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Paper presented at the 13th International Karl Polanyi Conference, "The Enduring Legacy of Karl Polanyi," Concordia University, 6-8 November 2014

Co-operative Commonwealth: De-commodifying Land and Money

Access to land and the cost of that access are essential to the provision of affordable housing. Likewise, access to money, and the cost of that access, are issues fundamental to economic health. Karl Polanyi argued the necessity to de-commodify land and money by reversing their private enclosure.[1]

The market and institutional failures highlighted by 2008 and the major economic depressions over the past two centuries inspired creative work to develop land reform and interest-free money systems. The 1820s, 1830s, 1870s and 1930s triggered innovation in monetary reform and land reform. Most experiments ran out of steam. Others led to movement building that forced mainstream parties to make changes in public policy. Many countries influenced by these ideas and by Keynes secured a marked increase in democratic ownership and control over the banking sector and in relation to monetary policy for resourcing large-scale public investment.

This paper explores these historical achievements for their applicability today. The innovations are rooted in nineteenth century co-operative practice. The approach and the practical work today of land and monetary reformers lies outside the canon of orthodox economic thinking. However as this paper will show, during times of crisis, practical land reform and monetary reform has been periodically given strong and transformative support by public-social partnerships. These past breakthroughs and existing good practice provide insights for shaping a Co-operative Commonwealth strategy. To put this analysis into a current context, new policy, practice and legal thinking developing in relation to the Commons as a social economic operating system is important to note as background.

The Economics of the Commons - An emerging paradigm for the 21st century

In 1968 Garett Hardin argued that it is human nature for self-seeking individuals to degrade non-private property.[2] Hardin concluded that private freedom and the commons were incompatible - though tragic the commons would not survive. For decades this Tragedy of the Commons thesis has been regarded as true.

In the 1970s, Elinor Ostrom began looking for evidence to test Hardin's argument. Ostrom's focus was Common Pool Resources (CPRs) and specifically small natural commons over which nobody has private ownership. She acknowledged 'open access' CPRs that appeared to validate Hardin. But her research unearthed a large diversity of co-operatively managed resources that disproved Hardin's categorical argument.

[1] Karl Polanyi (1944) *The Great Transformation,* Beacon Press, pages 251-252.

[2] Garret Hardin (1968) 'The Tragedy of the Commons', Science, Vol. 162 pages 1243-1248.

In *Governing the Commons,* Ostrom comprehensively profiled case after case of resilient commons practices on every continent from fisheries management in the Philippines to rubber tappers in the Amazon, to Swiss villagers managing their meadows, rivers and Alpine forests since the 13th century and to water stewardship operating over centuries in Spain.[3]

Given this evidence, might the commons and a citizen led provisioning economy become the norm in our lifetime in every sector from waste treatment to welfare services and from education to local enterprise and fundamentally for redesigning money and banking? Former Ralph Nader researcher, David Bollier had such an epiphany in 2003 and co-founded *On the Commons* to study, promote and track commons innovation.

A decade later Bollier's pioneering work has marshalled powerfully the evidence of an emerging new economy of the commons. He demonstrates that this expanding movement is operating today in every trade and diversifying from Open source software kicked off by Linux in 1991 and now ubiquitous to the seed sharing commons in Andhra Pradesh, to the Peruvian Potato Park protecting 500 species of spuds and to Couch Surfing with five million members providing free accommodation to travellers in 97,000 cities and towns globally.[4]

As Ostrom and Bollier demonstrate, the key difference between an ungoverned CPR and a resilient commons is the stewardship of a community co-managing the resource with ethical rules to weed out 'free riders, shirkers and vandals.' Sounds intriguing but what is the impediment? Two sectors appear ample company and three a crowd.

Unfortunately we are ruled by a duopoly that Bollier traces to the enclosures that hived off the economy to the market and governance to the nation state.[5] While over 2 billion people globally rely on commons systems economically for their livelihoods, these vernacular practices are under threat by land grabs by global investors.

Redeveloping legislation to validate commons as the third operating system with equitable weight to the market is crucial. The commons law for the sea, rivers, forests and grazing lands has its origins in Roman legislation passed by the emperor Justinian in 535 AD.[6] Commons rights to subsistence (for firewood, turf, and pasture) were granted under The Charter of the Forest in 1217 - two years after Magna Carta. Bollier describes a growing body of law to protect and expand open source software and other commons through a range of creative commons licenses and use rights.

Like the commons Ostrom discovered for managing natural systems, there are a legacy of co-operative commons still operating for money and land. These provide guidance for ethical rules and beneficial constraints for bringing real estate and banking into a Co-operative Commons.

Practical land reform: co-operative and municipal support past and present

As Polanyi highlights in the Great Transformation, land enclosure evolved over centuries and in England was accelerated by thousands of Parliamentary acts of land enclosure in the eighteenth and

[3] Elinor Ostrom (1990) *Governing the Commons: The Evolution of Institutions for Collective Action,* Cambridge University Press.

[4] David Bollier (2014) *Think Like a Commoner: A Short Introduction to the Life of the Commons,* New Society Publishers.

[5] Bollier (2014) page page 43.

[6] Bollier (2014) pages 87-89.

nineteenth century. He highlights that resistance to a self-regulating market economy required the liquidation of the beneficial constraints exercised by usury laws, the rights of commoners, the guilds and other kinship and civil society institutions.[7] In England the struggle to preserve these constraints by the working class was fierce between the 1770s and 1850.

The resistance to land enclosure in Newcastle Upon Tyne led to the practical proposal of Thomas Spence for Parish Land Trusts. Proposed in 1775 these were to be set up to hold rural and urban land in trust on behalf of local people and to capture economic rent for the benefit of the citizens.[8] The Spence Plan influenced wider thinking. Robert Owen's plan for Villages of Unity and Co-operation from 1817 sparked the development of the co-operative movement.[9] David Ricardo invested in Owen's New Lanark scheme and argued for taxation of unearned economic rents in his *Principles of Political Economy and Taxatio*n in 1817.

Many Owenite socialist communities were founded but none survived.[10] Owen's ideas inspired Feargus O'Connor to set up the Chartist Co-operative Land Company in 1846 that secured significant capital from trades union members to developed a number of co-operative villages.[11] A few villages were built before the company.was forced to close by government in 1851.

Land reform interest grew and broadened to public land solutions. John Stuart Mill strongly supported the co-operative movement's efforts to bring land into commonwealth and argued for the municipalisation and nationalisation of land progressively. Mill proposed an affordability remedy: convert land into commonwealth with a long lease to (a) control rising costs and (b) capture socially both the 'unearned increment' and economic rent for the welfare of all.[12]

The popularity of Henry George's, *Progress and Poverty*, and his argument for a land taxation builds on the solid intellectual arguments of Ricardo and Mill for ending unearned rental income windfalls and utilising land taxation as a strategic land transfer mechanism. Municipal land reformers like Joseph Chamberlain implemented slum clearances in Birmingham and other cities followed this lead from 1873 with efforts to pursue Mill's policy arguments. Publicly owned infrastructure including municipally owned gas, water and sewerage arose from these reforms where the development of land as a public asset led the way.[13]

Other efforts before World War 1 showed how a comprehensive land reform system could work for an entire city. Linking up the vision of Spence and Owen and the municipal land reform progress to tackle slum conditions and develop public utilities, Ebenezer Howard, the founder of Letchworth Garden City in 1903, showed how to put Mill's insights into practice through a novel 'co-operative land

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[7] Polanyi (1944) pages 68-73.

[8] Noel Thompson (1998) *The Real Rights of Man: Political Economies for the Working Class 1775-1850,* Pluto Press, pages 4-11.

[9] Robert Owen (1991) *A New View of Society and Other Writings,* Penguin Classics. See section 'Report to the County of Lanark' in 1820, pages 250-308.

[10] Julia Parker (1998) *Citizenship, Work and Welfare - Searching for the Good Society,* MacMillan, pages 74-76.

[11] Johnston Birchall (1994) *The Co-op: The People's Business,* Manchester University Press.

[12] John Stuart Mill (1848) *Principles of Political Economy,* Augustus M. Kelley Publishers, 1909 edition, pages 817-822 and Samuel Hollander (1985) *The Economics of John Stuart Mill,* Volume 2, Basil Blackwell, pages 833-839.,

[13] Tristram Hunt (2004) *The Building of Jerusalem - the Rise and Fall of the Victorian City,* Wiedenfeld and Nicholson pages 232-265.

society'. This Garden City mission was strategically ambitious as the agreed 1919 definition highlights:[14]

"A Garden City is a town designed for healthy living and industry of a size that makes possible a full measure of social life but not larger, surrounded by a rural belt; the whole of the land being in public ownership, or held in trust for the community."

By holding all the land (5,500 acres) in co-operative ownership, Letchworth, the first Garden City, was able to capture lease income from the land, from commercial buildings and to reinvest that money continuously in community improvements. By 1945 Letchworth was generating and capturing economic value through mutually owned infrastructure, including: water, sewerage, gas, electricity, roads, transport services, places of employment, farmland, schools, hospitals and recreational amenities. These assets and economic rent had become co-operative commonwealth harnessed for the benefit of 33,000 citizens. No other urban land reform initiative has matched the self-financing economic success of Letchworth. Though it has lost land and the UK nationalisation of energy after 1945 and through leasehold reform legislation since 1967, Letchworth Garden City Heritage Foundation still holds £127 million in assets generating reinvestment income of over £7 million annually.

Typically, land values account for 25-75% of house prices. So if you can remove land from the market, you can both drastically reduce housing prices and keep homes permanently affordable. That is what community land trusts (CLTs) can do. The diagram below shows how Community Land Trusts can secure affordable housing by removing land from the market into democratic ownership and control through the trust.

In 1970 Bob Swann and Slater King (the cousin of Dr. Martin Luther King, Jr.) set up the one of the first US CLTs, New Communities Inc, on 5000 acres of land at Leesburg, Georgia, near Albany.[15]

[14] Pat Conaty and Martin Large (2013) editors, *Commons Sense - Co-operative place making and the capturing of land value for 21st century Garden Cities,* Co-operatives UK page 10.

[15] In his last book, *Where do we go from Here: Chaos or Community* (1967) Martin Luther King proposed a set of co-operative solutions based around concepts of social economic trusteeship of land and other assets. Karl Polanyi was another proponent of strate-

The CLT in Burlington, Vermont led by former Mayor Bernie Sanders has been a pioneer and the Champlain Housing Trust Vermont in the city highlights well the benefits. It was founded as Burlington Community Land Trust in 1984 after cutbacks in federal programs to fund affordable housing. Instead of the conventional strategy of housing subsidy, which would try (and fail) to keep up with rising land values, the CLT would take land out of the market.[16] Crucial was a social-public partnership between community groups and the city council. The city supplied a core revenue grant to set up the CLT and an additional $1 million line of credit from the city employees' pension fund.

The CLT has expanded steadily and now manages over 2,000 affordable units of housing including part-equity homeownership and apartments to rent. The CLT also supports on its land an additional 81 limited-equity homes provided by five housing co-operatives.[17] In addition to housing, the CLT has developed a day centre for the elderly, a nursery facility, managed office space for social enterprises and non-profits, a shop-front for the region's community development credit union, and a multi-unit housing and workspace complex for local businesses.

Since 2000, municipally-supported partnerships are responsible for the most innovative CLT work in the United States and a City-CLT partnership model has emerged. A growing number of cities support existing CLTs, are starting new ones and actively fostering their development: including Chicago, Albuquerque, Irvine (California), Portland (Oregon), and Syracuse (New York). The Irvine master plan is building 5000 "permanently affordable" homes on a redundant military base (4700 acres).

A number of factors have prompted this new-found support. The leading one is the proven ability of CLTs to use discounted land and other government subsidies to maintain the affordability of housing despite rising real estate markets.[18] For over 26 years neither land nor homes have been lost from the CLT portfolio in Burlington. Additionally, CLTs have a track record for avoiding problems with debt and mortgage foreclosures when markets contract. Thus CLTs provide both land and housing stewardship and especially when working hand in glove with city staff. City-CLT partnerships are winning wider recognition as a robust way to prevent the loss of affordable housing (and other community assets) secured by municipal investment. There are now over 250 CLTs in the USA and about 50 in the UK. The model is being developed in Canada and in Belgium and gaining interest in France and Portugal.

Co-operative Interest-free lending models - past and present

Adam Smith argued for the usury law in the UK to be tightened and the maximum rate lowered to 5%. He felt that higher rates encourage irresponsible lending and excessively reward investors.[19] Jeremy Bentham argued the opposite and for the abolition of usury laws and a free market rate of interest.[20] Usury is little discussed today but it is crucial in policy terms. Lenders work to the Rule of 72 which means that a loan at a compound rate of 24% will double in value in three years compared to a period of 36 years for a loan at 2%.[21]

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gies for taking land and money out of the market. He welcomed public ownership of land, toughly regulated banking and other Keynesian cheap money reforms.

16 Mike Lewis and Pat Conaty (2012) *The Resilience Imperative - Co-operative Transitions to a Steady-State Economy,* New Society Publishers, pages 87-95.

17 The CLT provides full technical assistance service to support the development of new housing co-ops.

18 Lewis and Conaty (2012).

19 Adam Smith (1776) *The Wealth of Nations*, Book 2, Chapter 4, Stock Lent and Interest.

20 Jeremy Bentham (1787) In Defense of Usury, Dodo Press, 2008.

21 Dividing the loan compound rate of interest into 72 indicates the time needed to double the loan capital advanced.

During the industrial revolution English working people were excluded from bank lending though pawnbroking was rife. Mutual aid savings clubs developed interest-free lending systems for housing. The most successful were the Terminating Building Societies for buying land and building houses.[22] The first was established in 1775 by Richard Ketley, a pub owner in Birmingham and this idea spread rapidly across the Midlands of England.[23] Members who saved for at least ten years received an equal chance to buy a plot of land to and build a house with a mixture of their savings (typically 40%) and an interest-free loan (typically 60%) from the mutual society. Loan allocation was by a draw organised periodically to distribute the pooled funds. A Terminating Building Society usually would operate for 20-25 years until all the member savers had secured a home. Then the society wound up.

By 1870 nearly a thousand Terminating Building Societies were active across the U.K. They had become the core provider of mortgage finance for the skilled working class.[24] However no new terminating building societies were allowed to form in the UK after 1910. By that time though the system had spread to many Commonwealth countries. The system was still legal in New Zealand until 1980.

There were other models that flourished. Dr. Thomas Bowkett introduced a mutual organization in the 1840s to provide housing and smaller loans interest-free.[25] Twenty years later, Richard Starr made some adjustments to the system, and the "Starr-Bowkett" societies spread fast. Each was a registered mutual society. New members selected the amount of the loan for which they wished to apply, were assigned a number and a set amount of time for paying a monthly subscription (generally 0.25% of the loan). Once sufficient funds accumulated from subscriptions, ballot meetings were held and loan recipients chosen by lottery.[26] The lottery feature of the system led to its abolition by regulators in England in the late 19th century. By then the societies had spread to Australia and this approach to lending remained popular for housing finance loans until the mid-20th century.

A system of rotational savings and lending almost identical to those of 19th-century England is active in Brazil today. CoopHab is a major housing federation of co-operative savings societies.[27] Each society is organized to sign up 1000 members. They each commit to save a particular percentage of their household income for ten years and in return are guaranteed an interest-free loan over a ten-year repayment term. One hundred interest-free mortgages are allocated annually by each society until every member is housed by Year 10 (or slightly later). Then the society terminates.[28]

Elsewhere, there are other models of mutual, interest-free lending. During the Great Depression, a group of Danish farmers faced repossession of their land by the commercial banks. Building upon earlier practices of interest-free systems in Germany, Christian Christiansen championed the founding of a number of rural savings and loan co-operatives that went by the acronym JAK, short for *Jord Arbete Kapital* ("Land Labour Capital") that still operate.[29]

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[22] Johnston Birchall (1988) *Building the Co-operative Way, Routledge & Kegan Paul, pages 91-92.*

[23] Glyn Davies (1994) *A History of Money - From Ancient Times to the Present Day,* University of Wales, pages 326-328.

[24] These organisations are not to be confused with the modern building societies which grew up in the late nineteenth century. They catered to the growing middle class and charged interest. (Birchall 1988:).

[25] http://en.wikipedia.org/wiki/Starr-Bowkett_Society

[26] Recipients paid back the loan and any amount still owing on their subscription. Once all members had the opportunity to receive a loan, the society closed and the capital was returned to its members.

[27] International Co-operative Alliance, *Annual Report*, 2006.

[28] CoopHab's promotional slogan is: "'Homes at cost with no interest and no surprises.'

[29] Lewis and Conaty (2012) The history and operations of JAK banking is analysed on pages 74-83.

In 1965 the concept spread to Sweden, where it expanded rapidly in the late 1980s and secured a banking license in 1998. Today Sweden's JAK Bank has 35,000 members, US$163 million in assets, and $147 million out on loan. About 80% of those loans are for home improvements or to refinance high interest loans (e.g., student and consumer loans) originally obtained from commercial banks. The other 20% is invested in ecological and social enterprises of various kinds.
Operationally, JAK is very similar to a credit union, except that members do not earn any interest on their savings or dividends on their shares. Like its Building Society and Starr-Bowkett forebears, JAK also has a compulsory savings element. For foregoing interest and dividend income, members are entitled to fee-based loans at no interest. The total cost of a JAK loan covers four things:[30]

- loan appraisal and set-up cost at a fee that is 2-3% of the approved loan value.
- an annual administration fee equal to 1% of the loan.
- an annual fee of approximately $30 to support the JAK educational system and volunteer services.[31]
- an equity deposit equal to a 6% of loan value to cover risk on any loan in the portfolio.[32]

Members are strongly encouraged to pre-save in order to qualify for a loan.[33] Members also contract to continue saving while they are repaying their loans. This is called post-saving and it is structured as a separate savings contract that runs alongside the loan contract. By committing to continued savings while the loan is paid down the member can negotiate a larger loan right from the outset.[34]

The diagram below depicts how post-savings are calculated and combined with pre-savings to match the overall sum that is to be borrowed. Pre-savings of $2,000 during a 12-month period prior to applying for a loan (the light green triangle) entitle a member to borrow only a maximum of $2,000 over a similar term (the light purple triangle). However, the member could borrow an additional $3,000 if s/he agreed to continue saving ("post-saving") while repaying the loan over a 48-month term.

[30] For purposes of illustration, figures have been converted from Swedish kroner to dollars. Lewis, Mike and Conaty, Pat. 2012:74-80.

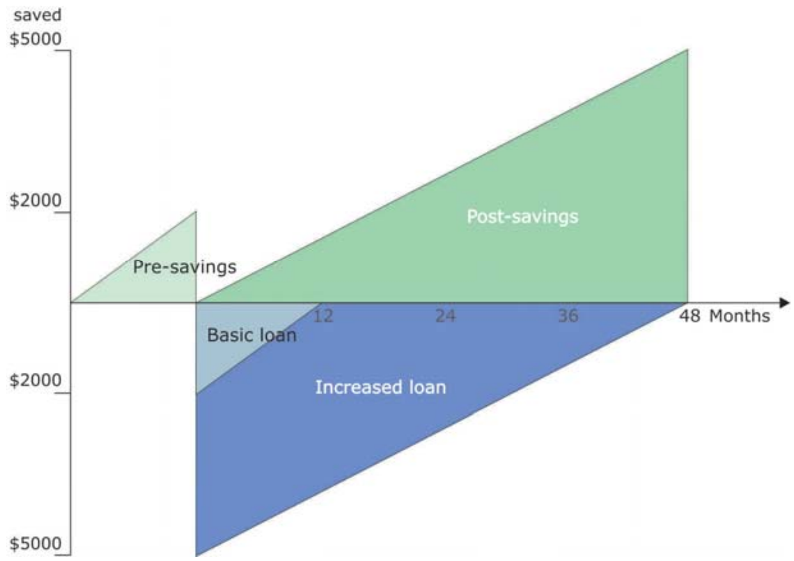
[31] Each of 30 JAK sub-branches relies heavily on the efforts of member volunteers who are trained in interest-free lending principles and practices by JAK staff. Volunteers also assume major duties in the recruitment of new members there has been no default, the deposit is then repaid in full to the member.

[32] Equity deposits serve as the bank's reserves and legally belong to the bank until the loan is fully repaid. Bad debt has been kept below 0.5%, which also helps to keep loan costs so low.

[33] This used to be a requirement but in 2003 that was rescinded in order to enable lower income members to qualify for loans.

[34] New members receive an account immediately. Savings flow into a common pool, but instead of receiving interest, each member earns savings points – one point per dollar saved each month. Savings points give a member the right to borrow without interest. The amount that a member can borrow is based on the number of savings points accumulated (pre-savings) or contracted (post-savings). Savings points are essential to JAK's ability to maintain liquidity in the system, which in turn is essential to making interest-free loans available for a growing membership.

Diagram: JAK Loan Profile



The implications of a $20,000 loan over 10 years make these benefits very clear. (See Table 1.) The JAK borrower enjoys net savings of $6,669 over someone who gets a loan from a conventional bank.

Table 1: Comparative Loan Costs

Charges on 10 year loan of $20,000	Bank loan 8.05 % over 10 yrs	JAK loan over 10 years	Remarks
Loan financing fee	0	$2701	$22 per month over 10 years
6% loan equity deposit	0	$1200	Paid up front but repaid within 7-19 months of loan retirement
Annual membership fee		$339	$33.90 per year
Annual Service fees	$400		$40 per year
Interest coast on Loan	$9,309		
Total Cost of Loan	$9,709	$3040	JAK borrower pays $6,669 less for the loan than the conventional borrower

While the JAK borrower saves a large amount of money in interest costs, the monthly payments are higher than those of a conventional bank customer (see Table 2). The reason is monthly loan payments have to be matched by a post-savings payment: the member pays $166.79 in the monthly loan payment, an amount that is matched by an additional $166.79 in compulsory savings.

Table 2: Comparative Loan Payments

Payments on 10 year loan	Conventional bank loan at 8.05%	JAK Bank (assuming no pre-savings)	
Monthly Loan Payment	$241.18	$166.79	No interest
Post-Savings Payment		$166.79 ($2001 per year)	This would be less if a pre-savings balance has been accrued. $20,000 saved is recoverable 3 months after loan is paid off.
Loan fee payment		$22.51	Monthly contribution to 2.5% loan fee
Total Monthly Payment	$241.18	$355.84	

Monthly payments of $355.84 compared to $241.18 means the annual servicing of a JAK loan is about $2,000 more than a conventional bank loan, or about $20,000 over the 10-year loan term. However, it all comes back. It is the member's money. Thus a 10-year loan of $20,000 saves $6,669 in interest and creates for the member $20,000 in savings. In addition the 6% equity deposit required at the front end of the loan is also returned, another $1200. Together they represent a nice little nest egg for the borrower.

JAK banking, CoopHab and Community Land Trusts work well but are below national policy radar. This is not entirely the case for co-operative commonwealth systems. The JAK founders in Denmark inspired the development of the Swiss WiR (the ring) in 1934 that today operates as a co-operative bank providing interest-free finance though a mutual credit currency for about one in four small and medium businesses in Switzerland.

How might the co-operative commons make a breakthrough more widely? This has happened in the past. Indeed the history in North America and Germany is insightful for how to implement a public-social partnership strategy between citizens and the state.

From Co-operative movement action to Public banking solutions

In 1862 during the Civil War, to prevent gold and silver from draining out of the Union and bringing about a banking collapse, President Lincoln took two emergency measures. He suspended the convertibility of banknotes to precious metals and then approved the issue in 1862 of what expanded to

$450 million of interest-free Greenback dollars.[35] The administration relied upon borrowing to finance the war effort. But as debt levels soared, printing Greenbacks became a war measure.

Faced with a post war debt mountain, as well as the impending costs of reconstruction at the end of the civil war in 1865, Lincoln indicated his intent to expand the use of Greenbacks in peace time. As President he had led the introduction of a paper money not backed by gold or silver, and had shown that the government could create, issue, and circulate by fiat the currency and credit needed to satisfy the spending power of the government and the buying power of consumers. By issuing Greenbacks, Lincoln demonstrated that the privilege of creating and issuing money is not only the supreme prerogative of government, but it is the government's greatest creative opportunity. The taxpayers through a well managed fiat currency could be saved immense sums of interest.

Following Lincoln's death, the Greenbacks were withdrawn.[36] The federal lenders of Wall Street secured a reintroduction of hard money policies linked to gold. This led to severe deflation causing business to fail and unemployment to soar. The Bank Panic of 1873 set in train a 20-year depression.

One feature of the Long Depression was falling prices for agricultural goods. Farmers got credit by using their crops as collateral. With merchants and bankers typically charging interest rates of 50-200%, this led to debt peonage. In 1887 the National Farmers Alliance (NFA) emerged as a rural agricultural co-operative movement to combat these practices. Co-operative solutions developed in Texas and Kansas attracted several million members across the USA.[37]

The traditional consumer co-operative model relied on cash purchase but most farmers under the crop lien system had no cash. To overcome this usurious credit monopoly, the National Farmers Alliance and Co-operative Union, led by Charles Macune, developed the Sub-Treasury Plan.[38] NFA branches offered votes to either Democratic or the Republican politicians in exchange for agreement to vote for a reintroduction of the Greenback. The Greenbacks would not be backed by gold, but by the farmers' crops, which would be stored in sub-Treasury warehouses paid for by the government.[39]

So this was not simply a co-operative currency. It was a new national currency under a co-operative and state partnership to expunge the debt peonage imposed by merchants and bankers. Farmers under the sub-Treasury plan could draw down Greenbacks for up to 80% of the crops they pledged to produce and store in the sub-Treasury. Finance was to be secured at 2% interest plus a charge for storing, grading, and insuring their crops in the warehouses.[40] The established political parties withheld their support from the sub-Treasury Plan. Opposition from bankers, merchants and their lobbyists

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[35] This was the first full national currency to be introduced by a US government. John Steele Gordon 'The High Cost of War', Barron's, 9 April 2011.

[36] Lawrence Goodwyn (1978) *The Populist Moment - A Short History of the Agrarian Revolt in America,* Oxford University Press, pages 10-12.

[37] Goodwyn (1978): pages 26-29: Services developed including bulk buying, co-operative warehouses and procurement agents in every state for securing lower cost farm supplies and promoting county and town level co-operatives. Each state aimed to set up a Farmers Alliance Exchange to unify the members in their dealings with sellers and buyers.

[38] Goodwyn (1978): pages 67-93: In fact, Macune developed three plans. The first was to organize their members nationally to pledge their crops or their land to secure preferential rates of interest from bankers. The second was a national plan for a currency acceptable in co-operative stores and backed by 90% of the market value of crops. Both these plans (like the third one) foundered before the resistance of the bankers and their merchant allies.

[39] This was not the first attempt to re-introduce Greenbacks. That was the primary purpose of the US Greenback Labor Party, founded in 1874. Over the next decade the party attracted a growing following of farmers and workers, at one point electing 22 members to Congress

[40] Each sub-Treasury could withhold sale of its inventory until a favourable price could be obtained.

was just too great. Infuriated, farmers and workers created their own party in 1891 to carry forward-monetary reform and a co-operative economy. The new Populist party won some local, state and Congressional elections before falling into decline after 1895.

A generation later the spirit for monetary reform resurged again in North Dakota with a determination to bring banking into public ownership and to abolish corporate land ownership. In 1915, the Socialist Party organiser A.C. Townley launched the Non-partisan League (NPL) to promote state control of flourmills, grain elevators and banks.[41] At the time, corporation interests based in Minneapolis, operating in collusion with the Northern Pacific railroad, dominated bank lending in North Dakota and the grain trade. The NPL campaign was so successful that its slate of independent Republicans swept the state elections of 1916 and won more seats in the legislature two years later.

Armed with this mandate the NPL set up three major state-run enterprises: North Dakota Mill and Elevator, a state railroad company, and the Bank of North Dakota as a public bank.[42] The benefits of the Bank of North Dakota for the farmers and citizens of the state are notable.[43]

> *In 2011, the BND [Bank of North Dakota] $5.3 billion in assets made it North Dakota's second largest bank……. BND does plenty of bank business. Mostly, however, it makes loans – to students and small businesses, farmers and ranchers, affordable housing developers and disaster stricken farmers. The loans are designed to serve public need, so the terms of the loans are generally more favourable than private banks. BND loans aren't a handout, they actually profit the state. The bank has been in the black every year since 1971, earning $70 million in 2011. More than half the profit goes back into the state's General Fund offsetting North Dakotans' taxes. The rest goes towards more loans, not CEO bonuses, because BND 'execs' are modestly paid public officials.*

The public banking and other reforms of the NPL continue a century later to yield ongoing social dividends for both the public finances and for all North Dakotans.[44] Unfortunately only one US state has established this model. However there are other legacies and precedents for the common good.

100% money and Social credit arguments against debt-based money

In 1920 the US, Germany, Italy, France and the UK were saddled with huge levels of public debt. There was an urgent need to fund reconstruction, housing for the troops returning home and to change production over to civilian purposes. Henry Ford and Thomas Edison suggested a novel solution. To fund infrastructure projects that would generate an income stream, they proposed that new money be created by issuing interest-free government bonds. In 1921 they argued to Congress that the principal on the interest-free credit could be repaid from the income generated by say a hydro-electric dam or a toll bridge or from general taxation.[45] Thinking in the UK probed more deeply.

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[41] John Curl (2009 For All the People: Uncovering the Hidden History of Cooperation,Co-operative Movements and Communalism in America, PM Press, pages 135-136.

[42] In 1932 the NPL governor, "Wild Bill" Langer enacted a state-wide initiative to prohibit corporate farming in North Dakota and any corporate ownership of farmland. These prohibitions are still in force in the state today.

[43] Marshall Swearingen 'State-run Banks: a Movement driven by unusual politics', Public Banking Institute, News Alert, 28 November 2012.

[44] Any profit from the North Dakota on loans to farmers, small businesses and to students is returned to the state. Over $300 million in dividends has been repaid to the state over the past ten years. Today North Dakota has the lowest level of public debt and unemployment of any US state.

[45] New York Times, 6 December 1921: http://query.nytimes.com/mem/archive-free/pdf?_r=3&res=9C04E0D7103EEE3ABC4E53DFB467838A639EDE

After an initial issue of debt-free treasury notes, the UK funded its war effort mostly through war bonds. The national debt grew eight-fold from 1914-1918.[46] The Nobel Prize chemist, Frederick Soddy pointed to the cumulative costs of debts in the economy and the instability this creates. In the 1920s he made the first case for an ecological economics free of debt. To achieve monetary reform, Soddy advanced the first case for what became known in the 1930s as "100% money." He proposed an end to debt-based money by progressive increases towards a 100% reserve requirement. Thereby all money would be created debt-free by the government.[47] He showed that debt-based money runs counter to nature because it violates the laws of thermodynamics.[48]

Clifford H Douglas, a British engineer, made a direct link between monetary reform and a universal income.[49] He argued that economic instability was due to a gap between aggregate demand and supply, which in turn was caused by an insufficiency of money as the circulating medium. Debt money could close this gap only temporarily. More and more debt would mean higher and higher compound interest payments by households, businesses and government. This in turn would reduce national demand to meet goods and services in the real economy. He argued that a clear-cut and labour-saving solution would be for Government to create new money, interest-free as "Social Credit.".[50]

The Douglas argument had two aspects. First all citizens would receive a National Dividend.[51] This would pre-distribute income without the need to tax and redistribute. It would also reduce debt by eliminating the growth of instalment credit that was being developed by corporations and banks. Second, Douglas proposed that publicly-owned producer banks be set up in each region of the UK to provide finance debt-free to industry and enterprises.

From 1929 monetary reform attracted a wide audience In the UK, Australia, New Zealand, the USA and Canada with growing grassroots calls ranging from public banking to universal basic income.[52] The New Deal of Franklin Roosevelt took inspiration from John Maynard Keynes.

'Cheap money': Keynes and monetary reform to curtail usury

In 1931, Keynes concluded "that interest – or, rather, too high a rate of interest - is the villain in the economic piece".[53] He called his public policy antidote "cheap money": intervention by the Treasury

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[46] In 1914, faced with very low reserves in the Bank of England, Chancellor of the Exchequer David Lloyd George feared a bank panic. He declared an extended bank holiday, took Britain off the gold standard and issued £300 million in debt-free Treasury notes to fund the early stage of the war. There was only one issue of these so-called "Bradburys," so-named after the Secretary of the Treasury.

[47] Frederick Soddy (1926) *Wealth, Virtual Wealth and Debt,* George Allen & Unwin.

[48] Soddy observed that: *'Debts are subject to the law of mathematics rather than physics. Unlike wealth, which is subject to the laws of thermodynamics, debts do not rot with age and are not consumed in the process of living. On the contrary, they grow at so much per cent per annum, by the well known mathematical laws of simple and compound interest…..For sufficient reason, the process of compound interest is physically impossible, though the process of compound decrement is physically common enough*.' (Soddy 1926:70)

[49] C H Douglas (1919) *Economic Democracy,* Sudbury, Bloomfield (1974 reprint).

[50] Douglas was in good company. In his book *Roads to Freedom* (1918), the philosopher Bertrand Russell argued for a universal basic income to provide economic security to all citizens. In the same year, Mabel Milner and Dennis Milner called for a 'State Bonus' as a percentage of UK national output – a form of social dividend.

[51] Frances Hutchinson, Mary Mellor and Wendy Olsen (2002) *The Politics of Money*, Pluto Press, pages 134-137.

.[52] In England, GDH Cole argued for a "social dividend" as a universal "basic income" in 1935. In the same year, the Nobel economist James Meade, a colleague of both CH Douglas and GDH Cole, backed the 'social dividend' argument in a case he made to the Labour party. See About Basic Income: http://www.basicincome.org/bien/aboutbasicincome.html.

[53] Geoff Tily (2010) *Keynes Betrayed: The General Theory, the Rate of Interest and 'Keynesian' Economics,* Palgrave Macmillan, page 135.

and central banks in the bond markets to ensure the long-term maintenance of low interest rates in order to curb the usurious practices of bankers and provide low-cost capital for housing, welfare services and industry.[54]

This policy was essential to the reforms with which the Roosevelt administration was to circumscribe private banking and vastly extend the reach of public development banking. Roosevelt acted immediately. His first act of office was to declare a three-day bank holiday. An Emergency Banking Act, passed on March 9 closed down and liquidated four in ten banks in the USA. That June, the Glass Steagall Act imposed tighter banking regulation than ever before experienced and rigorously separated commercial banking from investment banking. The new legislation gave the Federal Reserve strong powers to set maximum rates of interest. Deposit protection insurance was introduced. Banking was strictly regulated thereafter for almost fifty years.[55]

Roosevelt's plan for ending the Great Depression included a public banking model. To address the difficulty that businesses had getting bank loans, the Hoover administration had set up the Reconstruction Finance Corporation (RFC) in 1932. Under Roosevelt from 1933 the RFC introduced mortgage and small business loan guarantee mechanisms. However private bank lending continued to decline. Finally, in 1938, Roosevelt approved direct public lending by the RFC to businesses.

A successful target of low-interest public lending was the rural electricity sector. In 1934 only one in ten rural households in the US had electricity, compared to nine in ten urban households. (Private sector energy companies could make far higher returns on urban than on rural investment.) To resolve this, Roosevelt set up the Rural Electricity Administration (REA) in 1935. Using capital from the RFC, the REA provided long-term, low-cost loans at a 2% fixed rate to enable the co-operative sector to develop a network of rural electricity co-ops.[56] By 1939, 417 rural electricity co-ops had been established and 288,000 households and farms provided with power.[57] By the early 1950s co-operative light and power was being delivered to 90% of farms. Today this movement has grown into a national network of over 850 co-operatives and a membership of 42 million. Long-term public bank finance at low-fixed interest was critical to their success to deliver power and light throughout the rural USA.[58]

The Bank of Canada – A central bank monetary policy for securing the Common Good

Canada also made monetary and banking reform a centrepiece of its strategic response to the Great Depression. While influenced by Keynes, Canadian measures also drew on many more radical ideas. Canadian innovations stand in striking contrast to those of the New Deal. A wave of root and branch change achieved some of the twentieth century's most significant money and banking innovation.

The crash of 1929 created across Canada a ferment that gave rise to new political parties. The Co-operative Commonwealth Federation (CCF) was founded in 1932 in Calgary as a farmer-labour-socialist party. The CCF manifesto called for public ownership of key industries, universal health care

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[54] Keynes persuaded UK government to implement this policy in 1932 by cutting the British bank rate from 6% to 2%. Apart from one year, this guidance and low rate was maintained until 1950 (Tily 2010: pages 59-60).

[55] Unlike what has happened since 2008, banker salaries declined massively and bonuses shrunk after March 1933. Pay in the industry remained in decline for decades.

[56] Roosevelt based his plan for rural electrification in part on electricity co-ops that had been set up in Scandinavia.

[57] University of Wisconsin Center for Cooperatives: http://reic.uwcc.wisc.edu/electric/

[58] While the co-ops have benefited from government provision of 'cheap money', the subsidies per consumer to the energy co-op sector from Government has been less than those provided to private sector utilities.

and universal pension provision. The party's ideas on money and banking were influenced by the public banking success of AC Townley. CCF thinking spread across Canada during the 1930s.

Gerry McGeer, a Liberal Party candidate, was elected mayor of Vancouver in 1934 at a time of huge industrial unrest. In his book, *The Conquest of Poverty* (1935), McGeer's plan combined Keynes' Cheap Money with Lincoln's Greenback. He presented evidence to bankers, politicians and economists to show how a public bank could work for the common good. His timing was fortuitous. In 1935 Canada had opened its own central bank, the Bank of Canada, but as a privately-owned bank.[59] There was a Government debt crisis with interest charges more than one third national expenditure.

McGeer's proposals were supported by the Prime Minister, fellow Liberal William Lyon Mackenzie King. Graham Towers, the first governor of the Bank of Canada, was also persuaded.[60] Inspiration came from the new Reserve Bank of New Zealand, a public central bank that began life in 1936 advancing loans at 1% to fund a broad range of infrastructure including hydro-power, the railways and public housing.[61] Mackenzie King made a mission statement of political intent in 1935:[62]

> *Once a nation parts with control of its currency and credit, it matters not who makes the nation's laws. Usury, once in control, will wreck any nation. Until the control of the currency and credit is restored to government and recognised as its most conspicuous and sacred responsibility, all talk of sovereignty of Parliament and of democracy is idle and futile.*

1938 the Bank of Canada was converted into publicly-owned corporation and curtailed private bank borrowing by creating most of the money supply until 1945.[63] After the war, monetary policy was structured to assist long-term reconstruction and job creation. The Industrial Development Bank was set up as a subsidiary of the Bank of Canada. Loans were advanced at a nominal 1% rate and this practice continued until the mid-1970s. In addition to investment for industry and business, cheap money funded Canadian infrastructure including housing, the Trans-Canada highway, the St. Lawrence Seaway and a broad range of social programmes including financial aid for veterans to attend university, assistance for veterans to acquire farmland, the development of federal health care system and to finance as well the Canada Pension plan and Medicare.

Until the mid-1970s the federal government created enough new money to monetise 20-30% of the national deficit. Moreover, cheap money forced the mainstream banks to keep their commercial rates low in order to compete. As a consequence of a combination of public banking and cheap money Canada had a total national debt of only $37 billion in 1975. The policy underpinned four decades of Canadian security and stability.[64] All this changed in 1974 - the year the Basel Committee on Banking Supervision was set up within the Bank for International Settlements (BIS). Canada was among the committee's founding members. To encourage monetary stability and fight stagflation, BIS dis-

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[59] Before then the Bank of Montreal had operated as the government's principal banker.

[60] Connie Fogal (2011) 'How the debt-based monetary system functions in Canada', COMER, the Journal of the Committee on Monetary and Economic Reform, Vol. 23, No. 9, September 2011.

[61] Rodney Shakespeare (2007) *The Modern Paradigm,* The Christian Council for Monetary Justice and Islamic Economics and Finance.

[62] Ellen Brown (2013) The Public Bank Solution – From Austerity to Prosperity, Third Millenium Press, chapter 17.

[63] William Krehm (1993) A Power Unto Itself – The Bank of Canada: the Threat to our Nation's Economy, Stoddart Publishers. In the years 1935 to 1945, Canada's monetary base – that is the supply of legal tender - was increased from $259 million to $2,017 million…….Because the central bank created most of the money itself and lent it to the government in the form of treasury bills as low as .37 percent, the bank was able to keep the interest paid on Canada Savings Bonds bought by the public to 3 percent or less. Without the low-rate financing provided by the central banks, the Allied powers could not have won the war (Krehm 1993: page 56).

[64] No other central bank since has pursued monetary reform in such a social economy way to secure the common good.

couraged governments from borrowing from their central banks interest-free. Instead it was recommended that they borrow from the private sector and from international banks.[65]

This was instigated after the election in 1984 of a Progressive Conservative government. Public debt soared to $581 billion by 2012. Interest payments by taxpayers on the debt topped $1 trillion and became the single largest budget item, higher than health care, national defence and senior citizen entitlements.[66] It has been estimated that if Bank of Canada practices had not been changed, there would be no national debt and indeed a surplus of $13 billion.[67]

Public development banking: KfW a 'cheap money' system operating in Germany

The Kreditanstalt für Wiederaufbau (KfW) was established after World War II to act as a development bank for reconstruction. It continues to operate today and plays a strategic role in the implementation of German's carbon reduction and green economy programmes. Germany has been an EU leader in green energy since the 1990s and KfW has been at the core of its implementation practice.

KfW provides capital at 1% to the German retail banks for on-lending.[68] The German municipal savings banks and the co-operative banks comprise the majority of this market. Loans at 2.65% are provided for both homeowners and small businesses to retrofit housing and commercial premises.

Packages of energy conservation and renewable energy measures are tailored to secure rigorous carbon reduction savings. Borrowers are incentivised to achieve the targeted savings by a bonus that reduces the capital sum advanced if the carbon reduction levels are met.[69] The impact of these rebates can reduce the net interest charged to less than 2%. KfW commitments amount to €10 billion a year and attract an additional €17 billion in energy efficiency investment.

KfW programmes have created employment year on year. Today it supports 368,000 construction jobs in both new build and high-standard retrofits to Germany's housing and commercial infrastructure. Since 2001 more than 2.5 million homes have been upgraded to high-energy savings standards. The current annual upgrade volume is more than 358,000 units. Germany is on target to cut carbon emissions from homes and commercial buildings by 40% by 2020 and by 80-95% by 2050.

100% money and Citizens Income: a Commons Solution

During the Great Depression, it was acknowledged quite widely that banks create money as debt every time they make a loan. In other words they do not lend out their deposits but multiply money in circulation simply by exercising their fractional reserve freedom to expand the level of debt. A 100% reserve requirement enforced by central banks would remove this freedom and the issue of money and

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[65] Brown (2013 chapter 17.

[66] In 2012 austerity measures were introduced to address the debt burden: 19,200 job cuts, a higher retirement age of 67 and a reduction of federal programmes by $5.2 billion a year.

[67] Harold Chorney, Associate Professor of Political Economy and Public Policy, Concordia University, Montreal; John Hotson, Professor of Economics, University of Waterloo; Mario Seccareccia, Associate Professor of Economics, University of Ottawa; The Deficit Made Me Do It!, "Introduction," CCPA Popular Economics Series, Editor: Ed Finn, Canadian Centre For Policy Alternatives, 2010.

[68] Gudrun Gumb (2012) 'Financing Energy Efficiency in Buildings – the German Experience', KfW paper presented at the International Workshop on Financing Energy Efficiency in Buildings, Frankfurt, 16-17 February 2012.

[69] Homeowners and businesses that demonstrate they have saved energy can get capital repayment rebates of 2.5% to 17.5% from the different KfW programmes that encourage maximum carbon reduction performance.

liquidity would become a role for governments to reclaim fully. In 2014, The Bank of England officially confirmed in their Quarterly Bulletin 2014 that the banks create money simply by lending.[70]

Former World Bank economist Herman Daly has proposed reconceptualising money as a commons based on the 100% money proposed by Frederick Soddy and later advocated in 1934 by Irving Fisher. Fisher proposed to remove from banks the power to create money as debt by setting up a Currency Commission to provide the money supply debt-free. He argued for a partnership between the Currency Commission, the central bank and the national retail banking network, to act as the delivery system. Fisher and the proponents of the The Chicago Plan and The Program for Monetary Reform in 1939 highlighted that the impact of 100% money would restrict debt comprehensively.[71]

> *Under the fractional reserve system, any attempt to pay off the Government debt, whether by decreasing Government expenditures or by increasing taxation, threatens to bring about deflation and depression……the fundamental consideration is that whatever increase in the circulating medium is necessary to accommodate national growth could be accomplished without compelling more and more people to go into debt to the banks, and without increasing Federal interest-bearing debt.*

To implement 100% banking effectively, Fisher drew the important distinction within commercial banks between checking accounts and saving accounts. The former could and should be operated on the basis of fees for service, not interest. By contrast, saving accounts are not part of the means of circulation. They are loans borrowed from banks from savers. To pay any return to savers as a share of investment, the banks would need to invest these deposit funds in productive enterprises.[72]

Joseph Huber in Germany and James Robertson in the UK have made the case for creating 100% money by extending the government money supply from the marginal areas of coins and banknotes (about 3% of money) by replacing bank generated debt money with a universal basic income that could be spent directly into the economy interest-free.[73] This would be a pre-distribution of income replacing as well the other forms of redistribution by the state, including state pensions, tax allowances and other welfare benefits. Robertson proposes a 3-year period to phase in the transfer from a debt-based national money supply to a 100% debt-free money system.[74] He calculate that the UK government and taxpayers would secure £75 billion in savings annually and a one-off savings of £1500 billion by replacing bank debt money with national, interest-free money. The latter figure could fully repay the UK's national debt that has continued to rise relentlessly since the 2008 bank bailout.[75]

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[70] See the Bank of England (2014) report *Money Creation in the Modern Economy* at: http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q102.pdf

[71] Paul H. Douglas, Irving Fisher, Frank D. Graham, Earl J. Hamilton, Wilford I. King and Charles R. Whittelsey (1939) A Program for Monetary Reform, memorandum July 1939.

[72] Fisher advocated banking reform that would establish a decentralized system of utility banking. It would benefit smaller banks and thereby increase competition. Fisher argued that smaller banks faced an increasing trend towards more concentration of power in the hands of the big banks. Under the 100% system, the demand deposits of the smallest and the largest banks would be absolutely secure. The pressure towards the concentration of banking would thus be greatly reduced.

[73] Joseph Huber and James Robertson (2000) *Creating New Money - A Monetary Reform for the Information Age,* New Economics Foundation. In Switzerland, the Vollgeld Initiative has secured in 2014 enough signatures for a national referendum on the introduction of a Basic Income of $2800 per month. This program is based on monetary reform and on the arguments of Huber and Robertson for a Citizens Income.

[74] James Robertson (2012) *Future Money - Breakdown or Breakthrough?,* Green Books, pages 111 - 113.

[75] Gar Alperovitz (2013) *What Then Must We Do?*: *Straight Talk About the Next American Revolution,* Chelsea Green, page 146: He points out that inequality in the USA is not an economic problem, it is a political problem. He highlights that if gross US income

Co-developing Commonwealth: The strategic need for a public-social partnership agenda

Community Land Trusts, JAK, CoopHab and the WiR Co-operative Bank demonstrate today that there are viable ways to deliver access to land and money as a democratic commons that eliminates usury. The struggles of working class movements to develop land reform and interest free money systems has led to dynamic innovations that work but have been marginalised. Where breakthroughs have been made, public-social partnerships have been forged and firm foundations established. This is evident in emergence of the Bank of North Dakota, the rural electricity co-operatives in the USA and the growing Community Land Trusts (CLTs) movement in the USA and the UK. Frequently the public-social partnership operates only at a local government level as is still the case with the CLTs today. Where national policy can be influenced as with the Bank of Canada from 1938 to 1984 and with KfW currently, the impacts can become both systemic and transformative. Such periodic breakthroughs demonstrates how the co-operative movement's innovations for money and land as 'commons' operating system can succeed and in partnership with public banks co-deliver pathways out of austerity including permanently affordable housing, renewable energy systems, green public transport and solutions to the rising costs of social and health services. Securing political will from the state to tackle social inequality by directly targeting the roots of enclosure, would enable paradigm shifting changes like 100% money and Citizens Income to be implemented.

was divided equally, each American household (based on four people) could be provided $200,000 and full employment or $100,000 for a 20 hour week if they preferred to work less.