From corporate wealth to common wealth:

the case of Shared Interest

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Let me begin by giving you the bald facts. Shared Interest is a non-profit credit co-operative or lending society with limited liability (a bit like a building society) established in Newcastle upon Tyne in 1990 to provide finance for Fair Trade, that is international trade between ethical consumers and grassroots producer organisations in the developing world. The aim of Fair Trade is to fight Third World poverty through trade. Starting from scratch, Shared Interest has grown over the last 15 years to a total capital of about £20m from about 8,500 individual members. This money is turned over more than once each year financing orders for goods, placed by some 30 buyer organisations world-wide with some 400 producer organisations. The buyers include well-known organisations like Traidcraft and cafedirect in the UK.

On the face of it, this may seem a fairly straightforward business, but underpinning the practical business and the good cause lie some pretty radical ideas on ownership. It's simpler if, first of all, I try and explain what Shared Interest is *not* by making some comparisons. It's obvious we exist to help our borrowers. But we're not a charity, and we're not a bank. Opportunity Trust is an example of a charity supporting Third World microfinance, and is funded by grants and donations. Triodos is a bank, also engaged in microfinance and Fair Trade. What is different about Shared Interest? Why is this difference important?

I would say that the key difference is that Shared Interest's members invest capital on an unconventional and radical basis. Whether they fully realise it or not! Let me explain what I mean. Opportunity Trust invites *donations*. Triodos Bank accepts *deposits*. Shared Interest's members subscribe *capital*. These three words, donation, deposit, capital, all refer to sums of money, but they correspond to different motivations. A donation comes from a charitable impulse, an identification with the needs of the other, let us call it solidarity. That covers Opportunity Trust. A deposit is entrusted for safe-keeping. The primary motivation is the need for security. That covers Triodos Bank, which in an innovative fashion combines both the motivations of solidarity and the need for security, in its role as a social bank.

Capital is a much more elusive, almost metaphysical, concept. Karl Marx wrote a long and difficult book about it. Capital in law is the capacity to absorb unexpected losses. The motivation is enterprise, the willingness to set out on a venture. Not for nothing were they first called merchant *adventurers.* Of course, it is the prospect of profit that usually encourages enterprise, but enterprise is more than just profit-seeking. In the words of Keynes in 1936, “Enterprise only pretends to itself to be mainly actuated by the statements in its own prospectus. Only a little more than an expedition to the South Pole, is it based on an exact calculation of benefits to come.”

Shared Interest members invest in withdrawable share capital, that is, £1 shares which are repayable at £1 and no more, and earn interest just like building society shares; but the dividend is payable only if there are profits to cover it, and if the society incurs net losses, these can be deducted from the share accounts pro-rata. It is this aspect which makes the shares a form of capital, rather than deposits. Every member has one vote only, and governance is based on membership not shareholding.

Now the word capital obviously suggests the word capitalism. Most people make the mistake of thinking *capitalism* and *market economy* mean the same thing. But they do not need to. This is where the Shared Interest difference begins to emerge.

Shared Interest bends the rules of capitalism, which include “Do not mix business with charity” “Lenders must require security” “Capital maximises profit”. Not in our case. We hold the three motivations in creative tension: the solidarity of the donor, the depositor’s need for security, and the enterprise of the capital venturer. If any of these three come to dominate the other two, we will no longer be Shared Interest, but something else.

For example, credit co-operatives such as building societies and credit unions also have capital which looks like a deposit. The original idea was that members were prepared to take the risk of lending to each other, where banks would not. Where Shared Interest differs from them is that we extend the idea of solidarity to include those who cannot reciprocate. You do not join Shared Interest in the hope of borrowing money provided by a Third World producer. We go beyond the bounds of mutuality, into meta-mutuality or super-mutuality, as we might call it.

But why bother to be different? Why can’t we get on quietly in one of the conventional boxes? Our obstinate distinctiveness has caused no end of headaches for the Bank of England, the Financial Services Authority, Her Majesty’s Treasury and her Commissioners of Inland Revenue. In a nutshell, we *must* be different because we could not make the sort of loans we do without the sort of capital our members provide. Shared Interest is like making a loan to a friend or family member, writ large: if you have ever made a significant loan to a friend, you will know that this is not quite as simple as it sounds. Experiencing the credit relationship first hand, on a one-to-one basis either as creditor or debtor, and not through the black box of a bank or investment institution, is an education. Actually, by creating pools of lenders and borrowers, Shared Interest makes the process a lot simpler, cheaper and when things go wrong, as they do, less painful for both parties.

One of our strengths has been to combine the pragmatic and the principled. The legal basis of Shared Interest offers many practical benefits, and the model has been copied by several members of the Community Development Finance Association at the local level in the UK, and has received the support of Government by way of the community investment tax relief. You can work with Shared Interest, as a member, borrower or employee, without thinking too hard about the foundations of its structure. However the founders of the Society, of which I was one, saw it as nothing less than a radical experiment in the application of the values of solidarity and justice to the world of banking and investment.

We spent many long hours writing and debating how a modern Christian view of money and capital should differ from the conventional wisdom. We shared a conviction that poverty and unemployment require a response based on justice as well as compassion. We looked for insight from the ancient teaching against usury. We came to see that much of the problem lies in the nature of the fundamental building blocks of the modern economy, the bank and the company limited by shares.

And, as so often happens, we discovered we were re-inventing the wheel. The first Christian Socialists had grappled with these same issues and left us a legacy in the form of legislation dating from 1852. Little known outside the co-operative movement and little understood even within it, this legislation provides a legal basis for corporations based on fair trade and mutual service, in which capital is a valuable and faithful servant, but not the master. It is the only form of incorporation which requires that the return to share capital be limited to the rate necessary to attract and retain the capital required for the business. The legislation was in fact a concrete response to the re-emergence of the capitalist corporation from its long hibernation after the South Sea Bubble, and was intended to provide a solid alternative basis for corporate enterprise based on different values.

But wait a minute. Isn't socialism dead? Doesn't the market economy offer the only practical basis for freedom and prosperity? Aren't we a bit out of date?

Once again, words like "socialism" and "market economy" have acquired loaded meanings. Edward Vansittart Neale, the most practical of the Christian Socialists and the first secretary of the Co-operative Union, saw no future in state socialism, long before Marx wrote his book, and the Fabians captured Old Labour. He thought the market economy could work for everybody, but not on an individualistic Thatcherite basis. The tendency of market forces to create exclusion and widen inequality could only be resisted if people formed themselves into voluntary associations which include both strong and weak - "inclusive communities of purpose". Only through such associations could people achieve together the equality of bargaining power necessary for the market to deliver a fair outcome.

Neale was a visionary, but a realist too. He worried that only a Christianity that lived up to the ideals of its founder could provide enough motivation to make such communities work: he was a great fan of the monasteries, but he was an aristocrat who lived in an abbey seized at their dissolution. He lived long enough to see the co-operative movement reject his vision, and concentrate its energies on delivering cheap groceries rather than self-governing communities of workers. Only now is it beginning to address some of the old questions, and takes pride in claiming to be the UK's largest Fair Trade retailer.

But again someone says, that's all very well, but let's be realistic - it's a waste of time to try and buck the market. There is an honest, if rather dubious, case for the status quo, which holds that under-employment, extreme inequality and poverty are regrettable, but the price of democratic freedom. There is no alternative. Not many politicians, at least on this side of the Atlantic, will admit that point-blank. You are more likely to hear Dr Pangloss of the neo-liberal school of economics assert, in the teeth of the evidence, that the market economy will deliver global full employment and prosperity for all who want them, if only we have more competition and more flexible labour markets. An act of religious faith, by any standards, I suggest.

If it can be shown - and I believe that it can - that the accumulation imperatives of capital-driven corporations are incompatible with the long-term steady state of full employment and capital saturation that the parables of neoClassical theory describe (and which the Candides of the economic mainstream tell us we already inhabit) then society has the right to modify the terms upon which limited liability is granted, as a privilege and not as an inalienable human right.

Shared Interest is not a blue-print for society, just an example of what can be done if we think seriously about what ownership is for. I think it was R H Tawney who pointed out that with the introduction of limited liability corporations obtained great power over society but limited their liability to society as a whole, and not only for their debts. The balance of power was fundamentally tilted. The movement for greater Corporate Social Responsibility, including Social Accounting, may be a genuine response to this, but it leaves untouched the basic purpose and objectives of a capital-driven corporation, and the critics of stakeholder theory correctly identify their enemy, when they focus their attack on any attempt to dilute the corporation's over-riding duty to its shareholders. For a private corporation the interests of the commonwealth are always a constraint on action, not its motive for action.

I have little time today to develop how the fundamental ideas behind Shared Interest might be given wider application. I suggest that the capital-driven corporation is not a form of ownership that is likely to be compatible with the steady state that would be in the best interests of society, not only on the economic grounds of full employment, but also on the grounds of the social and environmental objections to continuous growth. That is not to suggest that we are anywhere near capital-saturation in most parts of the world, and traditional capitalism no doubt has a continuing role to play while necessary accumulation continues. But how would the corporation need to change in order to accommodate the steady state of the neoClassical parable?

There is no panacea in Shared Interest, or anywhere else, but a number of observations can be made. First of all, the corporation's objectives need to be consistent with the steady state, permitting it to maximise profits on its existing assets without requiring the never-ending accumulation of profit. It is hard to avoid the conclusion that this could only be effective through some limitation of the rights of external shareholders, including (for example) the prohibition of the hostile takeover and the removal of limited liability from listed shares other than preference shares. I am interested that other speakers are touching on similar themes, so that there appears to be a certain resonance in this forum. If I may be permitted to allow my imagination free rein for a moment, one can see the individual entrepreneur, the family business and the professional venture capitalist being allowed to continue to enjoy the protection of limited liability as it stands at present, to exercise their skill and judgement in the creation of genuine wealth through free enterprise, and to obtain their reward in the form of open-ended capital gains. What would disappear would be casino capitalism: the listed equity market would become an only slightly more adventurous version of the bond market, with listed shares earning a premium for the higher risk. Preference shareholders, who would receive a dividend based on the value originally invested or related to an index such as consumer or property prices, would receive higher returns for taking higher risks. Most pension funds are in the long term looking, not for a killing, but for a relatively modest real return over inflation, and even if they think they can get more, they do not in aggregate do so in practice. Preference shareholders would not have control of the company, but they could be protected from abuse by having the right to put up for sale all the shares in the company, ordinary as well as preference, if the Board appointed by the ordinary shareholders failed to ensure the payment of the preference dividend. The market for corporate control would not disappear, but it would no longer be a playground for predators. The speculative bubble would become very limited in its scope. When I discussed ideas along these lines with the then Director of IPPR many years ago, before New Labour came to power, I was told curtly that any idea that involved compulsion or the limitation of personal freedom was out of court (how things have changed!). It will take a political crisis for proposals like this to be implemented, and it may be that the crisis will take the form of another major stock market crash, calling into fundamental question the present mechanism by which personal savings are held in the form of physical assets. I am not calling for the abolition of the City of London, but for a reduction of the stakes for which its players compete, and a reduction in their status from merchant princes to something more humble like Keynes's dentists. I speak, I should add, as one who worked in the City as a venture capitalist for 10 years.

In conclusion, my task today has been mainly to set forth in Shared Interest a concrete example of how capital can be turned from bad master to good servant by grassroots initiative, something we can immediately act upon. The wider political and legislative extension of the principles underlying Shared Interest is a matter that requires a lot more research and debate. Yet if we are to find solutions for the problems of global capitalism, we need to start looking in the right places.