Public Finance for the Future We Want

EDITED BY
Lavinia Steinfort
and Satoko Kishimoto

"An incredibly important and timely collection of essays, offering a detailed diagnosis of the issues afflicting modern financialized economies and a vision of a future beyond neoliberalism. Required reading for all those involved in the project to build a new economy." – Grace Blakeley, research fellow at the *Institute for Public Policy Research* and economics commentator at *The New Statesman*

"This thought-provoking series of essays reminds us of a truth often denied: there is no shortage of money for transformation of the economy away from addiction to fossil fuels. The questions tackled by the authors are this: who controls the monetary system and how can the wider public regain control over a) their own savings and b) a great public good – the monetary system." – Ann Pettifor, director of *Policy Research in Macroeconomics* (PRIME) and author of *The Production of Money*

"The dominant narrative today is that financial and private capital, will lead — at some distant date — to public good. Increasingly, even public infrastructure is being handed over to big capital. As this book shows, there are many counter examples of public finance being channelled towards public interest, particularly by local and regional governments. Despite these examples, the challenge today before the progressive forces is far more complex: while global finance is highly integrated, we are not. We urgently need a global movement to rein in global finance and safeguard our future. This important book provides us with the compelling evidence that this is not only necessary but also possible." – Prabir Purkayastha, founder and chief editor at www.newsclick.in

"Here is yet another major contribution from TNI to our understanding of the complex world of high-finance. TNI has gained an international reputation for its extraordinary work on helping us understand the real world machinations of the high-level investment world of financiers." – Saskia Sassen, *Columbia University* and author of *Expulsions: Brutality and Complexity in the Global Economy*

“The stark reality is that the world stands on the brink of another crash owing to the failure to reform a global financial system dominated by private banking behemoths. This unsettling situation is due not only to the strength of Big Finance but also to the continuing strength of a neoliberal ideology that has prevented a reimagination of an alternative financial system for meeting people’s real needs. Public finance that is accountable to citizens and the community is the answer, and nowhere is this truth presented more convincingly than in this volume. This is the reimagination of finance that the world so desperately needs.” – Walden Bello, *State University of New York* and author of *Paper Dragons: China and the Next Crash*

“The shape of our economy and the texture of our lives within it is deeply affected by financial flows. Finance is a creative force, but our current set of financial institutions are like a toxic old guard painting a bleak and unequal future. This book showcases a palette of vibrant, people-powered and radically empowering public alternatives that we can use to break the dull and destructive forces of the status quo.” – Brett Scott, journalist and author of *The Heretic’s Guide to Global Finance: Hacking the Future of Money*

Public finance for the future we want

www.tni.org/publicfinance

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Introduction

PUBLIC FINANCE FOR A BETTER FUTURE

Lavinia Steinfort

Do you wish to see regenerative, equitable and democratic economies, built with collective power? We believe it is not only necessary but also very possible.

Today's economic system, fuelled by an extractivist logic and prone to crises, has reignited and enflamed old monsters of racism, misogyny and other forms of fear and hate. Economic alternatives are needed now more than ever. This book is about financial alternatives, drawn from real-world examples. It highlights the kinds of models that could become the new normal, building the basis for a democratically organized and life-sustaining future.

Before the 2008 global financial crisis, the mantra was 'there is no alternative' to the extractive economic model that has fostered excessive inequality and ecological destruction. Post-crisis, big banks were rescued and the blame misdirected to public spending. This justified evermore harsh austerity measures, reinforcing the story that the public sector must rely on private finance to solve these 'collaterals'.

More than 10 years later, we know that private finance has not only failed to address these problems, it has intensified them. Civil society needs to unite behind systemic solutions before another financial bubble bursts.

A broad-based coalition calling on NYC to divest from Wall Street and establish a public bank. Credit: New Economy Project

The failure of private finance

Three decades ago, in 1989, the International Monetary Fund (IMF), the World Bank and the US Treasury agreed on 10 policy prescriptions on how countries should respond to an economic crisis. The so-called Washington Consensus required poorer countries to accept cuts in social spending, the privatization of public services and the opening of their markets to international competition in exchange for financial assistance. The application of such austerity measures throughout the world resulted in increased debt, social and economic instability and growing poverty levels.[1] After 2008, European countries such as Ireland, Greece, Spain and Portugal faced a similar treatment. Most politicians and policymakers argued on reducing public spending and investing the remaining funds on facilitating corporate, often foreign, capital.

More recently, the assumption that private finance is the only way to realize desirable outcomes has dominated discussions on how to implement the Paris Agreement on climate change and the Sustainable Development Goals (SDGs) set forth by the United Nations. 'Blended' finance, for example, is presented as the silver bullet for financing the SDGs investment gap of US$2.5 trillion annually by using public funds, such as official development aid, to mobilize private investments. Research by the Overseas Development Institute points out that, between 2012 and 2016, the blended finance strategy mobilized no more than US$20 billion annually. The vast majority of this finance concentrated in middle-income countries and only US$728 million (3.6 per cent) reached the low-income countries that need it most.[2] Moreover, these discussions frequently ignore how private finance facilitates the extraction of wealth from the public sector to the private sector, benefiting primarily a small, rich elite.

A 2018 study that re-examined IMF data on global tax evasion by multinational corporations calculates losses by the public sector to be roughly US$650 billion annually.[3] This disproportionately hits poor and post-colonial countries as they face the highest levels of natural resource extraction by multinationals. Since public spending on essential services is key to redistributing wealth, people with lower incomes, and women in particular, end up footing the bill for corporate tax evasion.

Eurodad, the European Network on Debt and Development, found that for every US$1 that flows into a low-income country, more than twice that amount is lost in interest payments, profit-taking by foreign investors, loans to rich countries and illicit financial flows.[4] Another study suggests that from 1995 to 2005 The City, London's financial district, cost the UK population £4.5 trillion – if not people elsewhere. These costs are measured in terms of the vast wealth that evaporated and went to the wealthiest after the 2008 financial crisis, as well as the resources, skills and investments that benefited the financial sector rather than going to society's more productive activities.[5]

The current 'yellow vests' protests in France are a reminder that people can and will take to the streets against an economic system they see as rigged. In this case, protestors were spurred to action by a so-called 'eco tax' because their government was forcing the public at large – rather than the polluters – to pay for climate change mitigation. This happened after the government transferred €14 billion from the poor to the rich by abolishing the Solidarity Wealth Tax and lowering taxation on capital. Another €41 billion was transferred to French companies, including multinational corporations, through a tax cut and exemption programme.[6]

Not only does private finance, even for seemingly productive or progressive purposes, tend to benefit the few, it often ends up being more expensive. The UK National Audit Office calculated that when public projects – for example, the building of schools – are privately financed, it is 40 per cent more expensive than using public financing.[7] This is, again, because of the profits that the private investors and shareholders demand; the accounting rules that hide the real costs of private finance from a public balance sheet;[8] and the interest rates for borrowing, averaging 7-8 per cent for the private finance deals and just 3-4 per cent for governments.[9]

Public funds are bigger than we imagine

For decades there has been a concerted effort[10] to try to convince us that the public is dependent on the private sector and that there is very little public finance left to invest in public services and infrastructure. Figures produced by the World Bank and the Organisation for Economic Cooperation and Development (OECD), for instance, misrepresent the value of public finance by evaluating that public banks have only US$2–5 trillion in assets. Given the many trillions needed to finance climate infrastructure alone, this amount would be a drop in the ocean. However, research undertaken by Thomas Marois at the University of London shows that there are 693 public banks worldwide with assets worth US$37.72 trillion. Public finances amount to over US$73 trillion, once you include central banks and multilaterals such as the Asian Development Bank, as well as pension and sovereign wealth funds. This equals 93 per cent of global gross domestic product.[11]

All this public money is urgently needed to directly finance the fight for renewable energy systems in order to avoid the catastrophic consequences of runaway climate change. US$6 trillion need to be raised annually, up to a total of US$90 trillion, for climate infrastructure investments, and the above figures show that public finance institutions have the resources to drive this.

Most governments, however, limit themselves and their public finance institutions to incentivizing private companies to invest in the transition to renewable energy by supporting privatization and public-private partnerships (PPPs). Irrespective of countless tax incentives, subsidies and government guarantees, the private sector has shown little interest in financing a transition away from fossil fuels. Due to over-reliance on the private sector, investments in renewables even dropped by 7 per cent in 2017, according to the International Energy Agency.[12] This trend is likely to worsen as long as we underestimate the potential of public finance and continue to depend on private finance and market mechanisms. The unfolding climate crisis, however, cannot wait for half-measures. As the recent Intergovernmental Panel on Climate Change report makes clear, 'all pathways begin now and involve rapid and unprecedented societal transformation'.[13]

By contrast, public systems and services have greater success with public investment, leading not only to lower costs but also to better social and environmental results. In Bangladesh, for example, the publicly owned Infrastructure Development Company Limited (IDCOL) provided the capital to install more than three million solar panels in rural areas between 2003 and 2014. This brought electricity to the homes of thirteen million people.[14]

A 2017 study by the Transnational Institute recorded 835 reclaimed public services by over 1,600 cities around the world. The report showed that privatized corporations neither guarantee better service quality nor lower prices and increased investments.[15] When municipalities end privatization and re-municipalize a public service, such as water, energy or transportation, they usually prove to be better equipped to provide good services for all than a profit-making private provider.

Pillars for transforming money and finance

We can draw four conclusions from the chapters in this book. First, financial resources are there but are being extracted and wasted by a very small and very privileged minority. Second, private finance is much more expensive than public finance when it comes to public services and infrastructure. Third, despite privatization, there is still a considerable volume of public finance available, in particular in the form of public banks. Fourth, as long as public finance is mobilized for private profits rather than public benefit, a just transition towards energy democracy will fail.

So, if we know what we are up against and what is needed to fight the climate crisis, how do we envisage finance and money systems that make sure we get there?

Our vision for transforming money and finance rests on two pillars. The first is a politics of finance for the 99 per cent in which public and democratically accountable finance is used to invest in water, health care and education as well as ecologically sound industries. The second is a politics of public money in which governments do not borrow from private banks, but rather use their democratic power to spend money directly in the real economy and retrieve the surplus expenditure, also known as a ‘budget deficit’, through progressive taxation. This, in combination with building international tax justice, could effectively liberate society from the shackles of debt and financialization. We value the decades of work done by the worldwide Tax Justice Network, whose members have put tax evasion and avoidance on the political agenda and with this book, we wish to complement these efforts.

With this new vision we aim to spark hope and nurture alliances, as they provide a basis for fleshing out radical and viable money, tax and finance models that can help us build the future we want. Moreover, the following real-world examples that have withstood neoliberalism reveal that economic alternatives have always been there. Now it is up to all of us to ensure that they will take root and take over, everywhere.

Direct action cleaning up neoliberalism at RIGHT(S) NOW! demonstration, Brussels, 12 May 2019. Credit: Satoko Kishimoto

Financing community wealth

Kerala, a state in southwest India with over 31 million inhabitants, shows how a web of more than 11,000 cooperatives, combined with high unionization, public finance and state support, can succeed in fostering strong human development. Kerala's state-wide *Kudumbashree* (meaning 'prosperity for the family') programme, which has been running for 20 years, is impressive with 4.3 million economically marginalized women participants. Its farming sector, in which 320,000 women earn a livelihood, is especially inspiring. Working in small neighbourhood collectives, women choose a piece of land and receive low-interest loans, farm machinery, subsidized seeds, and also training and technical support. This helps them to cultivate rice, fruits and vegetables to feed their families and to sell any surplus in the village markets.

The strong driving force behind Kerala's social solidarity economy is the organizing power of the Left Democratic Front (LDF), a coalition of various left-wing parties – in and out of power – as well as a flourishing network of people's movements. The LDF, which is currently in government, has recently started another ambitious project to set up a state-wide Cooperative Bank in order to overcome fiscal restraints imposed by the central government and to strengthen Kerala's existing 980 cooperative banks and its 1,647 agricultural cooperative credit societies. Together they have deposits of more than US$1 billion.[16]

Procurement is another source of revenue that can build resilient local economies, especially since public procurement accounts for 15 to 20 per cent of global GDP.[17] The anchor institution strategy, developed in part by the US-based Democracy Collaborative, creatively expands the potential of procurement through working with large public and non-profit anchor institutions, such as hospitals and universities, in order to maximize their social contribution through spending, employing and investing locally. This strategy captures, circulates and builds community wealth. In the US city of Cleveland, it has led to the successful Evergreen Cooperatives network.

The strategy was also picked up by the city of Preston in the UK. In 2013, local spending by seven anchor institutions in the area (including a university, two colleges and the Preston City Council) was just £38 million in the city and £292 million in the county of Lancashire, where Preston is located. By 2017, after development of the Preston Model, local spending grew to £111 million for the city and £486 million for the region. The city is now advancing the model to develop cooperatives and to create a regional, cooperative bank that would target finance for smaller businesses and people on low incomes.[18]

In Spain, progressive municipalities, such as Madrid, Pamplona and Zaragoza, have been supporting the 'social and solidarity economy' with the goal to democratize the economy. Alongside public procurement, these cities have provided cooperatives and other democratic enterprises with land, buildings, low-interest loans and other services so that the economy is making society flourish, and not the other way around.

In the space of just four years, Barcelona has boldly revived public ownership: by setting up a municipal dentist, energy supplier and funeral company, and preparing for a participatory water model that will be implemented as soon as they oust Agbar, a subsidiary of the French multinational, Suez. The city is also experimenting with providing hundreds of residents with a citizens' income, part of which is paid out in social currency that can be spent in 85 local businesses.[19]

Community wealth needs to be built on every level. Stewart Lansley of Bristol University and Duncan McCann of the New Economics Foundation developed a proposal for transforming private wealth into public wealth through the creation of citizens' wealth funds. These permanent, citizen-owned investment funds could be financed through higher taxes for corporations and the wealthy and by gradually transferring corporate ownership shares to these funds. Citizens' wealth funds would socialize private capital and build popular support for social spending in favour of greater equality and future generations.[20]

An ecosystem of public and cooperative finance

Top-down government control can be problematic, as states can also act very undemocratically, if not in an outright authoritarian manner. In other words, public ownership is no guarantee of democracy. In addition to citizens' wealth funds, there is a need for a new generation of public and deeply democratic banks. Here we can learn from Costa Rica's *Banco Popular*. This bank, which is owned by 1.2 million Costa Rican workers, is possibly the world's most democratic bank, with the Assembly of Workers as its highest governing body. It lives up to its mission of serving the social and sustainable welfare of the Costa Rican people by financing cooperatives and groups who tend to face financial exclusion, such as workers, peasants and small and medium-sized enterprises (SMEs).[21]

Its banking decisions are further guided by principles of gender equity, accessibility and environmental responsibility. Banco Popular works together with the regional energy cooperative, COOPELESCA, one of four that successfully electrified the rural parts of the country. With a low-cost loan, COOPELESCA fully converted to LED lighting and by 2015 the cooperative had offset its carbon footprint through its own renewable energy sources and additional environmental actions. The worker-owned bank also helped COOPELESCA to buy exhausted land to preserve soil, biodiversity and water resources.[22]

There is also much to learn from the German saving banks, or *Sparkassen*. The assets of these 400 local saving banks are nobody's property.[23] The banks are independent from local authorities, they cannot be privatized or see their profits diverted for other purposes. Each bank's board is key to its effectiveness, as it is made up of municipal representatives and other local stakeholders whose duty is to fulfil its binding mandate to stimulate savings, promote financial inclusion and lend to SMEs. These examples of cooperative and municipal banking practices show how such principles – such as a binding mandate, the involvement of a variety of stakeholders, providing different channels for popular participation – can facilitate democratic public banking.

In Belgium, the ‘Belfius is ours’ platform is exploring these governance arrangements in its campaign to democratize Belfius, a privatized bank formerly known as Dexia, which was nationalized with its second bailout in 2011. According to the platform’s founders, Frank Vanaerschot and Aline Fares, nationalized banks need democratization, not privatization. Thus, Belfius would only viably serve society through a society-wide discussion about the bank’s new public mandate as well as its ownership and governance structures.[24]

Creating a whole system of public and cooperative finance bodies is a powerful way to stimulate sound economic development for communities. In response to the neoliberal microcredit lending spree, where high-interest loans pushed millions of poor people further into debt and poverty, Milford Bateman, visiting professor of economics at Pula University in Croatia, shows how community-led finance can actually achieve equitable development. Vietnam, for example, rejected the microcredit approach and set up a whole range of financial institutions that combined public and cooperative models of ownership. The Vietnam Bank for Agriculture and Rural Development encompasses a network of 2,000 autonomous branches that provide affordable, low-interest credit to small and micro-enterprises, which are ideally integrated in local supply chains. It works together with the Vietnam Bank for Social Policy and the country’s central bank. The latter, for instance, has founded People’s Credit Funds. These rural credit institutions are community-based, and in combination with the support of local government, provide infrastructure services such as irrigation, as well as support for SMEs and other rural industries. As a result, family farms have become more productive and semi-commercial, setting up their own agriculture cooperatives. In 2017 Vietnam counted more than 1,100 active People’s Credit Funds, supporting 8 million households.[25]

The politics of public money

These concrete alternatives show that the pathways towards economies of well-being are plenty. We can use transformative state funding, banking and procurement strategies to build strong human development and community wealth from the ground up. Yet, under a global, debt-driven financial system, we need to ask where the money comes from. Most new money is issued by commercial banks in the form of private and often high-interest loans, perpetuating the cycle of reckless economic growth. This type of money can be better understood as *finance*, as it is always based on creating debt and indebting people and entire populations. Even the IMF and the Bank of England now acknowledge that this is how new money is created.[26] That most of our money is based on debt is not a given: it is a political situation that people and policy-makers can change.

In the neoliberal era, as central banks in many rich countries became apparently independent of government, their primary duty was to guarantee price stability and limit inflation by setting interest rates and producing cash (notes and coins). However, governments' continued power to issue debt-free money was shown by the €2.6 trillion[27] that the European Central Bank created and the US$4.5 trillion[28] that the Federal Reserve issued after the 2008 financial crisis, a process also known as 'quantitative easing'. Most of the new money went to rescuing the financial system, including the big banks. The underlying approach was tied to *trickle-down economics*, believing that buying corporate and government bonds would in turn push up share prices resulting in short-term spending and long-term investing in which everyone would prosper. This obviously never happened, as shares are predominantly owned by the wealthy who know how to make more quick money through the financial sector than through more productive sectors.[29] Hence private finance and financial markets have been relying, more than ever, on governments and public money to regain temporary stability, while being largely left unregulated to maximize profits through speculative financial vehicles. This approach, according to various political analysts such as Walden Bello, will almost certainly provoke another financial crisis.[30]

Governments still have the power to spend money rather than lending it, but the way they have used it has led to more and not less concentration of wealth. The 2008 global financial crisis showed that banks were saved through public bailouts and the financial losses were socialized through austerity measures on the backs of ordinary people. Given that the public is ultimately liable, this illustrates that even credit or debt-driven money issued by commercial banks should be considered a public good and therefore should be in public hands and democratically controlled.

It will take a 'politics of public money', as opposed to a politics of privatized finance, to stop the growth juggernaut. This can be done only by reasserting the powers to create new money in order to fundamentally democratize our money systems. This public money should be spent (rather than lent) to address the many great challenges of our time rather than diverted and lost in the financial markets.

With amassed counter-power, we can reclaim the state and create a new monetary model. To give an example of what such a model could look like, Mary Mellor, emeritus professor at Northumbria University, argues[31] that a new model could allow people to democratically and collectively decide the amount of public money that should be created. Any publicly created money that turns out to be superfluous would be retrieved through taxes in order to keep inflation in check. While the trillions created by central banks after the 2008 crisis through speculation dangerously pushed up real estate prices, the fear of hyperinflation – when the prices of goods and services rise more than 50 per cent a month – seems largely unsubstantiated.[32] With so many jobs, goods and services needed to restore the ecosystem, and to keep inflation in check, the new money should not be speculated with but put to societal use.[33]

In order to restore ecosystems and put an end to extractivism, we need to confront the power of big business, in particular the fossil fuel oligarchy. Carla Skandier of the Next System Project argues that the United States, whose energy industry is responsible for a large share of the country's greenhouse gas emissions, could use its sovereign monetary power to buy out fossil fuel companies. A public buyout would enable society to shift control away from private, profit-driven shareholders and towards democratically decommissioning fossil fuel operations. With popular pressure, these entities could be transformed into climate-friendly public companies that prioritize the needs of displaced fossil fuel workers and communities, as well as other disenfranchised groups.[34]

While these proposals may sound too radical to many politicians, creating new public money in the people's interest is gaining significant momentum as it could effectively finance the Green New Deal. This plan, most recently put forward by Congresswoman Alexandria Ocasio-Cortez in the US, seeks to rapidly decarbonize the economy while also tackling social and economic inequalities. Public support for massive public investment, powered by publicly created money and democratically organized banks is growing, as these might be the only big guns with which we can actually fight climate change to foster collective well-being.

Building radically just money, tax and finance systems is vital to democratize our economies. If these real world examples spur us towards collective action, then, societies ensuring the well-being of the many would be within reach.

ABOUT THE AUTHOR

Lavinia Steinfort is a critical geographer and political activist. As a researcher at the Transnational Institute (TNI) she is working on public alternatives such as (re)municipalization of public services, a just transition towards energy democracy and transforming finance for the 99 per cent. She co-authored the article 'Communal Performativity – A Seed for Change' (Antipode, 2017).

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Chapter summaries

Chapter 1 Money for people, by Mary Mellor

In the wake of the 2007 financial crisis, governments used the power of public money to rescue the banks and other large businesses, rather than to meet people's needs. The governments' privatization of money – and not money itself – perpetuates the pernicious cycle of debt and growth. Despite the rhetoric, states can and do 'print money'. Their central banks produce money free of cost for the money-creating activities of the banking sector. And money is created and circulated as the government spends, in the same way that banks generate money as they lend. Clearly, it could be put in circulation for different purposes such as facilitating the provision of universal basic services and sustainable livelihoods for all. Given that taxation actually follows public spending, retrieving publicly created money through taxes would keep inflation in check and ensure economic stability. Such a policy shift would need to be accompanied by robust democratic control over the monetary decision-making process along with vigorous oversight of its implementation. For example, citizen forums could identify specific public expenditure needs, while political parties could propose an overall allocation of funds among the social, public and commercial sectors as part of their election platforms, and actual allocations could be decided by the parties in power. Funds to pay for these democratically determined priorities would be provided through grants or loans administered by banks, using cash provided by a central bank that operates democratically and in the public interest. Thus, banks would continue to hold deposits, conduct transactions and balance accounts, but no longer be able to create money or engage in speculative finance. In this way, the size of the public economy could be gradually increased every year until public needs were fully met.

Chapter 2 Citizens' wealth fund, a powerful new economic and social instrument, by Stewart Lansley and Duncan McCann

Financed by higher taxation on private wealth, citizens' wealth funds could provide a progressive and comprehensive route to getting more social value from existing assets: public, personal and corporate. This new model is envisioned as a permanent investment fund, owned directly by citizens and managed independently of the state, in a transparent manner and for clear social purposes. Such funds would grow over time, become a permanent and enduring part of the economic and social infrastructure and help rebuild trust between state and citizen, thus boosting public support for social spending. They can give citizens a new and direct stake in the economy by sharing ownership and promoting equality. One possible pro-equality source of funding would be through the dilution of existing corporate ownership, with large corporations making an annual share issue, for instance 0.5 per cent a year, up to a maximum transfer of 10 per cent of the company's shares. This would gradually socialize part of the privately owned stock of capital to be used for explicit public benefit. There are past experiments to learn from; for example, in the 1980s Sweden applied a variation of this model by creating 'wage-earner funds', commonly known as the 'Meidner Plan'. Finally, citizens' wealth funds could be a counterforce to growing intergenerational inequities by transferring a small portion of private wealth into the permanent fund to be spent on future generations.

Chapter 3 From failed local neoliberalism to community-owned and controlled finance, by Milford Bateman

For decades microcredit captured the *zeitgeist* of financial neoliberalism and its celebration of individualism, entrepreneurship and self-help. By the 2010s, however, it became clear that the microcredit model was no anti-poverty panacea, but a slow-moving disaster for the global poor. Meanwhile community-owned and controlled finance *has* successfully encouraged equitable development, as illustrated by four examples from Europe and Asia presented in this chapter. In northern Italy, networks of credit cooperatives and cooperative banks underpinned sustainable and equitable development in the post-war period by helping establish and expand worker, agricultural and marketing cooperatives, among other forms. In Spain, the Working People's Bank (*Caja Laboral Popular*) was created in 1959 to support the development of cooperatives in the town of Mondragon and soon extended to the wider Basque Country. The bank successfully assessed, established and funded cooperative ventures on the basis of their economic viability and commitment to core principles of industrial democracy, collaboration and mutual support. In China, urban and rural credit cooperatives set up in the 1980s to finance accelerated local economic development achieved dramatic success, principally by financing the rise of local government-owned township and village enterprises. Indeed, contrary to the traditional narrative attributing China's spectacular economic growth to foreign direct investment, it was in fact the initial success of the township and village enterprises that was the decisive factor. For its part Vietnam boldly rejected mainstream microcredit in the mid-1980s and instead chose to follow China by creating financial institutions that combined community–cooperative and national–local government ownership and control. The all-important People's Credit Funds, of which more than 1,000 were active by 2017, involved two million members and eight million households across 56 of the 63 Vietnamese cities and provinces. These funds have played a key role in developing Vietnam's rural agricultural base and helped support a rural industrialization and small and medium-size enterprise development trajectory.

Chapter 4 Kerala's web of cooperatives: Advancing the solidarity economy, by Benny Kuruvilla

In the southern Indian state of Kerala, Left parties, organized labour and people's movements have ensured the continuity of cooperatives, social schemes and labour rights. This chapter is about how successful worker-run cooperatives function across the state despite the growing challenge of neoliberalism. Many of the individual cooperatives are connected through a web of cooperative finance, local governments and producer markets, and united in a movement to advance the solidarity economy. For example, Uralungal Labour Contract Co-operative Society (ULCSS) is Asia's largest construction cooperative and is jointly owned by 3,000 workers. Profits are divided among members, and workers' wages are said to be 30 per cent higher than outside of the cooperative. Government contracts make up more than half of total projects, and the state provides low-interest loans to buy machinery. Another example is the state-wide Kudumbashree programme in which 4.3 million disadvantaged women are organized in 275,000 neighbourhood collectives. In its farming thread, small groups of women choose a piece of land in the area to start cultivating rice, vegetables and fruits. The yield first feeds their family and the rest is sold locally. Besides training and technical support, the government supplies farm machinery, subsidized seeds, fertilizers and low-interest loans to lease the land. In the 2018 flood the construction cooperative ULCSS demonstrated its solidarity by mobilizing 300 volunteers who repaired 1,000 homes in four days while the women of Kudumbashree cleaned 100,000 affected homes and donated US$1 million, double the amount of the Bill and Melinda Gates Foundation. The government's recent plan is to set up a state-wide cooperative bank, in particular to service 1,647 Primary Agricultural Cooperative Credit Societies. It will also provide poorer people with basic, innovative and affordable banking services.

Chapter 5 Community wealth building and resilient local economies, by Thomas M. Hanna

There is an urgent need to move away from a financial system designed to extract wealth from local communities. Instead, our common goal should be to support efforts to build community wealth. By leveraging the procurement, investing, employment and other capacity of large-scale 'anchor institutions' – place-based public or non-profit organizations such as hospitals and universities – it becomes possible to build more resilient, equitable and sustainable local economies. From the United States to the United Kingdom, many anchor institutions are embracing such a mission to use their assets in partnership with community for long-term mutual benefit. If these institutions are directed to local or democratically owned businesses – such as worker cooperatives, employee-owned firms and social enterprises – it can have considerable positive impacts in the surrounding community. Through local and inclusive hiring, anchor institutions can also create career pathways for low-income, minority and hard-to-employ populations. If anchor institutions also started to use significant financial assets for place-based investments, this could shift billions of dollars towards addressing economic and environmental disparities in local communities. The result would be more jobs, greater tax revenues, better public services and, ultimately, healthier, safer and more prosperous communities. The cities of Cleveland in the US and Preston in the UK have begun to put this into practice. In the former, the Evergreen Cooperatives have formed a network of worker-owned companies currently consisting of three ecologically sustainable worker cooperatives, including a large-scale green laundry, a solar panel installation and energy retrofit cooperative, and one of the largest urban greenhouses in the country. In Preston, by 2017 seven local anchor institutions, including the city council, the local university and two colleges, were spending £111 million in the city and £486 million in the region. The city was also the first in the UK to embrace a living wage.

Chapter 6 The social and solidarity economy and the rise of new municipalism, by Ana Álvaro, Adrián Gallero, Miguel Ángel Martínez, Fernando Sabín and Sandra Salsón

This chapter provides an overview of the main policies and actions that municipalist governments in various Spanish cities are implementing to promote the social and solidarity economy. The City Council of Madrid, for example, has recently approved €4.9 million for a *Social Economy Strategy* as well as providing €100,000 to enable financial institutions to provide interest-free loans for unemployed people over 45 years of age, for the long-term unemployed, for people with disabilities, vulnerable women and immigrants. In Zaragoza and Barcelona new regulations recommend that social economy businesses be contracted or subcontracted for respectively 5 and 35 per cent of public procurement. Ethical funding has been promoted in Valladolid and Madrid. Other cities are creating social currencies to value local forms of socio-economic organization. In Barcelona, the 315 families that receive a 'citizen's income' get part of that money in the form of a social currency, which can be used in 85 small local businesses. Throughout Spain, new public services models for water and energy are emerging, such as the users' cooperative *Comunitat Minera Olesana* that manages the water services of Olesa de Montserrat. Combined with new participation and decision-making mechanisms for citizens, the social solidarity economy has emerged as an organized expression of economic citizenship.

Chapter 7 Building bottom-up finance solutions for cooperative housing in Central and Southeastern Europe, by Agnes Gagyi

The MOBA Housing Network that came to life in 2017 is a collaboration of emerging cooperative housing initiatives in Central and Southeastern Europe. MOBA, meaning 'self-build through mutual help', enables lower-income populations in the region to collectively access finance for affordable housing. It does so by creating a pool of cooperative housing structures in the region, with the legal and institutional capacities to attract, channel and manage investment for individual housing cooperatives. The model consists of: 1) individual housing cooperatives for each building (with members as tenants); 2) national umbrella organizations supported by facilitation groups; and 3) a European Cooperative Society bringing the latter together. MOBA is also developing a governance structure that ensures secure, responsible and democratic management. One of the main achievements of the model is that it transfers financial risks associated with loans from individuals to the institutional level. This risk is then carried by individual cooperatives (buildings) to guarantee the stability of the system. Solidarity solutions within the cooperative system guarantee a more flexible and robust management of risks, which makes it possible to use and re-use internal funds for stabilizing the situation of members with temporary payment problems. Pilot projects under way in Budapest, Ljubljana, Belgrade and Zagreb show it can provide stable, affordable, socially owned housing. The institutional framework that MOBA is building offers a model for systemic transformation of local housing markets everywhere.

Chapter 8 Democratizing nationalized banks, by Frank Vanaerschot

This chapter explores strategies to democratize Belgium's public bank Belfius, which was nationalized in the aftermath of the 2008 financial crash. The campaign 'Belfius is ours' was launched in 2016 by non-governmental organizations, social movements and labour unions in the country to promote the democratization of the public bank. The platform started by criticizing the government's plans for full or partial privatization, which would undermine any public mandate due to the constant pressure to maximize private profits. Public ownership could instead facilitate credit creation to give out more productive and socially useful loans. However, public ownership needs to go hand-in-hand with democratization of the governance of the bank and more accountability, tying everyone involved in the bank (management, owners, supervisory committees, workers and the rest of society) to the public mandate. This can be done by applying the principle of subsidiarity, making sure that the people who most need the public bank to uphold its mandate can mobilize and be involved in the decision-making process. For example, the German saving banks (*Sparkassen)* have a binding public mandate, and while municipalities act as their custodians, they cannot access any profits of the bank. Each of their supervisory boards, representing different local stakeholders, ensures that the *Sparkassen* fulfills its mandate. More broadly this model demonstrates that in order to democratize a nationalized bank, there needs to be a broad societal discussion on a new public mandate, ownership and governance structures.

Chapter 9 Public banking on the future we want, by Thomas Marois

Public banks are increasingly regarded by the international development community not as corrosive but as catalytic for investing in low-carbon infrastructure. The overarching 'new' neoliberal narrative is that only by using public resources to mobilize private finance can we begin to raise the financial resources needed to tackle climate change. Yet figures produced by the World Bank and the Organisation for Economic Co-operation and

Development have misrepresented the value of public finance by suggesting that public banks have only US$2–5 trillion in assets. This chapter shows that there are in fact 693 public banks worldwide that own assets worth as much as US$37.72 trillion. When you include multilaterals, pension and sovereign funds, and central banks, public finances amount to almost US$74 trillion, equivalent to 93 per cent of global gross domestic product. Public banks have sufficient resources to lead the way in raising the required US$90 trillion in total and $6 trillion annually in climate infrastructure investments needed – without having to turn to private financiers. Public banks can operate indefinitely without a profit-maximization imperative if given a public mandate to do so. They are better equipped than their private counterparts to finance priority economic sectors and geographic regions; to fill the gaps left open by the private sector; to promote economic stability by lending at times of economic instability; and to improve financial standards by insisting on social, environmental or human rights safeguards. But the potential of public banking ultimately depends on the social struggle to reclaim public banks in the public interest. This will define their future viability.

Chapter 10 Public investment for financial system change not climate change, by Oscar Reyes

This chapter looks at how state-owned banks, cooperative and local saving banks, public pension funds and investment funds can shift their investment in the public interest, addressing climate change and social justice. Despite claiming new commitments to 'green finance', private banks and investors still inject billions of dollars into the fossil fuel industry every year that should be redirected towards renewable energy and more sustainable agriculture, among other priorities. This requires new channels for public investment. Some state-owned banks have already shown that they are prepared to finance a clean energy transition. The Banco Popular y de Desarrollo Comunal in Costa Rica is a hybrid between public ownership and a workers' cooperative that integrates economic, social and environmental goals and has a growing portfolio of eco-credits, as well as financing community energy cooperatives and efficiency schemes. Germany's local saving banks and cooperative banks are key financiers of local energy cooperatives, accounting for almost 50 per cent of the country's installed renewable energy capacity. Public investment should also be channeled through non-banking financial institutions, which can include publicly owned companies and investment funds. In Bangladesh, the publicly owned Infrastructure Development Company Limited helped to install over three million solar home systems in rural areas between 2003 and 2014, bringing power to thirteen million people. When public investors adhere to the principles of accountability, social and environmental mandates, broader just transition plans, local public partnerships and restorative climate justice, they can take the lead in forging a just and equitable climate transition.

Chapter 11 Boosting investment: Breaking the straitjacket of the Eurozone, by Ludovic Suttor-Sorel

The scale of the challenge that climate change and nature's depletion presents calls for strategic, long-term capital. Yet, largely as a consequence of European Union (EU) fiscal rules that institutionalized a permanent reduction in public spending, public investment in the region is at an all-time low. Governments in the EU have resorted to public-private partnerships as a way to circumvent fiscal rules, but these schemes are not less expensive and they perniciously shift the cost to future generations. This chapter argues that the potential of state investment banks has been largely overlooked, and too often restricted to de-risking private investment. State investment banks can allow states to manoeuvre outside the constraints of fiscal rules in order to maintain a form of public investment. They can play an important counter-cyclical role in the aftermath of crises, as they have done across the world between 2007 and 2009 by increasing their loan portfolio from 35 per cent on average to more than 100 per cent. This chapter proposes to create a Eurosystem of state investment banks, supported through the reinvestment of money created in the aftermath of the financial crisis by the European Central Bank. Designed with a clear mandate to provide strategic long-term investments and with explicit support from the European Central Bank, such an enhanced cooperation between already-existing European public investment banks would help us transition towards a truly sustainable economy.

Chapter 12 A public buyout to keep carbon in the ground and dissolve climate opposition, by Carla Santos Skandier

Real solutions to the climate crisis must go beyond demand and include the supply side. The United States can do this by using its sovereign monetary power to dismantle extractive companies as part of a Green New Deal to mitigate climate change and address social and economic inequalities. The most straightforward way to untangle the paralyzing relationship between government and Big Oil industry is through a federal buyout of the fossil fuel companies that control these noxious assets. The federal government has the power over its central bank, the Federal Reserve, to create the necessary money to acquire the majority of the shares of major US-based fossil fuel companies such as Chevron and ExxonMobil. This would shift control away from profit-driven, short-minded shareholders to the public interest. Once in control of reserves, fossil fuel projects can be decommissioned while transforming some of them into climate-friendly, publicly owned and democratically controlled entities. Then, society can once again centre on what really matters: emissions, resource intensity and how to mitigate social impacts from a significantly reduced fossil fuel sector on low-income people, displaced workers and communities. Without the luxury of time and carbon budgets to give fossil fuel producers another chance to serve their customers' best interests, the remaining option is to become their bosses. By creating a comprehensive, coordinated transition plan, the government can also prevent unnecessary and permanent disruption of the lives of fossil fuel workers, their families and communities. For example, in Eastern Germany, the city of Leipzig transitioned from brown coal by turning its open mines into Europe's largest artificial lakeland, a conversion project that employed 20,000 workers. Just transition plans require guaranteeing full employment, relocation assistance and re-skilling workers to, for example, revitalize compromised land and waters for the benefit of their communities and neighbours.

Part I:
THE POWER OF PUBLIC MONEY FOR PEOPLE AND PLANET

Chapter 1

MONEY FOR THE PEOPLE

Mary Mellor

THE POWER OF PUBLIC MONEY FOR PEOPLE

Local initiatives can lead to modest gains in social and ecological sustainability, but not the large-scale transformation we need. Meeting that challenge will require, among other critical factors, substantial changes in how we create and use money. It is the privatization of money – and not money itself – that has fueled social exploitation and environmental destruction. Money could, by contrast, help foster the future we want but only if it is reclaimed for the public. Contrary to neoliberal assertions, the state can create money free of the debt that drives destructive growth and fosters inequality. Such public money can facilitate the provision of economic security, universal basic services and sustainable livelihoods for all. But for such a system of public money to work, there must be robust democratic control over monetary decision-making along with vigorous oversight of its implementation.

The key role of money

If we want to transition to a more just and sustainable society, we then need to be clear about where we are today.[1] In the contemporary world, provisioning, that is the creation and distribution of basic goods and services, depends on money.[2] Most people live in market economies with moderate- to long-distance supply chains. Under market-driven capitalism, individual livelihoods and public services depend on the success of the market, and money functions both as the medium of exchange and as the driving force behind market participation. The primary aim of the capitalist market economy is not the provision of essential goods and services for the people, but the investment of money and labour in activities that provide even more money (i.e. profit) for the owners of capital. This results in a two-step economy: people work to secure an income in order to pay for the basic goods and services they need to survive. And because work is necessary for survival, and the market determines its purpose and availability, people can end up in jobs that are harmful to them, others and the environment.

Using money does not intrinsically encourage human exploitation or ecological destruction. It is neoliberal capitalist ideology that puts monetary gain above social and ecological concerns, and it is the private, bank-issued money system that leaves us with a pernicious cycle of debt and growth. Money could encourage socially and ecologically sustainable production and consumption, but only if it ceases to be a creature of the market and is reclaimed as a social and public representation of value.

Visions of ecologically sustainable communities often look not to the state, but to the social economy, which occupies a space between the state and the market.[3] Key features of the social economy such as community enterprises, cooperatives and local markets based on local money are all beneficial, but they are insufficient for transforming the political economy. Creating a just and sustainable future is a massive undertaking that will require a level of coordination that only the state can provide. We thus need to look at the potential of democratically governed economies in which money is treated as a public resource for sustainable provisioning.

However, neoliberalism, which has influenced so much of the conventional thinking about money, is adamant that the public sector must not create ('print') money, and so public expenditure must be limited to what the market can 'afford'. Money, in this view, is a limited resource that the market ensures will be used efficiently. In the conventional view, the state is dependent on tax revenue extracted from the 'wealth-creating' private sector. Public expenditure is a burden on the hard-working taxpayer — who is almost never portrayed as a beneficiary of public services. If money is created exclusively by the commercial sector, the conventional view is in many respects correct. The public sector is dependent on the money raised by taxation, and absent borrowing, taxation must precede public expenditure.

Is public money, then, a pipe dream? No, for the 2008 financial crisis and the response to it undermined this neoliberal dogma. The financial sector mismanaged its role as a source of money so badly that the state had to step in and provide unlimited monetary backing to rescue it. The creation of money out of thin air by public authorities revealed the inherently political nature of money. But why, then, was the power to create money ceded to the private sector in the first place, and with so little public accountability? And if money can be created to serve the banks, why not to benefit people and the environment?

Myths about money

One of the most significant obstacles to reclaiming money for the public good is the widespread misunderstanding of what money is. The conventional history of money rests on a series of myths that obscure its social and political origins. The first myth is that money and the market share a common origin, with modern money-based economies emerging from non-money barter. There is no historical evidence of widespread barter-based economies, and money, as the next section will explain, has a far more complex social and political history. The second myth is that money originated as precious metal coinage. While money has at times been made of such metal, it has also taken far less valuable forms whose use long predated the invention of coinage. Seeing money as made of something valuable (gold, silver) suggests that money is desirable in itself, an embodiment of value. Recognizing that money is valueless in itself (base metal, wood, paper) helps one to see it as a token representing a social relationship – what it really is.

Assumptions about the historical importance of precious metal coinage gave rise to a third myth: that banking activity emerged from the management of precious metal deposits that eventually came to be represented by paper money and accounting records. In reality, banking activity originated long before precious metal coinage, with accounting records as a central feature. This historical misapprehension, in turn, helped create a fourth myth: that banks today are merely link savers (depositors) and borrowers. As has been increasingly recognized by the Federal Reserve, the Bank of England and the International Monetary Fund, and long argued by monetary theorists, in fact banks create new money when they make loans, crediting deposits of previously nonexistent money to the accounts of those who receive them. Public monetary authorities retain a monopoly on the production of cash (notes and coin), but the money that banks create is also part of the national money supply and circulates through the economy as such.

These widespread myths all rest on a misreading of the history of money. So what is the real history?

A brief history of money

Far from being a product of markets, coinage was created and controlled by rulers and played a central role in the growth of the Greek and Roman empires. The power to create and circulate money is likewise linked to the sovereign power to tax. Rather than relying on the traditional receipt of tribute, a ruler could pay for goods and services with money that could later be reclaimed through taxation.

The emergence of the capitalist epoch, with its paper promises and modern banking, saw the gradual privatization of the sovereign's power to create money. A crucial step in this privatization process was when commercial money became the public currency. The Bank of England, for example, was originally formed in 1694 to make loans to the state. As time passed, its notes, backed by a nebulous 'promise to pay', were designated as currency. Eventually, all banks stopped issuing money in their own names, instead issuing it as public currency (e.g. pounds sterling). This step resulted in two major changes. First, the public became the backstop for the banks that were creating money in its name. Second, whereas the sovereign could create money free of debt, the banks could not. Money created and lent by banks must be repaid with interest. This critical difference drives growth because new debt is created to repay old debt. And if this debt-based system falters, so, too, does the money supply.

New Yorkers protest the American government's bailout of Wall Street in 2008. Credit: Alane Golden, Flickr, Licence CC BY-NC 2.0

Today, our reliance on debt has become socially, ecologically and economically unsustainable. It is socially unsustainable because creating money as debt exacerbates inequality. Money flows to those most able to pay back loans with interest, a dynamic that enriches the rich and traps the poor in long-term debt relationships. Debt is ecologically unsustainable as it drives growth. If debts are to be repaid and a profit made, the economy must grow, with likely environmental consequences. Debt is economically unsustainable as the source of a money supply because there will come a time when people can take no more debt.

Reclaiming money for the people

The social and public heritage of money needs to be reclaimed and its governance democratized. Money can represent social and public value, not just commercial and private value. And rather than being only a mechanism for profit-driven exchange, money can be a tool for the provision of public goods and services people actually need and for guaranteeing everyone a right to livelihood, for example, through a basic income (i.e. a monetary allocation to each individual as matter of right).

While the commercial use of money drives growth, the public and social allocation of money would provide people with the basic goods and services they need to survive, thereby supporting a one-step rather than two-step economy. The development of a one-step economy is essential to publicly fund a just and sustainable society. By relieving people of the need to undertake unsustainable and unnecessary work in order to obtain money, it would reduce ecological strain and economic inequality.

Neoliberal economics denies that all of this is possible. Indeed, politicians routinely claim that there is 'not enough money' for our basic needs. But despite the claims and strictures of neoliberal ideology, states can and do 'print money'. First, it is produced *ex nihilo* by central banks to provide cash and support for the money-creating activities of the banking sector. Second, money is created and circulated as the government spends, in the same way that banks create money as they lend. States spend money and then offset their expenditures against tax revenue and other income received. States, however, do not fill their tax accounts *before* they spend: the balance between public expenditure and public income only becomes clear *after* the expenditures have occurred. The political choice at that point is what to do with any 'deficit', that is, the surplus of expenditure over income. The extra money created by state expenditures could be left to flow around the economy, producing in effect a perennial 'overdraft' at the national bank. Or the deficit could be shifted to the financial sector through 'government borrowing', thereby increasing the national debt (as happens in most capitalist economies).

Control of the money supply and, more generally, the monetary system confers a tremendous amount of power. Can we entrust the state with it? Neoliberals warn of the dangers of state intervention in a market-based system. Proponents of social and local economies likewise harbour suspicions of the state, particularly its distant and opaque bureaucratic apparatuses. Therefore a public money system would be acceptable only if it was robustly democratic.

Democratizing money

A shift from profits to provisioning would put the main focus of the economy where it belongs: on the sustainable meeting of needs. That goal would be met through a combination of a basic income and a budget for collective expenditures on universal basic services and infrastructure (i.e. free public services that enable every citizen to live a larger life by ensuring access to safety, opportunity and participation).[4] The democratic process would entail the development of party platforms followed by participatory budgeting, in the process described below.

At national and regional levels, political parties would propose an overall allocation of funds among the social, public and commercial sectors – as well as levels for the basic income – as part of their election platforms. Actual allocations would be those of the parties in power. Money to fund these democratically determined allocations would be provided through grants or loans administered by banks, using funds provided by the central bank and operating under social, public or cooperative structures. In this process, the utilitarian purpose of banks – holding deposits, conducting transactions and balancing accounts – would be preserved, but they would no longer be able to create money or engage in speculative finance. Where the private sector requires loans for sustainable and socially just investment, this would be accommodated by either an allocation of public money via these banks for lending or a transfer of existing money from private investors.

Public expenditure would be through direct spending of money created free of debt. Citizen and user-producer forums would identify specific public expenditure needs, providing input into local, regional and national budgets. Given the complexity of the process, these budgets and the corresponding allocations would be set for at least a five-year period, with a modest margin for interim adjustments. Adoption of a participatory and transparent approach to decision-making would militate against domination by any particular group or body. The setting of long-term budgets would ensure that governments could not substantially amend proposed money creation or expenditure levels during the run-up to elections.

Because such a system would be likely to result in a massive increase in public expenditure, a phase-in would be prudent. The size of the public economy could be gradually increased each year until public needs were fully met. Even with that, the additional money flowing into the market sector could increase the threat of inflation in the short term. Reconceptualizing the role of taxation offers a way to address the problem of inflation. If money is created and circulated initially by the public sector, then there is no need to 'raise' money through taxation. Rather than preceding public expenditure, taxation would follow it, retrieving publicly created money from circulation in amounts sufficient to keep inflation in check. If the public sector is much larger than the private sector, taxes might have to be quite high.

While levels of budgets and universal basic services and incomes can be determined through an open, democratic process, the assessment of the impact of public expenditure on the commercial sector would require technical expertise. This situation is no different from what we see today: experts in monetary policy try to anticipate and then propose actions to address inflationary pressure, usually by adjusting key interest rates. As is the case today, estimating the impact of public expenditures would be a hit-or-miss process, but a necessary one nonetheless. A committee of experts would assess the amount of public money the commercial sector could absorb without too great a rate of inflation and, correspondingly, the overall level of taxation required. The expert assessment would have no role in determining public expenditure levels or how the required taxes would be applied; the public would come in, debating questions of what amount to spend and whom, what and how much to tax.

The model of public money and taxation just described reflects how money flowed before the commercial domination of the monetary system. Sovereign rulers issued money in various forms to pay for goods and services and then retrieved the money through taxation. Today, the people should be the sovereign. Under a system of public money, the people would make payments to themselves for goods and services provided for their own benefit, then take that money back via taxation.

Effectively exercising the public's right to create and spend its money would require a wide range of democratic decision-making. Questions about the level of taxes, redistribution of income and wealth, whether to tax resource use or land, which expenditures should be taxed, and so on, would need to be democratically determined. However, given the basic income and extensive free public services included in the proposal, there would be much less need for the accumulation of wealth or for investment programmes such as pensions, which are major drivers of growth. This, in turn, would justify even greater taxes on existing wealth. Moreover, since there would be less need for investment opportunities, public money could be created and used to purchase natural resources and utilities currently in private hands, bringing them back under public control.

A health worker measures a patient's blood pressure. Credit: rawpixel, Pixabay, Pixabay License

Another important focus of democratic participation would be the enhancement of public spending oversight. All recipient organizations of direct or indirect allocation of public money would need to have clear mechanisms for democratic accountability and transparency in place. Interested citizens along with workers and user groups would monitor their expenditures and business practices on a regular basis. Such monitoring would minimize the possibility for abuses, such as over-leveraging of the financial sector and corruption in the public sector, which have plagued the current system.

Conclusion: Debt-free public money for sufficiency provisioning

A public money system would enable a one-step economy in which individuals no longer have to undertake socially or ecologically harmful work in order to secure an income. Participation in the market would no longer be essential, as money would reflect an entitlement to livelihood, not just the market value assigned to work. Paid work would continue, but it would focus on democratically determined priorities. Caring for each other and for the planet and building a just society, not financial speculation and resource extraction, would be recognized as the real sources of wealth. New metrics would track and guide progress, with a shift from gross domestic product to a notion of 'gross domestic provisioning' that measures overall 'wellth,' that is, well-being.

In a transition towards an economy that prioritizes provisioning over profit, we must be attuned to the interplay between meeting our own needs and protecting the environment. For example, substantially reducing energy use would have profound effects on domestic work, as the latter would be much harder without labour-saving (but energy-using) devices. Birth control has helped reduce environmental strain by keeping population growth in check. But slower population growth, or even decline, has also led to aging populations with relatively fewer people available for both productive and care work. A major focus of a future provisioning system will, therefore, need to be care for the elderly. Although today this responsibility tends to fall upon the shoulders of women as unpaid or underpaid work, it can become a major source of meaningful work and societal wealth.

Reorganizing the economy around publicly created money is not utopian. It simply requires recognizing and reorienting what has existed in the past and what we, in fact, fall back upon today. In the wake of the financial crisis of 2007-08, the power of public money was made clear when governments used it to rescue the banks and other large businesses, such as auto manufacturers and insurance companies. Let it now be used to provision the people.

This chapter is adapted from Mary Mellor's 'Money for the People' originally published in Great Transition Initiative: Toward A Transformative Vision and Praxis in August 2017 and available on www.greattransition.org.

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Mary Mellor is Emeritus Professor at Northumbria University, UK. She has published extensively on the democratization of money as a public resource, sustainability and social justice, ecofeminism and social economy. Her most recent books are The Future of Money (2010), Debt or Democracy (2015) and The Magic of Money (2019).

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Chapter 2

CITIZENS' WEALTH FUNDS: A POWERFUL NEW ECONOMIC AND SOCIAL INSTRUMENT

Stewart Lansley and Duncan McCann

TAXING THE RICH TO FINANCE CITIZENS' WEALTH FUND

Across the globe, wealth levels have been growing at a much faster pace than economies.[1] Private wealth is also increasingly unequally shared. In the UK, a tenth of households own 45 per cent of the nation's wealth, while the least wealthy half of all households own just 9 per cent.[2]

The growth in the pool of privately owned wealth has been fuelled by two main trends: 1) inflation in asset prices, especially property, in part the product of the post-2008 financial stimulus through 'quantitative easing'; and 2) significant transfer of public wealth into private hands through the rolling privatization of industry, natural resources, land and social housing. In the UK, public wealth holdings – from profitable state-owned enterprises like the Land Registry and Ordnance Survey to the land and property portfolios owned by local authorities and public institutions like the NHS – account today for roughly a tenth of total wealth, a post-war low.[3] What is left of the 'family silver' is insufficient to offset national levels of debt, leaving the UK as one of a handful of rich countries with a deficit on the public finance balance sheet.

This growing imbalance between private and public wealth has been one of the key drivers of rising inequality. As the authors of the influential *World Inequality Report* have argued, the 'very large transfers of public to private wealth' since 1980 have been a key determinant of rising wealth concentrations. The decline in the level of net public wealth to the current negative level, according to the report, 'limits the ability of governments to mitigate inequality'.[4] Because of this, it will not be possible to make a serious dent in today's heightened levels of inequality without policies that boost the public's share of national wealth.

Wealth, and its distribution, matters. High levels of wealth can be used to boost wider social and economic security. Personal wealth can encourage well-being. Publicly owned wealth provides wider society with a stream of income while helping to offset national liabilities, such as the national debt or public sector pensions. Yet, little of the surge in wealth levels has been harnessed for the public good.

With the considerable returns from ownership (in the form of profits, rents and dividends) accruing disproportionately to the already rich, leaving the asset-poor even further behind, ever greater wealth concentration is built into today's dominant model of capitalism. Whereas public wealth holds the promise of benefiting all in society, corporate and private wealth only benefit the few. The current wealth mountain offers a huge potential resource for building a better society. But to access those resources means tackling the growing problem of wealth concentration, managing national assets more effectively, and finding new ways of spreading capital ownership more widely.

In the last few months, the maldistribution of wealth has been creeping onto the political agenda. Once calls for higher taxes on wealth would have been dismissed as anti-rich and politically impractical; yet a growing band of unlikely voices are now calling for this resource to be taxed more heavily for the public good.[5] Even *The Times* newspaper, not always a friend of such ideas, has dipped its toe into the debate with a recent call to 'shift taxation from income to wealth'.[6]

Building the fund

Given the growing policy interest in the dangers of high concentrations of private wealth, wealth taxes represent the fairest and most effective way to finance a citizens' wealth fund. The public tend to dislike wealth taxes, and distrust the way the revenue might be spent, even when they would not be directly affected by the tax. For this reason most rich countries have seen falls in the share of taxation coming from capital. But what if the proceeds of higher taxation on wealth – household and corporate – were ring-fenced and used directly for public benefit, thus by-passing the Treasury?

Financed by higher taxation on private wealth, a citizens' wealth fund would provide a progressive and comprehensive route to getting more social value from existing assets, public, personal and corporate. Transparently managed and kept in trust for the public good, such a fund offers a powerful way of managing part of the national wealth, and could play a number of different roles in society: to store and build public assets and redistribute the gains from economic activity; or by more directly linking revenue and spending, it could help rebuild trust between state and citizens, thus boosting public support for social spending.

Pooling wealth to grow finances over time. Credit: Nattanan Kanchanaprat, Pixabay, Pixabay License

By giving all citizens a direct and equal stake in the returns from a growing part of national economic activity, such funds would prove a powerful pro-equality instrument. The French economist Thomas Piketty has shown that the present economic model has a built-in systemic bias to inequality – a force, as he puts it, for '*divergence*'.[7] Citizens' wealth funds offer a way of creating a '*new counter-force for convergence*', one which locks in a new bias to greater equality.[8]

To gain public support, such funds would have to continue to grow over time, and be a permanent and enduring part of the economic and social infrastructure in the UK. They would be owned directly by citizens, not the state, controlled by an independent Board of Guardians, with the support of a citizens' advisory council.

Holding wealth in common

The *idea* that a share of national wealth be held in common has a long history. Perhaps the earliest known debate about this principle came in Athens in 500 BC when the discovery of an exceptionally rich seam of silver led to a call for the windfall revenue to be distributed among all 30,000 citizens in a regular and equal cash payment as a citizens' dividend. It was an idea that would have transformed the way wealth was shared in this Greek civilization. In the event, the Athenian Assembly voted against the revolutionary idea and instead used the bonus to expand the Athenian navy.

In 1797, the human rights campaigner Thomas Paine argued that the earth should be seen as the 'common property of the human race'. In the twentieth century, the Nobel Laureate James Meade reinforced this idea of legitimate claims on natural and created wealth by calling for the greater socialization of private capital (including a portion of corporate profits) with the returns accruing to all citizens.

In recent times, scores of countries have pooled wealth through sovereign wealth funds, nearly all created from the proceeds of oil. However, few of them act as a progressive force, with most being unaccountable and secretive investment arms of the state.[9]

Perhaps the best-known example of the application of the principle of common wealth is the creation of the permanent wealth fund in the US state of Alaska from the diversion of revenue from oil extraction. This fund has paid an equal annual dividend (from $1,000 to $3,500) to all citizens since the early 1980s. Known as the 'third rail of Alaskan politics', this audacious social experiment has proved hugely popular and, significantly, has helped ensure that Alaska has the lowest level of inequality of all US states.[10]

The UK could have followed this example when North Sea oil was discovered in the late 1970s. One proposal at the time was, as two *Financial Times* journalists put it in 1978, to '[g]ive [the revenue] to the people'.[11] The proposal never materialized. Instead the revenue from this windfall gain was spent on current consumption, allowing governments to maintain spending levels while reducing tax rates. Today we greatly regret this classic example of short-term thinking.

The UK has in fact missed four major sources of ongoing revenue that could have been used to create a wealth fund (see Figure 1): the extraction of North Sea oil (approx. £200 billion), the sale of public land (approx. £400 billion), the sale of council housing (approx. £100 billion) and the privatization of state-owned enterprises (approx. £126 billion).

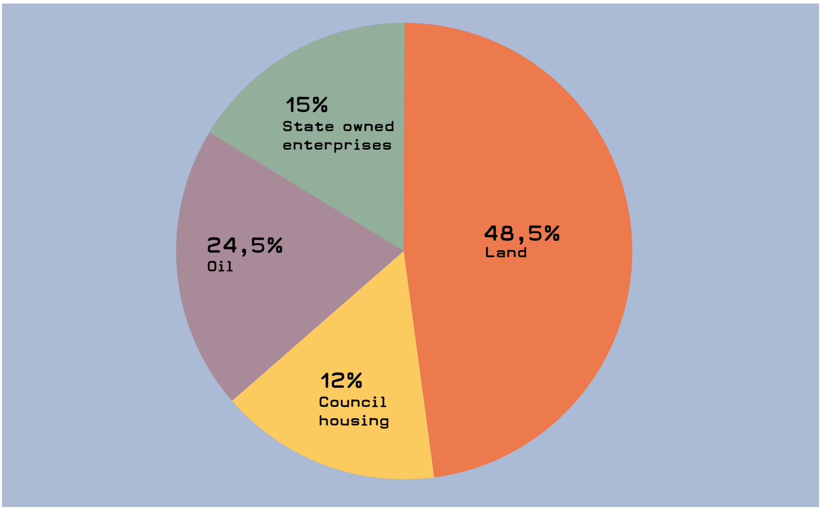


Figure 1. Revenue from sale of public assets since 1980, UK

Financing a citizens' wealth funds

Building a fund of any meaningful size today requires alternative sources of financing. There is a compelling case that the principal source should be increased taxation on wealth, creating a package that would help make reform of wealth taxation more politically palatable for more people. Additional options include the transfer of a range of existing commercial public assets into the fund such as existing publicly owned companies (e.g. Ordnance Survey or Land Registry); occasional one-off taxes (paid in shares) on windfall profits such as the Banker Bonus Tax; corporate payments for the use of *personal data* either structured as a tax or by creating a national data bank that could generate income through the ethical use of our data[12]; and the issue of a long-term bond, which can be thought of as a low-interest loan issued by the fund.

One of the most pro-equality approaches would be to establish a fund through the dilution of existing corporate ownership, with large companies making a modest annual share issue – say 0.5 per cent of the value of the company – with the new shares paid into the fund, up to a maximum of 10 per cent. Focusing on annual issuance of shares rather than tax makes the proposal more attractive to companies and investors[13] while at the same time being more transformative economically and socially. Such an approach would gradually socialize part of the privately owned stock of capital to be used for explicit public benefit. By taking established stakes in companies, such a fund could help align the interests of society and business. A variation on this model was applied in Sweden in the 1980s through the creation of 'wage-earner funds', commonly known as the 'Meidner Plan', a bold, decade-long social experiment to further develop their model of social democracy, though one that eventually came to an end in the early 1990s.[14]

Inspired by work carried out at the New Economics Foundation,[15] the UK shadow chancellor John McDonnell proposed an 'inclusive ownership fund' aimed at giving workers a small ownership stake in the companies they work for. Funded by a proposed annual 1 per cent share transfer (up to a maximum of 10 per cent), the plan would entitle workers to a dividend payment up to a maximum of £500 a year. While under the scheme all businesses with over 250 employees would gradually become part-owned by employees, the proposal would have much less impact on the goals of spreading capital ownership, and its gains, across wider society, than would be the case with a fund that embraced all citizens.

Options for spending common funds

Creating such a citizens' wealth fund does not offer a quick fix but a vision for a much more secure social future, paid for by a higher rate of national saving, and tapping into existing wealth pools. There are, of course, various options for spending the revenue from such funds. They could be used, for example, to pay for new areas of critical public spending, including new universal services such as child care and social care for the elderly. One possibility would be to use the fund to pay, as in Alaska, an annual citizens' dividend. Although fundamentally long term, such funds would take time to establish. One recent study by authors from Friends Provident Foundation shows that, depending on the level of pay-in, a fund could grow to a level sufficient to boost key areas of social spending, including cash payments, after a decade.[17] Over time, as the size of the fund grew to command a larger share of the economy, annual fund payouts could become more generous.

The Friends Provident Foundation study examined a mix of funding proposals, including an initial endowment of £100 billion for the citizens' fund (from a mix of a long-term bond and the transfer of some existing public commercial assets) and an annual injection of £50 billion from additional taxation, nearly all on corporate and private wealth. The potential size of the fund achieved over different time horizons is shown in Figure 2.

While ambitious – and it would be possible to go for lower levels of funding and payout – the fund would accumulate over time. After 20 years it would have reached sufficient size to provide a modest annual dividend – of nearly £800 – to everyone. As it grows, and supported by wider changes in the tax or benefit system, it also has the potential to form the foundation of a more comprehensive basic income scheme.[18]

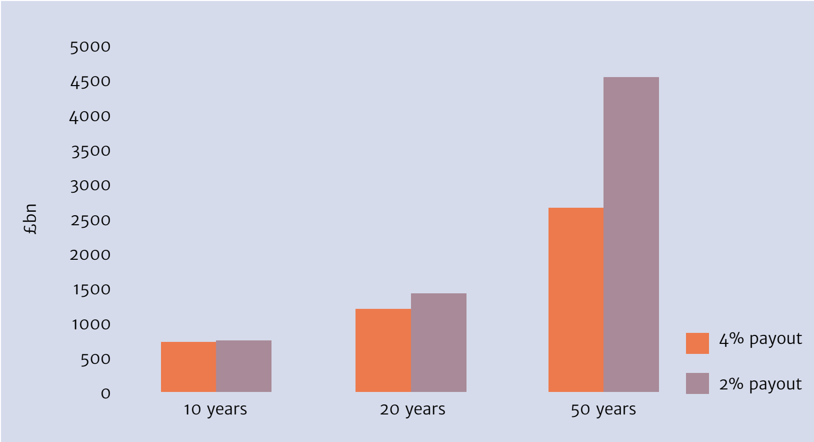


Figure 2. Size of fund after 10, 20 and 50 years on different assumptions (£ billion)

Creating a citizens' wealth fund owned by all has a number of important merits. For the first time ever, all citizens would hold a direct and equal stake in economic success, with the fund automatically capturing a growing part of the gains from economic activity and distributing it equally. A fund would act as a counterforce to growing inter-generational inequities by slowly transferring a small portion of private wealth, which is disproportionately owned by older generations, into the permanent fund to be shared across future generations. A further strength is that this new economic instrument would help ensure that public assets would be better managed than they have been in the past.

Such funds could also play a key role in the reform of the current economic model. Provided they are managed at arm's length from the state, they offer a new tool for social democracy and partial reform of corporate capitalism. In order to ensure public involvement in design, goals, funding and disbursement, a Citizens' Council (similar to a Citizens' Economic Council suggested by the Royal Society of Arts[19]) would be established to advise the Board. The Board of Guardians would include representatives from government, business, trade unions and the public. It would have overall responsibility for the financial viability of the fund, and produce a long-term evaluation every year of the projected future income and expenditure of the fund. These common funds represent a twenty-first century alternative to the top-down statism of old-style nationalization and the recent fashion for rampant privatization and uncontrolled markets, offering a new social contract among citizen, state and market.

Growing support

Of course, there would be political hurdles. Despite the vital need to do something about wealth inequality the public remain unsympathetic to higher levels of wealth taxation, from inheritance to capital gains tax, in large part because of the way such ideas have been demonized. This is personified in the popular names they have been given – who could possibly be for 'death' or 'dementia' taxes!

Today, there is at last some sign of a shift in the politics of wealth, including growing acknowledgement and support for social wealth funds with specific public purpose. As well as long-established funds such as the Texas Permanent School Fund, the Norwegian Government Pension Fund Global or the Shetland Charitable Trust, new funds have been established in Australia and New Zealand. These funds have been capitalized in a wider variety of ways including land (Texas), oil extraction (Norway and Shetland), proceeds from privatization of state-owned enterprises (Australia) and government contributions (New Zealand). In the UK, a number of MPs across parties have acknowledged the potential of sovereign wealth funds. As former Conservative minister John Penrose has said: 'a British Social Wealth Fund isn't just feasible; it's essential for capitalism's future too. A fund would be socially just and generationally fair. And the time is now'.[20]

Supporting each other. Credit: Sasin Tipchai, Pixabay, Pixabay License

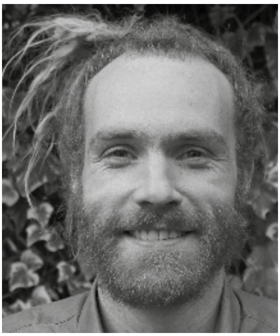
Alongside this political support, think-tanks from very different perspectives – from the Institute for Public Policy Project (*IPPR)*[21] and the *Royal Society of Arts* [22] to the *Social Market Foundation*[23] along with the People's Policy Project[24] in the US – have called for wealth funds to be created with an interesting diversity of funding and spending options. The IPPR and Royal Society of Arts proposals aim to provide young people with a lump payment to enable them to meet the challenges of early adulthood and increase entrepreneurship whereas the Social Market Foundation proposal is concerned with ensuring public sector liabilities, both debt and pensions, are eliminated in the case of debt and fully funded in the case of pensions. The People's Policy Project is the closest to the proposal presented here. It calls for an American social wealth fund equally owned by all Americans and paying out an annual universal basic dividend from the investment income.

The overseas evidence is that such a fund could gain significant public buy-in. By rebuilding the nation's stock of depleted 'family silver', it would re-establish the importance of social wealth, boost the ratio of public to private capital, and tackle extreme wealth concentration. Legally ring-fenced to prevent a Treasury 'raid', it would grow over time to play a significant social role. Such a model could work in countries of very different stages of economic development.

While the kind of model being advanced here is at the radical end of the possible range of proposals, it would offer a progressive way of managing part of the national wealth, provide a powerful new economic and social instrument that could command public support and build in a pro-equality bias that could transform the way we run the economy and society.

ABOUT THE AUTHORS

Stewart Lansley is a visiting fellow at the University of Bristol. He is the co-author of Basic Income for All, From Desirability to Feasibility (with Howard Reed 2019) and the co-editor of It's Basic Income: The global debate (with Amy Downes, 2018). He is also author of A Sharing Economy, How Social Wealth Funds Could Tackle Inequality (2016), Breadline Britain: The rise of mass poverty (with Joanna Mack, 2015), and The Cost of Inequality (2011).



Duncan McCann is a researcher at the New Economics Foundation interested in systemic and radical reform of the economy and the creation of a twenty-first century commons. He is co-author (with Stewart Lansley and Steve Schifferes) of Remodelling Capitalism: How social wealth funds can transform Britain. He is also part of the movements to reform money, author of Scotpound: A digital currency for the common good and co-author of the book People Powered Money; to reform land, writing about Common Ground Trusts and a founder of the Land Justice Network; and the digital economy, with recent publications including Blocking the Data Stalkers and Digital Self Control.

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Part II:
COOPERATIVE FINANCE TO BUILD COMMUNITY WEALTH FROM THE GROUND UP

Chapter 3

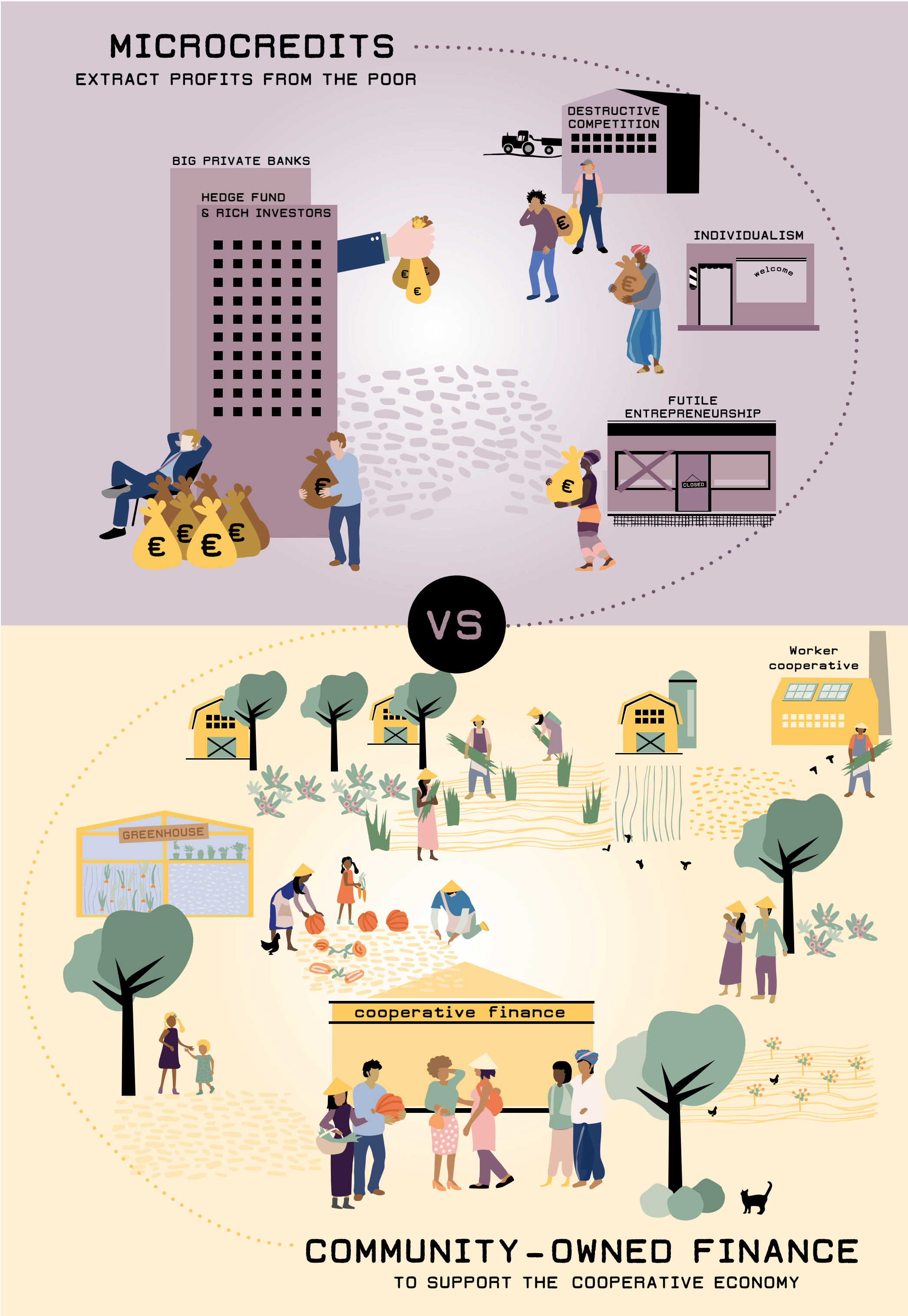
TOWARDS COMMUNITY-OWNED AND CONTROLLED FINANCE FOR LOCAL ECONOMIC DEVELOPMENT

Milford Bateman

Since the 1980s, the global neoliberal financial model ('financialization') has enriched a narrow elite and significantly disadvantaged the global poor.[1] The damage done by local versions of this model promoted by the international development community in the Global South is not as widely recognized, however. Local financial neoliberalism is epitomized by the global microcredit model.[2] Microcredit was made famous in the 1980s by the US-trained Bangladeshi economist and later Nobel Peace Prize winner Muhammad Yunus, who posited that the provision of small (micro) loans to the poor for the creation of informal enterprises or self-employment ventures[3] would lift them out of poverty. The microcredit model captured the zeitgeist of early neoliberalism and its celebration of individualism, entrepreneurship and self-help. As a way of 'bringing capitalism down to the poor' the microcredit model was quickly embraced by the World Bank and the US government and used as a development mantra in the Global South. It did not yield the promised local economic and social results, however. Yet microcredit is still being promoted extensively by international financial institutions to this day. As a progressive alternative, this chapter highlights four non-neoliberal examples from Europe and Asia to show how the countermovement of community-owned and controlled finance can and has successfully encouraged equitable development.

Why local neoliberalism and the micro-credit model failed

With microcredit's conversion into a for-profit business model in the 1990s under the United States Agency for International Development (USAID) and World Bank tutelage, some of its advocates saw a 'new world' of massive poverty reduction and local economic development just over the horizon.[4,5] By the 2010s, however, it had become clear that the microcredit model was no anti-poverty panacea, but a slow-moving disaster for the global poor. The key operational flaw in the commercialized microcredit model is that the most unsustainable enterprises are supported because they prove more lucrative for the microcredit institution. Quick turnover, informal micro-enterprises and self-employment ventures that can afford high interest


MICROCREDITS
EXTRACT PROFITS FROM THE POOR
DESTRUCTIVE COMPETITION
BIG PRIVATE BANKS
HEDGE FUND & RICH INVESTORS
INDIVIDUALISM
welcome
FUTILE ENTREPRENEURSHIP
CLOSED
VS
Worker cooperative
GREENHOUSE
cooperative finance
COMMUNITY-OWNED FINANCE
TO SUPPORT THE COOPERATIVE ECONOMY

rates over short periods of time are thus supplied with as much capital as they want. Meanwhile more productive, formal, technology-driven micro, small and medium enterprises (MSMEs) are generally left to wither on the vine. They are riskier and more time-consuming to work with and they need lower interest rates, especially during startup. Many microcredit institutions go even further than this and now simply provide individual consumers with microcredit for consumption purposes.

With its anti-poverty claims increasingly refuted,[6] the global microcredit industry now appears to serve another purpose entirely: to siphon value up and out of the poorest communities in the Global South and into the hands of the narrow global financial elite that manages, owns, invests in and advises the global microcredit industry.[7] The principal beneficiaries of microcredit have thus become its *suppliers*. The US government has backed its national banks (e.g. Citigroup) and digital payments providers (e.g. Visa, Mastercard) to enable them to make significant profits in the poorest communities of the Global South.[8] More worrying, the latest innovations in financial technology – so-called 'fin-tech' – are very rapidly expanding this deleterious trend towards 'accumulation by dispossession'.[9]

Embracing community-based local financial institutions

Almost completely ignored by the international development community in recent years are local financial systems and institutions that have been successful in promoting sustainable and equitable local economic development. This chapter presents four cases from Europe and Asia to illustrate this.

Northern Italy

After 1945, northern Italy's famous credit cooperatives (Banche di Credito Cooperativo, BCCs), operating alongside the larger cooperative banks (Banche Popolari, BPs), supported a wave of small enterprises that arose out of the region's largely destroyed but once very significant militaryindustrial complex. Over subsequent years, enormous effort also went into diversifying the local economy into new markets, technologies and global value chains. Attention was paid towards redirecting local MSMEs to operate in line with the newly elected communist and socialist regional governments' ambitions to reform capitalism. At a practical level this involved supporting only enterprises that were able to succeed on the basis of well-paid, unionized and secure employment relations, thus moving beyond the pre-war forms of exploitation that contributed to the rise of Fascism.

The most far-reaching contribution made by northern Italy's BCCs and BPs, however, was the comprehensive support provided to a variety of non-financial cooperative enterprises. Always a region with a strong cooperative spirit dating back to the mid-1800s, in the post-war period this sector massively expanded and diversified into new areas of technology-driven economic activity and many worker cooperatives became leaders in their field. Particularly important were the linkages created between different types of cooperatives, such as rural-based agricultural cooperatives selling to retail cooperatives in urban areas. Marketing cooperatives also linked private micro- and small enterprises to generate economies of scale. The eventual result was the creation of the world's leading regional cluster of cooperatives.[10] Pointedly, they were on the whole more efficient than their investor-driven counterparts, which clearly contributed to the high levels of productivity and growth registered by the northern regional economies.[11]

While the wider investor-driven enterprise sector in Italy endured a difficult time during the 1980s and 1990s, northern Italy's cooperative sector was, in stark contrast, able to flourish as never before.[12] Although the BPs struggled to compete against the more aggressive Italian and foreign private banks and were eventually restructured almost to the point of losing their co-operative identity, the smaller and more localized BCCs proved more resilient. One important reason for this was that in 1993 the BCCs were mandated by a new banking law to join one of 15 local federations operating under a national federation (*Federcasse*). This arrangement allowed for each BCC to reap an important share of the collective economies of scale that arose from the central provision of a whole range of core services and functions. Being small was not such a disadvantage to the average BCC, but being isolated was. It has also greatly helped the BCC sector that, in return for tax breaks, Italian law mandates that 70 per cent of annual net profit in a BCC must be allocated to its legal reserve, which usefully builds the capital base of the institution. Even though mergers and some closures reduced the actual number of BCCs after the 1980s, the sector managed to increase its market share. By law, a BCC's assets cannot be appropriated by members seeking to privately profit, so in the event of a liquidation, any remaining assets must be passed to a cooperative support fund (*Fondo Sviluppo Spa*). This important 'asset lock' constraint safeguards against speculation and take-over by an outside investor.

Nonetheless, the financial cooperative sector has had to hold fast to its initial ambitions and hopes. Fearing a collective ethos that downplays the role of the individual entrepreneur, Italy's succession of right-wing governments and their big business allies have tried to tear down supportive legislation and regulations for the cooperative sector, particularly from 2001 onwards. Most recently, the financial cooperatives have had to make some painful adjustments in order to survive in the aftermath of the global financial crisis of 2008. Many other forms of cooperatives in the northern regions were forced to downsize after demand from Italian and European consumers fell precipitately. Nevertheless, northern Italy's cooperative sector has managed to maintain and extend its unique regional/local economic model based on the pursuit of higher average living standards, economic democracy and a high level of social justice.[13]

The Basque region of northern Spain

Spain also provides a number of important examples where cooperative-based local financial systems have produced sustainable local economic development. By far the most important example is that of the famous Mondragón Cooperative Complex (MCC) located in the Basque region of northern Spain. MCC's origin lies in a small cooperatively managed technical training school established by Don José María Arizmendiarrieta, a local parish priest. This was followed in 1956 by the opening of the first worker cooperative in Mondragón making stoves for the Spanish market. Raising the initial financial resources to launch this first cooperative was not easy, however, and it became clear that a bank owned by and serving the community was needed.

The result in 1959 was the establishment of the *Caja Laboral Popular* (CLP, Working People's Bank), a secondary cooperative bank established by four of the town's cooperatives. The CLP grew very rapidly. One reason was that savings were quickly generated among the hard-working and thrifty local population, not least because they knew that this would help start up new worker cooperatives in their community marked by unemployment and poverty. In the early 1980s the CLP also began to mobilize savings from across Spain.

Crucially, the CLP established an 'entrepreneurial division' – a team of specialists able to assess, establish and fund cooperative ventures. New cooperative projects presented to the CLP were carefully evaluated not only on the basis of their individual economic merits and growth potential, their 'strategic fit' as subcontractors within the growing Mondragón cooperative group, but also on their adherence to its core principles of extending industrial democracy, fostering cooperation and providing mutual support. Such careful management and investment of member savings by the CLP ensured that in the first 30 years of operation only a handful of new cooperative projects failed. The CLP also played a crucial local development role by funding the most promising ideas and innovations that emerged from the MCC's own raft of internationally renowned research and development centres.

In the 1990s a restructuring process forced upon the CLP by the Spanish government saw the repositioning of the bank as semi-independent from the operations of the MCC. The CLP was able to successfully generate savings from across Spain, while its lending activities were extended to establishing other types of businesses. Nonetheless, the CLP's priority remained to provide all necessary financial, technical and advisory services to existing cooperatives within the MCC. It also established a separate financial vehicle – MCC Investments – that provides low-cost funds to medium to larger cooperatives across Spain.

The cooperative bank's structure has changed over the years, and the 2008 global financial crisis combined with Spain's dramatic recession affected the MCC's operations considerably,[14] but the CLP continued to play a major role in ensuring the sustainable development of the Basque region. Indeed, it contributed to turning what was once the poorest region in Spain into its richest, with the average living standards and quality of life among the highest in Europe.[15] More specifically, despite huge pressures from conventional capitalist enterprises deriving a competitive advantage from using exploitative working practices, the CLP (now known as *Laboral Kutxa*) has not wilted in its ambitions. It has built the MCC up into a major employer (roughly 75,000 worker-members) while maintaining as much as possible the group's overall focus on extending democracy into the workplace and promoting its wider economic and social justice goals.

Finally, an important aspect of the MCC experience that cannot go unremarked is its transferability. In spite of many critics arguing that the model is interesting but geographically and culturally specific, several other regions in Spain have prospered using the same cooperative parameters and after building their own version of the CLP. By far the most successful is Cajamar, located in Almeria Province in southern Spain. Now the largest cooperative bank in the country, Cajamar was the driving force behind a local economic development success story: the 'Almeria Model'. Its success derives from Cajamar's general support for cooperative enterprises, and for clusters of agro-industrial SMEs assembled in cooperatives in particular. Moreover, as Cajamar's resources and capacity grew with time, it was able to increasingly provide impetus for social innovation, technology acquisition and transfer, and other forms of progressive social and economic development of benefit to the local community. Cajamar's role has been described as that of 'a cooperative bank, (which) in concert with the cooperative movement, was able to construct an economically stable community through sustainable innovation'.[16]

China

It is under-appreciated that the origin of China's spectacular rise to economic power beginning in the 1980s came not from foreign direct investment, as many claim, but from urban and rural credit cooperatives (UCCs and RCCs) set up to finance accelerated local economic development.[17] UCCs and RCCs were multi-stakeholders financial institutions that were community-owned but largely directed by local governments with an important element of member input. Local government involvement in the UCCs and RCCs, as well as oversight by the Agricultural Bank of China (ABC), gave local people the confidence necessary to deposit their savings in them. While up to 30 per cent of deposits mobilized by the RCCs were transferred to ABC, the remainder was invested regionally to create new jobs and promote economic development. It helped that local government incorporated UCCs' and RCCs' operations into local development plans. This meant that they could receive additional funding and other forms of financial and technical support from local governments in order to build enterprises aligned with sustainable development goals. Member involvement also meant that ongoing problems and opportunities at the local level could be passed on to local government officials and acted upon. By far the most decisive factor behind the success of the UCCs and RCCs as a local economic development instrument, however, had to do with the type of enterprises they supported. These were local government-owned and industry-based Township and Village Enterprises (TVEs). Generously equipped with the latest foreign production technologies, with easy access to the port of Hong Kong, the TVEs proliferated rapidly from the early 1980s onwards. By the mid-1990s there were nearly 7.6 million industrial TVEs operating across China.[18] Large numbers of high-skill industrial jobs were quickly created, with employment in TVEs peaking in 1996 at around 135 million.[19] In addition, local government ownership of TVEs allowed for a significant proportion of their profits to be recycled back into further development of the local economy, through establishing incubator units, business parks, training and vocational education schemes, special development funds, and so on. Social facilities were also supported, particularly in the education, sport and cultural fields.

While the TVEs undoubtedly provided the foundation for China's economic miracle, the wind turned when the global neoliberal project spread to China in the early 1990s. With capitalism triumphant in the aftermath of the collapse of Eastern Europe's centrally planned economies, many Chinese policy-makers at the national and local levels began to rethink some aspects of their developmental model and bought into the central neoliberal narrative that local growth would be accelerated if all manner of institutions were privatized and put into the hands of profit-oriented business people. Local governments were encouraged to begin to follow the 'Wenzhou model', an overtly neoliberal, and ultimately unsuccessful, local market-driven economic development model pioneered in that city.[20]

Inevitably, the UCCs and RCCs also came to be seen as 'out-of-date' and 'too interventionist'. Some were also criticized for having run up serious debts. The RCCs and UCCs were therefore put on a path towards privatization. Most UCCs and RCCs were converted into fully private City Commercial Banks and Rural Commercial Banks, respectively. In the process, their original local development goals were stripped away, their successor institutions pursuing financial self-sustainability above all. As a result, the new banks stepped away from supporting TVEs, and began to support a new generation of privately owned SMEs. While the local neoliberal financial model soon disappointed, especially in terms of the growing inequality it generated,[21] it nevertheless played its intended part in creating a new capitalist elite in China that supports and legitimizes the Communist Party in governing the country.

Notwithstanding their eventual demise, thanks to their decisive support for the TVE movement in the 1980s and early 1990s, the UCCs and RCCs played a critical role in kick-starting China's staggeringly successful 'bottom-up' episode of economic development and structural transformation. Large numbers of high-skill industrial jobs were created, entirely new export markets were established, and the average citizen also greatly benefited from the reinvestment of the wealth generated by TVEs back into local public projects and social services.

Vietnam

Vietnam reformed in the mid-1980s. Serendipitously, the country rejected microcredit, instead choosing to follow China's local financial model. As a result, Vietnam established a comprehensive set of financial institutions under national and local government and community-cooperative ownership and/or control.

Typical People's Credit Fund in Vietnam. Credit: Milford Bateman

One of the most important of several financial institutions operating successfully at the local level is the People's Credit Funds (PCFs). The PCFs are commune-based financial cooperatives that were established from 1993 onwards to replace hundreds of credit cooperatives that failed in the 1980s due to weak regulations and a lack of supervision, which led to extensive fraud. The inspiration for the PCF model comes from the Caisse populaire system pioneered and successfully used for many years in the province of Quebec in Canada. Established by the State Bank of Vietnam, the country's central bank, the PCFs now operate under their own cooperative institution, the Cooperative Bank of Vietnam (Coop Bank) established in 2013. By 2017 a total of 1,186 PCFs were in operation involving two million members and eight million households across 56 of the 63 cities and provinces in Vietnam, with most located in rural areas.

The PCFs have played an important role in developing the rural agricultural base in Vietnam. More recently, they have helped support a rural industrialization and SME development trajectory almost as impressive as in China. Often wrongly described as 'microcredit institutions', PCFs rather emphasize support for small enterprises and, in particular, semi-commercial family farms using land leased from the state. They tend to avoid supporting the typical subsistence activities and consumption loans targeted by mainstream profit-seeking microcredit institutions operating in the Global South.[23] Another decisive factor here, as in China, was local governments' efforts to provide quality collective services in parallel to the operations of the PCFs, such as irrigation and agricultural extension services that enabled small farms to 'scale-up' into much more productive semi-commercial family farming units linked to membership of their own agricultural cooperative.

Overall, the PCFs represent a successful cooperative financial institution model that has managed to achieve sustainable and equitable development goals. Despite ongoing lobbying from the international development community for Vietnam to adopt more neoliberal local financial institutions, such as commercial microcredit,[24] the PCF sector has continued to flourish in recent years.

Conclusion

Recent history shows that, since the 1980s, progressive local economic and social outcomes have not materialized under the dominant local neoliberal financial model in the Global South. The adverse experience of the global microcredit model is the main exhibit for this contention. There exists an abundance of positive experiences with alternative local financial institutions since the 1950s, as the four case studies briefly presented above demonstrate. Such non-neoliberal local financial institutions possess at least

One of the newer People's Credit Funds in Vietnam.
Credit: Milford Bateman

three key attributes: (1) they are local state-, community-, or cooperatively owned and controlled; (2) they are not short-term nor profit-driven, but are willing to 'get the prices wrong' (e.g. use subsidies or investment) in order to carefully build long-term local economic development success; and (3) they emphasize the importance of strategically supporting community and cooperatively owned enterprises, rather than conventional investor-driven (capitalist) ones. This evidence clearly suggests that, given sufficient political will and popular mobilization, genuinely transformational progressive outcomes are possible with the right local financial model in place. Crucially, learning from the most successful progressive experiments can allow for building and maintaining often idiosyncratic financial models adapted to local conditions. The example of Cajamar in Spain demonstrates that it was possible to learn from Mondragón and its community development bank, while Vietnam's recent success was built on the radical template provided by China's initial and very successful non-neoliberal local financial model aided by the experience of Canadian financial cooperative models.

Nonetheless, replacing the local neoliberal model of finance with the sort of local community-owned and controlled alternatives outlined in the four case studies will not be easy. As highlighted in our analysis of microcredit, there is much neoliberal ideological baggage to contend with, and huge profit at stake for the financial elite. But history shows that the careful deployment and regulation of local state-, community-, and cooperatively owned financial institutions can be decisive in creating a more efficient and sustainable local economy. And not least this crucial goal can be achieved through support for the many types of democratic, participative and community-owned business enterprises that exist today and that have greatly enriched the lives of the average citizen since the mid-1800s.

ABOUT THE AUTHOR

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NOTES

1 See UNCTAD (2017) Trade and Development Report, 2016: Beyond Austerity: Towards a Global New Deal. New York: UN.
2 Bateman, M. (2010) Why Doesn't Microfinance Work? The destructive rise of local neoliberalism. London: Zed Books.
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5 A notable example is Jonathan Morduch. Co-author of the leading textbook on microcredit, The Economics of Microfinance, and leading advisor to almost all of the major microcredit and financial inclusion bodies, he now accepts that microcredit has failed in its historic task of poverty reduction (see Morduch, J. [2017] 'Microfinance as a credit card' Limn 9. Available at: https://limn.it/articles/microfinance-as-a-credit-card/
6 Mader, P. (2015). The Political Economy of Microfinance: Financialising poverty. London: Palgrave Macmillan.
7 Häring, N. (2017) 'A well-kept open secret: Washington is behind India's brutal experiment of abolishing most cash', Norbert Häring: Money and More, 1 January. Available at: http://norberthaering.de/en/32-english/news/745-washington-s-role-in-india
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9 Restakis, J. (2010) Humanizing the economy: Cooperatives in the age of capital. Gabriola Island, BC: New Society Publishers.
10 Restakis, J. (2010) Humanizing the economy: Cooperatives in the age of capital, Gabriola Island, BC: New Society Publishers.
11 For example, thanks to the high levels of solidarity and community generated because of the emphasis on the cooperative model, the 'red' region of Emilia Romagna has regularly topped European 'Quality of Life' surveys. See Bateman, M. (2007) 'Financial cooperatives for sustainable local economic and social development', Small Enterprise Development 18 (1): 37-49.
12 In the 'reddest' region of Emilia Romagna, for instance, many industries have contracted under pressure from lower cost competition from abroad. Nonetheless, today nearly 2 of every 3 citizens out of a population of 4.5 million are members of a cooperative, and around 30 per cent of the region's GDP is generated in the cooperative sector. See Zamagni, V. (2018) 'The Italian region where 30% of GDP comes from cooperatives', Apolitical, 8 January. Available at: https://apolitical.co/solution__article/italian-region-30-gdp-comes-cooperatives/
13 For example, the very first member of the MCC, Fagor, was forced into liquidation in 2013.
14 See Bateman, M. (2007) 'Financial cooperatives for sustainable local economic and social development', Small Enterprise Development, 18, (1): 37-49.
15 For example, Cajamar took the lead in addressing environmental issues related to the over-use of pesticides and the increasing salinization of underground water supplies that became apparent across the region in the late 1960s. This involved the establishment of three experimental farms financed by Cajamar that would develop and disseminate solutions for all cooperative farms to adopt. See Giagnocavo, C., Fernandez-Revuelta Perez, L. and Ucles Aguilera, D. (2012) 'The Case for Proactive Cooperative Banks and Local Development: Innovation, growth, and community building in Almería, Spain', in S. Goglio and Y. Alexopoulos (Eds), Financial Cooperatives and Local Development, pp. 93-110. London: Routledge.
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20 For example, thanks to asset-stripping, self-awarding of high salaries and bonuses, profits taken out as dividends by new non-local owners and outright fraud, very many of the best TVEs were looted and then forced into bankruptcy by their new private owners. This spasm of private enrichment was one of the main reasons that inequality in China began to shoot up quite dramatically around this time. See Lee, C K. (2014) 'A Chinese developmental state: Miracle or mirage?', in M. Williams (Ed), The end of the developmental state? Pietermaritzburg, South Africa: University of KwaZulu-Natal Press.

21 See pp. 221-226 in R. H. Schmidt, R. H., H. D. Seibel, H. D. and Thomes, P. (2016) From Microfinance to Inclusive Banking: Why local banking works, Hoboken, NJ: John Wiley and Sons.

22 For example, the PCF's average loan size in 2007 was US$931, which can be compared with the US$100 average in Bangladesh's microcredit sector at this time (see Bateman 2010, op. cit, pp. 192 and 231).

23 For much of the 2010s, the World Bank was responsible for coordinating an intense lobbying effort against the Vietnam government to get it to accept the fundamental neoliberal imperative that all local financial institutions be market-driven, privately owned and financially self-sustaining – see pp. 191-198 in Bateman, M. (2010) Why Doesn't Microfinance Work? The destructive rise of local neoliberalism, London: Zed Books.

Chapter 4

KERALA'S WEB OF COOPERATIVES: ADVANCING THE SOLIDARITY ECONOMY

Benny Kuruvilla

The southern Indian state of Kerala is unique in several aspects. It has forged a divergent path from the rest of India with human development and redistribution gains that are on par with developed nations. In the initial decades following its incorporation as a state in 1956, Kerala followed an egalitarian development strategy making remarkable progress in redistributing land, achieving complete literacy and pioneering what was one of the world's first large scale programmes for decentralized participatory planning led by *panchayat*-level (village) governments.

This unique trajectory, labelled 'the Kerala Model' in academic and development policy circles, was advanced by progressive forces in the state that included the Left Democratic Front (LDF, a coalition of Left and allied parties like the [Marxist] Communist Party of India) and a vibrant network of people's movements involved in culture, science, environment, education, labour and women's empowerment. This chapter focuses on one of these aspects of Kerala's developmental experience: how a web of successful worker-run cooperatives function across the state despite multiple challenges including India's tryst with neoliberal reforms in 1991 and subsequent integration with the global economy. Compared to the rest of India, cooperatives in Kerala have benefited from progressive measures undertaken by Left governments such as providing adequate budgetary allocations and strengthening governance, training and research.

Cooperative farmers of the Kudumbashree programme.
Credit: Benny Kuruvilla

With a population of 35 million (less than 3% of India) and limited policy autonomy, Kerala has not been immune to the cementing of neoliberalism in the country and the resultant multiple crises, in agriculture, industry and privatization of essential services such as health and education. How then do Kerala's cooperatives continue to function in an age of increasing financialization, centralization and rising corporate power in virtually all spheres of economic activity?

Situating cooperatives within Kerala's progressive politics

Even before its formation as a state, Kerala had a history of radical labour movements, especially in the northern Malabar region. The Kannur Beedi Workers Union[1] organized a historic 38-day general strike in 1937, pressing for a charter of demands, including the right to read during work breaks. The strike was a limited success; it was withdrawn after a notional wage increase but it succeeded in raising the political awareness of workers and was remarkable for the solidarity it received from people in the neighbouring villages.[2] The All Malabar Peasants Union had a paid membership running into several thousand in 1937 and the Shertallai Coir Factory Workers Union had 98 per cent of workers as members in 1946.[3] This legacy of a strong unionized workers movement was a critical factor in ensuring government policies conducive to the formation of cooperatives as an alternative form of economic organization in the state. In its first state election in 1957, Kerala elected a Communist Party-led government and since then the LDF has held power alternatively with the Congress-led United Democratic Front. Despite being out of power quite regularly, the organizational strength of Left parties and people's movements have ensured the continuity of cooperatives, social schemes and labour rights as exceptional features of Kerala compared with the rest of India.

In May 2016 the LDF was voted back to power, and the Ministry of Cooperation is currently in the process of finalizing India's first state-level cooperative policy, which will help address challenges such as the need for professional expertise in the sector, shoring up finance, technological innovation and avoiding political interference. Whereas in 1946 there were 1,669 cooperatives in the state, in 2018 the Ministry listed 11,892 operational ones.[4] While this is an impressive number, it is instructive to put down some definitional parameters to identify the kind of cooperatives that are the focus of this chapter. The International Cooperative Alliance (ICA), which is the apex body representing some three million cooperatives worldwide, defines a cooperative as an 'autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise'.[5] The next section of this chapter focuses on such progressive worker-led cooperatives that enshrine the values of democracy, solidarity, worker control and alternative production relations. We also touch upon the attempt by the current LDF government to amalgamate various cooperative banks in the state. The chapter concludes with some of the challenges facing the cooperatives movement in the state.

The Uralungal Labour Contract Cooperative Society

The Uralungal Labour Contract Cooperative Society (ULCCS) is one of Kerala's most well-known and successful cooperatives. While the mainstay of ULCCS has been construction of roads, bridges and buildings, it has now diversified into tourism, agriculture, dairy products and also the construction and ownership of its own Information Technology Park.

It was founded as a labour contract cooperative society in 1924 in the context of struggles in the Malabar region for national liberation, labour rights and against caste discrimination. The idea behind setting up ULCCS was to 'promote the economic interests of labourers... and to find suitable and profitable employment for them by obtaining contracts in government, public and private bodies... and by executing those contracts through or with the help of the members and to encourage thrift, self help and cooperation among the members'.[6]

Today, the ULCSS is Asia's largest labour contract cooperative society; it is jointly owned by 3,000 workers and has an annual turnover of 5,000 million rupees (US$71.4 million).[7] Workers vote in a five-member board of directors at an annual general meeting. These elected directors are also the managers of the cooperative.[8] The workers' democratic right goes beyond annual meetings to include workplace participation. The profits from ULCCS's operations are divided among the members after allocating the capital required for purchase of fixed assets. ULCCS claims that a worker's average earnings are approximately 30 per cent higher than in private construction firms.[9] The board members are expected to be at construction sites every day and have regular discussions with the workers engaged in the project under implementation. The board of directors serves for five years and is responsible for the procurement of contracts, purchase of capital equipment, choice of appropriate technology, decisions on diversification and allocation of workers to different worksites. ULCCS functions in a very competitive sector dominated by large construction companies, but it has managed to carve a niche for itself by maintaining an exemplary work ethic in efficient delivery of projects, prudent use of technology and a high quality of work with no compromise on building materials.

Over the years, the state government has played an important role in supporting ULCCS. This includes ensuring preferential treatment to co-operatives while awarding public construction contracts for various road projects and educational institutions.[10] For example, the Kerala government passed orders in 2003 recommending that local governments should give preference for contracts to labour cooperatives. In 2009, the Kerala Tourism Department appointed ULCCS as an executing agency for its projects.[11]

Low-interest loans have also been provided by the government to ULCCS for the purchase of vehicles, machinery and share-capital contribution. Government contracts make up some 52 per cent of total projects and the rest come from the private sector and other cooperatives.[12]

Kudumbashree mission and collective farming by women

The Kudumbashree mission was launched in 1998 by an LDF government as part of a radical state-wide programme called the People's Plan Campaign for Democratic Decentralisation. As it celebrates its 20th anniversary, Kudumbashree (meaning 'prosperity of the family') unites over 4.3 million women in what has been described as one of the 'greatest gender justice and poverty reduction programmes in the world'.[13] The programme is open to one adult woman from every household in Kerala and is primarily organized around neighbourhood collectives comprising women who are economically disadvantaged. As of March 2017, there were 277,175 such neighbourhood collectives across Kerala.[14] These groups also work as a sort of community extension of the local governments and receive loans from various sources such as the National Bank for Agriculture and Rural Development, state and central governments. The programme, with an incredible coverage of nearly 60 per cent of all Kerala households, has spawned a diverse network of collectives spread across sectors such as textiles, construction, transport, restaurants, handicrafts, agroprocessing and farming. Added to low interest loans and subsidies, these collectives are also provided access to technology, training and marketing from the mission office and district resource teams.

Taxi drivers who are part of the Kudumbashree programme.
Credit: Kudumbashree

The women farmers collectives of Kudumbashree form arguably the most innovative and inspiring group. Some 320,000 women are organized into 59,478 collectives and farm up to 43,375 hectares across 14 districts in Kerala.[15] This programme is unique on several counts. The women enter the programme as cultivators, not labourers. A group of four to ten women form what is called a Joint Liability Group, which then identifies the land in the village and surrounding areas for cultivation. Often the land identified is fallow and with the help of the *panchayat*, it is registered in the name of the group. The women get this land on lease with the deed approved by the Kudumbashree district mission office. Members of the collective may also pool their own land. For example, if three to four women own small plots next to each other, they can register it collectively and avail of various incentives provided by the government. Either way, the registered Joint Liability Group is then supported by Kudumbashree in various ways – from facilitating loans for the lease amount at subsidized rates, provision of farm machinery, subsidized seeds, fertilizers and pesticides. The state agriculture department also provides periodic trainings and technical support. The collective members always work on the farm themselves or, if the farm is of a larger size, can hire outside labour. The agriculture produce is first consumed by families of the collective members and the remaining surplus is sold in the village markets.

Workshop of the Kudumbashree programme. Credit: Benny Kuruvilla

Collective farming has been one of the biggest successes of Kudumbashree, with thousands of hectares of otherwise fallow land being brought under cultivation for rice, vegetables and fruits. Recently, the Food and Agriculture Organisation High Level Panel of Experts of the Committee on World Food Security commended the contribution of Kudumbashree to livelihood security and political awareness in Kerala.[16] In the 2015 local governments elections in Kerala, 13,993 members from various Kudumbashree collectives contested and 7,376 women won with an impressive rate of 52 per cent.[17] As India continues to be in the throes of a deep agrarian crisis, an estimated 2,040 quit farming every day.[18] Kudumbashree has bucked this trend and brought tens of thousands of the poorest women in Kerala back to agriculture, enhancing their food and livelihood security and revitalizing production in the state. An estimated 10,000 women are now designated as expert 'master farmers' and help the mission as resource persons and to train volunteers.[19] They are now part of the Kudumbashree National Resource Organisation and are helping other states in India such as Odisha, Jharkhand, Assam, Bihar and Karnataka to replicate the programme. In 2015, officials from South Africa and Ethiopia were also in discussions with the Kerala government for collaboration.[20]

Malabar Meat Products: a social alliance of peasants and workers

The Brahmagiri Development Society (BDS) was set up in Wayanad in 1999 as a response to a deep agrarian crisis in the hill district. With a crash in prices in the region's main crops such as pepper, coffee and cardamom, farmers were caught in a debt trap resulting in several hundred peasant suicides over half a decade. In a meeting convened by villages in the district that was also attended by representatives of Left peasant groups, several proposals were tabled including the importance of diversification of the regional economy by setting up a network of cooperatives.[21] Since 2000, BDS has implemented a range of programmes in collaboration with local *panchayats* such as watershed development, biogas plants, milk cooperatives, farmers' markets, agrochemical products and training workshops for farmers.

The latest BDS project is Malabar Meat, which was launched in 2014. This is a modern meat processing plant set up at a five-hectare campus in the town of Sulthan Bathery. It is India's largest multispecies abattoir and the country's first farmer-worker cooperative in the meat industry with both forward and backward linkages with the local economy. Currently there are 13,500 members from neighbouring villages who are part of various BDS initiatives. Malabar Meat provides buffalo calves, goats and baby chickens at subsidized rates to roughly 2,500 of them. These cattle breeding programmes are partly undertaken in collaboration with the Kudumbashree mission and funded by the National Bank for Agriculture and Rural Development. When the animals and chickens attain maturity for slaughter, the cooperative buys them back at guaranteed market rates, enabling its farmer-members to make a profit. The mechanized slaughter and processing unit provides direct employment to 130 people who are mostly from the local community. Some 16 products including frozen meat, cutlets and sausages from the unit are sold at competitive rates through a network of more than 105 Malabar Meat outlets across the region.[22]

Delivery truck of the Malabar Meat cooperative. Credit: Benny Kuruvilla

Of the total project cost of 200 million rupees, the Kerala government provided 40 million rupees (US$571,000) as a grant and 100 million rupees (US$1.4 million) as a low-interest loan.[23] More funds were raised through member contributions and local people. In February 2017, Malabar Meat received financial assistance of 100 million rupees from the Kerala government for capital investment and for increasing the distribution of calves to farmers under the cooperative's buy-back scheme.[24] The funds from the government have also necessitated a change in the management structure of the cooperative, with four government representatives (from the departments of animal husbandry, dairy development, agriculture and finance) now on its board of directors. While this development marks the transition of Malabar Meat to a quasi-government cooperative it will also help it access further assistance from various state- and central-government projects.[25] Plans are also underway to set up Malabar Meat outlets across the state and enable online delivery. Kerala's new cooperatives policy also addresses concerns about excessive control by government by underlining that the state shall aim to create a conducive environment for ensuring the independent and autonomous functioning of cooperatives.

The Kerala Cooperative Bank

The Kerala Cooperative Bank (KCB) is one of the most ambitious projects of the current LDF Government. The plan is to streamline and consolidate the operations of various cooperative banks under a newly established nodal Kerala Cooperative Bank.[26] Currently Kerala is home to roughly 980 cooperative banks. In addition, it has 1,647 Primary Agricultural Cooperative Credit Societies with a combined deposit of 727.2 billion rupees (US$1.04 billion); [27] these societies are the lowest tier of the cooperative banking system and advance loans to members (estimated at two million in Kerala) and non-members as well.[28] The Primary Agricultural Cooperative Credit Societies also deposit their money in the next tier of district cooperative banks.

According to government reports, the KCB will essentially merge 15 cooperative banks (14 district- and one state-level cooperative banks) and their various branches. With 820 branches across the state, it will be India's largest cooperative bank.[29] The expert committee formed to study the feasibility of the bank underlines that the proposed Kerala Cooperative Bank (KCB) is envisaged as a modern bank for the common people of Kerala including farmers, women, younger generation, small and micro entrepreneurs, non-resident Indians etc. The core of its service would be to the Primary Agricultural Co-operative Societies (PACS) and its members. It will be "a peoples [sic] own bank." The bank shall be offering all traditional and modern banking products and services to the people of the State at affordable cost.[30]

It is estimated that Kerala's cooperative banks and societies provide 70 per cent of the state's total agricultural loans. Much of the savings from Kudumbashree projects are also deposited in the district cooperative banks and PACS that in turn provide loans to the women's collectives for further investment. With Kerala's high rate of inward remittances (approximately US$15 billion per year), the KCB will aim to tap into this vast resource for developmental activities. With KCB expected to begin operations in 2019, it is likely to usher in a new era in channelling public finance for the common good.

Advancing the solidarity economy

The Left continues to be a strong political force in Kerala in part due to its steadfast commitment to democratic decentralization and ensuring people's participation in the development process. But Kerala's innovative and pragmatic Marxists went beyond just deepening democracy; they also showed that when they assume state power in combination with strong unionization, alternative economic policies are indeed possible. Cooperatives across sectors are supported and nurtured through responsive government initiatives and finance. Another important reason for the success of these cooperatives is that they do not function in isolation.

Many of the individual cooperatives are connected through a complex web of cooperative finance, local governments and producer markets and therefore united in a movement that is advancing the solidarity economy. Cooperatives have been widespread in Kerala, therefore contributing in a sense to the resistance against the hegemony of big corporate actors in a range of sectors such as finance, agriculture, retail, diary, transport and construction. The broad spectrum of cooperatives has also meant mutual collaboration within and among various sectors, economies of scale and the ability to introduce technologies that enable them to be viable even in adverse economic conditions.

In August 2018, when Kerala was wrecked by the heaviest floods in a century, many of these cooperatives stepped up to support the LDF Government's historic relief effort. The ULCCS deployed 300 volunteers to Chalakudy, one of the worst-hit towns, to help with restoration work that included electrical, plumbing, masonry and sanitation-related repairs. In just four days, ULCCS repaired 1,000 affected houses free of charge.[31] In addition, ULCCS contributed 2.5 million rupees (US$35,700) to the Kerala Chief Minister's Distress Relief Fund.[32] The women from Kudumbashree, in addition to cleaning more than 100,000 flood-affected houses, contributed an incredible 70 million rupees (US$1 million) to the Fund, which was more than double the contribution of the Bill and Melinda Gates Foundation.[33]

The challenges facing cooperatives are many and they have to continuously reinvent and diversify in a fast-changing and adverse national and international economic context. ULCCS is a success because it managed to remain competent in its core sector of construction but also to diversify into new areas such as information technology and farming. Kudumbashree is now selling many of its products online and Malabar Meat is also expected to begin online deliveries across Kerala. New policies introduced by the central government such as the 2017 Goods and Services Tax have curtailed Kerala's ability to raise resources for social schemes, essential services and developmental projects. The KCB is a response to this fiscal policy bind. Other challenges include the rising power of technology corporations and their evident and future disruptions in the world of work and consumption. The continued push by central governments for deeper trade and investment integration through free trade agreements will further increase the imports of cheaper agricultural and industrial products. But as Kerala's cooperatives gear up to face these complex and formidable challenges, they continue to offer inspiring examples of an alternative future where solidarity enterprises put workers and societal welfare before profit.

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Chapter 5

COMMUNITY WEALTH BUILDING AND RESILIENT LOCAL ECONOMIES: THE ROLE OF ANCHOR INSTITUTIONS

Thomas M. Hanna

Ten years after the Great Financial Crisis of 2008, little has changed in the underlying structure of the American financial system. It remains highly consolidated, risky, financialized and speculative. Rather than a financial system designed to extract wealth from local communities, we need one that supports efforts to build community wealth. To start, we need to think about our existing financial and economic resources differently. By leveraging the procurement, investing, employment and other capacities of large-scale 'anchor institutions' – place-based public or non-profit organizations – we can begin to build more resilient, equitable and sustainable local economies.

When the United States' financial system collapsed in spectacular fashion in 2008-2009 following decades of deregulation, financialization, consolidation and speculation, it sent economic shock waves around the world. This could have heralded the end of capitalism as we knew it, but due to a massive public rescue plan that saved most of the giant Wall Street financial corporations and the '1 per cent' while abandoning tens of millions of ordinary Americans to suffer foreclosure, bankruptcy and unemployment, this did not occur. Highly financialized corporate capitalism not only survived, it has become even more entrenched. Attempts at financial reform have largely failed: the 'too-big-to-fail' banks are now even bigger; the expansion of the financial sector (and reliance on it for growth) continues unabated; new scandals and frauds are uncovered with alarming regularity (Wells Fargo and Citigroup to name just two of the worst offenders); and a highly risky and unregulated shadow banking sector is growing.[1]

According to the conventional narrative, the US economy has now largely recovered from the crisis. But this belies great unevenness, instability and suffering in many local communities that are continuing to lose population as good jobs disappear. Small, local businesses (the engines of job creation in local communities) are vanishing in the face of behemoth corporations such as Walmart and Amazon. Unemployment, poverty and inequality remain shockingly high in disinvested communities. These trends started well before 2008 because they are, at least in part, linked to structural changes in the US financial sector. In short, finance in the neoliberal era is designed to *extract* wealth from local communities in order to fuel speculation in increasingly complex, opaque and global financial products (for the benefit of the few) rather than to efficiently allocate capital to individuals and local businesses. One of the clearest signs of this in the United States is the necessity of a law, the Community Reinvestment Act, requiring banks that take deposits in a certain area to reinvest at least some of this money (in the form of loans and investments) in that community.[2]

Community wealth building

The alternative to wealth extraction is 'community wealth building'. The term, coined by my colleagues at The Democracy Collaborative in 2005, describes an asset-based approach to bottom-up, equitable, inclusive and sustainable economic development. Within the overarching framework of subsidiarity, there are eight basic principles of community wealth building:

- Labour before capital: We need an economy in which people matter more than just maximizing profits.
- Broad-based ownership: A thriving and equitable economy requires ownership where control and economic advantages are spread broadly (e.g. cooperative, community, public or worker ownership).
- Active democratic participation: To build community wealth, we need to rebuild the fabric of active community, with opportunities for real participation and collective decision making at all levels of the economy.
- Multipliers: Local purchases keep money in the community longer where it 'multiplies' because residents and businesses are more likely to spend locally. This translates into a more prosperous, stable and tighter-knit community.
- Localizing investment: There are vast pools of capital in the investment portfolios of local anchors; in personal, institutional and public bank deposits; and in pension funds and retirement plans. If deployed locally these assets could be a powerful vehicle to build community wealth (rather than fuel financial speculation).


CITY COUNCIL
PUBLIC INSTITUTIONS
BUILDING COMMUNITY WEALTH
spending
employing
investing
Cooperative restaurant
GREENHOUSE
OPEN

- Collaboration: Building community wealth is not just about more money locally, it is about the power (including political) that comes from building lasting relationships of mutual support.
- Place: An intentional place-based strategy to make sure local assets work to build community wealth is needed to ensure that those who need it most in local communities are first in line for new opportunities.
- Systemic change: Community wealth is not about isolated, small projects within the current political economic system. It is where the next system begins and is about taking the first steps towards truly transforming our economy so that it works for the many, not the few.

While not neglecting the urgent imperative to fundamentally restructure the existing, extractive financial sector, community wealth building envisions mobilizing other sources of capital and assets to catalyze and scale new democratic, equitable and sustainable businesses, organizations and approaches at various levels.

Ystemia Jackson, an Evergreen Cooperative Laundry worker-owner since November 2017. Credit: Ken Weiss

Anchor institutions

As mentioned above, one source of such capital and assets can be found in anchor institutions – large, public and not-for-profit institutions rooted in local communities that reject their for-profit counterparts' strategy of extracting public subsidies or moving facilities where labour and other costs are the lowest in a race to the bottom on tax revenue, job quality, services and environmental standards. Anchor institutions can include hospitals and health facilities, schools and universities, cultural institutions (e.g. museums), community foundations and other philanthropic organizations and local government (including municipally owned enterprises). In the United States, hospitals and health systems alone collectively spend more than $900 billion annually and hold investment portfolios of $400 billion.[3] Adding in universities takes the spending total to roughly $1.5 trillion a year and investment portfolios to nearly $1 trillion.[4] Moreover, these institutions are recipients of considerable *public* funding in the form of reimbursements for healthcare services (from programmes such as Medicare and Medicaid), tuition assistance, general operating support (especially for public institutions), research grants and more. For instance, in 2016 the Cleveland Clinic – a massive health system based in Cleveland, Ohio – received $1.81 billion in payments from Medicare and Medicaid alone, amounting to 35 per cent of its total revenue.[5] Anchor institutions are often exempt from many local, state and federal taxes and are major land and other physical asset owners.[6] In some US cities, non-profit organizations (with universities and hospitals being the most dominant) own more than half the land.[7] This represents a large-scale public subsidy and creates a problem for many cash-strapped cities that rely on property taxes to fund basic operations and services.

Increasingly, and with assistance from groups like The Democracy Collaborative, the Coalition of Urban and Metropolitan Universities, the Anchor Institutions Task Force and many others, local stakeholders across the United States including community groups, economic development practitioners and municipal officials are coming to see anchor institutions as a potentially game-changing resource for advancing equitable, democratic and sustainable economic development at significant scale and building community wealth. Moreover, these anchor institution strategies and approaches are beginning to spread around the world. In Toronto, Canada, for instance, the Atkinson Foundation and others are looking to build upon existing small-scale experiments and take advantage of the massive economic power of local anchor institutions (with more than $10 billion in annual procurement and hundreds of thousands of jobs).[8]

For their part, many anchor institutions are beginning to engage with and embrace the 'anchor mission', that is a commitment to intentionally and comprehensively apply the institution's assets in partnership with community to mutually benefit the long-term well-being of both. In the United Kingdom, for instance, the National Health Service with its £110-billion annual budget and 1.4 million employees has recently included anchor institution language in its strategic plan.[9] For these institutions, the anchor mission can include filling supply chain gaps, reducing hiring costs and workforce turnover, creating more resilient supply chains and reducing costs associated with unnecessary and preventable hospitalizations. This commitment can be expressed in at least three areas: procurement, investment and workforce.[10]

Procurement

Many large anchor institutions purchase billions of dollars of goods, services and supplies each year,yet very little of this is spent locally. If even a small amount of an anchor institution's purchasing is directed to local or democratically owned businesses, it can have considerable positive economic impacts in the surrounding community.

Procurement dollars spent at diverse, local vendors recirculate in the community at a greater rate than money spent with large, extractive corporations. This has a multiplier effect that can lead to more jobs, greater tax revenues, better public services and, ultimately, healthier, safer and more prosperous communities. Moreover, procurement dollars that are spent at local, *democratized* businesses such as worker cooperatives, employee-owned firms and social enterprises run by non-profits and community corporations, as is happening in Cleveland, provide additional benefits related to family wealth and asset building.

Box I

Evergreen Cooperatives network

The Evergreen Cooperatives In Cleveland, The Democracy Collaborative worked with partners in local government and the philanthropic community to help set up the Evergreen Cooperatives network of worker-owned companies. The network currently consists of three ecologically sustainable worker cooperatives with a total of 200 workers, and was consciously set up to meet the procurement needs of large anchor institutions in the local community ($3 billion annual spending on goods and services). The network currently includes a large-scale green laundry, a solar panel installation and energy retrofit cooperative, and one of the larger urban greenhouses in the United States.

This strategy is beginning to bear fruit, with the cooperatives winning contracts from the anchor institutions and workers–owners enjoying good paying jobs with benefits (including a home-ownership programme) and building their capital accounts. In May 2018, the laundry cooperative announced a massive expansion when it was awarded a contract to take over operations from the Cleveland Clinic. As a result, more than 100 workers at the new facility are on an expedited path to ownership.

Urban greenhouse that is part of the Evergreen Cooperatives network.
Credit: Ken Weiss

Investment

Many anchor institutions have significant financial assets in the form of investments, much of which currently helps fuel the speculative activity of Wall Street. If a portion of these resources were reallocated to place-based investments it would shift billions of dollars towards addressing economic and environmental disparities in local communities (with a continuing healthy rate of return). Ways in which anchor institutions can begin to use their investment assets to build community wealth include:

- shifting some of their sizeable deposits into local community banks and credit unions (especially community-development financial institutions) where they can be used to expand capital access to residents and local businesses;
- providing capital to financial intermediaries that lend to borrowers that are addressing local social, economic and environmental needs (e.g. worker cooperative development funds);

- making direct investments in local businesses that provide community benefits and helping them convert to employee ownership;
- investing in local public infrastructure, affordable housing, renewable energy systems and other projects with positive social, economic and environmental impacts.

Box II

Trinity Health

Trinity Health Headquartered in metro Detroit, Trinity Health operates in 22 states, employs 133,000 people and has revenues of $17.6 billion.[11] Formed when several Catholic health systems merged, Trinity institutionalized the community investment programmes that some of these smaller systems had developed and adopted a socially responsible investment policy in the early 2000s. While Trinity's Community Investing Program currently only consists of roughly 1per cent of its operating investment portfolio, this still amounts to tens of millions of dollars invested in community development (e.g. affordable housing, business development, healthy food access, schools and community facilities) through local community-development financial institutions. Loans are usually made for three-year terms, with five-year terms for larger institutions, and generate an average 2 per cent rate of return.

In 2016, Trinity launched the Transforming Communities Initiative, a set of six community multi-sector partnerships that will receive a combination of grants, loans and technical assistance. Trinity focuses its investments on underserved communities generally, and the needs of women and children specifically. It believes that 'the business case is the health case (...). Community investment can no longer be seen as "nice to have" and an add on, but as necessary to improve the health of the communities that hospitals serve.'[12]

Workforce

Anchor institutions are also major employers in many local communities. For instance, in Baltimore, Maryland, the top four largest private-sector employers (including non-profits) are anchor institutions: Johns Hopkins University (27,095 local employees); the University of Maryl and Medical Center (22,533 local employees); John Hopkins Health System (22,090 local employees); and MedStar Health (10,400 local employees).[13] Through local and inclusive hiring, along with conscious-training and workforce-development efforts, anchor institutions can create career pathways for low-income, minority and hard-to-employ populations. The good jobs with benefits and career pathways offered by many anchor institutions can be transformative in their communities, especially where unemployment is high and skills and educational attainment are low. It creates a multiplier effect as economically secure workers buy homes (and upgrade existing ones), spend money locally, get appropriate medical care and pay more in taxes (which improves schools and other services). And for anchor institutions, building robust and inclusive local-hiring pipelines is a long-term investment in a workforce that is more productive and invested in institutional success, in addition to the benefits of a neighbouring community that is healthier, safer and more economically secure.

One example is the West Philadelphia Skills Initiative (a workforce intermediary), which partners with anchor institutions to train local residents for specific full-time jobs that are connected to a career ladder at local anchor institutions. The programme focuses on a 4-km^2 geographic area with around 240,000 people and 75,000 jobs. The application and screening process is highly competitive and selected participants are paid during training to enable engagement. The training process is specifically tailored to the skillset required to fill vacant positions at a participating anchor institution (such as certified medical assistants, in-patient clerks, lab technicians, security officers and information technology support). While there is no requirement that the anchor institutions hire graduates, the programme has a 95 per cent placement rate and a 92 per cent retention rate.[14]

Box III

The Preston Model

In the United Kingdom, leaders on the Preston City Council were partly inspired by the Evergreen Cooperatives model described above and are working with the Centre for Local Economic Strategies (CLES) to respond to the failures of the extractive financial system.[15] The city had been pinning its economic revitalization hopes on a £700-million shopping centre with large national chain stores; but after the devastating financial crisis, credit and demand began to dry up, the companies pulled out and the development plan collapsed.

So far, the 'Preston Model' has been remarkably successful. In 2013, seven local anchor institutions (including the Preston City Council, the University of Central Lancashire, Preston's College and Cardinal Newman College) collaborated to spend £38 million in Preston and £292 million in the surrounding county (Lancashire). By 2017 this was up to £111 million and £486 million respectively, with new local contracts covering everything from school lunches to large-scale construction projects.[16]

As part of the Preston Model, the Council has also helped establish the Preston Cooperative Development Network, which seeks to develop worker- and consumer-owned businesses in the city.[17] In early 2019, the network helped launch a worker-owned restaurant with a social-benefit mission located in a publicly owned property. The Council was also one of the first in the nation to embrace a living-wage standard, adopting it for council employees and encouraging other enterprises in the city to do the same.[18]

Conclusion

More than ever, our financial system remains predicated on an extractive and speculative model that prioritizes the profits of a few over investments that can benefit the many. Another financial crisis is a certainty; only the questions of timing and severity are up for serious debate. And when the crisis comes, it will be families and businesses at the local level that will inevitably be hardest hit. Communities should be actively preparing for this eventuality by leveraging their existing resources to build resilient, equitable and sustainable local economies. Such resources include the economic and financial power of local anchor institutions that exist, in one form or another, in every community around the world. These anchor institutions are increasingly understanding that, as major economic players and conduits of significant public funds, they have both the capacity and moral obligation to meaningfully improve the lives and livelihoods of their neighbours, employees, students and patients. Along with interventions at various other levels, this can begin to form the basis for a structurally different financial system.

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Thomas M. Hanna is Research Director at The Democracy Collaborative, a research and development lab for a more democratic economy based in Washington, DC. His areas of expertise include democratic models of ownership and governance, particularly public and cooperative ownership. His recent publications include Our Common Wealth: The Return of Public Ownership in the United States (Manchester University Press, 2018), The Crisis Next Time: Planning for Public Ownership as an Alternative to Corporate Bank Bailouts (Next System Project, 2018) and, with Jarrid Green, Community Control of Land and Housing: Exploring Strategies for Combating Displacement, Expanding Ownership, and Building Community Wealth (Democracy Collaborative, 2018).

NOTES

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Chapter 6

THE SOCIAL AND SOLIDARITY ECONOMY AND THE RISE OF NEW MUNICIPALISM IN SPAIN

Ana Álvaro, Adrián Gallero, Miguel Ángel Martínez, Fernando Sabín and Sandra Salsón

The ‘social economy’ refers to economic structures that emerged halfway through the mid-ninteenth century in the midst of the Industrial Revolution in Europe and that placed the means of production in the hands of the people (workers, consumers, etc.). These structures provided a stable framework for democratizing the economy. Cooperatives are the prime example, but other forms such as associations, participatory foundations, mutual societies and so on spread all over the world.[1] The social economy became widely known in the 1980s. Over time, globalization processes gave rise to the ‘Another World is Possible’ movement culminating in 2001. Parallel to that, the concept and proposals of the ‘social *and solidarity* economy’ (SSE) emerged as the movement’s economic arm: a global and more critical political and economic proposal that provided not merely a business formula to ‘humanize’ the capitalist system but also an alternative that placed people and sustainable living at the centre of the economy – in line with the principles of equity, work, environmental sustainability, cooperation, non-profit, social commitment, gender equality and respect for diversity.[2] The SSE covers every area of economic life: paid work and care work, housing, consumption, the environment, education, industrial processing, agriculture, environmental management, health, culture and so on. This chapter provides an overview of the main policies, actions and measures that municipalist governments in various Spanish cities are implementing to promote the SSE.

Performance at Social and Solidarity Economy Fair in Madrid.
Credit: SSE

Municipalist alternatives spreading across Spain

Although Spain has a long SSE tradition, especially in certain regions,[3] it is only in the last few years that it has begun to be included in government structures and policies. The SSE provides a collective economic alternative that works for people, designing solutions for territorial development with economic foundations based on sustainable living. The year 2011 was in many ways a before-and-after moment for Spain's political system: the citizens' movement '15-M' brought millions of Spanish people out onto the streets to demand genuine democracy. This social movement created citizens´ platforms to put up 'municipalist' candidates for the local government elections, and they are now running some of the country's main cities, such as Zaragoza, Barcelona, Madrid and Coruña. Their manifestos included some of the demands drawn from the SSE agenda,[4] such as: to support responsible and transformative business models; to foster new types of relationships among government, citizens and companies in cities;[5] to encourage citizen participation in policy-making; to promote responsible consumerism and local trade; to bring basic public resources such as water and energy back under municipal government and/or cooperative management; to manage housing differently; and to protect the environment and natural resources. In short, the citizens' platforms sought to develop sustainable cities in which the economy is at the service of people, the common good and sustainable living. So far examples of the SSE in action include:

- cooperative supermarkets in the country[6] (La Osa, Madrid; A Vecinal, Zaragoza); bicycle courier cooperatives called Mensakas (Barcelona) and La Pájara (Madrid) set up as an alternative to the giant web-based companies such as Uber or Deliveroo; construction of cooperative housing (La Borda, Barcelona);
- setting up of cooperatives for women employed as domestic workers as a way to improve their working conditions (A3Calles, Madrid);

- cooperation between municipal governments and community centres (EVA, Madrid; Patio Maravillas, Pamplona; Can Batllo, Barcelona; Casa das Mulleres Xohana Torres, Coruña; etc.);
- introduction of a guaranteed basic income for citizens (Coruña and Barcelona);
- and basic services once again returned to municipal government management (electricity in Barcelona; cleaning in Castelldefels; bicycles in Madrid; payment collection service in Oviedo; water in Terrasa and Valladolid; transport in Santiago de Compostela, etc.).

These concrete changes were made possible by some key policies and measures implemented by municipalist governments in various Spanish cities to promote the SSE, as presented here.[7]

Market stands at the Social and Solidarity Economy Fair in Madrid. Credit: SSE

Strategic plans and funding to promote the SSE[8]

A host of new public policies are being developed by some municipalist governments, including the adoption of strategic plans that promote issues such as sustainable consumption and SSE at the city level and in an integrated way, through measures centred on: a) services concerning technical advice and training; b) support for SSE businesses to access finance; c) mutual cooperation dynamics such as fairs and social markets; d) awareness-raising and public information campaigns; and e) reactivation of the community and neighbourhood economy.

In terms of municipal funding, the City Council in Madrid has recently approved a *Social Economy Strategy*[9] that includes dozens of actions with €5.9 million in funding. Similarly, the City Council in Barcelona has allocated funding of €24 million for its *Plan to Promote the Social Economy.*[10] Strategic plans by municipal governments provide solid foundations for the development of the SSE because they delineate a long-term vision, which enables citizens and policy-makers to join forces in pursuing fundamental socioeconomic changes and to sustain this thriving movement.

Socially responsible public procurement policies

In the European Union, government procurement to meet society's needs equals 20 per cent of gross domestic product (GDP).[11] Thus the way in which governments obtain these goods and services is decisive: socially responsible public procurement can become a powerful means to transform the capitalist system.

Even though small and medium-sized businesses account for 80 per cent of the Spanish economy, multinational companies still obtain the majority of government contracts. To reverse this illogical situation, the Spanish SSE movement is calling for socially responsible public procurement that establishes fair trade, environmental, and gender equity standards that companies must meet before they are eligible to manage a public service.

Following this approach, 5 per cent of contracts tendered by the city council of Coruña are now reserved for social enterprises that give priority to employing people from disadvantaged groups. In Zaragoza and Barcelona regulations have been introduced recommending that businesses operating in the social economy be contracted or subcontracted for a minimum of 5 and 35 per cent of public procurement, respectively. Another requirement introduced by Córdoba is that the food supplied as part of contracted public services should preferably be organic and fair trade. In Avilés, a public hiring policy gives priority to young people, people over 45 and people with disabilities.

A focus on socially responsible public procurement benefits SSE businesses such as cooperatives, socially inclusive businesses or not-for-profit businesses, thus promoting a more democratic and inclusive management of public services. This is undoubtedly a good way to redistribute wealth.

Providing spaces for social and community economy activities

With the aims of promoting local development, rehabilitating underused spaces and creating symbolic buildings to make the SSE more visible, some local governments have handed over infrastructure or land for SSE activities. Examples include Pamplona-Iruña with the Geltoki project[12] in the city's old bus station; Gernika's Astra,[13] a former arms factory; and Barcelona's Coòpolis, an old warehouse in the historic Sants neighbourhood now being used to promote the SSE. In other cities and towns such as Madrid, Valencia, Seville, Carmona and Elche, local governments have recently placed municipally owned properties at the service of the SSE.

Experimental projects have been launched in some municipalities to promote the SSE in local settings and to spark innovation in local socioeconomic development. The MARES Project in Madrid and Coòpolis in Barcelona are success stories in this regard.

Coopolis project organizes walk with university students about how to build community in the neighbourhood. Credit: Coopolis

Box I

Community-centred development models in Madrid and Barcelona

Madrid's MARES[14] is an innovative project to transform the city through SSE initiatives in four areas and five sectors that are strategic for changing the urban model. Twenty per cent of the project's funding comes from the municipality and eighty per cent is from the European Union. The project came as a direct response to the recent economic crisis and sought to create value by turning citizen initiatives into productive enterprises in sectors as diverse as transportation, food, recycling, energy and care. Over a period of three years, MARES has set out to aggregate, scale up and promote the growth of this ecosystem of social initiatives, enterprises and organizations to achieve community-centred economic development based on sustainability.

Another project that stands out for its ability to make an impact on urban development is Coòpolis in Barcelona,[15] a community-based project receiving support from the Barcelona City Council, that has become the biggest centre of cooperativism in the south of Europe with 4,200 m2. Located in the neighbourhood of Sants, a district with an enormously valuable cooperative movement history that dates back to the early twentieth century, Coòpolis articulates a whole network of SSE businesses with a strong commitment to urban and economic change, as well as a very active network of neighbourhood and cultural associations. Industrial buildings that had fallen into disuse now house the Coòpolis project, including free incubation spaces, all kinds of workshops, coworking spaces, informative classrooms, rest areas and meeting rooms. Coòpolis is based on a model of governance that keeps autonomy and power in the hands of local businesses and associations.

Co-workers working in one of the four ecosystems belonging to the MARES project in Madrid. Credit: MARES

Ethical financing initiatives

Another important initiative launched in recent years to promote the creation of alternative economic circuits is the co-funding campaigns between local governments and SSE organizations. One example is *matchfunding*, where a sum of money from local government complements the citizen contributions campaigns to raise small donations and thus increase the funds available. Early experiences are the €12,000 provided by the Zaragoza City Council to promote ideas and local projects in the fields of energy, mobility, environment, technology, digital culture, science and audio-visuals or the €96,000 euros provided by the Barcelona City Council in campaigns around creating cooperative and communal economies and projects for local, social entrepreneurship.

Another way in which ethical funding has been promoted is through joint funds by local governments and ethical finance organizations. In Valladolid and Madrid, the city councils have provided €100,000 to enable such financial institutions to provide interest-free loans for people with limited access to funding from commercial banks: unemployed people over 45, the long-term unemployed, people with disabilities, vulnerable women and immigrants, among others.

Social currencies are also a way to value local forms of socioeconomic organization that bypass money and encourage critical consumerism. In Barcelona, a sample of 315 families receiving social security allocations get part of that income in the new citizens' currency (REC, Citizen Economic Resource), which can be used in 85 small local businesses that are part of the initiative. The aim is to strengthen local trade and neighbourhood businesses. The initiative, currently in a pilot phase, is set to grow to an estimated €1.5 million in neighbourhood trade in two years' time. Other cities such as Seville and Madrid are now assessing the feasibility of similar schemes.

Innovative approaches to manage public services

All over the country, small-scale experiments in public services propose new models that could radically transform governance in cities and towns based on cooperation between local governments and society. Essential and strategic public services have been brought back under municipal government management or added to the portfolio of public services. Some examples are the management of energy and water, new transportation services or other local government services such as cleaning or funeral services that had been privatized in the last decades. Some other projects are being launched as public-community partnerships for joint management which is complicated and does not have much of a tradition in Spain, but which is providing a very valuable testing ground. They include: La Harinera in Zaragoza, a municipal cultural space where decisions are taken jointly by citizens, cultural players and the city council; the users cooperative *Comunitat Minera Olesana* that manages the integral water services of the municipality Olesa de Montserrat;[16] or the network of 14 cooperative spaces in Cataluña, which brings together more than 121 local public and private organizations.

The below mentioned projects reflect different ways of understanding the operation of companies and the relationship between governments and people. One of these arrangements' first achievements is to normalize collective enterprises, breaking with the hegemonic model of the successful, all-powerful individual male entrepreneur.

New relationships between the SSE and local governments: daring to make an impact

After little more than three years into the new municipalist governments' terms, it is too early to identify clearly what impacts the different SSE policies have had in the cities and their surrounding areas. The changes that have taken place should not be solely attributed to the municipal policies implemented in recent years: the economic crisis and the rise of the major social movement known as 15-M led to profound changes in people's lifestyles and ways of thinking.

In the institutional sphere, most economically influential international organizations have gradually signed up to the pro-SSE discourse. Although this may only be with a view to shifting from a blatantly greedy capitalism to one that is more humane and sensitive, these positions have been key to grounding certain transformative economic policies.

With the disclaimer that some governments are more genuinely committed to the SSE than others, clearly SSE policies have become more mainstream in Spanish municipalities since 2015. On that basis, we can draw a few conclusions as presented below.

The social solidarity economy is here to stay

It seems reasonable to expect that after the 2019 municipal elections the policies to promote the SSE will continue, for three reasons: first, there is now a critical mass supporting the SSE in society and business, to such an extent that it has become a voice that can influence economic policies; second, there is unanimity among public authorities in proclaiming its benefits; and third, developments in legislation and the adoption of directives from the EU have led to the most conducive legal framework for the SSE that Spain has ever seen.

In spite of this, it is unlikely that we will see substantial changes in the structure of the productive fabric and, more importantly, in knowledge of the SSE among the general public.[17] The absence of a compelling narrative around transformative economies that are feminist, solidarity-based and green – perhaps only with the exception of Barcelona[18] – is preventing the SSE proposal from reaching all citizens and from achieving a bigger impact.

New faces in the cities

After nearly four years we can see some significant changes in the landscape of our cities. For example, the new uses of municipal buildings are unmistakable evidence that something is changing in the city. These buildings were already there, but were underused or vacant, and the municipal governments, in collaboration with SSE organizations and other citizens' groups, have transformed them into stable facilities for promoting the SSE. The aim of these facilities is to create the so-called SSE territorial ecosystems.

New sources of support

In some cities such as Madrid, support for the SSE is so recent that it is too soon to measure the impact it has had on businesses, people and the city. Nevertheless, we can point to two things: first, this support can be expected to lead in the medium term to many new initiatives, while existing ones will become stronger. Second, given the possibility that citizen-led and SSE initiatives will be able to bid for government contracts, in the medium term municipal basic services could become not-for-profit and community-run.

Continuous participatory management of the city

Moving forward with the introduction of participation and decision-making mechanisms for citizens is one of the goals of the new municipalism movement. This is directly connected to the values of the SSE and should permeate municipal policy on two levels. First, people need to have a say in how the city is managed and be allowed to weigh in on budgeting decisions; second, citizens need to have a decisive influence on new models that include the public-community management of the city's resources. This poses a complex challenge, and there will be a lot of resistance to it, as it implies building a new sphere of the commons. What is for certain is that the SSE will continue to be the organized expression of economic citizenship.

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NOTES

1 Cooperatives – and the social economy as a whole – are based on 7 cooperative principles: Voluntary and open membership; Democratic member control; Member economic participation; Autonomy and independence; Education, training and information; Cooperation among cooperatives; Concern for the community. https://www.ica.coop/en/cooperatives/cooperative-identity

2 Charter of Principles of the Solidarity Economy: https://www.economiasolidaria.org/carta-de-principios

3 Over the last forty years, significant frameworks have been established in the Basque Country, Cataluña, Andalucía and Murcia, while specific plans developed more recently include the "Innovation Strategy for the Social Economy in Andalucía 2010-2013" and the "Navarra Integrated Social Economy Plan 2017-2020".

4 It is worth bearing in mind, however, that the powers required to develop the SSE are mainly in the hands of the autonomous communities, the government level higher than the municipalities.

5 New paradigms for public-cooperative-community partnerships instead of the large corporations owned by anonymous investors that mostly operate in cities.

6 Inspired by the Park Slope Food Coop cooperative supermarket in Brooklyn (NY).

7 Several of Spain's municipalist governments have recently drawn up a map that brings together some of the main policies for change, including local government policies to support the social and solidarity economy. The website socioeco.org has also designed a map of government policies from all over the world in support of the social and solidarity economy.

8 These include the "Barcelona City Council's SSE Promotion Plan 2017-2019", the "City of Madrid's Social and Solidarity Economy Strategy 2018-2025" and the "Seville Social Innovation Master Plan for Employment 2016-2020", which were drawn up by means of participatory processes involving numerous different community groups in these cities. Another relevant milestone is Madrid's "City of Care Plan", which stands out for being one of the first examples of placing the care economy at the centre of local development policies.

9 The City of Madrid's Social and Solidarity Economy Strategy 2018-2025: https://www.madrid.es/UnidadesDescentralizadas/UDCObservEconomico/CarpetaEspecialInformativo/Actividades%202018/ESTRATEGIA__MUNICIPA%20DE%20ESS.%20DEFINITIVO.pdf

10 Plan to Promote the Social and Solidarity Economy 2016-2019: https://ajuntament.barcelona.cat/economia-social-solidaria/es/acompa%c3%b1amiento-y-formaci%c3%b3n

11 For more information, see: http://www.obcp.es/

12 For more information, see: http://www.pamplona.es/verPagina.asp?idPag=231094EN

13 For more information, see: http://archivetaz.org/fabrica-de-creacion-de-cultura-astra-de-gernika/; http://www.astragernika.net/

14 For more information, see: https://maresmadrid.es/

15 For more information, see: https://bcn.coop/bienvenidos-a-coopolis/

16 Article by Mariana Vilnitzky, 2017, on the website of newspaper El Dario about the users cooperative Comunitat Minera Olesana: https://www.eldiario.es/alternativaseconomicas/Aiguacoop-cooperativa-ciudadania__6__691590860.html.
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17 Rubio, X. Los retos de la economía solidaria. Revista Alternativas Económicas. Octubre 2016

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Chapter 7

BUILDING BOTTOM-UP FINANCE SOLUTIONS FOR COOPERATIVE HOUSING IN CENTRAL AND SOUTHEASTERN EUROPE

Agnes Gagyi

The MOBA Housing Network is a collaboration of emerging cooperative housing initiatives in Central and Southeastern Europe (CSEE). Its aim is to create institutional frameworks for affordable financing for a new generation of cooperative housing in the region. The network's name, MOBA, means 'self-build through mutual help' in Serbo-Croatian. The self-building of homes is a widespread, long-established popular practice in the region that reflects a structural gap between incomes and housing costs, in which households collaboratively complement the incomes they gain from formal labour markets with unpaid informal labour to secure housing needs for each other. The MOBA Housing Network emerges from the same structural context, but addresses the specific topic of housing finance. What it 'self-builds through mutual help' is an institutional framework that enables lower-income populations in the region to collectively access finance for affordable housing, a model for systemic transformation of local housing markets that can be applied beyond the CSEE region. Pilot projects that are under way in Budapest, Ljubljana, Belgrade and Zagreb show that the framework can be a viable alternative to provide stable, affordable, socially owned housing.

Builders - members of the cooperative - and allies enjoy lunch break while renovating the first rental cooperative house in Budapest.
Credit: MOBA Housing Network

From single cooperative housing projects to a regional finance framework

MOBA came to life in 2017 when members of housing cooperative initiatives from Belgrade, Bratislava, Budapest, Ljubljana and Zagreb started to discuss and share their perspectives. Soon they recognized that the factors that slowed their progress locally had common, systemic causes rooted in the region's position within global financial markets, and in the peculiarities of post-socialist housing geographies: the lack of affordable housing finance, no public support to mitigate this gap for lower-income populations, and the absence of legal and institutional frameworks recognizing cooperative housing models. Coming together as bottom-up, localized collectives, MOBA pioneers decided to address these systemic limitations through building a regional institutional framework to attract, channel and manage financial flows for housing cooperatives. Coordinating strategies and advocacy were seen as the necessary 'first step' to scale and replicate local initiatives.

MOBA projects were launched by architects, project managers, activists, sociologists, finance experts and social organizers – a generation of professionals who grew up during the post-socialist transition started their careers around the 2008 crisis, and found themselves increasingly confronted with housing insecurity and unaffordability. Beyond personal concerns, the initiators sought to engage in hands-on projects that drive systemic transformation and to develop people-led, non-state and non-market solutions. Rooted in varied professional-institutional backgrounds and activist contexts, MOBA projects represent different locally embedded takes on similar structural deficiencies.

The group took a step back to assess the current conditions and gaps in housing finance in order to create enabling frameworks and the financial infrastructure for large-scale investment in cooperative housing. Their individual and collective stories – outlined in the boxes below – illustrate the buildup of crossovers between professional work and activism in the field of housing and urbanism in the last decade, and offer alternative models for systemic transformation of local housing markets beyond the CSEE region.

Box I

Rákóczi Collective **(RK), Budapest, Hungary** has been organizing with the aim of creating rent-based housing cooperatives in the country since 2012. It is run by some 15 core members and is in contact with 5-6 other aspiring co-housing initiatives. Members of RK have been catalyzers of a number of initiatives in the emerging solidarity economy ecosystem in Hungary, such as the Gólya Cooperative Bar and Community House, Periféria Policy and Research Center, Social Housing Reconstruction Camp, College for Advanced Studies in Social Theory, and the Budapest Metacooperative. Motivated by the increasingly unaffordable housing market in Budapest and their broader understanding of housing problems nationally, they explored solutions for housing affordability combined with innovative community living arrangements. *Cinka Panna* is the pilot housing project of RK. It is a three-storey multi-family house for nine people in a popular residential area just outside the center of Budapest, where cooperative members moved in early 2019. Along individual spaces, Cinka Panna offers shared kitchens and bathrooms, large community spaces and a garden. Capitalization is achieved through a joint investment by the cooperative members and external 'friendly lenders and investors' in their wider informal network (these direct private loans are expected to be partially transferred to a bank loan as soon as ongoing negotiations with a local ethical bank are over). Thanks to the financial model and energy-efficient renovation, rent levels are calculated at roughly 60 per cent of the current market price in the area. With their present capacities and once a sustainable credit line is achieved, RK would like to replicate the model of Cinka Panna.

Box II

***Zadrugator Cooperative*, Ljubljana, Slovenia** started as an informal group in 2014 and was formally established as a housing cooperative in 2016. By 2018, Zadrugator had become the leading organization dealing with research and development in the field of housing cooperatives in Slovenia. Their pilot project, *Zadrugator Housing Cooperative,* will be constructed as a three-storey building with apartments and common spaces close to the center of Ljubljana, on a plot provided by the municipality, and is aimed to serve as a test case for developing housing cooperatives nationally. The Slovenian national housing fund is providing part of the loan, while the municipality provides the plot for the cooperative to build on. Rents are calculated at a level that is lower than market price, but allows the accumulation of income to reduce the risk of repayment default. To keep the rent low and prevent speculation, the local authorities retain ownership of the plot, while the cooperative is awarded a 99-year lease.

Zadrugator is already working closely with future tenants to address their housing needs. The house will serve 125 people, mainly young families, elderly people and precarious workers. The cooperative will also enable strong social ties, thanks to 15 per cent of shared resident facilities such as a shared kitchen, mixed-use community space, a library of things and so on, to be used by residents and the local community.

Box III

***Ko Gradi Grad* (KGG, Who Builds the City), Belgrade, Serbia** began in 2010 as an informal platform and is today one of the leading not-for-profit, citizen-led housing organizations in Serbia. KGG is tackling the housing problem using several strategies, including legal advocacy and direct action. Their 'smarter building' approach is the result of collective work by some 40 people. Their pilot project is a four-storey, 23-apartment building that would accommodate different living requirements, including single-user, family and co-housing arrangements, as well as shared-resident facilities. The architectural approach is modular, allowing the model to scale to up to 200 apartments within five years from the launch of the first apartment complex in Belgrade. Funding is achieved through a joint investment by external lenders and cooperative members: the cooperative invests in the construction of the building with 20 per cent equity (half member participation, half donations), while the remaining funds are obtained via a loan with a principal sum of €750,000 covering building construction. A housing cooperative (special purpose vehicle) is established as the developer, owner and operator of the building. The rent is calculated at 65 per cent of market price.

Box IV

***Zaduga za etično financiranje* (ZEF, Cooperative for Ethical Financing), Zagreb, Croatia** is the largest cooperative in the country (1,400 members) and involves a variety of entities interested in creating an economy based on social and ecological responsibility, democracy, transparency and solidarity. Active since 2014, one of the key activities of the cooperative has been the foundation of its own financial institution, the first ethical bank in Croatia. Owned by the cooperative, the bank would provide financial services to cooperative members and external clients. At present, the cooperative facilitates financial transactions between members. Besides financial services, ZEF serves as a platform to help members coordinate to create innovative projects primarily focused on serving local communities in the fields of renewable energy, IT, agriculture and housing. Housing projects within ZEF are initiated and coordinated by *Zadruga otvorena arhitektura* (Cooperative for Open Architecture), a collective that deals with architectural design, research and development of sustainable architecture, and the promotion of cooperative and democratic land use, management and construction. The model for cooperative housing it has developed is being promoted by ZEF with local governments. *Križevci housing* is a pilot project through which ZEF, in cooperation with the city of Križevci, is planning to put its cooperative housing model into practice; the City provides the land for long-term use for free, while the future tenants are responsible for organizing in a housing cooperative to erect the building with the help of common resources. The key advantage of the model is that financial accessibility is ensured by excluding developers and by the free use of publicly owned land. Furthermore, the fact that the city preserves ownership of the land prevents the kind of speculation one sees with apartments on the real estate market.

MOBA members discuss a systematization of long-term plans in Belgrade.
Credit: MOBA Housing Network

In the process of creating MOBA, the initial four housing cooperative initiatives were joined by supporting partners: ZEF from Croatia, the open global cooperative FairCoop, the social investing service *Sociálni Inovátori*

MOBA members present their individual projects at an open event at the Ljubljana University architecture department. Credit: MOBA Housing Network

from Slovakia, professional housing organizations *urbaMonde* (Switzerland and France) and World Habitat (UK), and the Belgrade office of the Heinrich Böll Foundation. Further housing cooperative initiatives from the region that expressed their interest in MOBA will join during 2019.

The post-socialist and post-crisis context in CSEE

The financialization of housing, that is the transformation of real estate into a financial investment target and tool, pushing up prices and excluding large segments of the population from access to housing, is a global phenomenon.[1] In the CSEE region, the phenomenon has some specificities that are worth mentioning, however. First, CSEE countries are so-called 'super home ownership countries'[2], with often over 90 per cent of owner-occupied housing.

Second, the conditions of mortgage-based housing also have their peculiarities in the region. By the second half of the 2000s, CSEE experienced a soaring increase in risky financial investments. This process resulted from an extension of the financialization process of Western capital, the high profits on investment gained from the region serving as a compensation for the saturation of Western and Southern European housing markets.[3] Making use of the region's financial exposure to Western banks, CSEE was provided loans with better return-on-investment conditions for capital, and greater risks for consumers, reflected by the higher rates of non-performing mortgages after 2008.

The large number of failed mortgages was aggravated by the fact that many of these were foreign currency mortgages. Hence, borrowers were forced to absorb the risk of currency exchange volatility. Banks, predominantly foreign-owned, were bailed out in the aftermath of the financial crisis, while large segments of the population became excluded from the financial market. After a temporary freeze in the housing markets that halted the buying and selling of houses, in 2015 the real estate market boomed again, and housing prices surged dramatically.

In the context of this new housing bubble, private home ownership is becoming impossible or too risky for two-thirds of households, while rental housing is unaffordable due to skyrocketing rental prices. The majority of these households have a low but stable income, representing a type of demand that would be best served by institutionally owned rental housing that matches their capacity to pay, but this market is almost non-existent in the region.

The MOBA projects were initiated based on the reasoning that cooperative housing may provide an answer to the lack of institutional or state-led housing solutions. However, it soon became clear that finance for housing cooperatives was unavailable. While housing cooperatives were an inherent part of state socialist systems before 1990, after the free market transition these structures fell apart. Shaping the legal frameworks needed to start a housing cooperative required significant research and creativity from each initiative. Financial institutions, even when sympathetic to the idea, did not recognize the cooperative housing model as a type of institution that they could fit into their existing investment products. When looking for financial actors operating on a cooperative basis, MOBA members came to realize that Western cooperative banks tend to serve CSEE for the same reasons commercial banks do: to compensate for their costs elsewhere, charging higher costs for services in a region that they consider riskier.

MOBA members were confronted with a larger set of shared challenges across the region. One of these was the question of exchange rates. As most lenders operate in a foreign currency, and as CSEE national currencies are highly vulnerable to the volatility of exchange rates, all initiatives had to ask who would bear the risk and had to find a social, ethical and democratic way of hedging against exchange rate fluctuations.

Another challenge was related to the state. When it comes to mitigating the social effects of global financial markets, the state (government) is most often expected to protect social interests against market interests. However, in current CSEE contexts where states operate under competing pressures from global markets and local oligarchies, any collaboration with government bodies raises the question of vulnerability.

Finally, one more challenge that united MOBA members was that of collective power. As individual pilot projects they had limited access to the financial actors that might have had the capacity to help establish housing cooperatives as an alternative and scalable housing solution in the region. MOBA was established to create a common, regional framework to showcase the volume and investment potential of the emerging cooperative housing sector in CSEE in order to attract the interest of financial actors. Correspondingly, MOBA dedicates a large amount of its strategic efforts to collectively pushing for change in investment practices to favour bottom-up projects.

Infrastructural capacity for investment in stable, affordable, socially owned housing

Since 2017, MOBA has been working to set up an institutional structure to serve as an intermediary able to attract and channel financial flows and manage investments for citizen-led housing solutions for lower income populations in CSEE. To this aim, the MOBA Housing Model will create a pool of cooperative housing structures in the region, with the legal and institutional capacities to receive and manage investment for individual housing cooperatives. The model consists of: 1) individual housing cooperatives for each building (with members as tenants); 2) national umbrella organizations supported by facilitation groups; and 3) a European Cooperative Society bringing the latter together. MOBA is developing a detailed, multi-scalar governance structure that ensures the secure, responsible and democratic management of the system.

MOBA celebrating its first anniversary in January 2019, at a meeting hosted by the cooperative bar and community house Golya in Budapest. Credit: MOBA Housing Network

MOBA members think this model provides long-term stability for affordable housing for several reasons. First, it is supported by the expertise assembled in MOBA, and its connections with local housing markets and related social, financial and governmental actors. Second, rent is calculated below market price, so a large and constant demand is guaranteed by the market environment. For investors, the rent model at 50-60 per cent of the market price secures a stable cash flow, while remaining affordable for tenants and increasing disposable income for individual housing cooperatives for their long-term financial sustainability. Third, one of the main achievements of the model is that it transfers financial risks associated with loans from individuals to the institutional level of the cooperative. This risk is then carried by individual cooperatives (buildings), to guarantee the stability of the system. Meanwhile, solidarity support at the level of the cooperative system guarantees a more flexible and robust management of risks through security funds, mutual investments and guarantees, which make it possible to use and re-use internal funds for stabilizing the situation of members with temporary payment problems. Finally, MOBA members expect that by mediating between large financial actors and local demand, the MOBA model can make investment cheaper and more accessible for those households that need it most. This is due to the fact that the patient capital for the cooperative housing model in the region is there but is discouraged by local regulations and retail markets. Acting as a non-profit and democratically controlled facilitator, MOBA's institutional model could open a window of opportunity for investment into citizen-led affordable housing.

In the long run, MOBA members think of their project as driving out real estate from the market and putting an increasing volume of housing stock into democratically managed cooperative structures. When designing the collective ownership, shared management and cohabitation principles, MOBA looks beyond aspects relating to housing and finance and sees itself as part of an ecosystem of actors driving societal transformation. A robust cooperative housing system, managed according to the principles of equal participation, democracy and solidarity, has the potential to become a cornerstone of solidarity economy circuits. Not only are stable and affordable rents beneficial to individual households, they can uplift society more broadly through an increase in disposable income, free time and collective organizational capacity connected to the broader social and solidarity economy. MOBA is looking to expand its cooperation with supporting partners ZEF and FairCoop, and is taking steps to contact unions, pension funds and various local solidarity economy initiatives.

MOBA is an example of bottom-up innovation for institutionalized solidarity, in one of the spheres where the current financial system hits life-worlds most directly: housing finance. MOBA has been created by members of a new generation of activists and professionals who are starting to build institutional structures in the field of cooperative housing, patient finance and the social and solidarity economy in post-socialist countries. As an initiative that strives to build solidarity finance solutions from the bottom up, its story is not one of accomplished victories, but one of resolution and creativity put at the service of imagining and constructing alternatives in an environment in which they are crucially lacking.

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Part III:
The potential of public finance and banking

Chapter 8

DEMOCRATIZING NATIONALIZED BANKS

Frank Vanaerschot

The financial crash of 2007 created unexpected opportunities for proponents of democratically controlled public banks. Before the crisis, finance was one of the most privatized and deregulated sectors in the economy. But with this house of cards going down, things changed dramatically. The scale of public support from central banks, governments and tax payers that was required to keep the financial sector from disintegrating was unprecedented. Trillions were thrown at banks and financial markets. Ten years later many banks are still too big to fail and financial markets' stability is dependent on central banks buying up huge amounts of assets from investors.

In response to the crisis, some banks had to be wholly or partly nationalized, such as the Royal Bank of Scotland in the UK, ABN AMRO and the Volksbank in the Netherlands, Bankia in Spain, Commerzbank in Germany and Belfius in Belgium, to name just a few. Governments nationalized these banks reluctantly. Anger with bailouts for banks was widespread but this did not translate into broad support for social movements calling for their democratization. Nevertheless, many opportunities remain and there is a convincing case for public mandates and diversified board representation to ensure banks invest in our communities, public services and the transformation towards a low-carbon economy in a socially just way.

This chapter explores strategies to democratize a nationalized bank by looking at the 'Belfius is ours' platform created by NGOs, social movements and labour unions in Belgium to promote the democratization of this bank. The platform's manifesto calls for a broad societal discussion on a new public mandate, ownership, accountability and governance structures for the bank.[1]

Understanding our past

In 1860, the Belgian state created the *Gemeentekrediet* (Communal Credit). The goal of this public banking institution was to enable local governments to gain access to credit at affordable rates. If a local government wanted to take out a loan, it also had to become a shareholder of the bank, eventually

HOW TO DEMOCRATIZE A PUBLIC BANK

1

Bring your bank back into public ownership or don't privatize it in the first place

2

Create a binding social and environmental mandate

3

Include workers and users on the Board of Directors and ensure adequate gender and racial representation

4

Ensure basic banking services and access to finance for education, housing, local businesses and public works

5

Invest in services and infrastructure for people and planet making them owners of that bank.[2] After WWII the bank started to take deposits from the public and developed a network of local branches.

In the 1990s, the Communal Credit bank started to diversify its activities and embarked on a process of privatization, internationalization and spectacular growth. This process began with the start-up of wealth management activities in Luxembourg in 1991; a year later the bank owned 25 per cent of *Banque internationale à Luxembourg*. In 1996 the Communal Credit bank merged with its French equivalent, *Crédit local de France*, and was called Dexia. In 1999 Dexia made its entry at the stock exchange and by the early 2000s the bank was active in the US, Israel, Turkey, Spain and Italy.

In the following years Dexia merged with an Italian bank and integrated various Belgian financial institutions. One of them was BACOB, a cooperative bank in the hands of the Christian labour movement, which would have huge political implications in the aftermath of the crisis, as we will see. By the early 2000s Dexia was a private international banking group, but the Belgian local governments and the '*coopérants*' (members) of the late BACOB were the most important minority shareholders.

Dexia's strategy was twofold. The large deposit base of its Belgian operation served as a stable source of financing for the loans made in France. Further, this deposit base allowed Dexia to borrow at low cost on financial markets to become a global financier of local governments,[3] including with risky financial products to local governments in France and Italy (e.g. interest rate swaps).[4] Dexia also participated in the infamous American subprime mortgage speculation.

Dexia had made itself extremely dependent on the continuous willingness of creditors to lend billions in short-term loans. When in 2007 the bursting American mortgage bubble provoked distrust, that willingness faded. On 30 September 2008 Dexia was bailed out with a €6.4 billion partial recapitalization by the Belgian, Luxembourg and French governments. The 800,000 *coopérants*[5] of the former bank of the Christian labour movement and the local governments participated in the recapitalization as shareholders, borrowing money from bankrupt Dexia.

Privatization pressures

Dexia would fall a second time in 2011, after investing heavily in the government debt of southern European countries. As the Euro crisis worsened and these countries came under increasing pressure from financial markets, Dexia lost the faith of its creditors and, with it, €80 billion in short-term funding and deposits. On 11 October 2011 what remained standing in Dexia's Belgian operations was completely nationalized for €4 billion and would later be rebranded as Belfius,[6] without any consultation with parliament, let alone popular debate.

Belfius underwent a severe restructuring. After the nationalization in 2011 the number of employees was reduced by 20 per cent and for the following three years 15 branches were shut down annually.[7] The bank became profitable again and was valued at €6-7 billion in 2015.[8]

In 2016, an expert report commissioned by the finance minister Johan Vanovertveldt raised awareness about the importance of 'the provision of strategic services to the Belgian economy, such as payment services, credit to ... households, the commercial sector and/or public authorities'.[9] The two biggest banks in Belgium are foreign-owned and the top four control more than two-thirds of the sector.[10] Belfius is the fourth largest bank, so its transformation had serious implications for the sector.

Both the government and the management of Belfius were in favour of privatization and in December 2016 the former planned to introduce the bank on the stock exchange, but to remain a majority shareholder. It seemed the government was looking for a middle way between outright privatization and government control over strategic areas as recommended by the expert group.

Entry on the stock exchange was set for spring 2018, but the political complexity of Belfius stood in the way. There was a lot of political pressure to compensate the 800,000 *coopérants* for at least part of their losses due to the nationalization, which this move was supposed to fund.[11] The European Commission disapproved of such a compensation scheme, however. Later that year the government cancelled the privatization.

To this day the government has not acknowledged Belfius's crucial role in servicing the public sector and the public overall. The bank's growth strategy could focus more on its historical role of financing local governments and the non-profit sector. Loans to the public sector represent nearly one third of the bank's loan portfolio and Belfius financed 70 per cent of all loans to local governments in 2017.[12] And while Belfius's lending and investment criteria do not include environmental protection or human rights and labour issues,[13] it is one of the few banks that have almost completely stopped lending to the fossil-fuel sector.[14]

At odds with this more public orientation are the bank's efforts to boost its financing of local private businesses and to expand its insurance business.[15] Huge investments in rolling out digital applications for its clients also reflect commercial tendencies, as these tools are used to cut costs, close local branches, decrease staff and demand more flexibility of workers at the bank.[16]

Ownership, public mandate and board models

The platform 'Belfius is ours' was born in 2016 to promote open debate about the future of the bank. Its manifesto argues that the bank should prioritize serving society and should operate on the basis of a public mandate.

The platform started by criticizing the government's plans for full or partial privatization. Only full public ownership could allow fulfilling a public mandate and foster financial stability over private profit maximization.

Alternative General Assembly of Belfius. Credit: Belfius

Emphasizing stability over profits would free up resources for more productive and socially useful loans, and deliver a variety of other financial services at cheaper rates. Public ownership, however, is not enough and needs to be accompanied by democratization of bank governance and accountability towards personnel, clients and citizens.[17]

Box I

Public banks from North Dakota to Finland

There is a wide variety of models of state ownership, and large public banking sectors exist in very different countries such as Brazil, India and Germany. One example from the United States is the Bank of North Dakota, which provides loans to build schools and to finance local public infrastructure projects. It also works together with other local banks and credit unions to provide loans for farmers and mortgage loans. The bank finances its activities with deposits from local governments. An independent management runs the bank and is being overseen by a committee of local political representatives.[18]

A different example is that of Finnvera, a Finnish public bank that has a mandate to support small and medium enterprises and the internationalization of larger businesses. It has a market-oriented and less social mission (some NGOs have criticized its international projects[19]). The supervisory board controls the strategy of the bank and is the most powerful decision-making body. Members include parliamentarians from different parties, academics, business federations, a trade union and a representative of the bank's employees.[20]

These differences aside, however, the role these banks play in their domestic economies is generally similar: public banks tend to (1) provide patient money and expertise to their regional economies, (2) they compensate the up and down turns of markets with their long-term orientation, and their capacity to provide growth-boosting liquidity in times of crisis, and (3) they play a large role in providing access to basic financial services to low-income households.[21] Overall public banks have been highly stable: in 2016 the top nine of the safest banks in the world were public banks.[22]

Box II

The German Sparkassen model

In order to demonstrate the opportunities offered by public banks, as well as to show how things can go terribly wrong, we will discuss in more detail one of the most interesting and well-developed models: the German public banks.

Germany has a large network of local public savings banks, the so-called *Sparkassen*. According to German law, these *Sparkassen* have to stimulate savings, lend to small and medium enterprises and promote financial inclusion. The more than 400 *Sparkassen* form a network that pools resources for shared information technology infrastructure and liquidity. They also have an interesting ownership and governance model. They are legally independent from their local authorities and are public law institutions. No one owns the assets of the bank. Municipalities act as the responsible institution, but have no right to sell the bank or distribute profits. A supervisory board is composed of municipalities and other local stakeholders; its task is to ensure the bank fulfils its public mandate.[23]

This local network is complemented by the *Landesbanken*, Germany's regional public banks. These are partly owned by the regional governments and partly by *Sparkassen*. Their role is to support the domestic industrial sector with loans, access to financial markets and investment management. They also invest surplus deposits from *Sparkassen* and help them to manage liquidity. Politicians have direct control over *Landesbanken* and their profits.

Finally, there is another state-owned bank that operates across the German territory: KfW. It functions as a public investment bank that supports local business through the *Sparkassen* and supplements German development cooperation.[24]

Despite their significant past contributions to society, the demise of some of the *Landesbanken* demonstrates that public ownership is no guarantee that banks will prioritize their public mandate. In an effort to create a more 'competitive market' between private and public banks starting in the 1990s, the *Landesbanken* lost their state guarantee and were pushed to increase their profitability. This led some of them to go beyond their original mission and field of expertise and to invest in highly profitable, but complex and risky financial products such as mortgage-backed securities. This exposed them to the crash in the market for American subprime mortgages.[25] The more prudent *Landesbanken* that did not lose as much in the crisis were often the ones where the *Sparkassen* had a more direct and dominant role as co-owners.

Public banks are a powerful economic tool and can play an important role in achieving socially just and ecological development. However, the mere existence of a public mandate is no guarantee, especially when they are being pushed to mimic private banks and focus on profit maximization.[26] Nationalized banks need democratization instead of privatization.

Democratizing public banks

Democratic control over public banks has two components. The right structures need to be in place, but there is also a need for a broad base of support from society. The modalities of public ownership and the governance structures are fundamental. A public bank needs checks and balances, tying everyone involved in the bank (management, owners, supervisory committees, workers and the rest of society) to the public mandate. The case of the *Sparkassen* is again interesting: its public mandate is written in law, municipalities act as responsible institutions but have no access to the profits of the bank, and the supervisory board, which represents different local stakeholders, is tasked to oversee whether the management of the bank respects the mandate. The authority of the supervisory board is a crucial point, as illustrated by the case of Finnvera: although its mandate does not stress ecological or social goals, the bank is governed by a multitude of societal and political stakeholders. Another interesting example is the *Banco Popular* in Costa Rica, which is owned by workers and additionally controlled by government representatives. Its highest governing body is the workers' assembly covering 10 socio-economic sectors and representing 20 per cent of the country's population.[27]

Each public bank has its advantages and flaws and its mandate and governance structures must be assessed within their specific contexts. Nevertheless, existing public banks are sources of inspiration if we want to imagine what a democratized Belfius could look like. For example, the need to make the transformation towards climate-friendly societies calls for large-scale investments, especially in public infrastructure. With its expertise in financing the public sector, it could play a crucial role in such a programme. Instead of trying to sell as many investment funds to its clients as possible, it would serve society better if Belfius focused on facilitating public, cooperative projects co-organized by local governments and clients that act in the public interest. The market share it gained in financing the private sector can be put to use by extending this strategy towards lending to SMEs and other businesses. Furthermore, Belfius still has a large network of local branches, despite several closures, a resource it should put to use by making sure everybody has access to basic financial services.

The 'Belfius is ours' platform advocates for changing the structure of the bank through a public law that would split national operations and the network of local savings banks. The national branch would finance larger public infrastructure projects, pool liquidity, host information technology infrastructure and public payment services infrastructure for the local banks. The savings banks operating locally could finance smaller municipal projects, SMEs and provide households with access to basic financial services. The federal, regional and local governments could share the responsibilities for overseeing the different parts of Belfius and create supervisory boards on all three levels. They could make them the most important decision-making bodies and mandate them to ensure the bank fulfils its role, following the principle of subsidiarity. To give the people who can be affected by the activities of the bank the best access to decision and control mechanisms, local supervisory boards should take precedence over the national level. The supervisory boards should be composed of different stakeholders like employees, clients, academics and other public interest organizations.

Even with all these structures in place, people in different positions in government, the bank and other stakeholders need to be convinced of the importance of the public mandate. Public banks are currently forced to operate in a context where implementing a public mandate is not seen as a legitimate goal for a financial institution. Most other banks, the regulators and policy-makers see profit maximization as the norm.[28] A change in

Direct action in front of Belfius. Credit: Belfius

ownership will therefore only lead to progressive and durable societal gains if it is accompanied by a change in the political outlook of those in charge and, ultimately, in its day-to-day operations.

This proposal is just an illustration of another possible future for Belfius. Parliaments, city councils and citizens should decide what should happen with their nationalized banks. In order for this to happen society has to mobilize around them.

The platform 'Belfius is ours' aims to bring together stakeholders like workers, NGOs and social movements working on social and environmental issues to build support. In 2018 the platform convinced 30 local governments, including most cities in the southern region of Belgium (Wallonie), to pass a resolution to keep Belfius public. A lot of ground still needs to be covered to steer towards a public mandate and democratization of Belfius. Meanwhile with the climate crisis fuelling unprecedented demonstrations, more people are discovering that Belfius could play a crucial part in a socially just transformation.

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With contributions from Yelter Bollen, who has a PhD in political science at Ghent University and volunteers at FairFin.

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Chapter 9

PUBLIC BANKING ON THE FUTURE WE WANT

Thomas Marois

Sometime around 2008 Helgeland Kraft AS, a public hydropower company owned by 14 municipalities in the Nordland county of Norway, had an idea: to build aesthetically pleasing and environmentally sound power generation stations. The power stations would service the energy needs of their communities, sustainably, while their beauty would inspire others to come and learn about clean energy. This too would contribute to Norway's commitment to become carbon neutral by 2030. The initiative is an example of what is possible through public–public collaboration. While Helgeland Kraft kicked off construction in 2014, it was in 2016 that the Nordic Investment Bank (NIB), a public bank, provided the extra financing needed for completion. Six new public, energy-efficient hydropower plants would be backed by a 15-year, €49.5 million loan. The NIB granted the loan because the energy project met its publicly mandated criteria for mitigating climate change, reducing pollution and contributing to local development.

The Ovre Forsland power plant in Leirfjord, Norway. Credit: Innovation-Norway, Flickr, Licence CC BY-NC 2.0

The point here is neither to promote hydropower as environmentally unproblematic nor to suggest public banks are a financial cure-all. No. Rather, the point is that through public–public collaborations communities can realize the future they want on their own terms. Public banks can play a vital role in that future.

Indeed, as this chapter shows, public banks are enjoying a contemporary renaissance of sorts. Two conjunctural reasons help to explain why. First, the 2008-09 global financial crisis exposed the excesses of private finance and the poverty of neoliberal financialization strategies for development, while reaffirming that public banks can be a stabilizing force amidst economic instability. Second, to varying degrees critical scholars and development organizations, alongside global civil society, are frustrated with the failures of private finance to support a sustainable and just transition to a low-carbon, climate-resilient future. Both events have pushed public banks to the fore of the 'finance for development' debate, especially in relation to the new United Nations Sustainable Development Goals (SDGs). Here I focus on the potential of public banks to finance the *sustainable* future we want – a potentiality that will only be realized if struggled for.

What is now occurring in the area of 'green' or 'sustainable' finance is in many ways contrary to the *letter* of neoliberalism. Public bank funding is increasingly regarded by international development and financial institutions not as corrosive but as catalytic for the future of low-carbon infrastructure investments. This is something new. Yet the *spirit* of neoliberalism (i.e. the subordination of state, workers and society to the needs of private accumulation) remains very much alive. This spirit remains the same within these international institutions. Where private investors are unwilling to 'risk' their capital to invest in climate mitigation strategies and green infrastructure, then public banks should step in to de-risk private investments. The logic is that public support will help to leverage or draw in available pools of private finance. Private finance sees the investment as attractive because it has public backing, which increases the likelihood of higher returns. The overarching 'new' neoliberal narrative is that only by using public resources to mobilize private finance can we begin to raise the financial resources needed to tackle climate change. In short, public banks should socialize private risks to confront climate change. Or so the new neoliberal story goes.

Another future for public banks is not only desirable but possible. I argue that public banks have the *potential* to finance the transition to a sustainable and equitable future in the *public*, not private, interest. Two premises support my argument. First, I show that the existing financial capacity of public banks far exceeds the inaccurate and misleading estimates provided by the international development community. That is, public banks have sufficient resources to take the lead in tackling the estimated $90 trillion in climate infrastructure investments needed – without first bending a knee to the profitability needs of private financiers. Second, I summarize the benefits of having a public bank, whose public policy functions can help maximize the efficacy of tackling climate change in the public interest. I conclude by pointing to the centrality of social struggle in determining the future orientation of public banking. To have public banks serve the public good, we must demand it.

The financial capacity of public banks

For neoliberal advocates and institutions such as the World Bank and Organisation for Economic Co-operation and Development (OECD), the actually existing financial capacity of public banks is of little interest. They already *know* that private bankers and financiers are the only viable, indeed preferable, solution for financing a low-carbon future. Could it be otherwise? Their official publications reinforce such neoliberal common-sense assumptions – but only by misrepresenting real public bank capacity.

Take for example the World Bank's inaugural *Global Financial Development Report 2013: Rethinking the role of the state in finance*, which is written in response to the role played by public banks during the 2008-09 global financial crisis. The report states that public banks 'account for less than 10 percent of banking system assets in developed economies and double that share in developing economies' and it provides an estimate of *only* $2 trillion worth of assets held by public *development* banks (which comes nowhere near what these percentages would actually represent). For a report on the 'state' in finance, it is remarkable that no further details, no global numbers, and no accurate empirical sense of the public banking sector is given at all. A 2017 International Monetary Fund working paper on bank ownership fairs no better, recycling 2010 World Bank data to claim that public banks account for roughly 18 per cent of all banking assets in developing countries and 12 per cent in high income countries, but they too give no concrete indication of total numbers or combined public bank assets. One is simply left guessing. A contemporary OECD publication on climate finance has its own limitations. Setting aside concern for overall public bank control, the report focuses on public development banks. By its account, there are 'more than 250' such banks with assets of about $5 trillion. This would seem more realistic, but in fact it is still far from the mark. Yet today's most important international body responsible for informing policy on finance for sustainable development (vis-à-vis the SDGs), the UN Inter-Agency Task Force on Financing for Development (IATF), reproduces this same figure. The IATF goes on to privilege public–private partnerships and advocate that public banks primarily *support* private investors.

Anyone interested in climate finance and wanting to understand the financing options available would be forgiven for thinking that public banks are not *and could not* be serious financial agents of change. What can $5 trillion do when we need $90 trillion?

Yet actually existing public banking capacity is far greater than what is commonly (mis)represented by the international development community. And this data on public banks, as it turns out, is not too hard to come by. Researchers can access information by using the Orbis Bankscope (Bureau VanDijk) online database, which specializes in banks and finance. Additionally, the annual *Global Public Investor* report by the Official Monetary and Financial Institutions Forum (OMFIF) provides information on public pension funds, sovereign investors and central banks.

Categories	Number of institutions	Combined assets ($ trillion)	% of global GDP (2017)*
Public banks and bank-like institutions[8]	693	37.7	48
Public banks (excluding China's 15 largest banks)	678	17	22
Public banks plus multi-laterals[9]	757	40.3	51
Public banks plus multi-laterals (excluding China's largest banks)	742	19.6	25
Public banks plus multi-laterals plus pension & sovereign funds	1,342	61.5	78
Public banks plus multi-laterals plus pension & sovereign funds plus central banks	1,507	73.8	93

Table 1. Public financial institutions: numbers and assets, 2017-18

Sources: Orbis 2018; OMFIF 2017.
** Estimated gross domestic product (GDP) set at $79 trillion for 2017.*

Interpreting the data, however, requires some clarification. My focus is on public banks and bank-like financial institutions. Here a bank is considered as 'public' if it satisfies one or more of the following conditions: it is guided by a public mandate, governed under public law and/or publicly owned by state authorities or other public sector entities. In many cases, all three apply. In terms of ownership, I use a figure of 50.01 per cent plus as constituting legal public ownership.

There too are different *specializations* of public financial institutions. *Table 1* includes public banks, multi-laterals, pension and sovereign funds, and central banks (whose differences are not elaborated on here) to illustrate their institutional numbers and vast public financial resources.

Based on Orbis data, there are 693 public banks around the world. These banks control $37.72 trillion in assets, which is equivalent to 48 per cent of global GDP. Comparably, this constitutes 20 per cent of all banks, public and private.[10] This is a far cry from what is typically represented.

There are other measures of public banks worth considering. One is the elephant in the room, China, which has 11 of the world's largest 15 public banks that control assets totalling \$20.6 trillion. Excluding these public giants, total global public banking assets come to just over \$17 trillion (*Table 1*). The other public banks in the top 15 include Germany's KfW Group (\$567 billion in assets); the State Bank of India (\$531 billion); and the failed private banks but then state-rescued Royal Bank of Scotland (\$981 billion) and The Netherlands' ABN AMRO (\$943 billion). Other globally significant public banks include Russia's Sberbank (\$471 billion); Italy's *Cassa Depositi e Prestiti* (\$433 billion); and *Banco do Brasil* (\$409 billion).

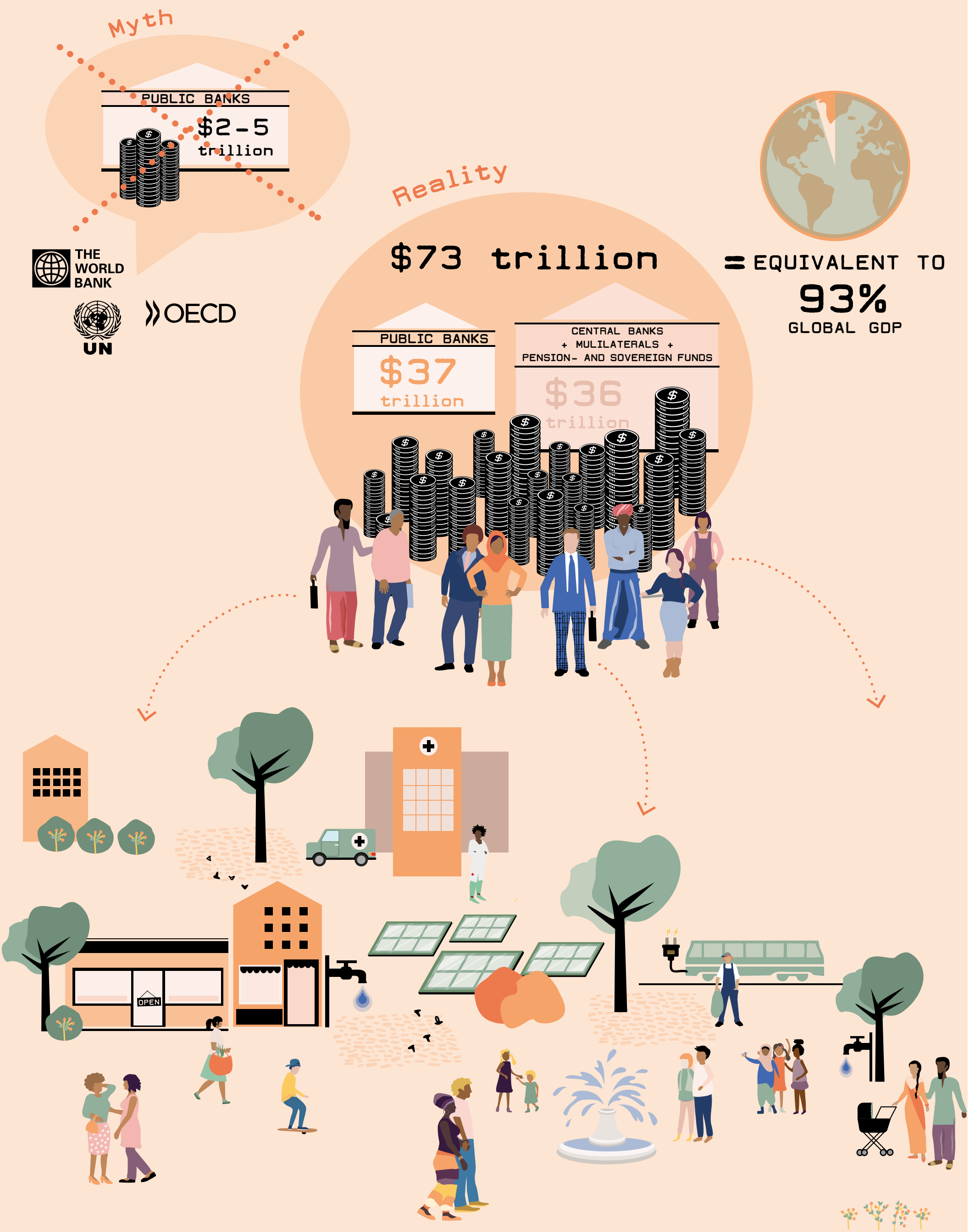
It is also worth noting that the public multi-lateral banks, of which there are 66 and which command the better part of the international development community's reporting attention, have a comparatively modest amount of assets at about \$2.6 trillion. When combined, public banks plus multi-lateral banks control over \$40 trillion in assets.

Finally, it is interesting to reference the most expansive category of public banks, which includes multi-laterals, pension and sovereign funds, and central banks. These 1,507 public financial institutions have assets nearing \$74 trillion, equivalent to 93 per cent of global GDP.

The point being that actual public financial institutional capacity, even by a relatively conservative measure of \$38 trillion worth of *just* public bank assets, far outstrips anything represented in the UN system and OECD literature. There is, in fact, massive actually existing public financial capacity.

The neoliberal myth of public financial incapacity is most striking within the debate on financing low-carbon infrastructure.

THE POTENTIAL OF PUBLIC BANKING FOR PUBLIC SERVICES AND A JUST TRANSITION



According to the 2016 *Delivering on Sustainable Infrastructure for Better Development and Better Climate* report, infrastructure accounts for more than 60 per cent of all greenhouse gas emissions.[11] Moreover, the permanence of infrastructure locks in such emissions often for decades. However, the *financing* of this new, needed low-carbon infrastructure is costly, risky and long term. As the slogan now goes, we need to turn climate investment from 'billions into trillions'.[12] But how to do it?

Estimates of the total investment needed vary, but it is largely thought that from 2015 to 2030 global society will need to spend about $90 trillion to meet our climate mitigation ambitions. This total investment exceeds the combined total of all current infrastructure stock. This means global low-carbon public and private investments need to increase from roughly $3.4 trillion to over $6 trillion annually.[13]

Herein lies the rub. If you are led to believe that public banks control at best $5 trillion in total assets, then raising $6 trillion annually seems insurmountable. You would obviously need to tap private markets. But, if you understood that public banks *alone* have closer to $38 trillion in assets then the realm of the possible is radically different. Suddenly, public rather than private interests can be the catalytic force in financing a low-carbon transition. We can actively *bank* on the sustainable and equitable future we want, bypassing the need to subordinate climate justice to financialized, private and profit-making imperatives. This suggests that the potential of public banking should be at the centre of debate and climate-action strategies.

The potential benefits of public banking

Over the last five years or so the potential *public* benefits of owning and controlling a public bank have slowly begun to be rediscovered by civil society, policy-makers and academics interested in alternatives to private finance, and indeed neoliberalism. The reasons are diverse but often revolve around public banks being able to, potentially, serve the public interest (such as a just energy transition) rather than private interests and profit motives.

For example, a 2017 report by the European Network on Debt and Development (Eurodad, a network of 47 civil society organizations from 20 countries) surveyed the literature and consulted their global partners on public banking.[14] The subsequent report highlights some key benefits of public banks, which as matter of public policy, can:

- Direct finance to priority economic sectors and geographic regions;
- Build the financial sector, by filling gaps in the credit supply or demand left open by the private sector;
- Promote economic stability, by playing a counter-cyclical lending role at times of economic instability;
- Improve financial standards, by insisting on social, environmental or human rights safeguards.

The ability of public banks to direct, build, promote and improve finance contributed to the UN highlighting their sustainable development potential. Notably, the final report of the 2015 Financing for Development Conference in Addis Ababa pointed out that public development banks should play a key role in reaching the SDGs. Working from the resultant 'Action Agenda', the UN Conference on Trade and Development (UNCTAD) has argued that public banks could in fact do much more to scale up their often-conservative loan-to-equity ratios.[15] That is, their lending portfolio could be extended well beyond their current $38 trillion in assets.

This capacity is not neutral, however. Those wanting to ensure a just climate transition – for workers, women, the poor and marginalized – need to forefront public interest, sustainability and equity concerns in ways that directly confront and contest, for example, World Bank approaches ('Maximizing Finance for Development'[16]) that fundamentally serve to further the private accumulation of capital over any public or common good.

There are concrete ways public banks can confront neoliberal developmentalism and, by extension, support a just future.[17] Public banks can offer a source of public revenue that can be used to cross-subsidize public projects and programmes. In addition to privileging green development strategies, public banks can commit to gender justice – as Costa Rica's *Banco Popular y de Desarrollo Comunal* has explicitly done.

By developing their own institutional capacities, public banks can contribute to overall public sector expertise and independence from 'market' forces as illustrated by Germany's KfW, created in the wake of World War II. Add to this that public banks can function at the heart of willing public sector coalitions interested in fulfilling policy priorities, notably on infrastructure, as the Nordic Investment Bank has done. In building such domestic public financial capacity and knowledge, public banks can work as a countervailing political force against the dominance of private (often foreign) banks over public policy formation and implementation. To this, for better or worse, China's public banks are a testament. This rationale for domestic public banking capacity informed post-war nationalizations in places as diverse as Cuba, India and Vietnam as well as public bank creations in Canada, the US and Turkey, to name but a few examples.

A worker smiles at the camera while installing solar roof panels in Shanghai, China. Credit: Jiri Rezac, The Climate Group, Flickr, Licence CC BY-NC-SA 2.0

Today, it remains the case that public banks can operate indefinitely without a profit-maximization imperative if given a public mandate to do so. This can help to minimize the effect of hyper-competitive global financial imperatives on society. It can also reduce the cost of borrowing for priority sectors. This helps us make sense of why public banks are emerging as central actors in the sustainable finance agenda. But more must be done to maximize the potential of public banks to work in the public interest.

It would be a mistake to believe that just states, policymakers or even academics see the benefits of public banking. Ordinary people see it too. In smaller communities a public bank may be the only bank offering financial services and credit support, as is the case of Ziraat Bank in Turkey and of *Caixa Econômica Federal* in Brazil. The same scenario exists with the world's newest public banks, the Territorial Bank of American Samoa, which filled the vacuum left by the private Bank of Hawaii after it withdrew from the island, and is now a fully functioning public retail bank operating under the motto of *Faletupe o le Atunu'u* (the People's Bank).

Perhaps even more remarkable is the rise of a strong public banking social movement across the US.[18] From Los Angeles to New York, New Jersey to Oakland, bottom-up popular responses to the failures of Wall Street banks to provide for communities have pushed governing authorities to rethink the potential of public banks.[19] In recent years a number of municipal and state governments have commissioned economic feasibility studies, all of which have demonstrated the viability and desirability of public banks for local budgets and development.[20] Social movements have picked up on the conclusions. For example, the 'Public Bank LA' movement – formed out of the California Public Banking Alliance, itself supported by the nation-wide Public Banking Institute – has emerged with a mandate to help establish a socially and environmentally chartered municipal 'Public Bank of Los Angeles'.[21] Reflecting the known benefits of public banks, the Public Bank LA movement lists the five most relevant to them: 1) save money; 2) community development; 3) ethical allocation of money; 4) local self-determination; and 5) serve the unbanked and the underbanked. Far from utopian, such public banking principles inform the mandates of public banks, past and present.[22] The formidable German public banking sector, for example, explicitly explains its *raison d'être* as 'acting in the public interest' as opposed to profit maximization.[23]

The struggle for banking publicly

Banking publicly is to bank in the public interest, which in itself is a matter of contestation and social struggle involving crosscutting issues of class, gender, culture, race and ecology. There is, therefore, nothing easy about banking publicly on the future we want. For this reason, the placement of social struggle before any notion of a 'public' bank is necessary. Public banks will have troubles, which are generated within societies and are as much political and social as they are economic, and they are not beyond critical assessment, transparent accountability and self-reflective improvement for the mere fact that they are public. To suggest otherwise leads to dogmatism. Where public banks are abused for personal or political gain, this must be confronted and offenders held to account. If public banks fail to perform according to their mandates, open reviews of their operations need to inform change. To be sure, neoliberal detractors of public banks will say this is all very well but that the *truth* of the matter is public banks are inherently inefficient and prone to corruption, and that they ultimately undermine development.[24] Privatization is the preferred course of action since private banks are economically superior (read: profitable). Research shows this not to be the case.[25] History, too, points to the credibility of public banking in ways that can support a more progressive public ethos without having to prioritize profitability above all else.[26]

To emphasize the point, though, it is the social context, the social struggle to reclaim public banks in the public interest, that will define their future viability – not merely whether a bank is publicly owned or not.

Yet, more than any other public financial institution, public banks have been under- and misrepresented by the international development community. As importantly, critics of neoliberalism have failed to appreciate public banks as a strategic location of social struggle. Communities can make a difference over the content of public banks' operations more directly than, say, over the operations of the multi-laterals or even central banks. Exerting popular control over public banks in the common interest may offer one of our best hopes of breaking with neoliberal strategies of development. Public banks deserve our future attention.

ABOUT THE AUTHOR

Thomas Marois is a Senior Lecturer of Development Studies at the SOAS University of London. He specializes in finance and development in emerging capitalisms. His current research focuses on the resurgence of public banks and their potential to support alternative green and equitable development. He is a member of the Municipal Services Project and works closely with civil society organizations on topics of alternative finance and the public provisioning of essential services.

NOTES

1 Dredge, S. (2016) 'Beauty and power: how Norway is making green energy look good', The Guardian, 8 September. Available at: https://www.theguardian.com/environment/2016/sep/08/norwegian-power-station-ovre-helgeland-hydroelectric-renewable-energy

2 Nordic Investment Bank (2016) 'NIB funds six hydropower plants in Norway', 5 April. Available at: https://www.nib.int/who_we_are/news_and_media/news_press_releases/1836/nib_funds_six_hydropower_plants_in_norway (retrieved 27 March 2019). The NIB is state-owned by five Nordic countries, Denmark, Finland, Iceland, Norway and Sweden, and three Baltic countries, Estonia, Latvia and Lithuania.

3 OECD (2017) Investing in Climate, Investing in Growth. Paris: OECD.

4 World Bank (2012) Global Financial Development Report 2013: Rethinking the role of state in finance. Washington, DC: World Bank, pp. 120-21; 103. To be fair, an earlier 2012 World Bank background report estimates that public banks control some 25 per cent of all banking assets globally (de Luna-Martínez and Vicente 2012, p. 2). However, the source of this estimate is not given in the report. Likewise, the report offers no sense of total institutional numbers or geographical distribution. As significantly, the international development community has essentially dropped all reference to 25 per cent of all banks being public in subsequent reports. See: de Luna-Martinez, J. and Vicente, C. L. (2012) 'Global survey of development banks'. Policy Research working paper no. WPS 5969. Washington, DC: World Bank. http://documents.worldbank.org/curated/en/313731468154461012/Global-survey-of-development-banks.

5 Cull, R., Martinez Peria, M. S. and Verrier, J. (2017) 'Bank Ownership: Trends and Implications'. IMF Working Paper, WP/17/60. Washington, DC: International Monetary Fund.

6 OECD (2017) Investing in Climate, Investing in Growth. Paris: OECD. p. 273

7 IATF (2017) Financing for Development: Progress and Prospects. Report of the Inter-agency Task Force on Financing for Development 2017. New York: United Nations Inter-Agency Task Force, p. 16.

8 Hereafter referred to as simply 'public banks'. This category includes 10 Orbis-designated specializations: commercial banks; savings banks; cooperative banks; real estate & mortgage banks; investment banks; Islamic banks; other non-banking credit institutions; specialized governmental credit institutions; micro-financing institutions; and publicly owned private banking/ asset management companies.

9 Orbis. Bureau van Dijk. [Online]. Available at: https://www.bvdinfo.com/ (retrieved 10 May 2018). Orbis lists 66 multilateral banks with combined assets of $3.72 trillion. This total, however, includes as its largest contributor the European Stability Mechanism (ESM), with assets of $836 billion, the European Financial Stability Facility (EFSF), with $198 billion in assets, which I exclude as contributing to the multilaterals' total assets.

10 For curiosity's sake, if you wanted to extend the measure to publicly influenced banks, taking a 25 per cent or higher level of public ownership in the Orbis database, you would see there are 1,037 public banks controlling over $48 trillion in assets.

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12 OECD (2017) Investing in Climate, Investing in Growth. Paris: OECD, p. 272.

13 Bhattacharya, A., Meltzer, J. P., Oppenheim, J., Qureshi, Z. and Stern, Lord N. (2016). Delivering on Sustainable Infrastructure for Better Development and Better Climate. London: New Climate Economy, p. 26.

14 Romero, M. J. (2017) Public development banks: towards a better model. Brussels: Eurodad. Available at: http://www.eurodad.org/Public-Development-Banks-towards-a-better-model.

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16 World Bank (n.d.) Maximizing Finance for Development. Available at: http://www.worldbank.org/en/about/partners/maximizing-finance-for-development (retrieved 3 April 2019).

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19 See the Public Banking Institute website for current updates: http://www.publicbankinginstitute.org/

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23 AGPB (2014) Promotional Banks in Germany: Acting in the public interest. Berlin: Association of German Public Banks.

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Chapter 10

PUBLIC INVESTMENT FOR FINANCIAL SYSTEM CHANGE, NOT CLIMATE CHANGE

Oscar Reyes

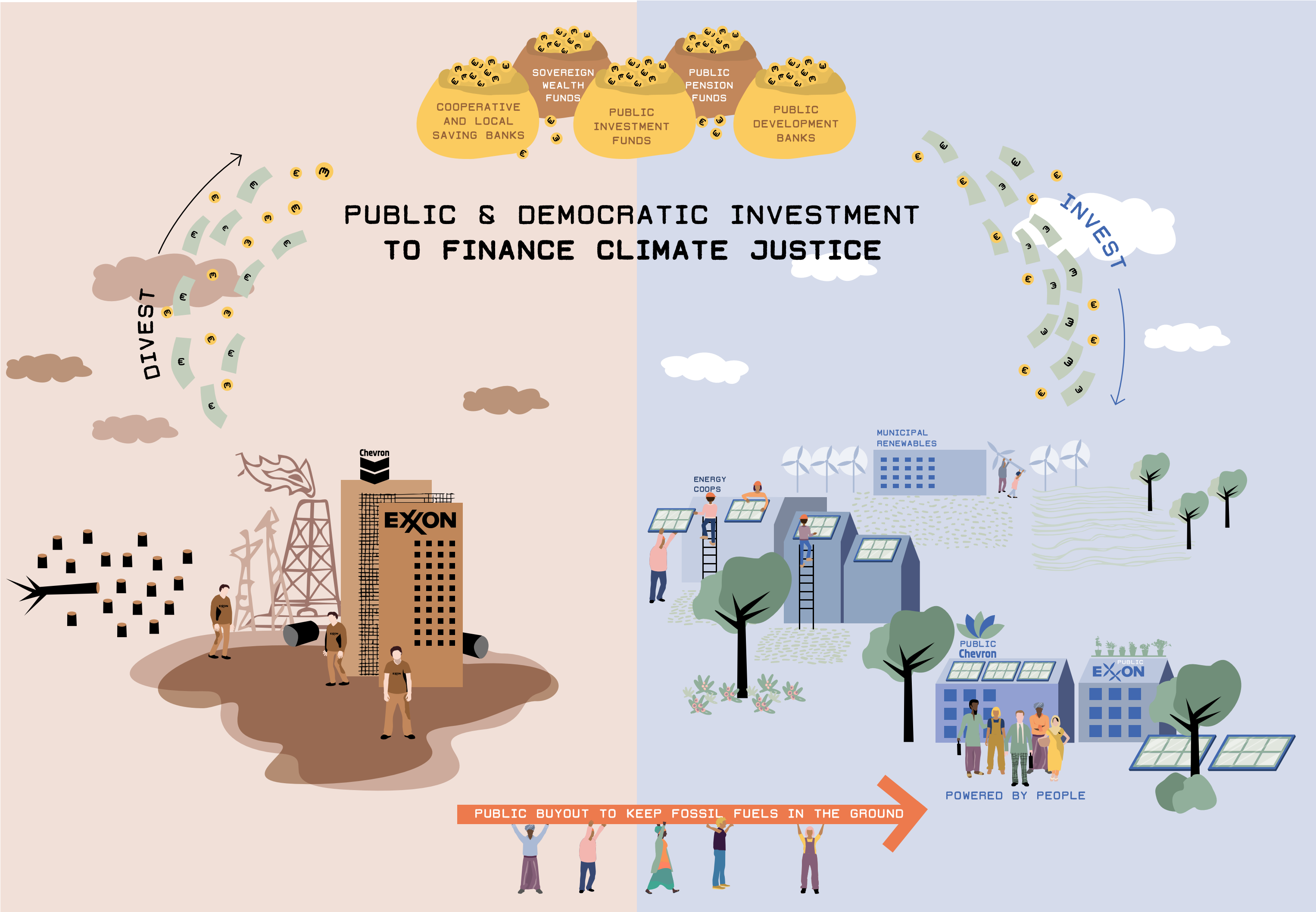
State-owned banks, cooperative and local savings banks, and public pension and investment funds have the potential to play a leading role in supporting a just climate transition, but a mixed record in achieving this goal. This chapter looks at how to shift public investment to ensure that it operates in the public interest, addressing climate change and social justice rather than simply prioritizing short-term profitability.

Despite regularly claiming new commitments to 'green finance', the biggest banks, pension and insurance funds still invest billions of dollars in the fossil fuel industry every year — including for the most extreme climate-damaging activities, such as exploiting tar sands oils and burning coal.

Continuing to invest in fossil fuels goes against evidence about what needs to be done to tackle climate change. An estimated 80 per cent or more of the world's known fossil fuel reserves need to remain in the ground if we are to have any chance of avoiding catastrophic consequences like sea level rise and melting glaciers.

In place of fossil fuel finance, investment should be redirected towards renewable energy, cleaner industry and more sustainable agriculture, among other priorities. As our *Financial System Change, not Climate Change* report shows in more detail, the financial sector will not take the lead in bringing about that change. Shutting down fossil fuel financing requires public regulation, spurred on by public pressure from movements for divestment, energy transitions and greater equality. But it also requires new channels for public investment.

Public investment need not be governed according to the same short-term imperative for profitability that the private sector emphasizes, yet all too often public finance institutions fail to grapple with these differences. This chapter draws on a series of short examples of state-owned and local savings banks, public finance institutions, pension funds and sovereign wealth funds (SWFs) to identify some key priorities that could encourage public investors to take the lead in forging a just and equitable climate transition.



PUBLIC & DEMOCRATIC INVESTMENT
TO FINANCE CLIMATE JUSTICE
COOPERATIVE AND LOCAL SAVING BANKS
SOVEREIGN WEALTH FUNDS
PUBLIC INVESTMENT FUNDS
PUBLIC PENSION FUNDS
PUBLIC DEVELOPMENT BANKS
DIVEST
INVEST
Chevron
EXXON
ENERGY COOPS
MUNICIPAL RENEWABLES
PUBLIC Chevron
PUBLIC EXXON
POWERED BY PEOPLE
PUBLIC BUYOUT TO KEEP FOSSIL FUELS IN THE GROUND

State-owned and public banks

State-owned and public banks are particularly well-placed to invest in renewable energy and infrastructure to improve climate resilience. Private banks are often reluctant to finance renewable energy, to take just one example – either because international banking regulations (Basel III) can be a disincentive, or simply because they lack experience in how the financing of such projects works.

State-owned banks, by contrast, have already shown that they are prepared to finance a clean energy transition, especially if social and environmental goals are placed at the core of their mandate. Such banks are generally not constrained by demands for short-term profitability, so they have the capacity for taking a longer view and making decisions that support local economic development and environmental objectives.

In Germany, for example, the government-owned development bank KfW is a key funder of energy efficiency programmes, offering below market-rate loans (with special repayment arrangements) to small and medium-sized manufacturers. Approximately €3.5 billion was invested through this programme in 2016 alone. While that remains a small component of the state's overall *Energiewende* (energy transition) plan – which has also come under attack in recent years – it remains a significant example of how public institutions aligned with public policy can start to reform the economy.

In the United States, the Bank of North Dakota (BND) showcases some of the advantages and limitations of state-owned banks. BND was originally developed to empower small farmers and support the local economy. During the financial crisis, it offered loans and liquidity to shore up local private banks. BND has been a useful vehicle for financing public infrastructure projects as well as paying annual dividends to the state treasury, enriching the public purse. It remains the only public bank in the US, although activist pressure originating from divestment movements, Occupy and marijuana legalization has led to feasibility studies in Oakland, San Francisco and Washington, DC, among other cities.

BND takes full advantage of fractional reserve banking (lending beyond the level of cash-backed deposits) in its infrastructure investments. But while it could fund a transition to a cleaner economy – whether through municipal bond issues to finance public transport, or loans for renewable energy infrastructure – its actual practices reflect the priorities of the state's financial elites, so it has seen assets poured into sustaining a fossil fuel-based economy. It even lent US$10 million to local law enforcement to subsidize the repression of indigenous communities at Standing Rock.

State-owned banks in the global South – including national development banks – also have a mixed record. The *Banco Popular y de Desarrollo Comunal* in Costa Rica provides a positive example of the benefits of a 'triple bottom line' that integrates economic, social and environmental considerations. The country's third largest bank, it is a hybrid between public ownership and a workers' cooperative. Although environmentalism was not a central part of its original mandate, it has a growing portfolio of eco-credits, as well as financing for community energy cooperatives and efficiency schemes.

Public-like cooperative bank Banco Popular that is worker-owned and controlled. Credit: Luis Tamayo, Flickr, Licence CC BY-SA 2.0

India's National Bank for Agriculture and Rural Development plays a key role in providing infrastructure, including the financing of irrigation systems, forest management, soil protection and flood protection schemes that are vital as the country adapts to the effects of climate change. It also finances smaller lenders (including cooperatives) in rural areas, while assuming part of the regulatory role in this sector.

As an accredited partner of the UN's Green Climate Fund, now it can also channel international finance for climate-related activities – a model that could lead to greater local ownership of international finance than has traditionally been associated with climate and development funds passed through institutions like the World Bank. At the same time, it has been criticized for poorly managed and exploitative microcredit schemes.

In other cases, state-owned banks like the Brazilian Development Bank (BNDES) and South Africa's DBSA have been criticized for investing in projects that are harmful to local communities, or for ploughing significant funds into fossil fuel infrastructure.

Cooperatives and local savings banks

Cooperatives and local savings banks, some of which are owned by local government, remain an important part of the financial sector in many parts of Europe. These local banks and cooperatives generally have a public interest mandate that sets them apart from their larger commercial counterparts.

While the structures of these local banks vary, they often involve employees, depositors, local politicians or civil society associations on their governing boards. Often, they are set up with an explicitly not-for-profit public mandate. French savings banks, for example, are required to dedicated half of their profits to social responsibility programmes, which are managed by representatives of social groups and politicians, as well as bank staff.

In Germany, rules governing local savings banks (*Sparkassen*) vary according to region, but usually involve local lending obligations as well as a mandate to reinvest profits in achieving wider social objectives. This is reinforced through membership of the German Savings Bank Association (DSGV), which sets out common sustainability standards and social commitments.

The *Sparkassen* or cooperative banks (*Genossenschaftsbanken*) are key financiers of local energy cooperatives, which account for almost 50 per cent of the country's installed renewable energy capacity.

German local savings banks typically arrange 'civic financial participation' schemes, creating a financial structure that allows individuals to directly invest in green energy projects which, in turn, come to meet their own consumption needs. Alongside individual investments, larger loans are often provided by Germany's state development banks, such as KfW, which channel these funds through the local savings banks and cooperatives.

Local savings banks are neither a panacea nor immune from the speculative impulses that characterize the big private banks. In Spain, savings banks that had been gradually liberalized to resemble the model of its commercial counterparts were hit particularly hard by the financial crisis of 2008. The intersection of deregulation and a governance structure that emphasized political appointees sowed the seeds of irresponsible property speculation and corruption.

When they are well managed, though, local savings banks and cooperatives continue to offer a positive alternative for developing a greener economy. With 'disruptive' technologies (such as mobile financial services) likely to favour the decentralization of banking in the coming years, that sector has considerable scope to expand its influence – if banking regulations and other public policies allow.

Public pensions, sovereign wealth funds and non-banking financial institutions

Public investment should also be channelled through non-banking financial institutions, which can include publicly owned companies and investment funds. In Bangladesh, for example, the publicly owned Infrastructure Development Company Limited helped to install more than three million solar home systems in rural areas between 2003 and 2014, bringing power to 13 million new users. It did so by providing capital to private partner organizations (NGOs and local businesses that install solar systems) with the help of US$750 million in grants and soft loans from multilateral development banks and agencies. Ultimately, this public financial support enabled the providers of solar home systems to install them and take monthly payments in arrears, rather than asking (unaffordable) upfront payments.

Bangladeshi village celebrating as they display their first solar panel. Credit: ILO in Asia and the Pacific, Flickr, Licence CC BY-NC-ND 2.0

Public investment funds could also be redirected to help a climate transition. Sovereign wealth funds (SWFs) oversee an estimated US$7.5 trillion in investments globally and have the potential to invest long term and in climate-friendly, just transition measures that their more commercial counterparts find unattractive. SWFs operate according to long-term horizons, a close fit for many of the renewable energy or efficiency projects that will ultimately be needed. But SWFs tend to be managed and judged according to market rules and norms that were devised for short-term, for-profit investors, often delegating the investment of a significant proportion of their assets to private fund managers.

In 2015, for example, the Norwegian government's Pension Fund Global (the world's largest SWF) announced its intention to divest over US$8 billion invested in coal. It has also dropped investments in 60 companies due to deforestation risks, including 33 companies involved in oil palm production. In both cases, divestment was a response to pressure from environmental and consumer protection groups.

The Pension Fund Global is also taking steps to reduce by US$8 billion its US$36 billion investments in oil and gas, although here the picture is more mixed. Part of the divestment push came from activist pressure, which has been supported by technical analyses showing the financial risks of exposure to fossil fuel extraction. Falling returns on oil stocks (due to low prices) and an economic case for diversification made by the Norwegian Central Bank were also key factors. But the scale of the sell-off has been restricted thanks to oil industry lobbying, with the Pension Fund Global maintaining its three largest oil investments (in Shell, BP and Total). Their pressure found a sympathetic ear among some of Norway's governing conservative politicians – a salutary reminder in a moment of right-wing ascendancy in many countries that divestment is intricately linked to broader political change.

A similar challenge, albeit for different reasons, arises in many of the undemocratic, oil-dependent states that manage most of the world's largest SWFs. Entrenched elites, who made their fortunes from oil and gas exploitation, are far from the ideal actors to advance divestment from fossil fuels, or develop investment rules that emphasize sustainability and collective well-being. Democratization is likely to be a pre-requisite if most SWFs are to play a constructive role in achieving a just transition. With the most significant SWFs drawing their funds from fossil fuel extraction, their contribution to a just transition should also include significant measures to address the irreparable loss and damage caused by climate change, and finance environmental restoration.

Public pension funds – which manage over US$11 trillion in assets – should also be primed to invest in a climate transition, yet many trail behind their private counterparts in addressing climate change. A 2018 survey by the Asset Owners' Disclosure Project found that 'over 60% of the world's largest public pension funds have little or no strategy on climate change'. The reasons behind this are not difficult to find: fund managers have a narrow focus on maximizing economic returns, and do not see climate-friendly investments as particularly profitable. Shifting this perception is more challenging and requires, at its core, a cultural shift in how these funds operate.

Reclaiming the 'public' dimension of public pension funds requires, as a bare minimum, that these funds have a core mandate to invest responsibly, with environmental and social as well as economic considerations. While a large proportion of these funds are likely to remain invested in government bonds (which are perceived as relatively secure, reliable investments), long-term investments in public infrastructure that contributes to a climate transition should also be prioritized. This can be reinforced by a series of technical changes, including a requirement that addressing 'climate risk' and sustainability be part of the fiduciary duty of fund managers, and requiring fund managers to take into account the 'materiality' of the risk climate change poses to fossil fuel investments.

The push for change will ultimately come from public pressure. For example, the California Public Employee Retirement System (CalPERS) is today seen as one of the most 'activist' funds in pursuing socially responsible investment goals but this was not always the case. The move to develop a more activist and principled approach to investment was reinforced by efforts to coordinate public investment, such as the formation of a Council of Institutional Investors (which took modest steps to question excessive executive pay awards and improve 'corporate governance'), and has been driven by initiatives to promote better public investment, such as the non-profit advocacy organization CERES and the Council for Responsible Public Investment.

CalPERS and CalSTRS (the California State Teachers' Retirement System) have also been pushed into more climate-responsive investments by legislative changes. Notably, CalPERs and CalSTRS are now required to report publicly on 'climate-related financial risk' thanks to Senate Bill 964, passed by the California State Senate in August 2018. The impetus for the bill came from environmental groups led by Fossil Free California and Environment California, who were behind the original drafting of the bill as well as a campaign to win support among legislators. This included lobbying political representatives and working for union endorsements from the California Service Employees International Union and the California Teachers' Association.

Ultimately, reforming how public investment funds are managed could reposition them as a model for changes that should take place across the private sector, showing that social interest and long-term stability can coincide.

Conclusion: advancing public investment

There is no magic formula for converting public investors into agents of a just transition away from fossil fuels, but the examples identified in this chapter point to several priorities and ways of working. Although the institutional culture of public investors can ignore local development and environmental objectives, it remains susceptible to public pressure. Based on the examples identified in this chapter, priorities should include:

Environmental and social mandates. The core mission of public banks and investment funds should not simply be economic, but should regard environmental and social considerations as equally or more important in investment decisions. This social and environmental mandate should be backed by clearly defined targets and operational rules, such as exclusions of fossil fuel investments and minimum requirements for investment in sectors contributing to a transition (such as renewable energy and efficiency).

Embeddedness in broader just-transition plans. The most successful public investment policies are embedded in wider climate change-transition plans. While the implementation leaves considerable room for improvement, Costa Rica's publicly owned banks are encouraged to promote sustainable investments as just one component of a wider set of carbon reduction and renewables targets. In Germany, KfW's energy efficiency investments form a part of the country's broader energy transition plan.

Local partnerships. State-led investment can be remote and alienating without a strong connection to local concerns. This is particularly important when developing new infrastructure. Partnerships with local actors, including cooperatives and savings banks, can provide one channel to ensure greater responsiveness to community agendas. Cooperative models of ownership, or other governance structures that enhance worker and community participation, can also help to ensure that infrastructure plans do not override the needs of those affected.

Accountability. State-owned banks and investment funds (including SWFs) need strong rules on transparency and accountability if they are to avoid being captured by vested interests or susceptible to corruption, but pushing for technical changes is not enough. Public investment for the climate is only likely to succeed if it is embedded within broader processes of democratization. Activist pressure can then be brought to bear on lawmakers, as well as finding an echo in how financial regulators frame the environmental risks of fossil fuel investment, or show any willingness to take up social and human rights concerns.

Restorative climate justice. Public investment funds are often sourced from the extraction of fossil fuels. This should be acknowledged in their investment plans, by including 'restorative' measures such as providing financial support to help communities address pressing adaptation needs, and the irreparable 'loss and damage' caused by climate change.

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Chapter 11

BOOSTING INVESTMENT IN THE EUROZONE: HOW TO BREAK THE STRAITJACKET OF THE FISCAL-MONETARY NEXUS

Ludovic Suttor-Sorel

"The important thing for Government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to do those things which at present are not done at all."

John M. KEYNES, The end of laissez-faire, 1926

Since the 2008 global financial crisis, the Euro area has experienced a sovereign debt crisis, a double-dip recession and severe risk of deflation. This last decade was marked by quasi-stagnation of economic growth, stubbornly high unemployment in several countries and rising climate and environmental concerns, all of which would call for investment in crucial sectors.

As the true backbone of our society, investment in infrastructure can no longer be overlooked without harmful consequences to the well-being of citizens, not to mention any transition to a sustainable and low-carbon society. Meanwhile, public spending is largely constrained, notably due to the implementation of a new set of EU fiscal rules called the Fiscal Compact. To close the investment gap, the EU has taken on the role of mobilizer of private capital. Yet, EU efforts have failed to stimulate the economy and fill the investment gap: private investors are not particularly interested in long-term, potentially risky and comparatively not-so-profitable investments.

The beginning of an anti-austerity protest organized by the People's Assembly against Austerity in the United Kingdom. Credit: Peter Damian, People's Assembly Against Austerity, Licence CC BY-SA 3.0

Clearly the scale of the twenty-first century's 'Grand Challenges' such as climate change and nature's depletion call for patient and strategic capital. In this regard, we argue that the potential of state investment banks has been largely overlooked, and too often restricted to de-risking private investment.

More precisely, we will discuss the proposition to establish a *Eurosystem of State Investment Banks*, whose activities would be supported through the reinvestment of money created by *the European System of Central Banks* in the aftermath of the 2008 financial crisis. Designed with an unambiguous mandate to provide strategic long-term investments and with explicit support from the European Central Bank (ECB), such an enhanced cooperation between already existing European public investment banks would help us transition towards a truly sustainable economy.

The crumbling backbone, the climate and the need for public investment

From roads to water, electricity, schools and other public facilities, governments are increasingly urged to maintain the existing, failing infrastructure, and make stopgap improvements. The need for infrastructure investments has been continually quoted as one of the great challenges of the coming decades. Without urgent infrastructure investments the well-being of citizens and the proper functioning of the economy will suffer. Indeed, a large body of literature has emphasized their significant positive effects on potential gross domestic product (GDP), and above all their potential for making societies more sustainable and inclusive.

Box I

Climate change and the cost of the transition

According to the latest report from the United Nations Intergovernmental Panel on Climate Change, we have just over a decade to limit climate change catastrophe. Public investments will be needed for retrofitting to improve the energy efficiency of existing buildings and infrastructure. There will also be a need for additional investment in energy infrastructure, green infrastructure and infrastructure to deal with changing climatic conditions and extreme weather events, such as improved sea defences and flood protection. The European Court of Auditors estimates that €1.115 billion needs to be allocated each year in Europe between 2021 and 2030 to fight climate change and its effects.

Several studies show that there is a growing infrastructure investment gap worldwide, estimated at US$18 trillion by 2040. The European Union needs investments of €688 billion per year between 2015 and 2030 in energy, transport, water and sanitation, and telecoms. This represents 4.7 per cent of the EU's GDP.

While public investment as a share of GDP was levelling out at 2.7 per cent in 2017 in Western Europe (EU-15), reaching a 50-year low (see Figure 1), investment in infrastructure in the EU today is even lower at a worrying 1.8 per cent of GDP according to the European Investment Bank (EIB). This is 20 per cent below pre-crisis levels and a far cry from what is needed. And there is little sign of improvement.

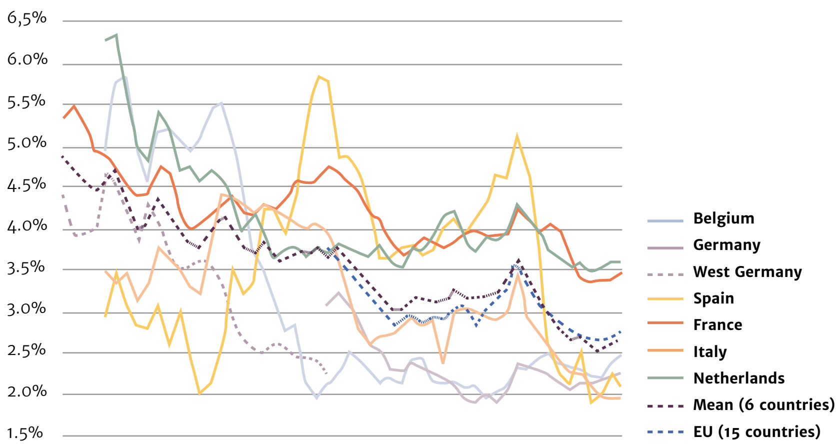

Figure 1. Public investment as percentage of GDP
Source: AMECO, 'General government gross fixed capital formation'

Nowadays, there is limited flexibility in public investment levels in EU countries, largely as a consequence of the so-called Fiscal Compact. This 2012 intergovernmental treaty aimed at ensuring that governments reduce their spending to comply with the original 1992 Maastricht Treaty criteria – that is, their financing deficit should not exceed 3 per cent of GDP and the ratio of public debt to GDP should not exceed 60 per cent. This has resulted in a sustained drop in public investment despite the crucial need to lift such fiscal constraint.

Evidence shows that fiscal policy should permit counter-cyclical public investment. In other words, public investment should increase when the economy is slowing down, and unemployment is high. As a matter of fact, the fiscal multiplier being higher than the cost of debt, public investment funded by debt would be beneficial for the level of public debt: if an increase in GDP produced by investments is greater than the increase in debt, the ratio of debt to GDP decreases. In other words, public investment could pay for itself but is forbidden nonetheless.

When the public interest is at stake, but states are constrained from providing investment, could private finance be the answer? We think not.

Private finance and the investment gap

Large institutional investors such as pension funds or insurance companies have been presented by international organizations – led by the World Bank and the Organisation for Economic Cooperation and Development – as well-suited to invest in infrastructure and low-carbon projects. But investors have been clear about what this will take: investments that can offer competitive returns.

Consequently, a large part of the public policy narrative is that public guarantees are needed to mobilize private funding by reducing the risk of private investment in infrastructure. This narrative notably incentivizes EU governments to resort to public–private partnerships (PPPs), as these circumvent the Fiscal Compact constraints. As an EIB paper puts it '*since fiscal accounting rules keep most PPPs off the balance sheet, governments have used them to anticipate spending and to sidestep the normal budgetary process'*. But in fact PPPs do not eliminate fiscal constraint over the long term and are not less costly. Instead, they are a form of regulatory arbitrage that shifts the cost of projects to future generations. On top of that, the level of PPPs in Europe is historically low and is nowhere near meeting infrastructure needs. Since the 1990s, a total of 1,749 PPPs worth a total of €336 billion have reached financial close in the EU. There is a similarly low average in infrastructure investment by large institutional investors worldwide, amounting to only 1.1 per cent of their total assets under management.

Regarding climate mitigation and adaptation investment, there is also a long way to go: while the financial sector comprised more than US$294 trillion in assets in 2014, 'sustainable-themed investment' represented US$1 trillion in 2018, 'climate finance' amounted to US$455 billion world-wide and the famous global 'green bonds' market was worth just US$155.5 billion in 2017.

Although there is clearly an abundance of liquidity, the lack of private financing of infrastructure and climate mitigation and adaptation investment suggests that they are just not profitable enough in the short term — and the short term is their horizon.

However, profit should not be the metric for everything. 'Grand challenges' such as the fight against climate change and the transition to a low-carbon economy call for patient, long-term, committed finance. And this will never be the specialty of global private finance — at least in the absence of specific regulatory incentive (e.g. credit guidance) — but it is the bread and butter of another actor: state investment banks.

State investment banks: going beyond the socialization of risk and privatization of profit

By nature, state investment banks (SIBs) such as the German *Kreditanstalt für Wiederaufbau* (KfW), the Italian *Cassa depositi e prestiti* (CDP) or the French *Caisse des dépôts et consignations* (CDC) are different from private commercial banks or institutional investors: they are created with a public interest mandate to provide medium- and long-term capital for productive (and sometimes green) investment. While governance structures and accountability mechanisms are key to avoid mission drift and political capture, their explicit public mandate and guarantee can enable SIBs to see beyond the pressure to deliver short-term returns. Consequently, these often-underestimated institutions can play an important counter-cyclical role in the aftermath of crises, as they did between 2007 and 2009 by increasing their loan portfolio from 35 per cent on average to more than 100 per cent.

In fact, under some conditions the business activities of SIBs neither affect the general government deficit or surplus nor its gross debt. Therefore, SIBs are currently one of the ways for European states to release the constraints of EU fiscal rules in order to maintain a form of public investment and foster in some cases a discreet industrial policy through loans targeted towards specific sectors.

Nevertheless, their potential does not match the investment gap because their role is too often limited to fixing 'market failures' and de-risking private investment. As a flagship example, the post-crisis *Investment Plan for Europe* is essentially about mobilizing private funding. In this context, SIBs, but also the multilateral EIB, are required to provide public guarantees and to purchase the riskiest tranches of investment in infrastructure to incentivize institutional investors to get on board.

An hourglass shows time passing with coins and bills in the background. Credit: stevepb, Pixabay, Pixabay Licence

Instead, we should put our energy into allowing public financial institutions to do more of what they are good at: directly financing infrastructure and long-term investment in public goods and commons.

Eurosystem of investment banks

In 2014, the economist Natacha Valla, Deputy Director General for Monetary Policy at the ECB, proposed the establishment of a Eurosystem of Investment Banks (ESIB) '*around a pan-European financial capacity that would coordinate the actions of the [state] investment banks of Euro area member states and add to their funding capacity*'. Building on the existence of a network of prominent SIBs across Europe and the EIB, the ESIB would institutionalize their occasional successful cooperation — notably the so-called 'investment platforms' — in European Law with the binding mandate of promoting sustainable and inclusive growth, and employment on the continent. Considering the risk of climate change and environmental collapse, this mandate should involve the transition to a sustainable and low-carbon economy.

The proposal is to finance investment at an economically relevant scale of €1 trillion per year, but it was also suggested that the European Fund could issue debt to finance itself on the market. While the actual abundance of liquidity could advocate in favour of such an option, it is neither the only way to go nor the best as it incentivizes SIBs to select profitable and not-too-risky investment in order to keep their generally good rating — the kind of investment that could easily attract private money.

Of the many ways SIBs can finance their operations — including taking savings and deposits from the public, borrowing from other financial institutions, receiving budget allocations from the national Treasury — we think there is room for reinforcing one particular channel of funding: the central banks.

Money creation for the people?

We tend to forget that how we create money and the quantity in circulation are key in our economy; the latter can potentially restrict the value of transactions if too low and lead to inflation if too high. The role attributed to central banks is precisely to ensure a proper level of money in circulation to realize the economy's full capacity and reach full employment.

But who is creating and allocating money is also an important issue to address. With commercial bank lending now the main source of money issuance, it is important to know under what conditions and to whom banks are lending. Compared to private banks that are designed to provide funding for profitable activities and not-too-risky clients, public banks can be democratically mandated to pursue other objectives such as social inclusion, full employment and a transition to a sustainable and low-carbon economy.

The limited and not-so-effective central banks toolbox

In response to the 2008 crisis, major central banks promptly reduced interest rates to near-zero in an attempt to make it cheaper for private banks to lend money to businesses and individuals; in a less conventional move they also launched ‘quantitative easing’ (QE) programs that allowed them to create money and purchase various financial assets, including government and corporate bonds. The money injected through QE was supposed to trickle down to the real economy by pushing financial markets and banks to lend more. In the Eurozone, QE was also meant to make it easier for governments to sustain their deficits, by reducing the interest rate and the risk on government bonds.

Launched in 2015, QE as implemented by the ECB has resulted in the creation of more than €2.6 trillion. Following the principle of so-called ‘market neutrality’, the ECB bought bonds on the market without differentiating between ‘brown’ and ‘green’, or between socially useful and harmful investments. While this policy massively directed towards Euro-area sovereign bonds has successfully stopped speculation on the poorest countries in the region, the ECB has so far failed to achieve its primary mandate of maintaining inflation close to 2 per cent despite this massive injection of liquidity: inflation is still far below that level.

This comes as no surprise. Firstly, cheaper borrowing does not necessarily lead to increased demand from households and companies, especially when they already have a hard time repaying their existing debts and when the economy is depressed. Secondly, given monetary policies are intermediated by a dysfunctional financial sector, money does not automatically reach the real economy: financial development since 1990 has mostly grown thanks to credit for real estate and other asset markets, not business lending. For example, by the end of 2017 ‘almost 40 percent of ECB-created liquidity was kept idle on credit institutions’ deposit accounts at the ECB itself’ rather than used to provide new loans to the real economy. In this context one wonders how QE could stimulate the economy.

Many economists are currently debating whether central banks have exhausted all their options, implying that they could not cope with another financial crisis. This sheds light on the limitations of the current monetary policy toolbox and reopens the debate on other instruments, especially coordination between fiscal and monetary policies.

The forbidden tool

The use of a central banks' money-creating powers to help finance public investment is not a new idea. A number of economists advocated for similar policies as a response to the Great Depression in the 1930s. Before the era of modern banking, several governments 'used simple accounting techniques ... or printed paper money to fund their activities and ensured their widespread adoption through taxation'. There are also many examples of fiscal–monetary coordination through history, in particular during the 1930s to 1970s period.

Despite decades of fruitful coordination between central banks and ministries of finance, such practices have become taboo with the establishment of a *New Macroeconomic Consensus* (NMC) in the 1990s. Inflation targeting has since become the primary focus of monetary policy, taking over other macroeconomic policy objectives such as full employment or sustainable growth. The NMC's two other key elements are: first, that central banks should be strictly independent from government; second, that they solely use indirect methods of monetary policy (e.g. interest rate adjustment) versus direct methods (e.g. monetary financing of public investment or some forms of credit guidance). In 1992, the Maastricht Treaty institutionalized this consensus in Europe by preventing any government from monetarily financing public investments.

However, this consensus was called into question after the 2008 crisis, reopening the discussion on using central bank money creation to support public investments. Following the resurrection of this idea in 2003 by the former chairman of the Federal Reserve, Ben Bernanke, it has been endorsed by notable economists, including the former Financial Services Authority chairman Adair Turner, the Citigroup's chief economist William Buiter, the Nobel Prize-winning Paul Krugman and others.

A partial monetary financing of public investment through such coordination could help close some worrying investment gaps — such as for the transition to a sustainable and low-carbon economy — and influence production and employment, directing capital where it is most needed, without heightening the public sector's debt. Nevertheless, for most policy-makers, 'printing money' to finance public spending remains a mortal sin, as it triggers fear of hyperinflation.

Monetary financing to prevent climate breakdown

Creating money is what the banking sector does every day. The question is whether this new money created corresponds to real productive activities that fulfil society's needs, or if it is going to inflate the price of existing assets, creating a risk of a bubble and artificially expanding the wealth of the few. Redirecting money creation towards real activity, especially for the transition, would certainly not bring any uncontrollable inflation.

To make it politically viable in Europe, the main characteristics of our proposal would be:

- ***Conditionality*** – To overcome the mostly irrational fear of triggering hyperinflation, monetary financing would be made conditional, so that bond purchases would be automatically stopped in case of a too-high surge in inflation – as has been proposed by some economists.
- ***Reallocation*** – The funds would be made available to every SIB according to country capital key, for the purpose of financing long-term public and sustainable investment projects.
- ***Guarantee*** – The creation of a Eurosystem of SIBs combined with a pre-announced and substantial volume of purchases by the ECB of newly created ESIB bonds will act as a strong guarantee for this new mecha-

nism. This will allow SIBs to fund riskier and less profitable — but necessary — projects with public good characteristics, and to benefit from extremely low interest rates in case the ECB stops buying ESIB bonds beyond a certain threshold.

Furthermore, it is worth noting that this could eventually be done without new money creation. Despite the supposed end of quantitative easing in December 2018, every time a bond will arrive at maturity, the ECB will reinvest the correspondent amount of money into new bonds — the same sort of reinvestment will happen for years to come. The ECB could therefore decide to buy a greater amount of ESIB bonds with this reinvestment. As the ESIB would mainly emit green bonds directed towards the transition (e.g. sustainable infrastructure), reinvesting QE that way would allow the ECB to finally channel it towards the real economy and fulfil its duty as an institution legally bound by the Paris Agreement on climate change.

In any case, this would help to quickly close the investment gap in the areas of climate mitigation and sustainable infrastructure, while reducing general levels of unemployment.

Conclusion: there is no inflation on a dead planet

Enhanced cooperation between public investment banks and central banks could boost crucial public investment, but any ambitious proposal needs civil society advocates and public engagement.

As the '*Pacte Finance Climat*' is being discussed in France largely thanks to broad public engagement, civil society actors like Positive Money Europe are already putting some pressure on the ECB to go green. In the same vein, citizens and civil society need to demand that their national parliaments question the kinds of (dirty) bonds that their central banks buy, and that they redirect QE into green investments.

Policy-makers and central bank governors should be reminded that there is no inflation on a dead planet. The irrational fear of inflation should not prevent our generation from finding solutions to the biggest threat to the survival of mankind: the risk of a climate breakdown.

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Chapter 12

A PUBLIC BUYOUT TO KEEP CARBON IN THE GROUND AND DISSOLVE CLIMATE OPPOSITION

Carla Santos Skandier

Across the political spectrum, conventional wisdom holds that technology and finance remain the greatest obstacles to moving society beyond fossil fuel dependency. Yet, neither is the real reason why progress on climate action has stalled for decades. Solar applications alone have the technical potential to provide 100 times more electricity than the United States currently consumes, as concluded by the Department of Energy's National Renewable Energy Laboratory in 2012. In the world's richest nation, which created trillions of dollars to save banks between 2008 and 2014, financing is not the problem either. The United States can wield its sovereign monetary power to finance and encourage investment in non-extractive energy projects as part of a Green New Deal to address the climate crisis and economic inequality. Why, then, do oil and gas companies still seek new reserves, governments still licence dangerous infrastructure, banks still finance carbon-intensive projects and investors still embrace fossil fuel companies?

People's Climate March, San Francisco, 8 September, 2018. Credit: Carla Skandier

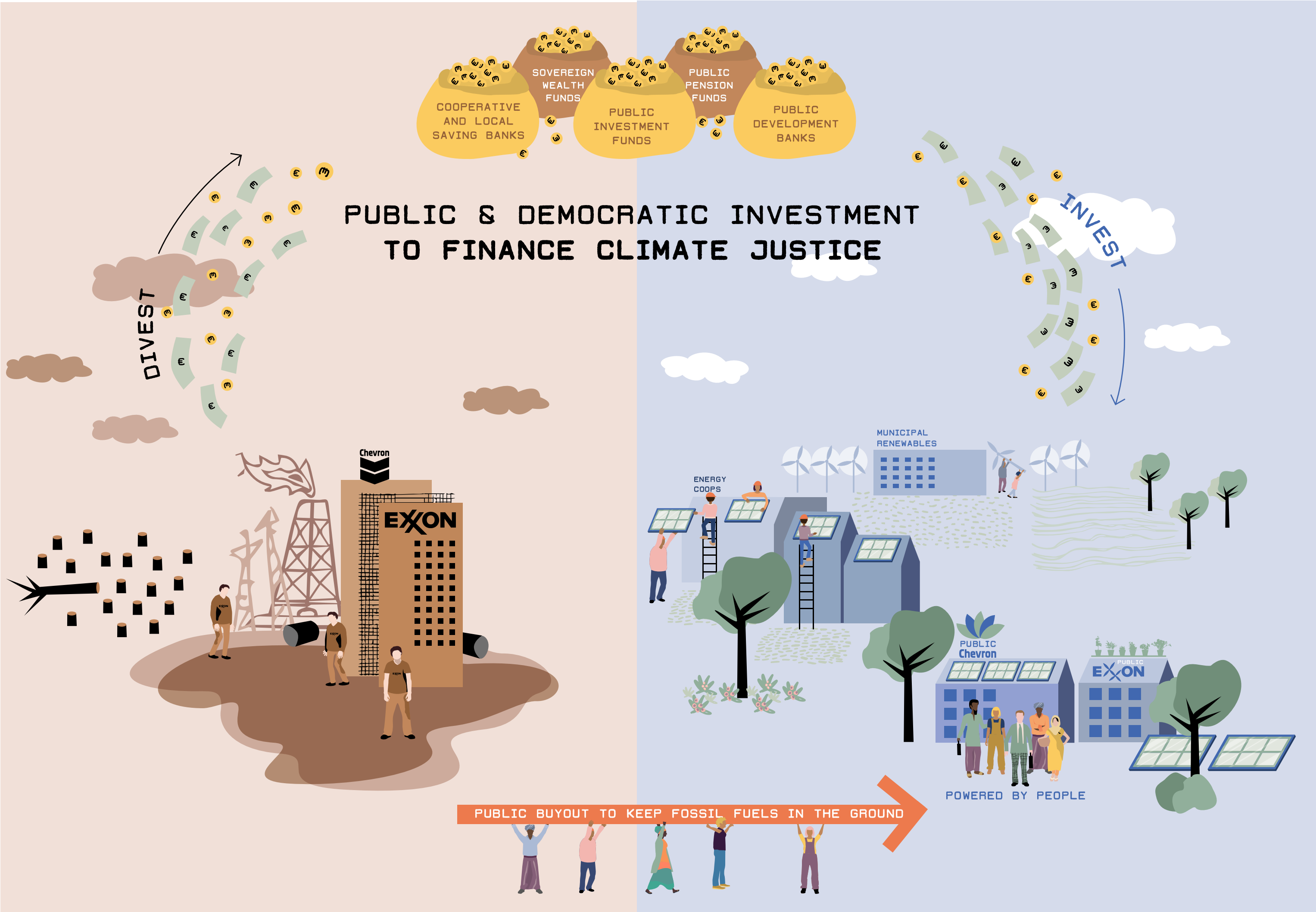
The short answer is that the US government has no interest in going after the fossil fuel industry, the source of the climate mess. In fact, the very opposite is true, with governments bending over backwards to help this industry. At best, politicians and officials find ways to deflect attention from root causes, focusing on only one side of the climate equation: demand. Demand-side initiatives aim to decrease our use of fossil fuel products by, for example, giving tax breaks to companies that make more efficient light bulbs or by supporting renewables. By free market logic, decreased demand for fossil fuel equals a decrease in supply, so focusing on demand-side initiatives is the 'logical' way to advance climate action while not directly confronting the fossil fuel industry.

But is it really? First and foremost, ours is not a free market. Real solutions to the unfolding climate crisis must include the supply side of the climate equation. As time runs out for mitigating the worst that is yet to come, pace will have to equal scale. Without undermining all-important complementary state and local initiatives, we need to reclaim political will at the highest level: the federal government.

Untangling government through the federal reserve (and a public buyout)

Fossil fuel companies' domineering political influence is the real problem. We need to dismantle this powerful roadblock to an environmentally viable energy system and have a plan for managing this industry's decline. Strong regulations will not do it. If reserves stay largely under private control, the regulatory approach would be too complicated and time-consuming. Unchecked, fossil fuel companies' opposition machinery could hold back progress indefinitely.

Since 85 per cent of the known fossil fuel reserves need to remain unburned, we must figure out how best to use the other 15 per cent to support a clean, equitable energy transition. With reserves in many different hands, and with diverse private interests at play, this already tough question becomes harder to answer.



COOPERATIVE AND LOCAL SAVING BANKS
SOVEREIGN WEALTH FUNDS
PUBLIC INVESTMENT FUNDS
PUBLIC PENSION FUNDS
PUBLIC DEVELOPMENT BANKS
PUBLIC & DEMOCRATIC INVESTMENT TO FINANCE CLIMATE JUSTICE
DIVEST
INVEST
Chevron
EXXON
ENERGY COOPS
MUNICIPAL RENEWABLES
PUBLIC Chevron
PUBLIC EXXON
POWERED BY PEOPLE
PUBLIC BUYOUT TO KEEP FOSSIL FUELS IN THE GROUND

The most effective and timely way to untangle the paralyzing relationship between government and industry is through a federal buyout of the fossil fuel companies that control these noxious assets. In brief, the federal government would acquire 51 per cent or more of the shares of such major US-based, publicly traded fossil fuel companies as ExxonMobil, Chevron and ConocoPhillips. By controlling these companies' decisions, the federal government would move away from profit-driven, short-minded shareholder interest, winding down production and locking up fossil fuel reserves in the ground — all while deflating fossil fuel companies' undue political influence.

To ensure that climate safety stays a priority for the government, as soon as these companies are in public hands a number of changes must take place. This include redefining their charters to reflect the end goal of declining fossil fuel production, decommissioning projects and, when appropriate, facilitating a just transition (e.g. by investing in wind and solar projects or other initiatives that align with a green transition framework). As a second step, the recently converted public companies must also adopt participatory and democratic procedures that give decision-making power to stakeholders, including a seat and voting rights at the board, along with the implementation of measures that promote transparency and accountability to the public.

We need to recognize that we have been relying mainly on services and products provided by private fossil fuel companies to meet people's energy needs and that this did not come without sacrifices. On top of inevitable accidents, many dangerous spills were allowed to happen on grounds that it is more profitable to pay for damages later than to prevent them now, and owners walked away from numerous wells and sites leaving remediation and decommissioning procedures and costs to the next generation.

This sorry record shows that we cannot transform fossil fuel producers quickly enough; instead, our best chance is for the government to intervene in the form of nationalization and democratization. If government controls fossil fuel reserves democratically, extraction decisions will not be made in lobbying wars and in closed-door negotiations. Instead, decisions will centre on what really matters: emissions, resource intensity, and how to mitigate social impacts on low-income people, workers and communities. If we do not have the luxury of time and carbon budgets to give fossil fuel producers another chance to serve their customers' best interests, the remaining option is to become their bosses.

1000 grandmothers for future generations at the People's Climate March, San Francisco, 8 September 2018. Credit: Carla Skandier

Unusual suspect: the Federal Reserve Bank's role in mitigating climate change

Many analysts fear that the fossil fuel sector could be instigating the next financial crisis. In 2008, the US economy neared collapse when the mortgage market was overestimated. The same peril is mounting again, but this time in the shape of fossil fuel reserves and infrastructure that will no longer be needed — and so will not provide the expected financial returns. Fear of stranded fossil fuel assets has grown among financial regulators and investors. As nations committed to limiting temperature increases to 'well-below 2°C above pre-industrial levels and pursu[ing] efforts to limit the temperature increase to 1.5°C above pre-industrial levels', environmental regulations across the world have since tightened and civil society has started to revoke some of these organizations' social licence through growing lawsuits, divestment movements and protests.

Estimates on the size of the fossil fuel threat in the global financial market vary widely. The highest number so far, presented by CitiGroup in 2015, is US$100 trillion — significantly more than the total losses from the 2008 financial crisis. Mirroring the previous crisis, both the responsible sector and millions of workers and companies outside the fossil fuel market would feel the pain. Bank of England (BoE) Governor Mark Carney contends that up to one-third of global wealth may be at risk due to fossil fuel-stranded assets, including that of pension funds that hold the retirement of teachers, veterans and nurses.

As it did in 2008, the US central bank, better known as the Federal Reserve Bank (the 'Fed'), could play a crucial role in diffusing this impending catastrophe, this time in a preventive and positive way. The century-old agency has under its current functions to ensure the stability of the financial system and minimize systemic risks through active monitoring and engagement. The systemic threat imposed by irresponsible fossil fuel companies should be enough to trigger the Fed to intervene now. Other central banks around the world have already started to act on their responsibility to better understand and try to avoid a financial crisis caused by the fossil fuel industry's stranded assets. The most vocal among central banks is the BoE. Since 2015, when BoE Governor Carney alarmed investors in the famous speech 'Breaking the Tragedy of the Horizon', the bank has started a research agenda, a working group, and a coalition with several other central banks to clarify their role in addressing systemic environmental risks.

Besides anticipating and managing threats to the financial system, the Fed wields the monetary power needed to pull off a federal buyout of the six big private fossil fuel companies without burdening taxpayers. The agency's sovereignty enables it literally to create money out of thin air. One monetary tool is 'quantitative easing' (QE): 'quantitative' in relation to the large amount of money that can be created and 'easing' in reference to the ultimate goal of the process, which is to help the economy through money injection. This tool was used during the latest financial crisis by the Fed, the European Central Bank, the Bank of Japan and other central banks. In the US alone, the Fed created over US$3.5 trillion between 2008 and 2014 to bail out bankers and financial institutions — without materializing the traditional concern of runaway inflation. Now it is time for the Fed to act on behalf of people and the planet, again without the worries of fuelling inflation as there is still plenty of room in the United States for new money. This includes more than seven per cent of the population who still cannot find full-time jobs, combined with the urgent need for new green infrastructure investment to allow us to transition away from fossil fuels in the next decade. Furthermore, due to the nature of the buyout, it is unlikely that large portions of the money would ever touch the real economy as fossil fuel investors, such as pension funds, would use the cash influx to seek new investment opportunities. For the remaining fossil fuel investors, further risks of inflation could be deterred if the buyout plan is designed in a way that encourages them not to cash out their financial gains, but rather to rollover the money, tax-free, to renewable energy stocks or bonds to help spur the energy transition.

Strategic breakthroughs and outcomes of a federal buyout

The potential benefits of a QE-financed federal buyout are manifold. Besides neutralizing fossil fuel opposition to climate action, which few other meaningful supply-side proposals could do, a federal buyout has two other selling points. It would leapfrog critical shortcomings of standard supply-side initiatives — namely, lock-in infrastructure and green paradox

— and clear a path for a just energy transition for fossil fuel workers and communities.

Leapfrogging lock-in infrastructure and the green paradox

Once certain infrastructure is in place, decrease in demand and other changes in market conditions alone will not stop production. This so-called infrastructure lock-in particularly dogs the fossil fuel industry, where the bulk of investment capital is sunk in the project's first years to build needed structures and facilities. Once infrastructure is in place, 'producers will ignore sunk costs and continue to produce as long as the market price is sufficient to cover the marginal cost (but not the average cost) of production´. Both well-established infrastructure and new projects are subject to infrastructure lock-ins. Investors might, for instance, invest in a new coal mine if convinced that 'the short-term value of the profits that can be earned under current policy settings ... [exceed] the long-term (risk-adjusted) cost of detrimental policy change´. Policy uncertainty thus reinforces this climate-hostile rationale.

The green paradox occurs when companies accelerate fossil fuel production in anticipation of future policy and market trends. Fearing asset devaluation, producers speed up extraction and production to cash out profit as quickly as possible. Like infrastructure lock-in, the green paradox also invites greenhouse gas emissions and severely diminishes our chances to plan and implement an orderly transition to renewables in two ways. First, it shortens the already scarce time we have left to decrease fossil fuel production and ramp up renewable infrastructure. Second, it deepens fossil fuel dependency as people continue to buy carbon-intensive assets, such as cars and far-away homes, without taking climate change impacts — physical and financial — into consideration.

Standing up to Big Oil at the People's Climate March, San Francisco, 8 September 2018.
Credit: Carla Skandier

A federal buyout of fossil fuel companies, which would cover their domestic assets and operations, would skirt both infrastructure lock-ins and the green paradox. That is because fossil fuel producers would no longer financially benefit from short-, medium- or long-term fossil fuel production. Shortening the renewable energy investment gap, a federal takeover would also send a clear signal that the future is renewable.

The proposal's true game-changer, however, is making climate action attractive to fossil fuel companies facing endless negotiation and litigation. As an alternative to 'produce all now or lose most later' (catchwords often used to tar climate policies), a federal buyout affords a reasonable and prompt exit option to fossil fuel companies by compensating investors without having to keep up production. At the same time, the process to determine the amount of compensation needs to be democratic in order to avoid rewarding bad actors. Any evaluation process should exclude assets that have been wrongfully counted as valuable and take into account the environmental damage these fossil fuel companies have caused as well as the profits and public guarantees they have extracted.

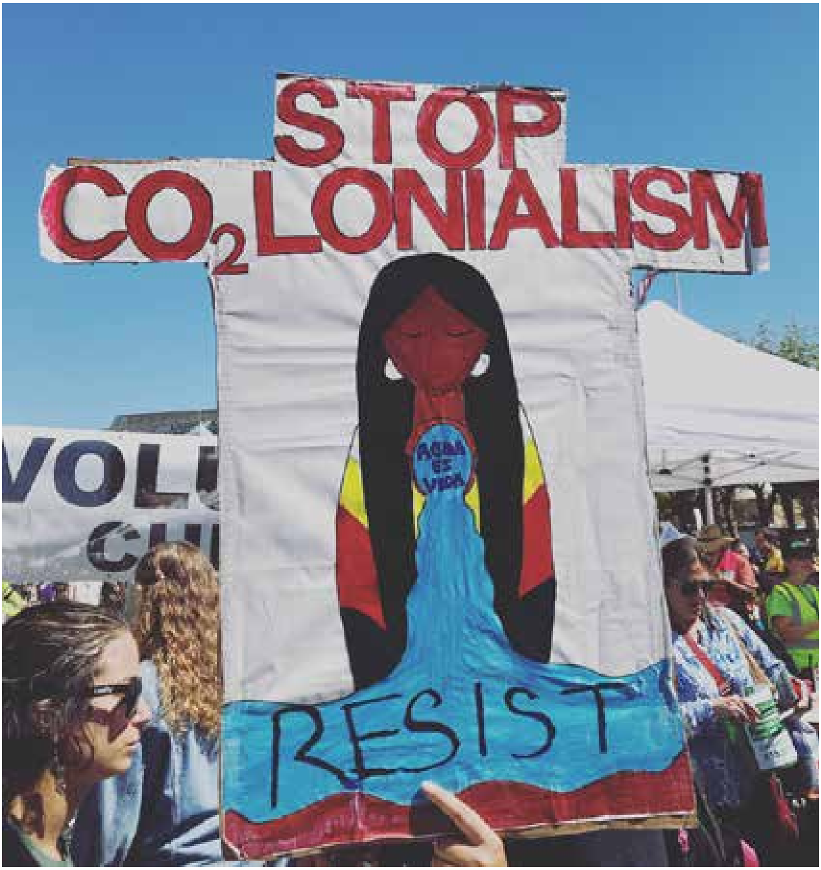
Clearing the path for a just transition for fossil fuel workers and communities

A democratically designed buyout proposal also potentially allows government to devise and activate a comprehensive, orderly transition plan that marries fossil fuel decommissioning with renewable capacity rise, all while leaving no dependent worker or community behind.

As it is now, big private energy companies treat workers and communities as the inevitable collateral damage of misguided judgements and maximization of private interests. General Electric, for example, in late 2017 announced 12,000 job cuts in its fossil fuel-heavy power department, a decision made to right size the business amidst a decline in fossil fuel use. Just two years earlier, the company had decided to *double* its inventory of large coal turbines.

This callous approach is not only immoral, it could also undermine a successful transition to clean energy. Often, when company towns vie to remain standing, last-minute decisions set off a wave of job losses and revenue decline that can damage or ruin the community's structure. From a climate perspective, throwing away communities translates into 'empty houses, half-empty schools, roads, hospitals, public buildings, etc., [that we must] rebuild in a different location, with all the associated carbon costs´.

Federal government's role should be securing fossil fuel reserves through a federal buyout of the domestic assets and operations of these major companies *and* implementing a cohesive, orderly and just transition plan that supports, builds on and lifts workers and communities along the way. And that plan must leave room for those directly affected to participate in and guide a future away from the extractive economy.



Demanding to stop CO2 colonialism the People's Climate March, San Francisco, 8 September 2018. Credit: Carla Skandier

When other governments for which the same premises hold true – namely the existence of a significant privately owned, publicly traded energy sector that works against climate action and a strong central banking system – would also democratically direct their central banks to buy out the fossil fuel companies in their countries, then fossil fuels could be kept in the ground at a much faster pace.

Workers' new roles and meaning

An undeniable consequence of de-carbonization will be job losses in the fossil fuel sector. The good news is that the energy transition requires a lot of workers. As estimated by economist Robert Pollin and others in 2014, an investment of US$200 billion annually in renewable energy and energy efficiency could create 4.2 million jobs in the US, a net gain of 2.7 million when jobs lost from the fossil fuel sector are counted. The bad news is that matching new jobs and displaced workers will not be simple. Many jobs will appear in new locations and require new expertise.

That said, creating a comprehensive, coordinated federal transition plan from the get-go can prevent unnecessary and permanent disruption of fossil fuel workers and their families. Looking at lessons learned from coal communities in six countries, researchers concluded that failure to anticipate, accept and prepare for the transition is a key difference between securing workers a continuous path in the workforce and falling into long-term unemployment.

The transition plan's first goal must be to avoid large-scale, last-minute layoffs. Quite simply, workers leaving current carbon-intensive work need a safe passage into jobs with a future. The way could be paved with a clear climate policy so young adults could compare the odds of specializing in various fossil fuel sectors and workers already employed by the industry could get trained for new roles. But the government must also adopt 'emergency measures' in anticipation of the disruptive impacts the transition will inevitably have on some workers and their families. A standard income for workers and families, for instance, would enable them to weather surprises or changes without compromising their health and the assets built by their hard work. Other forward-looking policies, such as relocation assistance and counselling, can also be considered.

The government could guarantee full employment to workers, stabilizing their income during the transition *and* preserving the meaning that employment provides to life for many. Meaningful labour is particularly important for fossil fuel workers, whose jobs provide a living and also an inheritance maintained over generations. In that vein, government should also find ways to keep at least some workers in the 'same' industry, albeit with an evolved purpose and vision. Instead of coal mining, for instance, some former miners could continue reporting to the same locations, with the same company, to revitalize the compromised land and waters for the benefit of their communities and neighbours. After all, workers who helped build and maintain fossil fuel projects are often best qualified to decommission facilities, clean up and otherwise revitalize old sites.

Communities' diversification and economic renewal

In many cases, communities across the country will need to diversify and renew their economy. No one knows better than each community how to determine and evaluate what comes next. Local people are the experts at identifying their historical, cultural and available capacity. Anchor institutions such as hospitals, universities and public departments have a unique opportunity and powerful procurement capacity to lift their communities and people both sooner and later.

But what will happen in the many rural communities that have depended heavily on the fossil fuel industry but lack anchor institutions or alternative industries to support their transition? Here, government must intervene to help communities feeling cut off at the knees through a robust plan to stabilize their economic base. One of many options is to identify and recognize affected communities as 'Opportunity Zones', an economic development tool created in 2017 to spur economic development and job creation in distressed communities.

Another suggestion builds on the idea that fossil fuel companies, now publicly owned and democratically controlled, could be transformed into 'environmental revitalization' enterprises. By way of example, with a lignite (brown coal) economy in full force in 1985, East Germany saw both production and workforce in the sector decline by almost two-thirds within a decade. The city of Leipzig alone, the region's industrial centre, lost

100,000 people over a decade. Looking to provide a brighter future to the region, the government, through the federally owned Lausitz and Middle Germany Mining Administrative Company (LMBV), started the revitalization process of former open mines (employing 20,000 people along the way). The result: the region, the 'largest artificial lakeland' in Europe, is today a tourist destination with 26 lakes providing a variety of recreational activities, including canoeing, kayaking, scuba diving, triathlon competitions, restaurants and party spaces. Although the region's redevelopment is more complex than exposed here, the revitalization of 'once one of the dirtiest areas in East Germany' into a pristine landscape of 'soaring pine forests, glistening lakes and immaculate asphalt cycle paths', shows that providing old fossil fuel communities a new, better meaning is possible.

Conclusion: 51 per cent solution for the climate crisis

There is no easy fix that would free us from the climate mess we are in, but a federal and democratic takeover of major fossil fuel companies in the first links of the supply chain could turn the tide. If fossil fuel reserves were under popular control, their future could be decided for and by the people, instead of by profit-driven, short-sighted shareholders. Only democratic government can ensure the planned wind down of fossil fuel production in accordance with climate safety goals. With room for private profit cut out of fossil fuel extraction and production, the powerful entrenched opposition of the energy sector would crumble. And with government and fossil fuel industry interests untangled, complementary climate initiatives could be adopted and implemented – so could a cohesive, orderly and just transition plan that leaves no one behind. The transition to a sustainable, renewable, non-extractive economy requires nothing less.

This chapter is adapted from the 'Quantitative Easing for the Planet' article by Carla Santos Skandier originally published in September 2018 in the Taking climate action to the next level report by The Next System Project, an initiative of The Democracy Collaborative, and available at thenextsystem.org/climateaction.

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Conclusion

TOOLS FOR TRANSFORMATION

Campaigners, activist scholars and progressive policy-makers have much to win from connecting the issues they are fighting for – be it climate justice, racial equality, feminism, a well-being economy and universal public services – to the realm of money, taxes and finance.

With this book we hope to have shown the funds at our disposal to meet our collective everyday needs. Once these are spent and invested by publicly owned and democratically organized institutions, and no longer extracted by the private sector and market mechanisms, we can start to redirect wealth to finance the future we want.

Below we suggest 15 campaign and policy recommendations to reclaim money and finance systems for building life-sustaining economic democracies.

At the same time we acknowledge that this list is far from comprehensive. We invite you to share with us [email: publicfinance@tni.org] your actions, tactics and strategies that have proven effective *tools for transformation*.

We believe that only a serious public debate, popular pressure and society-wide mobilization can build a progressive politics of money and finance.

Democratic ownership, governance and decision-making

1 – Build robust democratic ownership of public financial institutions by ensuring that worker, user and community representatives are on supervisory or director boards (along with requirements for gender and racial representation). The principle of affected interests should be upheld to ensure that those most impacted by a public bank have the decision-making power to ensure it is fulfilling its mandate and mission, and guaranteeing access to finance and banking as a right and public service. The principle of subsidiarity should be followed to decentralize decision-making power as much as possible.

Banco Popular, owned by 1.2 million Costa Rican workers, is an example of what democratic ownership can look like. Similarly, the 'Belfius is ours' campaign proposal to have civil society representatives on supervisory boards at the local, regional and national levels puts the principle of subsidiarity into action.

For background, read chapters 8 and 9

2 – Establish a binding public mandate and a socio-ecological mission for public financial institutions. This can ensure that profits are not extracted, but rather reinvested in society to achieve long-term, equitable development. Social actors should be able to define the mandate of the institution. For example, the mandate of a community bank could specify that it provides financial services to particular groups that typically face exclusion and barriers to access, such as low-income households, cooperatives and small and medium-sized enterprises. The mission should say that the institution serves the well-being of its population. All this would better equip banks to support socio-economic and environmental objectives.

Germany's local saving banks (*Sparkassen*), for instance, are legally obliged to promote financial inclusion by providing savings and lending to small and medium-sized enterprises. Municipalities are put in charge and cannot privatize the bank or distribute profits. India's National Bank for Agriculture and Rural Development similarly has a mission that enables it to finance soil and flood projection schemes in order to adapt to the impacts of the climate crisis.

Read chapters 8 and 9

3 – Create local, democratic and publicly owned banks to finance investments to meet people's needs. A public bank enables a local or regional government to deploy public funds locally in the form of loans, (re)investments and financial services. Public banks are better suited to providing equity-oriented financing where profit-maximizing is not the primary motivation.

In 2016, four years after the private Bank of Hawaii withdrew from American Samoa, the Territorial Bank of American Samoa was created. The motto of this public retail bank is *Faletupe o le Atunu'u* (the People's Bank). Across the United States, from Boulder and Los Angeles to Oakland and New York, vibrant citizens' campaigns are, with increasing success, creating democratically controlled public banks. A popular referendum could enable local governments to put the right laws and regulations in place to create their own public bank.

Read chapters 8 and 9

Raise, create and spend public money for people and planet

4 – Use public financing to directly invest in public services and low-carbon infrastructure, instead of private deals, such as public-private partnerships (PPPs). PPPs are attractive to some jurisdictions, because they bypass spending controls and keep debts off public balance sheets. However, private investors are interested in short-term investments that make quick profits, leading to higher public costs in PPP deals over the long term and the prioritization of certain types of investments over others. Society needs long-term investments to rebuild public services and upgrade our heating, electricity and transportation infrastructure to be run on renewable sources.

Worldwide, public finance institutions, such as public banks, have over US$73 trillion in assets, which could be invested directly in public services and infrastructure. In Bangladesh, the publicly owned Infrastructure Development Company Limited (IDCOL) has provided finance to install three million solar energy systems in rural areas, electrifying the homes of thirteen million people. The German state investment bank *Kreditanstalt* *für Wiederaufbau* (KfW) provides below market-rate loans for small and medium-sized manufacturers.

Read chapters 9, 10 and 11

5 – Curb private money creation by reclaiming privatized banks. When democratic and publicly owned banks rather than private banks are allowed to create money through lending, they can invest in sustainable infrastructure and public services, which in turn reduces inequality and redistributes wealth. In the Netherlands, the 'Our Money' campaign is calling for bringing money creation back under public and democratic control.

Read chapter 1

6 – Transform the public money system by demanding that governments use their money-making powers to create funds for much-needed public spending in the face of the urgent climate and inequality crises. This is done first by democratically deciding how much money should be issued to build climate-friendly public services and infrastructure, and second how much should be retrieved through progressive taxation once spending has occurred.

Read chapter 1

7 – Expose the corporate welfare model by carrying out a transparent citizens' audit of the government budget – at the local, regional or national level – to reveal the amount of public funds that are benefitting big business and to set up citizens' platforms to discuss alternative spending of those resources. The International Citizens' Debt Audit Network assembles networks and movements from 12 European countries in order to implement audits as a strategy to fight austerity measures.

Read chapter 1

8 – Demand a broader public mandate with social and environmental targets for central banks in order to achieve full and secure employment and to finance an equitable transition towards a sustainable and low-carbon society. Such a mandate would first ensure that the central bank's power to issue public money would not create another financial bubble, but rather finance social and ecologically sound economic activities. Second, this would allow central banks to finally use their toolbox to help redirect private financial flows towards sustainable activities. Finance Watch and Positive Money Europe advocate for a transparent, accountable and democratic European Central Bank to better connect monetary and fiscal (spending) policies.

Read chapter 11

9 – Build popular pressure to force central banks to buy out the big private energy companies in order to keep fossil fuels in the ground. The buyout should marry a binding mandate to decommission fossil fuels with increased investment in democratically renewable energy, all the while leaving no worker or community behind. The public buyout proposal could and should be part of the push for a Green New Deal in the United States, which is a set of measures that aims to address the climate crisis, racial injustice and economic inequality.

Read chapter 12

10 – Create a Citizens' Wealth Fund by implementing higher levels of taxation of public and private wealth, including robust inheritance taxes. This would give all citizens a direct stake in the economy, boost public support, transfer wealth into the hands of all citizens and reduce economic inequality. Over time, this fund could pay for new public services, climate-resilient infrastructure and a regular citizens' dividend.

Read chapter 2

11 – Dilute corporate ownership by obliging companies to transfer a growing percentage of shares, say 0.5% a year to the Citizens' Wealth Fund. This would gradually socialize a portion of private wealth to be owned on an equal basis by citizens. In the 1980s, Sweden applied a variation of this model by creating 'wage-earner funds', commonly known as the 'Meidner Plan'.

Read chapter 2

12 – Deliver tax justice by stopping tax evasion and implementing a progressive tax system in which big corporations and wealthy individuals are forced to pay the highest taxes, wherever they live and operate. There should also be an accountable and participatory process to democratically decide how these revenues can maximize people's long-term well-being.

For more comprehensive and concrete tax justice proposals, visit the international Tax Justice Network website: www.taxjustice.net

Systemic support for the social and solidarity economy

13 – Create regional finance networks to fund production and service cooperatives in order to improve the region's socio-economic resilience. Cooperative finance institutions could provide grants and low-interest loans to democratic enterprises that cultivate the land or provide essential services, such as housing. For example, the MOBA Housing Network in Central and Southeastern Europe enables lower income populations to collectively access finance for cooperative housing solutions that are affordable, more stable and socially owned.

By connecting rural-based agriculture cooperatives with urban, retail cooperatives, more equitable regional development can be achieved. The Malabar Meat cooperative in Kerala, southern India, shows how social alliances between peasants and workers can lead to a thriving network of cooperatives, interconnecting rural and urban areas. Vietnam's 1,100 People's Credit Funds are community-based credit institutions created by the country's central bank that have helped family farms to create their own agriculture cooperatives allowing them to become more productive.

Read chapters 3, 4 and 7

14 – Prevent public companies and cooperative financial bodies from corporate take-overs. This could be done, for example, by inscribing in law that a popular referendum should always precede any kind of take-over of a public or cooperative institution. Italy's celebrated credit cooperatives, for example, cannot legally be appropriated by members who seek a private profit, so in the event of liquidation, the remaining assets are transferred to a cooperative support fund. This safeguards against speculation and corporatization.

Read chapter 3

15 – Encourage public 'anchor' institutions such as hospitals and universities to purchase from and invest in democratic businesses, such as worker cooperatives, employee-owned firms and community-based social enterprises. In particular, public purchasing can encourage those who succeed on the basis of well-paid and secure employment. Local government subsidies, investments and support services can also help democratic businesses to scale-up into more resilient enterprises. If this is also combined with inclusive hiring policies and workforce development efforts, it can create career pathways for low-income, minority and underemployed populations.

In Cleveland, Ohio, the non-profit organization The Democracy Collaborative worked with local anchor institutions and philanthropy to create the Evergreen Cooperatives network, consisting of three ecological worker-owned cooperatives including a large-scale laundry, a solar panel installation and energy retrofit cooperative, and an urban greenhouse.

Since 2015, the cities of Zaragoza, Barcelona, Madrid and Coruña have actively supported the social and solidarity economy by providing cooperatives and other democratic businesses with land, buildings, low-interest loans, training and technical advice. With the support of the Madrid municipality, the MARES project has been driving the creation of a local ecosystem of social initiatives, enterprises and organizations.

Read chapters 5 and 6

The organisations

The Transnational Institute (TNI) is an international research and advocacy institute committed to building a just, democratic and sustainable planet. For more than 40 years, TNI has served as a unique nexus between social movements, engaged scholars and policymakers. TNI has gained an international reputation for carrying out well researched and radical critiques. As a non-sectarian institute, TNI has also consistently advocated alternatives that are both just and pragmatic, for example providing support for the practical work of public services reform.

Find out more: https://www.tni.org/en

The Democracy Collaborative (TDC) is a U.S.-based action-orientated think tank with robust programmes of research, policy, theory, and on-the-ground practice. TDC is a national leader in community wealth building, having coined the term in 2005 to promote a new form of equitable, inclusive, and sustainable economic development. TDC develops new models and pathways from theory to action that engage large institutions and catalyse networks to build community wealth and drive local-level systemic change. The Democracy Collaborative is also committed to connecting community wealth building to the larger context of systemic political economic transformation.

Find out more: https://democracycollaborative.org/

For more than three decades, the **New Economics Foundation**'s mission has been to transform the economy so it works for people and the planet. We celebrate – and help to enable – the new economy springing up from below, but we also know that it needs support from above, including a state that prioritises people's wellbeing and a healthy planet over a misplaced faith in free markets and competition. We conduct original, rigorous and creative research to support our policy development strategy for the new economy, whilst learning from and giving voice to the people and communities we work and campaign with.

Find out more: https://neweconomics.org/

Focus on the Global South is an Asia-based regional think tank that conducts research and policy analysis on the political economy of trade and development, democracy and peoples' alternatives. It works in national, regional and international coalitions with peoples' movements and civil society organisations and has offices in New Delhi, Manila, Phnom Penh and Bangkok.

Find out more: https://focusweb.org/

MOBA is a network of new rental housing cooperatives across Central and South Eastern Europe (CSEE), which respond to problems of access to and affordability of housing. As a network, MOBA builds institutional support for financing cooperative rental housing in the region, as financing for this type of housing is currently unavailable.

Find out more: http://moba.coop/

FairFin is a socio-cultural organization that has been encouraging people for 35 years to use money as a means of social change. FairFin is a critical voice in the current financial system and aims at an alternative, fair financial system. For us, a financial system is fair if it is at the service of society and not the other way around. Our ultimate goal is a sustainable and socially just society. Equal distribution of wealth, both for current and future generations.

Find out more: https://www.fairfin.be/en/home

Change Finance is an action-oriented coalition dedicated to transforming the financial system so that it serves people and the planet. The coalition brings together people and organisations to build a consistent and compelling story about why finance needs to change in order to deal with the big social, economic and environmental challenges we're facing today. It frames a consolidated vision on how to transform the financial system, by presenting policy ideas and alternatives. And importantly, it identifies opportunities to collectively mobilise, campaign and take action together to democratically drive the change that our society deserves.

Find out more: https://www.changefinance.org/

Tellus Institute was established in 1976 as an interdisciplinary, not-for-profit research and policy organisation. Tellus's aim was, and is, to bring scientific rigor and systemic vision to critical environmental and social issues. Since 1976, Tellus has conducted 3,500 projects throughout the world, becoming an internationally recognised leader in the emerging field of sustainable development. Tellus's most recent work has focused on the larger mission of advancing a just and sustainable planetary civilization, what it terms a Great Transition.

Find out more: https://www.tellus.org/

Get involved & Read more

Projects, organisations and coalitions

Change Finance coalition

We are a citizens' movement from more than 11 countries and 5 continents, and we're growing. We are charities, campaigning groups, think tanks, environmental groups, religious organisations and trade unions, who represent millions of people across the world. We are academics, financiers, leaders and celebrities. We recognise that finance impacts our lives in many different ways. And to get the society we want, we must come together to change finance. We are united in our belief that not only is this desirable, but achievable and necessary. Find out more and join the coalition:
https://www.changefinance.org/

Public Banking Institute

The Public Banking Institute (PBI) was formed in January 2011 as an educational non-profit organization. Its mission is to further the understanding, explore the possibilities, and facilitate the implementation of public banking at all levels — local, regional, state, and national. Our mission is to inspire, enable, and support Public Bank initiatives, returning control of money and credit to states and communities. Help us get the word out about public banking by educating yourself, sharing PBI with your network, becoming a member, getting involved locally, and going to an event such as our national conference! Get involved and help PBI:
http://www.publicbankinginstitute.org/

Citizens for Financial Justice

Citizens for Financial Justice is a diverse group of European partners – from local grassroots groups to large international organisations – with a shared vision of informing and connecting citizens to act together to make the global finance system work better for everybody. We are funded by the European Union and aim to support the implementation of the Sustainable Development Goals (SDGs) by mobilising EU citizens to support effective financing for development (FfD). Find out more:
http://www.citizensforfinancialjustice.org/

Municipal Services Project

The Municipal Services Project (MSP) explores alternatives to privatisation in the health, water, sanitation and electricity sectors. The MSP is an inter-disciplinary project made up of academics, labour unions, non-governmental organisations, social movements and activists from around the globe. The website offers an interactive platform for researchers and others from around the world to engage in discussions on this topic.
Find out more: https://www.municipalservicesproject.org/

Positive Money Europe

Positive Money Europe is a not-for-profit research and campaigning organization aiming to make the money system support a fair, democratic and sustainable economy. We scrutinize the European Central Bank and develop policy proposals to reform the Eurozone monetary system. Positive Money Europe was set up by Positive Money, a UK non-profit founded in 2010. We launched Positive Money Europe in February 2018 following the success of our campaign targeting the European Central Bank "Quantitative Easing for the People'. Find out more:
https://www.positivemoney.eu/

Finance Watch

Finance Watch is a European NGO founded in reaction to the last financial crisis, when policymakers realised that there was no counter-power to the lobby of finance. We are an organisation of non-profit members from Europe and beyond. Our members include organisations and expert individuals from a dozen different countries. They meet regularly to coordinate actions on financial reform. Find out more and take action:
http://www.finance-watch.org

Bank of the Commons

Bank of the Commons is an open cooperative initiative whose objective is to transform banking, payments and currencies in order to support the economy used in cooperative and social movements both at a global and a local level. We are building another economy for a better society. Bank of the Commons has adopted FairCoin as a strategic global social currency and blockchain technology upon which to base the development and adoption of decentralized financial structures for the Commons. Find out more:
https://bankofthecommons.coop/

Counter Balance

Counter Balance is a European coalition of development and environmental non-governmental organisations (NGOs) with extensive experience working on development finance and the international financial institutions (IFIs) as well as campaigning to prevent negative impacts resulting from major infrastructure projects. The coalition was formed in 2007 to specifically challenge the European Investment Bank (EIB) and push for its reform. We also deal with related EU policies and regulations impacting those institutions. Counter Balance's mission is to make European public finance a key driver of the transition towards socially and environmentally sustainable and equitable societies. Find out more:
https://www.counter-balance.org/

People over Profit

People Over Profit (POP) is an online knowledge library and campaign builder for fighting privatization of public goods. Our goal is to connect organisations fighting against privatization, empower campaigners, share best practices & provide a tool to foresee privatization trends.
Find out more and join the struggle: https://peopleoverprof.it/

The Next System

The Next System Project is an initiative of The Democracy Collaborative aimed at bold thinking and action to address the systemic challenges the United States faces now and in coming decades. Deep crises of economic inequality, racial injustice and climate change—to name but three—are upon us, and systemic problems require systemic solutions. Working with a broad group of researchers, theorists and activists, we are using the best research, understanding and strategic thinking, on the one hand, and on-the-ground organizing and development experience, on the other, to promote visions, models and pathways that point to a "next system" radically different in fundamental ways from the failed systems of the past and present and capable of delivering superior social, economic and ecological outcomes.
Find out more: https://thenextsystem.org/

Reading materials

State of Power 2019

TNI's eighth flagship State of Power report examines through essays and infographics the varied dimensions and dynamics of financial power, and how popular movements might regain control over money and finance.
Find out more: https://www.tni.org/en/stateofpower2019

Financialisation primer

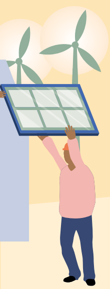
A beginner's guide to financialisation: how it works, how it shapes our lives, the forces that lie behind it, and how we can resist. Find out more:
https://www.tni.org/en/publication/financialisation-a-primer

What if we used public money to build the systemic solutions needed for everyone to thrive? What if our money, tax and finance systems could be radically transformed? What if we could unlock the power of public finance by deepening democracy?

After the 2008 global financial crisis, big banks were rescued and public spending was curtailed. This justified ever harsher austerity measures and reinforced a persistent myth that the public sector must rely on private finance to solve excessive inequality and ecological destruction.

Today, private finance has not only failed to address these problems, it has intensified them. The public does not have to rely on the private sector. Public funds are much bigger than we imagine: equivalent to 93 per cent of global GDP. Public banks have enough resources to raise the many trillions needed to invest in public services and climate infrastructure, without having to turn to private financiers.

This book presents visions of regenerative and redistributive economies, built with collective power: from the thriving cooperative economy in Kerala, India, to the hundreds of local saving banks in Germany, the worker-owned bank Banco Popular in Costa Rica, and the thousands of People's Credit Funds in Vietnam. It explores models that could become the new normal—the basis for a democratically organised and life-sustaining future.



The real-world examples in this book demonstrate that a political economy that curbs the power of big finance and serves people and planet is possible. The ideas shared here are timely and urgent—a call to readiness before the next financial bubble bursts.