

Back to the Future: Mutuality 2.0

A recent report in The Observer announced that a group of Labour MPs had called for the re-mutualization of Northern Rock and Bradford & Bingley. Both banks had previously been mutuals in the form of building societies, until opting for de-mutualization as part of the economic transition initiated under Margaret Thatcher in the 1980s.

This call is not unexpected. The current context has led to a growing distrust of banking and private finance if not of capitalism itself. Many of those pointing to the excesses and misdemeanours of 'casino capitalism' have argued that the only option is the nationalization of all those banks which have been 'rescued' as part of the general bail-out or stimulus packages. There are others, however, for whom any call for wholesale nationalization evokes what they see as an inevitable return to the inefficiencies and inadequacies of the 1960s and 1970s: The Scylla of toxic debt; the Charybdis of British Leyland.

In America the 'N' word inevitably conjures up images of Soviet commissars and apparatchiks. There is a general uneasiness about nationalization, although the public sector as such, so long in retreat under the onslaught of Reaganomics and its off-shoots, is now being called on to grow as never before.

Yet there are still some placid backwaters in the midst of this disarray and confusion; they usually go under the headings of 'friendly', 'co-operative', 'benevolent' or 'mutual' societies, particularly the investment and finance organizations in that sector. The idea of mutuals, in the form of building societies, dates from the late 18th century when groups of people got together to pool resources so that between them they could eventually buy the land, materials and other resources needed to build each of them a house. The earliest of these were all 'terminating societies', so once everyone had a house, the organization ceased to exist, with any residual funds being distributed amongst the members. The last example of this was the First Salisbury Society, which was only dissolved in 1980. By the late 19th century, however, other forms of building society were developed, permanent ones, as places where people could invest their savings with some degree of security.

Building societies were initially governed by legislation for friendly societies, but during the course of the 19th century specific legislation was brought in, particularly when permanent societies began to emerge. In general there was strong government support for these organizations, since they encouraged people to save, and in general provided a very cost effective service. Although it is worth noting that some of the legislation was required to deter investors looking for a fast return, often based on questionable practices.

The distinction between banks and building societies came to an end in 1986 when a new Act came into effect that allowed demutualization. This was not widely taken up until the 1990s, but eventually by the time the B&B demutualized in 2000, most of the larger building societies had opted for this.

At present the size of the mutual sector is small, both in terms of the number of organizations and their overall funds; but in 2008 there was significant growth in lending by mutual funds; although the figure is still very small in comparison with the finance sector as a whole. (CDFA – Community Development Finance Association <http://www.cdfa.org.uk/>)

Until the recent liquidity crisis, it might have seemed as if the concept of mutuality was a remnant of a bygone era, superseded by the Reaganomics and Thatcherism of the 1980s. But with the ever-worsening credit-crunch and general economic melt-down, it is perhaps time to dust off some of the old ideas and examine them as possible alternatives – or better still, look at ways in which potential alternatives can be developed from combining lessons from the past with possibilities from the present.

The current position, particularly with regard to the banks is something betwixt and between, with many advocating nationalization, while others are arguing for a continuation of private ownership. The shareholders themselves do this latter option little favour by clamouring for compensation while seeking to retain ownership in some form; it seems as if when the going gets tough, the free-marketeers get civic-minded, but only to a limited degree.

Mutuality might seem to smack of something from the 19th century, but it might also be an alternative well worth pursuing. Moreover it is possible to glimpse mutuality in some far more recent manifestations that may themselves present ways of moving forward from the current morass. Most people have heard of, if not used, Wikipedia; many use packages such as Firefox, Apache or Open Office. Even those who don't, probably use software that itself builds on these and other *open source* systems: And it is the model upon which open source is based that presents an exemplar of 21st century mutuality. In fact most people familiar with the Web will have come across another manifestation of this – Web 2.0.

Mutuality 2.0

The Open Source movement came onto the scene in the 1990s with the appearance of Linux, a computer operating system, i.e. the software that links the hardware of a computer to other software applications. The idea of open source was that anyone who was interested could adapt and improve the system, something that should have proved a recipe for disaster, but in fact resulted in the flourishing of a complex system that has grown to rival the proprietary ones such as Microsoft's Windows. (The Linux system is not quite as anarchic and uncoordinated as might appear at first sight; a degree of control is retained by its originator, Linus Torvalds, and a small group of colleagues who all work voluntarily.)

The concept itself has been taken up in many other areas, the most widely known being Wikipedia. In general terms the idea has been developed further in the work of Don Tapscott and Yochai Benkler. Tapscott has coined the term Wikinomics, arguing that 'mass collaboration changes everything'. Benkler promotes the movement in more general ways as one of 'commons-based peer production',

writing a book called 'The Wealth of Networks' – echoing Adam Smith's 'The Wealth of Nations'.

All these trends came together around 2003 with the idea of 'Web 2.0' (pronounced 'Web Two Point Zero'). The essential idea being that the world wide web had moved from primarily being about the storage and retrieval of information into a fully-fledged basis for communication, social interaction and participation: Witness the emergence of social networking and mass participation technologies such as eBay, MySpace, YouTube, Flickr, Facebook, and Twitter.

These are not simply ways of passing the time or exchanging music, videos and instant messages. They can and do really amount to a basis for a fundamental rethinking about social interaction, communities, and collaboration. Certainly there is a great deal of hype around these phenomena; but there is also a great deal of genuine substance to what is on offer.

Although Tapscott and Benkler are two of the most well known figures associated with these developments, Eric Raymond can lay claim to being the first and foremost proselytizer for the open source movement, particularly his essay 'The Cathedral and The Bazaar'. Raymond contrasted the concept of a cathedral – long in detailed planning, fully conceived of to a detailed extent, and fully constructed prior to opening; with the bazaar – a constant babble of contending interests and agendas.

The bazaar model shouldn't work; but it does; Raymond calls it 'miraculous'. In essence it is akin to Adam Smith's invisible hand. Smith, writing in the 18th century, argued that although individuals would always work towards their own best interests, at a more general level this all contributed to the general good even though none of them actually had this as an objective. Raymond argues in similar vein, and is a keen proponent of the market, both as a monetary model and in more general, social terms. He is a libertarian and strong advocate of both the First and Second Amendments – i.e. freedom of speech and religious belief, and the right to bear arms.

On the other hand, the bazaar model lends itself equally to a contrasting position that stresses its collaborative aspects. This in fact builds on the ideas of some of the early pioneers of the internet, even before the worldwide web came into existence; the communitarian strands that grew in the 1960s and managed to sustain themselves thereafter. A prime example is the WELL – Whole Earth 'Lectronic Link – which grew directly from the people who had developed 'The Whole Earth Catalog' in the 1960s.

Since its initial appearance, with Linux in the early 1990s, the open source movement has influenced or found resonance across a wide range and disparate set of interests and groupings. This new form of internet-based mutuality has been taken up by the libertarians, the communitarians, and the financiers. Each has found its own rationale for this new form of collaboration. For the libertarians it has been promoted and advocated on the basis of its anarchic character, allowing a babble of

different agendas, free from central control – particularly government and other quasi-governmental bodies. For the communitarians it represents the sort of alternative basis for cooperation and solidarity that had previously been all but impossible on anything other than a small and local scale. For the financiers it has proved to be the platform upon which a truly global, supra-national financial system can be established – able to evade any local or national control or other forms of regulation, simultaneously offering high volumes of near-instantaneous transactions at negligible cost.

In many regards this is similar to the strange coalition that gave the world the internet in the first place. As Manuel Castells noted the three key forces that brought about the internet revolution were those responsible for the restructuring of capitalism and industrialism that occurred in the wake of the various crises of the 1970s; 'the freedom-oriented cultural social movements of the late 1960s and early 1970s; the revolution in information and communication technologies'. In other words the fat cats, the hippies and the geeks!

The global character of the financial system has become all too evident in recent months, if wasn't so beforehand; but the credit crunch has also shown that the financial system is far more like a bazaar than a cathedral. The problem has been, however, that people acted as if it was a cathedral; with strategies, plans, and detailed rule-based models (especially risk models), but actually it was far more like a bazaar, albeit a particularly chaotic one.

The credit crunch has demonstrated this chaotic nature all too painfully. Many politicians and policy advisers seemed to have thought that the global financial system could be run according to some inherent and discoverable and controllable logic; although many of those operating within the system on a day-to-day basis were far more aware of its turbulent propensities. What is needed now is a serious consideration of alternatives to the idea of command and control, based on the mistaken view that we are dealing with a system that can be managed in some centralized manner.

There is then every reason to encourage this re-invention of mutuality as a feasible proposition, particularly as people's faith in many of the other possibilities on offer is faltering. At the very least it offers an alternative to the stand-off between those who argue in favour of nationalization, since the present crisis is one caused by lack of accountability and regulation; and others who see the problem as one of over-regulation on some aspects and regulatory failures on others. Moreover many of the 'solutions' on offer seem to offer yesterday's solutions to today's and tomorrow's problems; or offer no solutions at all. And where are the Marxists when you really want them?

The concept of mutuality will not be an easy one to resurrect or reinvigorate. The clarion call of the past 20 years has been an echo of Margaret Thatcher's famous declaration that 'there is no such thing as society. There are individual men and women, and there are families. And no government can do anything except through

people, and people must look to themselves first.’ The idea that people should work together for mutual benefit seems totally at odds with this. But this need not actually be the case. On the contrary, some of the arch proponents of mutuality 2.0 are ardent Thatcherites or of that ilk – Raymond is a prime example.

Whatever the nature of the current crisis some things are clear: The main one being that there seems to be no consensus on the best way forward. Governments have announced various measures and economic stimuli, but the aftermath of each of these simply leads to more confusion and consternation. Roosevelt may have struck a chord with the phrase ‘There is nothing to fear, but fear itself’; but today it might be more appropriate to state that ‘There is nothing more certain than uncertainty’. Even as erudite an economist as Paul Krugman seems to be at a loss, unable to understand the Geithner Financial Stability (sic!) Plan. (10-FEB-09)

Cathedral & Priests; Bazaars and Costermongers

There can have been few events as disheartening as the recent World Economic Forum in Davos. The WEF has always been a gathering of the great and the good, and on the whole the excessively wealthy and/or powerful, in recent years usually exuding a general air of self-satisfaction and great self-importance. This year such airs should have been replaced not only by one of general contrition, but also with a substantive questioning of the entire basis for this gathering of global political and business leaders. Never was the phrase ‘Success has a thousand parents ... failure is an orphan’ more appropriate, as many of those who had previously been ready to accept congratulations for achievement, sought to disown disaster.

The solution is not simply a matter of lining up some of the more notable figures for a public apology – although that should not be ruled out as one form of action – but a radical rethink about the way ahead. We have perhaps been too keen to think of financial institutions as something akin to cathedrals, and those in charge of them as august, priestly types. The reality is all too apparent; many of the institutions are far more akin to babbling bazaars, largely staffed by yelling costermongers, setting up their stalls as opportunity dictates, and following and contributing to the general hubbub. This is not a problem if it is understood correctly, and if its limitations are apparent. The bazaar model does work, as the open source example demonstrates; but even the most ardent exponent of open source would not claim that it is universally applicable. An operating system or an on-line, easily-correctable encyclopaedia does seem to lend itself to such an approach; the design and construction of an aircraft or a train signalling system does not!

Some of the key criticisms of nationalization of the banking sector derive from the image of an insulated group of people controlling a system that is not open to the realities of competition and basic scrutiny; British Leyland or the Commissars. On the other hand the ineptitude of regulation and scrutiny of the private sector is probably worse; ‘another nice mess’ as Oliver Hardy might have said. There is certainly an argument to organize the basic banking system in such a way that it is separated from the vagaries of speculation, although the devil will be in the details on this. Furthermore there are good grounds for assuming that whatever legislative

rules and regulations are put in place, there will always be the widespread temptation to resort to straightforward larceny or falsehood. Different forms of mutuality might be appropriate both to the nationalized banks, and the speculators. Again the details themselves need some discussion and careful thought, but as things stand, and paraphrasing Hartley Shawcross, we are the bankers at the moment and shall be for some considerable time!

Those keen to quote FDR often get no further than the sentence about fearing fear, but his exact words are even more appropriate – ‘So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance.’ As we all look for ways in which to ‘convert retreat into advance’ it might help if there was some consensus of the nature of the problem and any possible solution; and if that cannot be readily attained then perhaps we should at least be able to entertain all possible alternatives and opportunities.