

New Mutualism The Third Way

by
Peter Kellner

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Foreword

I would like to welcome the publication of this pamphlet by the Co-operative Party as a valuable contribution to the debate about New Mutualism. In New Mutualism, Peter Kellner argues that the principles of mutualism can be applied to almost every decision that we take. Instead of seeking to establish the primacy of any particular ideology, his argument is concerned with finding ways of promoting mutualist outcomes. The debate around the 'Third Way' is about achieving outcomes that truly benefit the many and not the few. It is about the development of ideas which break from the traditional public versus private battles. New Mutualism expresses both the fundamental values of mutual and co-operative societies and seeks to find modern ways of expressing those values. I look forward to the development of this debate with interest.

The Prime Minister
and Leader of the Labour Party,
The Rt. Hon. Tony Blair MP

The Seven Pillars of Mutualism

1. For a free society to flourish, the exercise of individual liberty requires the acknowledgement of mutual responsibility.
2. Mutualism can thrive only when it is rooted in culture and choice, rather than laws and coercion; it should be encouraged as far as possible, and enforced only when necessary.
3. Legitimate economic and political power may derive from a variety of sources; what matters is how it is used, how it is checked and how far it is dispersed.
4. Markets are social institutions that should both offer rights to, and demand obligations from, those who seek financial gain.
5. Government has a duty to promote responsible market behaviour; to act as an effective umpire it should, as far as possible, avoid being a market competitor.
6. Mutualism requires an inclusive society in which all have equal access to the means to participate in it to the full.
7. Government has a duty to guarantee basic equality of access, but should, as far as possible, leave delivery to independent institutions exercising their mutual responsibility.

Preface

I first advanced the case for "mutualism" at the Prime Minister's seminar on the Third Way, at 10 Downing Street in May, 1998, and set it out in print in an essay for the *New Statesman* (22 May). Peter Hunt, the National Secretary of the Co-operative Party, has now invited me to develop the ideas in that essay, and in an earlier *New Statesman* essay on "equality of access" (17 October 1997). Hence this pamphlet. The Co-operative movement provides one important and enduring example of mutualism in practice; however, it is the contention of this pamphlet that it can, and should, exist in every public, private and commercial institution: in the boardrooms of our banks and in the classrooms of our schools; in shops and in factories; in trade unions and in government offices. I am extremely grateful to Peter Hunt for providing this opportunity to explore the principles and practice of mutualism in its broadest sense, and to his staff for the help they have given - especially Jean Whitehead, who has contributed a number of the case studies that appear in these pages.

Peter Kellner
September 1998

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Section 1. From Socialism to Mutualism

The trajectory of socialism has been the trajectory of the age of the factory. Both grew up in the nineteenth century, reached their peak in the middle of the twentieth century, and declined thereafter. To use a phrase beloved of Marxists, this was no accident. Socialism in its most familiar guise - an ideology concerned with the ownership of production, distribution and exchange - sought to liberate workers from dangers, drudgery and exploitation of factory life. As a political project, it did, of course, range far wider; but at its core was a faith in collective industrial activism by people who were brought together by collective industrial jobs. Such jobs have now largely gone. The institutions that were spawned by the factory age have declined, too: the blue-collar trade unions, the working men's clubs, the mining villages and factory towns, the large housing estates near to large industrial plants. Socialism has now gone the same way. It has not disappeared, but it has moved to the margins of political debate. We may regret, even deplore, this fact; but we should not be surprised.

There is a further connection between the rise and fall of the factory age and the rise and fall of socialism - more subtle, but arguably more profound. Heavy industry nurtured not just the demands for socialism and the institutions of socialists. It also provided socialism with its basic political metaphor: society as a vast machine. A socialist society would be planned. The government - the biggest piece of machinery of all - would pull the levers of power, and make our lives better in predictable ways. Policies would deliver outcomes as remorselessly as conveyor belts delivering widgets. In 1939, when Douglas Jay insisted that "the gentleman in Whitehall really does know better what is good for the people than the people know themselves" he demonstrated arrogance but also candour. He genuinely believed that those who controlled the government machine were like skilled engineers who knew which levers to pull, and what the effect would be.

That metaphor has gone the same way as the factory age and public faith in omnipotent government. If a new metaphor is taking its place it is of society as an organism: evolving, learning, unpredictable and with a life of its own. It contains not levers to pull, but senses to be coaxed. The skills that are needed to coax it in a particular direction are not those of the engineer, but of the biologist, anthropologist and psychologist. Socialism, as we have come to understand it, has nothing to offer.

Socialism as we have come to understand it. The qualification is important.

Socialism as we have come to understand it is not how it started out. The word "socialist" first appeared in November 1827 in the Co-operative Magazine - a vehicle for the ideas of Robert Owen who sought to run his textile mill in Lanark on co-operative lines. In Owen's world a socialist was someone who co-operated with others for the common good. He was arguably an unrealistic romantic in his attempt to banish selfish and competitive instincts; but one thing he was not was an advocate of state control. For him, socialism was an ethic by which people should run their lives, not an ideology by which politicians should run their countries.

Five years after the word "socialist" enjoyed its first outing, "socialism" - or, to be more precise, socialisme - appeared on the scene. It was coined by Pierre Leroux, a French philosopher, in his publication, *The Globe*. He argued that the role of society "is to give to all its members, to each according to his needs, his capacity and his works, the enjoyment of the product of the common labour, whether such labour be an idea, a work of art or material prosperity". Such a view is clearly consistent with public ownership and a vast role for the state, but it is not of itself a demand for state socialism. It could also be

regarded as a version of Owen's co-operative ideal. Indeed, in the context of its time, it could even be regarded as an antecedent of enlightened capitalism; for France in the 1830s was still a pre-industrial society. The early French socialists, such as Leroux and his mentor, Henri de Saint-Simon, were railing against the owners of land and inherited wealth. They wanted the narrowly-owned, locked-up wealth of the country to be freed and spread by bankers and industrialists operating in the common interest.

The villain of the piece is Karl Marx. He converted an ethic, to do with fairness, justice and co-operation, into an anti-capitalist ideology that sought public ownership and state control. He was also responsible for implanting the notion of society as a machine. Even those twentieth century socialists who were repelled by Marxist ideas - such as Clement Attlee and the members of his Government who reformed Britain after 1945 (including Douglas Jay) - still adopted the metaphor.

This helps to explain why the many attempts to rescue "socialism" over the past half century from the gangrene of Marxist thinking have been so unsuccessful. The Marxist legacy has survived, not so much as an economic doctrine but as an outdated way of regarding power, society and the state. Revisionists have sought to remove the stain; but they have never got rid of the smell.

In Britain, the record of noble failure involves some of the most important figures in the Labour Party. In the mid-Fifties Anthony Crosland argued the revisionist cause in *The Future of Socialism*. Hugh Gaitskell tried and failed to translate a watered-down version of Crosland's thinking into a new Clause Four (weakening the commitment, written into Labour's constitution in 1918, to the "common ownership of the means of production, distribution and exchange"). Harold Wilson resorted to homily ("socialism owes more to Methodism than to Marxism"). Neil Kinnock bravely fought the doctrine as well as the leaders of the far left and, after he stepped down, proposed a new version of Clause Four. Tony Blair finally succeeded in changing the party's constitution in 1995. He also announced that his dream was not "socialism" but "social-ism". During the Eighties and early Nineties, in the *New Statesman* and elsewhere, I supported attempts to modernise "socialism" and redefine it for a post-ideological era. Like Kinnock, I argued for a new Clause Four. Like Blair, I hoped that a hyphen a day would keep the Marxists away, and that we could recapture the word for the values and ideals that co-operators such as Robert Owen advocated. The time has come to admit failure. The metaphor - the smell - has proved to be too persistent. "Socialism" remains too closely associated with notions of state power, of workers' control, and of mechanistic planning in place of market forces. Let us, then accept the inevitable and leave "socialism" to the dwindling band of people who still believe in such things. New Labour needs a new label.

Hence "New Mutualism". The Oxford English Dictionary defines "mutualism" as "the doctrine that individual and collective well-being is obtainable only by mutual dependence". Thus mutualism is not only different from socialism post-Marx; it is also the precise opposite of "no-such-thing-as-society" Thatcherism. New mutualism asserts that we have both rights and responsibilities, and that social, political and economic institutions work best when all of their members respect each other. It seeks to rescue the virtues of co-operation, and the principles that gave birth to the Co-operative movement, from the strangling embrace of ideological socialism. New Mutualism is not an ideology in the Marxist or free market sense. It does not regard ownership of the means of production as the central issue. More generally, it rejects the bias, implicit in both ideologies, to regard society as a machine. For although Marx originated the metaphor, not only socialists have adopted it. Many of the ideas of the free market right are equally mechanical - witness its faith in privatisation, deregulation, competition and low taxation. Like socialists, free marketeers tend to assume that all will be well if the levers of power are in the hands of the right people with the right

skills, operating according to the right rules. What divides the old left from the new right is who those people and what those rules should be; they are at one in wanting to build the perfect society machine.

New Mutualism is a doctrine that regards society as organic rather than mechanical. What matters is how power is used, rather than whether it comes from a particular, approved source. Is it used healthily, in an open, far-sighted, honest and fair-minded way - or unhealthily: secretly, short-sightedly, unscrupulously and exploitatively? Examples of both "healthy" and "unhealthy" power-play can be found in every kind of institution: in businesses, trade unions, government departments, council offices, schools, health authorities and voluntary organisations.

This does not mean that the ownership of power is unimportant. As one speaker at the Prime Minister's Downing Street seminar said, power is a vital positional good. That is, its supply is limited. The more I have - in a company, club, local authority or Whitehall committee - the less you have. Given the human tendency for power to become a drug with ugly side effects, mutualist principles cannot flourish alongside authoritarianism or in unregulated monopolies. Mutualism favours the dispersal of power. (Devolution and freedom of information are good mutualist policies.) However, it does not assert that there is a single, "correct" system for acquiring economic power: either the free market or state socialism.

Is there, though, another, more familiar term that would serve us better than "mutualism"? Would not "social democracy" be a more useful, more widely recognised term? It also favours a pragmatic mixed economy and the "healthy" use of power by people operating in an open and informed democracy. And just as "socialism" has, historically, made the journey from ethic to ideology, so "social democracy" can be deemed to have travelled in the opposite direction: from its beginnings as a Marxist creed at the end of the nineteenth century, to its anti-Marxist character today.

The problem with social democracy is that while it avoids the worst excesses of ideology, it still carries connotations of large government, running (however democratically and benignly) society as a machine. Social democracy served the post-war generation well, giving Britain and much of Europe decent welfare, health and education services, and owning or regulating many of its most important industries when they had been run into the ground by private owners before the war. That era, however, is now over. Let non-Marxist social democracy be remembered as a worthy creed for a particular period of our history, rather than pulled and twisted into a new definition.

What about "liberalism"? In *The Observer* (26 July 1998) Andrew Marr has argued that Tony Blair's Third Way "turns out to mean the revival of liberalism inside a Labour body". Blair's constitutional agenda "would have been instantly recognisable to any follower of Gladstone, Hobhouse, Asquith or even the young Lloyd George" [Blair's] emphasis on personal duty, fiscal rectitude from the state and, above all, education, education, education as the key to social progress is neither new nor alien. It emerges directly out of the non-conformist, progressive, British liberal tradition, which was buried between the Thirties and the Nineties - the era of socialism and its enemies". Only it wasn't buried. The Liberal Party spent 60 years in the wilderness, but it kept going, sometimes veering left and sometimes right, sometimes in love with state power and sometimes deeply suspicious of it. Two prominent Liberals, John Maynard Keynes and William Beveridge, arguably had more influence on the shape of post-war Britain than any politician. However to point to Keynes and Beveridge (as Blair has done) as major progressive figures is to point to a critical problem of definition. What is liberalism? The views of both men were closer to (and, indeed, helped to influence) the thinking Britain's post-war social democrats than the doctrine of late Victorian free traders and Manchester School economists. Keynes and Beveridge were certainly Liberals, but it is a moot point whether they were really liberals.

The real difficulty with Marr's argument is that liberalism has meant different things to different people during the past century and a half. By selecting particular ideas from particular times, it is possible to call anyone from Ken Livingstone to John Redwood a liberal. Marr has simply made a particular selection and applied the label to Tony Blair. By the same token, one could unearth Harold Macmillan's views in the Thirties about social deprivation and the "Middle Way", Rab Butler's 1944 Education Act, Tory economic policy in the Fifties and Edward Heath's stance on Europe in the Sixties and Seventies - and conclude that Blair is a "Conservative".

"Mutualism" has the advantage that it has been largely dormant through the twentieth century. (When I first typed it on my computer, a squiggly red line appeared under it: my Word For Windows programme did not recognise the term.) It has been used, semi-technically, to embrace certain kinds of enterprise, such as co-operatives and building societies; and more than a century ago, it was associated with a form of idealistic anarchism. Biologists sometimes use the word to describe a system of symbiosis in which two organisms both need the presence of the other in order to thrive. But, unlike liberalism, socialism, social democracy or conservatism, mutualism has not figured in mainstream twentieth century debate. Thus it has not left a trail of change and contradiction, or dispute about its meaning.

Besides, the world has moved on. Today's political challenges are different from those of a generation or a century ago. The age of the large-scale factory is over; the rise of service industries, especially in information technology, poses new problems. Patterns of work and company management have changed. European politics and global markets affect British life far more than before. Citizens and governments are more keenly aware of the limits of state power, especially in the provision of welfare. The case for a Third Way is that the free market right is rooted in the wrong values, while the ideas of socialists and the social democratic left belong to the wrong era. The case for this Third Way - New Mutualism - is that it is able to connect the core values of progressive politics to our new era. It is non-ideological, organic in its approach to society, and wary of excessive state power. It proposes a framework in which freedom and mutual responsibility can coexist, and in which fairness, opportunity and social harmony can be pursued without pushing taxation to politically unacceptable levels.

Above all, New Mutualism returns to first principles: liberty, equality, fraternity. (Yes, I know that "fraternity" has male overtones. But "co-operation" is too instrumental and "solidarity" too narrow.) The central proposition of New Mutualism is that liberty, equality and fraternity can be achieved only if we develop a culture of mutual responsibility.

That basic argument is rooted in both ethics and anthropology. The ethical point is reasonably obvious. Most of us think it "good" in principle to respect, co-operate with, and behave thoughtfully towards our fellow citizens, whatever our ultimate definition of "good" and however frequently we desert those standards in practice. The anthropological argument is, perhaps, less obvious, but no less central to the case for mutualism; for it shows that mutualism is not just practical, but also goes with the grain of human nature. We are genetically programmed to behave in a mutual manner.

How come? Richard Dawkins explored this issue in *The Selfish Gene*. In Chapter 12, "Nice Guys Finish First", he argued that nature contains many examples of "reciprocal altruism" - that is, creatures voluntarily supporting each other: captive mice that lick the sores on each others' heads; cleaner fish that are allowed to eat the parasites off the surface of larger fish without being eaten up themselves; bats that give food to hungry members of their group rather than eat it themselves.

Each of these species has evolved in a way that allows it to solve the "prisoner's dilemma". In the original version of this conundrum, two men (say,

Potts and Kettle) are held in separate prison cells, both suspected of collaborating in a crime. Their choice is to stay silent or blame the other. If Potts gives evidence and Kettle stays silent, then Kettle is jailed for five years while Potts goes free. If both men testify against each other, both spend three years in jail. If both stay silent, then there is not enough evidence to convict on the major charge; both men go to jail for one year on more minor charges. Potts does not know what Kettle is saying; so what should Potts do?

If Potts gives evidence, he might go free; the worst that can happen to him is three years in jail. If he stays silent, he is bound to go to prison, and he may stay there for five years. His best option would seem to be to cheat on the thieves' pact and blame Kettle. However, if Kettle follows the same logic, he too would speak out. Both men would go to jail for three years. But if both men took the alternative "trusting" option and stayed silent, both would be better off.

Dawkins argues that real-life versions of this artificial example occur repeatedly in real life and throughout nature. Individual "cheats" may prosper and the "trustful" suffer, but in the aggregate, the "trustees" do better than the "cheats". (Though, like most generalisations, this should not be pushed too far. Preys are wise not to trust predators; most lambs decline the opportunity to lie down with lions.) Through the Darwinian process of evolution, the creatures that survive and prosper are those that employ an optimum degree of reciprocal trust, while persistent "cheats" go into decline. In the doctrine, "survival of the fittest", the word "fittest" has a fuller meaning than merely "strongest". Human beings are "fit", in the Darwinian sense, in part because we are programmed to trust each other: if we weren't we would not have evolved as far as we have.

To Dawkins, evolution provides a better explanation than religion for our ethical beliefs: the package of behaviour-codes we label as "good" is no more than an expression of our genetic make-up; homo sapiens needs to continue behaving well in order to survive. According to this view, it is not God instructing us to be moral, but our chromosomes telling us: "be selfish: trust each other".

One does not need to take sides in this argument in order to conclude that mutualism, in its most basic sense of having regard to others, is vital to civilised living. What is striking is that the complexities of modern life seem to have reinforced, rather than demolished, that basic truth. The American political scientist, Robert Axelrod, has used computer simulations to develop game theory, and showed how sophisticated "trust" strategies have a greater chance of success than those that employ no trust at all. Diplomacy works best when there is trust: the Northern Ireland peace process provides a dramatic example of this. And modern business theory asserts that trust-relationships, both within and between firms, generally work better than relationships based solely on formal contracts.

Mutualism, then, is a moral, genetic and practical imperative. What, though, does it mean in practice? The remaining sections of this pamphlet seek to answer this question.

Section 2. New Mutualism and Enterprise

Markets are not anarchic, atomistic things. Properly functioning markets are elaborate social mechanisms which need to be well constructed and carefully maintained. A mutualist approach starts from the observation that these mechanisms need constant attention in order to ensure that the market maximises social welfare (or, indeed, any social objective). Mutualist doctrine disputes the free-market view that laissez-faire policies automatically produce the most desirable outcomes; it also challenges the state-socialist assertion that markets are bound to generate a more brutal and divided society. Markets - that is, workers, consumers, employers and investors entering freely into transactions and relationships for their mutual benefit - are vital. The issue is not whether to have a market-based economy, but what kind of market economy. How should the social mechanisms of the market be designed if we are all to prosper?

The lessons from the capitalist economies of the West, as well as from the former Communist society, are not as clear-cut as some freemarket advocates have argued. We know that state socialism does not work, and that its softer variety - monopoly state ownership of major industries such as steel, coal, airlines and telecommunications within a mixed economy - is often inefficient. We also know that "bandit capitalism" - rampant individualism in the absence of a functioning state, the rule of law and a reliable banking system - does not work either. However, even if we rule out both state socialism and bandit capitalism, we are still left with plenty of territory within which we must choose where to pitch our tent. What should be the role of the state? Are shareholder-owned companies necessarily more efficient than other kinds of enterprise? How can private interests be reconciled with the public interest? What is the optimum degree of regulation?

In recent years discussion of these questions has tended to polarise into a debate between the "Rhineland" and "Anglo-Saxon" models of capitalism: the "Rhineland" model represents economies that are highly regulated and relatively highly taxed, with public spending accounting for around 50 per cent of gross domestic product; the "Anglo-Saxon" model stands for minimum regulation and taxation, with public spending accounting for between 30 per cent (US) and 40 per cent (UK) of GDP. Supporters of the Rhineland model say it creates a safer, more united, socially cohesive, healthier, better educated society with less crime and poverty. Supporters of the Anglo-Saxon model say that it provides a more dynamic and prosperous economy, with greater opportunity and less unemployment.

The truth is more complex, and more interesting, than the stereotypes. America's economy has grown slightly faster over the last ten years than those of France, Britain and Italy, but less fast than Germany. Such aggregate data is necessarily crude, but it offers no support for those who argue that the Anglo-Saxon system produces faster growth over the medium term. What about jobs? Unemployment in the US, at 5 per cent, is certainly lower than in continental Europe, where it currently hovers around 10 per cent. However, much of this can be explained by its different culture and social security system, and the huge numbers of young men who are in jail - men who are more completely out of the labour market than if they were merely unemployed. If we look at employment rates among men aged 25-54 - and therefore steer clear of social and cultural differences between countries to do with higher education, the penal system, early retirement and the economic role of women - we find that America's performance (around 88 per cent in work) is similar to that of much of Europe.

Furthermore, in as far as the US has enjoyed steady growth in recent years, it has been the result of good monetary management as much as - some would say more than - free market freedom. If we are to look across the

Atlantic for lessons, one is surely that the central bank in charge of Europe's single currency should be managed with the same commitment to economic expansion that Alan Greenspan has applied to his stewardship of the Federal Reserve.

If we depart from economic statistics, there are other reasons to be cautious about crediting too much to America's free market. Compared with Europe, the United States suffers more violence, inequality and drug abuse, and far less social protection. If you are poor and sick, you will fare better if you live in Berlin, Brussels or Birmingham, England, than if you live in Boston, Baltimore or Birmingham, Alabama.

The more fundamental truth is there are things to applaud and things to put right on both sides of the Atlantic. For all its faults, the United States enjoys many blessings: an output per head that exceeds Europe's, an open, can-do culture, some of the world's toughest anti-trust laws and a clear lead in the development of information technology. Equally, for all Europe's virtues, it does need to change some of its ways if it is to compete effectively in an increasingly global market for investment and jobs, as well as goods and services. There is something more. For all their supposed differences, there are more similarities between the Rhineland and Anglo-Saxon experiences - as distinct from models - than the more partisan advocates from either side normally care to admit. In America, Britain and the rest of Europe there are companies that take their social responsibilities seriously, and those that seek to extract the last penny in profit, even if this harms the interests of workers, consumers or the environment. The real differences arise from the legal, fiscal and regulatory frameworks in which companies operate. The United States offers a low-tax, minimum-social-regulation environment; Europe provides a higher tax, more regulated environment. Mutualism in the United States is largely voluntary; mutualism in Europe is in some respects compulsory. Neither is wholly satisfactory. In the United States too much is loaded onto the ethical judgement of company executives, and too few obstacles are placed in the way of free-loaders; in continental Europe, the approach has, perhaps, tended to be too mechanical and over-regulated.

The task is to create a framework in which mutualist behaviour is the norm. One important ingredient is variety in forms of ownership and control. Alongside conventional companies owned by shareholders need to be co-operatives and partnerships. A thriving financial industry needs "mutual" building societies and insurance companies owned by their members. Credit unions are helping people shunned by the clearing banks; charities and the wider voluntary sector often deliver services that the market ignores. Such enterprises are not only valuable in their own right; they often set standards against which conventional companies can be judged. Examples are mortgage interest rates charged by building societies - often lower than those set by the clearing banks - and the initiatives by the Co-operative Wholesale Society on ethical sourcing.

Yet most significant enterprises will continue to be owned by shareholders. How should the principles of New Mutualism be applied to them? That some regulation is necessary should be beyond dispute: the social mechanism that generates a healthy market is not something that comes about spontaneously. For example, we know that unregulated markets tend towards monopoly. Indeed, the essence of profit-maximisation is often the avoidance or elimination of competition: by cornering a particular market, or by creating an "exclusive" new product or service, by taking over rivals, or by driving them out of business. At the very least we need tough anti-monopoly laws.

Do we need much more than that? Some on the right would say no: governments should legislate for rigorously free competition and nothing much more. Everything else, they say, will then fall into place: investment, prices,

wages, employment. The more that regulation interferes with competition, the greater the risk that the economy will underperform, prices will be too high and jobs will be lost. This proposition, however, falls on two counts. First, free competition is an impossible dream. Legislation can help to limit the degeneration of an existing competitive market into a monopoly. It cannot easily prevent the emergence of monopolies in new products or services, or undo natural monopolies. Nor cannot it stop companies extracting near-monopoly profits by generating and then exploiting distinctive brand loyalty. When I use Microsoft programmes on my computer, or watch a Premier League football match on Sky Sports, or post a letter, or take a Thameslink train into London, or fly across the Atlantic in a Boeing jet, or buy a ticket for Disney World - whenever I do any of these things I am dealing with an actual or quasi monopolist. Second, even where there are competitive markets, larger public interests may be violated. Think of companies that seek to cut costs in order to maintain a competitive cutting edge, by emitting more pollution or by paying just £2 an hour to security guards. In formal terms, competition alone cannot deal with the issues of external costs, which are liable to include impact on the environment, or social cohesion.

So, "cry competition and let loose the dogs of commerce" is an inadequate philosophy. Companies need to act - and, where necessary, made to act - in ways that reflect their wider obligations to the society that sustains and protects them. For some on the Right such an approach reeks of a statist desire to undermine the market and minimise competition. This, however, is to make the same mistake as those who resisted social reform in the late nineteenth and early twentieth centuries. Far from killing capitalism, social reform saved it, by mitigating its impact on much of the population. By the same token, New Mutualism is concerned to create the conditions in which markets and competition can continue to thrive - by addressing those problems that the market cannot solve, and sometimes exacerbates.

That is why a mutualist government opposes monopoly where it can, and seeks to extend consumer choice as far as possible, but goes further. As well as framing a tough competition law (which would include laws on predatory pricing and media cross-ownership that would seek to channel Rupert Murdoch's empire into truly competitive endeavours), it also legislates against poverty pay, upholds consumer rights and encourages partnership between managements and trade unions. However, given the right system of public-interest regulation (including legislation to curb profiteering and other anti-social actions by monopolies where competition fails to do the job), it prefers goods and services to be traded independently of direct government control: in political economy, as in sport, it is impossible to be both a hard player and a fair umpire. Past experience, in Britain and abroad, shows that the state seldom gets the best out of companies that it both controls and regulates; wherever possible the two functions should be kept separate. And since regulation is, by definition, a function that must be discharged by the state, it follows that control should normally be exercised by people independent of ministers. Exceptions should be rare, and require specific justification. So, for example, ministerial discussions about the future of the Post Office or the London Underground would start with the objectives to be achieved, and progress from there to a decision about the best way to run them. This will almost certainly be as independent enterprises; but in each case the judgement about ownership - private, public or some mix of the two - should be shaped by circumstance, not dictated by dogma.

How? Regulation must play an important part along with other sticks and carrots, such as taxes and subsidies. These clearly have a significant role. Health and safety legislation, equal opportunity laws, environmental taxes and so on: all help to set the boundaries of acceptable behaviour. Such regulatory systems, however, suffer two problems: they are apt to go too far and at the same time, they often fail to do enough to prevent bad behaviour.

They go too far when they tie companies in bureaucratic knots; but they miss their target when they allow company lawyers and accountants to find loop-holes to exploit. Besides, the notion of regulation assumes infallible wisdom and total objectivity on the part of ministers, officials and regulators. Merely to list those assumptions is to draw attention to their absurdity. New Mutualism is a philosophy for a fallible world. It accepts that people, enterprises and public institutions are all liable to make mistakes. It therefore seeks to place only limited reliance on regulation (and even less on ministerial discretion), just as it is wary of expecting too much from market forces or perfect competition. Yet if the limits to regulation are recognised, what is there left to do? Unless companies are forced to serve the public interest, why should they ever do anything that does not maximise returns to their shareholders at the expense of other stakeholders? As long as company law puts the interests of shareholders above those of employers, consumers, the public interest and the environment, surely any conflict of interest is bound to be settled in favour of the shareholders?

Formally, the answer is: yes, shareholders hold the trump cards. But the thinking behind such questions often seems to ignore a more complex truth: that our business culture is changing; that shareholders are often best served when the interests of other stakeholders are acknowledged; and that companies that disregard the public mood and/or damage the environment often find themselves in trouble. The mutualist message - that enterprises, like individuals, flourish best when they acknowledge their duties as well as claiming their rights - is beginning to get through, and on both sides of the Atlantic. Business executives are discovering that the best solution to the "company dilemma" is often the same as the solution to the "prisoner's dilemma" - to pursue a strategy of responsibility, good citizenship and reciprocated trust. Consider America first. To be sure, it contains businessmen such as Al Dunlap, whose book *Mean Business* argued that the sole duty of a company was to maximise its profits. His favourite technique is to squeeze costs and sack as many workers as possible. His record, however, is not that good beyond the short-term. His latest company, Sunbeam, has just dispensed with his services because he produced no lasting growth in the company's business of making small domestic appliances.

In contrast, long-term success in the US is often accompanied by an ethical dimension - such as the Ronald McDonald children's hospitals that are built by the McDonalds fast food chain. Or consider the credo of Johnson & Johnson, which has done the company no harm since its President Robert Wood Johnson first formulated it in 1943, putting its customers, employees and the community ahead of immediate financial returns to its shareholders. What Johnson & Johnson have discovered is that sensible ethical policies are usually good for business. Some years ago, some Americans died after bottles of the company's Tylenol pain killers were tampered with. The company's immediate response was to recall every bottle in the country. As Charles Handy has pointed out in *The Empty Raincoat*, profits fell in the short term - but rose in the longer term as its public reputation soared. In Britain, too, the best companies have found that ethical behaviour can make good business sense in a free-market environment. Look at Marks & Spencer, a private company, and John Lewis, a partnership embracing the entire staff: both flourish by making their workers feel wanted and secure. Or the way Rover has turned from a loss-making car manufacturer with appalling labour relations into a profitable company that now respects its workforce. Or the way Shell and B&Q have responded to public pressures to behave more responsibly towards the environment. These individual initiatives have taken place within a wider context in which issues to do with corporate responsibility has climbed the public agenda. This has emerged in a number of ways, such as: the work of Business in the Community (the charity whose president is the Prince of Wales), the growth of "ethical" investment funds, criticism of "fat cat" salaries; and the way

large companies are increasingly submitting themselves to environmental "audits" of their operations. Trade unions - the traditional opponents of shareholders in a battle to divide the fruits of company income - have acknowledged the change. In the words of John Monks, the TUC's general secretary, speaking to trade union officials in Scotland in the spring of 1998, "the days when you joined the unions to bash the boss are over". For Monks, as for most leading trade unionists these days, partnership now provides a better strategy than confrontation.

One of the most significant initiatives has been the inquiry by the Royal Society of Arts into "Tomorrow's Company". This two-year inquiry, which brought together senior executives from 25 of the UK's biggest companies and which reported in 1995, argued that "there are too few world-class companies in the UK. We are not creating enough new ones". Among the historic weaknesses that report identified was "over-reliance on financial measures of performance". The report also highlighted "the growing importance of environmental issues and the death of deference among employees, customers and communities". Above all, it stressed "the increasing need for companies to maintain public confidence in the legitimacy of their operations and business conduct - in other words, to maintain their licence to operate." (Report's emphasis) It would be daft to pretend that every large company shares those views - or that those claiming to do so, interpret these general injunctions as fully as, say, trade unions or Friends of the Earth would wish. Yet the climate within which businesses operate is undoubtedly changing. As Shell, B&Q and other companies have found, the "licence to operate" is harder to acquire than it used to be.

Does this mean, then, that there is fundamentally nothing to worry about - that anti-social behaviour designed to increase profits will always prove counter-productive, and that as long as companies behave rationally in pursuit of self-interest, all will be well? We only need to read a newspaper on a typical day to find that bad behaviour remains all too common. Either the rational case for enlightened self-interest does not apply to all companies; or some companies persist in acting irrationally; or - most likely - both things are true.

Nevertheless, the fact remains that New Mutualism goes with the grain of the best corporate culture. It seeks to spread existing best practice, not to overturn an economic system that is systemically evil. And one of the most effective ways to spread best practice is to build a social and political culture in which companies become ever more conscious of the terms of their "licence to operate" and of the need to maintain the confidence of their employees, customers and the wider public. One of the aims of New Mutualism is to build a set of values that companies (like other institutions) choose to adopt, for they fear a backlash if they fall short of the standards expected of them. This will not happen automatically. It is as demanding as designing new laws, but, done effectively, more likely to have lasting, beneficial effects; for in their quest for profits, companies would seek not merely to avoid breaching laws and regulations, which is a negative and sometimes devious activity; they would also act positively to improve their reputation. Hence the maxim that mutualism should be encouraged as far as possible, and enforced only when necessary. New Mutualism has one crucial ally on its side: knowledge. Already it can be argued that information technology has made possible the campaigns and cultural changes that have already influenced companies such as Shell and B&Q. Greenpeace has been adept at employing television, satellite and Internet technologies to obtain and disseminate information. Companies, almost as much as politicians, are having to adjust to an era in which they are subject to constant scrutiny, and in which any failing, once discovered, is promulgated round the world almost instantly. Within companies, too, information technology is destroying old, hierarchical structures. The old Taylor model of industrial organisation is dying out: few workplaces are still divided between

bosses who think and workers who pull levers. Now, thinking has to be done at every level; and co-operative thinking is the most effective kind. As BG's John Wybrew argues, we are moving towards a "connected economy" in which companies will be far less able than in the past to take their employees or customers for granted. Companies will need to be more open, managements more flexible, and internal and external networks based more on trust if they are to succeed.

The main thrust of a mutualist policy towards enterprise should be to support and promote the trends identified by the "Tomorrow's Company" report, the moves towards social and environmental auditing, and the recognition by companies that their "licence to operate" includes obligations towards the societies that protect them. This process needs to engage people across society: trade unions, reflecting both the interest and knowledge of their members; local authorities and Training and Enterprise Councils, working with business locally; the media, collecting and publishing information on corporate behaviour. The state, too, has a large role that goes beyond regulation. The power of government to affect the climate and culture is limited, but by no means negligible. It can actively support co-operative and voluntary ventures, especially in reviving run-down areas and in promoting its welfare-to-work agenda. Government also has a bully-pulpit; and it can name-and-shame. "The unpleasant and unacceptable face of capitalism" is a phrase that was coined by a Conservative Prime Minister (Edward Heath in 1973, describing Lonrho); Labour ministers should be prepared to be equally forthright when occasion demands.

Beyond that, more formal changes in three areas would help to advance mutualist principles.

First, the knowledge-revolution should be re-enforced with legislation that requires companies operating in Britain to provide full disclosure of information regarding wages, working conditions, equal opportunity policies, energy-use and impact on the environment - both in the UK and abroad. Companies with good records in these areas should emerge with their reputations enhanced; those with worse records would be confronted with the choice of mending their ways, or facing public criticism and taking "naming and shaming" risks with their "licence to operate".

Second, greater use should be made of a device employed first in the United States almost 60 years ago and subsequently adopted in Britain: contract compliance. In 1941 President Roosevelt signed Executive Order 8802, which outlawed race discrimination by defence contractors. Twenty years later President Kennedy inserted equal opportunity "affirmative action" clauses into contracts between private companies and federal agencies. In the Eighties, a number of local authorities, led by the Greater London Council, adopted the same principle of contract compliance. The GLC established an "approved list" of 20,000 companies that demonstrated a commitment to uphold laws banning discrimination on grounds of gender, race and disability; only companies on this list could tender for GLC contracts. Conservative ministers condemned the GLC's policy - but later adopted much the same course in Northern Ireland, when it sought to prevent companies that practised religious discrimination from obtaining government work.

The time has come to widen the use of contract compliance. If B&Q can force its suppliers to adopt environmentally friendly policies, so should central and local government. One option would be to adopt the practice of the defunct GLC and require companies tendering for contracts above a certain amount to have "approved" status - a label that would be earned by companies passing certain standards (possibly administered by the British Standards Institute) of ethical, social and environmental conduct. Another option would be to adapt the idea of "yellow" and "red" cards used in Soccer; companies that infringe laws and regulations in areas such as pollution, minimum pay,

union recognition, unfair dismissal, health & safety and the implementation of EU directives, would be warned about their conduct - and any company that offended persistently or seriously would lose the right to tender for public contracts for a given period.

Third, there is an opportunity to recast the role of institutional investors. The notion that shareholders are apt to have a conflict of interest with other stakeholders assumes that the two groups are different kinds of people. In reality, they are much the same. Around 80 per cent of shares in a major company are owned by institutions - which means that they are held on trust for people with pensions and other savings. Companies that pollute the environment, exploit their workers, give poor value to consumers, or take an excessively short-term view of research and investment are often acting against the interests of their ultimate, beneficial owners.

Moreover, by their very nature, institutions hold shares in a wide range of companies. It is in their interest to ensure the best aggregate performance by the companies over the medium-to-long term - not necessarily the best performance of individual companies in the short term. Pensions Investment Research Consultants have proposed amending company law to impose on institutional shareholders a "duty to vote" at company general meetings. This duty could be linked to a requirement to take a broad view of the interests of all the people whose savings they control. Such a reform would have increased force if the tax system were adapted to encourage institutions more to hold their shares for, say, five or more years rather than look for short term gains.

Already the Government seems to be beginning to travel in this direction. In July 1998 John Denham, the Minister for Social Security, unveiled plans for pension fund trustees to disclose to what extent they had taken account of ethical and social considerations in their investment strategy. It would not be difficult to go further. Pension fund trustees are already required to compile a statement of investment principles. The law could be amended to ensure that such statements embrace broad social, ethical and environmental principles.

These reforms will not eliminate crooks or pollution or exploitation overnight. No laws and no culture ever can. Nor will they dispel every short-term, profit-maximising pressure from financial dealers who are more concerned with derivatives and the futures market than the underlying performance of British companies. What can, and should, be done is to nurture variety in forms of ownership, and encourage mutualist behaviour in all sections of the economy. This is a large task - but it is made feasible by the fact that mutualism is ingrained in human nature, and seeks not to overthrow the current economic order but to learn from the actions of its best practitioners.

Section 3 Equality, Liberty and the State

A healthy economy is a necessary condition for a healthy society, but it is not a sufficient condition. If all companies applied mutualist principles to the full, many people would be better off, more secure and better respected. But if nothing else changed, many problems would remain. The danger of redundancy could not be eliminated; unemployment would still occur; poverty would still afflict the lives of millions, and our cities would still be disfigured by grim housing estates. Nor can domestic companies, however well managed, insulate themselves from the insecurity and sudden shocks that can afflict any country in an open global economy. The “social question” - how can we create a cohesive society in which everyone feels they have a stake? - would still need to be answered.

A mutualist strategy starts from the principle that state and citizen have reciprocal obligations. This implies a common polity, which in turn requires some notion of equality and social cohesion; for if the state allows excessive inequality and division, then many people will feel excluded from the bargain. The state will not have behaved reasonably towards them: why should they behave reasonably towards the state?

However, that principle is far easier to assert than to apply. At the root of the problem is the definition of equality. The word, and the general idea, has inspired progressives since the French revolution. But its meaning has never been pinned down by mainstream parties. The centre-left now needs to rethink its approach to equality in much the same way as it has needed to rethink its approach to the ownership of the means of production, distribution and exchange. In the Eighties, the poverty of the left’s thinking on economic organisation allowed the free market right to capture an ideological initiative. In the Nineties, the centre-left’s failure so far to produce a robust definition of equality risks ceding the debate to those who deny that inequality matters. My contention here is that the values of mutualism can, and should, be linked to a new definition of equality that is both relevant and robust. It is “equality of access”, and it is underpinned by three principles:

- a) Equality should be defined to apply to everyone at all times: to rich and poor, to men and women, to black and white, to those who pass exams and those who fail them;
- b) When the principle of equality is invoked, it should be for its own sake, not merely as a stepping stone to some wider social objective;
- c) Equality is ultimately about humanity, not money. Greater financial equality is undoubtedly necessary; however, money is a means to an end, not the end itself.

“Equality of access” casts its net far wider than equality of outcome and equality of opportunity. It is concerned not just with the skills and material means that contented citizens need, but with information, power, security, health and justice. It is about rights at work and the freedom to walk through streets without fear. “Equality of access” proposes that a mature democracy should strive for a range of equal membership rights for all its citizens, involving parity of access to those things that, together, comprise a just and healthy society. It is on that basis that, in return, the state has the right to expect all citizens to accept their reciprocal, mutual responsibilities. Here is a provisional list of equality-of-access rights:

Everyone should have equality of access to...

- the ballot box
- the information that enables people to hold to account those who wield power, public and private, in their lives

- competent, affordable representation when in discussion or dispute with those who wield power
- safe and peaceful neighbourhoods
- fair treatment by the police and courts
- reasonable, affordable housing
- healthy, affordable food
- prompt and appropriate medical treatment when needed
- (for children and young adults) education that will enable people to achieve their full potential as adults
- (for adults) employment that does not violate the employee's dignity or health

That list doubtless contains defects and omissions. However, it seeks to set out a range of issues in which (in the view of this writer at least) equality has an intrinsic virtue. The most obvious example is the ballot box: every elector should have one vote. Equality of the franchise is the essence of democracy. Even here, though, the emphasis is on access rather than use. An elector may choose to abstain. Elections are decided by those who vote, not by those who stay away. The key thing is that every elector should have equal access to the ballot box; which is why we allow postal or proxy votes to those who are unable to attend the polling station in person on election day.

That is a relatively simple, uncontroversial example of equality of access, one which is applied to a large extent (though not completely: witness the difficulties many homeless people face when they seek to join the electoral register.) Others are more complex. Equality of access to information does not just concern central government, but local government, the public services and private business. There is obviously room for debate about how much information should be made available and what can reasonably be kept confidential. It is also, equally obviously, the case that some people will end up better informed than others - those who are determined to find things out will know more than those who cannot be bothered. But as with the ballot box, the primary issue is access.

Or consider food. Few would suggest that we should all eat the same, or that everyone should be able to afford a daily helping of caviar. Nor can a free society insist that everyone has a healthy diet. If some people choose to eat too many fried chips and cream buns, and too few lentils and grapefruits, too bad. Equality of access to healthy, affordable food means something different. In fact it means two things: first, that incomes should be high enough (and/or food prices low enough) for everyone to be able to afford a healthy diet; secondly, that shops that sell good-value, healthy food should be readily accessible to all. Too many inner-city households, especially single-parent families, live in "food deserts". Supermarkets and good greengrocers are beyond easy reach to those without cars; local corner stores charge high prices and sell little that is fresh and in good condition. For people living in food deserts, equality of access is partly about income and partly about the nature of our retail system. Some means of coaxing Tesco, Sainsbury to set up more small "metro" supermarkets in poor housing estates might help as much as an increase in social security benefits to equalise access to healthy, affordable food. (The Co-op record is better.)

Likewise with "credit deserts". The clearing banks have withdrawn increasingly from our most run-down areas, with the result that people who need to borrow money are often forced to turn to expensive unsecured loans from other money-lenders - and sometimes to loan sharks. Credit unions, operating on the best principles of mutual support, are now emerging to fill this gap; if they could be linked to a wider set of initiatives to coax the large banks back to "difficult" areas (possibly including new kinds of partnership between conventional and co-operative financial ventures), then equality of access to basic banking services could be attained.

Advocates of equality of outcome have a ready response to this argument. If incomes were distributed more evenly, there would be no food deserts and no credit deserts. There is clearly some truth in this. Poverty is one of the biggest causes of inequality of access. It is inconceivable that equality of access can be achieved without a significant increase in the incomes of the poorest households. The argument, rather is that poverty is not the only problem, nor higher state benefits the only answer. Some poor people have easy access to supermarkets; some less-poor people do not.

Likewise - indeed, even more so - with health care. Most people depend on the National Health Service. Its quality affects almost every family. Does it provide everyone in need with prompt and appropriate treatment? Or are there groups who have worse access than others - the inarticulate, the elderly, residents of the wrong region or the wrong part of town? Does the (probably inevitable) concentration of the most modern, high technology facilities into fewer, larger hospitals, give car-owners an advantage over less mobile citizens? Many of the problems caused by the closure of smaller, older hospitals relate to the fact that people who used to live only a walk or short bus-ride away, now find it hard to reach newer hospitals either for outpatient treatment or to visit friends and relations unless the local transport system is improved with new bus services and/or subsidised fares. All these issues have clear consequences for equality of access, but little obvious connection with equality of outcome as it is normally defined.

Thus "equality of access" is more realistic than "equality of outcome" and goes further than "equality of opportunity". It sets a wide series of challenges to politicians who call themselves progressive; indeed, there are few areas of public policy that "equality of access" does not touch. At the same time, it avoids ideological rigidity. It does not demand a particular form of economic organisation, or ownership of industry, or tax regime; it does not prescribe a particular, maximum range of incomes; nor does it say that wealth is bad. Rather, it invites those, inside and outside government, who design policies for the economy and social security, industry and education, the police and the health service, transport and housing, to measure the impact of their plans against equality of access criteria.

Equality of access does not merely shift the debate: it also provides fresh criteria of how to judge the attainment of an "more equal" society. A simple indicator - showing, say, that the real incomes of the poorest ten per cent have risen relative to the national median - would not be enough. Equality of access demands that the victims of inequality should also be able to live in decent housing, buy healthy food, secure better education for their children, obtain good health care, use public transport and walk in safety at night round their neighbourhood.

Well run and properly-funded services for everyone, then, are vital to a mutualist society that provides equality of access.

However, in its approach to the organisation of those services, New Mutualism shifts the emphasis from the traditional input-based approach (how much should the public sector spend?) to one defined by outputs (what do we want to achieve?). Contrary to the dream of the state-socialist left, mutualism involves no prior belief in the innate superiority of state provision. As Ted Gaebler and David Osborne argued in 1993 in *Reinventing Government*, the state's task, wherever possible, should be to steer, not row: to set clear social objectives and design the framework for achieving them, but to leave the implementation to others.

This approach leads to a far more flexible approach than the left has traditionally embraced. Suitably regulated (and, where necessary, subsidised) private provision could help the attainment of public policy targets for training, pensions and low-cost social housing. In the case of transport, there is a strong case for more private provision than today (for example, privatising the

motorway network and turning it into toll roads), but at the same time a more thoroughly integrated public transport strategy, directed by the government. New Mutualism is not just about national strategy. The institutions that deliver public services - whether publicly owned, such as schools, or independently managed, such as housing associations or railway companies - must be open and responsive. A school is not merely the local delivery vehicle for a national education policy; it has its own life and ethos. It needs its own micro-mutualism: good relations between staff and pupils, between parents and governors and so on. As with the best business practice, New Mutualism is about culture, not just rules.

It is also about reciprocity: about the use that pupils and parents make of the education system, and about trainees taking advantage of the training given to them. New Mutualism is a two-way street. State and citizen have the right to expect responsible behaviour by each other. This philosophy is clearly evident in two green papers published this spring: on public health and on welfare reform. If we want a healthier society, it is as much up to us not to eat, drink or smoke too much, and to take adequate exercise, as it is for the government to ensure an adequate supply of doctors and hospitals. And if we want to eliminate poverty and unemployment, then part of the onus lies with people to take the job opportunities that are open to them and to save for their old age.

This leads to a broader point, concerning the limits to personal freedom. New Mutualism has an anti-authoritarian bias. It starts from the premise that outright bans are undesirable, for bans remove one of mutualism's main injunctions: that people should take responsibility for their own actions. However, mutualism does not go the whole libertarian hog: let people smoke wherever they want, sell heroin, drive when drunk and carry handguns. The mutualist approach is to test each proposed restriction against a clear principle: the gains to others must unambiguously outweigh the loss of freedom suffered by those whose freedoms are restricted. On that calculus it is right to ban racial incitement, drink-driving and tobacco smoking in offices and cinemas, but wrong to ban abortion, pornographic magazines, beef-on-the-bone and the private consumption of cannabis.

Other issues are harder to call. Is it right to outlaw ecstasy tablets but not whisky? What restrictions should be placed on the distribution of material on the Internet - or on the television when children might be watching? Should supermarkets be allowed to stay open for longer than six hours on Sundays? New Mutualism does not offer easy, off-the-peg answers. (Doctrines that do are invariably flawed.) It does, however, provide a way in which greater consistency and clarity can be applied to the evolution of public policy. In particular, mutualist principles could be used to inform a rational debate about the laws on soft and hard drugs, replacing the current sterile shouting match between libertarians and authoritarians.

Running through this pamphlet's discussion of New Mutualism - in terms of markets, equality or access or personal liberty - is a common theme: the need to address both process and outcomes. The contention here is that a healthy society is one in which both are mutualist. However, this argument prompts an awkward question. What happens when the two conflict: when a mutualist process leads to a non-mutualist outcome, and a non-mutualist act of authority is needed to ensure a mutualist outcome? This issue is liable to arise whenever the public interest needs to be invoked - in relation to the interests of both today's public and tomorrow's. For example: objectively, it may be a good mutualist policy to curb the use of cars in city centres and increase subsidies to public transport; but democracy is often a subjective business, and fears of change and disruption may be too strong for a responsive political process to overcome. (That is not an entirely notional example: witness the debates both before and after this year's transport white paper.) What should be done: short-circuit democracy and impose

a mutualist outcome, or uphold the process of negotiation, debate and democratic decision-taking and accept an inferior policy?

Or: what if it is in the interest of tomorrow's citizens to curb the environmental excesses of today's - but we are unwilling to give up the comforts we enjoy? Or: what if a mutualist policy designed to increase social welfare holds out the hope of large gains for a disadvantaged minority at modest cost to a (relatively) prosperous majority - and the majority say no?

One answer is to contend that the Government has a duty to assert the "objective" public interest, and overrule "subjective" resistance. This, however, runs into huge problems: who defines the "objective" public interest, and on what basis? Even if robust principles can be set, can ministers and officials be trusted always to apply them rigorously without bending them to their own interest and subjective views? Merely to ask the question is to make a democrat queasy about the answer. Yet there are times when unfettered democracy does not work either - when a majority tyrannises a minority; or when the views of a local majority conflict with those of the wider policy of which it is part.

No tidy, all-purpose solution is available to solve such conundrums, any more than there is a simple way forward for a company in which workers and managers are at each other's throats. When process and outcome conflict, any institution faces trouble. One of the starkest examples of this - and one of the most telling arguments for mutualism - is provided by Northern Ireland. For half a century, its Protestant majority discriminated against its Catholic minority. Majoritarian democracy did not bring peace and harmony - and nor did a quarter-century of direct rules, which sought to impose a "fair" settlement. Peace only came (if it has now finally come) when most people in both communities, and their political leaders, committed themselves in the Good Friday agreement to an agreed set of both processes (pursuit of objectives by democratic means, referendum, voting system for the new Northern Ireland assembly etc.) and outcomes (such as power-sharing, North-South co-operation, equal civil, social and economic rights for people in both communities). And one crucial element in reaching the Good Friday agreement was the slow, awkward but necessary development of reciprocated trust among the participants. At the time of writing, that development remains far from complete, and may be reversed. Meanwhile, Northern Ireland's recent history presents a dramatic example of the consequences of the different "solutions" to the prisoner's dilemma, and of the superior virtues of reciprocated trust over bitter suspicion. It is, perhaps, novel for Ulster to be presented as a trail-blazer for the rest of British politics. Yet it does offer us a glimpse of the power of mutualism - of "the doctrine that individual and collective well-being is obtainable only by mutual dependence". It also shows that such dependence requires engagement with both process and outcomes, and with culture as well as rules.

Outside Ulster, how close does the present government come to the tenets of New Mutualism? In some big ways - welfare reform, public health, devolution, environmental protection, transport strategy - the ideas that are being pursued fit mutualist principles far more closely than those of old left socialism or new right free-market capitalism. In other areas - such as taxation, open government, trade union rights, competition law and corporate governance - the jury is still out.

New Mutualism, then, seems to be at least a partial description of the government's approach to running Britain. This should cause little surprise, for mutualism is a doctrine that flows naturally from the kind of values that Labour has always espoused. It is important, however, not to define New Mutualism as "what New Labour does" (echoing Herbert Morrison's famously circular definition of socialism in the late forties of "what a Labour government does"). New Mutualism is an independent doctrine that should provide the basis for a coherent and truly radical political programme. In declaring his sympathy

for mutualism in his introduction to this pamphlet, the Prime Minister is signalling that the "Third Way" should be not a soft option, but a hard discipline; and quite right, too.

Case Studies:

Employee Owned Business An Enterprise Approach

The news in March 1992 couldn't have been worse. With £35 million of cuts required to set a legal budget, the London Borough of Greenwich did as any responsible Authority would. In order to preserve the essentials, discretionary leisure services were lined up for a major assault. But instead of bracing themselves for the redundancies and closures which had been accepted as inevitable elsewhere, the Members and Officers of the Leisure Services Department sought a solution which would avoid the closure of 2 or 3 centres and the loss of up to 30 full time jobs. They decided to create Greenwich Leisure Ltd (GLL), a 'not-for-profit' Industrial and Provident Society structured as a workers co-operative, from the Leisure Services Department. The outcome has been very different from that experienced elsewhere. Closures have not only been avoided, but services expanded. Jobs have been protected and enhanced. Democracy has been introduced.

Costs to the Council have been reduced on an annual basis. From 1992 to 1998, the cost of providing the leisure centres has been reduced from £2,497,000 to £1,400,000, a saving of over 40%! This has been achieved by improved service from the empowered staff, new investment from new sources of finance and a consequent impressive annual rise in income. The Society has won a Charter Mark and numerous other external quality awards as well as achieving Investors In People status for internal excellence. More than 50,000 residents have joined the Greenwich Card membership scheme which is promoted on its behalf by GLL.

Staff feel a real sense of ownership of their business. Their enthusiasm has led to lower absentee rates, lower staff turnover and a real boost in morale. Employee pride means that ownership of problems is also improved, ensuring a responsive customer service.

The business is now free of local government bureaucracy and capital controls, has a positive cash flow and has reduced costs to Council tax payers in Greenwich. The new structure allows greater customer involvement in the service and the opportunity for further community and business partnerships. A truly mutual outcome.

Building Societies Showing How Mutuals Act Mutually

It is a remarkable fact that in 1997 and again in 1998, members of the Nationwide Building Society voted against the offer of £2,000 cash in return for their rights as members of a mutual society.

There is of course a sound financial reason for this. As the Chairman of the Building Societies Commission explained, "As Mutual Societies do not have to pay dividends to external shareholders, they will always have a margin advantage over banks." This advantage allows them to offer cheaper mortgages and savings accounts that pay more interest on average. The Consumers' Association found that over a range of financial products, the

typical building society customer is nearly £1,600 better off over a five year period than with a bank. The difference between the interest building societies receive on mortgages and that which they pay out on savings ranges from 1.2 to 1.7 per cent. The equivalent margin from their demutualised rivals ranges from 1.9 to 2.5 per cent. The Consumers' Association found (April 1998) that small regional societies had a 0.2 to 0.3 per cent mortgage interest rate advantage over the banks over the last couple of years (and improving), equivalent to hundreds of pounds a year for many borrowers. Only the two large high street building societies which have retained their mutual status, Nationwide and Bradford and Bingley, can match the smaller mutuals.

But the Nationwide Board's campaign on mutuality was also a significant factor in the membership vote. Members know that their Society is a truly prudential organisation. Building Societies were established to provide savings and loan facilities for individuals otherwise excluded from the housing market. Over decades, they have built up cash reserves to ensure that members continue to benefit from the mutual security inherent in this system.

This large scale positive vote in favour of the benefits of mutuality is a testament to the value and confidence that customers will place in mutually controlled businesses.

Housing Co-operatives Taking Mutual Responsibility

Housing Co-operatives provide an opportunity for individuals to take mutual responsibility for tackling their own housing need.

Homes For Change, Hulme, Manchester was the winner of Royal Institute of British Architects Housing Design Award 1997 for a Completed Scheme. "Homes for Change is one of the largest new-build housing co-operative developments in the north-west to have taken place in recent years. The scheme, which opened in September 1996 includes 50 flats managed by Homes for Change Housing co-operative and 1,600ms of workspace managed by Work for Change, a workspace co-operative. This is the first part of a two phase development and plans are currently being completed for a further 25 flats and 400m² of workspace. It is part of the redevelopment of Hulme and was developed over ten years by Hulme residents. The building's radical architecture, participative design process and environmental features are a physical embodiment of the character of the community that created it." ('Co-operative Housing - Realising the Potential' UKCC 1998 p46.)

In 1995, a Price Waterhouse study for the Department of the Environment concluded that co-operatives "are a flexible model capable of delivering housing services which compare with the very best mainstream providers." ('Tenants in Control: an evaluation of tenant-led housing management organisation'. Price Waterhouse for the DOE 1995 p125.)

The study also found that tenant management co-operatives (TMCs) in local authority stock produce longer term savings and benefits, which more than outweigh set up costs; and they can fare better than other forms of housing management on residents' perceptions of the incidence of crime and vandalism. The study records that in one TMC 68% of tenants considered vandalism had declined; 22% of comparator tenants felt this to be the case; 50% that muggings had declined compared with 10 % of comparator tenants (Tenants in Control p29). And the tenants themselves, through the training and job opportunities created, gain skills and confidence beyond their previous expectations.

This added value of personal and social benefits is a key consideration in any regeneration strategy.

United States drugs manufacturer Doing well by doing good

As long ago as 1943, Johnson & Johnson, the American-owned manufacturer of health-care products ranging from drugs to Band-Aid, published a "credo" that put customers first, employees second, the community third and shareholders fourth. At the time the company was still run by the Johnson family, and could set its priorities without fearing a backlash from external shareholders. However, the credo has survived Johnson & Johnson's growth into one of the world's largest health-care companies, worth \$100bn, employing 91,000 people and operating in 175 countries throughout the world.

Johnson & Johnson's Credo

1. We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices. Customers' orders must be serviced promptly and accurately. Our suppliers and distributors must have an opportunity to make a fair profit.
2. We are responsible to our employees, the men and women who work with us throughout the world. Everyone must be considered as an individual. We must respect their dignity and recognise their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly and safe. We must be mindful of ways to help our employees fulfil their family responsibilities. Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified. We must provide competent management, and their actions must be just and ethical.
3. We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens - support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.
4. Our final responsibility is to our stockholders. Business must make a sound profit. We must experiment with new ideas. Research must be carried on, innovative programmes developed and mistakes paid for. New equipment must be purchased, new facilities provided and new products launched. Reserves must be created to provide for adverse times. When we operate according to these principles, the stockholders should realise a fair return.

John Lewis Partnership More than purely commercial

Undoubtedly one of the most successful department stores, once thought to be a dying breed, John Lewis Partnership gives the lie to the bogey of employee involvement. Not only are the profits from its 23 department stores, and 117 branches of Waitrose, shared with its 45,300+ staff (partners), but they are also given a say in how the group is run. Even a rival department store retailer has said "They've been producing excellent results for years and years and years. It is a tremendous business: the brand is so strong their advertising is virtually non-existent". Managers are accountable to staff, all get a bonus depending on profits (22% for 1997/98), but basic salaries are below those of other big retailers. No "fat cat" excesses here. Because staff appreciate that all can gain, there is a general culture of "not letting the side down", of maintaining "decency and honesty", of paying suppliers promptly, and making

sure customers are "never knowingly undersold". Decisions to close run down stores in the past have been tempered and delayed by the need to avert job losses in the belief that the loyalty and commitment generated produces a long-term return. Consequently John Lewis suffers lower levels of staff turnover and staff theft, and enjoys a high degree of customer confidence. The partnership was set up over 70 years ago when the owner, John Spedan Lewis, handed over the company to a trust for its employees. He wrote "The Partnership's supreme purpose is to secure the fairest possible sharing by all its members of the advantages of ownership - gain, knowledge and power... It is intended only for those who to be really happy need to feel they are giving good service to the general community and whom its character and methods suit well enough in all other ways."

Today, the group continues to combine high-sounding principles with commercial success. In terms of performance, for 1997/98 the group realised record profits of 9% after taxation and Partnership bonus distribution. For the current half year the estimate for sales as a whole is for an increase of 5% on 1997/98.

Retail Chain Green policies are good for business

B&Q, the UK's largest hardware and do-it-yourself retail chain, has decided that, from the end of 1999, it will buy timber only from independently certified sources. This policy is designed to help the world's forests, by ensuring that no timber bought by B&Q results from harmful deforestation. It is part of a strategy to persuade the company's suppliers to adopt environmentally-friendly practices. In 1993 B&Q stopped buying any mahogany from Brazil.

Following criticism in 1990 from Friends of the Earth, B&Q initiated a Supplier Environmental Audit (or SEA). It found that fewer than half its suppliers had any kind of pro-environmental policy, and only 8 per cent had a policy that "demonstrated understanding and commitment". As a result, B&Q investigated each of its suppliers and awarded it a ranking from A (excellent) to F (fail). In December 1993 only 35 per cent were rated C or above. The remaining companies were warned that B&Q would stop buying from them if they did not achieve a C rating, or better, by the end of 1994. All but 6 per cent of suppliers reached this target; ten companies were delisted; another 19 were given a final chance to reach C grade, and did so.

In 1995 B&Q merged its quality and environmental departments, and established a ten-point "QUEST" code for its suppliers (QUEST: "The QUALity of a product includes its Ethics and SafeTy"). Five of the ten points cover environmental issues, the other five quality issues. The company has now insisted that all suppliers achieve a B rating by the end of 1999.

B&Q's strategy shows that even without legislation, it is possible for a large company in a highly competitive market to adopt tough pro-environment policies, induce similar policies among its suppliers, and still prosper.

The Co-operative Bank Profits through Principles

In 1998 the Co-operative Bank sought to reconnect itself with mutual values by developing a new mission statement applying co-operative principles to the modern world of financial services.

The Bank's Ethical Policy had already been operating since 1992, following a major consultation exercise to find out what customers felt about how the Bank should invest their money - and how it shouldn't.

All new business customer applications are screened against a strict set of ethical criteria, with complex decisions referred to an Ethical Policy Unit. Out of the companies referred to the Unit, 23% have been found to fall short of customers' standards. In some of these cases, the Bank has been able to help the customer in question to resolve the conflict with the policy and come on board. Turning away business is never easy, but under the Ethical Policy, that is precisely what the Bank has done whenever it has come across a customer unable or unwilling to comply with it. In 1997 the Bank launched its Partnership Approach to business, identifying seven partners who are crucial to its business success. These partners are Shareholders; Customers; Staff and their families; Suppliers; Local Community; National and International Society; Past and Future Generations of Co-operators. It polled 1.2 million customer households to determine their support for the Bank's new definition of its responsibilities. 100,000 customers responded with 97% backing the Partnership Approach. This year the Bank published its "warts and all" Partnership Report which assesses how it delivers value to these seven groups. It also assesses whether value has been met in a socially responsible and ecologically sustainable manner.

Far from having an adverse effect on profits, this policy has seen the Bank enjoy rising profits over the last four years, culminating in a record £55million this year. The Bank also makes positive cash contributions to enterprises and organisations whose activities reflect the concerns and wishes of customers, ensuring as many mutual outcomes as possible in an unlikely industry.

Multinational energy company Developing an ethical strategy

Shell Transport and Trading is one of the world's largest multinational companies. Its record is strewn with controversy - from helping Rhodesia's illegal white regime obtain oil in the Sixties and Seventies in defiance of United Nations sanctions, to its operations in recent years in Nigeria. It also faced criticism from Greenpeace and other environmental groups over its plans to dispose of the Brent Spar oil platform at sea. At its 1997 annual general meeting, 10 per cent of shareholders supported a critical resolution that called for rigorous implementation, and the external auditing, of effective "environmental and corporate responsibility policies". The resolution was put forward by Pensions and Investment Research Consultants (PIRC), which had been set up in the Eighties by a consortium of public sector pension funds.

Although PIRC's resolution was defeated, Shell has now addressed each of its demands. It has published a revised Statement of Business Principles which incorporate a commitment to sustainable development and human rights. It has named the chairman of Shell's Committee of Managing Directors as responsible for group-wide environmental performance. It has set out a timetable for external verification of its environmental claims. It has reduced its stake in Nigeria. It has consulted with Amnesty International on how to reconcile human rights with business strategy. It has left the "Global Climate Coalition" in the US - an organisation that lobbies on behalf of the energy industry against curbs on carbon consumption. In contrast with most of the energy industry, Shell now accepts "the possibility that human activities are causing damaging climate change" we support precautionary measures" (Mark Moody Stuart, Shell's Chairman, in *Profits and Principles* - does there have to be a choice? April 1998). Shell has committed an initial £500 million to investment in establishing a new "core business" in renewal energy.

IRC's verdict is that "Shell has made significant changes on environmental and corporate responsibility which deserve to be welcomed by shareholders". We consider that Shell has, in a relatively short period of time, moved, as the resolution requested, 'to the head of the movement for corporate responsibility'." (PIRC analysis of Shell's 1998 accounts, April 1998).

Privatised utility Rising to the "Third Way" challenge

In the early Nineties, British Gas was one of the companies most tarnished by the "fat cats" controversy over executive pay. One of its successor companies, BG plc, is seeking a fresh reputation, as a company committed to the quest for a "Third Way" approach to the role of the company in modern society. In July 1998 John Wybrew, BG's Executive Director responsible for corporate affairs, delivered a speech on "The 'Third Way' - a Business Perspective". These are extracts.

"For the first part of my business career our mental picture of the business organisation was machine-like and physical. This was the era of mass production, and huge production lines. People served the machine, and were often slaves to it in monotonous, soul-destroying jobs"

"We now regard the business organisation as an organism, as a flexible network of units linked together. We see the internal networks - the core of business - connected in a myriad of external relationships to other networks, to suppliers, to sub-suppliers, to partners, to customers - and to society at large. Our paradigm no longer relates to physics but to biology. Our perspective has become holistic. We recognise a richness of relationships and inter-dependencies, and a responsibility for managing them to mutual advantage"

"We need to recognise that the first stage of the information economy is already being superseded. In the next stage - the so-called 'connected economy' - the enormous power of IT and telecommunications will increasingly be used to connect up all the elements of business and society"

"Leading businesses are now recognising that the key word is not costs but value. Of course, efficiency and cost competitiveness are essential pre-requisites, but they are not the basis for lasting success. Now the task is to create value - innovatively, and ingeniously in a host of mutually beneficial relationships with those in the surrounding business environment: partners, customers [and] the public at large, not least the excluded. This suggests that there is an underlying business reality to the idea of a 'third way' - Tony Blair's vision of a vigorous enterprise economy in which economic and social wellbeing are inseparable."

Case Study - Co-operative Wholesale Society (CWS) A Responsible Retailer

CWS Retail's 'Responsible Retailing' policy is a modern expression of the principles set out by the founders of the modern Co-operative Movement. A Gallup survey carried out on CWS's behalf in 1995 sought to judge the public mood on ethical issues such as animal welfare, the environment, care for the community, product labelling and human rights. It showed that customers are ready and willing to penalise retailers and products which fail to meet their ethical standards, and reward those that do. The survey findings revealed a public conviction that retailers and manufacturers are not giving customers the full facts about the goods and services they

provide. While customers are anxious to use their spending power responsibly, they do not believe that retailers are on their side - and are wary of environmental and ethical claims made by the food industry to the contrary.

In response, the CWS since 1995 has introduced new policies in the following areas:

Labelling

Clear and Honest Labelling - CWS identifies 'tricks of the trade' which are used to make products sound bigger and better than they really are, producing a code of practice and calling for the industry to adhere to it

Animal Welfare

CWS launches 'Ending the Pain' - a campaign against animal testing in the toiletries industry

Fair Trade

CWS commits to joining the Ethical Trading Initiative (ETI), building partnerships to improve conditions of workers worldwide
CWS 99 Tea Brand becomes the first mainstream food product to incorporate ethical sourcing criteria

Diet & Health

CWS leads the industry by providing sensible drinking advice on its wines and spirits
CWS is the first retailer to announce a ban on the sale of 'alcopops' in its stores

Having suffered from the poor image of 'the Co-op' and lost market share to the likes of Tesco, Sainsbury, Safeway and Asda, CWS is still the market leader in convenience stores (often in remote areas) and responsible retailing is leading to increased sales. Take-up of their Dividend Card now stands at about one and three-quarter million, and rising. Now, CWS is an organisation at the heart of the UK Co-operative Movement with sales of more than £3 billion. Owner of The Co-operative Bank and the Co-operative Insurance Society, CWS is the largest Co-operative retailer in Europe, the UK's largest farmer and employs nearly 40,000 people.

Case Study - Credit Unions Tackling Economic Exclusion

A credit union is a loans and savings co-operative. People get together and save together; their savings provide the basis for loans to members at a very low rate of interest. Each member is able to play a full and equal part in the running of the credit union.

Credit unions are important because they encourage savings even of very small amounts on a regular basis. They can provide low cost finance to people who do not have access to traditional banks or would not be considered loan-worthy. They provide an opportunity for such economically excluded citizens to save and borrow in an affordable way.

The Credit Union movement started in Germany in the 1840s. World-wide there are over 87,000 credit unions and related societies. In Ireland, one in four people are members of a credit union. Today, there are 213,366 members of 585 credit unions in the UK (excluding Northern Ireland), with growing assets, totalling c£116,900,000 (August 1997 figures).

- In London, a council employee credit union set up in 1984 in Southwark now has some 1,800 members with assets and shares in excess of £1,600,000.
- Speke Credit Union in Liverpool (a community credit union), after a slow

start in 1989, took over the building of the last bank (TSB) in the area two years ago and now boasts over 1,500 members, rising by 50 a month, and a turnover of about £250,000. The default rate is just 5%. They have succeeded in attracting European Objective 1 money to fund skills training for jobs in computers, book-keeping, marketing etc for their volunteers.

- Voyager Credit Union, Manchester, was registered in 1992 and now has 3,000 members in 15 different bus companies. With current loans of around £2.5 million and savings about the same they expect a turnover in excess of £8 million this year. The default rate is just under 1%.

Credit unions are the fastest growing of all the co-operative sectors and significant players in regeneration.