Public Finance for the Future We Want

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.

www.tni.org/publicfinance

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.

Introduction

Public finance for a better future

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.

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. 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. 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. 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. 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.

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.

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. 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; and the interest rates for borrowing, averaging 7-8 per cent for the private finance deals and just 3-4 per cent for governments.

Public funds are bigger than we imagine

For decades there has been a concerted effort 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.

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. 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'.

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.

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. 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.

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.

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. 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.

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.

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.

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).

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.

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. 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 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.

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.

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. 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 that the European Central Bank created and the US$4.5 trillion 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. 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.

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 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. 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.

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.

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.

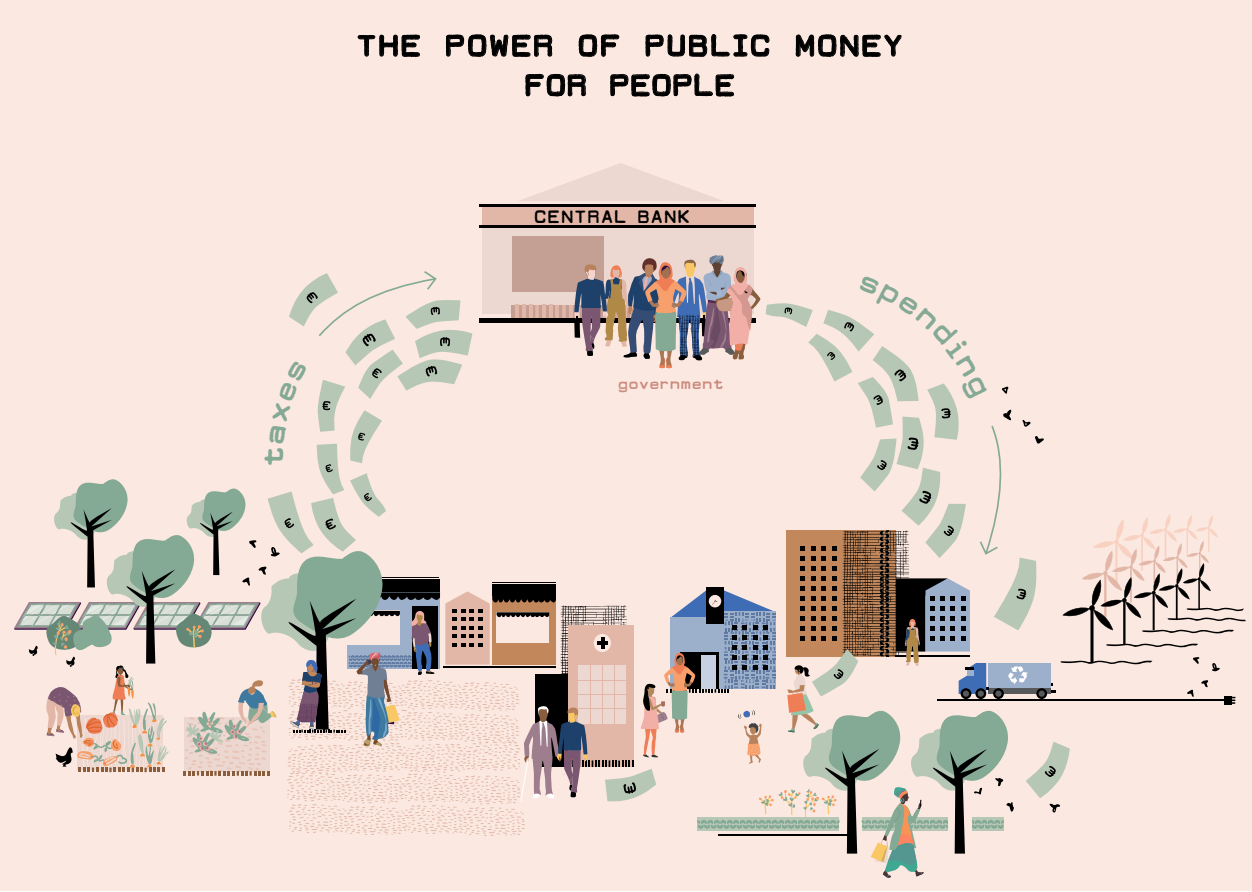
Building radically just money, tax and finance systems is vital to democratize our economies. If these real world examples spur us towards collective action, then, societies ensuring the well-being of the many would be within reach.

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

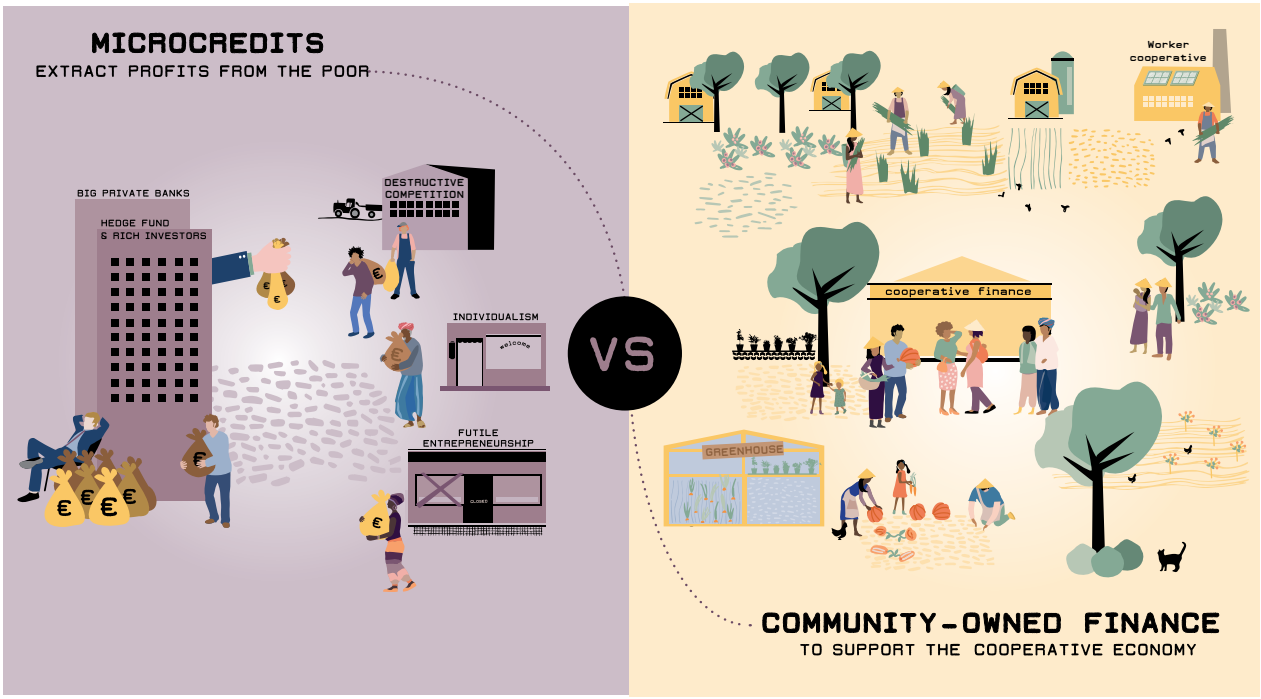
Financed by higher taxation on private wealth, citizens' wealth funds could provide a progressive and comprehensive route to getting more social value from existing assets: public, personal and corporate. This new model is envisioned as a permanent investment fund, owned directly by citizens and managed 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

Towards community-owned and controlled finance for local economic development

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: The role of anchor institutions

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 in Spain

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

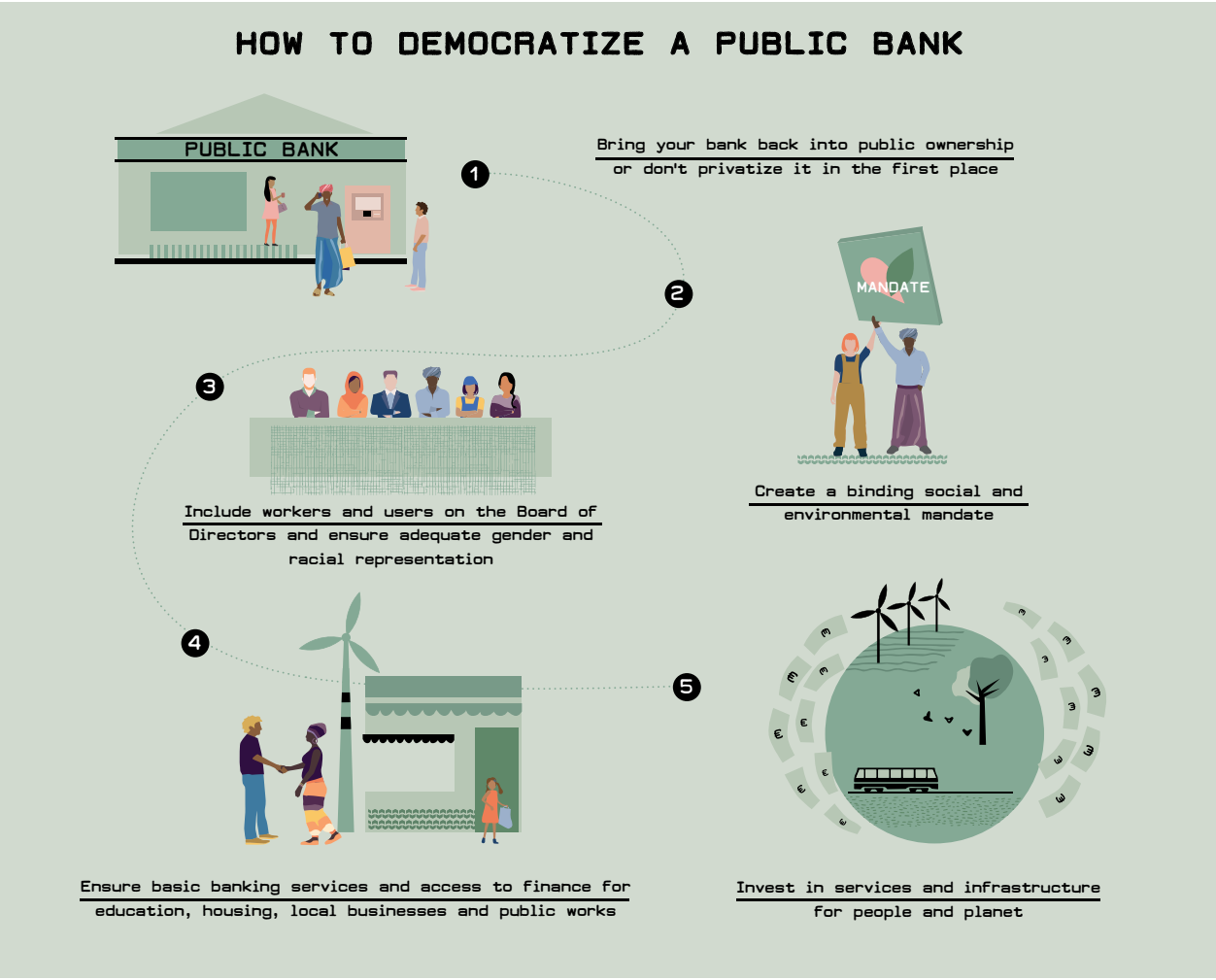
The MOBA Housing Network that came to life in 2017 is a collaboration of emerging cooperative housing initiatives in Central and Southeastern Europe. MOBA, meaning 'self-build through mutual help', enables lower-income populations in the region to collectively access finance for affordable housing. It 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.

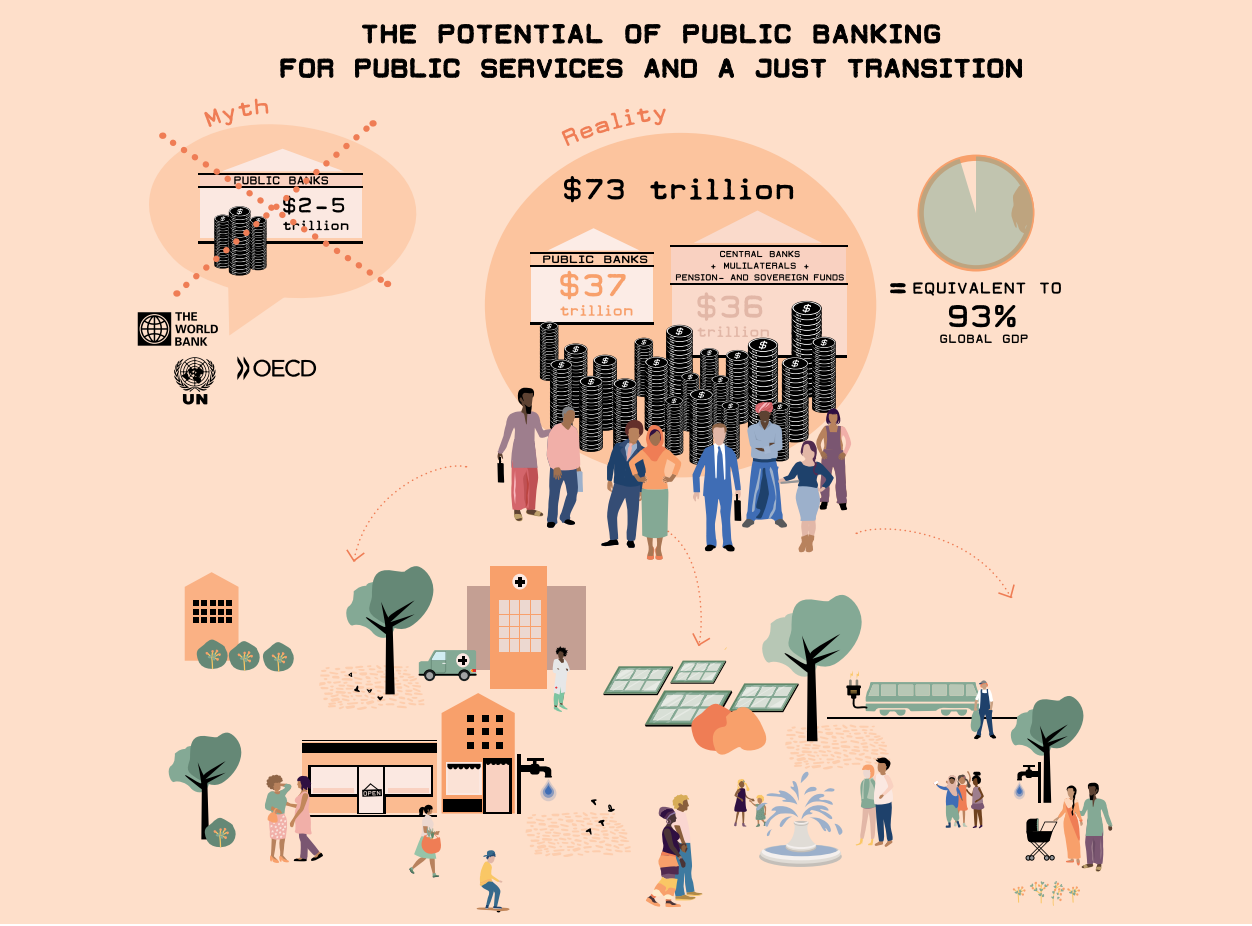


Chapter 9

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

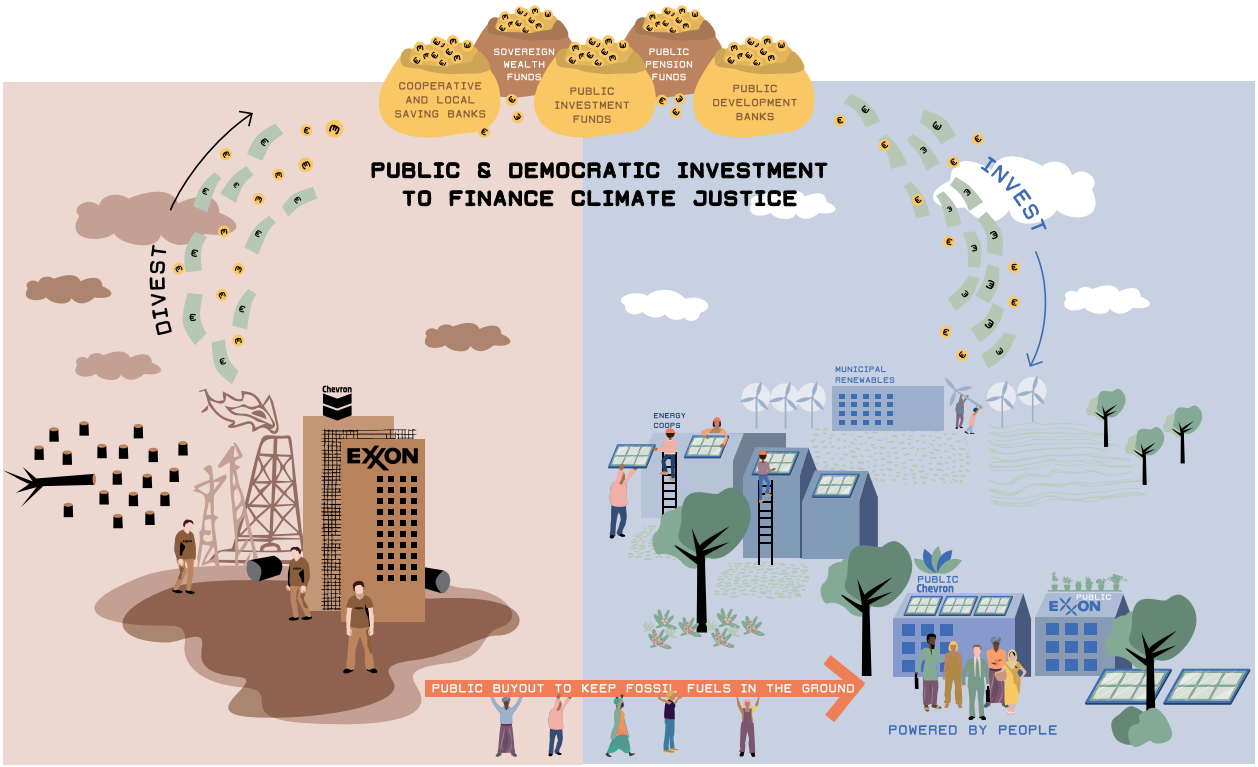
The scale of the challenge that climate change and nature's depletion presents calls for strategic, long-term capital. Yet, largely as a consequence of European Union (EU) fiscal rules that institutionalized a permanent reduction in public spending, public investment in the region is at an all-time low. 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-sighted 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.



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 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 policy makers.

Contact: Lavinia Steinfort (l.steinfort@tni.org; +31640363123)

www.TNI.org/publicfinance