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Foreword

As a form of economic organization, the cooperative has been around for over two centuries. Today, it has been widely adapted within all major cultures and in virtually every country; the United Nations estimates that it helps approximately one half of the world's population meet at least one important need. People involved with cooperatives have engaged in lengthy and often fascinating discussions over their potential economic contributions, their underlying values and principles, and their operating practices and distinctive qualities. Because of these discussions, as well as the wide diversities in types of cooperatives and the varied contexts within which they exist, cooperatives can appear to be opaque – the great size of the movement unclear – in the popular mind.

Cooperatives and their movements have, in fact, not generally commanded the interest and respect they deserve. They are rarely discussed in general public discourse, even in places and in relation to issues where they could be particularly useful. They are almost entirely ignored in most academic circles, including those in countries where their contributions are obviously significant. They are typically undervalued in the development of public policy, though governments in different times, places, and situations have often found them useful. They have been frequently subjected to questionable, uninformed critiques and, even more seriously, marginalized and trivialized by pundits and advocates for capitalist firms. They have often been taken for granted or co-opted in countries where the state plays aggressive and domineering economic roles.

In contrast to this rather dismal and frustrating situation, this book presents a thoughtful and exciting consideration of the roles cooperatives can play – and should be expected to play – today. From among the many important dimensions that characterize the movement, five are arguably of particular importance. The first is the context within which it is cast. The book begins with a discussion of some of the current major issues confronting the world today and not with an 'internalist' discussion about cooperatives. It provides a strong and stimulating discussion of the financial breakdown of recent years. It examines what the authors consider are the key economic 'traps' of our times – in consumption practice, liquidity capacities, and debt accumulation. This discussion then becomes the context within which the cooperative model and options are then considered.

In other words, the authors' fundamental purpose is to discuss – realistically and precisely – how and why cooperatives should be seen as important players in the international economy today and not just as mere 'add-ons' when 'real business' for whatever reason is not fully effective. The authors do not fall into the trap, all too often evident among writers interested in cooperatives, of being satisfied with presenting pious declarations of the value of cooperation. The book is based on a well informed and carefully argued examination of the current global situation; an examination that in turn makes what they have to say about cooperatives particularly acute and useful.

At the same time, though, the second most obviously important feature of the book is the way in which the authors take seriously the underlying values and principles on which the cooperative movement and its institutions rest. They understand the fundamental importance of that exercise; they realize that the values and principles are central to cooperatives – they are not just inherited window dressing or a pursuit of market advantage in the age when 'social' business is fashionable. Ultimately, they are what makes the cooperative model particularly relevant in the modern era.

Third, the book provides a stimulating discussion of the importance of control over the economy. It describes the ways in which the current financial systems and short-term benefits for the few have shifted control, even in capitalist firms and within the global economy. It shows how that shift has distorted the 'real value' of what people produce and consume. This consideration leads invariably to a debate of the importance of 'control' within cooperatives. The very structure of the cooperative enterprise, which strives for forms of economic democracy, does provide a bed-rock for lodging control in the hands of key stakeholders, normally the consuming or producing members. Maintaining and refining that control, however, will always be a challenge, even in an age of expanding communication possibilities. It is a challenge that cooperators and cooperative organizations need to address constantly and more deeply. It is also a dimension of cooperation that the outside world needs to appreciate more fully.

Fourth, the book provides case studies of quite different types of cooperative organizations in four widely divergent circumstances in Mexico, France, Spain, and Québec. These cases demonstrate the variety of cooperative enterprise. They show differences in approaches, the importance of cultural and local circumstances, and the versatility of cooperative entrepreneurship. They provide much fruit for thought: they are about organizations responding to, and coping with, some of the most important economic and social changes of the times. They show why we need more such research, more inquiry in what might be called Cooperative Studies.

Finally, the book is particularly interesting because it addresses the 'big picture'. It looks at the commanding heights of economic and social change and not just at local accomplishments and victories. This is a refreshing, relatively uncommon, exception in the intensive literature of the cooperative movement. There is always a danger in cooperative writing and in the field of Cooperative Studies to be fascinated with the beginnings of cooperatives, with the successes achieved by small bands of people coping with adversity or seizing opportunities they individually could not grasp; with what one might call the 'Romance of Cooperation'. There is frequently a tendency, within and without the movement, to be suspicious of large organizations, with co-ops that become prominently and powerfully involved in the large economy.

This book is an imaginative and thoughtfully constructed exception to such trends. It dares to postulate the possible centrality of cooperative enterprise today and in the future. It joins with some other recent scholarship in exploring in a rigorous and tough-minded way what the current situation is and suggesting why and how the cooperative model is so important. It deserves to be widely read and discussed within and across the boundaries that have long divided cooperative proponents and the general public. It is an important opening statement, hopefully the first of many that will deepen celebrations of the United Nations Year of Cooperatives in 2012. It raises many of the issues that need to be discussed more fully; it provides a particularly useful framework within which those discussions can take place.

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1
The Mother of all Crises?

Introduction

There is no doubt that we have been going through a grave global financial-economic crisis, but is this the mother of all crises? Without pretending to cover all aspects and leaving the explanations and analyses to Chapter 2, we here present the facts, as well as the perceptions and reactions of some key actors during the crisis up to the end of 2010. We are not, at this stage, making much reference to previous bubbles and crises, leaving the discussion for the following chapter. We are taking an inductive approach, as a necessary step before engaging in deeper layers of analysis.

When did it all start? For European Central Bank (ECB) President Jean-Claude Trichet, the turmoil started in August 2007.[1] For the Federal Reserve Bank–St Louis (Fed–St Louis),[2] it had begun on 27 February 2007 when Freddie Mac, in view of accounting changes, made the public announcement that it would stop its sub-prime lending mortgages in August 2007.[3] This letter was probably one of the 'butterflies' leading to the financial storm. In the next section, we review how the crisis began, then we observe signs of mounting trouble at the global level and, finally, we see how the global bubble burst.

Starting as a financial disaster, the crisis evolved into an economic one. Financial assets were wiped out, but the real economy was wounded as well. In the 'wealth destruction' section, we try to evaluate the scale of destruction that has occurred in various ways, not only in financial terms. Private sector credit contracted and had to confront the leverage of its debt obligations, namely the debt relative to assets or income, leading to a drastic downturn. Doubtless, the latter would have been far more dramatic without governmental intervention through rescue packages for banks and fiscal stimulus packages. An in-depth modelling study by Moody's chief economist Mark Zandi and Alan Blinder at Princeton University affirmed that, in the United States, these packages amounting to total of $1.7 trillion had saved 8.5 million jobs and averted a further dip of 6.5 per cent in US economic output.[4]

We then examine the various measures carried out to stem the crisis and review the main strategies to restart growth observed so far.

In August 2010, US Treasury Secretary Timothy Geithner published 'Welcome to the recovery' in the *New York Times*.[5] But pain is long-standing and after a short while trouble returns because the governments' rescue packages have loaded the public sector with debt.

Also in August 2010, John Taylor from Stanford University doubted that a rapid recovery would take place, arguing that the amount of debt was much higher than was thought and causing concern about tax increases.[6] Swayed by an ideologically minded 'deficit-aversion', many nation-states have been rolling back their powers and presence in the national economy as well as various benefits for their population such as pensions, while the economy still suffers from the fall in activity, credit, employment and consumption. By the end of 2010, no one could affirm that we were out of trouble, while calls mounted for further state cuts to maintain states' credit ratings and affordable funding.[7] In the European Union (EU), this 'austerity' may cost Europeans a double-dip recession, or, at the very least, years of stagnation and high unemployment. In 2010, it was already taking a toll on growth with the exception of Germany and France,[8] while the timid US recovery was receding.[9] Through a vicious circle, the uncertainty was making companies shy away from investment and hiring.

How it began: the sub-prime housing market in the USA

The first domino pieces to fall were US home prices. In the USA, according to Bosworth and Flaaen (2009), 'home prices began to rise rapidly in the late 1990s and, by the year 2000, had far exceeded the growth in either incomes or rent value. At their peak in 2006, home prices were nearly 50 per cent above a norm defined by their historical relationship to household income'.[10] In 2002, Dean Baker had confirmed the housing bubble in the United States and warned about its end, with consequences similar to the collapse of the two bubbles in Japan – housing and stock markets – in the late 1980s. Based on the House Price Index from the Office of Federal Housing Enterprise Oversight, house prices had risen between 1995 and 2002 by almost 30 per cent above the overall rate of inflation.[11] Without any regard to this problematic market data, banks engaged heavily in practices leading to indebtedness of poorer citizens,[12] and re-sold the outstanding debts as assets throughout the world. This was accepted as a process of 'securitization' of collateralized debt obligations (CDOs; see definition in Box 1.1). However, with hindsight, it was more of a house built on shifting sand.

Various factors encouraged property investment. The US government encouraged the provision of housing to the low-income sector of the population, mainly non-white. This could lend political support to the government as well as to the American ideal of each citizen having a home and