FUNDING THE FUTURE: AN ALTERNATIVE TO CAPITALISM

Cliff Mills

Introduction

The UK economy – as with most economies in the developed world – is largely driven by businesses that are owned by investors and for many decades, the profit motive has been its driving-force. While this ownership model provides a powerful driver, it also creates a problem. Being effective at delivering private benefit is all very well, but an economy based on the quest for the private benefit of some does not seek the common good of all.

Trading is probably the one single activity which has the most impact upon people's every day lives, upon human relationships, upon the physical environment and upon the natural world. So the underlying purpose of that trade – what it is actually ***for*** – is of fundamental importance. What trading organisations are designed to achieve, what drives them and the way in which they are owned and governed, have a deep impact on today's world and how our society is organised and governed.

This is even more significant when seen in the context of today's global issues – diminishing natural resources, climate change, and global poverty. It makes little sense to attempt to solve these problems without acknowledging that the pursuit of growth and the maximisation of private gain might at best hinder these endeavour, and at worst be a major part of the problem. There is now an urgent imperative to find a different and fairer basis for business – and for business ownership – that does not ignore today's social and environmental concerns.

There are clear past and present-day precedents for businesses trading for the public benefit, driven by self-help and community support rather than by narrow self-interest. Although such precedents are a long way from being mainstream, these alternative ownership models are being developed to meet today's needs.

This is not a call for a new programme of re-nationalisation. Instead, it is an argument for greater community-based business ownership and the active engagement of a wider group of interests in owning and running socially-relevant enterprises. Significant change will only happen if there is a social movement with sufficient support to make it happen. If we want change, then it is for us – not governments, markets or institutions – to bring about change.

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1. What is the problem?

The problem

Rumours of the death of capitalism are clearly exaggerated. But it does have a serious problem.

At the heart of this problem is the engine that drives the idea – the pursuit of private gain. While it might seem like a stroke of genius to harness that most powerful of human instincts, and use it as the driving force of trading, there is a fundamental flaw: the world has finite resources. In the early 19th century, with swathes of the planet still uncharted and a largely rural global economy, natural limits and physical boundaries would not have seemed to be an immediate problem. In the early 21st century, with dwindling natural resources, a crowded planet and the growing availability of weapons of mass destruction, a global economy that is largely driven by the pursuit of gain through continual growth is both unsustainable, and frightening.

It should come as no surprise to us that an entity designed to maximise profitability is likely to maximise profitability; the individuals in control of it are under a legal duty to do this, and they are commonly financially incentivised to do so. If they fail, then the entity is likely to be taken over by another profit maximisation entity with more successful people in control. A system designed to pursue one goal only is likely to achieve that goal; but it may do so at the expense of other potentially legitimate – maybe even more important goals. What economists call the "negative externalities" – the downstream costs of exploiting natural and human resources in the pursuit of profit – are becoming more recognised and better understood.

The negative externalities might be a price worth paying, if those who bore their cost also shared the rewards; but they don't. There is a systemic problem – a design flaw, perhaps – with the current model of capitalism: namely that most trade is carried on for the private benefit of investing shareholders, and not for the public benefit of all. Most large businesses are owned by investors, and the foundation of this model is that the trade is carried on for the primary benefit of those investors. Shareholder primacy and the predominant duty of directors to maximise shareholder value are the mainstays of UK company law, and of many other jurisdictions. Most trade is carried on to produce a return for private investors; others generally pay the costs.

For sure, large businesses provide goods and services, they generate employment, and for a century and a half have been the mainstays of our economy, providing growth and increasing prosperity (for some). But that has not been the primary objective. Providing goods and services and employing people is the 'how', not the 'why'. The objective of a company is to generate a return for investors, and it does this by trading in its chosen line of business. Only incidentally does this create employment and other potentially beneficial effects.

The exclusive priority of investors is reflected in the structure. Investors are the owners; customers, staff, local residents, and the wider community – including future generations – have very little voice or formal place within the structure. They are outside, looking in, often seeking to achieve some level of recognition or fair treatment; but the investor-owned model – in which a single interest group holds all the cards, and has the inbuilt right to all the proceeds of trading – naturally resists this. It is not a system designed to deliver fairness and equality. As a result, social movements over the years have sought to redress this, and legislation has been introduced to protect the interests and safety of employees, customers, local residents and the natural environment.

Such measures, while helpful, do not address the fundamental problem. A system driven by the pursuit of private gain will always outwit (and strive to outwit) legislation and regulation seeking to protect the common good. It wants to keep costs low (wages, suppliers, waste disposal, for example), minimise its tax bill, and maximise income. Private interest will, on balance, prevail over public benefit. Investors will, on balance, come out better than others because the system is designed to ensure that they will. To put it another way, such a system will never, ultimately, deliver the public good.

This is a hard message. It is not just that businesses – and in particular large businesses – are driven by the need to generate profits for shareholders rather than to promote the public good. We are all now caught up in a culture which sees this as normal. We live in a society which views the accumulation of private wealth and prosperity as every person's assumed agenda; it expects us to behave as 'consumers', shopping for the best and most convenient deal for us, without regard for the consequences; as workers looking for the maximum remuneration and then bound into organisations intent on growth and competition to maximise their profitability; and as savers, looking for the highest return on our investment.

The pursuit of private gain is the dominant driver of the business world, of its institutions, and of many of those who work for them. The pursuit of private gain is not just socially acceptable; it has become institutionalised in modern society.

If we are troubled by this state of affairs, and wish to do something about it, the first step is to understand why it has come about.

Why?

To answer this, the question should perhaps be better framed this way: why has investor-owned capitalism been so successful?

If you want to trade, you need money. It is possible to start a business with very little and to build up slowly, but if you want to do anything reasonably quickly – and especially if it involves other people, land, buildings and other assets – then you need money before you can start, and often lots of it. This was certainly the case in the early days of the industrial revolution, when the brilliant new ideas of steam power and mechanisation became available.

It is possible (in theory) to go to the bank and borrow large amounts (debt funding), but the problem with doing this in order to start a new business is that it is immediately shackled with the obligation to pay interest on the borrowing, as well as the obligation at some point to repay the loan. What is needed is a source of money, which does not need repayment in the short or medium term, and which can wait for its reward or return. This is normally called "risk capital", because the provider of the money takes a risk – about when, if ever, it will generate a return, and whether the capital itself remains safe and can be subsequently realised (because it cannot be withdrawn at will).

The answer to this particular problem was provided by another brilliant invention of the Victorian age – the modern joint-stock or limited company. It provided the mechanism for investors, who became shareholders, to provide their funds – in whatever amounts were convenient to them – and thereby become *pro rata* owners of the underlying business. The shareholders owned the company together; they appointed others to run the business for them (directors); and they could monitor how it was doing through regular reports on the business. If it did well and made a profit, then they would receive a proportionate share of that profit. If it did not do well, then they could replace the directors if they thought they were to blame for the poor performance. If the business was doing very well, then they might be able to sell their shares for a profit, to reflect the growing potential of the business.

Risk or equity funding was ingenious, because it provided a safety valve for the business at times when it was not doing so well. The risk of the company's trading was passed on to its investors; they absorbed the risk of a temporary down-turn in business because they would receive no dividends. They also absorbed the risk of the business failing completely – because their share capital had to be available to meet the debts of the business, all of which had to be repaid before they received anything on a winding-up.

Why would anyone want to take such a risk? They would do so if the prospect of the rewards of success were sufficiently attractive; if the fundamental business concept and plan looked good; if the prevailing economic and market circumstances did not undermine that; and if the team of people running the business were competent, had a good track record and were focussed on delivering what the shareholders wanted – a return on their investment.

The rest really is history. It was a very clever device, and it has become the dominant model for business ownership. Why? Because it does what it sets out to do: it attracts funding for businesses. It attracts funding through the prospect of a financial return to investors. It works because investors are looking for a financial return (that is what investment is all about), and it is a system that is designed to deliver a financial return.

The partial success of investor-ownership

Investor-ownership enabled the rapid transition from a rural to an industrial economy. But the fact that it involves the pursuit of one goal only – which can create substantial negative impacts – and that it only benefits private investors rather than everyone, are serious problems.

There is a further significant problem. It might be thought that a system in which investors are the owners would be able to respond to a change of attitude by investors; that by exercising their ownership rights, investors would be able to make the business do what they wanted. The reality is somewhat different. Although much of the money invested in UK PLC is 'our money' (in the sense that is our pension funds, or savings, or insurance premiums), we do not exercise any influence over the businesses using those funds. The financial system is not designed to enable us to do this; indeed it is likely that we will have little knowledge about where the money is invested, or even who is investing it on our behalf.

So although it is true to say that large companies are owned by their investors and trade for their benefit, the reality is that there is something of an ownership deficit. The businesses **do** trade for the benefit of their owners – their financial benefit – in that they seek to maximise profitability. But it is as if such entities are owned by a fixed **idea**, rather than by people with the ability to exercise any influence. Shareholder pressure groups do sometimes have an impact, and individuals can invest in funds which avoid businesses involved in arms, tobacco, alcohol, or gambling; but generally the investor relationship is a remote one. Executives expect to be left to run the business without interference, to be able to make their own decisions about the extent to which they need to take account of other interests (staff, local community, etc), and to be appropriately rewarded if they deliver the financial results. As individual investors, we have no influence, and no control.

It is a system designed to ensure that the rewards of successful trading go to those who have risked their capital (and to those in charge of the organisation). But customers also take a risk: that the product is less than the perfect solution they have been led to expect (though not so bad as to give grounds to claim their money back). Workers invest (and therefore risk) their time, often their whole-hearted commitment (and sometimes their health and well-being) in serving the business which employs them. The local community, the environment and future generations bear the physical risks of the trade. All of these interests share the risks, but none of them have any share in the rewards.

Investor-ownership moves risk outside the business – it externalises risk – onto other parties who do not have a voice or a place within the business. This gives rise to the need for constant monitoring and regulation – for regulators and quangos to look out for the public good. The pursuit of shareholder value encourages the externalisation of risk; and through profit-based incentives for those in executive positions, the design of the model encourages them to constantly push at the boundaries of what is morally acceptable, or what the business "can get away with" without damaging its reputation and therefore its trade.

So investor-ownership has only been partially successful. Its inherent deficiencies create an imperative: to explore whether there is another way in which business can be conducted. Is there any alternative to the pursuit of private gain as the driver of business efficiency, and as the incentive to attract funding?

2. A historical example

Is there some other economic or business model on which trade could work? What other mechanism is there to fund a business, and to distribute the risks and uncertainties of trading in a more sustainable way? If the pursuit of private gain is not to be the driver of business efficiency and success, what is?

This is a hard question for a number of reasons, not least because we are not simply talking about how businesses operate. Businesses depend upon and are shaped by the society in which they operate, and ultimately by the economic decisions we all make as individuals – as customers, workers and savers. Supermarkets thrive because lots of people go shopping there. The patterns of our economic decisions create the businesses, the institutions and the society in which we live. Therefore, we are not just talking about a change of legal structure for businesses; we are talking about changing the basis on which we all make everyday economic decisions – changing our behaviours.

It is also a hard question for another reason. Having become used to one way of trading and one way of living and thinking, it is difficult to put that to one side and accept the need to search for an alternative. Contemplating a different way of living and a changed basis for society requires a leap of imagination. To assist here, it is helpful to look at a different approach which worked at another point in history.

A different era

The mid-nineteenth century saw the emergence of the investor-ownership model, but it also saw the emergence of a more socially-responsible movement. At the time of the industrial revolution, great hardship and social disruption were caused by the mass movement of people from a rural existence and agricultural economy to an urban way of life and a growing industrial economy. Although much suffering arose from these dramatic changes – over many decades – a great deal was done by many people to alleviate these problems. The names of great philanthropists and the reputations of many leading charitable organisations became familiar during these times. Undoubtedly, they sought to soften the effect of harsh conditions through much good and caring work.

But there was another initiative which sought to address basic human needs, and this emerged not from those who were shocked by and sought to alleviate the suffering of others, but from those who were themselves suffering. This was the self-help movement which came to prominence through the emergence of co-operative and other mutual organisations. These 'societies' were created by people within communities who did not have access to something basic – food at a fair price, protection against illness, finance to buy their own home – and who realised that if they pooled their need with others in their community, they could create what we would today call a sustainable business.

The impetus for such organisations was the essential – and personal – need to make provision for oneself and one's dependants. It recognised that an individual is powerless in isolation, but by working with others to meet common needs, that individual could also meet their own needs. It only worked if that person made a commitment: to commit to trading with the local organisation, because if that individual (and potentially others) took their trade away, the business could not survive. So if an individual was dissatisfied with the service, or products, then as one of the owners of the business (a member of the society), that person could bring their dissatisfaction to the attention of those running the business – the elected representatives or the manager they employed – and get it resolved. It was up to that person and other members to drive the organisation to do better.

A different funding model

How were these businesses funded? The detailed mechanics varied across the different types of business, but they shared a number of things in common. Perhaps the most important thing they shared was an issue which is often overlooked – a basic financial services need: how to keep your money safe. In the days before high street banks, credit cards and cash machines, and at a time when homes were far less secure than they are today, finding a safe place to store cash and keep savings was a problem. Being able to deposit money in small (or large) amounts, and having a regular amount collected each week or paid out of wages was helpful; it reduced the worry of having cash at home.

So the starting point for co-operatives was that people 'deposited' funds with their society, which they were entitled to withdraw when they needed it. This was the start of high street financial services. When their society made a trading surplus (the excess of income over expenditure) which was then to be distributed to members in proportion to their trade with the society, members were able to leave their dividend to be added to their account at the society. Likewise if any interest was paid on the capital they had in their society, it could be added to their account. In this way, members built up their capital over a period of time through making deposits and trading with their society. In other words, the members themselves therefore provided all of the funding – there were no external or investor shareholders.

Just like with companies, the core funding of the mutual societies was by nature risk or share capital – that is to say, if the business failed and it still held members' capital, then like the shareholders of a company they might lose it. However, unlike the shareholders of a company, shareholding members of the mutual societies did not expect to receive (and did not receive) a distribution of the surplus proceeds (profits) of the society's trade as a return on capital. They might, if the business did sufficiently well, receive modest compensation for the use of their money in the form of a payment of interest. To receive a less than commercial rate of return was not a problem; they would get no return if the cash was kept at home, so any payment was a bonus. Beyond that, any unused surplus from the society's trade would be repaid to customers in proportion to their trade, on the basis that if there was a surplus they must have been over-charged on their purchases.

It was up to the members of the society to decide about that at their annual meeting; it would be open to the society (if the members approved) to spend some of the surplus on other things that might benefit the local community. It might be (and often was) spent on newspapers, books, education, the arts and other beneficial social objectives in the days before the existence of a welfare state.

If there was no guaranteed return on capital and the capital itself was at risk in the event of business failure, why did people deposit money with societies? The answer is simple: because they had no other safe place to keep their cash. And if they wanted local provision to exist, then they had to be prepared to provide the means to make it happen. If they wanted to have access to certain services, then they had to take certain risks – the risk of commitment to the business, and the risk of depositing their money there; but if they took those risks, then they would be able to have those services, and their money was safer. This is a long way from the traditional picture of 'investment'. It has no eye on investment return; it is concerned with self-help. If the local community will take the risk of funding the business and trading with the business, then they can have the local service; and their money is safer.

A different business model

The ingenious part of what we would call today the traditional mutual business model was this: the customers who were funding the business had a powerful incentive to minimise the risk to the money they had deposited there – **because they were the customers and the owners**. By maintaining their loyalty to the business and encouraging others to bring their trade there, and by using their relationship as members to resolve dissatisfaction rather than taking their trade away like consumers, they could drive the business to improve and be more efficient. They had a real incentive to do this – not only did the continuation of local services depend on it, but the security of their capital did as well.

There was one other distinctive feature which seems unfamiliar today. Members owning shares in their society did not think of themselves as owning a share in the underlying value of the business. That is a concept which we have come to take for granted today through the prevalence of investor-ownership, a system in which those who provide the money are 'investors' and treat their stake as an 'investment' which they can sell. Members of societies did not think in this way, because the society did not exist in order to create capital value: it existed to provide goods and services, for today and for future generations.

This was not just a different ownership, business and funding model; it was a different way of distributing the risk of trading. These organisations were competing with traditional privately-owned businesses, by trading for the public or community good – to make goods and services available to anybody who wanted or needed them. The community bore the trading risk, but could manage it as customers and as members through the proactive use of membership rights. This was a different way of trading – it was an alternative to the traditional capitalist, investor-owned model.

In truth, this was not just a different way of trading or doing business; it was a different basis for society. It operated on the basis of people behaving as citizens with a collective sense of responsibility for themselves and others, rather than as selfish consumers. It engendered this behaviour not through some altruistic or philanthropic motive: rather, it arose because ultimately such behaviour was in the interests of individuals who wanted the goods and services (and wanted to minimise the risk to their capital deposited at the society). By working together with other people, who all shared these needs, it provided a sound basis for society.

The traditional mutual societies were hugely successful in their day. The self-help business and funding model worked, and these organisations prospered. The pursuit of the common good was an effective basis for doing business, and a successful alternative to conventional capitalism.

It was a successful business model because it had a low cost of capital, it was inherently customer-focussed, those in charge remained directly accountable to those whom the business served, and it was driven by the mutual self-interest of people who had voluntarily decided to work together to meet their collective needs.

So why have these organisations been marginalised today? If it was such a good idea – and such a good business model – why did it not prevail?

3. What happened?

Between the middle of the nineteenth and the middle of the twentieth century, the number of traditional mutual societies and their share of their respective markets grew dramatically. By the 1940s, for example, 14 million people were members of friendly societies; there was a building society in most towns; and by 1965 co-operative stores accounted for 30% of the UK food retail market. This success did not last, however; the latter half of the twentieth century was marked by drastic declines in these organisations, and a number of factors contributed to this.

It is an irony that one of the consequences of the creation of the welfare state was a decline in mutual societies and co-operative organisations. Although such organisations had provided a great deal of welfare support in the communities in which they were a part, this provision was patchy. Many were swept up in the creation of universal state provision. Whatever communities had previously provided for themselves was subsumed within centrally-funded provision. While this heritage doubtless contributed to the evolution of what we now recognise as a public sector ethos, the change from community provision to state provision severed a vital link. The payment of taxation to a remote bureaucracy replaced the regular weekly payment of money into locally-controlled funds and organisations which were visibly providing support to the local community. This change started to erode the popular familiarity with the self-help business model – and the social bonds which held communities together.

The introduction of state education, a National Health Service, and a range of other public services – accompanied by the creation of huge state-owned businesses through the nationalisation programme – resulted in a vast state or public sector. State provision became a major part of the UK economy and, in the national mindset, this established public or state ownership as the alternative to private investor-ownership. These became the two options: state or private. When it came to dismantling and reducing the state sector from the 1980s onwards, the self-help business model had been side-lined. The obvious – if not the only – option was private investor-ownership, and this led to the privatisation of gas, water, telecommunications, rail, airports and airlines, along with many others.

Why had the self-help business model become sidelined? By this stage, co-operative retailing was in difficulty. It could not offer the rewards to senior executives (share options) which the rapidly rising PLCs could offer, and privately-owned retailers were making serious inroads into market-share, as prosperity increased and customers became more choosy. Increased mobility, the abolition of retail price maintenance, and the growing availability of a much wider range of alternative suppliers – a very competitive market-place – substantially removed the problem to which traditional co-operation had been a response. Meanwhile, the transformation of the financial services industry on the one hand provided a variety of other convenient ways of managing cash; but on the other, it left building societies with a stark choice: abandon the old business model entirely and convert into a bank, or face the consequences.

By the end of the twentieth century it no longer made sense to **join something** in order to access everyday goods and services. Not only were there plenty of alternative sources of supply, but the prevailing culture of consumerism, and the pursuit of individual prosperity and happiness, left traditional mutuality looking like a relic of another age. The movement only just survived – not least due to its portfolio of prime property sites and historic cash reserves. But the self-help business model no longer seemed to be relevant, and was fading from the collective memory.

It wasn't that the model was broken – it had just been overtaken by events, and made irrelevant by a culture in which doing things collectively for a shared or common good no longer seemed to resonate. What was the point of being a co-operative in an individualistic and consumerist society? It just did not make sense.

Revival

Yet in spite of all this, traditional mutuality is currently going through something of a revival. The steady decline of the co-operative share of the retail food sales has at last been stopped and is on the increase; new customers are flocking to the Co-operative Bank; and there is even a growing lobby to 'remutualise ' Northern Rock. What is the explanation for this?

Firstly, mutuality itself changed. The Co-operative Movement went through a difficult and dark period during which its very survival looked uncertain. It was during this period that the Co-operative Commission was appointed, and it reported in January 2001. Amongst its many recommendations was the promotion of the so-called virtuous circle: the attainment of social goals providing a competitive advantage leading to commercial success, which then reinforces the ability to meet the social goals. Commendable though this was, being a co-operative with social goals was not itself enough in 2001 (even assuming the goals were achieved), to win trade. The more important message of the Commission was the much harder-edged commercial one: improve on quality and price or disappear completely. Things did improve, dramatically, and this did make a difference to trade, to the point now that co-operation is in a position to use its ownership structure as a selling point rather than something to keep quiet about. It is producing dramatic results.

The wider mutual sector has also become better organised on a collective basis. Over the last ten years or so, building societies, credit unions, friendly societies, mutual insurers and co-operatives have been working together to promote themselves, and to increase recognition of what they have to offer, in contrast to investor-owned businesses. The message has become clearer. This has resulted not just in new legislation to address specific problems, but also in the application of mutual and membership based models in public sector reform and elsewhere. The development of NHS Foundation Trusts, Co-operative Trust Schools, the birth of the Supporters Trust movement, and the development of new mutuality in a number of areas can be directly traced to this. They have raised the profile, once again, of an alternative to private investor or state ownership. The idea is becoming mainstream again, whether under the guise of localism, community ownership, or social enterprise.

It is becoming mainstream again because mutuality has been getting its act together. But there is another reason – namely a dramatic change in the bigger picture.

The change started some years ago, with the growing awareness of the plight of growers and producers, particularly from poorer economies, and developments such as the advent of the fair trade movement. A significant number of people started to be influenced in making everyday economic decisions not just by price, quality and convenience: something else also mattered – something to do with how the product they were buying was produced, where it came from, who was affected by its production. A sense of 'fairness' – or values and principles, as some would call it – was becoming relevant. Popular support for small, local and ethical businesses and for enterprises trading for a social purpose was increasing. Enterprising individuals, who were passionate about something, whether it was wholesome food, healthcare, sport or the arts, were increasingly interested in trading on a business basis, but where the purpose of the trade was to provide the service, not to generate wealth.

A growing sense of fairness or social justice is one of the developments in the bigger picture. Another is awareness of climate change. The general and now wide-spread acceptance that the activities of people are having a damaging effect upon the future viability of the planet, is still a very recent development. While governments are seeking ways to meet the challenge of climate change, the reality is that our modern form of democracy struggles to address it. It is difficult for elected politicians – under the pressure of short-term electoral cycles – to bring about wide-spread change in people's behaviour, which is what is needed. Only a popular movement for change is likely to be able do that. While the issue of climate change is making people aware of the need to take personal action, the social structures and community networks needed to facilitate collective action have largely faded away. Models of self-help therefore look more attractive today because they provide a mechanism for people to work collectively together to address difficult issues.

The global economic crisis is the most recent and potent factor in changing the bigger picture. It has resulted in a fundamental change in attitude to the traditional business model of investor ownership. Prior to that, since the collapse of communism, investor ownership had not just been the dominant business model; it really was the only show in town. It was **the** idea, and questioning its validity – or suggesting that it was inherently flawed – was unthinkable.

Recent events have changed that. Intellectually, the previously unquestioned assumptions are now open for discussion. The old 'certainties' have gone. At grass roots level, the change from a general feeling of prosperity and security to a feeling of worrying uncertainty has been dramatic and sudden. More difficult circumstances and anxiety about the future undoubtedly affect how people think and behave. There is a natural tendency to band together, to look for and talk about ways of addressing immediate difficulties, and finding common solutions which help individuals and others in need. Self-help revives in the face of adversity when other sources of help seem to be failing.

The context today is therefore very different from that of ten or even five years ago. Perhaps it gives rise to a more sober and reflective mood. The resurgence of interest in mutual and membership-based models of ownership, both in terms of existing and of new organisations, suggest that the self-help business model may have a contemporary relevance which is more than just marginal.

The recent economic difficulties have damaged the credibility of investor-ownership. Damage has been caused because of the perception that the loss of thousands of jobs and the collapse in the value of shares – affecting the savings and pensions of many people on modest incomes – are at least in part caused by greed and the pursuit of private interests. The profit motive is not a popular concept at the moment. The pursuit of huge gains by some prominent individuals in the commercial world, and the apparent failure of a significant number of politicians to understand how their behaviour in optimising personal private gain is unacceptable, have made this even worse.

So, given the social context, recent developments in mutuality and the prevailing economic circumstances, the self-help model seems to be both relevant and appealing. But how will it meet today's needs?

4. Self-help today

Self-help is an approach to solving a problem. It is best therefore to explore its potential use today by starting with a contemporary problem – climate change – and considering how it might play a part in addressing the problem.

As already observed, climate change is an issue which it is difficult for governments and elected politicians to address because it needs people to change their behaviours. In the UK, there is also growing concern about energy security – the increasing dependency on supplies of energy from overseas given the UK's dwindling fossil fuel resource and its failure (in comparison with European states) to develop effective local power generation. Not only does this give rise to a much greater need for energy efficiency at a domestic level, but it also highlights the UK's low level of community-based generation. Lack of popular engagement in the subject is also a problem, perhaps in part due to complacency arising from the country's historic availability of North Sea gas and oil. Although many people are becoming concerned about the issue of climate change and the need to move from a dependence on fossil fuels from overseas to local low carbon alternatives, doing something about it is much more difficult. What can individuals do, and what is the point of doing anything anyway unless lots of others do it too?

The first challenge therefore is to engage significant numbers of people in the issue. As already observed, self-help needs to be driven by self-interest, and the best place to start is with saving money. In relation to energy costs which have increased dramatically over recent months, each of us can usually make some saving, at least for a period, by switching energy suppliers. However, if between 500 and 1,000 households group together and work collectively to purchase their energy, they can typically save 15% by buying energy on the wholesale market. This is a significant incentive; it also brings the possibility of smart-metering, which enables people to see immediately the cost of switching on/off their heating, boiling a kettle, and using other appliances.

The creation of a local purchasing collective not only cuts costs, but it also provides the means through smart metering for people to monitor closely and manage their energy consumption, thereby further reducing costs. A local community project of this nature can then access grants and other incentives available to encourage people to save energy (insulation etc.) and become more energy-efficient. It can deal with a local authority or other agency on behalf of a large number of people, and can disseminate advice and guidance to its members in a non-threatening locally-relevant way. It is a low-cost way of engaging, informing and encouraging people.

After a period of smart-metering and the capture of data, an accurate picture is available about the energy needs of a community. The purchasing collective can continue to buy energy on the open market; but it might wish to consider whether there is any source of low carbon energy available locally – wind, solar, hydro or biomass. With 500 to 1,000 homes, and perhaps a school, local business or other commercial consumer of energy, replacing energy bought from the market with energy generated locally becomes a possibility. It enables a community to take proactive steps towards taking control of their energy needs, remove dependency on fossil fuels, and reduce exposure to spikes in energy costs.

With a predictable demand, relatively fixed costs and attractive prices to be paid for energy transferred into the grid, it would not be difficult to illustrate the financial impact of establishing a community-owned energy project. If the initiative for such a project comes from the community itself, then the dynamics of the planning process – the point at which many such projects are defeated – is very different, with the local community looking for a solution, rather than external investors looking to exploit an opportunity often against community opposition.

But how would such a project be financed? Traditional investment funding is not necessarily the answer for a number of reasons. Such schemes either do not yield a sufficiently attractive return on capital to attract investors, or if they do and become owned by investors, they are vulnerable to sale and loss of local control. If owned by investors rather than open to ownership by the wider community, there is always the risk that the organisation will use its position to increase prices in order to optimise the return on capital. This may then cause a loss of local support and custom, and risk for the ongoing business.

An alternative is to use a modern implementation of traditional self-help: to enable anybody in the local community to become a customer and a member (and therefore an owner); and to seek capital funding from those in the community in a position to provide it. This could be on the basis of, say, ten or fifteen year term shares, repayable at the end of the term to ensure an exit, with a modest level of interest payable on the shares providing that the necessary surplus was achieved. This is not traditional investment funding: it is self-help funding by a community in order to ensure that it has the local provision.

Why would anybody provide funds for such a project? For a number of possible reasons but primarily to have a local source of renewable energy and thereby help to reduce costs, and reduce reliance on the wholesale market and fossil fuels. It also provides a low-risk place for savings, with a modest return. For those with existing savings or investments, or those planning to save for retirement, there is a further attraction in placing some funds with a project such as this. As a member, there is the opportunity to exercise some influence to keep pressure on the organisation to meet local needs. As a customer of the business and somebody willing to encourage others to become customers, there is the opportunity to support the business directly, and thereby to reduce risk to the business and its capital funds.

By way of illustration, a typical community project of this nature costing £2 million would need a thousand people each contributing £2,000 for a fixed period; or twenty more affluent households contributing £25,000 each, two hundred contributing £5,000, and two hundred and fifty contributing £2,000. A local business or other organisation may be willing to contribute a larger sum – not only will it create the chance to buy some future energy security and help to control costs, but the money will be repaid in a specified period, and in the meantime is likely to yield a modest level of interest.

The dynamics of the business model are in principle very similar to those of the village co-operative shop in the nineteenth century: it would only come about in the first place if people were willing to commit to it, and support it with their business and their capital; but if they did, if they maintained their loyalty as customers, and exercised their rights as members if things needed to be adjusted or improved, then the business would be sustainable: their capital would be safe, and the continuing service would be available to them at a cost which avoided any payment to investors, and on a basis which avoided any distortion of the business away from its commitment to serving the needs of the community.

In previous times, such an economic and business model worked for retail and other essential services, not least because it also provided a convenient place for people to save their money, at a time when financial services were not otherwise readily available. Things are very different today – the management of cash has been transformed with bank and building society branches in many towns, credit unions, and the wide availability of credit cards, and cash machines. However, saving for retirement today and the likelihood that our funds are currently in the form of equity investments (whether directly or indirectly) pose different issues. It may be sensible to save and invest for growth for the future via traditional equity investment; but it also makes sense to have some savings elsewhere. The volatility of traditional investment, not to mention concerns raised by recent economic events, suggest that there is a pressing need to continue to explore different models of ownership and funding.

The likelihood is that self-help funding will have a role to play again. While it does not seek to provide a financial return (though it may deliver a limited or modest rate of interest for the use of the money), its basic aim is to ensure the local availability of basic goods and services – itself a significant benefit; and unlike the detached or remote arrangements with traditional investment, it can provide a direct means of involvement with the business being funded, the opportunity to influence the trade as a member, and to support the business as a customer. It helps to ensure not just the continued local availability for each customer, but into the future as well.

This approach to funding is likely to play a role in the development of community-based low carbon energy initiatives, and other new technology areas such as fibre-optic cable for fast broadband. It is also likely to play a role in areas like sport, where fans of football and rugby clubs wish to get together to finance the purchase of their club, and buy out investor owners who are perceived to be exploiting the fans to generate income. It may yet provide a role again in relation to mainstream public services. The difficulty of funding services to the level which is now considered to be the norm, the need to replace aged public assets, and the desire to build new schools and hospitals, all require access to funds which are unlikely to be available from central taxation. Why should the members of an NHS Foundation Trust not use some of their retirement savings – ideally through an Individual Savings Account (ISA) to fund the building of a new community hospital, rather than to fund publicly listed companies trading for private benefit?

5. Reclaiming the power of democracy

Self-help worked in the nineteenth century because it provided the only way out. People who did not have access to the things they needed had to find their own solution, because the alternative was destitution. The extreme conditions and the lack of any effective state or alternative provision left them with no choice. The mutual or self-help solution was a response to this crisis.

A lot has changed since then, and conditions are very different in the UK today. Although the state's role is substantially diminished, it provides citizens with much support through healthcare, welfare, education and other public provision. Economic crisis notwithstanding, there is a competitive supply of goods and services for anything we could conceivably want, with the internet providing access that previous generations could not have dreamt of. The problem to which self-help provided a solution nearly two hundred years ago is often now perceived to be solved by the market – competitive, privately-owned businesses, seeing the opportunity to make a financial return by offering something for which there is a demand. Surely, self-help is no longer needed today because investor-ownership or the market provides the answers?

Well, it is certainly true in the West today that access to goods and services is not the problem it was a hundred and fifty years ago. The problem for us today is not access (although that may become a problem in relation to energy in the near future) – it is how those goods and services are produced and delivered. It is the impact of the current mechanisms and systems for producing and delivering goods – the impact of trading and the mechanisms of trading – upon the natural world, upon society and upon individuals involved in or affected by that trading. It is the need to remove the dependence on fossil fuels, to find a viable future for public services. Does the self-help model have any relevance in addressing those problems?

If we believed that there was some other way of dealing with these issues, then the answer might be no. But the economic crisis, climate change, constant media images of social injustice, and the crisis in funding public services have changed things beyond the point where people can just sit back in the expectation that somebody else – governments, international financial institutions or markets – will find a solution to the nation's and the world's problems. We know that governments and markets will not solve these problems, and that we cannot continue living a culture of consumerism and inward looking individualism which is destroying the planet, society, and diminishing our own humanity. The extent to which investor ownership and the pursuit of private gain have been a cause of today's global issues can be debated; but it cannot be credibly argued that they provide a solution. So what will?

The answer is that **we** have to provide the solution – ordinary people, sharing a desire to find a different way to meet our own needs and those of fellow human beings, facing our own particular circumstances, difficulties and opportunities; and bringing our own particular knowledge, skill and experiences to bear on the challenge. This can be done using bottom-up organisational structures, which ensure that individual voices are heard. If governments and markets cannot solve the problems, then a popular social movement for radical change is needed.

Our choice

The patterns of our economic decisions create the businesses, the institutions and the society in which we live. The trading organisations and institutions which we have today reflect the way we behave. If we don't like the basis on which they are established and operate, then it is for us to change: to support and encourage new businesses which challenge the basis on which traditional businesses operate, rather than weakly saying that we are too small and insignificant to do anything about it. In reality, making positive choices about where we buy things from, who we work for, and how we save our money give us immense power to change the world we live in; yet we are still lured into making these choices to further somebody else's private interests. We disempower ourselves by the choices we make.

There is an alternative to investor ownership, but finding it requires individuals to decide to choose something different – to turn away from and reject a system which cannot provide the solution, and is now part of the problem.

Self-help is a mechanism by which citizens can work together to reclaim power in order to meet their own needs and the needs of others; it strives to deliver the public good by attending to the needs of the individual – and of all individuals – through collective action. Self-help and collective action are not, and must never again become redundant if democracy is to be achieved and survive. Democracy is a state of mind in which we all participate in the affairs of our society, each in their own way, and in their own time. Self-help and collective action need to flow through the veins of democracy; they are its life-blood. Somehow we have forgotten that, and have been lured into a false belief that we can leave somebody else to look after the public interest, and we can get on with living our lives as narrow, inward looking individuals, 'consumers', looking out only for our own interests. That is no society; but it is what we have brought upon ourselves.

What is currently needed is a popular movement for change. Even though many people are suffering, many are dissatisfied, and many strongly believe that much about the current way of living needs to be changed, it almost feels like we are waiting for some public announcement, some political leader to step forward and tell the world that they have found a solution. It will not happen. The sort of change currently needed most probably cannot be achieved by governments; and the last thing we need in the current circumstances would be a solution from on high – another top-down, domination-based answer. **We** need to tell governments the answer, and start to deliver it ourselves, because they do not have the authority to do so. Why can we not see this?

The answer is probably simple: we are stuck in a mindset in which we expect other people who are in positions of responsibility to deal with the big issues. We assume that politicians, business leaders, regulators and others in positions of formal authority will sort things out. In a consumer culture, we are used to being passive observers of such things, having no real power or responsibility ourselves. Not only are we used to it, but we actually like it, and even prefer it – provided we can get a decent deal (which many of us have been). The more we can expect and rely on other people to do things for us, the less we have to worry about. We just need to make sure (or so contemporary thinking would have us believe) that there is plenty of regulation to keep these people under control; and plenty of accountability (whatever that might mean).

Conclusion

There is an alternative to capitalism: where the reason for trading is not the (selfish) desire to make a private profit, but the (self-interested) need for the sustainable provision of goods and services; and where the proactive driver is not the maximisation of private gain, but the pursuit of better results for all of us – for the common good.

This alternative is available if, and only if, we – as customers, workers and savers – choose to have it. It requires no act of government, no decision by big business. It involves reclaiming the power of democracy. It requires ordinary people to resolve to use their economic powers of everyday decision-making to create and support a different economic system, a different way of living, and a different society.

It really is up to us.

Cliff Mills
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With Mutuo, he has promoted the development and application of mutual and co-operative models of ownership in the public sector. The aim is to create robust models for the community ownership of large businesses trading for a public or community purpose. Based upon membership by users, staff and local community, such models are in increasing demand in the delivery of public services.

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