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Modern capitalism in crisis: The opportunity of our time

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In our post-global financial crisis world, greater capital adequacy has become the new rallying cry for regulators of financial institutions everywhere. Financial cooperatives have found themselves caught up in and, in some cases, caught out by this development. Unlike commercial companies, cooperatives cannot easily raise large amounts of fresh capital that qualifies as such in the eyes of the regulators, because paid-up capital contributed by members may be withdrawn once members decide to disassociate themselves from the cooperative. Without permanence and loss absorption ability, such funds cannot be counted as core capital.

There is an element of indignation among financial cooperatives, and rightly so, because the unbridled greed which led to extreme risk-taking, aided by esoteric financial engineering, did not emerge from cooperatives. Rather, they originated from their philosophical (and real-world) competitors in the capitalist financial system whose assumed efficiency in allocating capital and risk has oft been held up as a benchmark. Should the "tsunami of regulation" (see Shaun Tarbuck's [blog](#)), the purported cure for the ills of the commercial financial system, become a malaise for cooperatives?

But cooperatives need not be defensive. If anything, the crisis of modern capitalism that was borne out most dramatically in the 2008-9 global financial meltdown has opened an opportunity for the cooperative movement to remind the world of a better way of doing things. In 2009, the United Nations General Assembly proclaimed that 2012 would be the *International Year of Co-operatives*

under the slogan, "*Cooperative enterprises build a better world.*" The International Co-operative Alliance (ICA) has adopted a *Blueprint for a Co-operative Decade* that promotes cooperatives as the preferred form of enterprise. Capital strategy is one of five pillars in this *Blueprint* and the ICA has established a Blue Ribbon Commission on cooperative capital to study the issue.

Cooperatives have much to offer the world as it searches for alternatives to capitalism in the philosophy underpinning our economic organizations. As a community, we have consistently asserted that cooperatives are better for the world because we put *People* at the core, and not *Profits*. **This is our heritage.** The earliest cooperatives that were born in the Dickensian throes of the Industrial Revolution were all about workers and farmers coming together in a spirit of collective self-help – as consumers, producers or borrowers – against the oppression of the times. Through principles of democracy and autonomy, the cooperative safeguards the dignity of the individual human person over money, which means one vote per member, not one vote per dollar (or unit capital); and by making decisions solely in collective rather than selfish interests.

These values and perspectives contribute to greater stability and sustainability. Because more capital does not buy more control, cooperative managers do not try to please capital providers. We are neither compelled nor incentivised to take large risks with the money of depositors and policyholders, or to use excessive leverage to maximize return on equity. Instead, we focus on maximizing value to the right *People*, by providing the right product or service, at the right price or cost and even in the right place. There is less pressure to secure short-term financial gains, which means that we need not borrow from the future to do so.

In a nutshell, the *raison d'être* of cooperative capital is to serve a collective purpose (*People*) and not to extract maximum gain (*Profit*) for itself. Without the monolithic pursuit of financial gains, we are less inclined towards the depletion of finite resources (*Planet*).^[1]

But is our *People-centred* philosophy adequate to

assure the world that we would never run into a systemic crisis as capitalism has done? Clearly, this would be too much of a presumption that is easily invalidated by both logic and instance. We risk self-conceit if we assert that our cooperative alternative is perfect or even sufficient. In the real world, not all individuals will remain members of their cooperatives all their lives; not all members will be active participants of their cooperatives without succumbing to dormancy or apathy; not all cooperatives will have enough members or adequate resources to fully fund their operations in a scalable manner; and not many outside capital providers will quietly proffer their resources without an acceptable return.

So perhaps what we need is a **new paradigm for capital**, not only in our conversation with regulators and the capitalist world, but also internally within the cooperative movement. It is not enough to juxtapose the cooperative's *People* philosophy against the commercial world's *Profit* orientation. We need to find new principles to effect the paradigm shifts from benefiting either solely shareholders or solely members only, to promoting the interests of all stakeholders; from just one "P" or either *People* or *Profits*, to an optimal relationship involving at least the two "P"s of *People* and *Profit*, such that *People* remain core but *Profit* is not anathema; and from short-term opportunism to long-term sustainability. The ICA's Blue Ribbon Commission on cooperative capital will make a start on this.

[1] We credit John Elkington for the concept of a "Triple Bottom Line" in the 3 "P"s of Profit, People and Planet.

This week's blog has been written by Tan Suee Chieh, ICMIF Board Member and Group CEO of NTUC Enterprise, Singapore.



Tan Suee Chieh
Group Chief Executive

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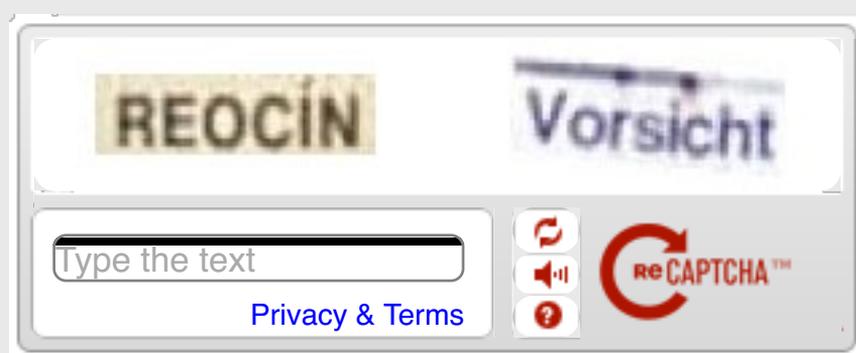
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