Mutuality 2.0

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Contents

1 INTRODUCTION

A recent report in The Observer newspaper[1] in the UK announced that a group of Labour MPs had called for the re-mutualization of two failed banks, Northern Rock and Bradford & Bingley. Both banks had previously been mutuals in the form of building societies, until opting for de-mutualization as part of the economic transition initiated by Margaret Thatcher's government in the 1980s. Both proved to be major casualties of the economic meltdown; Northern Rock in mid-2007 now being seen as something of a forewarning of the general economic collapse.

This call is not unexpected. The current context has lead to a growing distrust of banking and private finance if not of capitalism itself. Many of those pointing to the excesses and misdemeanours of 'casino capitalism' have argued that the only option is the formal nationalization of all those banks which have been 'rescued' as part of the general bail-out or stimulus packages

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[1] http://www.guardian.co.uk/business/2009/feb/08/bradfordbingley-northernrock

that governments in Europe, the US, and elsewhere have chosen to or been forced to invoke. Including former advisers to John McCain's Presidential bid and Alan Greenspan[2] (and here[3], here[4]).

There are others, however, for whom any call for wholesale nationalization evokes what they see as an inevitable return to the inefficiencies and inadequacies that beset the UK economy of the 1960s and 1970s[5] . The choice seems to be the Scylla of toxic debt, or the Charybdis of British Leyland. (Leyland was formed in the late 1960s, and then partly nationalized in the mid-1970s. It was the major UK-based vehicle manufacturer of the time, and its demise, despite massive injections of government funds, was seen as the paradigm example of the failure of intervention by government in commercial ventures.)

For many in the USA, and elsewhere, 'Nationalization' inevitably conjures up images of state control, leading in the extreme to something akin to the socialism of Soviet commissars and apparatchiks. In general there is an uneasiness about nationalization, although it is part of the new reality that the public sector as such, so long in retreat under the onslaught of Reaganomics and its off-shoots, is now being called on to grow as never before.

2 THE MUTUALS

Yet there are still some placid backwaters in the midst of this disarray and confusion. They usually go under the headings of 'friendly', 'co-operative', 'benevolent' or 'mutual' societies, particularly the investment and finance organizations in that sector. In the UK the idea of mutuals, in the form of building societies, dates from the late 18th century when groups of people got together to pool assets so that between them they could eventually buy the land, materials and other resources needed to build a house for each of them. The earliest of these were all 'terminating societies'; so once everyone had a house the organization was wound up, with any residual funds being distributed amongst the members. The last example of this in the UK was the First Salisbury Society, which was only dissolved in 1980. By the late 19th century, however, other forms of building society were developed, permanent ones, as places where people could invest their savings with some degree of security. One of their key roles was to act as mortgage providers, balancing the funds they held as savings against the funds they provided to lenders financing their house purchases. Their financial position was constrained far more than was the case for traditional clearing and investment banks, and this also applied to account holders so that, for instance, savers could not overdraw their accounts as was the case for most bank customers. In the US the Savings & Loans movement was a direct off-shoot of the UK building societies, but it evolved differently and ended in large-scale disaster

[2]http://www.guardian.co.uk/business/2009/jan/20/banks-nationalisation-crisis

[3]http://www.huffingtonpost.com/2009/03/20/former-mccain-adviser-cal_n_177331.html

[4]http://www.ft.com/cms/s/0/e310cbf6-fd4e-11dd-a103-000077b07658.html

[5]http://www.businessinsider.com/the-best-argument-against-nationalization-2009-2

in the 1980s and 1990s[6].

Building societies were initially governed by legislation for what were termed 'friendly societies', which included burial societies and other forms of co-operative[7]; but during the course of the 19th century specific legislation was brought in applying to the building societies, particularly when permanent societies began to emerge. In general there was strong government support for these organizations, since they encouraged people to save, and in general provided a very cost effective service: Although it is worth noting that some of the legislation was required to deter investors looking for a fast return, often based on questionable practices. This phenomenon of investors looking for a fast return recurred in the era of de-mutualization as investors sought to open accounts in building societies and then campaigned for a majority vote for demutualization which would result in lucrative financial returns to all account holders regardless of how long they had actually held any accounts.

This has clearly been a recurring and continual source of aggravation, as Amartya Sen points out in his recent New York Review of Books article[8] , where he notes that Adam Smith already warned about the tendency for people to 'overspeculate' in their incessant search for profits. In the context of pressures for demutualization of 20th century UK building societies such people were termed 'carpetbaggers'[9] , for Smith they were 'prodigals and projectors'. As Sen notes, Smith was keen to advocate state regulation to protect the capital of the country from those who promoted unsound loans leading to waste and destruction.

The distinction between banks and building societies in the UK came to an end in 1986 when a new Act came into effect that allowed de-mutualization. This was not widely taken up until the 1990s, but eventually by the time the Bradford and Bingley de-mutualized in 2000, most of the larger building societies had opted for this. Moreover, prior to this many of the smaller building societies had been taken over by those that later de-mutualized; the Bradford and Bingley being something of a predatory case in point. At present the size of the mutual sector is small, both in terms of the number of organizations and their overall funds; but in 2008 there was significant growth in lending by mutual funds; although the figure is still very small in comparison with the finance sector as a whole (see CDFA—Community Development Finance Association[10]) .

Until the recent liquidity crisis, it might have seemed as if the concept of mutuality was a remnant of a bygone era, superseded by the Reaganomics and Thatcherism of the 1980s, and the wider spread of de-regulation that followed under later administrations. But with the ever-worsening credit-crunch and general economic melt-down, it is perhaps time to dust off some of the old ideas and examine them as possible alternatives; or better still, look at ways in which

[6] http://books.google.com/books?hl=en&lr=&id=lHzr3thk7ocC&oi=fnd&pg=PT49&dq=savings and loans demise&ots=MQu7HlQfjx&sig=gzErG8GBAW1quf0nMQ940ZB0_IY#PPA4,M1

[7] http://en.wikipedia.org/wiki/Friendly_society

[8] http://www.nybooks.com/articles/22490

[9] http://www.thisismoney.co.uk/savings-and-banking/article.html?in_article_id=407624&in_page_id=7

[10] http://www.cdfa.org.uk/

potential alternatives can be developed by combining lessons from the past with new possibilities from the present.

The current position, particularly with regard to the banks is somewhat ambiguous. Following the various bail-outs and rescue packages, euphemistically termed 'TARP' [Troubled Assets Relief Program][11] , there is a case to be made that the recipient banks and other financial institutions are already state-owned; in some cases with the state actually holding a majority of the shares. So it is not a major leap from this *de-facto* position to *de-jure* nationalization; something advocated by various economists and politicians of note. On the other hand, there are many who are bitterly opposed to this, and advocate a continuation of private ownership. This of course includes most of the pre-bail-out shareholders, although they severely weaken their position by clamouring for compensation while seeking to retain ownership in some form; it seems as if when the going gets tough, the free-marketeers get civic-minded, but only to a limited degree[12]
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In the light of this, calls for a form of mutuality might seem to smack of something from the 19th century, but it might also be an alternative well worth pursuing. Moreover it is possible to glimpse mutuality in some far more recent manifestations that may themselves present ways of moving forward from the current morass. Most people have heard of, if not used, Wikipedia; many use packages such as Firefox, Apache or Open Office. Even those who don't, probably use software that itself builds on these and other open source systems[13]. And it is the model upon which open source is based that presents an exemplar of 21st century mutuality. In fact most people familiar with the Web will have come across another manifestation of this – Web 2.0[14].

3 MUTUALITY 2.0

The Open Source movement came on to the scene in the 1990s with the appearance of Linux , a computer operating system, i.e. the software that links the hardware of a computer to other software applications. The idea of open source was that anyone who was interested could adapt and improve the system, something that should have proved a recipe for disaster, but in fact resulted in the flourishing of a complex system that has grown to rival the proprietary ones such as Microsoft's Windows. (The Linux system is not quite as anarchic and uncoordinated as might appear at first sight; a degree of control is retained by its originator, Linus Torvalds, aided by a small group of colleagues who mostly work voluntarily.[15]).

The concept itself has been taken up in many other areas, the most widely known being Wikipedia. In general terms the idea has been developed further

[11] http://en.wikipedia.org/wiki/TARP
[12] http://www.uksa.org.uk/
[13] http://www.opensource.org/docs/definition.php
[14] http://www.oreillynet.com/pub/a/oreilly/tim/news/2005/09/30/what-is-web-20.html
[15] http://www.linfo.org/linus.html

in the work of Don Tapscott[16] and Yochai Benkler[17] . Tapscott has coined the term Wikinomics, arguing that 'mass collaboration changes everything'. Benkler promotes the movement in more general ways as one of 'commons-based peer production', writing a book called 'The Wealth of Networks' – echoing Adam Smith's 'The Wealth of Nations'.

All these trends came together around 2003 with the idea of 'Web 2.0'. The essential idea being that the World Wide Web had moved from being primarily about the storage and retrieval of information into a fully-fledged basis for communication, social interaction and participation: Witness the emergence of social networking and mass participation technologies such as eBay, MySpace, YouTube, Flickr, Facebook, and Twitter.

Although primarily promoted and packaged as ways in which people can contact each other, exchanging music, videos and instant messages, these new features of the digital age or network society[18] really do amount to a basis for a fundamental rethinking about social interaction, communities, and collaboration. Certainly there is a great deal of hype around these phenomena; but there is also a great deal of genuine substance to what is on offer.

Tapscott and Benkler are two of the most well known figures associated with these developments, but Eric Raymond can lay claim to being the first and foremost proselytizer for the open source movement, particularly his manifesto-like essay 'The Cathedral and The Bazaar'[19] . Raymond contrasted the concept of a cathedral – long in detailed planning, fully conceived of to a detailed extent, and fully constructed prior to opening; with the bazaar – a constant babble of contending interests and agendas, open to all and sundry.

4 COMMUNITARIANS, LIBERTARIANS, HIPPIES, GEEKS, AND FAT-CATS

The bazaar model shouldn't work; but it does: Raymond calls it 'miraculous'. In essence it bears similarities with Adam Smith's 'invisible hand' . Smith, writing in the 18th century, argued that although individuals would usually work towards their own best interests, at a more general level, this all contributes to the general good even though no-one actually has this objective in mind. Raymond argues in similar vein, and is a keen proponent of the market, both as a monetary model and in more general, social terms. He is a libertarian and strong advocate of both the First and Second Amendments – i.e. freedom of speech and religious belief, and the right to bear arms[20].

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On the other hand, the bazaar model lends itself equally to a contrasting position that stresses its collaborative aspects over any competitive or individu-

[16] http://www.wikinomics.com/blog/
[17] http://www.benkler.org/
[18] http://en.wikibooks.org/wiki/Communication_Theory/Network_Society
[19] http://catb.org/esr/writings/cathedral-bazaar/cathedral-bazaar/
[20] http://catb.org/esr/personal.html

alistic ones. This in fact builds on the ideas of some of the early pioneers of the internet, even before the worldwide web came into existence; the communitarian strands that grew in the 1960s and managed to sustain themselves thereafter. A prime example is the WELL[21] – Whole Earth 'Lectronic Link – which grew directly from the people who had developed 'The Whole Earth Catalog' in the 1960s.

The contrast between Tapscott and Benkler parallels the distinction between Raymond's view and that embodied by Howard Rheingold, one of the progenitors of the WELL.[22]. In both cases there is a shared view of the power and importance of new developments in ICT, but also profound political and ethical differences. This has been a hallmark of the open source idea since its inception. One way of situating these divergences is to use Jonathan Zittrain's model which distinguishes between two axes[23]: hierarch/polyarchy and top-down/bottom-up. This produces a 2x2 grid, with two possibilities in the bottom-up section: polyarchical and hierarchical. The former is what might be termed 'techno-libertarian and anarchist', the latter 'communitarian'. Raymond is firmly in the former quadrant; Rheingold firmly in the latter; with Tapscott and Benkler between them – Tapscott closer to Raymond, Benkler closer to Rheingold.

Since its initial appearance, with Linux in the early 1990s, the open source movement has influenced or found resonance across a wide range and disparate set of interests and groupings. What can be seen as an important new form of internet-based mutuality has been taken up by the libertarians, the communitarians, and in particular the financiers. Each has found its own rationale for this new form of collaboration. For the libertarians it has been promoted and advocated on the basis of its anarchic character, allowing a babble of different agendas, free from central control – particularly government and other quasi-governmental bodies. For the communitarians it represents the sort of alternative basis for cooperation and solidarity that had previously been all but impossible on anything other than a small and local scale. For the financiers it has proved to be the platform upon which a truly global, supra-national financial system can be established – able to evade any local or national control or other forms of regulation, simultaneously offering high volumes of near-instantaneous transactions at negligible cost[24] .

In many regards this is similar to the strange coalition that gave the world the internet in the first place, as Manuel Castells has noted[25] . He points to the three key forces that brought about the internet revolution – 1) those responsible for the restructuring of capitalism and industrialism that occurred in the wake of the various crises of the 1970s; 2) 'the freedom-oriented cultural social movements of the late 1960s and early 1970s'; 3) the revolution in information and communication technologies'. Or as I put it; the military, the fat cats, the hippies and the geeks!

[21] http://www.well.com/
[22] http://www.rheingold.com/howard/
[23] http://www.opendemocracy.net/blog/tony_curzon_price/from_zittrain_to_aristotle_in_600_words
[24] http://www.opendemocracy.net/article/too-big-to-save-the-end-of-financial-capitalism-0
[25] http://ijoc.org/ojs/index.php/ijoc/article/view/46/35

5 GLOBAL FINANCE: BAZAAR NOT CATHEDRAL

The global character of the financial system has become all too evident in recent months, if wasn't so beforehand; but the credit crunch has also shown that the financial system is far more like a bazaar than a cathedral. One key problem has been, however, that people acted as if it was a cathedral; with strategies, plans, and detailed, rule-based models (especially risk models); whereas it was far more like a bazaar, and a particularly chaotic one.

The credit crunch has demonstrated both the effects of this misconception, and the chaotic nature of the financial system all too painfully. Many politicians and policy advisers seem to have thought that the global financial system could be run according to some inherent and discoverable and controllable logic; although many of those operating within the system on a day-to-day basis were far more aware of its turbulent propensities. Nassim Taleb has explained this fallacy in his recent work on the black swan[26] , building on earlier work warning about people who are 'fooled by randomness'. His diagnosis is persuasive, particularly as it is based on his own experience as a trader; but unfortunately his proposed remedies are somewhat more obtuse. (Recently he has outlined a ten point plan[27] which goes some way to indicate his idea of how matters might be remedied and rectified.)

Taleb's work is itself based on the earlier work of Benoit Mandelbrot[28] , whose book The (Mis)Behaviour of Markets[29] sets out to explain the reasons why any efforts to model risk, ruin, and reward based on conventional models of probability and the like were doomed to fail in a spectacular fashion. What the ideas of these and others demonstrate very clearly is that markets and many other core aspects of social existence resist modelling in the sense of seeking to create deterministic accounts that extrapolate from past to future based on concepts such as normal distribution, and all the other tools of the statistical trade. As one early reviewer of Mandelbrot's work noted 'almost all of our statistical tools are obsolete . . . [A]lmost without exception, past econometric work is meaningless.' (quoted in the Prelude to the book- pxxiii [30] .

Students of physics are usually made aware of Lord Kelvin's dictum that 'If you can not measure it, you can not improve it.' Business and management students are given the revised form along the lines of ' what you cannot measure you cannot control'. In both cases the implication is that everything has to be measured. 'To measure is to know' – Kelvin again. But it might be better to invert the implication of the dictum, and accept that we cannot control complex systems, such as global finance precisely because we cannot measure them. Moreover the misconception that we do have precise and accurate tools for measuring the unmeasurable is what Mandelbrot, Taleb and others see as

[26] http://www.fooledbyrandomness.com/
[27] http://www.ft.com/cms/s/0/5d5aa24e-23a4-11de-996a-00144feabdc0.html
[28] http://www.math.yale.edu/mandelbrot/
[29] http://www.amazon.co.uk/mis-Behaviour-Markets-Fractal-Reward/dp/1861977654
[30] http://www.amazon.co.uk/mis-Behaviour-Markets-Fractal-Reward/dp/1861977654

lying at the heart of our current problems.

A recent article in *Wired* illustrates this mis-application of knowledge in stark terms. The title alone indicating the level of alarm: Recipe for Disaster: The Formula That Killed Wall Street[31] . The article documents the way in which what was initially hailed as a Nobel-worthy breakthrough in the modelling of risk became one of the main factors behind the economic meltdown. The Gaussian copula function[32] gave traders the seeming ability to produce massive returns on all sorts of innovative forms of investment. Unfortunately the formula was fatally flawed, but none of its limitations were heeded since so many people were making so much money from its application.

In the light of these serious and profound critiques of the ways in which powerful and authoritative institutions sought to govern and control the global financial system, it is evident that what is needed now is a serious consideration of alternatives to the idea of a command and control orientation, which is ineluctably based on the mistaken view that we are dealing with a system that can be managed in some rationalized and centralized manner. Any such alternatives must steer clear of trying to replace one failed deterministic model with another. Taleb and others who have offered convincing critiques may be unable to offer convincing remedies, but this is only to be expected given the complex nature of the problem itself – which is precisely the basis of the work of Mandelbrot, Taleb and others. Neither business-as-usual nor nationalization-as-before appear to provide convincing models, so it is necessary to widen consideration to other possibilities.

On this basis, there are firm grounds to encourage a re-evaluation and reinvention of mutuality as a feasible proposition, particularly as people's faith in many of the other possibilities on offer is faltering. At the very least it offers an alternative to the stand-off between those who favour nationalization, based on the premise that the present crisis is one caused by lack of accountability and regulation; and others who see the problem as one of over-regulation on some aspects and regulatory failures on others. Moreover many of the 'solutions' on offer seem to offer yesterday's solutions to today's and tomorrow's problems; or offer no solutions at all: And where are the Marxists when you really want them? All the Marxist analyses of the current 'crisis' seem to go no further than a Cassandra-like, 'I told you so', or rather 'Marx told you so', with little or nothing by way of a remedy or solution. (This is a deliberately provocative statement that I hope will elicit pointers to the relevant articles that I have obviously failed to read – I offer my thanks in advance for any such suggestions. Eric Hobsbawm's recent article in The Guardian[33] exemplifies this all too clearly. In similar vein, Anthony Giddens' recent article, also in The Guardian, exemplifies an inability to offer much beyond the state versus the market – not even a Third Way!

The concept of mutuality will not be an easy one to resurrect or reinvigo-

[31] http://www.wired.com/techbiz/it/magazine/17-03/wp_quant?currentPage=all

[32] http://en.wikipedia.org/wiki/Copula_(statistics

[33] http://www.guardian.co.uk/commentisfree/2009/apr/10/financial-crisis-capitalism-socialism-alternatives

rate. The clarion call of the past 20 years has been an echo of, or a resonance with, Margaret Thatcher's famous declaration that 'there is no such thing as society. There are individual men and women, and there are families. And no government can do anything except through people, and people must look to themselves first.'[34]. The idea that people should work together, often on a voluntary basis, for mutual benefit seems totally at odds with this. But this need not actually be the case. On the contrary, some of the arch proponents of mutuality 2.0 are ardent Thatcherites or of that ilk; Eric Raymond being a prime example.

Whatever the nature of the current crisis, some things are clear: The main one being that there seems to be no consensus on the best way forward. Governments have announced various measures and economic stimuli, but the aftermath of each of these simply leads to more confusion and consternation. Roosevelt may have struck a chord with the phrase 'There is nothing to fear, but fear itself'; but today it might be more appropriate to state that 'There is nothing more certain than uncertainty'. Even as erudite an economist as Paul Krugman seems to be at a loss, unable to understand the economic logic of the Geithner Financial Stability Plan[35] and using terms such as Voodoo economics for other measures.[36].

The argument can then be established to propose new forms of mutuality at the very least as a transposition between market-led and state-controlled models. A recent article in Forbes Magazine[37] , surely a candidate for the in-house magazine of the super-rich with its motto 'The Capitalist Tool', puts forward the case for mutuals as the basis for 'a banking system we can trust'. The authors, Laurence Kotlikoff and Edward Learner, argue for what they term 'limited purpose banking' being offered in the form of mutual funds. In effect these new institutions would be broadly similar to UK building societies prior to demutualization. They would be severely constrained in terms of what they could do, with the result that they could never fail as their prime and sole purpose would be financial intermediation. This is very much Mutuality 1.0 or perhaps 1.1, in the sense that it resurrects the old model of mutuality that has existed since the 18th century. In fact it is more a case of reinvigoration, since mutuality along these lines never disappeared and has continued, albeit in diminished form, in many economies despite the unbridled encroachment of the market. The key issue for Kotlikoff and Learner is that these institutions would be seen as trustworthy, something which no longer applies to traditional banks.

A further move – let's call it Mutuality 1.5 – is exemplified by Zopa[38] which offers what it terms 'social lending'; using the internet to link potential lenders with borrowers, thereby cutting out intermediaries – i.e. banks. Zopa, together

[34] http://www.margaretthatcher.org/speeches/displaydocument.asp?docid=106689

[35] http://krugman.blogs.nytimes.com/2009/02/10/the-rorschach-plan-wonkish-or-at-least-hard-to-read/?pagemode=print

[36] http://www.nytimes.com/2009/01/19/opinion/19krugman.html

[37] http://www.forbes.com/2009/04/22/loan-mortgage-mutual-fund-wall-street-opinions-contributors-bank.html

[38] http://uk.zopa.com/ZopaWeb/public/about-zopa/about-zopa-home.html

with Wonga[39] have been described as offering 'banking for the Facebook generation'[40] , also as the eBay banking model. It remains to be seen whether or not these sorts of on-line institutions become popular, challenging if not displacing the pre-existing and now largely decrepit banking institutions. There is no reason why the two forms should not co-exist, along lines similar to the way in which Amazon shook up the retail book trade, with both now existing alongside each other. Moreover if such innovations can also meet the demands of being trustworthy, then that is likely to prove an important factor in their becoming successful.

Although these forms of banking are important, they do not necessarily deal with some of the key issues that have arisen from the credit crunch, liquidity crisis, and general economic meltdown. In particular issues such as deregulation, globalization of finance, trans-national corporations, and other forms of financial transaction that operate above and beyond the level of individual states or other jurisdictions. The question then is the extent to which a bazaar-type approach to mutuality might be effective.

STRENGTHS AND WEAKNESSES OF THE BAZAAR MODEL

There is an inherent attraction in the open source model when seen in the context of mutuality. In the aftermath of the banking crisis many of the banks are now owned to a significant extent, if not completely, by the taxpayers. In the past this simply meant that the day-to-day running of such organizations was in the hands of civil servants or other public sector employees who had little or no incentive to ensure that efficiency and effectiveness were enhanced simultaneously with some form of growth and prosperity, if not profitability.

But the technological developments encompassed by the concept of Web 2.0 allow something far more participative – along the lines of Wikipedia and Linux. If it was not obvious before the 1990s, it is now apparent that an operating system or an on-line, easily-correctable encyclopaedia does seem to lend itself to such an approach; while the design and construction of an aircraft or a train signalling system does not. Raymond's metaphor of a cathedral – designed in detail, completed and tested before use, and so on – is exactly what we should demand of an aircraft: But what about a system for capital allocation or the investment of pension funds? Until relatively recently the 'obvious' answer would have been that such systems also needed to be fully in the hands of appropriate experts, armed with all the best models, analyses, computational tools and the like. Yet the experience of recent months has been that this approach has itself been at the core of the problem, leading to a breakdown of trust and an increase in public hostility that has fed into a general distrust of all those who set themselves up, or are elevated to positions of authority and power. (At the time of writing the furore over British MPs' use or abuse of their 'allowances' is at its prolonged height.) But this still does not mean that a model of Wiki-capitalism makes any sense.

[39] https://www.wonga.com/homepage.aspx

[40] http://business.timesonline.co.uk/tol/business/economics/article6301566.ece

In his three-part essay on 'The Freedom of the Networked'[41], Tony Curzon Price contrasted the Wikipedia model to the Google model; the former being based on loosely linked groups or coalitions, built largely on voluntary participation, the latter being centralized and controlling. He argued that people '[P]refer those solutions that rely for their incentives and organisation on the freedom of the ancients. Prefer Wikia (?) to Google. Be a good digital citizen and do the equivalent of picking up the litter in public spaces--contribute to the properly decentralised web services. Use what means there are (for example anti-trust) to level the playing field against those whose business is, at heart, the centralisation of information.'[42].

Now this is largely in line with Raymond's essay 'The Cathedral and the Bazaar', which offers 19 maxims in the form of an open source manifesto. A few of these are particularly pertinent for present purposes. #1 states that Every good work of software starts by scratching a developer's personal itch. #4 If you have the right attitude, interesting problems will find you. #19 Provided the development coordinator has a medium at least as good as the Internet, and knows how to lead without coercion, many heads are inevitably better than one.

And most important of all, what Raymond terms Linuss Law (after Linus Torvalds) Given enough eyeballs, all bugs are shallow. Raymond offers this in his own words as #8 Given a large enough beta-tester and co-developer base, almost every problem will be characterized quickly and the fix obvious to someone.

How might these be revised and applied to a global financial system which knows no national boundaries and which has resisted and confounded the efforts of many of the best educated mathematicians, economists, and others of their ilk? Well Linus's Law implies that allowing details to become visible will enhance the likelihood that 'bugs' in the financial system will be spotted before they cause too much damage. This is the 21st century version of Louis Brandeis' observation, made in 1913, that 'Sunlight is the best of disinfectants. Electric lights the most efficient policeman.'(quoted in Daniel Roth's article in Wired[43] In the current context electric lights have now been replaced by the internet, producing the basis for a revised version of #19.

Before this can be stated, however, there are several problems to be resolved. The first is that the advent of the internet, together with developments in efforts to regulate financial systems in the past two decades, have led to a data-glut. As a result any attempt to increase the level of sunlight, or effect what several writers at Wired have called 'Radical Transparency'[44] will run up against the observation that the issue is not one of too little information, but too much. So no matter how many eyeballs scrutinize the financial data, there is no assurance that the correct inferences will be forthcoming; particularly since the 'prodigals and projectors' tend to keep one step ahead of the regulators and scrutinizers. Now one aspect which both the Wikipedia and the Google models hold

[41] http://www.opendemocracy.net/article/email/the-liberty-of-the-networked-part-1
[42] http://www.opendemocracy.net/article/email/the-freedom-of-the-networked-pt-3
[43] http://www.wired.com/techbiz/it/magazine/17-03/wp_reboot
[44] http://www.wired.com/wired/archive/15.04/wired40_ceo.html

in common is a generic presentation or process format. For Wikipedia it is the page-layout for each entry, including various tabs for 'edit', 'article', 'discussion', and 'history'. For Google it is the more insidious PageRank Algorithm coupled with AdWords. Both Wikipedia and Google have evolved since their inception, and in each case a series of decisions were taken by some central grouping to develop and enforce these protocols. The users of Wikipedia and Google fell into line accordingly, although it is interesting to note that Wikipedia sites in various countries have adapted the process and format to align more closely with cultural specificities.[45] This mix of bottom-up, voluntary participation coupled with a common format or standard is now available for monitoring the financial system in the form of XBRL.

XBRL (http://www.xbrl.org[46]) operates on a basis similar to that of HTML (http://en.wikipedia.org/wiki/HTML[47]) and XML (http://en.wikipedia.org/wiki/XML[48]) ; each one outlines a standard format for structuring and tagging data so that it can be readily understood, and easily shared. Charlie Hoffman, the originator of XBRL, says that it allows anyone to be a financial analyst. This amounts to what Roth terms a new 'philosophy of regulation', since it imposes a standard structure rather than seeking to deal with all and every possible – and impossible – detail of what might happen in the future. This neatly evades the issue of adding still further levels of regulation to an already unworkable and highly ineffective system of national and international controls. Just as the internet, with its TCP/IP and other protocols, enforces a certain level of structure and sharing on anyone and everyone who wishes to participate, so too can XBRL establish a basis for genuine participation and a platform for Linus' law in the context of global finance.

We can then revise #19 along the following lines: Provided the reporting of financial data has a medium at least as good as the Internet, and is presented in a format such as XBRL, many heads are inevitably better than one. But of course this will not be of any use unless there is also a critical mass of people who are interested in analyzing the data, preferably approaching it from different perspectives with different motivations and enthusiasm i.e. #1 and #4. The experience of Wikipedia and Open Source in general indicates that a critical mass can and will emerge; moreover given the heightened interest in all things financial, it is likely that there will be more than sufficient eyeballs willing and able to turn towards scrutiny of such a system.

This is a basis for 'Radical Transparency', but it must be noted that "transparency" is a good example of what have been termed 'contranyms' [49] — or 'contronyms [50]

— i.e. words that mean their own opposite. Understood in one way, transparency implies visibility, and it is this sense that is being implied in calls for

[45]http://www.lrb.co.uk/v31/n10/runc01_.html
[46] http://www.xbrl.org/Home/
[47] http://en.wikipedia.org/wiki/HTML
[48]http://en.wikipedia.org/wiki/XML
[49]http://www.usingenglish.com/glossary/contranym.html
[50]http://www.rinkworks.com/words/contronyms.shtml

'radical transparency'. On the other hand, something is transparent precisely when it is visible; for example TCP/IP and HTML is transparent in this sense to most users of the World Wide Web. But it is this double-edged characteristic that is critical to something like XBRL; the ability to be invisible in most cases, but affording close scrutiny to some if deemed to be of interest.

All of the foregoing taken together can provide a basis for what I term Mutuality 2.0; a new form of financial system that offers mutuality in the old sense of the term, together with feasible opportunities for participation and supervision, but avoiding further layers of regulation, or further levels of hierarchical control. The idea of XBRL is that it is not a set of regulations, it is a standard reporting format, so to an extent it is similar to Linux and Wikipedia; the content has to conform to a format, but there is plenty of room to manoeuvre for the content itself, with any such flexibility being open to be monitored by anyone and everyone. Just as Google and Wikipedia, for different reasons and in different ways, enforce their respective protocols, so too could financial systems be established that enforce reporting and recording of transactions along similar lines. Open Source "regulation" has started already, with projects like FreeRisk[51]. The adoption of XBRL reporting together with open source projects to monitor financial information would also help counter the raging distrust that is now so widespread. Financial institutions could refuse to conform to the XBRL standard, but would be judged accordingly.

6 CATHEDRAL & PRIESTS; BAZAARS AND COSTERMONGERS

One of the main results of the economic meltdown has been the way in which it has exposed so much of the 'conventional wisdom' about the financial system. Financial institutions have been far too readily seen as something akin to cathedrals, and those in charge of them as august, priestly types: With their annual convocation at the World Economic Forum in Davos[52] . In recent months the reality has become all too apparent; many of the institutions are far more akin to babbling bazaars, largely staffed by yelling costermongers, setting up their stalls as opportunity dictates, and following and contributing to the general hubbub. This is not a problem if it is understood correctly, and if its limitations are apparent. The bazaar model does work, as the open source example demonstrates; and it can also work, in suitably revised fashion, for financial systems. There will, of course, be all manner of criticisms of what is being proposed here; but that should not be a reason to allow the stark alternatives of business-as-usual or nationalization-as-before to maintain a duopoly.

Some of the key criticisms of nationalization of the banking sector derive from the image of an insulated group of people controlling a system that is not open to the realities of competition and basic scrutiny; British Leyland or

[51] http://freerisk.org/docs/about.html
[52] http://www.weforum.org/en/index.htm

the Commissars. On the other hand there are the ineptitude of regulation and scrutiny of the private sector is all too obvious; ‘another fine mess’ as Oliver Hardy might have said. Given the current levels of distrust, there must certainly be some basis for consideration of a system along the lines proposed here. Again Raymond provides a telling encapsulation of this in his use of the term ‘plausible promise’.

‘When you start community-building, what you need to be able to present is a plausible promise. Your program doesn’t have to work particularly well. It can be crude, buggy, incomplete, and poorly documented. What it must not fail to do is convince potential co-developers that it can be evolved into something really neat in the foreseeable future.’ (Raymond refers here to computer *programs* , but the point is still relevant if the paragraph is read as referring to community-based programs.)

Given the ways in which the current crisis can be compared to and contrasted with the crash of 1929 and its aftermath, there are many keen to quote from F D Roosevelt’s first inaugural speech in 1933. This is usually restricted to the phrase ‘the only thing we have to fear is fear itself’, but it would be better if a longer extract was used as follows – ‘So, first of all, let me assert my firm belief that the only thing we have to fear is fear itself—nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance.’[53].

As we all look for ways in which to ‘convert retreat into advance’ we need to consider a variety of explanations for the nature of the problem, and to contemplate a wide range of possible ‘advances’. The admonitions of Mandelbrot, Taleb and others should make us wary of ‘solutions’, and so we should be ready and able to entertain all possible alternatives and opportunities, including the bundle of possibilities encompassed by Mutuality 2.0, and what I believe to be its ‘plausible promise’.

[53]http://historymatters.gmu.edu/d/5057/