14 | IS THE DEBT TRAP AVOIDABLE?

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Introduction [1]

In this chapter we briefly review the path that has led us up to the latest debt trap, with some recent considerations on the still evolving global crisis. We will focus on issues of resilience and sustainability. Not surprisingly perhaps, the Davos World Economic Forum Annual Meeting 2013 placed *resilience* and '*resilient dynamism*' at its centre. No doubt the issues discussed at the Imagine 2012 conference in Quebec were showing the way forward. The argument here is that co-operatives are part and parcel of a new trajectory to be charted, not only because they are resilient and dynamic, but also because they steer away from debt traps, freeing up forces for development and enabling community change.

A truly global crisis

The global crisis began in 2007 following accounting changes that led to the bursting of the bubble in the US subprime housing market. After stalling the financial sphere, it turned global with the Lehman Brothers' collapse and then went into a new phase with states that found themselves ridden with debt after giving aid packages to banks and industry in 2009.

Let us just highlight a few key points. In February 2007, Freddie Mac, in view of changes in accounting stemming from both the IASB and the FASB (respectively the London-based International Accounting Standards Board and the US Financial Accounting Standards Board), made the public announcement that it would stop its practices relative to lending for subprime mortgages. The bursting of the great bubble was linked to securities used in relation to the housing market in the United States, called collateralised debt obligations (CDOs). Such securities were a major part of the asset base of large banks, which, after hoarding cash, were saved either with the followed would have surely been far more dramatic without governmental intervention but it is still very difficult for a rapid recovery to take place, considering the amount of debt. Five years on, even though some positive signs arise here and there, the world economy is still suffering from the fall in activity, credit, employment and consumption. In late 2012, the toll on growth reached the European Union's (EU's) core: Germany and France. Meanwhile, the US recovery has been going back and forth.

During the first phase of the crisis, there was much talk of a return to Keynesian ideas. Yet, after the first phase, the earlier ideological consensus among policy-makers has regained predominance: adjustment policies, fiscal consolidation, privatisation and strong pressure on restructuring under the threat of losing credit rating and funding. In this way, the influence of financial markets, so decried at the start of the crisis, remains in force. In the EU, austerity has been imposed, bringing about prolonged recession and in some cases outright deflation, coupled with very high unemployment rates, especially affecting the young, women and ethnic minorities.

The social impact and suffering have been widespread: in the USA, there were still 23 million unemployed in 2012 (Lam 2012). Worldwide, the number has officially reached 202 million in 2013, according to the International Labour Organization. Nation states have faced revolts and strains (including on constitutional agreements, as in Spain). Regional entities such as the EU are faced with their own limits and they are experiencing rising internal divergence and citizens' disaffection. Labour disputes continue unabated, some lasting years. Thousands of companies and farms are going bust in many European countries every year, with the exception of some Nordic countries and Germany, where there is no prescribed minimum wage. Many delocalise, while some truly slave-like labour practices such as debt bondage are booming. For example, Belgian ministers lodged an EU complaint against Germany for employment practices of very low pay without benefits, calling them unfair social dumping. Used in agriculture, food-processing and abattoirs, such practices push Belgian companies into bankruptcy (Laurence 2013). Besides, the UN has published a conservative estimate of 21 million trafficked people with about half of the £20 billion profits made out of human trafficking in developed countries (Nelson 2013). In another example, support of the US Federal Reserve (the Fed) or by other governments or sovereign wealth funds (St Louis Federal Reserve Bank 2013).

With the crash, financial assets were wiped out. By early 2010, US citizens had lost 35 per cent of their financial wealth and those of the Eurozone 25 per cent. But the global crisis was not only financial. One example was the drastic fall in trade and enterprise investment in 2008 and 2009: the 2009 United Nations Conference on Trade and Development (UNCTAD) report showed that global foreign direct investment (FDI) inflows fell by 44 per cent and mergers and acquisitions by 76 per cent in early 2009, compared with the same period in 2008. In developing countries, inward FDI declined by 39 per cent in early 2009. The drop was so pronounced that it showed beyond doubt that firms were using financial mechanisms to sustain trade. On the one hand, with the just-in-time system of lean management practices, firms' inventories were kept to the necessary minimum. On the other hand, as global chains competed for volume to maintain low pricing, an excess capacity gave individual firms little pricing power. This system is based on open credit lines and, since global trade and finance work together in a loop of interwoven credit and debt, if the system of payments gets blocked, implosion may follow. The use of short-term financial products in money markets amplified volatility and, since this financia] activity was not shown on balance sheets, a corresponding lack of accountability. For the first time, most developed countries found out that not only financial institutions but also all actors in the real economy were highly indebted: households, firms, and public institutions from local authorities to nation states. The downturn spread further, as so many actors have had to confront the leverage of debt obligations, namely the debt relative to assets or income. Credit contracted, except in cases with a healthier equity base, such as credit unions and co-operatives. Credit unions and co-operatives have shown strong resilience to the crisis because they were either not leveraged at all or only slightly, they had built a healthier equity basis, and, generally, they did not engage in toxic financial instruments.

In the very beginning, once the financial sphere stalled and a liquidity trap took place, politicians cried out about capitalism imploding and being brought to its knees. In this phase of the crisis, governments intervened heavily. The global crisis and recession that even bank representatives became worried about policies that reflate already overpriced houses and build a new debt trap, this time for youth in the UK (Elliott 2013).

Yet, considering the debate at Imagine 2012 on ecological overshooting (see Chapter 4), namely that we are using our planet's resources and ecosystem in a way that exceeds its carrying capacity, which we may not be able to recover or replace, this depressing picture still seems possible to redress. But where to start?

The work of international entities and decision-making frameworks established at the height of the crisis, such as the G20 and Basle III, so active in 2009, appear today rather subdued. Suffice here to mention the 2012 and 2013G20 meetings in Mexico and Russia or the delay in the implementation of Basle III in early 2013?

The Securities and Exchange Commission in the US encountered some setbacks in its attempts at regulation. As a preferred solution, the USA has released an enormous mass of money at zero or very low interest rates injected to both prop up the financial situation of banks and enterprises and to purchase assets and resources across the world; similar measures are being implemented in Japan and the UK. Indeed, the business buzz word is '*to go out*'-,export, consolidate and acquire foreign assets. This phenomenon sounds reminiscent of the 1880s and the 1890s, when this took place after the big financial crises of the nineteenth century. As a result, since 2010, countries such as Indonesia, Mexico, Brazil, Russia, Taiwan, Colombia and others have either passed capital controls or introduced banking regulation to restrain international capital movement, in particular short-term speculative flows, in order to shield themselves from an unfair context that carries the risks of inflation and asset bubbles, and hinders their export competitiveness due to exchange rate appreciation (Evans-Pritchard 2010). Even for the International Monetary Fund (IMF), capital controls now have a positive role to play (IMF 2012). The other side of the coin will be a sudden reversal of flows once the Fed ends its 'quantitative easing'.

At the macro level, between austerity and recession in the EU and others' efforts to maintain export competitiveness, global aggregate demand will continue to be a key concern. Connected to this key question, inequality, the outrageous gap in income distribution and the growing income concentration have finally been recognised by the

IMF in 2012 as major causes of instability and household indebtedness, with significant macro-economic consequences. Here again, the links between the micro and the macro in economic theory are slowly being recognised. In turn, the IMF, which had become almost irrelevant with very little capital in 2003, has received a new life with large inflows of fresh capital and a series of new countries to supervise. On the other hand, mathematical and statistical models creating systemic risk (such as Li's 'Gaussian copula' function) are now under scrutiny (Forslund and Johansson 2012). This is the mathematics that allowed the CDOs to be rated as totally secure and sold in vast quantities. Finally, there is raging debate in economic theory. The EU consensus remains a strong advocate of monetarist policies targeting inflation, but monetary policy per se is ceding the ground to institutional economics (both classic and new institutional economics, Keynesian theories, and even market monetarists who propose targeting the level of nominal income instead of inflation).

Technological change has brought an epochal shift in finance: since August 2012, more than half of the money invested on the stock market is placed through highly automated machines and high-frequency trading (HFT). These computers do a great deal of trading off-exchange into so-called 'dark pools', surfing on trends for milliseconds before inverting the bets to cash in. It is no longer about the stock markets, but the dark markets of stocks. Stocks are now held on average about two months, compared with two years in the 1980s. The EU has singled out fast trading for favouring speculation and price volatility, requesting that 'share orders would have to be posted for at least half a second, far longer than HFT firms currently stay in the market' (Guardian 2012), and that a new type of trading platform should be created where HFT would come out in public. There is tension between the older system, which is led by stock markets and banks, and another led by wealth institutions, namely rich individuals and government funds composed of a very concentrated shareholder base that takes top-down decisions. The former - stock markets and banks - usually have a much larger shareholder base and have tended to operate as platforms of exchange. The difficulties of Banca Monte dei Paschi di Siena (MPS) are very symbolic in this respect. This case, far from being the only one in finance, is paradigmatic because MPS is the oldest bank in the world, founded in 1472as a 'mount of piety' by the authority of the city state of Siena in Italy. Present in the USA,Russia, China and European countries, among others, it became the third most important bank in Italy after acquiring Banca Antonveneta at the start of the global financial crisis. This acquisition was the straw that weakened MPS's capital. Previously a safe institution devoted to the development of the real economy, and having survived through centuries, it was brought into turmoil by the financialised, unregulated and shadowy system that most in the bank and its foundation were not aware of. The bank received state aid after approval by the European Commission for fear that, if MPS fell, Italy would have to request EU financial aid. Yet, the state aid from the Monti government was a loan that needed to be repaid, making MPS'ssituation worse! Italy's economy became even more uncertain.

Finally, there is a sentiment in most countries that change is necessary, and that sentiment is shared by the majority of the population, be they the youth or the elderly, women and families, entrepreneurs, farmers and artisans, the Occupy movement or the 15 March movement in Spain voicing 'Ya basta!' ('Enough!'). This strong sentiment is expressed in some countries through new political parties and movements, moving away from existing political institutions, including the EU,and in the polarisation of politics in others. This crisis carries a sense of historical change with a trajectory not yet stabilised.

The global financial crisis as a debt trap

Most reactions to the global financial crisis have focused on macro-economic issues and on governance and supervision. But what has the crisis been about? Lots of interlocked debt put entire socio-economic systems at risk. Keynes distinguished between risk and uncertainty: risk could be controlled privately, while governments' role was to deal with uncertainty. But can risk be managed when control does not accompany ownership any longer? In the book *Capital and the Debt Trap* (Sanchez Bajo and Roelants 2011), our main hypothesis is that a debt trap and the toxic context we suffer are linked to a shift in control in relation to ownership. The two have been disconnected in economic and social institutions.

Ownership has been blurred by both financialisation and technological change, and control does not necessarily match ownership any more. Earlier debates on control versus ownership rights focused on the relationship between shareholders and managers in a firm. Now, the International Financial Reporting Standards (IFRS) that are replacing the old accounting system clearly distinguish between both: control means power over the investee (privileged access to resources, and 'exposure, or rights, to variable returns from its involvement with the investee'[5]); ownership is expressed in equity as the claim to the residual net assets of the entity (the IFRS see owners and entrepreneurs as financial investors).

In banking, opaque and informal lending have loaded debt on to both private and public entities, building bubbles in the prices of assets. By its nature, such lending makes those with less information its prey. When an unexpected event happens, loan conditions change and refinancing becomes difficult or impossible, a crisis breaks up. As with the CDOs (the financial debt leverage instrument that inflated the subprime bubble, dispersing toxic 'poison' that interlocked banks and financial institutions throughout the world), many continue to entertain the illusion that risk could be passed on to others. But in the current system, not only do institutions lend to each other, some also bet against their own clients. Fast computers and secretive dealings augment the chances of unexpected events and add to the current system's unsustainability. In the end, the common citizen ends up paying the bill, with Cyprus being the latest casualty at the time of writing, in March 2013.

Many firms are inserted into a financialised system that hails absentee investors and allows top managers to reward themselves for takeovers and/or closure of plants, furthering a shift of control away from real economy stakeholders. This shift has taken place within a broader process of state deregulation or light public regulation. Not enough attention has been paid to the risk built within entities that carry systemic risk for all, leaving each entity vulnerable to risk and deception, and neglecting issues of accountability and ethics towards both the stakeholders in the same entity as well as the economy and society at large. It is clear now that uncertain activities with large impacts need better regulation in the public interest. The 2013 Swiss referendum has been an important first step to redress the situation.[7]

The large leading firms in global chains of production and distribution have in turn strengthened structural control along chains due to the setting of standards, timing, logistics and finance. In contrast, owners of small- and medium-sized enterprises (SMEs), workers and policy-makers have lost control and it has become very difficult for them to negotiate conditions. For example, in a global chain, the owner of a subcontracting firm may not control production standards, timing, type of product or spare parts, or intellectual property. The firm can also be replaced by another subcontractor. The subcontracting firm must adapt swiftly to change and orders; it takes risk but it may not have control over its own production and distribution process.

Therefore, to understand the crisis we need to shed light on the links between the micro and the macro, and between the financial economy and the real economy. To do so, three mechanisms leading to and deploying the crisis can be observed as traps: a consumption trap, a liquidity trap and a debt trap, each one feeding into the other.

The first trap is that of consumption, as its growth continues even when households' purchasing power and income are diminishing, and financial institutions, through deregulation and speculation, inflate asset bubbles based on credit frenzy. This was the case in the US subprime crisis. Yet, it should not be forgotten that investing in housing was also connected to the lack of general health and pension coverage. Households turned to bricks and mortar to face old age and sickness, as well as to pay for daily necessities. Predatory practices promoting unsustainable 'growth' are responsible for systemic risk in a highly interconnected global economy and finance. Once the trap closes in, households lose heavily and the economy initiates a process of deflation. Thence, a debt trap is first and foremost the consequence of systematic recourse to debt that thrives in contexts of increasing inequality and reduced government regulation.

The second trap is that of liquidity, once the crisis bursts out and the interbank lending is halted due to panic. Since credit (and debt), more than cash, is today's global currency, trade, investment and even production in global chains were almost immediately halted as well. Only those with cash and secure assets prove more resilient. From then on, a downward spiral begins, in consumption, employment, sales and general prices. All these aspects together, part and parcel of the current financialised and technical phase of capitalism, create the debt trap.

Why somuch debt in the real economy?

A question needs asking: why so much debt? Household debt was briefly mentioned above. In the case of firms, why would firms prefer to use debt mechanisms rather than equity financing? A first argument relates to managers, who hold key information and know whether their shares are correctly priced or not. If they are, they would be unlikely to issue new equity shares because that would signal lower future returns.

Other major reasons relate to globalisation and world restructuring. Debt has been useful as a disciplinary tool in particular in relation to labour issues as well as a tax shield (Buettner and Wamser 2009). The outrage in the UKagainst Starbucks, Google and Amazon at the end of 2012 makes the point (Barford and Holt 2013).

Debt leverage has been upheld as worthy because, under financial pressure, managers were expected to obtain shareholder value more aggressively. The penalty for managers who are not aggressive enough has not been the loss of management benefits but the firm's takeover or delocalisation. Private equity guides have introduced leveraged buyouts to managers as a way of becoming owners of the enterprise (BVCAand PWC 2003). This concerns top managers only, turning the agent into a principal, with power in the restructuring of the firm. In such an evolution, labour movements and trade unions lost bargaining power. A major reason for the latter was that acquired firms were usually given as collateral for the loans used to buy them. Loaded with debt, acquired firms not only had to repay the loans but at the same time distribute dividends, bonuses and other rewards to top managers and absentee investors. To equal the amount of debt leverage and rewards, firms soon had to look for further borrowing. In March 2013, the Bank of England warned of a systemic threat posed by private equity buyouts as from 2014, given the ‘need over the next year to refinance firms subject to heavily leveraged buyouts’ (Bank of England 2013). Indeed, refinancing in the current context is much harder, if possible at all. This could be the next phase of the global crisis. On the other hand, some financial institutions could have the opportunity to convert debt into equity, extending their influence in the real economy. With the unfolding crisis, the high, and rising, rate of unemployment reduces further trade unions’ bargaining power.

The strategies of debt leverage and shift in control are connected to the building of global industrial chains in which the Fordist mode of production has given way to the Toyotist one. In the Toyotist logic of outsourcing and vertical de-integration, debt inter-linkages are common. Toyotist firms generally own only a minority of their operating capital. Under Toyotism, debt to equity ratios of 80 per cent are not exceptional. These debts are usually shared by several banks. As debt financing grows, control along supply chains is increasingly exercised through decisions and supervision focusing on financial flows and profits, the reputation of the global brand and access streaming.

Now let's turn to the state. As with Greece's CDOs - among other off-balance-sheet practices that have triggered the EU member states' crisis - many public-private investment projects are actually a debt practice. Many hospitals and roads have been financed by private investment and are regulated by long-term contracts lasting up to thirty years that include all aspects of the project, from design to construction, maintenance to management, and the provision of the service. Although they appear private to the citizen, it is the state that is being charged with the debt incurred, and it is the citizen who should foot the bill through their use of the services. Analyses of public-private partnerships have been unfavourable, resulting in debt now shifting to the states' balance sheets, on the basis that the latter control expected future income even though they may not own the investment. The high leverage buyout deals undertaken in the period of loose credit conditions potentially present a significant risk to the financial system, due to the leveraged loan exposure of banks, as well as through the effects of leveraged buyouts on corporate indebtedness, which is more susceptible to default. Why now? Leveraged buyouts use acquired companies as collateral, and the majority are structured as 'bullet' repayments, namely the principal is repaid at the end of the maturity period, on average seven years. Large lump sums must be repaid when loans used to buy the companies mature. If not refinanced, the financial institutions, the investors and the indebted companies get into trouble. There are £160 billion of UK leveraged loans with a maturity in 2012or later, with a peak in maturities in 2014.

Before, banks, just like the CDOs, sold their leveraged loan exposures as collateralised Ioan obligations to other entities. But the banks are focused now on repairing their balance sheets, the Bank of England explains, and Ioan exposures will become fixed from 2014 onwards. The loans will not be refinanced in the future. The Bank talks thus of a refinancing cliff, as there is a shortage of options to deal with the risk. Will they invent something new in about a year's time? Or will the state save those that are too big to fail with more public money? Are citizens aware of what they might be paying next? Good questions.

What happens to institutions lost in the debt trap? The first sign is a loss of autonomy and timing in reacting to the changing conditions, in the face of external shocks and events. Since the institution was neither capable of preventing leverage nor prepared for the consequences, growing internal divergences flare up under pressure, especially when there are no appropriate compensatory institutions (special funds, monitoring schemes, etc.). The outcome then rests on individual leadership and short-termism, which can take precedence over the long-term vision, including the 'common interest'. As trust evaporates, the lack of transparency and debt leveraging that built the bubble in the first place feed general suspicion. Either new behaviour or institutional patterns rebuild trust through more transparency, equality and justice, or decay sets in, because, with neither trust nor institutional mechanisms to face a crisis together, each stakeholder and participant will try to save themselves on their own. The case of the EU bears a resemblance to this unfortunate scenario.

Resilience of co-operatives in times of crisis and their contribution to the future

Many studies by international organisations (Birchall and Hammond Ketilson 2009) and government reports have confirmed that, in both developed and developing countries, co-operatives not only contribute strongly to socio-economic development and generate more equality and social cohesion, but are also a significant actor to consider in responding to the challenges of climate change, biodiversity and a green transition. These and other studies acknowledge that co-operatives have also shown relatively higher resilience to the global crisis (CICOPA 2012). In the case of co-operative groups and consortia, innovation is already under way to respond to future socio-economic needs. During the last few years, due to their achievements and resilience, co-operatives have received more attention in public debates and the media. Unfortunately, more has not meant much, as yet. Throughout the economic and financial crisis, co-operatives have become more topical, but they are rarely considered an essentia] partner to build a path that steers away from future debt traps.

In what sense can co-operatives help us avoid a debt trap? And, once we end up suffering one, in what way can co-operatives help resist its worst effects? How do they react and manage the impact of such debt crises?

By their nature, when co-operatives' stakeholders take the risk of starting a common venture that aligns control with ownership, their standpoint and interest are tied into the long term. To achieve their common aims in a sustainable and lasting manner, co-operatives tend towards a more balanced generation and distribution of wealth. Information within co-operatives tends to flow in a more transparent manner than in conventional firms because members have more equal access to it, on the basis of their values and principles. Decisions, responsibility and accountability are more equally shared, thus carrying a higher degree of acceptability and legitimacy. This point becomes extremely important when confronted with a stark crisis.

Another characteristic of co-operatives is that, being owned and controlled by locally embedded members, they do not delocalise, placing the issue of trust and accountability at the heart of their business model. It is only natural and normal that they develop a strategic long-term vision. Co-operatives tend to distinguish between strategic investment in the real economy and financial risk, and thus are logically interested in responding to inequality and steering away from a consumption trap (relentless, ostentatious consumption that falls into indebtedness), as their aim is to develop the community and have a healthy equity basis. Co-operative banks with thousands of common people as stakeholders and owners concentrate on developing the local economy and its SMEs. Consumer co-operatives and credit unions do not typically engage in predatory practices that lead to their members' indebtedness. Workers' co-operatives will not engage in risky financial mechanisms, as members are both workers and owners of the business.

In the global crisis, 'the type of ownership and methods of capitalization are two of the key factors that have created the disparity in the financial positions of credit unions and banks, to the advantage of savings and credit co-operatives or credit unions' (Coombes 2008). Credit unions and co-operative banks usually form regional or national banking networks and continue to control upwards what the central institution is doing, while the latter has a downward monitoring role. In the very few cases where co-operative banks have flirted with international finance, sanctions have come in swiftly. One example has been the central unit of Crédit Agricole (BBC News 2008). Soon after the trouble, the managers were sacked by the grass-roots local co-operative banks.

Co-operatives, credit unions and mutuals have contributed neither to bubble-making nor to bubble-bursting. Many savings and credit unions and co-operative banks have continued lending because they have a more thoughtful and sparing[9] vision of growth, therefore being in better health, which allows them to be forward looking and focus on the needs stemming from the real economy and society. The case of German regional banks, many of which are co-operatives, show how important this aspect is for providing credit to SMEs, especially in uncertain times. In workers' co-operatives, where workers are also joint owners and controllers, diverse management strategies help the latter remain in the enterprise. Skilled workers who are ready to take up commands once the economy picks up somewhere in the world, and global chains start to function again, are an absolute necessity. Otherwise, firms lose competitiveness and contracts. The German government has spent a great deal to keep workers in companies, even if they remain at home for some time. Co-operatives have done that without public money. This measure avoids job losses, allowing the country to remain competitive, ready to take up global orders as soon as global chains' activity restarts.

Especially in the first phase of the crisis (2008 and 2009), nation states took unprecedented steps to prop up ailing banks, insurance companies and major enterprises. In a shared decision, many countries subsidised the automotive sector and promoted purchases of new cars. Yet, in general, shareholders of the state-funded bankrupt enterprises were not touched and neither shareholders nor managers were sacked or replaced. Much of that public money was repaid in the following years. Such a state role had more to do with short-term financing facilities than with investment in the real economy with a long-term strategy. One important exception would be General Motors in the USA, where the government supported both restructuring and product innovation. In the case of the EU, Germany used all types of measures to prop up its national economy while other EU countries used only one or two types of measures.

At the core of the financial breakdown, the US, the UK and now Japan, in particular, have provided enormous liquidity to financial markets and institutions to fight potential deflation, but the idea of fiscal consolidation and austerity policies remain predominant. But stable growth and healthy credit available to the real economy, including to the SMEs that provide most of the employment in every country, are still missing. The monetary base is significant but the monetary supply to the real economy is not. Financial institutions are hoarding it, as they 'deleverage' their debt condition. Government priorities have geared bailouts to the financial sector and a few large companies, while public services and jobs shrank at the local and municipal level. To 24 November 2008, governments' commitments to financial bailouts (US$4.1 trillion) were forty-five times the sum allocated to development aid in 2007 and 313 times the sum given to respond to the climate crisis (Anderson et al. 2008). Meanwhile, the privatisation of public services - water and transport industries - has proceeded apace (Zacune 2013).

Co-operatives are one of people's responses to increasing inequality and loss of access to services. In times of crisis, in particular in the face of a debt trap, and as exclusion and poverty mount following job losses, income reduction and home evictions, new co-operatives begin to spring up in an élan of self-help and solidarity to avoid or confront indebtedness. In the field of personal and community services, social co-operatives have maintained and even increased their labour force, thus enlarging the quantity and quality of services. Closer to the needs of their members and users, co-operatives seem to better heed social needs while being less of a burden on public budgets.

Despite all their positive points, why is it still difficult to see any acknowledgement of co-operatives by public authorities? The late Nobel Prize Laureate in economics Elinor Ostrom suggested an answer to this. There is first the need to mainstream collective action theory among the instruments of policy analysts and in theories about human action, by which a group of interested participants can voluntarily organise by themselves and retain the residuals of their efforts. She wrote that 'Examples of self-organized enterprises abound ... Most co-operatives are also examples' [Ostrom 1990:214; see Chapter 13). Continuing in Ostrom's footsteps, institutional analysis should acknowledge on the one hand the links between the micro and the macro, and on the other the 'normality' and value of horizontal co-ordination. Vertical command without checks and balances ends up taking concentrated bets that risk systemic failure.

Conclusions

We have reached a dangerous peak not only in terms of environmental damage but also in terms of indebtedness and predatory finance. The practice of joint control, which co-operatives' stakeholders uphold in a democratic manner, is appropriate for a transition that builds a new trajectory towards a sustainable economy. Many characteristics of co-operatives can come in handy: more transparent information circulating on a real-time basis, democratic accountability, checks and balances, a systematic building of common capital reserves, enterprise education of common citizens, and sustainable employment and horizontal systems of entrepreneurship with horizontal co-operation dynamics. Such an organisation tends to steer away from high-risk strategies, high-debt leverage and short-termism. This also means that co-operatives are forward looking to the long term, not only in good times but also, and most importantly, in bad times!

Resilience is, in fact, built *in advance.* Resilience is not a mere question of good ethical values and sharing participation. When a shock arrives, or a crisis breaks out, a timely reaction and general trust are essential. And this is the case in most co-operatives, where trust has been built in advance due to the fact that social capital was high and the organisation had generated higher equality and general wealth. If, on top of this, stakeholders had built reflexive monitoring mechanisms with effective cross-control in checks and balances within the organisation, legitimacy is largely shared. Painful decisions can then be taken because members know that the share is fair and that they are all in it together. Their various common funds allow them to breathe, resist the shock of the crisis and think ahead, in terms of innovation and community needs.

At the time of writing these lines, the four empirical cases studied in the book *Capital and the Debt Trap* (Sanchez Bajo and Roelants 2011: the Natividad divers' co-operative in Mexico, the Ceralep industrial co-operative in France, the Desjardins financial co-operative group in Quebec and the Mondragon co-operative group in the Basque country) are doing fine. We cannot delve further into this here, but it confirms the resilience and innovation capacity of co-operatives throughout the global crisis, on which there are now many studies, surveys, news reports and documentary films. Yet such resilience has its limits in the face of systemic decisions that impose deflation or long-lasting recession on entire economies, weakening trust and social cohesion in the end, imposing undue suffering and opening the door to increasing indebtedness, especially among the weakest and the poorest. In turn, these negative outcomes open the door again to future traps in consumption, liquidity and debt, a vicious circle that has to be broken.

The crisis has shown the centrality of debt interweaving the financial and the real economy together and being used to attain various objectives; these include to be a disciplining tool; to avoid taxes; to develop global chains; to solve the chronic underfunding of pension funds through buyouts and takeovers; and to redesign entire sets of bargaining relations, in particular labour pay and working conditions. With each debt crisis, more wealth is destroyed than has been generated during the building of the bubble.

Globalisation has reached its limits under the following contradiction: 'too big to fail' firms that need constant enlargement of business scale, doing so with little equity and capital reserves, with just-in-time management of reduced stocks, and highly dependent on a tightly interlinked and fast electronic financial system running across the globe, day and night. In this circular context, the generalised use of debt is no longer sustainable. Due to interconnectedness, any event can magnify systemic risk that can easily lead to implosion. Is it a coincidence that the word 'toxic' is so often used in relation to this global crisis? It is not only the environment of the planet but also the present global financial-economic system that are increasingly falling out of balance. The old ideal of rapid and high rates of growth on the basis of debt leverage and consumers' indebtedness should be considered outdated, and a trajectory towards a more equitably generated and distributed general wealth should be built.

The micro builds an accumulated impact on the macro. We need to pay greater attention to social and economic entities, their organisation and accountability, their values and practices, their resilience and preparation for bad times, if these ever come. The rapport between ownership and control is absolutely essential in assessing resilience. Co-operative cases we have studied serve as a source of inspiration in terms of resilience to crises - resilience that is best when built in advance. One is not resilient and innovative just by having good ideals and values (although this is certainly key to organisational building) but by building mechanisms and dynamics that deliver legitimacy, rapidity, flexibility and accountability within a framework of joint ownership and democratic control with checks and balances.

Beyond the significant resilience of co-operatives and similar types of enterprise, it would be desirable to undertake more studies on their capabilities and mechanisms to co-operate in order to innovate and to respond to the prospective needs and aspirations of citizens and communities, as well as to generate further specialisation. Such knowledge could be very useful not only to other co-operatives but also to SMEs, social movements, non-governmental organisations and local communities. We move here from the micro level towards the idea of building meso-economies with sustainable pools of resources, flows and affinities that both respond to the needs and aspirations of local people and communities and are able to enhance the sustainability of all life on the planet.

In terms of specialisation, two aspects may be considered. We enter here the old debate on the division of labour from the point of view of a long-term rationale that is not individualistic. First, when co-operatives consider scaling up or reacting to new or more complex social, economic and cultural needs, they can respond with organisational innovation without having to become one huge vertical unit. Thanks to their characteristics, type of model and governance, they can encourage spin-offs of members to form new co-operatives; create secondary level and/or multi-stakeholder co-operatives; and establish networks and consortia with other co-operatives and stakeholders. As co-operatives comprise members, some of them may leave the original co-operative to set up a new one or may be detached to another existing co-operative. It is not about specialising by task but by area or field of activity. In the case of a workers' co-operative, it is not about working in an assembly line under vertical control but about self-organising work in an enterprise where workers are both members and owners. Some co-operatives promote internal task specialisation but others implement multi-task skilling with shifting roles. Specialisation within a co-operative grouping where primary co-operatives remain autonomous is done via areas of activity, while solidarity within the grouping is exercised through solidarity mechanisms. These could include savings, cross-checks, monitoring and/or consultancy, training, support services, guarantees, and social, innovation and restructuring funds, among others. Indeed, co-operatives can replicate their co-operative model with other stakeholders. Through the multiplication of primary co-operatives, they can remain rather small and embedded across the territory and society. Through co-operative networks and consortia, they are able to mutualise support resources. Through spin-offs and higher-level co-operatives, they can innovate, specialise in specific activities, enter new ones or upgrade skills and knowledge.

As a call for further debate and engagement, a debt trap is similar to an ecological overshoot, displaying a systemic trajectory that is no longer sustainable, but rather leads to systemic failure. To avoid it, we must imagine and chart another trajectory, distinguishing markets and capital from capitalism, analysing how capital in all forms (social, human, cultural, intellectual, financia], natural and environmental) is truly valued. We need to discuss new ways to sustainably generate genuine value leading to general and common wealth. To achieve this, we need to be critically aware of, and focus on, how we organise our economic lives.

Notes

1 This chapter is grounded on the research published in the book *Capital and the Debt Trap* (Sanchez Bajo and Roelants 2011).The book provides an explanation of the global crisis that broke out in 2007 and why co-operatives have been showing a relatively higher degree of resilience compared with other types of enterprise, generating genuine value and general wealth in a sustainable manner.

2 The CDOs were the trigger of the financial crisis (see Sanchez Bajo and Roelants 2011:Boxi.i, Chapter 1),

3 The G20 summit held in Los Cabos, Mexico, on 18-19 June 2012 was very light in results, and the G20 meeting of finance ministers and central bankers in Moscow in mid-February 2013 included a heated debate about exchange rates being utilised to further exports. The latter meeting recognised the lack of global demand and high unemployment.

4 On 7 January 2013, it was decided to let Ell and US banks meet only 60 per cent of their liquidity coverage ratio by 2015and 100 per cent in 2019, instead of 2013. Other countries that were pressed to implement Basle III find implementation uneven. It signalled that the crisis was not over, stringent rules affected recovery, and banks cannot deleverage at this stage.

5 Seethe concept of control in IFRS 3 and IFRS10 at www.iasplus.com. For an alternative view to the IFRSconceptual framework, see Whittington (2008).

6 On 17March 2013,Cyprus agreed to the terms of a €10 billion bailout (RTE News 2013).

/The 'Minder' solution approved by the Swiss vote was 'to give the general assembly of shareholders the power to approve all compensation packages to board members and the company leadership[1] (Sydney Morning Herald 2013).

8 In economics, the principal-agent theory is linked to the differentiation between ownership and control, and the difficulties in motivating one side (the 'agent', in this case the manager) to act in the best interests of another (the 'principal', in this casethe shareholder or owner of the firm).

9 I use 'sparing' instead of austere, since 'austere' is now a euphemism for structural reforms.

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