CO-OPERATIVES IN A POST-GROWTH ERA

Creating Co-operative Economics

Edited by
Sonja Novkovic
and Tom Webb

About the editors

Sonja Novkovic is a professor of economics at Saint Mary's University, and academic co-director in the Co-operative Management Education programme. Currently, she is the chair of the International Co-operative Alliance Research Committee and academic co-lead of the Measuring the Co-operative Difference Research Network in collaboration with Co-operatives and Mutuals Canada.

Tom Webb is an adjunct professor at Saint Mary's University School of Business and former programme manager of the master's degree in the Management of Co-operatives and Credit Unions (MMCCU).

More praise for *Co-operatives in a Post-Growth Era*

‘The timing of this book is perfect! The findings from the 2012 Imagine Conference summarize ways to create prosperity and stability in this new economic, social and environmental reality. Leading economic thinkers provide critical insights in how the co-operative enterprise model meets the growing complex global problems while building a better world. Kudos to Webb and Novkovic for making this happen.’ *Denyse Guy, executive director, Co-operatives and Mutuals Canada*

‘Imagine 2012 has been the silver lining behind the cloud for those who believe that co-ops are enterprises to build a better world.’ *Jean Louis Bancel, president, Crédit Coopératif*

‘The ideas about economics in this book will help co-operative leaders move co-operative development forward.’ *Nelson Kuria, CEO, Co-operative Insurance Company, Kenya*

‘A unique collection of essays that offers both theoretical arguments and practical insights into how co-operatives can provide the basis for a more socially and environmentally sustainable economy. This should be required reading for all students in business and economics, and a must read for all interested in the future of the planet.’ *Darryl Reed, York University Canada*

‘When markets fail, co-operatives bring needed products and services, competition and opportunity for people. Building a global co-operative economy will ensure fewer economic crises and greater food security around the world.’ *Paul Hazen, executive director, US Overseas Cooperative Development Council*

CO-OPERATIVES IN A POST-GROWTH ERA

CREATING CO-OPERATIVE ECONOMICS

edited by Sonja Novkovic and Tom Webb

Zed Books
LONDON

Co-operatives in a Post-growth Era: Creating co-operative economics was first published in 2014 by Zed Books Ltd, 7 Cynthia Street, London N1 9JF, UK

This ebook edition was first published in 2014

www.zedbooks.co.uk

Set in Monotype Plantin and FFKievit by Ewan Smith, London

Index: ed.emery@thefreeuniversity.net

Cover designed by Dougal Burgess

A catalogue record for this book is available from the British Library

Library of Congress Cataloging in Publication Data available

ISBN 978-1-78360-080-9

CONTENTS

TABLES AND FIGURES

Tables

Figures

INTRODUCTION: CO-OPERATIVE ECONOMICS, WHY OUR WORLD NEEDS IT

Tom Webb and Sonja Novkovic

The decision to hold a conference on co-operative economics during the International Year of Co operatives in 2012 had its roots in the thinking about co-operatives and co-operation that spurred th creation of the Co-operative Management Education programmes in the Sobey School of Busine early in the first decade of the new millennium. The impetus to create these programmes in turn w stimulated by the thinking of Sidney Pobihushchy, a long-time board member of Co-op Atlantic and seminal co-operative thinker. Together we developed the Initiatives for Renewal, a far-reaching visio that imagined co-operatives, and Co-op Atlantic in particular, playing a leading role in econom renewal in the Atlantic Canada region. Those ideas, while ahead of their time, bear interestin similarities to the Co-operative Blueprint now being imagined globally by the International C operative Alliance.

Those of us excited about co-operatives found co-operatives exciting, in large measure, because our discomfort with prevailing economic thought. The economy, for us, was about the relationship people created to provide themselves with the goods and services they needed to live meaningf lives. It was not about the narrowly measured efficiency of investor-owned business, or about grow of output, but about how well the economy met the needs of people and communities. Those nee were seen as being inclusive of a healthy environment and healthy communities in a healthy society. seemed clear that both the state socialist and capitalist models of the twentieth century left much to b desired.

Our hope for a better economy based on the co-operative business model was founded o fundamental differences between co-operatives and the dominant investor-owned model, which h concentrated power in the hands of a wealthy few on the one hand and the bureaucratic state-own firm on the other, where power was concentrated in the hands of a small political elite. Co-operative are different. They spread power. The purpose of the business is different. Its purpose is to me member and community need rather than to maximise the wealth of shareholders. The people who u a co-operative business – workers or producers or consumers or small business people – own th business. In setting it up as a co-operative, they buy into the ideas, values and principles of c operation; otherwise we can assume that they would have chosen a different business model. Membe or managers, several generations later, may have forgotten or not be aware of the meaning of c operation but that is a failure of education and a loss of identity.

What sets co-operatives apart from employee stock ownership plans (ESOPs), social enterprise, investor-owned business? Co-operatives comprise a unique form of businesses that can be foun around the world. They cross ethnic, cultural, linguistic and religious differences. They cross almo every line that divides humanity. There are four key pillars of the co-operative business model that s the co-operative family of businesses apart: 1) the purpose of the business; an internationally accepte framework of both values (2) and principles (3); and 4) a founding ethic of fairness or social justice.

The co-operative model is people-centred, while the investor-owned model is wealth-centred. Th ~~co-operative manager has an obligation to meet member and community need. The investor-owne~~ business manager has a (perceived) fiduciary responsibility to maximise shareholder value. The c operative business purpose resonates with the human spirit with its blend and balance of individu and social needs. This is a business model that reflects the fullness of the human spirit rather tha simply the acquisitive slice of individualism.

If the purpose of the co-operative is to meet member and community need, then the question 'Wh are the members?' is vital to understand the different types of co-operatives and their governance. In co-operative, the residual power lies with the members. The matrix of possibilities set out in Table 0 opposite is useful in this regard.

This is clearly a flexible and adaptable business model. As noted above, it has been adopted b peoples around the world, across a wide diversity of human culture and circumstance. While ofte seemingly invisible, the magnitude of co-operative business, on focused examination, is significa and important. The statistics below illustrate the scale of co-operative business around the world:

TABLE 0.1 Types of co-operative and their members

Type of co-operative	Members
Consumer co-operative	Consumers of various commodities such as food, insurance, funerals, financial services, travel services, etc. This model would include mutuals.
Small business (producer) co-operative	Small and medium businesses such as farmers, fishermen, woodlot owners, plumbers, electricians, retail shop owners, hotel owners, etc. These are usually family-owned businesses.
Workers' co-operative	Those who work in the business. This could be in any industry, including food, agriculture, retail sales of goods or services, social services, etc. This model would include collectives,[1] although most workers' co-operatives would not function as collectives.
Solidarity[2] co-operative	There are different classes of members, who could include consumers, workers, community representatives, investors, suppliers, etc., and who coul be engaged in any type of business, such as food, agriculture, retail sales of goods or services, social services, etc.
Community co-operative	People drawn from and representing a community.
Exceptions	Almost every country has examples of some co-operatives that defy simple classification into the above categories but that are clearly democratically governed co-operatives.

Notes: 1. Collectives are non-hierarchical working groups with decision-making by consensus.
2. Also termed 'multi-stakeholder' co-operatives in the literature.

- In the United States, 30,000 co-operatives provide more than 2 million jobs (NCBA 2013).
- Co-operatives and credit unions have more than a billion members around the world (ICA 2013).
- Co-operatives provide over 100 million jobs around the world, 20 per cent more than all the world multinational enterprises put together (ILO 2014).
- The United Nations estimated in 1994 that the livelihood of nearly 3 billion people, or half th

world's population, was made secure by co-operative enterprise (ICA 2013).

- In Kenya, 63 per cent of the population derive their livelihoods from co-operatives. Approximate 250,000 Kenyans are employed or gain most of their income from co-operatives (Coop Afric 2009).
- Almost 350 million people in the Asia-Pacific region belong to co-operatives (ICA 2013).
- The 300 largest co-operatives in the world have a combined annual turnover or revenue of US$ trillion, which is more than the gross domestic product (GDP) of Italy, the world's seven economy (UNSDN 2013).
- Between 2007 and 2010, European co-operative banks' assets grew by 14 per cent (Birchall 2013).
- Co-operative financial institutions did not produce any of the 'toxic' paper that destabilised th global economy.
- In the economic downturn, credit unions and co-operative banks did not require bailouts, the valu of co-operative shares remained stable, and most co-operatives experienced modest growth an continued to extend credit to members, including businesses, in the midst of global cred shrinkage.

The co-operative business model's differentiating purpose, values and principles, whe operationalised, have far-reaching consequences for what co-operatives do and how they do it. Th implications for managers and governance are profound. For example, a consumer co-operative wou be expected to share all information it has about the products it sells to the members who own it. Als because co-operative members benefit based on their use of the co-operative rather than on the valu of their shares, a co-operative, unlike its investor-owned counterpart, does not need to maximise i return on investment.

It was as a result of this train of thought that a group of co-operative leaders in the mid-1990s bega to work on developing management education programmes for co-operatives.[1] Their initiative w based on the understanding that managing a co-operative was different and more challenging tha managing an investor-owned firm. The programme was successfully created with the added leadersh of President Dr Colin Dodds and Management Department Chair Dr John Chamard, of Saint Mary University in Halifax, Nova Scotia. The core idea was to develop a programme for managers of c operatives, at a master's level, in which every course and topic reflected the impact of the c operative purpose, values and principles on the dynamics and operation of the business. A catchphras was: 'I know how this is done in an investor-owned firm, but how would it be done differently in a c operative that understood and respected its co-operative identity?' The programme founders believe that the co-operative difference was a business advantage. This pervasive application of co-operativ purpose, values and principles to every aspect of managing a co-operative was unique. There w simply no other programme like it.

The programme[2] looked at marketing as though co-operative values and principles mattered. looked at accounting and asked: if its purpose and goals are significantly different, what is it a c operative needs to account for? How would just using standard accounting, with its primary focus o return on investment for shareholders, impact on a co-operative's performance? Would it focus boar and managers on the goals of investor-owned firms rather than on co-operative goals? If the purpo of the co-operative is people-centred rather than capital-centred, should co-operative managers lea about human resource management or people development? The programme developed distincti approaches to 'co-operative accounting', 'co-operative marketing' and 'co-operative peop development'. Every course reflected the co-operative management difference.

~~A key question was what to do about economics? We knew that if we went back to early economi~~ thinkers such as John Stuart Mill[3] and Alfred Marshall[4] – and even Adam Smith's ideas abou community and responsibility in his less cited work *The Theory of Moral Sentiments* (1759) – the was a rich vein of economic thought that fitted well with the ideas of co-operation. We also knew th a growing number of modern economic thinkers were proposing ideas and theories that were a expression of concern about economic trends and ideas and at the same time fitted with co-operati theories and ideas. We were also keenly aware that much of mainstream economics was increasing failing to reflect reality – destructive overuse of measures such as GDP (see Chapter 3) and assertio such as the 'tragedy of the commons' (Chapter 13) – and that much of current conventional econom thinking was actually hostile to co-operative thought and endeavour. Ideas such as Milton Friedman 'the business of business is business' and the George Soros observation, when asked about the havo his currency speculation caused to Far Eastern economies in the crash of 1997, 'As a mark participant, I don't need to be concerned with the consequences of my actions' (Clark 2003) we fundamentally at odds with the ideas of co-operation.

What economics do we use?

A typical neoclassical definition of the economy and economics would be:

- The economy is a system in which scarce resources are allocated among competing uses.
- Economics is the study of the use of scarce resources to satisfy unlimited human wants.

The key tenets of the approach to economics promoted by the Chicago School saw unrestricte markets and the publicly traded joint stock company as producing the most efficient use of resource The shares of the most efficient companies would command a higher value in the marketplace and a efficient economy would be the result.

This neoclassical conceptual framework is an uncomfortable fit for co-operatives whose shares a not publicly traded and whose purpose is not to maximise return on investment but to meet memb and community need. The alternative definitions below (see also Chapter 2) would be a far better f for the co-operative business model:

- The economy is the complex set of relationships that people use to provide themselves with th goods and services they need to live meaningful lives in their communities.
- Economics is the study of how effective the economy is at meeting human needs in a manner th allows people to live meaningful, happy lives as an integral part of a healthy planet.

These definitions, while tentative, would provide a sound basis for what we could call co-operati economics. If capitalism is the ordering of human activity for the benefit of the capital owner, o wealth creation using the investor-owned firm as its tool or technology, we might regard neoclassic economics as a system of thought developed to provide an explanation and justification for capitalism In contrast, co-operative economics at the macro scale would focus on the effectiveness of th economy in meeting human need and providing scope for human aspirations, and, at the micro leve on how effective co-operative firms are at these tasks.

There were also other tendencies in neoclassical economic thought that were uncomfortable for c operatives. These included:

- examining economic considerations in isolation, as if economic action did not produc environmental and social impacts and as if environmental impacts and social action did not hav economic impacts;
- the idea that the economy and business activity were ‘amoral’ and ‘value free’;
- the separation of economics and common sense (the fundamentals of the economy may be seen sound even if 6 million children starve to death or GDP growth resulted from oil spills);
- ignoring the set of interlocked social, environmental and political crises that an increasing numb of ‘alternative’ economists had documented and analysed (financial instability, environment overshoot, income inequality, energy uncertainty, nation states in crisis, erosion of democrac etc.), with the result that too much economic thought was not based in reality and growi instability in the global economy was not dealt with;
- viewing financial gain as the only real motivator of human action, creating another reality gap; and
- thinking based on hyper-individualism rather than on a more balanced social–individual continuum

There are some fundamental questions for co-operative economics to explore. What are th significant socio-economic trends and issues that co-operative managers need to be aware of successfully manage their co-operatives? Are the prevailing neoclassical economics and the inhere incentives in the structure and purpose of investor-owned firms fuelling income inequality, povert food crisis, climate change and other negative socio-economic trends and exacerbating the problems? Do the fundamental differences in the co-operative business model based on purpos values and principles (ICA 1995) offer the promise of ameliorating these macro-level tendencies an issues? At the micro level, are they living up to that potential and how does their performanc compare with that of investor-owned firms?

A significant challenge facing the Co-operative Management Education programme was identifyin the ‘new’ economic thinkers whose work was meaningful to co-operatives building a co-operativ economy. What became clear as the economic curriculum emerged was that few economic thinkers the ‘new economy’ had considered how co-operatives might relate to their work. Most of them clear identified serious issues and problems, but solutions to those issues, when offered, were expressed terms of changes in the economic behaviour of investor-owned firms or public policy relating investor-owned firms. Even when a problem was one where the co-operative business model clear performed better by its design (for example, the salary gap between the lowest and highest paid peop in a firm), the words ‘co-operative’ and ‘credit union’ rarely appeared in the table of contents or th index of books by the new economists.

Having developed a suitable initial curriculum and recognised the need to review and update yearly, the idea emerged that we needed to think about what a co-operative economy would look lik We understood corporate globalisation, but what would global co-operation entail and how might co operatives make it a reality?

Early in the development of the programme we were fortunate to connect with the Master of C operative Economics programme located at the University of Bologna, the world’s oldest universit This connection made it much easier to make the leap to the concept of co-operative economic Rooted in the significant economic success of co-operatives in Emilia Romagna, the Bologna master programme has pulled together several first-rate economists who know, understand and have studie and researched co-operatives. The Italian co-operative experience is rich and varied. Both Vera Neg ~~Zamagni and Stefano Zamagni are central players in the Bologna programme and both have~~ mad substantial contributions to the field, the Imagine 2012 conference, and this book.

Those of us involved in the Saint Mary's programme were enormously excited by the declaration 2012 as the International Year of Co-operatives. The best contribution we could make to the year w to organise an international conference on co-operative economics. In bringing together leadi economic thinkers who were engaged in the emerging new economics and leaders of co-operativ from around the world, our aim was twofold: to have the co-operative leaders leave the conferen with a profound understanding of the importance of co-operatives in creating a new economy and better world; and to have at least a small group of world-class economic thinkers develop a mu greater understanding of how the co-operative business model could make a significant contribution solving growing economic problems. Imagine 2012: International Conference on Co-operati Economics was the result (www.imagine2012.coop). With major support from the Desjardins Grou the conference took place in Quebec City in October 2012 in conjunction with the first Internation Summit of Co-operatives.

The extent to which the conference achieved its objectives will not be clear for some time. Th book and other related materials from the conference will have an impact. The writing of those wh presented at the conference may also make a significant contribution. Our hope is that these ideas wi coalesce and take shape in the months and years to come. We hope that co-operatives will imagi what a global economy shaped by co-operative ideas – global co-operation – would look like and th increasingly economists will reflect on the promise of a business model whose purpose is to me human need. We can imagine a world in which co-operative leaders, economists and public policy makers will create the expectation that the co-operative business model should live up to the potent contained in its purpose, values and principles.

The structure of the book

This book is in two parts. In Part One, chapters tend not to focus on co-operatives or on t potential of co-operatives to have a positive impact on the economic issues raised. Why did we pi these authors? We picked them because their work has relevance for an economy focused on meeti human need. As they concentrate on the needs of people rather than capital, co-operatives include concern for community among their principles. Communities exist within the context of the natur world. To be relevant for co-operatives and for the ideas of co-operative human relation consideration of the economy has to include how economic functioning and processes impact on t natural world and on human society more broadly. Co-operative economics cannot be insular. cannot embrace an assumption that by focusing on economic functions that benefit capital the nee of people will be served. In choosing presenters and authors for the Imagine 2012 conference and f this volume, we looked for economic thinkers who were addressing the issues that were relevant to co-operative economy, although they may not have studied co-operatives.

The second part of the book comes from economic thinkers who have studied and written about c operatives and co-operation. Some chapters present current and potential co-operative contributions the economy, while others add to the co-operative economic paradigm, having debunked t mainstream economic thinking about efficiency, collective ownership, employee ownership a management, and about the impact of trust and reciprocity on economic behaviour and society.

As you go through the first part of this book, challenge the ideas presented with questions: if c operatives lived up to their ideas and ideals, could they contribute to positive change on this issue, ar transform communities and the global economy? We think they could.

Notes

1 The initial group included Dr Sidney Pobihushchy from Co-op Atlantic, Dennis Deters of The Co operators, Gerard Duggan of the Credit Union Central of Prince Edward Island, Jack Christie of Northumberland Co-operative Dairies, Peter Podovinikoff of Delta Credit Union, and the author.

2 The Co-operative Management Education programme has expanded to include a graduate diploma.

3 See Chapter 10.

4 Marshall was one of the founders of the discipline of economics and was president of the UK Co operative Congress in Ipswich in 1889.

References

Birchall, J. (2013) *Resilience in a Downturn: The power of financial cooperatives*. Geneva: International Labour Organization (ILO), p. 27.

Clark, N. (2003) ‘NS profile – George Soros’. *New Statesman*, 2 June. www.newstatesman.com/economics/economics/2014/04/ns-profile-george-soros (accessed April 2014).

Coop Africa (2009) ‘Cooperative governance project in Kenya’. Geneva: International Labour Organization (ILO). www.ilo.org/public/english/employment/ent/coop/africa/download/knfc.pdf (accessed April 2014).

ICA (1995) 'Statement of Co-operative Identity'. International Co-operative Alliance (ICA) website. http://ica.coop/en/whats-co-op/co-operative-identity-values-principles (accessed June 2014)

— (2013) ‘Co-operative facts & figures’. International Co-operative Alliance (ICA) website. http://ica.coop/en/whats-co-op/co-operative-facts-figures (accessed April 2014).

ILO (2014) ‘100 million jobs: the contribution of cooperatives to employment creation’. Geneva: International Labour Organization (ILO). www.ilo.org/wcmsp5/groups/public/@ed_emp/@emp_ent/documents/publication/wcms_101313 (accessed April 2014).

NCBA (2013) ‘What is a co-op?’ National Cooperative Business Association (NCBA) website. http://ncba.coop/what-is-a-coop (accessed April 2014).

UNSDN (2013) ‘Cooperatives newsletter, December 2013’. United Nations Social Development Network (UNSDN) website. http://unsdn.org/?p=12957#_ftn1 (accessed April 2014).

PART ONE

WHAT IS THE NEW ECONOMY AND WHY DO WE NEED IT?

1 | THE WORLD ON A COLLISION COURSE AND THE NEED FOR A NEW ECONOMY[1]

Manfred Max-Neef

Preamble

In October 2008, at the same time as the Food and Agriculture Organization of the United Natio (FAO) was reporting that hunger was affecting 1 million people, and estimated that US$30 millio annually would suffice to save those lives, the concerted action of six central banks (USA, EU, Japa Canada, the United Kingdom and Switzerland) poured US$180 billion into the financial markets order to save private banks. The US Senate approved an addition of US$700 billion. Two weeks lat another US$850 million were approved in the United States. That not being enough, the rescu package continued to grow, reaching an estimate of US$17 trillion by September 2009.

Faced with such a situation, we are confronted with two alternatives: to be a demagogue or to be realist. If, based on the law of supply and demand, I say that there is a greater demand in the world f bread than for luxury cruises, and much more for the treatment of malaria than for haute coutu apparel, or if I propose a referendum asking the citizens if they prefer to use their monetary reserv to save lives or to save banks, I will be accused of being a demagogue. If, on the contrary, I accept th it is more urgent, more necessary and more convenient and profitable to all to avoid an insuran company or a bank going bankrupt, instead of feeding millions of children, or giving aid to victims a hurricane, or curing dengue fever, it will be said that I am a realist.

That is the world in which we are – a world accustomed to the fact that there is never enough f those who have nothing, but there is always enough for those who have everything. The obvio question arises: where was that money? For decades we have been told that there are not enoug resources to overcome poverty, yet there are more than enough resources to satisfy the wants speculators. US$17 trillion divided by the US$30 billion the FAO estimates as enough for overcomin world hunger, instead of saving private banks, could generate 566 years of a world without hunge Would not a world without misery be a better world for everyone, even for the banks?

What are we facing in our world today?

The quadruple convergence[2]

1 Exponential increase of human-induced climate change affecting all regions of the world.
2 The end of cheap energy, with dramatic effects on societies.
3 Extensive depletion of key resources basic to human welfare and production, such as fresh wate genetic resources, forests, fisheries, wildlife, soils, coral reefs and most elements of local, region and global commons.
4 The gigantic speculation bubble that is fifty times larger than the real economy of exchange goods and services.

The root causes are:

1 the dominant economic paradigm, which poses rapid economic growth at any cost and stimulat corporate greed and accumulation;
2 the uncontrolled use of fossil fuels to feed that obsessive economic growth;
3 the promotion of consumerism as the road to human happiness;
4 the decimation of traditional cultures, in order to impose conventional economic industrial model which determines the loss of cosmovisions, languages and values that differ from those of th dominant culture;
5 disregard of planetary limits in relation to resource availability, consumption, waste generation ar absorption; and
6 overpopulation: the population's eventual growth beyond the capacity of the Earth to sustain it.

Consequences The conditions mentioned above may bring about unprecedented and dangerou environmental and social costs:

1 Climate chaos and global warming imply a loss of much productive land, storms, rising sea level massive dislocation, desertification and economic and social problems, especially in poor countries.
2 The depletion of inexpensive oil and gas supplies has a direct impact the world over, threatenir future industrial development. This will make industrial food systems and urban and sub-urba systems increasingly difficult to sustain, as well as many commodities that are basic to o accustomed way of life, such as cars, plastics, chemicals and refrigeration. This is all rooted in th assumption of an ever-increasing inexpensive energy supply.
3 There will be shortages of other resources, such as fresh water, forests, agricultural land ar biodiversity; we are facing the possible loss of 50 per cent of the world's plant and animal speci over the next decades.

Crisis or crises?

It should be stressed that what we are facing today is not simply an economic and financial crisi but a crisis of humanity. Probably never before in human history have so many crises converge simultaneously to reach their maximum level of tension. Rather, what used to happen was one cris followed by another. Now we have them all together, which represents a monumental challenge.

Apart from the aspects already mentioned, we can add increasing political, economic, religious ar sports corruption; the consolidation of greed as a fundamental value; gigantic enterprises exclusive concerned with their own benefits; judicial systems that forget justice; obsession with growth at ar cost; the destruction of nature and disdain for planetary limits; decadence of the school and heal systems; hyper-consumerism; hyper-individualism; global warming; climate change; eagerness f power; and disdain for life – colossal convergences that can only result in equally colossal outcomes.

Solutions Solutions imply new models that, above all else, begin to accept the limits of the carryir capacity of the Earth and a move from efficiency to sufficiency and well-being. Also necessary is th solution of the present economic imbalances and inequities. Without equity, peaceful solutions are no possible. We need to replace the dominant values of greed, competition and accumulation, for those o solidarity, co-operation and compassion.

This paradigm shift requires us to turn away from economic growth at any cost. The transition mu be ~~towards societies that can adjust to reduced levels of production and consumption, favourin~~ localised systems of economic organisation. We need again to look inward.

We need, however, to understand why the dominant economic model has become so strongl ingrained in our world and in our everyday life. We shall see that its strength rests on mythology.

The myths that sustain the dominant model[3]

Myth 1: Globalisation is the only effective route to development Between 1960 and 1980 the majori of developing countries, especially in Latin America, adopted the principle of ‘import substitution which allowed for significant industrial development. During that period, per capita income in Lat America grew 73 per cent and in Africa 34 per cent. After 1980, economic growth in Latin Americ came to a virtual halt, increasing, as an average, not more than 6 per cent over twenty years, whi growth in Africa declined by 23 per cent.

The period from 1980 to 2000 annihilated import substitution and replaced it with deregulatio privatisations, elimination of international trade barriers and full openness to foreign investments. Th transition was from an inward-looking economy to an outward-looking one. The results indicate th the poorest countries went from a per capita growth rate of 1.9 per cent annually in the 1960–8 period, to a decline of 0.5 per cent a year between 1980 and 2000. The middle group of countries d worse, dropping from annual growth of 3.6 per cent to just under 1 per cent after 1980. The world richest countries also showed a slowdown.

Countries such as South Korea and Taiwan, frequently given as examples to be emulated, achieve their development through trade barriers, state ownership of the big banks, export subsidies, violatio of patents and intellectual property, and restrictions to capital flows, including direct foreig investment. It would be absolutely impossible for any country to replicate these strategies toda without severely violating the regulations of the World Trade Organization (WTO) and th International Monetary Fund (IMF).

Myth 2: Greater integration into the world economy is good for the poor Poor countries must adapt a number of rules and restrictions established by international organisations. The result is that po countries divert human resources, administrative capacities and political capital away from mo urgent development priorities such as education, public health and industrial capacity.

In 1965, the average per capita income of the G7 countries was twenty times that of the seve poorest countries. In 1995 it was thirty-nine times larger, and today it is over fifty times larger. I practically all developing countries that have adapted to rapid trade liberalisation, income inequali has increased, and real incomes have declined between 20 per cent and 30 per cent in Latin America.

Today, more than eighty countries have a lower real per capita income than one or two decades ag The paradox is that precisely the more marginal countries are the ones that have integrated themselv more completely into the global economy.

Myth 3: Comparative advantage is the most efficient way to ensure a prosperous world One of th unquestioned principles of modern politics is the need for global free trade. To doubt its benefits is a act of heresy. However, in spite of its supposed greater efficiency, compared with other systems o economic organisation, global free trade is notoriously inefficient in real terms. By giving great priority to large-scale production for export purposes, instead of to small- and medium-sca production for local needs, and by generating competitive pressures that confront communities th world over, the prices of consumer products may decrease, but at an enormous social an environmental expense.

There is still a dominant belief about the benefits of adhering to comparative advantages. Howeve according to the model of David Ricardo (creator of the concept), the system functions as long there is no transnational mobility of capital. Internally, capital searches for the most adequate nich that gives it the comparative advantage. However, when capital is granted full transnational mobilit it will look for absolute advantages in countries that allow for lower salaries, lower taxes and few environmental regulations. As noted by John Gray (1998):

> When capital is (transnationally) mobile it will seek its absolute advantage by migrating to countries where the environmental and social costs of enterprises are lowest and profits are highes Both in theory and practice, the effect of global capital mobility is to nullify the Ricardian doctrin of comparative advantage. Yet it is on that flimsy foundation that the edifice of unregulated global free trade still stands.

Take an example: Nike Corporation (makers of footwear), in order to remain competitive, needs reduce its standards. So it moves to Indonesia, where, through independent contractors, the shoes a made by young girls who are paid around 10 to 15 US cents per hour. As David Korten (199 comments:

> Most of the outsourced production takes place in Indonesia, where a pair of Nikes that sells in the United States and Europe for $73 to $135 is produced for about $5.60 by girls and young women paid as little as fifteen cents an hour. The workers are housed in company barracks, there are no unions, overtime is often mandatory, and if there is a strike, the military may be called to break it up. The $20 million that basketball star Michael Jordan reportedly received in 1992 for promoting Nike shoes exceeded the entire annual payroll of the Indonesian factories that made them.

Myth 4: More globalisation means more jobs According to the International Labour Organizatio (ILO), one-third of the world's working force was unemployed or underemployed in 2000. Th situation, as noted by the ILO, tends to deteriorate further.

Outsourcing, as described in the previous section (myth 3), is a necessity of the big corporations order to remain competitive. It goes without saying that such a process generates unemployment in th place of origin, and underemployment in the country of arrival.

Myth 5: The World Trade Organization is democratic and accountable

> Many decisions affecting people's daily lives are being shifted away from local and national governments and are instead being made by a group of unelected trade bureaucrats sitting behind closed doors in Geneva. They are now empowered to dictate whether the EU has the right to ban th use of dangerous biotech materials in the food it imports, or whether people in California can prevent the destruction of their last virgin forests, or whether European countries have the right to ban cruelly-trapped fur (Lucas and Hines 2002).

According to the rules of the WTO, if a transnational corporation investing in a given count concludes that there are certain national laws or regulations considered to be inconvenient to i interests, the country is forced to abolish them, or adapt them to the satisfaction of the investor. Th means that, under WTO rules, the race to the bottom (described in myth 3) is not only in social ar environmental standards, but also in democracy itself.

The WTO has no rules whatsoever about child labour or workers' rights. Everything in i constitution is shaped to the advantage of corporations. During the discussions that gave origin to th WTO, known as the Uruguay Round, the controversial issue of intellectual property rights, f instance, was put on the agenda by thirteen major companies, including General Motors ar Monsanto. In the negotiations that followed, ninety-six of the 111 members of the US delegatio working on property rights were from the private sector. It should be obvious to conclude that the fin agreement serves corporate interests and undermines poor people's access to knowledge ar technology. A dramatic case in point is that poor countries are not allowed to produce their ow inexpensive generic pharmaceutical products, but are forced to buy the ones produced, at much high prices, by the pharmaceutical corporations. The consequences have been particularly tragic in the ca of HIV in Africa, where corporate prices are far beyond the purchasing power of the great majority the suffering population.

In short, the WTO should be recognised not for what we are told it is, but for what it really is: a institution whose main purpose is to make the corporations rule the world.

Myth 6: Globalisation is inevitable Renato Ruggiero, former director general of the WTO, used to sa that 'trying to stop globalisation is tantamount to trying to stop the rotation of the earth'. Bill Clinto pointed out that: 'Globalisation is not a political option; it is a fact.' Tony Blair identifie globalisation as 'irreversible and irresistible'. Margaret Thatcher immortalised the sentence 'There no alternative.' All such statements are evidence of the degree of fundamentalism of the defenders the system. As a result, the model amounts to a pseudo-religion.

Alternatives are obviously possible. The point is that the dominant model has been the product the systematic renunciation, on the part of the majority of countries, of their right to control econom processes for their own benefit. Yet any condition that originates in political decisions is obvious reversible.

It may most probably be argued that any change would mean a choice between the prese economic rules, on the one hand, and chaos on the other. This is, of course, absurd. A fundament change could be an increased re-localisation of the economy, designing new rules that brin production and consumption nearer. A human-scale economy.

A new economy

A possible alternative is a new economy based on five postulates and one fundamental valu principle:

- *Postulate 1*: The economy is to serve the people, and not the people to serve the economy.
- *Postulate 2*: Development is about people and not about objects.
- *Postulate 3*: Growth is not the same as development, and development does not necessarily requi growth.
- *Postulate 4*: No economy is possible in the absence of ecosystem services.
- *Postulate 5*: The economy is a subsystem of a larger and finite system, the biosphere, hen permanent growth is impossible.

- *Value principle*: No economic interest, under any circumstance, can be above the reverence for life

Going through the list, one point after the other, it is not difficult to conclude that what we hav today is exactly the opposite. Yet it would be absurd to assume that an economy based on thes postulates is not feasible. It is already being practised in many countries at the local, regional an municipal levels. The Swedish movement of eco-municipalities is a conspicuous case in point.

The most important contribution of a human-scale economy is that it may allow for the transitic from a paradigm based on greed, competition and accumulation, to one based on solidarity, c operation and compassion. Such a transition would allow for greater happiness not only among tho who have been marginalised, but also among those responsible for those marginalisations, despi what they may believe.

Some of the new rules may include the following:

1 Establish monetary localisation, so that money flows and circulates as much as possible in its plac of origin. It can be shown by economic models that if money circulates at least five times in i place of origin, it may generate a small economic boom.
2 Produce everything possible locally and regionally, in order to bring consumption closer to th market.
3 Protect local economies through tariffs and quotas.
4 Introduce local co-operation in order to avoid monopolies.
5 Impose ecological taxes on energy, pollution and other negatives. At present we are taxed for *goo* and not for *bads*.
6 Establish a greater democratic commitment to ensure effectiveness and equity in the transition local economies.

Foundations of the new economy

Postulate 1: The economy is to serve the people, and not the people to serve the economy The effec of the outsourcing described in myth 3 illustrate a clear case of humans being used for econom interests. Any corporation that outsources its production according to the principles consecrated by th WTO produces unemployment in the place of origin and underemployment in the place of arrival. great many cases of this sort could be listed.

More dramatic is the case of child and slave labour. It is unbelievable that today, in the twenty-fir century, there are more slaves than there were before the abolition of slavery in the nineteen century, at least two-thirds being children. The fact that such a situation does not even reach the nev reveals the degree of perversity that the dominant economic model has been able to impose.

As noted by David Sirota (2009):

> Those of us pushing for serious trade policy reform have argued for years that businesses are aiming to create global economic policies that allow them to troll the world for the most exploitab forms of labor. As General Electric CEO Jack Welch famously said, corporations want laws that allow them to ‘have every plant you own on a barge’ – one that can move from country to country looking for the worst conditions to exploit. Such an international economic regime would (and nov does) allow the worst governments to create artificial comparative economic advantages through bad/immoral policies.

Global business has so far opposed every effort to put labour, environmental and human righ standards into the so-called 'free trade agreements', and is doing everything in its power to weake the laws barring products made with child slave labour. It knows that the fewer rules exist, the mo cost-cutting exploitation it can engage in, and that is what 'good business' is all about.

Postulate 2: Development is about people and not about objects In relation to this postulate, I quo extensively from my book *Human Scale Development* (Max-Neef 1991):

> The acceptance of this postulate leads to the following fundamental question: How can we determine whether one development process is better than another? In the traditional paradigm, we have indicators such as the Gross Domestic Product (GDP) that is in a way an indicator of the quantitative growth of objects. Now we need an indicator of the qualitative growth of people. Wha should that be? Let us answer the question thus: The best development process will be that which allows the greatest improvement in people's quality of life (wellbeing). The next question is: Wha determines people's quality of life? Quality of life, or wellbeing, depends on the possibilities people have to adequately satisfy their fundamental human needs. A third question arises: What ar those fundamental human needs, and/or who decides what they are?
>
> It is traditionally believed that human needs tend to be infinite, that they change all the time, tha they are different in each culture or environment and that they are different in each historical period. It is suggested here that such assumptions are inaccurate, since they are the product of a conceptual shortcoming.
>
> A prevalent shortcoming in the existing literature and discussions about human needs is that the fundamental difference between needs and satisfiers of those needs is either not made explicit or i overlooked altogether. A clear distinction between both concepts is necessary.
>
> Human needs must be understood as a system: that is, all human needs are interrelated and interactive. With the sole exception of the need of subsistence, that is, to remain alive, no hierarchies exist within the system. On the contrary, simultaneities, complementarities and trade-offs are characteristic of the process of needs satisfaction.
>
> We have organized human needs into two categories: existential and axiological, which we have combined and displayed in a matrix [see Table 1.1]. This allows us to demonstrate the interaction of, on the one hand, the needs of Being, Having, Doing and Interacting; and, on the other hand, the needs of Subsistence, Protection Affection, Understanding, Participation, Idleness, Creation Identi and Freedom.
>
> From the classification proposed, it follows that food and shelter, for example, must not be seen as needs, but as satisfiers of the fundamental need of Subsistence. In much the same way, educatio study, investigation, early stimulation and meditation are satisfiers of the need for Understanding. Health schemes may be satisfiers of the need for Protection.
>
> There is no one-to-one correspondence between needs and satisfiers. A satisfier may contribute simultaneously to the satisfaction of different needs or, conversely, a need may require various satisfiers in order to be met. For example, a mother breastfeeding her baby is simultaneously satisfying the infant's needs for Subsistence, Protection, Affection and Identity. The situation is obviously different if the baby is fed in a more mechanical fashion where only the need for Subsistence would be satisfied.
>
> We can now add two principles. First: Fundamental human needs are finite, few and classifiable Second: Fundamental human needs are the same in all cultures and in all historical periods. What