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Franchise capitalism or cooperative capitalism?

Lecture given at AVTONOMI AKADIMIA, Athens, Greece, 19.09.2015.

In a remarkable article published in the Guardian from 17th July 2015 with the title “*The end of capitalism has begun*”, PAUL MASON wrote about post-capitalism from the viewpoint of information technology and the changes that the internet has brought to our society. He claims that these changes are irreversible and will impact economy and society equally. As a vision he sees post-capitalism dominated by sharing economy, collaborative production, the loss of copyright and the information industry as the dominating part of economy.

I would like to tell you something about the possible future of capitalism from a more formalistic viewpoint. Of course I can't foretell the future and everything I talk about is fiction. But as we know, it is fiction, that enables us to make decisions which affect the future.

The capitalism of today is on the edge of radical change, because there are some components of this economy which do not work anymore. The first component is expansion. Our capitalism is more or less present all over the world. It's only a question of time until it is present in all corners of the planet. So there will be no new markets to explore or to develop from scratch.

For a while we can compensate this by destruction of markets, means by climatic or natural catastrophes, or selling weapons to parts of the world, whose people are willing to destroy their own country with these very weapons and to rebuild their country again afterwards with products we will sell them as well. But more and more people are not willing to participate in wars, because they know (apart from getting killed), that war will exclude them for a certain time from consumption, i.e. buying new electronic gadgets, watching the newest movies, driving German cars, drinking Coca Cola, eating at McDonalds, traveling almost everywhere etc. - in short, everything that makes people happy today. But the benefits of globalised culture are not my topic here.

Meanwhile, the exploration and exploitation of the planet's resources will reach its climax. We live already from the past of our planet. Oil, coal, salt are remainings of solar energy of the last millions of years on the planet and will come eventually to an end. At the same time as we exploit ancient energy, we industrialise our present biosphere, which is still the main source of collecting solar energy.

But energy is not a big problem, because in the very near future we can collect solar energy technically without converting it to biomass beforehand. There is so much on-going research in this field - someone will succeed. Then we will have unlimited energy resources for a while, and as we know, unlimited resources are one condition for unlimited economic growth. But other resources will stop and impact the economy. There are rare metals and half-metals which are urgently needed in the electronic industry. Clean sweet water will be a problem. Also the disappearance of most species of animal life, we have no clue so far how it will influence the planet.

The second component, why economy doesn't work properly anymore, is, that the recent capitalism obstructs innovation. Our technical development is far behind our technical abilities. It starts with the everyday observation that all electronic equipment and in general technical artefacts have errors, dysfunctionalities, work too slow, have low resolution, break after a while etc.

The reason for that is planned obsolescence and what I call innovation or investment cycles, others call it product life time or life cycle. Lets keep it to innovation cycle.

Let me give you an example. The Mirasol display is a display technology usable in all electronic equipment. It shows colors, has a very short reaction time, very low energy consumption, good resolution and, after disconnection, the last screen remains. So it is everything you want from a good display. And it is a killer technology, because it has the potential to replace almost every existing display technology.

The Mirasol patents are now owned by QUALCOMM, one of the biggest semiconductor producers on the planet. QUALCOMM is connected to a lot of other electronic companies by shares or ventures. Because of these connections and their actual product line, it would be economically contra-productive to produce and sell Mirasol right now. They simply make more profit keeping it back and not selling it. So they sell us products which are imperfect and thus have improvement potential.

This happens in all industries and follows the idea of innovation cycles. An innovation cycle for a product is the time from the first investment in product development, in research and marketing until the last piece of replacement for broken parts sold. At the beginning of the cycle you have a lot of costs, at the end of the cycle you make profit. Of course you try to prolong the profit phase as long as possible, even if this means that you have to hold back innovations. That is what I mean with capitalism obstructs innovation. This applies to car industries as well as to most of our ecological problems.

Another example is pharmaceutical industry. As everybody knows, it is a contradiction in itself. If they really develop medication to cure people, they lose their customers and ruin their business. Healthy people don't need medicine. So they invest in research to keep the people in a chronic sick and dependent state as long as possible. If the people die too early, they loose customers as well. Medicine helps a bit, but not too much and not too little, and people should become dependent on it. Here innovation follows the goals of profit, which is not the same as the welfare of humans.

Second, a lot is written about planned obsolescence. To define the end of product life already with the design of the product is a strategy to handle saturated markets. If everybody has a knife which is always sharp and never breaks, then nobody will need to buy knives anymore. So knives have to break to keep the business running. Same happens to lamps which fail after 1000 hours, or printers which stop printing after 50000 sheets. Here innovation is blocked and reversed to a kind of opposite. There are companies investing in research for imperfect products, so the result will be far behind our current technical abilities.

As PAUL BARAN already figured out in the 50's, innovation and expansion are the main components for economic growth.

Putting these pieces together, the inability of expansion and the slowdown of innovation, we see that the concept of economic growth cannot be valid anymore. As one symptom of this development we have zero or even negative interest on money. But the dogma of economic growth is one of the fundamentals of our recent capitalism.

So if economy can't grow by expansion or innovation it can grow for a while internally by privatisation of domains of the municipality or government. That has happened during the last years already.

One possible way of the continuing of capitalism NEAL STEPHENSON described in his novel "*Snow Crash*" in a pointed way at the beginning of the 90's. To give it a name I will call it *franchise capitalism*.

One of the symptoms of our phase of capitalism is the process of privatisation of everything.

There are two groups, who actually think that they contradict each other. On the one hand there are neoliberal activists, who try to get rid of state influence on economy by radical privatisation. They believe in self-adjusting markets, which is some kind of religious dogma overcoming from the 16th century as JOSEPH VOGEL has shown in his book “*Das Gespenst des Kapitals*”. As a side effect almost everything is valued and becomes a tradable good.

On the other hand we have people who try to take their fate into their own hands by self-organising or buying every service which concerns them. They try to reach autarky (αὐτάρχεια) and autonomy (αὐτονομία). These people become more and more independent from the state’s service and alimentionation. The wish for self-organisation might arise, because of, or might be propagated as the inability of the state to provide certain services for society. Finally both groups erode the state as we know it and cut the power of governmental institutions.

Franchise capitalism

In STEPHENSON’s fiction, or should I say vision, the government becomes one service company among others. All companies are just responsible for their own property and don’t intrude in other people’s or company’s affairs. Everyone is a customer of different franchise companies and has subscribed to an individual bouquet of services. Social security or even physical protection is organised by companies as long as the individuals stay inside the company’s walls. Healthcare, babysitting, education, senior residences - all organised by franchise. Of course people still work, earn money, get exploited, but there is no government to arrange a life perspective or curriculum. Everything is ruled by the market.

Tendencies in the direction of that vision can be seen in the USA for quite a while. Neighborhood watch, gated communities, food chains, private Correctional Facilities, paramilitary security companies, private advocates writing state laws for the Parliament, private highways, etc.

Actually, the OBAMA Health Care Plan is a big step in the opposite direction and will probably not survive the next Republican President. Otherwise, if you have people already in a contracted relationship like Health Care, then it is easier to privatise this relation without losing customers.

In Germany we have a big private school movement. MONTESSORI SCHOOLS are among the best known. With an alternative school concept, which is promoted to be more suitable for children, generally to have a better education than state schools, they catch for middle class customers. A roof association controls the brand MONTESSORI, certifies schools and special educated teachers. In return these schools aliment the roof association. Pretty much a franchise concept.

Another example, BLACKWATER, which is now called ACADEMI, is one of the biggest security companies in the USA. You know their infliction in the Iraq war. A subcompany which is called BLACKWATER AGENCY is an all-round franchise, if you want to open a security company. They provide you with security training, organise all necessary licences, certificates and concessions and help with technical equipment including weapons, fortified cars, etc. So if you are a franchise taker, the brand BLACKWATER satisfies the customers of your franchise with certain security and protection standards. But whoever lets BLACKWATER secure his facilities, buys security and protection for the price of freedom and money of course.

Meanwhile, there is a new movement coming from the USA and United Kingdom to create so-called Business Improvement Districts. “A business improvement district (BID) is a defined area within businesses are required to pay an additional tax (or levy) in order to

fund projects within the district's boundaries. These districts typically fund services which are perceived by some businesses as being inadequately performed by government [here we have the inability of the government again, A/N] with its existing tax revenues, such as cleaning streets, providing security, making capital improvements, construction of pedestrian and streetscape enhancements, and marketing the area. The services provided by BIDs are supplemental to those already provided by the municipality." [*Green Infrastructure Handbook.*", Southeast Tennessee Development District, Chattanooga, TN. January 2011]

They have already created BIDs in London and Amsterdam, and for the Hamburg Reeperbahn there is a fight between the municipality, the local businesses and the inhabitants at the moment. The inhabitants of course don't want total surveillance and security.

Putting all these pieces together, gated communities, business improvement districts, private schools and kindergarten, all-round security companies, food chains etc., we already have the ingredients for STEPHENSON's vision here. It's just a little step for a company to bring all these components under one roof.

Cooperative capitalism

A cooperative is a legal company in most countries, as well as in Greece or even in Europe as a European cooperative. It is a form of company between an association or society and a stock corporation. It has a professional management and shareholders, mostly called members as in an association, a supervisory board, and a general shareholder meeting, which has the ultimate power over the company. But unlike in a stockholder corporation every member has only one vote in the general meeting, as in an association. So a shareholder can not collect votes by holding multiple shares. It doesn't matter how many shares you hold, you still have only one vote.

A cooperative has usually a statute, in which it declares its purpose. So agricultural cooperatives do agriculture, hairdresser cooperatives do hairdressing and housing cooperatives own houses for their members to live in. Cooperatives are completely private organisations of people who share a common economic interest in a special purpose. Here we come back to privatisation. Cooperatives usually use private property to fulfill their purpose. Agricultural cooperatives use their own land, the hairdresser their shops and tools and the housing cooperatives their real estate.

In most cases cooperatives are very stable companies, because they function without profit, so businesswise they have an advantage over profit-making companies because of a better benefit-cost ratio. And they are more stable, because it is almost impossible to take them over by other companies. That's the benefit of the one-share-one-vote rule.

The property of a cooperative stays in the company and is not effected by speculation, inflation and finance market effects. Even if the property gains value by renewing, innovation or increased productivity, that doesn't matter, because the property is off the market. Cooperatives are the nightmare of every market-driven business man and neoliberal.

Let's give an example. In Germany we have a lot of housing cooperatives. But there is a special one called MIETSHÄUSERSYNDIKAT. They created a special construction of cooperatives and limited companies to assure that no acquired property will ever be sold again. It took the founders some years to invent this construction of dependant companies in a legal way. It is actually a roof association of single cooperatives, which hold shares in each others companies. If a group of people want to join with a special project, they found a cooperative of their own and buy the property together with the roof association, so they never can sell the property without the acceptance of the roof association (which will never happen).

We find the same motives as in franchise companies: privatisation, following own interests and taking fate into their own hands. But there are profound differences. Both kinds of companies compete with their products on the same market, but the property, or in a Marxian way the means of production, stay away from speculation in cooperatives. And cooperatives usually don't try to take over the duty of the municipality. I have never heard of a security cooperative.

Come back to Greece and today. The agreement, if you can call it this, with the European Union states that Greece has to privatise state's property with 50 billion Euro. So normally everybody, even the neoliberals in Brussels, think of selling it to big, global companies. But privatisation can also mean selling it to the customer or the Greek people. For example why not create a cooperative out of the electricity company, where every customer becomes a shareholder. Or the Marina of Alimos, why not sell it to the shipowners, who use it? Athens Water Supply and Sewerage Company, why not sell it to the Athenians? So privatisation can also mean selling it to the customer.

Now you can call it schizophrenic, if the Greek people should buy something from the state which they think belongs to them already anyway. But that's an illusion. State property never belonged to the people. That's a romantic socialist dream. As in the case of Greece right now it all belongs to the European Central Bank and International Monetary Fund.

In the example about the electricity company, once the people of Greece buy it, the company and the product is off the market. No speculation of prices, no profit, electricity for the price of production. And in a second step you can divide the big cooperative into regional ones, where the people have a more direct connection to the company.

The second benefit: the greek government can sell it underprice without legal intervention from Brussels. In Germany this happened sometimes, that municipalities sell real estate underprice to cooperatives, because they think, the long time social benefit weighs much higher than shortterm economical advantage. There is a lot of real estate to be sold in Greece, there are islands, the electricity company, the railways - you know better, what is on the list.

So as I wanted to state here, there is no way to avoid privatisation in saturated capitalism and actually there is no reason to avoid it, as long as you privatise to the right people.

Athens, 19.09.2015