Workshop B – New forms of governance and regulation DRAFT NOT DEFINITIVE
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The issue we have been asked to develop is quite broad and involved.

It is, however, very current.

In fact, the crisis, which, with still no end in sight, that began in the U.S. and the financial sphere, and then spread to Europe and involved the real economy, is, very clearly, the result of major imbalances and deep and widespread insufficiencies in the existing regulatory mechanisms. In other words, the crisis that has overtaken us, is, ultimately, a crisis in "governance". And it is a crisis in "governance" that involves all aspects of our economic, social and political life.

The problems of governance become evident when we look at companies and their managers. They are also evident at the social level where social cohesion is weakening and disintegration increasing; and at the political level, where we can even witness many situations where the forces defending specific interests, quite far from the general ones, have strengthened. Finally, the problems of governance are evident in the economic and political relations among states, where attempts to coordinate policies have not resulted in shared choices able to provide suitable answers to the existing imbalances.

If we wished to make a more in-depth analysis, going back to the origins, we would probably search for the roots way back in the early '70s, with the ending of the Bretton Woods Agreements and, at almost the same time, the first oil shock.

Obviously, I am not going to go so far back. Nevertheless, it would be worthwhile to quickly list some facts that, in some way connected, have contributed to bringing about the present situation.

In the '70s, we witness the progressive confirmation of that important school of thinking which, in criticizing the role of the state in the economy, contributed to creating the conditions (cultural and political) for the successive coming to power of Reagan in the U. S. and Thatcher in Great Britain.

In the '80s, the disintegration of the global setup, leading up to the collapse of the Soviet Union.

In the '90s, the consolidation of the conviction for the need for the state to step back from any direct and indirect intervention in the economy, which was translated into widespread policies of privatization and liberalization.

Of course, during these changes there were also the influences arising from the important innovations developing in the '80s and '90s, such as the continual and quite rapid opening up of markets (starting from the financial ones) that we now call globalization.

During this process, at least two facts clearly emerged:

a) A widespread and pervasive criticism of the role of governments in the economy;
b) The identification of the market and the capitalist company ("the company creating value") as the almost only source for progress.

The criticism of state intervention involved both its role as an entrepreneur (where it managed, nationally or locally companies – including banking and finance ones or regulated their actions), and its role in supporting citizen well-being.

It should be mentioned that irrespective of the political options and the interests that supported these criticisms, they found support from those so-called state “failures”, and as well, in the ineffectiveness and inefficiency of different public programs.

The individuation of the market as the most suitable place to respond to the state’s limitations happened almost automatically. At the same time the profit-maximizing company was seen as the only pivot around which the market had to develop.

The interests created and the dominant positions that step by step confirmed themselves certainly played a decisive and determining role here. However, maybe it could be claimed that there has also been a lack on the part of the holders of different interests, in not only the strength but also the ability to input the reasons for sociality and solidarity in a world culturally dominated by an individualism taken to the extremes.

However, there it was still an awareness, on the part of the more serious supporters of the prevalent trend, that the market needs to work correctly with a framework of suitable rules and entities and authorities able to guarantee they are respected.. Thus, there have been set up or strengthened in the single states and also, for example, in the European Union, entities with the precise purpose of guaranteeing that the rules are respected in order to avoid situations involving the abuse of dominant positions.

The latter approach, however, almost immediately revealed its limitations.

On the one hand, for many reasons, it was not difficult for the stronger and shrewder players (that is, for a large part of the “regulated”) to influence the regulators, eliminating (or significantly reducing) the possibilities for the competent authorities to act effectively.

On the other hand, the enlarging of the markets and the spread of the networks and inter-dependences, that is, the process of globalization, has stripped those authorities (acting within single countries) of the power to act effectively.

The overall effect of all of this is the current situation.

Moreover, the present situation reveals that we cannot do without the state. And neither can everything be left to the market, nor can it be made up of only one single type of company.

Does this mean re-evaluating the role of the state as was done previously?

I personally think that it would be a grave mistake to think that we could simply re-propose a return to the previous situation.

This is for three main reasons.

Firstly, because we cannot ignore that if the state, in all its diverse levels and forms in working in the economy and society, has decisive and essential role, it is in itself not immune to “failures”.

Secondly, because globalization has, however, enormously reduced the possibilities for single state intervention.

Finally, also because the bank bailouts and, at the same time, the need to maintain the income of individuals, have determined, in every country (though to different degrees), an unprecedented increase in public deficits and debts, significantly limiting the possibilities to confront, with important public programs, the old and new needs of the people.

The much needed rediscovery of the role of the public sector must, to be effective, in my opinion, converge with a deeper insight into the market and its players.

It's obvious that overcoming the imbalances requires a new governance (at all levels) and a renewed regulation.

But what does it mean in a general framework. It means, in my opinion, that the fundamental needs of the citizens must directly enter into play in the market. And who are the representatives of these needs, if not the entities and companies that represent them and organize them?

I feel that it is here that an historical opportunity for the social economy opens up.

Indeed, it is important to note that the stress placed on the role of the market has had up to now a very important limit. In the prevailing framework, it has only considered the capitalist company as the pivot to the system.

The other company forms, obviously the public ones, but also the cooperatives and mutuals have been considered as remnants from the past destined, sooner or later, to become obsolete or, at the most, carry out a marginal role

The illusion (for those who have supported it in good faith) that has sustained this system, is that the only real market (able to fuel the growth under the factor of efficiency) is where the players are only those entities with the maximization of profit as their main objective.

Also here we would need to dwell longer to show that a similar system is seriously lacking..

But, I'll restrict myself to recalling only a few aspects that (besides the accepted and recognized arguments that are used for market failures) prove the insufficiencies that characterize this system.

The shorter times that have accompanied this present trend; the growing spread of agreements among companies benefitting from the fact of having common objectives; the increases in widespread conflicts of interest; and the ease where temporary imbalances finish up in transforming purely potential situations of difficulty and crisis into irreversible crises.

Can only the state deal with similar dangers?

Or, instead, is it reasonably sustainable that in a market, where there are different players, different company forms, that the same market would change its characteristics?

The thesis I would like to support is that if, in the market, other companies, besides the conventional ones, acted – even companies with different objectives, the market would be different, and also the competences and the opportunities for public sector programs would be different.

The cooperative companies (as also the mutuals), although constrained by the market lead in it instances, not of the capital, but those of whoever has, together with others, a similar need (work, consumption, production) and adapt their behaviour to achieve the objective of trying to satisfy that need as far as possible.

The cooperatives are precisely for this.

It's not difficult to imagine that in a market where an important number of cooperatives take part, leading into it the commons needs of the people become a different market. At the same time, the competition, just because between different companies would become effectively and even if not eliminated, many of the imbalances characterizing the present market would surely be reduced.

What has been shown in these years is especially important.

In Italy, for example, (but also in Spain, and where in both, worker cooperatives are quite widespread) the marked increase in the unemployment rate seen in the last three years has been significantly tempered by the fact that in the cooperative sector, employment has, instead, increased.

As well, in Italy, credit to small and medium companies has been maintained thanks to the activities of the cooperative credit banks.

Again in Italy, stagnation or even cut-backs in state welfare programs have been compensated for by the work of the social cooperatives.

Still, in Italy (but also in other countries), the positive contribution of the social economy has also resulted from the fact that social economy companies have a long-term vision. A vision that, instead, many companies with only a maximum profit objective lack.

And so what does all this mean in terms of governance and regulation? It means that, from an economic and social point of view, the presence of cooperatives, even in a period of crisis, results in a more balanced management of the situation compared to contexts where cooperatives are less present.

If we take into account, that for most advanced countries, public programs will not be able to increase significantly due to the increases in public deficits and debts, it is clear that a new role awaits the social economy companies. Or, in other words, a new governance will be able to develop only if the presence of cooperatives and mutuals is strengthened in the market economy.

Where the task of the latter will be to bring to the market the common and important needs of the citizen.

Concerning this, it will be important to identify the conditions necessary for the entities of the social economy (beginning with the cooperatives and mutuals) to consolidate and develop.

To achieve this, rules disciplining this situation need to be implemented, where they don't exist or are insufficient. As well, rules that hinder this activity need to be modified. There is also the need to be brave in identifying the quantitative goal to be reached.

I think the latter could be the new situation. Just as for other social and economic aspects, especially in Europe, it would be more than opportune to identify (quantitatively) to what extent the social economy should be allowed to act constructively in the market.

A similar objective has never been presented. In proposing it, I believe it would have noticeable consequences and would result in rendering a new governance of the economic and social situation concrete, just as for more suitable forms of regulation.

Naturally, a similar framework could lead to a parallel deeper study of governance and the regulation of the same situations of the social economy. Without doubt, the organization and behaviour of the cooperatives and mutuals must adapt and correspond to the new tasks of the social economy entities.

Thus, and to finish, the issue of a new governance and of new forms of regulation is, in reality, the issue on the agenda, and it concerns all, including the cooperatives and the mutuals.

Ciriec. Vienna, 13, September 2012