that we need to come up with the right models; others would argue that it's a question of money; or that we need the right policies, or a radically new political vision. All of these are probably right, to some extent. But co-operation is essentially a response to adversity; people at the grass roots, facing something they won't tolerate, and deciding collectively that they are going to do something about it. What is it that we really want to change today?

I would argue that too much power is in the wrong place, and it is unaccountable. Private commercial enterprise sucking power out of democratically elected central and local government, and out of communities; an obsession with market-based solutions in the pursuit of austerity, exacerbating inequality with the worst off hardest hit, and the well-off (private enterprise again) best able to weather the storms, if not profiting from them.

Many seem to find helpful comparisons with the 1930s and the inter-war years – the rise of populism and intolerance, an irrational belief in strong men willing to make hard-nosed decisions, an apparent willingness to sacrifice some freedom and diversity for the (false) promise of security. We can understand the reasons for this comparison, but a different one would take in a broader arc of history, and compare our plight today with two centuries ago, not one.

Victorian England was also a time when too much power was in the wrong place, and was unaccountable; a rather embryonic democracy, with a limited electorate was facing the massive disruption of the industrial revolution, a shift from an agricultural to an industrial economy. Huge opportunities lay in the hands of those with wealth and influence – to increase their hold on power without the legislative constraints protecting the powerless – whether as workers, customers, or ordinary citizens.

This was the context in which the self-help of co-operation not only provided an immediate mechanism for the most needy to access wholesome food at fair

> In spite of universal suffrage, parliamentary democracy, an independent judiciary and a free press, unaccountable economic power is once again threatening society.

prices; it provided a direct challenge to exploitation by the more powerful. It enabled those with small amounts of financial capital to band together and do things collectively for themselves and their communities, both lifting themselves and their communities economically out of poverty, and politically out of insignificance.

This new approach to enterprise helped change the balance of power within the UK. As well as increased opportunities for work, and the chance to take control over their own finances (it was indeed "industrial and provident") co-operation provided an opportunity and an essential training ground for those for those who would learn the art of politics from the bottom up. Over the course of a hundred years, through the work of co-operation, trade unionism, the founding of the Labour Party, and the establishment of the post-war settlement, community-based self-help changed history. Co-operation helped to reduce inequality. Power became (more) shared and (more) accountable.

Sadly, it no longer feels like that today. In spite of universal suffrage, parliamentary democracy, an independent judiciary and a free press, unaccountable economic power is once again threatening society. Those who share in the wielding of that power may feel supremely relaxed; but those who don't might just want out. Why should they trust ANY institution any longer, when they have witnessed appalling betrayal by banks, politicians, energy companies, church, charities, police, and the media?

Can a more hopeful and positive narrative be found again within enterprise that operates for the wider public benefit, rather than for private investors? Can co-operative trading change the world?

Casting a vote is a cornerstone of democratic freedom; but it is through our regular economic activities that we most immediately affect the world around us. Who and where we buy things from; who we work for; how we save and store our money for the future – these are the everyday events that shape the institutional landscape we live in. These are the everyday trading activities which the modern world would have us believe can only be carried on for private benefit. Previous generations proved that that is simply not true. What can we learn from them?

First, it is true that you need capital to start a new venture, but it is the activity of trading, and trading in a co-operative way, which generates capital that can be used for co-operative purposes, rather than rewarding investors. Co-operative capital grew exponentially between 1844 and 1900; but that capital was generated by trade, not by "capital raising". So let's try to move away from this language of investment, return and reward, which predicates a capitalist view of the world and constantly tries to control and direct business (and much else besides) by the application of institutional capital, and from the perspective of financial reward. Let's try to see things from the perspective of people who are buying things, trying to earn a living, and striving to make financial provision for themselves and those dear to them. Let's try to imagine people changing their behavior as the driver of change; not institutions moving money around.

Second, what are the sectors which should be the subject of co-operative trading today? Co-operation exploded as a phenomenon in the UK in the latter half of the nineteenth century in retail: the co-operative store. It grew rapidly from there to encompass a substantial part of the broader supply chain, taking it into processing, packaging, production, manufacturing, farming and much else; but the starting point was retail, where traditional business was completely failing to deliver for the neediest members of society.

That co-operative retail heritage continues to be of huge significance today. We should cherish it, and support it in every way that we can as it champions an alternative way of doing business. But in which areas of the economy are traditional business-as-usual approaches now failing? Where is there a desperate need for an alternative? Where are the greatest risks today where lots of people are likely to be let down, ripped off, or simply failed by arrangements which are not meeting their basic needs?

I believe that there are two obvious areas which are our contemporary equivalents to the basic market failure in food retail two hundred years ago.

The first of these is utilities, including energy, water, telecommunications and some forms of transport. All of these are essential requirements for everyday living. At some stage they have all been part of public provision, but (with some small exceptions) they are all now essentially in private ownership. They are owned and operated with a clear priority for private benefit, ensuring that what should be owned and operated as community assets are instead exploited for the benefit of investors.

The "market failure" manifests itself in fuel poverty, customers paying excessive prices, services that are frequently poor; virtual monopolies with challenged regulatory arrangements that have to live with the PLC duty to deliver shareholder value; excessive remuneration of executives; outsourcing; exploited workforces.

The second is care. As publicly funded health and social care services come under increasing stress, privatisation and outsourcing are still seen as the fallback option, even though companies are withdrawing from some parts of care because they can't make the margins they want.

There is a fundamental incompatibility between the profoundly personal interaction involved in one person attending to the personal needs of another, and a transaction-based approach simply pursuing profitability.

The investor-ownership model is predicated on driving down costs, increasing turn-over, and optimising income; these drivers simply do not align with what is needed for care – generous expenditure of time and energy; treasuring the value of human life; putting those being cared for as the top priority.

Investor-ownership does not and cannot care. Meanwhile a binary, done-to model of public care provision can no longer meet the escalating demands of an ageing population, with embedded expectations of entitlement. Decades of continual reform have failed to transform care into a citizen or user-focussed service, and there is no logical reason to expect that yet more legislative change can fulfill the NHS stated ambition to generate the more engaged relationship with patients, carers and citizens needed to promote wellbeing and prevent ill-health. Legislation doesn't change relationships. People behaving differently does.

Care needs a different, engaged and participative approach, which respects the need for care workers and professionals to be properly paid, but works with the grain of personal, family and community relations, and optimises the value and complements the vast amount of caring which happens on an unpaid, often unacknowledged basis. We all need to be part of the solution.

Co-operative and mutual enterprise is actively exploring and developing in both of these sectors; we need to have an ambition for them to be mainstream, not just marginal players. For that to happen, such activities clearly need funding.

The Rochdale Pioneers are mainly remembered for introducing a self-help approach to retail trading; but a key part of this was the individual share accounts of members of every local co-operative, into which their share of surplus was paid, and through which they could start to accumulate personal savings. Co-operative stores were the early high street banks for those on low incomes; and the everyday cash balances of many thousands of people, collectively, provided a capital base to do remarkable things.

Through modern financial services, we have credit cards, banks and credit unions, and so we do not have that same opportunity today. But our savings for retirement, and the funds set aside for our pensions will almost certainly be in the form of investments in businesses which many of us would prefer not to support. There is plenty of capital – our capital – out there; it is just in the wrong place.

If that capital is to be attracted into co-operative enterprises, those enterprises need to be ready to receive it, wanting it and deserving it; if they are to have the use of our savings, then they need to be set up in a way which is most likely to deliver the outcomes you and I would want for ourselves, our families and communities; and most importantly, they need to be trading in the co-operative way, for the common good, which we want to support with our custom, and as workers.

Conclusion

Things feel fragile and uncertain. Our shaken confidence in a whole range of institutions provides an uncomfortable background to a highly volatile political situation; it is not surprising if people are fearful.

But it is in such times that a co-operative response makes sense. We might be more inclined to fall back on our own personal and local relationships – within communities, work-places, colleges and other social groupings – the bedrock of co-operative action. It is in such times that a previous generation, with much experimentation, risk and ingenuity, dared to imagine alternative approaches, and refused to be browbeaten by those who would have them continue to accept the status quo.

Co-operative enterprise needs to find – perhaps is already finding – new, main-stream areas of activity. Our common economic, social and cultural needs and aspirations are bound to be very different in a modern digital age, and we may yet have to reinvent what a jointly owned and democratically-controlled enterprise looks and feels like today. But where we do not have the confidence that the markets or the state will meet our needs, why on earth would we not use our freedom to establish our own voluntary association to meet those needs?

> *"Throughout its history, the co-operative movement has constantly changed; it will continuously do so in the future. Beneath the changes, however, lies a fundamental respect for all human beings and a belief in their capacity to improve themselves economically and socially through mutual self-help. Further, the co-operative movement believes that democratic procedures applied to economic activities are feasible, desirable, and efficient. It believes that democratically-controlled economic organisations make a contribution to the common good."*
>
> - Ian MacPherson, from the Background Paper to the Statement of Co-operative Identity, 8th January 1996

Rebuilding our Co-op

Richard Pennycook
Chief Executive, The Co-operative Group

My first meeting with the current Co-op Group was not promising.

The scene was a wet summer afternoon in 2013, in a service station on the M62. Just weeks before, the rating agency, Moody's had given the Co-operative Bank a 6 notch downgrade; the only precedent for so sharp a downgrade previously was Enron. It quickly became clear that I was being asked to join a new Executive team that was being built, with some haste, to steer the Co-operative Group, and its family of businesses, through the Bank's capital crisis.

I accepted the challenge and those initial few months really were shaped by daily battles to ensure the survival of the Co-operative Group. It is a salutary lesson for us all that co-ops have no inherent right to survive, let alone to thrive. But I also soon realised that if this Co-op was once again to prosper, we needed to be conscious of the lessons of the Co-op's past, and to build on the best of our early 19th century heritage to define our future in the emerging economy of the 21st century.

Britain in the 19th century was the workshop and trading powerhouse of the world. Those who drove the revolution – Britain's workers – were also the victims of the downsides of rapid urbanisation. Poor sanitation, malnutrition and gruelling work in unregulated conditions led to death rates which saw 1 in 5 children die before they reached their 5th birthday, and those who did survive their early years were unlikely to live beyond the age of 40. A few found enlightened employers who cared about the conditions of their workers. The legacy of the Lever Brothers, the Frys, the Terrys, the Rowntrees lives on. But in each case, their founding inspiration is now a historical footnote in a subsequent series of multi-national acquisitions and takeovers.

And then there was the Co-op. Founded in 1844, its principles were incredibly enlightened for the time. It started by providing good, wholesome food, effectively through a buying club. And the Co-op was open to all, for a contribution of a week's wages, regardless of gender, faith, or political belief. It was a pioneer of social mobility and social justice long before the phrases were first coined and it was the original disruptor; the forerunner of modern organised retail. At the turn of the 20th century, when William Morrison had a stall in Bradford market, John Sainsbury a few dozen shops and Jesse Boot just over 100 chemists, the Co-op was a global organisation, with its own shipping fleet, huge warehouses, factories and a network of thousands of shops. They were brilliant traders, who operated with strong ethics but overcame all obstacles by allowing no excuses.

And the Co-op carried on disrupting. The development of the wireless in the 1920s enabled news to be carried live around the world. But the manufacturers' cartel put the price of wirelesses beyond the reach of most people. So the Co-op developed its own wireless, called the Defiant, and opened up the market to everyone by undercutting the cartel.

By 1956 the Co-op was by far the largest retailer in the world, but the rot had set in. The findings of an Independent Commission, chaired by Labour luminary Hugh Gaitskell and with a young Tony Crosland as Secretary, calling for reform of its arcane governance, was ignored. Decades of relative decline followed, as more nimble competitors took share. As is so often the case, when big institutions fail, the warning signs are ignored and early, albeit painful, interventions are avoided.

Until the crisis hit.

While the financial crisis that eventually hit the Group was not inevitable, the governance failings that had been highlighted some 50 years before made it more likely. The crisis not only undermined the financial health of the Group, it also tarnished our reputation and prompted a wider crisis of confidence in the mission and purpose of a large co-operative like the Group. But from those dark days of Rescue, we have set about Rebuilding the Co-op.

Core to our Rebuild is a new Purpose: championing a better way of doing business for you and your communities. No other business of national scale would have this as their purpose, and we are determined to live up to it.

But not for one minute should we slip into thinking that 'being Co-op ' is easy. It isn't. Like any other large organisation, we can benefit from economies of scale. But we also could have run the risk, seen in other large customer-facing businesses, of becoming too remote and impersonal, hoarding rather than sharing wealth and power, failing to listen and engage with the communities in which we trade.

So how are we doing?

Putting membership back into the heart of our Co-op is our foundation stone of Rebuild.

That journey, of course, began with the fundamental reform of our governance framework. It proved a long, and for some, a painful, process as we moved away from the hitherto complex structure of 3 tiers of governance through some 600 elected members. Instead, through the principle of One Member One Vote, we now have a governance framework that gives every member a voice. Over 5 million of our owner-members now have the opportunity to shape, through rights enshrined in our Rulebook, how the business is run for their benefit and that of their communities, rather than the 600 of old. Yet despite all the column inches devoted to the wranglings over our democratic structures, for the majority of our members, engagement through the formality of all AGMs, not just ours, tends to be a dislocated and remote process. It isn't just the Co-op that struggles with voter apathy – the reality is that most shoppers tend to vote with their feet rather than a ballot. So membership of a co-op needs to mean so much more than just a democratic interface.

We have, therefore, sought to ensure our membership offer now speaks directly to members, combining both individual and collective benefits. The personalisation of retail loyalty offers is fast becoming the norm in the sector but we are finding that the combination of individual and community benefits resonates with today's members. The scheme, launched last year, not only recognises the individual through the 5% reward when members trade with us, but also includes the 1% reward for local causes that our members can choose how to spend in the communities in which they live and work. Later this spring, over 4000 local community groups will benefit directly from the rewards that members have generated by trading with us, and the more members trade, the more local communities gain: mutuality in action. By 2018 our aim is that more than £100m a year will go directly to members and their communities as we, in effect, create a new circular co-operative economy.

Our confidence is returning as we think about the impact of our business operations and what a better way of doing business looks and feels like. Exceeding our target to redistribute a million meals to good causes, launching a new retail charter setting out clear principles to foster closer relationships and support for our local suppliers, and publishing a new set of principles agreed with CAMRA about our approach to retail developments, and co-launching a new digital channel to reconnect the community, including millennials, with cooking are just a few examples from the last 12 months of how we are again forging ahead with this better way.

Seeking out new ways to harness our collective strength as a family of businesses and as a community of members at a national level through supporting communities at a local level is also core to our Purpose. At the end of last year, we announced that after a year of heroic fund-raising by members and colleagues, we had surpassed our initial target and had raised £4m in support of our partnership with the British Red Cross to tackle loneliness and the causes of social isolation. Our next step is to fund new British Red Cross services in 39 locations across the UK, to help reconnect 12,500 people experiencing loneliness.

But our commitment is also to hold a mirror up to ourselves, and from spring onwards we will show how action really can speak louder than words as we work with colleagues and members to show how community connections can overcome the loneliness experienced, but often hidden, by individuals.

> But within our Co-op, we now have a clear vision of what we are trying to do, and why. Working for us, trading with us and engaging with us should feel different compared to other businesses.

Our Funeralcare business will expand their 'clubs for the bereaved', which will provide thousands of people across the country with care and social support at a difficult time in their lives. Our Insurance business, in partnership with Neighbourhood Watch, will work together to refresh and expand the network, to help strengthen communities and bring neighbours together. We'll support our colleagues who may be experiencing loneliness, by improving our employee assistance programme and pre-retirement support.

Is there a Co-op Way?

Our journey to rebuild the Co-op has only just begun. We are still living with the legacy of past recent decisions which stemmed from a fracturing of connections between a small minority in the centre and the members and their communities which we seek to serve. At times over the past year, it has felt that more profound disconnections have played out on the national and international stage as the mood of the so-called elite has been found to be at odds with that on the ground.

But within our Co-op, we now have a clear vision of what we are trying to do, and why. Working for us, trading with us and engaging with us should feel different compared to other businesses. Actively listening to Member Voice is a key component of this difference, and even when uncomfortable, we lose touch at our peril with not just our members' concerns and cares, but also their hopes and ambitions. So when we champion a better way of doing business, it will be firmly rooted in tangible action that we are prepared to take, and will be locally relevant, while nationally significant. That is how we rebuild our members' trust, and prove that in small ways, each and every day, co-operation has the potential to change lives. And it's why we are setting out our ambition to recruit during 2017 one million new members, with at least half of them brand new Co-op customers.

As we finished 2016, we could see that both our colleague engagement levels and the public's perception of our brand were above where they had been before our crisis. We're back, and in post financial-crisis, post-Brexit Britain, we have the opportunity to show that the spirit of the Rochdale Pioneers lives on.

Conclusion: **an economy with co-operative values**

Ed Mayo
Secretary General, Co-operatives UK

There is a central choice in economic and business policy, characterised in many of the contributions to this report. Do we co-operate or do we compete?

The traditional economic answer is simple. We compete because if we don't compete, we fail. That is why we have competition policy as a central pillar of economic strategy. But there is an alternative view: that for today's economy we should co-operate because by co-operating, we also compete and do it better. And for that reason, we now need something new, which is a co-operation policy.

Co-operation and traditional neo-liberal economics sit awkwardly together because in conventional free market theory, the interaction of people within a market is between isolated parties. Agents with 'resource endowments' meet each other, and both parties choose whether they want to engage in a transaction. The co-operation that sits behind someone coming to market at all is assumed. The co-operation that can make exchanges of greater mutual benefit (non zero-sum outcomes) is set aside.

We are lucky that the world doesn't conform to theory, because then it might indeed be nasty, brutish and short. As ever, the relevance of traditional, neo-liberal economics is limited by the extremity of its own assumptions. In reality, co-operation emerges between people through a complex mix of emotional, rational, legal, institutional, and organisational means. Sociologists and anthropologists explore the extent to which our willingness to subordinate our interests to those of the group is part of human culture and nature. Biologists explore how co-operation is the flowering of reciprocity designed to maximise the long-term self-interest of the species (that the selfish gene can be best served by hosts that act in non-selfish ways).

The emphasis of conventional economics is on extending concerns for financial return as an organising principle of institutions and markets, but the reality is more of a social economy, in which the behaviour of people and institutions can be shaped by human values.

There is one story of values that has lasted over centuries which sets out the conundrum of wealth. The legend of King Midas is from the early days of Greek mythology. It tells the story of a King, for whom everything that he touched turned to gold. Like all folk stories, you can tell the story in different ways. Aristotle reports that he died of hunger. Other versions say that he was saved by the gods, when he repented after turning his daughter, Zoe (or 'life') into gold.

Are we wealthy if what we touch turns to gold? Or is it that the true sources of wealth are to be found where gold is no substitute? The writer and art critic John Ruskin, in the nineteenth century, declared that there is no wealth but life – and in doing so, he was declaring himself for King Midas' daughter. Family, relationships, meaning – these to Ruskin are then true wealth.

But the story of King Midas doesn't quite square with that – legends never do. He was, after all, already a King, with kingly possessions and a kingdom's obedience. Gold is not without uses, but it is with its limits. In wealth, as in life, balance is everything.

And so it is with competition and co-operation.

Ask people what they value in terms of their quality of life, and money (gold) is outranked by people, family, culture and indeed nature. All the great studies of well-being over the last ten years say the same – that what most predicts how happy someone is comes down to their connection with people around them, rather than the money they earn. Money matters, but only in context.

The challenge of new economics, rooted in a richer systems analysis of behaviour, is therefore to explore models of economic development that chime with these values. The chapters in this collection offer a rich palate of opportunities – from new models of work in which staff can have a voice and a say through to co-operative ventures to address some of the most fundamental human needs of our day – shelter, learning, community. Once you see that wealth is not just gold, but more, then these are the innovations that blend returns of financial and human values. These are the outstanding wealth creators.

Values don't always last. Richard Pennycook in his contribution touches on the values that were at the heart of nineteenth century employers, the Lever Brothers, the Frys, the Terrys and the Rowntrees, to remind us that in each case, "their founding inspiration is now a historical footnote" in a subsequent series of multi-national acquisitions and takeovers.

Tom Watson, in his contribution, cites Annie Besant, who would have seen that change first hand as Bryant and May, a company founded by Quakers, was the site of the 1888 strike by women in the match factories. The strike, a defining moment for Britain's labour movement, was championed by Besant in a challenge to employers running a workplace with phosphorous and no health and no safety. And then, as Richard says, there was the Co-op.

The co-operative sector can perhaps be considered one of the most longest running and most sustainable social movement. Many of the great changes that underpin society today – votes for women, tackling racism, the recognition of human rights – have emerged from social movements.

Not from think tanks or from business, but, as Marc Stears suggests in his introduction, from people beyond the corridors of power organising around ideas that are worth believing in. A prosaic example perhaps is the role of the co-operative sector, biscuits and working conditions. The Co-op Crumpsall Biscuit Factory was the first and only eight hour day works in Britain when it moved to limit working hours in 1901. It was nearly a century ahead of its time. It wasn't until 1998 that working hours in the UK were limited in the context of the European Union to 48 hours.

But social movements – open and fluid as they are - do also have to engage with structures of power in order to make change and a number of the contributors point to some of the contemporary dynamics and possibilities around this. Richard Murphy sets out the agenda of fair tax and the need for government and inter-governmental action, and points to the (co-operative) Fair Tax Mark as a practical exemplar for companies already moving to do the right thing. Jennifer Tankard describes the creativity and diversity of community finance initiatives from Glasgow to Sheffield, which alongside credit unions offer a different model of banking, but also policy needs to change to make their full contribution to a more diverse and competitive banking market possible.

Dianne Hayter reminds us that consumer action is changing the economic landscape around us. Over the last twenty years, there has been a sea change in terms of a move towards more collaborative and effective models of ensuring consumer rights, with the rise of alternative dispute resolution. It is a perfect example of designed-in co-operation in contrast to the obstacles and costs of having to go to court to get suppliers, whether universities or coffee shops, to treat you fairly. In a similar vein, Ruth Yeoman looks at the positive potential of workplaces where employees have voice and ownership, while Tom Watson connects co-operation into an economy and pattern of work that will be shaped in years to come by artificial intelligence and automation.

A number of contributors focus on future changes to business more widely, that draw on the same inspiration of what Cliff Mills terms economic democracy – "casting a vote is a cornerstone of democratic freedom; but it is through our regular economic activities that we most immediately affect the world around us." Matt Lawrence argues the case for profit sharing and how to bring that about. Reema Patel and Tony Greenham focus on the case for changes in our framework of economic governance for business, in particular. James Scott looks at the potential for regional economic growth, as devolution opens up opportunities for a new generation of public social partnerships.

On some accounts, these might be characterised critically as local 'folk' economics or politics, in contrast to a macro level account. But as Robin Murray, Associate of Co-operatives UK and author of Co-operation in the Age of Google argues: "there may be some who remain happy to remain at the micro (a proud anarchist tradition) but most gain their macro picture from their experience of their particular grains of sand and are inspired by it. The green movement for example does not every recycler have a wider vision of a circular economy, and starts a recycling schemes as a way of engaging practically in transformation and learns so much from that practice. There is also a confidence that there are others doing it and their practice together supports the general case for new policy in the battle against the old order who will always argue that the new policies are practical and their conventional ways are the only way." Once you leave that root into practice, he cautions, you are in the world of the unrooted intellect.

> The impact of co-operative values is hard to test, but there is some evidence to suggest that there is a distinctive co-operative effect.

In terms of national policy, therefore the state can be an actor for economic co-operation. Samuel Bowles, who together with Herbert Gintis is one of the leading theorists of co-operation in economic life, argues in his book 'The New Economics of Inequality and Redistribution' that there are still national policies that are positive in terms of *both* equality and productivity. Widening ownership, in the co-operative and mutual model, is one policy that is also recognised by Wilkinson and Pickett as key to addressing economic inequalities.

What then is relevance of the values of mutuality for UK national policy in our current context of Brexit, economic uncertainty and technology change?

Mario Grondona has explored the role of culture in supporting or hindering economic development. He finds that there are three clusters of social norms that explain economic success: values relating to individual behaviour (strong work ethic, individual accountability, agency); values relating to co-operative behaviour (valuing generosity and fairness, and sanctions for those who free-ride and cheat); and values around openness and innovation.

On these, the UK does not currently score all that highly. We have, for example, a very high proportion of workers (23%) that report, according to international surveys, that they do not feel engaged in their workplace. Staff engagement, remember, is often conceptualized as a two-way process – that employment is seen as a co-operative process, shaped not just by a formal contract but also a psychological contract. Low levels of economic co-operation in the workplace therefore come at a cost. The annual economic cost of low co-operation in the UK workplace is around £340 billion, according to the Hay Group, with the effect of halving the total level of British productivity.

A boost of the same level over time would come from a step change towards more open and co-operative models of innovation. Innovation is estimated to account for 70% of long-term economic growth, but UK economic policy assumes that venture capital is required to drive it and corporate patents to protect it. What this misses is the need for chains of innovation built through economic co-operation. Open innovation is spreading as businesses recognise that the most significant source of new commercial ideas is not a Research Department but its wider workforce and customer base. In order to stay relevant, even the most hardnosed investor-owned enterprise has to answer the question of how to co-operate with its own customers and workforce.

New products such as Android software or 3D cinema spread faster when there is co-operation across the value chain of different groups needed to make a success of it, able to overcome blockages if it is not in the interest of any one group to see it succeed. Innovation and diffusion is increasingly recognised as a multi-player, co-operative process. As Ron Adner argues "the need for collaborative innovation has defined progress since the Industrial Revolution – the lightbulb on its own was a miraculous invention but needed the development of the electric power network to turn it into a profitable innovation."

Kai Engel, Partner and Global Coordinator of A. T. Kearney's Innovation and Research and Development Practice, has reported to the World Economic Forum that 62% of businesses across Europe say that a quarter of business revenue is now due to collaboration around product and service innovation. 71% predict that, by 2030, collaborative innovation will account for over a quarter of their total revenues.

Not all co-operation is in the public interest. Bad co-operation includes closed cartels, and forums that are captured by those with economic power. Good co-operation, as the nineteenth century Rochdale Pioneers saw it, is open to new people coming in, and open in the way it works. The value of openness is one of four ethical values (alongside honesty, social responsibility and caring for others) set for 1.6 million co-operative enterprises worldwide. Alongside these are co-operative values and principles – three principles on how co-operative ownership should be structured (such as ensuring that ownership is for those that participate in the business, rather than more distant investors), three on co-operative culture (such as a commitment to community and sustainability) and one on the independence of the business as a democratic enterprise.

The values are guides for action – seen as open-ended, therefore allowing for a deepening of practice over time. Even with a single statement of values, the co-operative identity therefore has multiple personalities. Professor Ian MacPherson, core to their development, believed that values can serve a bridge between the world you live in and the world you would like to live in. 'One can never expect to achieve perfection,' he explained. 'The ideal will always be beyond one's grasp and that is partly what creates the special kind of entrepreneurship one can identify with co-operatives.'

The impact of co-operative values is hard to test, but there is some evidence to suggest that there is a distinctive co-operative effect. An example of the 'co-operative effect' is around Bologna and the surrounding Emilia Romagna province. This has the highest density of co-operatives in Europe, generating close to 40% of GDP and is the region of Europe with the lowest social-economic inequality between the rich and the poor.

The associations of having 10% of GDP generated through co-operative activity has a dramatic set of correlated benefits within Italy as a nation more widely. Drawing on his research in Italy, Harvard Professor Robert Putnam coined the phrase 'social capital' to describe the ways in which the embedded social relations in civic and business life can overlap for the wider benefit of the region, in personal, social and economic terms. OK, it is never straightforward to compare cultures, but it can be argued that, for all its recent difficulties, Italy has over time developed an economy that is in tune with its society, with a strong sense of community and high levels of civic participation. Over ninety out of one hundred Italians say that they know someone they could turn to and rely on in a time of need, a higher level than for counterpart countries.

Outside of Italy, there are other countries where the contribution to GDP is around the same level or higher still. In Switzerland, where the retail sector for example is dominated by two competing co-operatives, the contribution to GDP has been reported as around 16%, while in Sweden, the comparable estimate has been 13% GDP. In Brazil, co-operatives are estimated to represent around 8% of GDP, while in Argentina, thirty thousand co-operatives contribute to an aggregate 10% of GDP.

In France, one of the strongest co-operative economies in Europe, co-ops are now required to conduct an independent audit for members at least once every five years to assess their co-operative difference. The global values offer a prompt, or default, for co-operatives that can then be a reference point for its members. The UK consumer research magazine Ethical Consumer, drawing on an extensive database of ethical and environmental screening, states that co-operative businesses are in the top third of ethical performers in 80% of the markets that they surveyed, and are the top performers in 23% of markets.

The debates on a hard or soft Brexit are framed in the language of what we are leaving and how the transition is made. This is a dramatic economic decision in its own right, but will count for far less if we do not answer the question of what we are leaving for: what form of economy will flourish in the new context opportunities of innovation, knowledge and technology and the new context risks of trade uncertainty, migration and carbon constraints.

There is an opportunity now to make a different choice in economic and business policy – to put into effect a co-operation policy, and not just a competition policy, and to build an economy for a new era which is rooted in collaborative entrepreneurship and human values of openness, fairness and sustainability.

the co-operative party
100 years of pioneering the future
1917-2017

Over the past century we've seen a lot of change. But one thing hasn't changed: our faith in the power of people working together.

In 1844, a group of working people in Rochdale sparked a revolution.

They opened a shop owned by its customers and run for the benefit of the whole community, not just private profit. That single shop would inspire a movement of millions of people across the World.

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Working in partnership with the Labour Party, our team of Labour & Co-operative MPs and representatives in Scotland, Wales and local government ensure that co-operatives – and co-operative values –have a voice in the rooms where decisions are made.

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