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THE POLITICAL ECONOMY OF MONETARY AND FINANCIAL SYSTEM CHANGES TO SUPPORT SOCIETAL SUSTAINABILITY

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Introduction

There have been a number of writers who have accurately identified the fundamental flaws within the current hegemonic financial and ownership system that support, and drive, unsustainable development[1, 2, 3, 4, 5, 6]. Their proposals, such as alternative currencies and non-debt money, provide clear ways in which a society's monetary and financial processes could be designed for both sustainability and greater equality of control and wealth. These proposals tend to fall into two main areas (i) macro-level changes to the current privatized debt-based monetary system, and the subsidies provided to that system and financial markets in general; (ii) the generation of a mixed financial eco-system through diversity of ownership models, such as cooperatives and publicly-owned banks, and local currencies.

The most significant issue with such proposals is not the accuracy of the underlying analysis, nor the efficacy of the proposed changes, but the obstacles to their implementation within the currently constructed human societies. As the climate scientists have discovered over the past decades, presenting accurate analyses and resulting proposed measures does not automatically lead society to take such actions[7, 8, 9], even when such lack of action risks the destruction of modern industrial society. The proposals of the climate scientists both threatened large economic interests, such as the fossil-fuel extraction industries, and challenged hegemonic ideals such as the efficacy of continual economic growth. The proposals also lacked a viable social movement, and supporting institutional infrastructure, to drive their implementation within society. When looking at proposed changes to the financial system any analysis must be realistic about the oppositional forces, the tactics and strategies utilized by those forces, and the supporting forces available. As Graeber has noted the current financial system is “the first effective planetary administrative system, operating through the IMF, World Bank, corporations and other financial institutions, largely in order to protect the interests of creditors”[10], without significant offsetting protection for debtors. Such a system will act to protect its interests against threatening changes, as was shown by the termination of many previous alternative paths identified by Lietaer[3], and Lewis & Conaty[2], as those paths threatened to grow from merely local enterprises to regional and national ones.

This paper will look at some of the historical successes of alternative financial and ownership arrangements to identify both reasons for success, and reasons for the limitations upon those alternatives. It will also identify possible obstacles to change through a review of some historical failures. For example, why did the WIR (the Swiss *Wirtschaftsring-Genossenschft* complementary currency) manage to survive and thrive in Switzerland, in the face of many challenges[11], while many other parallel initiatives were forcibly terminated? A general analysis of how the powerful within modern industrial society use techniques of control and co-option will also be utilized to help identify obstacles to change, and also to identify when seeming successes may have been successfully limited or co-opted. Such insights are crucial to an understanding of how to move initiatives from the local to the meso/macro level, and from operating within the current paradigm to changing that paradigm. There are also questions of socio-cultural and historical specificity which need to be addressed, as some alternative approaches may not be transferable in time or geography.

Diversity of ownership models and currencies

The cooperative movements represent large, diverse alternatives to the dominant private-ownership model and the cooperative ideal has resurfaced many times during the history of modern industrial development. The worker-based movements of the 19th and 20th centuries stemmed from the displacement of previously independent workers into wage-labour, together with the low pay and insecurity of such labour. At the same time, farm-based movements were created to offset the power of large private enterprises to monopolize profits by gaining control of critical parts of supply chains such as the railroad and credit institutions. In some cases, local nationalism, religious cohesion, and successful worker-based struggles against fascist forces also provided a supportive environment. The over-riding driver was for a community to work cooperatively together to gain some control over their living conditions and well being. In many cases, if not all, the different strategies of labour unions, working class and nationalist political movements, and cooperative movements etc. were symbiotic and inter-twined forms of protective and mutual-aid organizations. As Fairbairn notes "The Rochdale Pioneers did not rise spontaneously from need, but were organized consciously by thinkers, activists, and leaders who functioned within a network of ideas and institutions. The same can probably be said of all successful co-operatives in all times and places: they arise from need– when some activists, institutions, or agencies consciously promote and organize them.[12]" Develtere also proposes that "co-operatives cannot be analyzed as distinct social movements ...

it is <their> relationship with other social movements which to a great extent accounts for the diversity and scale of cooperative activity"[12].

Within the United States throughout the 19th century there were extensive and repeated attempts at establishing cooperatives as an alternative ownership structure, with many explicit proposals to replace the capitalist economic system with a cooperative one. Curl[13] details the wide range and diversity of cooperative, and related social, movements throughout this period. He also notes the rapidity of the change from a nation of the self-employed (excluding slaves) to one of employees, "In 1800 there were few wage earners in America; in 1870 ... over half the workforce consisted of employees; in 1940, about 80 per cent; in 2007, 92 per cent"[13]. The 19th century was also a period of highly disruptive economic panics[14], and ongoing attempts to monopolize profits by financiers, middlemen, and transport monopolies which drove down farm profits and general wages while increasing retail prices. In this environment cooperatives were a natural reaction to both reclaim worker control and provide group support against external forces. Given these objectives there was a natural linkage with trades unions, and farmers unions, many of which looked to larger social change through cooperative enterprises. Voss notes that union leaders and labor journalists began to seek an alternative solution to strikes, "a more permanent solution" with cooperatives advocated as a way to "give workers absolute control over the disposal of ... <their> labor"[15]. Examples are the National Trades Union of the early 19th century, and the National Labor Union, Knights of Labor, Grangers and Farmers Alliance in the post Civil War period. This was also a period of large scale immigration, which pressured wages but also brought in many with communitarian ideals who established mutual-aid cooperatives[16]. The cooperatives were stymied in many ways. The repeated economic depressions of the period bankrupted many, and the Civil War wiped out nearly every cooperative[13]. In addition, some of the more successful cooperatives converted into private ownership, while others failed due to managerial and other shortcomings. The private sector also worked hard to negate what they saw as a directly competitive sector, through such things as supplier and merchant blacklisting, unwillingness to provide financing, the absorption of losses over long periods to force the cooperatives out of business, legislative restrictions, and labelling cooperatives as the start of socialism. These activities paralleled ongoing anti-union activities, and were facilitated by the growth in the size and political organization of private sector organizations, together with the active support of the state[17]. The post-war Greenback movement can be seen as another attempt to move power away from these organizations, through the provision of capital directly to citizens thus removing the control of the private financiers. The peak of the worker cooperative movement was in the post Civil-War period, heavily sponsored by labour unions such as the Knights of Labor with visions of such cooperatives growing to become the dominant model within society, "to establish co-operative institutions such as will tend to supersede the wage-system, by the introduction of a co-operative industrial system"[13]. Curl proposes that the very success of the cooperatives during this period, together with the explicit visions of them as an alternative economic system, laid them open to attack[13]. In the aftermath of the Haymarket Affair of 1886, a "violent anti-labor campaign followed ... The courts began to convict union members ... Employers, taking advantage of the situation, instituted widespread anti-union campaigns.[18]" This extended to the cooperatives sponsored by the Knights of Labor, and by 1888 "none of the order's cooperatives were in existence"[18].

Curl notes that the consumer cooperatives that sold at close to cost, such as the Protective Union's of the mid 19th century, were a threat to private profit-seeking enterprises as they undercut the market price, and were met with extensive resistance and attempts to undermine them. The "Rochdale Model" of consumer cooperatives, which sold at close to market price and paid a dividend to its members, fit within the market constraints and thus was less of a threat to competing private enterprises[13]. The consumer cooperatives were also less of a challenge than the producer cooperatives, in that such cooperatives were owned by their customers, and not by the workers who were just as much wage-labourers as those in private enterprises. Such a division between operating within the system, and operating against the system, can be seen in the contrast between the relatively conservative AFL (American Federation of Labour) union and the other more radical unions. In each case the former received significantly less resistance than the latter, as they did not constitute a fundamental threat to the developing economic system and rather worked within the assumptions of that system. The late 19th century and early 20th century is seen by a number of writers[15, 19] as a critical period in US history where capitalist hegemony was established with the aid of employer's associations to establish a united class position and a supportive state. The ongoing development of labour unions and worker movements into instruments of social change was retarded to a degree not seen in other countries. As Voss puts it, organized capital took on organized labor and won a lasting victory[15]. The result of this has been the "American

Exceptionalism"[15] where there has been no major worker or populist based political or social movement to offset the power of capitalist organizations and the state (which sided with capital during state interventions), allowing a much freer rein to capital and its supportive state. As Archer puts it "American political institutions appear distinctive, not because of the precocious commitment to democracy that they embodied, but rather, because of the extensive use of state repression ... judicial rulings, and police and military repression made it difficult or impossible for some groups to maintain organizations that could pursue their interests"[19]. Zinn also notes that "it was clear by 1896 that the state stood ready to crush labor strikes, by the law if possible, by force if necessary"[17]. The result is an institutional setting which is much less promising for changes to the status quo than others, and where the status of cooperatives meet the limited survival possibility proposed by Zamagni, as "an alternative form of enterprise, but one that operates in restricted sectors or pockets of the market, resembling an archipelago of co-operative islands set in a sea of capitalism"[20].

The clash between industrial capitalism based wage labour and the previous more independent modes of production that played out in the United States was also taking place in the United Kingdom at the same time. As Restakis describes the position of the weavers in Lancashire, "One was the rising swell of industrial *laissez faire* capitalism ... The other was the disappearance of an ancient way of life that was characterized by the artisan tradition and the weaver communities this tradition had woven"[20]. As with their U.S. counterparts they, "envisioned a mutually supportive community of independent small producers, exchanging their products without the manipulation of middlemen, free of the control of masters"[20]. The

"Rochdale Model" that resulted though, unlike many of the early U.S. attempts at cooperatives, did not challenge the capitalist system and avoided questions of political power. Instead it operated within the constraints of the capitalist system, through such things as charging market prices and hiring wage-labourers (being predominantly consumer rather than worker cooperatives) in the same way as capitalist organizations. These characteristics allowed the cooperative movement in the UK, and those using this model in other countries, to survive and thrive. The limitations of these characteristics have been carried into the present with large cooperative and mutual enterprises such as the Cooperative Bank and the Nationwide Building Society being nearly indistinguishable from their private sector competitors. As Burton states "Co-operative Bank and mutually-owned building societies do not challenge the money system in any way. They are creating money out of nothing in the issuing of loans, and they are charging interest on loans and paying interest on deposits"[56]. This lack of difference to private sector financial institutions led members to act more like shareholders in many cases when offered the realization of the value of their membership through demutualization, as in the case of significant mutual entities such as with the Halifax Building Society in the UK, and the Manulife Insurance Company and Saskatchewan Wheat Pool in Canada (the Canadian government is also now looking at ways of demutualizing Property & Casualty Insurers, and credit unions[21]). Such demutualization can be very appealing to the *current* members or policy holders as they gain access to the capital built by both *current and previous* members and policy holders. In an era of reasserted *primitive accumulation* through enclosure, such moves can be seen as the capitalist system opening up the common's created by cooperative and mutual enterprises to profit making, in the same way that privatization has been used to cut loose profit-making opportunities from the state provided commons. These recent trends show the fundamental shortcoming of co-operative and mutual enterprises operating within the capitalist context without supporting social and political movements, as this leaves their continuing existence at the mercy of capitalist and state decisions.

A contrast to this is the region of Emilia-Romagna in Italy, "the world's most successful and sophisticated co-operative economy" and represents a rare example of "the co-operative model migrating out of the co-operative movement to shape the organization and operating mechanics of the surrounding capitalist economy"[20]. The region underwent the conversion from highly mutualistic and cooperative social relations to wage-labour based relations in the early twentieth century as commercial and industrialized agriculture superseded earlier forms of economic organization. The response was the same as in other countries, with the establishment of worker federations, revolutionary movements, and cooperatives. In this case though, the cooperatives remained as an integrated part of an overarching revolutionary struggle, which included the resistance to fascism during the inter-war years and WW2. In the post-WW2 period cooperative associations were a significant element in the movement for land reform in Emilia-Romagna, working in unison with the Italian Communist Party (PCI) and the largest union in the area. Both the cooperative movement and the communist party had a very high level of prestige in the post-war period as they had been at the forefront of resistance to the Mussolini fascists and their German supporters, with the rights of cooperatives included in the post-war constitution that established Italy as a republic (replacing the previous monarchy). A significant part of the capitalist and other previously politically dominant sectors were also tainted by their cooperation with the fascist state. This mixture of influences created a positive eco-system within which co-operatives could develop their abilities and establish supportive organizations and other networks. Examples are the cooperative consortia (facilitated by Italian law, unlike in many other countries) set up to provide capabilities beyond the capacity of individual cooperatives, and the clustering of related small firms which provided synergistic benefits. The establishment of regional governments in Italy in the 1970's was also a major element in the acceleration of the development of the cooperative sector in Emilia-Romagna, with the resulting procession of regional Communist or Communist coalition governments. These were highly supportive of the cooperative model and utilized the power of the local state to facilitate the acceleration of the development of the cooperative economic model as the hegemonic one within the region. The end result is that private companies work within the framework of a socialized capitalist regional economy, rather than the cooperatives working within a traditionally capitalist regional economy. The Emilia-Romagna example was established within an economic and social milieu which was fundamentally different to those in the United States and United Kingdom, with a highly supportive environment sustained over many decades. Restakis[20] notes that the move of Italy to the right in the 1980's has reduced this supportive environment, with neo-liberal policies being implemented that reduce the role of the state, and redirecting public funds towards private businesses. Whether or not the cooperative sector of the regional economy has reached a state of maturity and strength where it can continue to prosper without significant pieces of its supporting social infrastructure remains to be seen. The more recent developments within Italy, during the European Sovereign

Debt Crisis, may either further impede progress, or reinvigorate social supports, depending upon the reactions of the Italian state and populace.

Another contrasting example is that of the Mondragon cooperative in the Basque region of Spain. Like the Emelia-Romagna example, the Mondragon success rests upon some very specific political and economic foundations. The Basque region has a national identity, built up over centuries of struggle for self-rule, and a low level of population mobility. The Basques also sided with the Republican forces, which utilized extensive local and regional citizen committees, during the Spanish civil war and the site of the infamous Guernica bombing was a prominent Basque town[22]. As with the examples above, a long history of cooperative enterprises dating back to medieval guilds had been ended by industrial capitalism and the majority of firms were foreign-owned[23]. The Mondragon cooperatives were founded by a Catholic priest, within the heavily devout Basque region, after more than 10 years of social discussion and other initiatives to help the local community. The setting up of a People's Savings Bank was a critical development in the ongoing success of the co-operatives, as it provided a secure source of capital unavailable from other sources. The early growth was also facilitated by the high Spanish import tariffs which lasted until 1992, together with nationalist sentiments to buy local goods[22]. Over time the Mondragon co-op has grown to embody 256 enterprises with 83,859 workers and US$20 billion in annual revenues[2].

Many of the same environmental drivers can be seen in the success of the cooperative movements in Quebec, Canada, which is a North American French speaking enclave of only 7.5 million surrounded by a predominantly English speaking population of over 300 million in

Canada and the United States, and has a view of itself as a nation. Like the Basque region, Quebec has repeatedly pushed for greater autonomy and even independence. These factors lead to a large degree of social and political cohesion. In addition, given its French heritage, Quebec society sees France and Europe in general as a source for many of its ideas, such as cooperative movement and the positive role of government, to a much greater extent than other parts of North America. These factors have supported the growth of a large cooperative movement, which has been actively supported by the provincial government. The Desjardins cooperative financial group was founded at the start of the twentieth century, as a reaction to restrictive and punitive credit practices for small farmers and workers, based upon the examples of such institutions in Europe. The Cooperative Federee was founded in 1922 as an agricultural cooperative federation to consolidate the power of a number of cooperatives, and has received support from the provincial government including financial aid during the 1930's to allow it to survive. It has now grown to cover over 100 cooperatives with 51,000 members. Such government support for cooperatives has been repeated many times, as in the case of the Maple Syrup Producers Cooperative, where the government was instrumental in its establishment[24]. The Agropur dairy cooperative was founded in the 1930's as a response to the difficult economic conditions, together with supplier and merchant concentration[25], and is now owned by the over 3,000 dairy farmers that it supports. Rapid expansion of the cooperative sector in Quebec was also facilitated by the provincial government after the "Quiet Revolution" in then 1960's, which focused government action and support on the development of the local economy. This involved support for the cooperative sector, the nationalization of the major power utility (Hydro-Quebec) and the establishment of major publicly owned financial institutions such as the Caisse de Depot which manages public pension and insurance plans (very much like the Caisse des Dépôts et Consignations established in France in 1816). The Caisse has been described as "an instrument of growth, the most powerful economic lever ever seen in the province[26]", and has been investing in Quebec companies since the 1970's. The Caisse d'economie Desjardins Travailleuses et des travailleurs (the CETT), was formed by the Quebec National Federation of Trade Unions (the CSN) in 1971, to allow "the funding of collective and cooperative projects aimed to improve worker's living conditions and to contribute ... to a fair growth of Quebec"[35], and became part of the Desjardins cooperative network. In the post "Revolution" period, Desjardin has grown rapidly into a highly diversified financial cooperative with 5.8 million members, 43,000 employees, and C$196 billion in assets. As Diamantopoulos notes, the concentration of highly successful cooperatives in Quebec, together with a supportive and active government sector, led to a self-sustaining ecology which may be unique. "An expanding leading group thus reinforced overall sector expansion by providing policy-leverage, resources, openness, and enthusiasm to new movement challenges. In Gramscian terms, the success of Québec's leading cooperative brands built the moral and intellectual authority of the cooperative alternative and its capacity for further expansion. It helped provide solid foundations for an historical bloc 'from above', framed by the wider social movement resurgence of the social economy 'from below'. In large part, co-operation forged a resurgent hegemony in the economic and social life of twenty-first century Québec by leveraging established sector strengths.[12]" Quebec is an example of the kind of diversified financial system proposed by the New Economics Foundation where state, private, and cooperative entities operate within a supportive environment which values diversity[27]. Of all the examples it is certainly the one closest to the most positive possibility for cooperatives put forward by Zamagni where "the cooperative model will eventually increase its power and influence and will in time come to displace the capitalist enterprise as the primary engine of economic activity"[20], especially if we combine the weight of state enterprises and the cooperative sector to represent the non-capitalist economy. Diamantopoulos contrasts the case of Quebec where the cooperative sector has continued to flourish in the post-1980 neo-liberal era, with that of Saskatchewan where the same supporting ecology was not in place and the cooperative sector has withered[12].

The same conceptual structure that repeats through the above examples of cooperative successes and failures is also repeated in the recent history of alternative currencies. Successes are rare, and highly dependent upon the socio-political and institutional base within which they have attempted to develop. In addition, small scale local ventures which do not threaten the status quo tend to be allowed, while more successful attempts which grow to threaten the status quo attract vigorous reactions. During the severe economic and financial crises of the 1930's Great Depression, successful alternative currencies, such as the Woergl in Austria and the Wara in Germany[28], and a farmland backed currency in Denmark[56], were established but were then shut down by the state when their success threatened the official currency. After the failure of many banks in the 1930's, alternative currencies, such as scrip and local money, also proliferated in the United States but were limited by the state and tended to subside as the official financial system was rescued and restarted through state intervention[3, 29]. The WIR (the Swiss *Wirtschaftsring-Genossenschft* complementary currency) stands out as a survivor of this period. What were the conditions which supported its continued existence while so many others failed? Political power within Switzerland is highly decentralized, is open to a high degree of direct democracy through such things as referendums to accept new laws, and the political system has been referred to as the most democratic in the world[30]. This model was established through a violent revolution in 1798, and later decades of political strife culminating in a short civil war in 1847[31]. There was also a substantial base of support for the Free Money Movement in Switzerland which provided theoretical and social support, and its founders were supporters of the free money theory of Silvio Gesell[32, 33]. The economic conditions of the 1930's provided the need for a new financial model, but the form that the WIR took and its continued survival was greatly dependent upon the above factors. Even in such an environment, though the state still provided resistance to local currencies, where "applications by municipal authorities such as the cities of Biel and Brienz for permission to launch experiments similar to Wörgl's were turned down, based on the assertion of the Swiss National Bank's monopoly on the issuance of bank notes"[34]. The WIR's implementation as a cashless payment media rather than a physical currency may therefore have been a significant reason for its survival. Heidi Defila, a former Vice President of the WIR organization, describes the many external challenges that the WIR faced including press and ideological attacks. Her viewpoint is that the creative entrepreneurial management displayed by the WIR was a crucial element in its ability to overcome repeated challenges[32]. It is important to not underestimate the internal dynamics and strengths of alternative organizations as major determinants of their success, as just as with any other type of organization, there will be successes and failures within the same general environment. The nature of the environment may override such factors if it is highly unsupportive and even actively resistant to certain types of organizational entities. Although the WIR is touted as a success story, a realistic assessment must see it as a successful *niche* currency. Outstanding WIR balances equal less than 0.5% of the Swiss M1 money supply (coins, currency, and demand deposits)[33].

A recent development has been a new wave of what Weber & Remer refer to as "Ethical & Alternative", banks such as Triodos in Holland, GLS-Bank in Germany, Merkur in Denmark, BCL in Switzerland, Cultura in Norway, and Ekobanken in Sweden[35]. They tend to have cooperative structures, apart from Triodos which has a private shareholder structure. The general stance of such organizations is to see banking as a vehicle for positive social change, providing funds on the basis of both economic viability and social utility[35, 36]. There have been a large number of such banks established, but the fastest growing and largest has been Triodos, with assets of EUR 4.8 billion, funds under management of EUR 7.3 billion, and 395,000 customers through branches in Holland, Belgium, the UK, Spain, and Germany[37]. The growth of this sector was facilitated by the lack of traditional financial institution coverage, although some traditional institutions have started to enter this space through the provision of such things as ethical investment funds. The ethical banks offer a positive alternative to traditional banks, but do very much operate within the current economic and social structures. Triodos is an extreme example of this with its shareholders including large banks, insurance companies, and pension funds. It has also been awarded the Sustainable Bank of the Year Award by the Financial Times[36], a very capitalist institution. Co-option is always a danger for such institutions, including the utilization of foundation financing from such bodies as the Rockefeller Foundation. Weber

& Remer note that BCL is the one that has stayed most “faithful to its origins”[35] and the anthroposophist values. It had assets of approx US$3 billion in 2011[38].

Theoretical Discussion on Hegemonic Resistance to Change

If the objective that we are looking for, is to have an ecological diversity of financial institutions which should improve the level of resilience within the financial sector, then all of the examples above would qualify as positive additions. For such a diversity to flourish fundamental changes to societal power relationships would be required to significantly reduce regulatory, institutional, and financial subsidies to the currently dominant financial institutions. One possibility is that the 2007-2009 financial crisis may only have been delayed, through the effect of the repeated liquidity injections simply “kicking the can down the road”, and thus there may still be a crisis on the scale of the 1930’s that invalidates the current system and opens up new avenues for change. Even if this came to pass though, larger social and political movements would be required to negate the possibility of the repeat of the 1930’s where capitalism was saved through relatively superficial changes and large scale state support. Many of the above cases point to the ways in which hegemonic social groups can resist threatening changes, through indoctrination and propaganda, direct resistance, and co-option. This section will take a more theoretical perspective to analyze how hegemonic groups maintain power and resist challenges, to help build a holistic understanding of the challenges in building a more resilient and sustainable financial system. A realistic understanding of how power is utilized in modern industrialized society is required to assess the best strategies and tactics to drive changes to the financial system and the wider society.

The ruling elements within industrial societies, whether capitalist, communist, or socialist, have developed and utilized highly effective techniques to co-opt the rest of society into their worldview, through extensive modes of indoctrination and propaganda. Where these processes fail to remove dissent, by curtailing the conceptual framework through which citizens assess society, incremental changes are offered that do not fundamentally challenge the underlying ideological mechanisms and overall social control. The Pecora Commission[39] and the regulatory changes made in the United States in response to the Great Depression of the 1930's can be seen in this light, as the capitalist system responding to a crisis, and appearing to punish the "guilty", while not changing the underlying economic and social configuration. Such superficial changes serve to entice individuals into "working within the system" to meet their needs. Many environmental organizations and individuals have been entwined to some extent within the system, helping companies to be more "green", supporting the concept of sustainable development[40], or focusing on specific non-threatening causes, rather than challenging the underlying causes of ecological degradation[41]. Leading individuals may also be enticed away with highly remunerative offers from corporations and other entities that support the status quo. The acceptance of local alternative currencies which are not of a scale to threaten the dominant monetary system, and the "Rochdale" style consumer cooperatives, may also fall into this category of acceptable incremental actions. For those citizens and organizations where such co-option fails, direct actions by the hegemonic group with tacit or active state support can be utilized to nullify the challenge. As with the case for many alternative currency systems in the 1930's, when they threatened to grow to the point of becoming significant alternatives, they may be shut down, or limited in such a way to minimize their impact to the status quo. The large scale worker cooperatives, and consumer cooperatives selling at near cost, could not be accepted by capitalist societies given their threat to undermine wage-labour and the market system. The reactions can be economic (e.g. bankrupting cooperative enterprises), institutional (banning alternative currencies), use media and social channels to have individuals deemed to be outside of acceptable social norms, or even incarceration (an example would be the Russian “Gulags” and the Chinese “Re-education” camps). Thus, non-conformists are faced with the choice of comfortably “fitting in” and pushing for change within the system, or stepping outside the system and accepting the consequences.

Foucault[42] has extensively covered the move to *control by indoctrination* from *control by state-sponsored violence*, and many authors have covered the process of indoctrination through schooling[43, 44], the media[45, 46], and the control over what parts of history (and thus a society’s narrative) are deemed to be acceptable[17, 47]. Hound and Hou capture the scale of such efforts, “Indoctrination is, of course, present in every society. The permanence of the values which insure social stability could hardly be maintained unless schools, religious institutions, military organizations, and scores of other associations -- both compulsory and voluntary -- worked to implant in the minds the ethical norms and behaviour patterns of a social and political culture. The rigidity of such norms may vary from place to place, and there may be more or less uniformity in the messages issuing from agencies and organizations. Still, in any society, the area of consensus fostered by popular indoctrination needs to be substantial -- *particularly in times of internal and external crisis* <author’s emphasis added>”[48]. A highly indoctrinated populace may resist changes which are objectively beneficial to them if such changes clash with the indoctrinated belief system, as captured in the Marxist concept of *false conciousness*. This could be the case with alternative and communitarian ownership proposals in countries, or regions, where the hegemonic belief system is one of private ownership and individualism. Remnick[49] shows the breakdown of such indoctrination in the U.S.S.R. (Union of Soviet Socialist Republics) during the period of *Perestroika* as the rediscovery and reinterpretation of historical and current events undermined fundamental parts of that belief system. This severely weakened the legitimacy of the Communist Party, through the destruction of its ideological base. Zinn[17] covers many examples in the United States of the combination of attempted co-option, combined with the threat of incarceration or physical attack, to bring issue resolution within the purview of acceptable channels and beliefs. Continued ruling beliefs in the efficacy of fractional reserve banking and complex derivatives, the need to restart exponential growth, and the privatized provision of debt-based money, even after the 2007-2009 financial crises, show the current strength of the ruling ideology with respect to the monetary and financial system. At no time during the discussions of Quantitative Easing (QE) has the possibility of the government directly spending money into existence rather than the central bank provision of funds to commercial banks and the bond markets, been addressed. Instead “market-based” solutions dominate discussions. The ability of the ruling elites to change the discourse from the causes of the financial crisis (the nature of the current financial system) into one about required government cuts to reduce public debts (exacerbated by bank bailouts, recession, tax cuts, and military expenditures), also shows the continuing strength of the current systems of indoctrination and propaganda to reinterpret events and alter the discourse to maintain the status quo. Such strength points to the need to carefully select the environment for financial system reforms that reach beyond the local level, and for gaining significant allies and partners for such reforms.

Macroeconomic Alternatives

If the objective that we are looking for is more than just organizational diversity within the financial system, and is instead long term economic and ecological sustainability, then greater levels of change will be required. With such greater levels of change come greater levels of challenge to current belief systems, wealth and power relations. These go to the core of how the modern financial system works, such as the charging of interest on loans, the assumption of continuous growth as the base of asset valuations, and the creation of debt-money through private financial intermediaries. The Islamic Shari'ah-based Banking industry, which has grown significantly in recent decades, appears to be a useful ally given the directives against usury and for joint risk taking and socially responsible lending in the Shari'ah texts. Globally, Islamic banking assets total approximately US$1 trillion[50], with the vast majority in institutions located in the Middle East and North Africa. Unfortunately, "The practice of Islamic finance significantly departs from its theory ... merely meeting the criteria of legality"[51]. As noted in many of the examples above, a fundamentally different financial system requires fundamentally different societal belief systems and supporting institutions, a fact which Siddiqi captures well with respect to Islamic finance, "If Muslims have the same orientation and motivation in finance as everybody else, they will end up having the system that has resulted from other people's choices, the one we call conventional financial system. A genuinely distinctive system can emerge only out of a genuinely distinct orientation and motivation, a different set of norms"[51].

This has resulted in the Islamic banking sector simply becoming a vehicle "to replicate in Islamic forms the substantive functions of contemporary financial instruments"[52]. Such instruments are simply repackaged to produce *technical compliance* with Shari'ah directives, placing "excessive emphasis on contract forms, thus becoming a primary target of rent-seeking legal arbitrageurs"[52]. El-Gamal[52] covers in detail the modern institutions, practices and products of current-day Islamic banking and how it has so significantly strayed from the Shari'ah financial theories.

A financial institution that does not charge interest is that of the Swedish co-operative JAK Bank which has 38,000 members and US$163 million in assets[53]. With 20% of deposited funds placed on reserve and restrictions around the withdrawal of "post-savings" (savings made as a requirement of a loan), but with no restrictions on "pre-savings" (other savings) the JAK bank does utilize fractional reserve banking, but in a very limited fashion[54]. This is very different to most other cooperative banks which do charge interest and utilize fractional reserve banking to a much larger degree, with the only major differences to conventional banks being the ownership structure and generally more localized operations. Also JAK bank plans its revenues, from membership and loan fees, to only cover its costs rather than to create a surplus distributable to members. This model provides the institutional diversity and democratic ownership model of a cooperative together with being much more adaptable to a steady-state economic environment, being based upon an ideology that sees the charging of interest as exploitation of the ordinary citizen by the wealthy, and not congruent with a sustainable economy[55]. In many ways JAK Bank is also a throwback to a period of "slow money" which fosters conservative personal financial management through encouragement to “pre-save” before gaining a loan and to continue to build savings whilst paying down a loan. The right to a given size of interest free loan is through a points system awarded through pre-saving, or contracted savings committed to during the life of the loan. As Conaty & Lewis state “The JAK co-operative bank operates inversely to virtually all conventional financial institutions” and thus “Transition to such a system is not a simple matter. The redefinition of the purpose of banking is counter-cultural. Attitudes grounded in a view of money as a ‘store of value’ coupled with the temptation to maximize profit by making money out of money are not going to magically disappear. Indeed, current indications are that returning to business as usual in the financial world is a major preoccupation of most conventional bankers”[55]. They also note that credit unions may represent the most obvious place to implement the JAK practices in other areas, and there is evidence that some credit unions have investigated this possibility. For example a report on the JAK Bank was produced for the Chairman of the Van City credit union in Vancouver in 2004[56], but up to the current time no other institution seems to have replicated the interest free products and processes. The report very clearly states some of the challenges to transplanting such practices “Yet, educating people that paying interest on loans is not necessary, except for recovering the actual operation costs of the bank, will be a challenge. Let’s face it, most of us are habituated and comfortable with paying interest on loans, pre-approved mortgages, credit card balances and other forms of credit. To suggest a system that does not require interest payments is somewhat of a revolution in our understanding of banking and the role they play”[56]. An important aspect of the JAK bank is that most members utilize conventional banks for services that it does not provide, such as checking accounts, and also for interest paying deposits and interest bearing loans. Thus, the JAK model cannot be seen as being a complete replacement for the current banking model, as it is limited to savings and loans[54]. As a JAK Bank Manager states "We can't just live in our own bubble, we live in a system driven by interest, can't just block it out. But we can show another way and spread the ideas"[54].

Fractional reserve banking started in the 13th century with the practices that Goldsmiths had of issuing depository receipts for more gold (or other precious coins) than was in their possession, allowing them to increase their income by lending out money (as the depository receipts were accepted as a means of exchange) not fully backed by their reserves. Modern banks came into existence in the 17th century at the same time as nation states when, for the commitment to lend money to the state whenever needed, banks secured the right to create legal tender (the currency accepted by the government in payment of taxes)[3]. At the same time a legal decision was made that stated that money deposited in banks becomes the property of the bank, with the depositor becoming a creditor[54]. This allows the bank full flexibility in the utilization of such deposits, as they are the bank's property. A number of authors have raised serious issues with the resultant privatization of the money supply, as this allows the private banking sector to charge the state and the citizenry interest for access to what is rightfully the property of the state (and the citizenry in a democracy). This is an invisible and enormous subsidy, and source of power, to the banking system and the richer members of society[3]. A number of different proposals have been raised to return this power to the state and/or populace such as (i) full or partial nationalization/cooperatization of the banking sector[57]; (ii)

100% reserve banking[58, 59]; (iii) the creation of none debt-based money through the state spending money into existence[6].

In the market-based economies, the option of nationalization has been repeatedly used to facilitate the rescue and rehabilitation of financial institutions, but the final objective has always been their return to the private sector. Such is the case with the current partial nationalization of banks in the United States and United Kingdom. At no time during the present crisis has even the possibility of full nationalization been officially discussed, or the conversion of these entities into cooperative institutions. In many cases central banks have been nationalized, but their purpose is very different to that of commercial banks and their role tends to be oriented to the service of the banking sector and creditors. Permanent nationalization of commercial banks has been restricted to very few cases outside the communist countries. There are some cases of state-owned financial institutions in North America being put in place, such as the Bank of North Dakota[60, 61] (the only state, as opposed to federal, owned bank in the United States), the Alberta Treasury Board in Alberta[62], and the afore mentioned Caisse du Depot in Quebec. In these three cases, social movements were critical to the establishment of the banks, with a populist agrarian movement[60, 61], the Social Credit movement[63], and Quebec nationalism respectively. There are also the cases of Fannie Mae in 1938 (Federal National Mortgage Association) and Freddie Mac in 1970 (Federal Home Loan Mortgage Corporation) as U.S. federally sponsored enterprises, but both of these can be seen as supporting the private commercial banks rather than being an alternative to them. In Europe and Japan, which have more widespread socialist and/or communitarian belief systems, and support for government intervention, many more state institutions have been established. Examples are the extensive postal savings institutions of many countries, together with targeted development banks. Post-war periods of rebuilding in Europe have also provided opportune openings to create state financial institutions such as the Caisse des Dépôts et Consignations in France (1816, after defeat of Napolean), the Kreditanstalt für Wiederaufbau in Germany (1948, part of the Marshall Plan), and the Cassa Depositi e Prestiti in Italy (1850, after Italian unification).

The utilization of public non-debt based money has been used very successfully on a number of occasions, but the history of such cases is glaringly absent from modern financial discourses and proposed solutions to the current financial crisis. One of the policies of the Social Credit movement of the 1930's (based upon the writings of Clifford Hugh Douglas) in Canada was to provide debt-free money directly to the populace, referred to as "social credit", but attempts were resisted by the financial establishment and it was limited to issuing a form of depreciating scrip known as "Prosperity Certificates"[64]. The government of Canada did utilize debt-free money after the nationalization of the Bank of Canada in the 1930's, through the funding of government programs via money created directly by the central bank and provided to the government (technically this was debt money that paid interest, but all the profits of the Bank of Canada are paid to the government), through to the mid 1970's[66, 67]. As Hellyer points out, the financing of government deficits through the private bond market provides a huge subsidy to the commercial banks and bond investors (who can invest their wealth at interest), and the majority of current Canadian government debt is due to interest payments[68]. The

Canadian Center for Policy Alternatives has proposed the utilization of the Bank of Canada for this purpose, but has also noted the lack of any such proposal in any of the Canadian political party platforms[69]. Probably the most successful use of government created money (although it did pay interest) was in the rebuilding of Germany by the Nazi's after the ruinous hyper-inflation of the 1920's[65]. This followed along the lines proposed by Jacob Coxey and the Greenbackers in the 1890's in the United States to fund public works through government created money. Unlike Coxey and the Greenbackers, a dictator such as Hitler had the power to implement the required policies, and they facilitated the rapid recovery and growth of the German economy in the pre-WW2 years. As Henry Liu notes "The Nazis came to power in Germany in 1933 at a time when its economy was in total collapse, with ruinous war-reparation obligations and zero prospects for foreign investment or credit. Yet through an independent monetary policy of sovereign credit and a full-employment public-works program, the Third Reich was able to turn a bankrupt Germany, stripped of overseas colonies it could exploit, into the strongest economy in Europe within four years, even before armament spending began.[65]" Brown also notes that the rapid development of China during the last few decades has relied upon a government-issued currency and a system of national banks that are majority state owned[65]. With respect to proposals for 100% reserve banking , there does not seem to have been any implementation of such proposals. Fisher thought that 100% reserve banking would be seen as positive by the banking industry as it would greatly reduce the possibility of financial crashes, but this overlooked the fact that the banks seem to be able to socialize losses through public sector rescues, while keeping the profits from the good years to themselves[58].

Related Issues

The difficulty of making fundamental changes to the financial sector has been significantly increased with respect to large segments of the middle and upper middle class in the industrialized countries, especially in North America and the United Kingdom, who have been heavily entwined within the current financial system through actions that have greatly increased their dependence upon the ongoing functioning of that system. A large degree of social provisioning has been moved from the public space into the private through the reduction in the real value of state provisions (through indexing to inflation rather than wages, and manipulating the definition of inflation used[70, 71], for example), the tax-subsidized encouragement of private saving options, and repeated assertions that state provisions "will not be there by the time you retire" by opinion leaders. This has been compounded by the transfer of investment risk within corporate retirement funds to the employee through the conversion of defined benefits pension plans into defined contribution plans. The concept of the *Ownership Society* and the resulting conversion of large segments of the middle classes into the reliance upon, and support of, the current system is shown by Soederberg[72], who notes that this has resulted in no real change to the control and objectives of corporations. Such a position places the middle class on the same side as the societal elites in protecting the status quo, as an acceptance of ecological limits upon future growth and the related financial returns would result in the evaporation of their plans of a comfortable retirement. For example the concept of a debt jubilee, required to remove the large claims upon assumed future growth, would have both positive and negative effects upon such individuals. Their own debts may be greatly reduced, but the savings vehicles upon which they rely upon for retirement may also be reduced to a larger extent. The ongoing financial crisis does open up possibilities, if it serves to delegitimize the current financial system and show the ongoing gap between expected and actual financial returns. As more “baby boomers” retire and a majority find a very different reality to that which they had been led to believe in, they and their politically important organizations may become possible converts to fundamental changes.

The amount of time human societies have before they are forced into an unplanned transition through resource constraints or climate changes will greatly affect efforts to change the financial system (as well as any other sustainability initiatives). If society still has many decades before ecological limits take effect then more focus can be placed on long-term macro changes, while if the time is much shorter the focus may have to be upon more focused action to increase resilience and plant changes which can grow as the power of the current status quo is weakened through ongoing crises. In the latter case alternative currencies may be able to expand with much less opposition as the centralizing financial apparatus becomes degraded (or even collapses given its low level of resilience) and loses legitimacy. While the actual timing of resource and climate constraints is open to a high level of uncertainty, recent events and research has tended towards a significant shortening in the time available. Recent changes in the rate of arctic sea ice loss and resulting methane releases[73], have lead some scientists to assert the possibility of much shorter timeframes than generally assumed for the triggering of positive feedback effects and related societal impacts. Other research on abrupt climate change and feedback mechanisms[74, 75], also points to the precaution of planning for earlier impacts than those assumed by the IPCC. The inability of oil production to increase much above the levels of 2005 in the face of much elevated oil prices in the years since then, and the ongoing reduction in the Energy Return on Investment (EROI) of new fossil fuel extraction[76], also point to a relatively short timeframe before human society is significantly impacted by ecological limits.

Conclusions

One of the overriding messages from the above text is that proposed microeconomic changes, such as increases in the utilization of alternative ownership models and local currencies, cannot be separated from the social, political, and institutional environment within which they will operate. Increases in the scale of such proposed changes (to meso and macro), together with structures which threaten the hegemonic economic groups and societal beliefs, will also greatly increase resistance from non-congruent environments. What amplifies this is the role of finance within the advanced capitalist economies, as the "complex nervous system" which facilitates effective functioning of the capitalist system and a source of power and income for the hegemonic elites.

As Panitch and Konings[77] have detailed, the financial system has been a crucial and central element in the restructuring and disciplining of individual capitalists and labour over the past decades to allow capitalist economies to overcome significant issues. They see financial and industrial capital as acting in an integrated and synergistic fashion rather than in the opposing fashion seen by other authors. The financial sector has played an extensive role in the neo-liberal and globalization developments through such things as the development of the new services required to support extensive global linkages and the related highly complex and distributed corporate structures; the facilitation of capital extension into new sectors and geographies; the support of the rapid allocation of capital from less to higher profit opportunities through mergers & acquisitions (M&A), leveraged buyouts, venture capital, and hedge funds etc.; the disciplining individual organizations through a highly effective market in corporate control; the provision of many new avenues for rent seeking such as high real interest rates, asset stripping, and fraudulent transactions[78]; the development of extensive tax avoidance and evasion services. For example Duncan[79] states that the restoration of corporate profit rates was realized mainly through the simultaneous disciplining of labour (driven by the "Volcker shock" of 1979 onwards and enhanced by extensive leveraged buyout and M&A activity) and the creation of extensive household debt-financing through such instruments as mass credit cards. Given the central importance of capitalist finance it would be expected that the state would strive to rescue it (through liquidity support, margin enhancement, and loss socialization etc.) during crises. This has been the pattern of state behavior from the Latin American Crisis (early 1980's), to the Property Lending Crisis (early 1990's), to the South East Asian, Russian and Long Term Capital Management Crises (latter half of 1990's), and through the Dot Com Bubble burst (post 1999/2000). The latest crisis is no exception as seen by the over US$29 trillion of support provided to both US and foreign financial institutions by the Federal Reserve alone[80] (the U.K., Canadian, European and other central banks also provided extensive additional support). The latest round of U.S. Quantitative Easing also looks like an additional attempt to help rebuild financial institution's balance sheets[81]. Financial crises such as the current one may actually be useful to, rather than destructive of, capitalism. They provide new opportunities for the neoliberal restructuring of social, political and economic arrangements. As Newstadt states "what the Fed's actions ... may yet indicate is not the reform of neoliberalism, but rather its further entrenchment, potentially to the great long-term advantage of capital"[77]. Such advantageous results can be seen in the European debt crisis, where *Structural Adjustment* techniques[82, 83], such as social spending and wage cuts, and extensive privatizations, previously utilized outside the core advanced capitalist countries have now been brought to bear in Europe[84, 85, 86, 87].

Given the nature of the overall global financial and economic environment the supportiveness of a given local, regional, national, or supranational area to proposed financial system changes, together with the relative independence of that environment from external pressures to comply to hegemonic international financial demands, will be critical to the assessment of the viability of alternative financial institutions. The scale of such supportive environments will also affect which alternatives are possible, for example at the nation state level macro-level changes may be possible while at the regional or local level more micro-level changes may be appropriate. Given the many "barren grounds" to the growth of such alternatives, absolute clarity and unsentimental reality must be utilized. Some possible examples:

- Iceland (which rejected proposals to bail out foreign depositors and has prosecuted financial executives), Venezuela, Bolivia, Peru (which have established different varieties of socialist and indigenous governments), and perhaps Norway (although it is heavily dependent on continued growth with its oil industry) at the national level.

- Quebec, some regions of European countries, Scotland after further devolution/separation from the UK, some northern areas of the United States, and regions of Japan. There are significant differences in regional autonomy and flexibility of action between the highly devolved countries such as Canada with its provinces, and highly centralized nations such as England has become over the past few decades in many areas[88].
- There are many local communities where local alternatives could be established, based upon shared belief systems (organic farmers, some religions, trades unions, in place credit unions) and economic need (lower income people dependent upon "payday loans" and other exploitative financial arrangements).

The linkage of such proposals to social movements is critical given the ongoing support required to both facilitate success, including the overcoming of local social, political and bureaucratic impediments, and to resist possible attacks as such initiatives gain success and have meso and macro-level impacts. Social and political grouping can be highly heterogeneous, based upon an area of shared beliefs (i.e. only relevant beliefs have to be shared) as shown by the Alberta Social Credit movement's base which mixed farmer organizations, social theorists, religious groups, and trades unions etc. The leveraging of in place alternative financial groups (for example the Desjardin group in Canada) and the establishment of networks (such as the Canadian cooperative across-Canada shared Automated Bank Machine network) between those groups will also aid success rates. Panitch et al. see that such changes require "a new kind of politics from below as the central precondition for a progressive outcome of the current turmoil"[77]. By showing that alternatives are viable the establishment of working new models will also provide support to social movements, providing confidence that there are viable alternatives. The importance of this role for alternative financial institutions and arrangements should not be under-estimated.

The purpose of alternative financial proposals and their flexibility to adapt to changed circumstances is also critical given the highly uncertain financial, resource, and ecological possibilities. For example local currencies could be established within countries where the current financial hegemony is very strong and thus limits their growth. These currencies would then be in place in the case of that hegemony weakening due to social, political and economic crises and other challenges. The same possibility would be available for a JAK-style bank which may have been targeted at current payday loan customers. It could expand its customer base as the reality of no-growth/de-growth destroys future claims on output (share and debt holdings, private and public pensions etc.), together with current income, and places many in need of alternative financial services. The linkage of such a bank with related cooperative arrangements, such as home care groups, may also greatly facilitate such growth. Judgements about the time left before the onset of ecologically-driven crises will also greatly affect the alternative models implemented, together with the tactics for growth and supportive social and political linkages.

The current picture, together with the relative and outright failures of previous attempts to change the financial system for the better, may produce both depression and inertia. In contrast the historical successes of social struggle and social entrepreneurship upon which many of our most basic freedoms and socially beneficial institutions rest, point the way towards optimism in our ability to overcome hegemonic interests for the general good. There must be no illusion though, that such interests will suddenly see the error of their ways and accept changes that will limit their power and wealth in order to save society from ecologically driven disaster. Such hopeful naiveté will lock solutions within the currently destructive paradigm and support inertia while waiting for those in charge to “wake up and fix things”. The past 30+ years of the lack of real action on Climate Change should point to the fallacy of such beliefs. Also, capitalism is a highly flexible and regenerative system that has proven its ability to survive and thrive through many challenges and crises. Waiting for the “inevitable” final crisis of capitalism may be akin to the wait for Godot, as such crises seem to reinvigorate the creativity and flexibility of the capitalist system rather than fatally weaken it. Instead capitalism may well be able to survive in some form until the day it drives modern society off the proverbial cliff if those who would prefer alternatives do not step up to the challenge.

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70. The UK government has changed the inflation definition for state pension from that of the Retail Price Index (RPI) to that of the Consumer Price Index (CPI), with the latter being consistently lower than the former. See “Switch from RPI to CPI will cost State pensioners £207m next year”, accessed August 31st 2012, at http://blogs.telegraph.co.uk/finance/ianmcowie/100009845/switch-from-rpi-to-cpi-will-cost-state-pensioners-207m-next-year/

71. The United States government has made extensive changes over time to the Consumer Price Index (CPI) used to adjust pensions, and many other government benefits, for inflation. These changes have tended to move the calculation of the CPI away from the average citizens concept of inflation (e.g. changes in price of a fixed set of goods), and been skewed towards reductions in the stated inflation rate. Some of these changes are non-controversial, such as changing the basket of goods periodically to reflect new purchasing behaviors and new products, while others are not. Some of the more controversial are:

- Adjustments to take into account increased functionality and/or quality where the benefit of such changes requires qualitative judgement, and the consumer has no option but to accept the extra functionality. For example if my personal computer processor speed doubles, or Microsoft adds yet another unused feature to Excel, what is the benefit to me as a consumer? Also, the adjustments tend to reflect improvements but not reductions in functionality and/or quality. For example, the lack of a human being on many telephone inquiry systems has been a pervasive change, and could be viewed as a reduction in service.

- Allowing substitution of lower-priced and lower-quality goods in the basket (e.g. more chicken and less steak when the price of the latter rises) lowers the reported rate of inflation versus the fixed-basket measure. The logical extreme of this is that people end up eating dog food because steak, chicken etc. become too expensive for them but this has no effect on the CPI.

- The automatic reduction in weightings of goods rising in price, and visa versa, which has no demonstrated mapping to consumer substitution behaviour. An example would be a significant rise in gasoline prices where consumers may have little substitution capability, especially in the short term.

The effects of these changes upon the stated CPI have been considerable over time and are shown at http://www.shadowstats.com/article/no-438-public-comment-on-inflation-measurement, accessed August 31st, 2012.

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