The Viable Economy – and Viable Finance

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It is all too clear that our economy is precarious, economically, socially and ecologically. Steady State Manchester promotes the *Viable Economy*[1]*,* which means greater resilience, localisation, and balance as economic activity is treated not an end in itself, but rather as a means to deliver a sufficiently prosperous future without continual "growth". The Viable Economy aims to bring the economic system under the control of society, building a culture that favours equality, solidarity and cooperation. Finally, a viable economy recognises the finite nature of ecological resources and embraces an ethic of stewardship by minimising imbalances to the planetary systems – including the climate, biodiversity, and nitrogen and phosphorous cycles – upon which human life depends.[2]

Any economy requires a sound financial system to facilitate its necessary transactions. Here we take a look at some current and recent financial innovations, asking whether they might help us move in the Viable direction.

Types of financial innovation

We will organise what follows in terms of the following categories, even though they do overlap somewhat.

1. Financial institutions that serve the interests of the community.
2. Community investment
3. Community-based currencies
4. Non-monetary community exchange schemes and credit.

We will not be discussing monetary reform, popular among some parts of the alternative economics and degrowth movements: we have critically discussed one set of proposals in this area previously.

Financial institutions: Community banking

A movement is now gathering pace to fill a gap in the UK's banking system, that of mutual or co-operative, regionally-based banks, orientated to the local economy, and specialising in offering financial services to smaller enterprises, as well as local citizens. As Greenham and Prieg (2015) noted,

> *The UK lacks ... a local stakeholder banking sector, particularly in certain key markets. We use the term 'stakeholder banks' to include any ownership or governance structure that has a broader remit than simply to maximise returns to shareholders. The primary forms are co-*

1 Steady State Manchester (2014). *The Viable Economy*. Available for download at https://steadystatemanchester.files.wordpress.com/2014/11/the-viable-economy-master-document-v4-final.pdf

2 For this summary of the Viable Economy we are grateful to SSM collective member, James Vandeventer.

operatives (including mutuals and credit unions), public interest banks, and socially orientated loan funds such as Community Development Finance Institutions (CDFIs).[3]

At present there are initiatives at various stages of development and realisation to establish such institutions in a number of regions, including Hampshire, Avon and the South West, Greater London, Warrington and Preston. SSM members recently attended a workshop (*What works in community banking?*) looking at the possibility of establishing something similar in the Greater Manchester region[4].

Could a regional or community stakeholder bank, or similar, help facilitate the move to a Viable Economy? Advocates of stakeholder regional and community banks emphasise similar aims.

At his presentation to the Manchester seminar, Tony Greenham of the RSA (and formerly NEF) identified

- Redressing regional inequalities
- Commitment to financial inclusion
- Higher proportion of SME lending
- Credit allocation to real economy
- Economic resilience

James Moore of the Community Savings Bank Association said these banks aim to be

- Trustworthy
- Sustainable
- Independent
- Transactional
- Recycling local savings into local loans
- Inclusive

Broadly, the idea is to establish a bank with local knowledge and local governance, using a social ownership framework, with support from key local anchor institutions. It would be funded partly from interest on loans made to small and medium sized businesses and from transaction fees. James Moore said that more important than offering loans would be the provision of transactional banking services that provided short term credit to enable businesses to make payments while waiting to get paid – this would cover around 60% of the bank's running costs.

So do these stakeholder and community banking initiatives represent a pathway to the Viable Economy? In these models there is no automatic preference for the environment: “sustainable” here refers to financial sustainability – important of course but not the same thing. The dual emphasis

3 http://neweconomics.org/2015/02/reforming-rbs/

4 As outlined in this report from the University of Manchester' IGAU: http://hummedia.manchester.ac.uk/institutes/mui/igau/briefings/IGAU-briefing-Banks-FINAL.pdf

on accessible credit for local business and supportive transactional banking could help local businesses in the green and social solidarity economies. It could also help businesses that have no interests in creating social and environmental benefit. These banks could play an important role in plugging the leaks of the local economy, providing another home for local savings, for example, slowing the outflow of money into London and international financial institutions, speculative lending, derivatives and other aspects of "financialisation". Could they aspire to achieving a game-changing scale? We do not know, but based on the example of Germany, it is possible[5]. And Germany gives us a clue as to how fundamental such a change could be: small scale local business is stronger there, and there are many environmental initiatives – but we could hardly say that Germany represents an ecological and socially desirable end point. It means that stakeholder community banks would be consistent with the Viable Economy but only a part of it– a necessary if not sufficient condition for it.

We said as much in last year's report, Policies for the City Region[6]:

> *It is not enough simply to establish local/regional banks and funds though. They would need to focus on the kinds of investments that a resilient, viable city region requires, not on sectors that by expanding will increase carbon emissions, traffic congestion, biosphere erosion and inequality.*
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> *We therefore propose the establishment of a council sponsored investment fund, or better, since less constrained in terms of money supply, a bank, supporting mostly SMEs and social enterprises working in broadly foundational areas, emphasising environmentally and socially friendly sectors. The form could be a public, municipal or community banking institution. Proceeds from fossil fuel divestment could be used to help establish the bank, which would also be somewhere for local investment and re-investment.*

Community investment

There are already a number of ways in which savers and small investors can put their money into community and environmentally oriented business. These fall into a number of different categories with differing risk profiles, rates of return and scale of investment. Some co-operatives and social businesses issue their own loan stock, typically seeking local investors. Other schemes work through one of the platforms now available for ethical investment and savings (e.g. Ethex and Abundance), which offer a variety of equity investments, bonds, debentures and so on, including tax free options using the ISA provisions, SITR (Social Investment Tax Relief) and Enterprise Investment Scheme (EIS).

In the immediate future, one pressing need is to establish bundled investment options, like Unit Trusts / OEICs in the mainstream equities sector. This is because by investing in a single offer, savers and investors risk their capital:

5 https://www.centreforpublicimpact.org/case-study/sparkassen-savings-banks-germany/

6 https://steadystatemanchester.files.wordpress.com/2017/03/policies-for-the-city-region-the-longer-version-v3-final.pdf

combining investments within a collective package would allow smoothing of the risks across companies (and also of the returns of course)[7].

Similarly, some councils are issuing municipal bonds to reduce their borrowing costs. It is something we have previously advocated but the pace of development of this option is painfully slow.

By using their local assets in local, community and/or environmentally orientated, citizens and local organisations can directly promote a more viable economy rather than their money acting as feedstock for financialised and remote investments elsewhere. The returns they obtain will, at least to some extent, be spent locally, so the "bioregional multiplier[8]" operates. Potentially, closing the investment loop on a regional basis can help reduce the extent to which investment in the local economy fuels profit and rent extraction by remote shareholders. It is a strong argument against the frenetic search for external and unaccountable sources of investment. Again there is no guarantee that the investments will be the right ones for the Viable Economy: another necessary but not sufficient condition for it.

Currencies and near currencies.

The idea of a local currency that keeps spending local while easing transactions in the local economy has become popular in environmentalist and solidarity economy circles[9]. A number of variants are possible.

Convertible community currency.

Here the local currency is issued and can be exchanged for the national currency. Examples are the Bristol, Brixton and Totnes pounds. They depend upon there being a matching holding in the national currency, so limiting issuance. There is typically a cost to their use, via a transaction fee on each payment.

Non-convertible community currency.

An alternative approach is to issue a currency that cannot be exchanged for the national currency. This is the approach taken by Hullcoin. In principle, there is no limit to issuance, making the idea attractive for money-limited local economies. In practice though, the model is even more dependent than the convertible currencies on attaining a sufficient scale so that a significant proportion of transactions are made in that currency. Except under conditions where the national currency is radically devalued (for example in a financial

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7 The Triodos Bank Innovative Finance ISA goes some way towards this but is not very diversified: https://www.triodos.co.uk/en/personal/ethical-investments/innovative-finance-isa-ifisa/ Mainstream "ethical investment OEICs (whetehr or not ISA-wrapped) typically invest in larger companies.

8 This revision of the Keynesian multiplier is a concept that we use in our Viable Economy pamphlet. It was originally used by Desai and Riddlestone: Desai, P., & Riddlestone, S. (2007). *Bioregional solutions for living on one planet*. Totnes, Devon: Green Books for the Schumacher Society.

9 Seyfang, G., & Longhurst, N. (2013). Growing green money? Mapping community currencies for sustainable development. *Ecological Economics*, *86*, 65–77. https://doi.org/10.1016/j.ecolecon.2012.11.003

crash and depression), it seems unlikely that such a currency could aspire to the kind of scale where it became a viable alternative. What it can offer though, is a potential augmentation to people's resources for certain classes of local expenditure, particularly in exchange for assets that would otherwise be wasted (e.g. surplus food, unused cinema seats): the currency itself can be linked to a requirement for voluntary labour, and becomes a way of recognising (or is that regarding) voluntary action. That in itself is a principle requiring debate, given the dilemma between facilitating more voluntary action and undermining its non-conditional moral basis.

Business to business credit and barter schemes

Here businesses use what is essentially a complementary currency to trade among each other. Two well established examples are the Swiss WIR and The UK's Bartercard. In both cases, businesses reduce their transaction costs and reliance on bank credit through a mutual system of credit and exchange. Nether work on a regional basis, although no doubt much trade is between neighbouring businesses. WIR has been shown to be countercyclical (i.e. it contributes to economic and financial resilience) and Bartercard reduces the exposure of businesses to lost income and credit charges. According to the International Reciprocal Trade Association, in 2011 over 400,000 companies worldwide used bartering to earn an estimated $12 billion on unwanted or underused assets.

There are also less well documented levels of organisational peer to peer lending, for example from well established co-ops to new ones: the new co-op gets access to start up capital while the established one gets a better return than they would from leaving their spare money in the bank.

Non-monetary community exchange and credit

Work by one of us (Mike Riddell) is exploring a rather different approach, called CounterCoin, with an initial base in the Potteries. CounterCoins are plastic tokens that are awarded in return for voluntary activity. They are redeemable by a number of retail and recreational outlets, either in whole exchange for access to a facility, or in order to obtain a cash discount. CounterCoin is different in the sense that its credit is issued by the community to individuals who contribute to the community's upkeep and well being. In other words it's earned into existence rather than gifted into existence. For someone outside of the jobs market, but with time to give, this sense of earning the right to discount, might help them feel like a valued member of the community. And that has value for all sorts of reasons - self worth, self esteem, self confidence, and the gaining of experience towards a c.v. and employment. Democracy comes into play when the community decides for itself what is and what isn't a contribution. So it becomes "defined contribution" from the perspective of the community in that it can be issued (by non-profits/social enterprises) for all sorts of activities that contribute to community health and well being.

Each issuer has the responsibly to ensure that (a) the contribution is valid and can be verified as being done properly (to certain standards maybe) and (b) that they issue *CounterCoins* at the same rate for different activities. This to avoid counterfeiting. In a sense - they are giving cross-guarantees to the other issuers in the network, that they are issuing “by the book”. Trust is crucial.

The more diverse and inclusive the community using CounterCoin, the more legitimacy can be built up.   Standardising the issuance of CounterCoin in exchange for defined contribution, is when it becomes 'equitable'. As in timebanking, it doesn't matter who you are - everyone earns at exactly the same rate. Once it is issued, and redeemed by businesses - it turns into a 'trade credit' rather like the Bartercard model. But the difference between this model and Bartercard's is that the CounterCoin marketplace is ethical - it's underpinned by the shared values of inclusivity, diversity and equality.

There are also the better established schemes that allow the matching of people's spare time and skills (LETS, timebanking, Hours currencies) or (in the case of freecycle/greencycle) unwanted goods with those that need them. These schemes all do useful work but are probably, at this stage anyway, relatively marginal, at least in terms of the kind of economic transformation that is required for a move to the Viable Economy. Where they do come in is establishing models for resilience that will be vital once our unviable economy and society hits the inevitable buffers of planetary limits and/or the next crisis of global capitalism.

Discussion

Community currencies and near currencies are probably the best researched of these areas in terms of their contribution to transition to what we'd recognise as the Viable Economy[10]. From his review of LETS, Timebanking and convertible local currencies as tools for the degrowth transition, Dittmer[11] concludes,

> *“… there are no clear success stories of local currencies as drivers of degrowth. LETS can facilitate informal resale, repair, and sharing of commercially produced goods, but their burdensome management and confinement to small memberships, dictated by their reliance on informal social pressure, limit their usefulness in this regard. LETS have also been found to support alternative livelihoods, but under quite uncommon*

10 Dittmer, K. (2013). Local currencies for purposive degrowth? A quality check of some proposals for changing money-as-usual. *Journal of Cleaner Production*, *54*, 3–13. https://www.researchgate.net/publication/248381463_Local_currencies_for_purposive_degrowth_A_quality_check_of_some_proposals_for_changing_money-as-usual

Dittmer, K. (2012). Two challenges for creating democratically accountable local currencies to cope with unvoluntary degrowth: Lessons from Argentina. Presented at the International Degrowth Conference, Venice. Retrieved from https://degrowth.org/wp-content/uploads/2012/11/WS_21_FP_DITTMER.pdf

Seyfang, G., & Longhurst, N. (2013). Growing green money? Mapping community currencies for sustainable development. *Ecological Economics*, *86*, 65–77. https://doi.org/10.1016/j.ecolecon.2012.11.003

Marshall, A. P., & O’Neill, D. W. (2018). The Bristol Pound: A Tool for Localisation? *Ecological Economics*, *146*, 273–281. https://doi.org/10.1016/j.ecolecon.2017.11.002

Rigo, A. S., & França Filho, G. C. de. (2017). O paradoxo das Palmas: análise do (des)uso da moeda social no “bairro da economia solidária.” *Cadernos EBAPE.BR*, *15*(1), 169–193. https://doi.org/10.1590/1679-395141258

11 See note 10

> *conditions. Time banks help people expand their social networks, and are better than LETS at reaching the socially excluded. However, they are confined to unskilled personal services, bureaucratic, and dependent on grant funding. .... Convertible local currencies (CLCs) are best at attracting local businesses, but no significant evidence of their said capacity to localize supply chains has surfaced as yet, and their business-friendly design works to the detriment of other criteria. The Wörgl experiment [in 1930s Austria] suggests that a council-tax-endorsed CLC aimed at eco-localization may require the local state to increase geographical discrimination in public procurement, shifting the actual locus of change from the local business-oriented currency system to the broader struggle for sustainable public procurement.*

However, a study of the Bristol pound (Marshall and O'Neill, 2018) does not seem to support this view: a study of the Bristol Pound as a tool for eco-localisation concluded it had little impact (although this was no more than a limited exploratory study with a small sample of participating businesses). My understanding (from talking with participants) of the Brixton Pound, which can also be used to pay council fees and taxes, is that it is a good propaganda tool for raising awareness of the local economy, and seems to help increase the sense of collective place-based identity, but it has limited economic impact as an exchange medium.

Dittmer goes on:

> *In sum, local currencies do not appear to have more than a marginal role in driving purposive degrowth. .... In the context of fossil fuel scarcities, the pursuit of alternative livelihoods supported by part-time employment is a frail political strategy. Eco-localization by means of friction in monetary space is an inferior option to a tax on transport fuels.*[12]

Institutional relations: a case study from Brazil.

It is probably wrong to look at any of the above types of financial innovation in isolation from their potential institutional context. To illustrate, it is worth considering one of the more successful complementary currencies, the Palma, in the context of its parent organisation, the Banco Palmas[13]. Conjunto Palmeiras is a favela (usually translated as “shanty town” - at any rate a marginal settlement) in the city of Fortaleza in Ceará state, North East Brazil. The settlement was established after its people were expelled from another area 45 years ago and their history of mutual support in struggle is a key ingredient of their model and its success. A second wave of displacement was a result of the gentrification of parts of the favela, a consequence of the expansion of the city. People were asking, through a series of discussions, debates, assemblies, focus groups and conversation, “why are we poor” and concluded that, part and parcel of the economic exclusion and exploitation of the population was firstly the unequal distribution of the aggregate income of the favela, and secondly that only 20 percent of the money coming into the

12 See note 10

13 Banco Palmas: Local currency in Brazil's favelas http://imaginationforpeople.org/en/project/banco-palmas/

area circulated within the community – the other 80 per cent was spent on purchases outside the favela.

> *"We discovered one of the main factors of the impoverishment of the territory, the lack of local consumption caused the loss of our savings and, consequently, of our capacity to generate income and work. Without such savings it becomes impossible to create a strong market under the control of the community and makes us dependent on a system that sees us only as a cheap source of labour."*[14]

The Banco Palmas community bank was set up in 1998, setting up a model of development in the area via local production and consumption. A number of different financial services were established to establish a network of producers and consumers in the neighbourhood, with the aim of promoting an "economic citizenship" with the potential of generating prosperity at the local level under the conrol of the inhabitants of the area. These services include, the "social currency" the Palma, circulating in the area (for years this was paper-based but now is also in digital form), but also credit in national currency (the Real) for producers and interest-free credit in Palmas for consumers. The bank also became a "corresponding bank" with mainstream banks, making banking services available to those in the favela: like many areas of the UK, Brazil's favelas have lacked access to basic financial services[15].

Initially the National Bank opposed the development with a legal challenge, but the Banco Palmas won the case in 2003. After this (and with the installation of the Workers' Party in power in Brazil), support from beyond Fortaleza, notably from the National Secretary of the Solidarity Economy in the Ministry of Labour, made possible a network of community banks in Brazil on the Banco Palmas model. One consequence has been the establishment of a "certain dependency" on the constraining rules of the commercial banks, "antagonistic and incompatible with the system of financial solidarity of the community banks that promote different financial services, strengthened by local power and guaranteeing an investment in the capacity of the most poor."

Following an initial (very) small grant from an NGO, the bank's operations are funded by a) interest from microcredit loans (up to 3.5% monthly but also as low as 1% depending on size of and purpose of loan) b) fees from the corresponding bank (i.e. Banco Palmas acts as local agent for regional bank to widen access to banking services), and c) commission for changing Palmas to Reais[16].

The scale of operations is significant:

According to the Banco Palmas (2010), in the previous three years (2007-9), the Instituto Palmas realised 3,139 credit agreements, with a volume of landing of 4,126,712 Reais (approx US$ 2,947,651). 2,500 families benefited, there having been 8,000 jobs maintained and 2,000 generated. Corresponding

14 Manifesto 20 Anos Banco Palmas http://www.institutobancopalmas.org/manifesto-20-anos-banco-palmas/ Our translation.

15 This was illustrated by a mapping process at the Manchester Community Banking seminar see https://www.dropbox.com/s/2lzxa9dr85rqfaa/SensierTischerWWGMBank200318.pdf?dl=0

16 The plural of Real.

banking realised 28 million transactions and managed approximately 80 Million Reais[17].

The Banco Palmas is clearly a model of success, and this seems to be due to its combination of multiple services (rather than just a community currency) with a strong local institutional base and partnership with other institutions in the city, region and country.

The complementary currency itself has declined in importance over the period while levels of overall consumption of goods and services have increased (although it is unclear whether the recent digitisation is to change this) A detailed study[18] of the usage and circulation of the Palma found that around half of its usage was accounted for by just 6 economic actors in addition to the Banco Palmas itself: four local stores selling basic consumer items, the neighbourhood petrol station, and a party and décor shop. Previously two sweet shops had also been important in the circulation but no longer accepted the Palma. Only an estimated 13,457 Palmas were in circulation (compare this to the figures above, bearing in mind that the Palma and Real are 1:1 convertible).

One factor was that there was, at the time of the study, greater prosperity, in part due to the anti-poverty governmental policies and benefits, so less need for the consumer credit offered by the Palma. The bank had also stopped paying part of the salaries of its workers in Palmas. What the study found, however, was that the minority of people that used the Palma did so, not for primarily economic reasons but because of its symbolic and political meaning.

> *"...there is a sensitive symbolic and political role played by the use of currency in the territory, but not translated in terms of volume and frequency of use. For these actors, it is enough to know that the currency exists, which was created by them and that can be accessed when needed."*[19]

The ensuing minimal but persistent use of the Palma appears to be also a kind of "vote of confidence" in both the favela and the role of Banco Palmas in securing better economic conditions.

Conclusion: no easy answers.

It is not easy to transform an economy, locally or nationally so we should beware of supposed magic solutions.

Community financial institutions such as community banks, could have an important part to play in helping us move towards a regional Viable Economy, but they won't on their own get us there. Critically, as part and parcel of the capitalist system (albeit a more benign capitalist sub-system) they do not have

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17 Taumaturgo de Sousa, T. (2011). *A Economia Solidária Como Meio Para O Desenvolvimento Sustentável- Caso Do Banco Palmas* (Tese de Mestrado em Economia e Gestão do Ambiente). Porto, Porto. Retrieved from http://base.socioeco.org/docs/a_economia_solid_ria_como_meio_para_o_desenvolvimento_sustent_vel-_caso_do_banco_palmas-1.pdf

18 Rigo, A. S., & França Filho, G. C. de. (2017). O paradoxo das Palmas: análise do (des)uso da moeda social no "bairro da economia solidária." *Cadernos EBAPE.BR*, *15*(1), 169–193. http://dx.doi.org/10.1590/1679-395141258 (Open Access).

19 See note 18: our translation.

any kind of automatic bias towards radical/eco-localisation, to reduction of economic material flows, or to the construction of social justice at scale.

Community currencies and near currencies can act as helpful propaganda aids in increasing awareness and loyalty to the local economy but it seems they generally do little more, except in exceptional circumstances where they could provide a safety net as mainstream systems collapse or fail to deliver, as in the examples of pre Workers party and commodities boom Brazilian favelas and post-dollarisation crisis Argentina.

Instead we need serious analysis of how the different elements of a transition to a Viable Economy could work together, supporting one another, correcting systemic gaps, and achieving scale, while discriminating against globalised capital and unsustainable levels of material and energy use. That also implies using a variety of economic, social and political frameworks for understanding, underpinned by a sound ecological economic understanding. If you can help with that, do get in touch.

Key take-away messages:

- Financial innovations are necessary but not sufficient for making a transition to a Viable Economy.
- Complementary currencies and near currencies need to be part of a system of interlocking initiatives and institutions, all working towards eco-localisation and social justice.
- Outside crisis situations, complementary currencies and near currencies have a primary role in promoting symbolic identification with a community and its local economy.

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