

# Introduction

As dawn broke on the morning of November 30, 1999, several hundred people appeared in the quiet streets near the Seattle Convention Center and began to take control of key intersections. Soon, marchers converging on the area from across the city joined them. With protesters locking up the intersections and swelling numbers of marchers blocking access to the convention center, downtown Seattle became a mass of chanting, surging humanity. Police were soon overwhelmed and the numbers of protesters soared. By noon, the size of the protest had exceeded 50,000 people and coverage of the event was spanning the globe.

Earlier in the week, while delegates were still arriving in Seattle for the World Trade Organization (WTO) Ministerial Conference, tensions between developing nations and the wealthy economies of the United States and Europe were already reaching a boiling point. Previous rounds of talks in Melbourne in 1997 and with the WTO's predecessor organization, the General Agreement on Trade and Tariffs (GATT), had yielded little progress on a host of issues. Poor countries were buckling under the burdens of high foreign debts, protectionist trade barriers and the movement of capital that was capable of making or breaking national economies. The atmosphere was further aggravated by fears that the United States was prepared to discard previous international agreements on jobs and cultural and social issues to advance the narrow interests of big business. Frustration and an electric sense of unease were in the air. The street protests that commenced on that grey winter morning lit a fuse to a powder keg.

For the next three days, protesters fought a pitched battle with police as WTO organizers and delegates struggled to resume talks while the sounds of fighting, breaking glass and sirens could be heard on the streets below. In the end, over 600 people were arrested. But for the first time, an international meeting of the WTO was prevented from concluding

its business and the organization was indelibly tainted with the perception that it was elitist, undemocratic and isolated from the plight of the world's poor. With round-the-clock media coverage, the term "anti-globalization" finally broke through to the American mainstream.

The heart of the struggle in Seattle and in subsequent meetings of international organizations like the World Bank and the International Monetary Fund (IMF) has been the place of democracy within economies. In Quebec City, in Genoa, and in cities the world over global justice became the rallying cry for festering anger and frustration at the growing inequities and injustices that seem to come hand in hand with the advancement of a new global economic order. In June 2010, at the meetings of the G20 and G8 in Toronto and Huntsville, the security measures surpassed \$1 billion in costs and turned Toronto's core into an armed camp. Still, over 1,000 people were arrested as the protests widened their focus to encompass not only global institutions like the IMF, but the legitimacy of the governments of the leading industrial nations. The WTO meeting in Seattle took place at the high tide mark of a new, hypercharged form of free market<sup>1</sup> economics that established the template and pace of global economic development. In fact, the rising crescendo of protests that commenced in Seattle are only the most recent outcries against a model of economic and social organization that has drawn determined opposition and resistance for the last two hundred years.

The tangible effects of this global economic order, the marks it scribes on the lives and livelihoods of billions of people the world over, are felt not in the realm of ideology, trade policy or politics. The effects are visible in the wages people earn if they are lucky enough to have a job, in the prices they get for their coffee beans, in the cleanliness of their drinking water, in the quality of their shelter and whether or not their children will go to school. These are the battles for survival and the prospect of life with dignity that billions of people the world over have to wage day in and day out. Today, with a global economic crisis destroying the livelihoods and pulling the foundations from under millions in developed and poor economies alike, the pitfalls of the new economic order are plain for all to see.

This book is about an alternative. It is a story about how a revolution in human society that began with the rise of democracy in politics continues to unfold as the democratic idea struggles to find its place in the world of economics. If economic democracy is the hidden face of this

ongoing revolution, then the history of the co-operative idea is its most durable expression.

Today, the global co-operative movement appears to have arrived at a crossroads. With the collapse of communism, and with the capitalist system in crisis and facing unceasing demands for reform, the case for the expansion of economic democracy has never been more relevant or more urgent. More importantly, there is a need for a middle path that avoids the extremes of market rejection on the one hand (as in the case of Marxism) and the unbridled power of capital as expressed in neoliberalism on the other.

To what extent an alternative will prove possible will depend on many factors, not the least of which is the willingness of co-operative leaders, thinkers and practitioners to take up the challenge at an unprecedented level of action both locally and globally. A key purpose of this book is to show that, in fact, the popular drive to democratize economies is a force that is working to transform virtually every economy in the world today. And for those who are willing to look, the evidence of a new, more humane economic and social order is there to see.

With over 800 million members in 85 countries the co-operative movement is by far the most durable and most powerful grassroots movement in the world. Co-operatives employ more people in democratically run enterprises than all the world's multinational companies combined. Although the forms co-ops take and the uses to which they are put display an astounding variety their essential structure remains what it was when they were first organized in the mid-1800s — enterprises that are collectively owned and democratically controlled by their members for their mutual benefit. As the global economic crisis continues to take its toll, co-operatives continue to provide livelihoods and essential services in the very places where established multinationals are shedding workers and shuttering plants. In its own quiet way, the co-operative vision continues to thrive and hold the keys to the emergence of an economic model that is capable of remaking and humanizing the current capitalist system.

Whether or not modern capitalism will make room for the emergence of democratic economies and truly open markets may well become the defining question of our age. For despite the banner headlines that compel our attention to the atrocities of terrorism and the violence of intolerance in all its shades, this is marginal to the lived experience of the

vast majority of humanity the world over. What truly conditions how people live and what societies will become is the degree to which people can exercise control over their lives. Economics is central to this. This is the question that lies at the bottom of the resentment and rage that continues to fuel the resistance to globalization generally and the corporate model of free market capitalism specifically. This is true in rich and poor countries alike and the recent global economic crisis has brought this truth home with a vengeance.

What is far less clear is how those who seek change can respond constructively and concretely to this challenge, moving beyond protest to a vision of what else is possible and how to build alternatives. Convincing answers to this question have not been abundant. For many, the search for clear alternatives has been disappointing if not downright demoralizing. The collapse of socialism as a viable challenge to the capitalist idea has indeed left a vacuum where, at one time at least, there resided some hope of a more humane alternative. Most of those protesters on the streets of Seattle would be hard pressed to propose something that could truly replace the system they were protesting. But the policy makers and politicians who understand that something has to change are also in a bind. Beyond salvaging the status quo, very little has been proposed as a way of rethinking the philosophical, social and organizational foundations that underpin the capitalist systems that are now in such peril.

My purpose in writing this book is to help bring to light both the possibilities and the problems that the movement for economic democracy is contending with today. It is a movement that has a long and rich history — one that is little known yet whose effects are felt by millions the world over. It is a history whose seeds were sown in the great resistance that arose with the onset of capitalism at the dawn of the industrial age, and whose essential dynamics continue today both in the industrial democracies and in the societies where the rise of capitalism is still in its formative stages. And while it is certain that the co-operative idea will endure, it is far less clear whether the co-operative movement internationally will be able to meet the global demands of a world that daily grows smaller while the gulf that separates rich and poor, the powerful and the powerless, grows ever greater.

The story that follows encompasses three objectives. The first is to set out some of the historical and theoretical questions that surround the subject of economic democracy. These are summarized in the opening two chapters. I believe that a sense of history and theory must ground

the search for alternatives, and I hope this book can help in this respect. Readers will notice that I have focused primarily on Europe to discuss the intellectual currents that nurtured the growth of the co-operative movement. I wish to stress that the figures I treat represent a particular interplay of ideas that were germane to the rise of the industrial age in England where, after all, the modern co-op form took shape. I do not wish to imply that the emergence of co-operatives in other countries depended on these ideas or a knowledge of these thinkers. People in all countries have been creating co-operatives, and advancing the cause of economic democracy, quite independently. The co-op model has deep roots, in an astounding variety of forms, in virtually every country and culture. Likewise, while I have concentrated primarily on the rise of European socialism I am also aware of other influences that played a formative role, particularly the movements for religious reform that were among the very first catalysts for the spread of democratizing ideas and practices on a mass level among the working classes.<sup>2</sup> In England these ideas were associated primarily with the Dissent movement that included groups like the Unitarians, the Baptists, the Quakers and countless other smaller sects that arose to challenge the authoritarian character of the established church and the class privilege to which it was allied. In Germany, the radical early roots of Protestantism found expression in the anti-authoritarian teachings of Moravianism, which found followers also in England. In these movements the yearning for liberty of conscience was mingled with the drive for political liberty. Both were shaped by a deep popular impulse to make the principles of democracy manifest both in the world of the spirit and in society. If Christ's poor came to believe that their souls were as good as aristocratic or bourgeois souls, then it was but a short step for them to embrace the revolutionary sentiments of Thomas Paine's *Rights of Man*. These ideas acted like a social leaven that shaped political consciousness by advancing notions of personal worth, egalitarianism, working class identity and the redemptive power of community. The co-op movement owes much to this tradition.<sup>3</sup>

My second objective is to flesh out how the ideas and aspirations introduced in the opening chapters have been realized in the stories of people and communities that have struggled to make a more humane economics respond to the needs of their time and their place. These stories of people and places dramatize in a very real manner fundamental questions of economic organization, human relations and social values that help to illuminate the meaning and message of the co-operative

idea in our times. What I hope emerges is a glimpse of what is possible for the future if the principles and promise of co-operation are made real in the world as it is, not only in the world as we would like it to be. This is the third objective of the book.

What the future may hold is anybody's guess, especially in times as turbulent and unpredictable as our own. But how the co-operative idea relates to some of the economic and social issues that are already unfolding around us is the focus of the closing chapters.

Overall, my aim is to make this book useful to practitioners working in the fields of co-operative and community development, activists and laypersons alike. It appears to me that, in North America at least, the popular movements for economic and social reform, have been gravely weakened by a lack of contact with economics — as if anything might be gained by turning our backs on that discipline, flawed though it is, and reverting instead to arguments based solely on an appeal to values. There appears to be little serious consideration given to the practical basis on which these values might be realized. Even worse is abandoning the theoretical and intellectual contest and adopting instead a smug stance of moral superiority to those who view things in a different light. These are serious flaws and in themselves symptoms of the problem we most need to address — ceding economics to the class of vested interests that currently governs both its teaching and its practice. Rather, the underlying premise of this book is that economics is *everybody's* business.

Finally, I make no pretense to being impartial in what follows. Where I stand and how I feel about the issues I raise will be unapologetically obvious. But I try to be fair about the facts and the case I make will stand or fall on the evidence I present. The reader will decide how far I have succeeded.

We will cover a broad canvas. From the worker co-operatives of Emilia Romagna to the recovered factories of Buenos Aires, from small tea farmers struggling to make a living in Sri Lanka to the consumer co-ops of Japan, and from the lonely nursing home rooms of small-town British Columbia to the brothels of Calcutta, the co-op idea is an enduring vision that is being rediscovered and reinvented every day and in a thousand ways by people from all walks of life the world over. In times when the course of world events seems to leave little reason for hope, these stories are worth telling for they lend a hopeful light on human affairs and hint at a future worth striving for.

# The Grand Delusion

*I admit to a flaw in my ideology.  
I could not have believed that the self-interest of banks  
would not prompt them to better protect their stockholders.*

— ALAN GREENSPAN —

On October 3, 2008, the United States Congress passed an \$800 billion bailout package to stem a financial meltdown on Wall Street that threatened the collapse not only of the US financial system, but financial markets the world over. Only with the most extreme reluctance did the administration of George W. Bush accept the necessity of pumping over \$250 billion into the purchase of equity stock in nine major American banks. In this, the US followed the leads of Britain and the European Union that had adopted similar strategies to protect the solvency of their financial institutions.

This was the largest market intervention by government in US history and it was only the beginning. It framed what appeared as the ignominious final act in the current reign of free market ideology in the United States.

It was a deep and bitter irony that in the closing days of the Bush era, the free market ethos that was epitomized in this administration should have failed so spectacularly. For it was a failure and an exposure not only of the particular follies of deregulation and *laissez faire* that had led to the crisis, but more profoundly, of the political and economic policies that had dominated the western world for a generation. It was not the validation of free markets that George W. Bush or his admirers would have hoped for.

And yet, with news reports in the United States and abroad providing blanket coverage of the crisis, the focus was almost exclusively on the

financial collapse, the imminence of global recession and on the prospects for rescue by governments. Very few questioned the underlying assumptions of the free market system itself. Everyone, regardless of their place on the political spectrum, was quick to affirm their support for the free market.<sup>1</sup> Certainly this was true in Canada, where the world's least noticed federal election was underway. And predictably, just when Americans had awakened to the folly of free market policies in their own country, Canadians handed a second term to the party most committed to applying these same policies in Canada.<sup>2</sup>

The greatest resistance to the bailout plan finally passed by Congress was from Republicans who opposed any government intervention in the market as a "slippery slope to socialism." In their minds, and in the minds of many who felt compelled to support the measures, the only options were a choice between an imperiled free market system on the one hand, and "socialism" on the other. Thus, in the very act of announcing the partial nationalization of America's largest banks, President Bush felt compelled to assert that this was only a temporary measure. The government, he said, had no intention of taking over the free market. "These measures" he reassured Americans, "are not intended to take over the free market, but to preserve it." American taxpayers, it seemed, were to bear the cost of the bank bailout, but must not expect to profit from it. Once the banks returned to profitability, control would revert to them. The taxpayers also ended up covering losses for American International Group (AIG), the world's largest insurer.<sup>3</sup> The rationale was embedded in a follow up announcement by US Treasury Secretary Henry Paulsen who stated, "The government owning a stake in any private enterprise is objectionable to most Americans, myself included."<sup>4</sup> The strain on Paulsen's face as he had to make this announcement showed how much the decision had cost him. Henry Paulsen, free market warrior, former CEO of Goldman Sachs, had stared into the abyss and concluded that his beloved free market was teetering on the verge of collapse.

Three weeks later, as the extent of the cataclysm became clear with the plunge of stock markets the world over, Allan Greenspan appeared before the House Financial Services Committee to concede that, indeed, he had perceived a flaw in his ideology. He could not have believed, he said, that the self-interest of American banks would not prompt them to better protect their stockholders. It was a rare admission of error that

put into question his entire approach to the management of the American economy as a test lab for free market ideology.

Over the course of this entire period no one pointed out that the choice between a hypothetical free market on the one hand and a demonic socialism on the other was always a false choice. Or that the failure to understand that free markets were not incompatible with a governmental role in the marketplace was the very mistake that had led to the crisis in the first place. It was the unceasing pressure to deregulate financial markets and repeal the safeguards designed to prevent a recurrence of the stock market crash of 1929<sup>5</sup> that led to the unrestricted speculation on unsecured, high risk loans that pulled the floor from under the American financial system. Even now, with the free market model in crisis, and with governments being called upon to intervene in ways not seen since the days of the Great Depression, the question that was uppermost in the minds of policy makers and politicians was how to save this free market system, not how to change it. Of course, it would have been sheer starry-eyed delirium to expect that politicians or the media should notice that among the *only* institutions to weather the storm were the co-operatives and credit unions that functioned on an entirely different economic model. Worldwide, almost none had to ask for government bailouts.<sup>6</sup>

In fact, the operation of a hypothetical free market has never really been the issue. Markets have never been “free” in the normal sense of the term, nor will they ever be. They have always been, and will always remain, subject to external constraints — legal, political, cultural, religious. The question is to what degree and for what ends these controls operate. Purely free markets exist only in the ethereal regions of *laissez faire* economic theory, along with such treasured notions as perfect competition, freedom of choice and the “invisible hand” that guides the market to produce the optimum outcome for all through the unrestricted pursuit of self interest.

To be fair, the *laissez faire* doctrine of free markets has been all but abandoned by most respected economists. But this has come late and only after a monumental accumulation of evidence and the sustained criticism of decades. No one, it seems, has informed the politicians and the policy makers. Throughout the crisis, pundits and political leaders continued to argue that these were extraordinary times calling for radical

government measures. Under normal conditions, the free market functions best when left alone. But this has never been true. The free market system, such as it is, has been able to survive only *because* the state has been there to support it—and to salvage it. It happened during the depression of 1873–86, during the Great Depression of the 1930s, and the same pattern of state rescue in times of crisis continues today. The role of the state in sustaining the free market is constant and pervasive and has been so for well over a century.<sup>7</sup>

The regulation of financial markets, the regulation of banking and the insurance of deposits, the enactment and enforcement of commercial and corporate legislation, the maintenance of monetary policy, the management of labor policy, the negotiation and regulation of trade, the creation and administration of tax policy—all these are indispensable institutional supports for the operation of a market system in times of “normalcy.” The collapse of any one of them would entail a crisis for the system, as it did with the unraveling of bank oversight that sparked the current crisis. All this is plain. And so, one might ask, what exactly lay beneath this continuing insistence on the sanctity of the free market system? Was it the residual force of an ingrained ideology? Was it blithe ignorance? Or was it a cynical ploy to protect the privileges of powerful vested interests? Probably, it was all three. In any event, with shameless jaw-dropping audacity, Bush continued to bang the free market drum in the closing days of his presidency, appearing all the while before international summits convened to clean up the colossal wreckage that resulted from his policies.<sup>8</sup>

The closing decades of this most delirious of economic times saw perhaps the most ambitious application of that grandest of all economic delusions, the self-regulating market. This cornerstone of classical economics is rooted in the belief that economics exists in a sphere of its own, that its laws are complete and sufficient to themselves, and that the broader social and human relations that constitute the day-to-day reality of our lives are not only apart from it but should be subject to its dictates. In substance, the collapse of the US financial markets and the wreckage of the global economic order that followed their fall was the price to be paid by enacting in the real world the insane dictates of this delusion.

Indeed, the grand delusion goes even further. Not only does it hold that the free market operates in a perfect order of its own but that the market itself is the *source* of free and democratic societies. When left

to operate without interference, the market functions as a perfect democracy with free choice in the marketplace representing the summit of human achievement.<sup>9</sup> The supposed triumph of this idea over all competing worldviews in the late 20th century inspired one writer to claim seriously that human history had come to an end.<sup>10</sup> The unfolding of the human story as a continuous striving toward human freedom had now been fulfilled in the neoliberal order of the United States, Western Europe and the growing fraternity of free market countries. All that remained was for the perfected model of free market capitalism as realized in the US to be implemented in the backwaters of the world through the inexorable march of globalization.

Today, with global economic recession working its way like a virus through national economies it seems hardly credible that such a view might have been taken seriously. But in truth, it was only those already spellbound by the free market myth that were seduced. For just like the free market they believed in, the prophets and pundits of this Brave New World seemed to inhabit a world of their own devising — a world apart.

No amount of evidence to the contrary could shake their faith. One could point to the growing disparities of wealth at home and abroad. One could cite the declining conditions of work, health, education and social welfare that plagued the very countries that followed the neoliberal prescription. The obscene concentrations of power and money that were the predictable result of privatizing public assets in already impoverished nations were plain to see. None of this mattered. Always, it was dismissed as the harsh medicine that preceded the remaking of economies in the free market mould. As in all ideologies, the effects on actual people were secondary. What mattered was the advancement of the free market model. And if some became very, very wealthy in the process while others searched through heaps of rubbish for food, this was further evidence of the bounty for all that lay ahead.

The dogged allegiance of the free market faithful bore all the marks of a religious fervor — blind faith, supreme self-confidence, imperviousness to evidence, hostility to opposing views. Economics has, at the opening of the millennium, acquired the traits of a secular religion — a religion perfectly suited to a material age.

Of course, there is a long back story to this tale. The rise of the free market myth that has so enthralled politicians, policy makers, academics and a great swathe of the public in Western democracies owes its

origins to the early 18th century and the onset of the Industrial Revolution. Here there arose a school of economic thought deeply influenced by the mechanistic model of the universe embodied in Newtonian physics and utilitarianism—a philosophy in which the individual came to be regarded not as an integral part of a social whole, but as an isolated social atom struggling with impersonal and unchanging market forces.<sup>11</sup> Utilitarianism, and the repressive doctrine of submission and work that defined Methodism, worked together to forge the reigning ideology of the Industrial Revolution.

### Homo Economicus

In the view of Jeremy Bentham, the founder of this philosophy, the human individual is an egotistical, selfish, competitive being whose sole criterion for action is the maximization of pleasure or the avoidance of pain. All human motives are traceable to this impulse and its expression in the marketplace is the definition of rational choice. This is what economists mean when they speak of “maximizing one’s utility.” Indeed, all true social interaction takes place *only* in the marketplace. In this view of utilitarianism, social life considered as a collectivity, embodied in community, social classes, mutual aid societies, trade unions or the myriad other forms of social association are simply discounted. It was as if Jeremy Bentham had first asked himself, “What type of human personality and human society is most conducive to the psychological and material needs of industrial capitalism?” and then proceeded to ascribe to the *homo economicus* of classical economics precisely those attributes.

The other influence that helped shaped the philosophic temper of the emerging economics was the English philosopher Thomas Hobbes’s deeply pessimistic view of human nature as essentially bestial, an aggressive, self-aggrandizing impulse that reduced the human community to “a war of each against all.”<sup>12</sup>

Bentham at least meant well. He believed his philosophy would result in the greatest happiness for the greatest number. And this sounds very good. But in practice this means that actions are judged solely from the standpoint of their effects. The problem is that it is impossible to know what the effects of certain actions might be. What seems good in the present may turn out to be catastrophic in the long run. The practice of utilitarianism also allows the ends to justify the means. It instrumentalizes human beings. The untold suffering that was visited on people

during the Industrial Revolution was justified in exactly the same manner as free market ideology — indeed all ideology, whether we speak of Communism on the left or Fascism on the right — justifies the pain that is inflicted today for the sake of progress in the future, however that may be defined. Consider only the inhuman sacrifices exacted in the name of “the socialist revolution.”

In his time Bentham was a tireless advocate for political and social reform, a voice for universal education and women’s rights, an opponent of the death penalty and a supporter of early socialist experiments including the co-operative communities of Robert Owen. Bentham passed on to posterity not only a hugely influential moral philosophy, but also on a more material plane his own preserved body which may still be viewed perched inside a case of his own design at University College of London.<sup>13</sup>

That such a one-sided and impoverished conception of human nature should find such ready acceptance among economic theorists is itself cause for reflection. But its ultimate triumph as the cornerstone of conventional economic theory has provided intellectual cover to a revolutionary process of social engineering that succeeded in fundamentally changing both our notion of what it means to be human and the ways in which human life is lived.

Acceptance of such a view outside the lecture hall and the boardroom has not been smooth, however. Its catastrophic effects on society, on the security and sustenance of the individual and the community, were bitterly contested from the start.<sup>14</sup> In the 19th century, there was a lively interest in co-operative theories of economics that blended social with economic values.<sup>15</sup> William Thompson, perhaps the foremost intellectual figure of early socialism, formulated a political economy of co-operative socialism that provided a scathing critique of the capitalism of his day and a very different view of utilitarianism from that taught by Bentham. We shall have occasion to examine Thompson’s seminal influence in more detail in the following chapter. But the victory of economic man as viewed by Bentham and Hobbes was hard won by its advocates through a blend of brute force and a constant, unrelenting assault both on the public mind and on more humane ideas of economics that vied with this view. During the late 1700s and throughout the 1800s a stifling repression of both political and economic freedoms was the government’s primary means of enforcing the privileges of *laissez faire* for the

propertied class. The Combinations Act of 1799–1800 made it a capital offence for workers to organize, trade unionism and the movement for political reform were driven underground, and in the early 1800s the overwhelming majority of executions in the United Kingdom were for crimes against property. Naturally enough, it was those who had most to gain from such a view that did their most to propagate it. Thompson himself made this same point in his own day.

In the United States, the current epicenter of free market ideology, the transition from a deeply conservative, frugal, agrarian Protestantism in which community life and the values of thrift and mutual help had deep roots, to a culture of compulsive individualistic consumption was slow — over a century in the making.<sup>16</sup>

Severing the social dimension of economics, including the role of public institutions such as government, from the supposed “pure” operations of commerce violated both common sense and the traditional operations of market economies since their inception in the 14th century. The role of collective interests — the public good — in regulating the operation of markets had never been questioned until the advent of the Industrial Revolution in England. It was here that the notion of the autonomous economy was first articulated as a corollary to the social transformations attending industrialization and the growing influence of capital. And it was here, too, that the traditional relations between markets on the one hand, and the underlying economic organization of society on the other, were entirely recast.

In the past, markets were closely monitored and controlled by social and political forces that acted to protect what was conceived as the public interest from the negative effects of market forces.<sup>17</sup> The meticulous management of markets was thus a familiar feature of medieval city life. State regulation and local custom combined to protect the public interest. In local trade, there was careful regulation of food supplies through the transparency of transactions. Middlemen were strictly prohibited in order to protect the populace against the inflation of prices. Later, when the state played a central role in the development of internal markets between cities, the social interest was again paramount in the control of competition to avoid the emergence of monopolies. It was well understood that unrestricted competition leads to monopoly, a truth that seems lost on conventional economic thinking. Indeed, this conception of market forces operating within recognized social and moral limits

persisted well into the 18th century. During the late 1700s in England, there were regular outbreaks of riots when food prices transgressed these limits. As noted by E. P. Thompson, in the popular mind the prevalence of what he termed a “moral economy” still governed the rules of the marketplace. People expected to buy their provisions in the open market, and even in times of shortage they expected prices to be regulated by custom. Here is John Wesley’s contemporary account of what happened in James’ Town, Ireland, when this custom was violated.

The “mob had been in motion all the day; but their business was only with the forestallers of the market, who had bought up all the corn far and near, to starve the poor, and load a Dutch ship, which lay at the quay; but the mob brought it all out into the market, and sold it for the owners at the common price. And this they did with all the calmness and composure imaginable, and without striking or hurting anyone.”<sup>18</sup>

Similarly, in Honiton in 1766 lace-workers seized corn on the premises of the farmers, took it to market themselves, sold it, and returned the money and even the sacks back to the farmers.<sup>19</sup>

Economic systems that preceded the Industrial Revolution were inseparable from the broader realities of social relations; the regulation of markets was essential for the delicate balance between commerce and the social system that surrounded it. The same principle held true for primitive economies. The primacy of social relations and the individual’s identity as a social being was the basis of human society and the economic systems that sustained it. The conduct of economics as an expression of social values was also an integral part of the civic humanism that was epitomized in the great urban cultures of central Italy at the dawn of the Renaissance era. Three principles stand out in this conception of urban civilization: the social identity of the individual as expressed in the notion of citizenship; the sovereignty of the people in a free society; and the orientation of economic activity to the common good, which alone justifies it. It was this humanistic view of economics as a social good that was supplanted by the Industrial Revolution and the utilitarian philosophy of Bentham that was its intellectual expression.

Contrary to the common view that modern market society grew out of humankind’s natural propensity to barter and engage in commercial

exchange for profit, the organizing principles for economic systems right up to the advent of the Industrial Revolution were reciprocity, redistribution and family-based farming, or some combination of the three.<sup>20</sup> In this framework, the orderly production and distribution of goods was secured by a wide range of personal motives that were guided by well-established rules of social conduct. The profit motive was not prominent among them. This is not to say that there was not a class of individuals that pursued gain just as avidly as businessmen do today. Iris Origo's illuminating study of merchant life in 14th century Italy makes this clear.<sup>21</sup> Her protagonist, the Prato merchant Francesco di Marco Datini, pursued profit with a gusto that would be perfectly at home on Wall Street today. His life's motto, "In the name of God and of Profit," appeared like a talisman on the first page of his business ledgers and was a quintessentially medieval marriage of the pious and the profane. But this single-minded drive for profit was still restricted to a relatively small class of merchant specialists. It did not serve as the founding principle of the economy as a whole. As will be illustrated over the course of this work, the principles of reciprocity and redistribution that shaped the contours of economic life remain vital, if unnoticed, in modern economies as well, each playing a central role in forms of economic activity embodying social values that are once again coming to prominence.

Some readers may object that in describing this social immersion of economics in pre-industrial societies I am idealizing pre-industrial life. This would misread my intention. Who would want to advocate a return to a time when by almost any measure, life for the average individual was unimaginably harsher, shorter and more precarious than what we know today? Rather, my purpose is to correct some received assumptions about the history and nature of economics as a body of thought and practice. I wish to stress that the splitting off and ascendance of economics over social values has not been the inevitable process that some would have us believe, and that the balance of social and spiritual values with those of commerce that was a feature of pre-industrial life is a matter of the utmost importance. The nurturing of a spiritual life is inseparable from the cultivation of social and personal values that supersede those of commerce. I am arguing that the loss of this balance has cost humanity dearly.

The great economic historian Karl Polanyi argued that the emergence of the market system we live with today required the devaluing

of all those patterns of social organization that were embodied in the production and exchange of goods for motives other than personal gain. When all transactions are turned into monetary transactions, all incomes must derive from the sale of something; it was precisely this reduction of all societal transactions to a commercial purpose that marks a radical break and discontinuity with everything that came before. For this to happen, people's motivation had to change from subsistence, or mutual benefit, or the welfare of society as a whole, to the single motive of personal gain.

For Polanyi, the conflation of narrow market operations with the broader economy and social life as a whole was a direct consequence of re-imagining society as an analogue to the industrial process of machine production. In what can only be described as a mechanics of dehumanization, the essential elements for the sustenance of an organic human life—shared use of land, meaningful labor and socially embedded personal identity—were deprived of their social meaning and turned instead into commodities to supply the needs of an autonomous market system. As the nature of that market system evolved, so too did the manner in which these elements come to be manipulated.

The insecurity and disorder of the times made the threat of hunger ever present and real. The mobilization of that threat by employers and their proponents in parliament in order to induce the selling of one's labor at the lowest possible price was one of the most debased aspects of the transition to the market system. It also flowed from the callous political economy of the Rev. Thomas Robert Malthus and became an operating assumption of classical economic theory thereafter.<sup>22</sup>

But there was also in this period a conscious and sustained effort to erase any semblance of the artisan's traditional independence. The transition from artisan to worker entailed two tasks: the progressive elimination of skill and the internalization of those submissive attitudes that fitted the man to the discipline of the machine. The factory's demand for a fundamental transformation of human nature was stated explicitly by Dr. Andrew Ure, the Scottish chemist and inventor who became the pre-eminent theorist of industrialization. In his truly Satanic work, *The Philosophy of Manufacturers*, Ure boldly states that the main difficulty of the factory system was not technological, but rather "in training human beings to renounce their desultory habits of work, and to identify themselves with the unvarying regularity of the complex automaton [the

factory]”. “It is in fact the constant aim and tendency of every improvement in machinery to supersede human labor altogether, or to diminish its cost, by substituting the industry of women and children for that of men; or that of ordinary laborers, for trained artisans.”<sup>23</sup>

Skill in this context was a threat to mindless efficiency. Thus the manufacturers aimed at withdrawing any process that required “peculiar dexterity and steadiness of hand... from the cunning workman” and placing it in charge of a “mechanism so self-regulating, that a child may superintend it.”<sup>24</sup> To remake human character by internalizing attitudes that served the factory system, he enlisted the indoctrinating power of religion. “It is... excessively in the interest of every mill owner to organize his moral machinery on equally sound principles with his mechanical, for otherwise he will never command the steady hands, watchful eyes, and prompt co-operation, essential to excellence of product... There is, in fact, no case to which the Gospel truth, ‘Godliness is great gain,’ is more applicable than to the administration of an extensive factory.”<sup>25</sup> The malleability of human nature for selfish ends is an old and awful truth. Ure foresaw an explicit science of exploitation, but even he would have been left breathless at its final fruition in the dark arts of advertising in the latter part of the twentieth century. Andrew Ure was a brilliant and malign force, exerting his influence on both Marx and Engels and the entire class of England’s industrialists. And, in one of those happy coincidences that are literally impossible to invent, it turns out that our Dr. Ure was Mary Shelley’s model for Victor Frankenstein.<sup>26</sup>

Of the three elements of the pre-industrial economy, land and labor were the first to be subjected to the demands of industry. The third, personal identity, was undermined at a theoretical level by utilitarian economic theory and then by the dehumanizing realities of landlessness, wage labor, destitution and social alienation. But the *individualization* of identity remained only a precondition and corollary for the creation of a market for labor. It took two centuries before the conditions were ripe for the ultimate manipulation of personal identity as a driver of consumption.

Despite its enormous influence (largely outside economics) and its role in challenging the assertions of economic liberalism, Polanyi’s thesis on the market and its relation to society has not been without its critics. His critique of *market society* and of capitalism also led to a rejection of the market *itself* as a means of realizing democratic ideals. In this, I

would argue, Polanyi failed to acknowledge the possibilities of his central premise — *the economic system is, in effect, a mere function of social organization*.<sup>27</sup> This need not mean that an economic system derives solely from the state. Polanyi underestimates the generative power of civil society — the co-operative movement itself is evidence of this. And while the co-operative model parts company with capitalism, it remains firmly connected to the notion that the market can be made responsive to human needs — *without* the need for a planned socialist economy as Polanyi believed.<sup>28</sup> Democracy and the market are not antithetical. Democracy and the *market society*, in which social principles are subordinated to economic ones, as in the neoliberal doctrine of the free market, is another matter entirely.

In our era, the horrors of the transition to market society are behind us. They have long receded from our consciousness. But they are painfully real to those millions who today are suffering through the same traumatic transition to market systems now underway in China, Asia, Latin America and eventually in every forgotten haven of the pre-industrial world.

Bitter, prolonged, often deadly struggles were fought over the social impacts of these ideas. The real question that confronted market economies over the last two centuries, and the bedrock issue over which the social and economic battles have ultimately been fought, is how to limit the catastrophic damage this free market model does to society.<sup>29</sup> Which ultimately has come to mean how, and to what extent, to constrain the power of capital. In the end, the free market worldview boils down to this: the claims of capital to be sovereign and the exercise in the field of economics of that despotic power that was only recently ceded in the field of politics. The exercise of democracy that *laissez faire* capitalists now celebrate as good and holy in politics must be banned from economics. This is a rich terrain for irony. For while maintaining the principle of authoritarian control of markets and enterprises by capital in the economy, free market mythology also claims that free markets — and by extension capitalism — are the foundation of democracy.

The claim is ludicrous, incoherent and almost universally accepted. One reason is that there are certain analogies between democratic values such as equity and dignity and a particular view of markets. Unlike closed caste systems where a person's status is determined at birth, markets can display features like openness, access of opportunity and

freedom of action that are features of democratic systems. But markets do not, and cannot, guarantee equitable or dignified outcomes.<sup>30</sup> The conflation of markets with democracy is a confusion at the most elementary level. It is the kind of mistake that could only be made—and this is being charitable—by the willfully ignorant.<sup>31</sup> Capitalism is neither synonymous with the market nor is it the source of free and democratic societies. Anyone with even a passing knowledge of political history will know that democratic societies preceded capitalism and market societies by many centuries, commencing with the Greek city-states in the 4th century BC and continuing up through the rise of civic humanism and the Italian democratic republics in the 14th century. The identification of free markets with democracy has become another element in the prolonged self-delusion of Americans who believe that the United States is the founding home of democracy. And this is not restricted to the reflexive free marketers some might wish to associate with a particular breed of Republicans. It is a pervasive conceit. On her first state visit to Europe as Secretary of State, Hillary Clinton, who no one could claim is either ill educated or stupid, was pleased to inform a stunned European Parliament that America's democracy "...has been around a lot longer than European democracy."

The relation of the free market to democracy is more accurately the annexation and distortion of the democratic idea by free market proponents as a cover for the distinctly undemocratic economic realities of capitalist systems. The rise and rule of administrative bureaucracy was one of the first, and most characteristic, features of a society based on the free market system.<sup>32</sup> From the very beginning, the banner of utilitarianism had *laissez faire* emblazoned on one side and state control for the protection of property on the other. The patrician classes have always enlisted the power of government to advance their interests and the fight for democracy has always been the struggle to break this nexus. Despite free market rhetoric to the contrary, this co-dependence of state control with the market system is one source of the tension between democracy and capitalism. It is even more pronounced in state attempts to control the market with centralized command models, as was the case with Marxist brands of socialism.

The alleged affinity for democracy on the part of economic liberalism is belied both by the historical record and the everyday evidence presented by the conduct of its institutions. Nowhere is this more obvious

than the suppression of democracy in the marketplace. The freedom and equality that were achieved at such cost in politics through the democratic revolutions have been steadily eroded by the pervasive and growing influence of corporate economic power. In any society, authoritarian power in economics ultimately trumps democratic power in politics. Therefore, the absence of democracy in economics is a permanent threat to the survival of democracy in politics.

In truth, the human striving for equality and dignity that lay at the foundation of the democratic impulse was derailed in its extension to economics just when it was most needed, when the power of capital and the property-owning classes was consolidated during the period of the Industrial Revolution. But there has never yet been a convincing answer to the question: "If democracy is good for politics, why is it not equally good for economics?" After all, the operations of the economy and the connection that people have with its institutions on a daily basis have a far more significant impact on the quality and conduct of their daily lives. We exercise our democratic right to vote for public officials once every three or four years. Yet we spend most of our waking hours in our workplaces, which are still run like dictatorships, day in and day out. And finally we might ask, "How is it that a *free market* is run along authoritarian systems of command and control and personified by tyrannical models of power in the individual firm?" It is a fundamental contradiction so elementary a child could see it, and one that free market mythology cannot resolve. If markets should be free, they must also be free in their constituent institutions.

Admittedly, the democratic principle has found a fragile foothold in our economies, mostly through trade unions and sometimes in democratically controlled enterprises in the form of co-operatives. But even this was the result of bloody battles waged over decades with the captains of industry and their willing aides in government. From the very beginning, the establishment of the free market system and the transition from pre-industrial to industrial society was accompanied by a brutal repression of democratic rights both at the political and the economic level. The current claim that free markets are the source and guardians of democratic societies would be laughable if history didn't present such a dismal record showing exactly the opposite. The capitalist free market is not, and never has been, a friend to democracy.<sup>33</sup> But the reverse is certainly true: it was free and democratic societies, and more particularly

free cities, that generated the conditions for what we have come to call free markets.

A free market in the proper sense means essentially three things: a division of labor, the accumulation of wealth through economic development and the freedom of enterprise. As Stefano Zamagni has so eloquently described this, the division of labor allows everyone the possibility of work, even those less gifted, while allowing greater productivity through specialization. In practice, the division of labor obliges people to recognize their reciprocal ties. It underscores reciprocity as an economic value and it makes explicit the interdependence of specialized forms of work as components of a production process. It also enables those who are less gifted to contribute to the work of society, providing a fundamental component of self-worth. Development means the accumulation of wealth as a social good — not as a private end, but as a contingency against future misfortune and ultimately, as a responsibility for future generations. Freedom of enterprise, according to Zamagni, means:

Those endowed with creativity, a good propensity for risk and the ability to coordinate the work of many others — the three essential qualities of the entrepreneur — must be left free to undertake initiatives without the need for prior authorization from a sovereign or underling, because the active and industrious life (“*vita activa et negotiosa*”) is a value in itself, not just a means to other ends.<sup>34</sup>

Freedom of enterprise is here understood as the freedom to engage in a productive and useful life in an open economy — one not controlled by a sovereign power (or in our day, a monopoly power). It does not entail the notion that an entrepreneur, or a business, may do what they please regardless of the effects on others.

The Franciscans presented the idea of the free market in precisely these terms as early as the 15th century.<sup>35</sup> All these conditions existed in the market economies that preceded capitalism. None of them presuppose the form that individual enterprises might take, whether privately owned firms, joint stock companies or democratically controlled co-operatives.

It was in the city republics of Tuscany and Umbria between the 14th and 16th centuries that market economies first flourished in Europe, giving rise to the institutions of banking, notes of credit, the joint stock

company and a merchant class that, among other things, inaugurated the first truly global trading systems that in turn helped finance the Renaissance. It was only during the Industrial Revolution that the notion of profit maximization was added as a condition of market economies. This pre-eminence of profit really marked the transition from traditional market economies to capitalism.

I dwell at some length on this economic history only to show that the notion of capitalism as being a precondition of free and democratic societies is a fallacy, although an article of faith of the free market creed. And if one were in need of more bracing contemporary evidence, one need look no further than the rise of capitalism in China and Russia and the truly dispiriting spectacle of a state capitalism combining unfettered market development with totalitarian power in the first case and the consolidation of a corrupt, kleptocratic dynasty in the other.

The one thing that emerges in this endless contest over economic ideas and values is that the nature of economics in general and the market in particular remains an open question — a continuously contested arena of claims and counterclaims. What is very clear is that the market and the larger notion of the economy of which it forms a part is in its nature a social and public concept. The notions that any one class can own the market or that the market has a natural organizational form such as the corporation, are false. And despite the assumptions of the free market faithful, the market does not belong to capital; the forms of enterprise that make it up and give it its vitality are as varied as the uses to which they are put and the values they embody. These values may be just as committed to social goods and ends as they are to commercial ones. Moreover, the forms that capitalism itself may take are astonishingly diverse. Free market doctrine makes it sound as if true capitalism comes in just this one “pure” form. This is also false and belies one of capitalism’s singular strengths — its chameleon-like ability to adapt. There are many capitalisms, many ways that capital can mobilize and co-ordinate the process of economic production.

### Industrialization and Social Defence

What has been well and truly buried from view this last two centuries and more are the uses of the market for the pursuit of social ends. However, the social dimension of economics was acknowledged at the very dawn of economics as a discipline. The first chair of economics in

Europe was established at the University of Naples in 1776 under the title Chair of Civil Economy. Antonio Genovese, who first held the chair, was a pioneer in the study of social economy and had a direct influence on his contemporary, Adam Smith. It is only now that the hidden history of social economy is coming to light. The exclusion of society from the development of economic theory has had profound, lasting and deeply damaging effects.

Society's survival response to the plain idiocy of the autonomous market doctrine asserted itself from the first attempts to enforce market logic on human systems. The struggle continues to this day. The great experiments in socialism and co-operativism, the emergence of trade unions and the battle for democratic rights in the economy as well as in politics were all part of this human response to an inhuman system. They appeared as soon as the first hammer blows of the machine age were felt. And while the forms of this struggle first evolved in our own industrial societies, the models of resistance and reform that are now unfolding in developing countries mirror the social and collectivist models that arose in the early stages of the Industrial Revolution. As Polanyi put it, the overarching dynamic of western history since the rise of the machine age has been a double motion: the attempt to subject society to the mechanisms of the market system, and the corresponding responses by society to defend itself against the damages wrought by this system. This same dynamic is now being played out on a global level.

The integration of economic activity within the broader frame of social values is still a feature of societies that are today struggling to protect these values from the corrosive effects of capitalism. Were Western attitudes less blinkered, there would be greater recognition of the urgent need to learn from societies that have retained something that Western culture has lost over the last two hundred years. But herein lies the tragedy. It is precisely *because* Western culture has lost this knowledge that it fails to recognize its value. It is a case of cultural amnesia and its effects are felt at the deepest levels of modern living.

In our time, the issues attending the long domination of market logic in Western society have become subtler, more complex and more difficult to perceive because the problems are now as much questions of ideology and the patterns of popular consciousness as they are of material welfare. Any attempted solution or alternative to the prevailing form

of free market capitalism will have to contend with these non-material realities.

The submersion of our social identities entailed in the creation of “economic man” has prompted the emergence of two contradictory realities in the human experience. The first is the growth of material wealth to a scale beyond imagining in any age previous to our own. It is the undeniable and crowning achievement of capitalism in all its forms. The second has been the spiritual and social impoverishment that lies at the bottom of a profound sense of unhappiness and longing that has become a defining feature of modern industrial civilization. This is the great paradox of our age — the happiness paradox. It would appear that such unhappiness, and the illusion of material gratification on which it rests, is the psychic price to be borne for the type of wealth we have created.<sup>36</sup>

The severance of the individual from society, and the pathological inflation of individualism that is its counterpart, are at the foundation of free market psychology. These are essential conditions of our material wealth and at the same time the source of a profound spiritual malaise that makes us incapable of deriving the happiness we seek from the wealth we consume. It is as if the myth of Tantalus has materialized in the spiritual condition of our culture. Happiness recedes as we stretch our hands to the material wealth we desire. And perhaps it could not be otherwise, for the disjunction between unlimited material acquisition — avarice — and personal happiness is a fundamental truth of moral philosophy and religious teaching leading back to ancient times.

But never before has this tension between the material and the spiritual been institutionalized in an economic system that so devalues the social and the spiritual in favor of the material. By “spiritual” I mean simply the sensibility to a value or meaning that transcends material pursuits. The poisonous consequences of such an obsessively materialistic worldview — the social and spiritual corrosions that flow from it — are apparent everywhere. They show in the insatiable appetite for consumption that drives us compulsively to satisfy material desire as a solace to sadness; in the demonization of “socialism” and the mistrust of collective action and the pursuit of shared benefit; in the contempt of government and the idea of the public; in the unraveling of the very social bonds and fellow feeling that are, in times of crisis, the final security against danger; in the perverse sense that our self worth is bound up in the things

we buy; in the utter lack of comprehension in the minds of those who, like Margaret Thatcher, truly believe that society is a fiction and nothing more than a collection of individuals; and most disturbingly, in the difficulty people have in imagining any alternative to the present system.

This inability to imagine an alternative is the final triumph of ideology. As William Leach put it so well, the enthronement of consumerism and the acceptance of corporate capitalism as its social mechanism has diminished public life, denying people everywhere “access to insight into other ways of organizing and conceiving life, insight that might have endowed their consent to the dominant culture...with real democracy.”<sup>37</sup> It is here that the most difficult, the most necessary work must be done to advance a more fully human vision of what economies might be and how such economies might be constructed.

Alternatives do exist. The effort to construct economic systems with a more human face has been attempted since the dawn of the industrial age. And the impact of these attempts on capitalism has been decisive in making our own market system more humane. For the task has been not only to construct a more humane alternative to the free market model, but also to humanize the model we do have.

The effort to socialize economics through the creation of collective models of production and exchange has been at the center of a reform movement stretching back for two and a half centuries. All these efforts, embodying the idea of socialism in some form, reflect the attempt to transcend the self-regulating market by consciously subordinating it to the needs of society through democratic means.<sup>38</sup>

This book argues that the most enduring and the most promising of these efforts is the use of co-operation as a model for economic and social exchange and the use of reciprocity as the basis for both economic and social reform. The following chapters will attempt to show why this is true, how the co-operative experience is being played out in both advanced industrial societies and in developing ones and in what ways the co-operative movement worldwide is succeeding — and failing — in its mission to construct a humane alternative to free market capitalism.