Capital and the Debt Trap: Learning from Cooperatives in the Global Crisis

By C Sanchez Bajo and B Roelants
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The financial and economic crisis that started in 2008 is a crisis of the modern capitalism. In this book, Sanchez Bajo and Roelants explore the roots of the crisis and suggest the co-operative organisational model, even though older than a hundred years, as a viable alternative to prevent repeating the same mistakes in the future. The book is structured in three parts. First, an analysis of the crisis and its origins is provided. Then the authors focus on the organisational level and the issue of ownership and control as a driver of the crisis and look at the co-operative form as a solution to this issue. Finally, four co-operatives are successively studied.

In the first chapter, the events that led to the financial crisis are reviewed: subprime housing market, globalisation of the stock market, and change of accounting standards to name a few. Consequences of the crisis in terms of wealth destruction (-25% per inhabitant in the Eurozone by early 2010) and unemployment (20 million jobs destroyed) were dramatic despite the public measures adopted to mitigate detrimental effects in the short run — ie aid to banks and stimulus package — as well as to encourage recovery in the longer term — eg technology and industrial policy, bank regulation. The second chapter is devoted to the analysis of the underlying causes of the crisis. Several hypotheses are put forward as an explanation: the selfish behaviour of some individuals (eg traders) and the mass irrational behaviour that leads to market inefficiencies; a monetary excess; or problematic business models characterised by, among others, deficient control and capture of asymmetric information. The core contribution of the authors is to present the fundamental mechanisms of the crisis as a debt trap. They argue that increasing household consumption, lack of liquidity, fear of deflation by governments, as well as structural and technological change in the productive and the financial spheres, encouraged systematic recourse to debt. This preference leads to instability and ultimately to speculative bubbles.

This debt trap is closely tied to issues of control at the organisational level, as it is argued in the third chapter. The financialisation and the technification of the economy facilitate the control of economic entities by financial absentee investors (banks, pension funds, etc), which are not owners. This dissociation of control and ownership constitutes a fertile ground for the crisis as it privileges short sight. The fourth chapter presents the co-operative model as a means to reconcile control and ownership. Indeed, this organisational form transforms its stakeholders into shareholders. To this end, co-operatives follow a series of principles defined by the International Co-operative Alliance as they are “meant to solve needs and aspirations of persons by means of entrepreneurial activity in the private sphere” (p117). The authors show the importance of co-operatives in economic terms (around 5% of GDP of major economies and 4.7 million jobs in the EU) and their better resilience through the crisis.

The analysis of case studies starts with Natividad Island Divers’ and Fishermen’s co-operative in Mexico in the fifth chapter. This example shows that democratic control may contribute to a more sustainable management, by preserving the natural environment and providing an economic advantage to the co-operative’s members. The sixth chapter deals with Ceralel Société Nouvelle in France and how it shifted from an absentee investors’ control to a worker-owned and controlled co-operative. It exemplifies how democratic governance and transparency help to take timely decisions and result in a better financial performance. The century-long history of Desjardins Cooperative Group (Québec, Canada) is presented in the seventh chapter and shows how trust can be maintained with clients as they are simultaneously owners. Finally, the eighth chapter goes over the development of the Mondragon Cooperative Group. This case teaches us that co-operatives may mix entrepreneurial approach with societal project. Further, they create more sustainable jobs because they do not delocalise.

The ninth chapter concludes with providing the contributions of cooperatives. These are direct — major importance in economic life, systemic actor in society, and creator of shared wealth — and indirect by being an inspiring model for policy making and economic practice.

With this book, Sanchez Bajo and Roelants demonstrate the need to consider co-operatives as an alternative organisational model for a sustainable capitalist society. In a well-documented way and pleasant-reading fashion, they provide an insightful critical reflexion on the recent financial and economic crisis. Both scholars and larger public will benefit from reading Sanchez Bajo and Roelant's work as it brings back to the front an organisational form that is too often unknown and sometimes even considered as deviant — because it does not fit perfectly mainstream capitalism. Hopefully, this book and the case studies therein will inspire some entrepreneurs to adopt — and others to promote — the longstanding alternative model of co-operative to contribute changing tomorrow's economic system into a more sustainable "stakeholders' capitalism".

The Reviewer

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