How to Liberate America from Wall Street Rule

A Report from the New Economy Working Group

Participating Organizations
Business Alliance for Local Living Economies
Capital Institute
Democracy Collaborative
Green America
Institute for Policy Studies
Living Economies Forum
New Economy Network
New Rules Project
Public Banking Institute
RSF Social Finance
YES! Magazine

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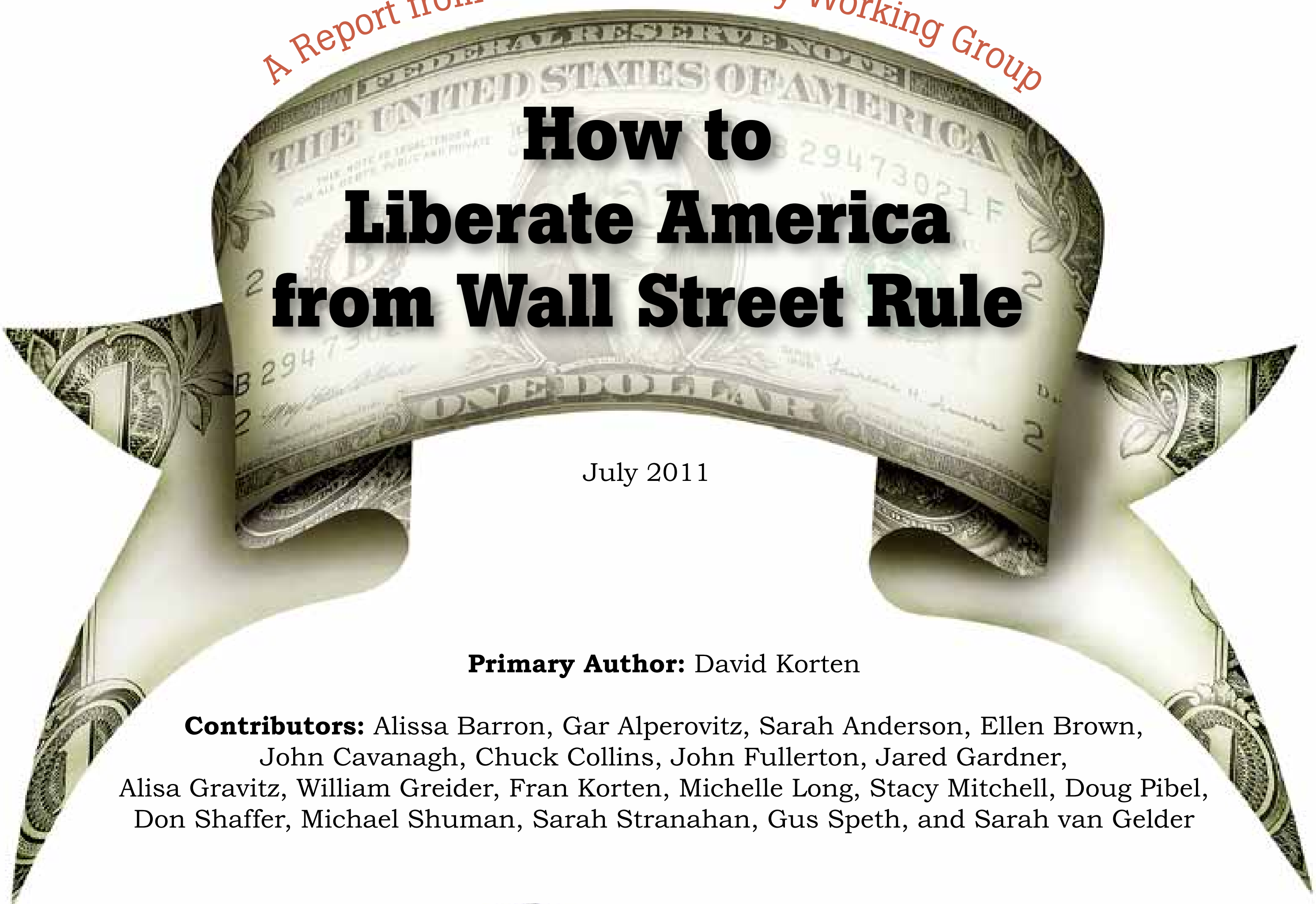

How to Liberate America from Wall Street Rule

July 2011

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New Economy Working Group
Equitable Economies for a Living Earth

Participating Organizations

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Cover photo by Sönke Hartmann

ACKNOWLEDGEMENTS

This report addresses issues and options largely ignored by the current public conversation on financial reform. It confronts the need to not simply fix or reform Wall Street but rather to create a Main Street-based money and banking system accountable to local communities and responsive to their needs. The intention is to redirect the conversation to deeper issues and options that the establishment has so far kept off the table. The essential issues are straightforward matters of values and power readily understood by most everyone—as this report intends to demonstrate.

This report is prepared and issued by the New Economy Working Group (NEWGroup), an informal alliance coordinated by the Institute for Policy Studies (IPS) and comprised of IPS, YES! Magazine, the Business Alliance for Local Living Economies (BALLE), and the Living Economies Forum, plus individual members Gar Alperovitz, Stacy Mitchell, and Gus Speth. It is co-chaired by John Cavanagh and David Korten, and coordinated by Noel Ortega. NEWGroup's mission is to articulate and popularize a bold vision and implementing strategy for a New Economy that works for all of Earth's people and the living systems on which their well-being depends. See the Appendix for NEWGroup's statement on what we mean by a New Economy.

This report grows out of an ongoing New Economy Transitions discussion series organized by NEWGroup and the New Economy Network—an informal alliance of individuals and organizations coordinated by Sarah Stranahan.

Many individuals and organizations played critical roles and contributed important ideas to the extended conversation on which this report is based. Individuals who made significant contributions by way of concepts, proposals, and feedback include: Alissa Barron, Gar Alperovitz, Sarah Anderson, Heather Booth, Ellen Brown, John Cavanagh, Chuck Collins, John Fullerton, Jared Gardner, William Greider, Fran Korten, Michelle Long, Stacy Mitchell, Doug Pibel, Don Shaffer, Michael Shuman, Sarah Stranahan, Gus Speth, and Sarah van Gelder. Participating organizations in addition to the New Economy Working Group partners include: Capital Institute, Democracy Collaborative, New Economy Network, New Rules Project of the Institute for Local Self-Reliance, and Public Banking Institute, and RSF Social Finance.

All of these individuals and organizations have reviewed the final report. They do not necessarily endorse all of the report's premises, conclusions, and recommendations. All, however, agree on the need for a lively public conversation on the issues and options presented. All are committed to advancing that conversation.

Final responsibility for the report's content, including errors and omissions, rests with David Korten as the primary author. Korten is co-chair of the New Economy Working Group, co-founder and board chair of YES! Magazine, founder and president of the Living Economies Forum, and a founding board member of the Business Alliance for Local Living Economies (BALLE). His books include *Agenda for a New Economy: From Phantom Wealth to Real Wealth*, *The Great Turning: From Empire to Earth Community*, and the international best seller *When Corporations Rule the World.* He has MBA and Ph.D. degrees from the Stanford Business School. In his earlier career he served as a captain in the U.S. Air Force, a Harvard Business School professor, a Ford Foundation project specialist, and Asia regional adviser on development management to the U.S. Agency for International Development.

RECENT QUOTATIONS

"In policy terms, the success of the financial sector is not an end in itself, but a means to an end—which is to support the vitality of the real economy and the livelihood of the American people. What really matters to the life of our nation is enabling entrepreneurs to build new businesses that create more well-paying jobs, and enabling families to put a roof over their heads and educate their children."

Sheila Bair, FDIC Chair, March 16, 2011

"Financial systems are important servants of the economy, but poor masters."

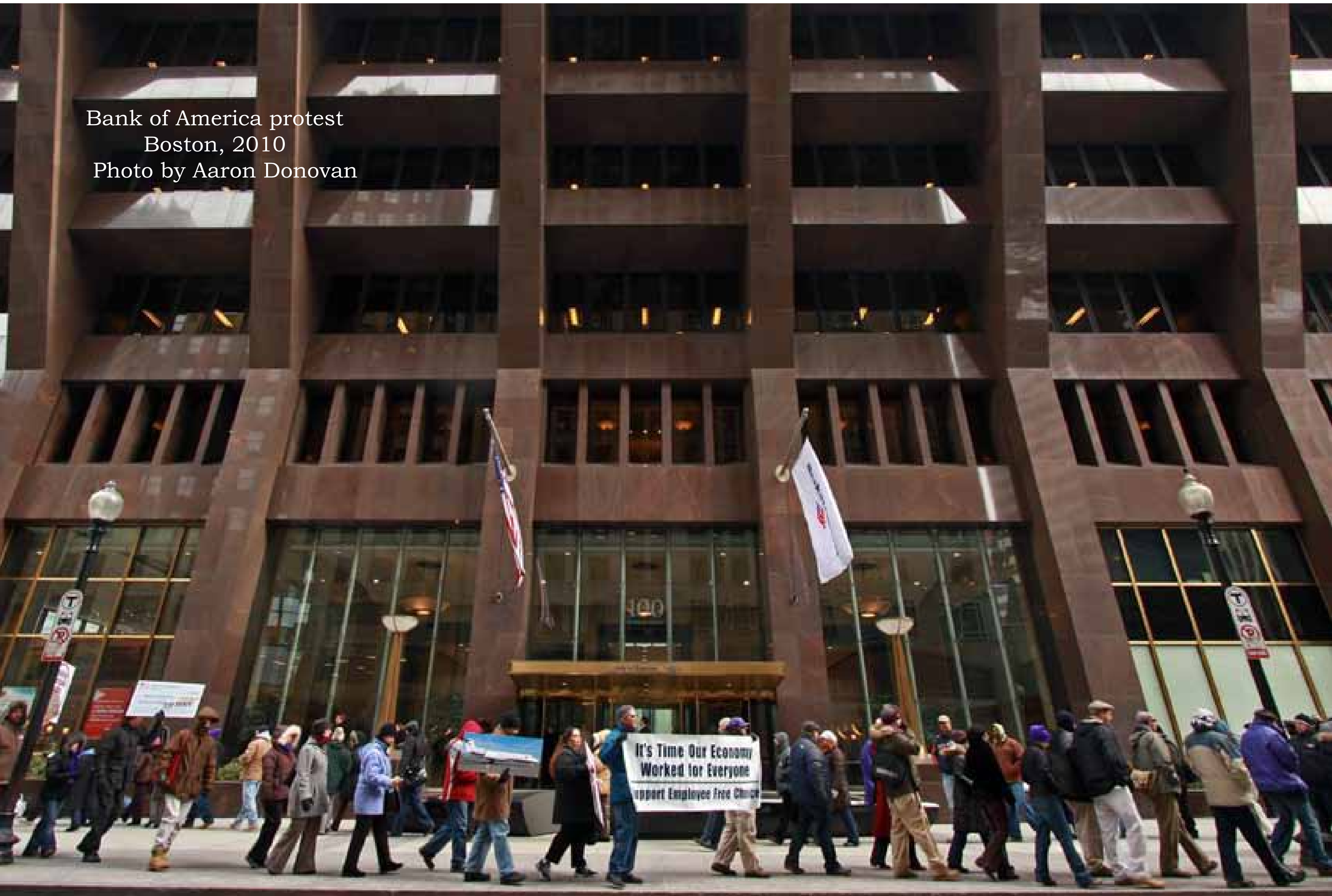
Martin Wolf, Financial Times chief economics commentator, April 20, 2010

"Of all the many ways of organizing banking, the worst is the one we have today."

Mervyn King, Governor, Bank of England, October 25, 2010

"I don't think this is just a financial panic; I believe that it represents the failure of a whole model of banking, of an overgrown financial sector that did more harm than good."

Paul Krugman, "The Market Mystique," New York Times, March 26, 2009



Bank of America protest
Boston, 2010
Photo by Aaron Donovan

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EXECUTIVE SUMMARY

In 2008, Wall Street plunged the U.S. economy into the worst crisis since the Great Depression. Wall Street received a generous public bailout and quickly recovered. Main Street continues to languish. Politicians and pundits rarely inquire into the reasons for the disparity. Doing so would expose the reality that the United States is ruled as a plutocracy, not a democracy, and would focus citizen anger on the structure of the institutional system that gives Wall Street bankers their power.

The 2008 financial crash was a direct and inevitable consequence of a social engineering experiment conducted by Wall Street interests that allowed Wall Street financial institutions to consolidate their control of the creation and allocation of money beyond the reach of public accountability. The priority of the money system shifted from funding real investment for building community wealth to funding financial games designed solely to enrich Wall Street without the burden of producing anything of real value.

The proper function of money is to facilitate the sustainable and equitable utilization of resources to fulfill the needs of people, communities, and nature. This calls for a community-based and democratically accountable system of money, banking, and finance that functions to create and allocate money as a well-regulated public utility.

Such a system would be remarkably similar to the one that financed the United States' victory in World War II, produced an unprecedented period of economic stability and prosperity, made America the world's industrial powerhouse, and created the American middle class—a system that was working well until Wall Street launched its "financial modernization" experiment.

Wall Street interests mobilized in the 1970s to advance a host of policy initiatives that led to the erosion of the middle class, an extreme concentration of wealth, a costly financial collapse, high rates of unemployment, bankruptcy, and housing foreclosure, accelerating environmental systems failure, and the hollowing out of U.S. industrial, technological, and research capacity. Wall Street profited all along the way and declared its social engineering experiment a great success.

This report presents a six-part agenda for ending Wall Street's disastrous experiment and creating a community-based, publicly accountable money and banking system responsive to the needs and opportunities of the United States in the 21st century.

1

Reverse the process of banking consolidation and build a national system of community-based, community-accountable financial institutions devoted to building community wealth. Break up the megabanks and implement tax and regulatory policies that favor appropriate-scale community financial institutions and, in particular, community financial institutions organized as cooperatives or owned by nonprofits devoted to community wealth building.

2

Create a State Partnership Bank in each of the 50 states to serve as a depository for state financial assets. State banks can keep these funds circulating in state by partnering with community development financial institutions on loans to local home buyers and locally owned enterprises engaged in construction, agriculture, industry, and commerce.

3

Restructure the Federal Reserve to limit its responsibility to managing the money supply, subject it to federal oversight and public accountability, and require that all newly created funds be applied to funding public infrastructure. Assign responsibility for the regulation of banks and so called "shadow banking" institutions to specialized regulatory agencies.

4

Create a Federal Recovery and Reconstruction Bank to finance critical green infrastructure projects designated by Congress. It would be funded with the money that the Federal Reserve creates when it determines a need to expand the money supply. Rather than introducing that money into the economy through Wall Street banks, it would instead be introduced through the Federal Recovery and Reconstruction Bank.

5

Rewrite international trade and investment rules to secure national ownership, self-reliance, and self-determination. Bring international rules into alignment with the foundational assumptions of trade theory that the ownership of productive assets belongs to citizens of the country in which they are located and that trade between nations is balanced. Hold corporations operating in multiple countries accountable for compliance with the laws of each country of operation.

6

Implement appropriate regulatory and fiscal measures to secure the integrity of financial markets and the money/banking system. Such measures properly favor productive investment and render financial speculation and other unproductive financial games illegal and unprofitable.

Critics will argue that the proposed actions represent unwarranted governmental interference in the market. In reality, Wall Street institutions are themselves creations of government and would not exist without governmental intervention. Virtually every major Wall Street financial institution is a corporation created by a government-issued charter extending rights and privileges not available to an individual. The money that fuels Wall Street's speculative frenzies originates with the Federal Reserve, a creation of government. Most Wall Street corporations would have gone out of business in the financial crash of 2008 if not for a massive bailout from the U.S. Treasury and the Federal Reserve.

It is fully appropriate, indeed mandatory, for government to intervene to hold to account institutions it bears responsibility for creating and securing against their own folly. The Federal government's practice of creating, subsidizing, and protecting private institutions that serve no valid public purpose and refuse to accept responsibility for the public consequences of their actions must end.

Leadership in implementing the proposed agenda will depend on citizens acting in concert with their state and local governments to advance public understanding of the issues raised here, moving their business from Wall Street to Main Street financial institutions, promoting cooperative or nonprofit ownership of financial institutions, and advocating implementing legislation.

HOW TO LIBERATE AMERICA FROM WALL STREET RULE

Beginning in the 1970s, Wall Street interests carried out a bold social engineering experiment in market deregulation in the guise of promoting market freedom and financial modernization. This experiment removed most restraints on the concentration of corporate power and placed it beyond the reach of democratic public accountability.

As a consequence, the banking system to which We the People have yielded the power to create and allocate money is now controlled by a small group of bankers, financiers, and traders accountable only to themselves and dedicated only to maximizing their personal financial return.

The excesses of these largely unregulated and unaccountable institutions resulted in the financial crash of 2008 and plunged the United States and the world into the worst economic crisis since the Great Depression of the 1930s. The U.S. Congress responded almost instantly with some $700 billion to be quickly disbursed by the U.S. Treasury to bail out the Wall Street institutions responsible for the crash. The Main Street economy received $787 billion in stimulus funding to be doled out over several years.

It might seem that Main Street got the greater support. However, while Wall Street mobilized its media PR machine to focus public anger on the Main Street stimulus funding, the Federal Reserve was implementing a far larger Wall Street bailout operation. An audit ordered by the U.S. Congress produced a report released in late 2010 documenting Federal Reserve commitments of $12.3 trillion in emergency funding for Wall Street in the form of low or no interest loans and the purchase or guarantee of distressed securities—all in addition to the Congressionally authorized bailout.

The Fed provided nothing for the Main Street economy on which the vast majority of people depend for employment and the necessities of daily life.

The Federal Reserve funding brought the Wall Street bailout total to $13 trillion. Yet Wall Street itself produces nothing of value and has all but forsaken the primary purpose of a financial sector—to support the efficient, generative production and distribution of real goods and services.

Wall Street took the bailout money, subsequently reported record profits, and rewarded itself with record bonuses. On April 26, 2011 the Standard & Poor's index of 500 corporations hit 1,347.24, its highest level since June 17, 2008, which was several months before the meltdown.

The Main Street experience is quite a different matter. A primary rationale for the Wall Street bailout was to get money flowing to the people and businesses that produce and distribute real goods and services to get them working again. That is not what happened.

As of May 2011 some 13.9 million Americans were formally classified as unemployed and an additional 800,000 had given up looking

Photo by Simona Monteleone

for work. Gallup estimated that 19.2 percent of those Americans who wanted work were underemployed. More than 656,000 Americans were homeless in 2009. Home foreclosures continue: In May 2011, banks and lenders held 872,000 foreclosed homes and another million were in the foreclosure process. Estimates of the number of food insecure people in the United States run to more than 50 million. Experts estimate that $3 trillion would repair and rebuild America's crumbling physical infrastructure, a small portion of the $13 trillion the Fed and Treasury showered on Wall Street.

The money system demonstrated its ability to instantly generate whatever amount of money was needed to restore Wall Street profits and bonuses. It failed, however, to come up with the money needed by the real-wealth Main Street economy to put people to work providing needed goods and services.

When skilled workers are unemployed and needs essential to the future of our children are unmet solely because of a lack of money, we have a defective money system in serious need of radical redesign.

A more functional money system would have directed the money that went to Wall Street to funding good jobs rebuilding America's physical infrastructure, retrofitting our buildings for energy and water conservation, and converting to renewable energy. We would now be experiencing an economic boom, reducing our national dependence on foreign oil and environmentally devastating coal and gas mining, reducing household expenses for energy and transportation, and securing the future of our children by reducing the environmental stress on Earth.

The dysfunctional Wall Street money system did none of this and those in charge show no interest in voluntarily doing so. There is no prospect for a Main Street recovery so long as Wall Street institutions continue to control the creation and allocation of money.

The Wall Street crash and subsequent devastation sparked a lively debate and led Congress to pass much heralded, but largely toothless, financial reform legislation. The focus was mainly on reducing the risk of a future collapse.

Most proposals for Wall Street reform do not address the foundational issue. Nor do proposals for a return to a gold standard or a system of complementary community currencies.

The real issue is a failed system created by a Wall Street-driven social engineering experiment. Main Street recovery depends on a bottom-to-top restructuring of the institutions that hold the power to create and allocate the money on which modern economic life depends.

Our common human future depends on creating a New Economy that functions in sustainable balance with Earth's biosphere, meets the needs of each of Earth's nearly 7 billion people, and gives every person a voice in making the critical resource allocations that shape their lives. See the Appendix "Navigating the Transition to a New Economy."

It will require an accountable, service-oriented system of money, banking, and finance based on values, rules, and institutions very different than those currently in place.

The essential first step is a national conversation about the institutions of money and finance centered on a set of questions rarely raised in the current national conversation:

1. What are our essential priorities for our nation in the 21st century?

2. What is money? What is wealth? What is the relationship between the two?

"O.K., folks, let's move along. I'm sure you've all seen someone qualify for a loan before."

Editorial cartoon by Tom Cheney for the New Yorker

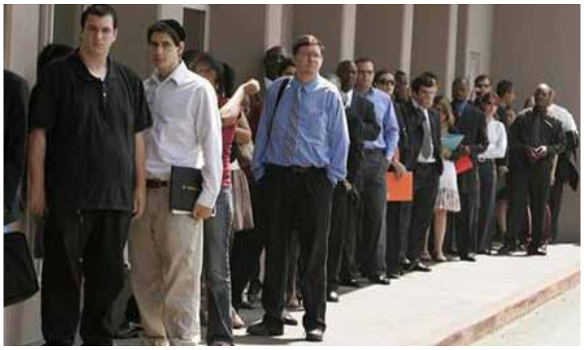
3. What are the proper institutional arrangements for a money system designed to serve our essential national priorities?

4. How can we replace the institutions of the failed system we have with institutions that serve the necessary priorities of a 21st century nation?

While pundits and politicians may call the proposals recommended by this report unrealistic, they are not so for those of us of an older generation. The proposed system is in fact quite similar to the sensible and easily understandable system of predominantly local financial institutions that pulled the United States out of the Great Depression, financed the U.S. victory in WWII, created the American middle class, and built the world's most powerful and envied economy.

FINANCE FOR A 21ST CENTURY AMERICA

America at the beginning of the 21st century is suffering the aftermath of its excesses in the last quarter of the 20th century. We are poorly prepared to address the challenges and opportunities of a 21st century world that bears only passing resemblance to the one the United States dominated for more than a half century. The communications revolution that allows citizens to communicate instantly and organize globally is fast eroding the foundations of the modern forms of imperial global rule at which the United States excelled, and the global economy's burden on nature already exceeds what the biosphere can sustain.



Newly laid-off workers in
a Missouri unemployment line

The world has changed. We in America, however, cling desperately to memories of our role as the world's last superpower. We continue to embrace the myth that a growing economy will ultimately end poverty and heal the planet. We organize our lives around a crumbling and outmoded energy intensive infrastructure. We feed our addiction to levels of wasteful consumption the biosphere can no longer sustain with imported oil and products we no longer have the means to manufacture, financed by unpayable foreign debts that mortgage our children's future. Failing to create jobs to employ Americans to do useful work, we absorb the otherwise unemployed in an outsized military establishment and as prisoners and guards in overcrowded prisons. We reward Wall Street speculators with tax breaks and public bailouts while inner city communities struggle to survive at the margins of an economy that offers them no place or future.

We can recover. We can embrace the imperative to rebuild our infrastructure and economy as an opportunity to re-establish our role as a true world leader. We can create a 21st century America with an energy efficient 21st century green infrastructure and manufacturing base. We can renew the American Dream of a vibrant middle-class nation in which those who are willing to work hard and play by the rules can expect to have good jobs at a family wage with benefits, food on the table, good schools for their children, a comfortable home, and a secure retirement.

We can create a New Economy that secures the dream based on the efficient and sustainable use of our own resources without the burden of maintaining a massive military establishment to secure our access to the resources of other nations. We can simultaneously reduce our material consumption and increase our happiness and quality of life.

Success will require many changes. Among them is the redesign of the institutional systems by which money is created and allocated.

What is Money?

Money is essential to modern commerce as a medium of exchange. In earlier days, money took the form of material objects. As commerce grew, certificates redeemable in gold became popular. Most contemporary money is no more than a number stored on a computer hard drive and has value only because people agree to accept it in exchange for things of real value, like their labor.

The fact that most money is nothing but a number is not necessarily a problem, so long as we are clear that money itself has no intrinsic value and structure the money creation process to facilitate beneficial exchanges that build the real wealth of individuals, families, communities, and nature. The fact that money is only a system of accounting entries becomes a serious problem when the economy is managed to make the inflation of financial assets its defining purpose and a few individuals are allowed to game the system to enrich themselves free from the exertions of contributing to the production of real wealth.

MONEY AS A SYSTEM OF POWER

Most people know that the structure of political institutions determines whether political power is concentrated in the hands of an elite ruling class or is decentralized and distributed through democratic institutions accountable to the sovereign people. There is far less discussion and recognition of the fact that the structure of a society's financial institutions similarly determines whether economic power is centralized and concentrated or decentralized and distributed. Yet the allocation of financial power largely determines the allocation of political power. When financial power is highly concentrated, the ideal of a one person, one vote democracy is almost inevitably trumped by a one dollar, one vote plutocracy.

Most people use money every day and rarely think to ask: "What is money? Where does it come from? Who decides who gets it and for what purpose?"

Ask an economist "What is money?" and the answer will likely be, "A medium of exchange, a measure of worth, and a storehouse of value." Ask how it is determined who gets it and the answer will likely be, "the market." But given the current concentration of wealth in America, "the market" seems to be doing a very bad job of putting the money where it's needed.

Rarely, if ever, do we hear mention in the public discourse that money is simply an accounting entry of no intrinsic value—indeed no existence—outside the human mind. Nor do we hear mention that the illusion that money is wealth and that people who make money are creating wealth allows Wall Street to get away with operating the world's largest and most profitable con game.

Phantom Wealth

Phantom wealth is anything that has exchange value, but no intrinsic value. Money that exists only as a number on a computer hard drive is the prime example. It manifests in financial assets that appear or disappear as if by magic as a result of accounting entries, debt pyramids, and the inflation of asset bubbles unrelated to the creation of anything of real value or utility. The high-tech-stock and housing bubbles created phantom wealth in massive amounts.

Wall Street is highly proficient at creating phantom wealth. Indeed, it takes pride in its ability to inflate financial assets without bearing the burden of producing anything of real value.

Real Wealth

Real wealth has intrinsic value, as contrasted to mere exchange value. Life, not money, is the measure of real-wealth value. Examples include land, labor, knowledge, and physical infrastructure. The most valuable forms of real wealth are beyond price and are unavailable for market purchase. These include healthy, happy children, loving families, caring communities, and a beautiful, healthy, natural environment.

Wall Street has become very clever at combining financial games and creative accounting to inflate its own financial assets without the burden of producing anything of real value. It promotes public policies that depress wages to make money increasingly scarce for the people who produce real goods and services. It then lures the folks who do real work and are struggling to make ends meet into borrowing against their homes and credit cards, locking them into ever growing debt with hidden fees and usurious interest rates. Wall Street institutions thus acquire an ever growing portion of the money in circulation for their private accounts, thereby accumulating ever growing claims on society's real goods and services, and its material assets.

In a society in which access to most of the necessities of daily life depends on access to money, the money system becomes the equivalent of a computer's operating system. It determines how everything else functions. The institutions that control the creation and allocation of money shape the fate of nations, businesses large and small, and the boom and bust cycles of economic life. They determine who will live in opulence and who will face death by starvation. Where money flows, there will be jobs; where it doesn't flow, jobs will be in short supply and unemployment will be widespread.

The money system is not a given. It is a function of human-created design. It can be designed to operate as a transparent public utility that funds productive investments to the benefit of all and is democratically accountable to the people who depend on it to secure their livelihoods. Or it can be designed to facilitate the expropriation of society's real wealth by the system's most powerful players—at an unconscionable cost to people, community, and nature.

The existing Wall Street-controlled money system is a powerful example of the latter.

Markets Cannot Substitute for Caring

In modern societies, markets and money are important, but neither should rule our lives.

In the earliest human societies, money was unknown. People organized their lives around the relationships of family, clan, and tribe. They cared for one another and allocated resources to secure the well-being of all. Resource allocation decisions were local and based on the needs of the community.

Over several millennia, money gradually became a substitute for mutual caring as the foundation of the social, economic, and political fabric of society. This process accelerated during the latter half of the 20th century.

In contemporary 21st century westernized societies, most of us now organize our lives around earning, spending, borrowing, and saving money. Money is our ticket to food, shelter, transportation, education, recreation, health care, and nearly every other essential of daily life. This extreme dependence on money has sweeping implications for values and the distribution of power in society.

To restore social health this process must be reversed to reduce our dependence on money in favor of restoring caring relationships in the many critical aspects of our lives that best remain outside the market.

THE CASE FOR SYSTEM REDESIGN

This is not the first time we've seen the money system take down the economy. The financial collapse that brought the Great Depression of the 1930s was caused by an earlier version of much the same Wall Street excess that caused the crash of 2008. The Roosevelt administration replaced the phantom-wealth Wall Street system of that day with the real-wealth Main Street money system that financed the United States victory in World War II, produced an unprecedented period of economic stability and prosperity, made America the world's industrial powerhouse, and created the American middle class.

America prospered. Wall Street, however, bridled at the constraints on its power and profits and mobilized in the 1970s to roll back the reforms. Wall Street now refers to financial deregulation as "financial modernization." In the pursuit of short-term financial gain, Wall Street interests advanced a host of policy initiatives that led to the erosion of the middle class, an extreme concentration of wealth, a costly financial collapse, high rates of unemployment, bankruptcy, and housing foreclosures, accelerating environmental systems failure, and the hollowing out of U.S. industrial, technological, and research capacity. Wall Street profited all along the way and declared its social engineering experiment a great success.

Reforms aimed at merely reducing unproductive Wall Street risk-taking do not address the fact that we are experiencing a system failure like the failure of 1929. Ending the financial chicanery and creating a functional financial system responsive to 21st century reality requires a system restructuring comparable in scope to that of the Roosevelt era.

A Well-Functioning Money System

A well-functioning money system would direct money to where it connects underutilized resources with unmet needs to provide jobs for everyone seeking employment. In so doing, it would support a locally rooted New Economy [See appendix, "Navigating the Transition to a New Economy"] that aligns and integrates with the structure and dynamics of Earth's biosphere and self-organizes toward four system conditions:

1. **Ecological Balance**
2. **Equitable Distribution**
3. **Living Democracy**
4. **Financial stability**

This money system would:

• Make credit readily available at favorable rates in response to local needs and opportunities for productive investments that build real community assets and enhance community health and happiness.

• Support family-wage jobs with benefits that eliminate the need to borrow to support basic consumption needs.

• Fund needed public investment in physical, social, and environmental capital.

• Eliminate financial speculation, usury, and fraud.

• Recirculate money within bioregional economies.

• Manage the money supply to maintain full employment with minimal inflation.

The current official money system fails on every count.

Jimmy Stewart in "It's a Wonderful Life," about a small community building and loan that worked for the good of its depositors and the town

A Proven Model

The system of community banks, mutual savings and loans, and credit unions put in place as a result of the Great Depression is a system with proven capacity to perform the desired functions. It is a model still familiar to Americans who lived through the 1940s, '50s, and '60s. Its effectiveness is a matter of historical record.

Those years were not good for everyone—society was riddled with discrimination based on race, age, and gender. The discrimination continues to this day, with communities of color commonly targeted for predatory lending schemes. The community-based system proposed here is designed to support full and equal participation by everyone. This can be achieved through a combination of regulation and effective ownership participation in financial services institutions by members of excluded communities.

Banking laws put in place in response to the Great Depression strictly limited bank size, functions, and interest rates. The Glass-Steagall Act expanded the regulatory powers of the Federal Reserve, prohibited banks from trading in corporate securities to preclude their taking advantage of insider knowledge gained in their roles as lenders, and created the Federal Deposit Insurance Corporation to guarantee deposits in federally insured banks.

The Bank Holding Company Act of 1956 further rooted the money system in local economies by prohibiting a bank holding company headquartered in one state from acquiring a bank in another state and from engaging in non-banking activities or acquiring voting securities of non-bank companies. These rules maintained local market accountability by limiting the concentration of market power and limited unproductive risk taking by banks that enjoyed Federal guarantees and access to cheap credit from the Federal Reserve.

These restrictions supplemented the state laws that generally governed banks prior to the 1970s, and limited them to doing business within their home state as regulated public utilities providing basic banking services. Some states outlawed branch banking altogether and limited each bank to a single physical location.

Traditionally, local financial institutions made and held home mortgages with local savings. Since they and their depositors bore the risk of default, there was a strong incentive to assure that borrowers were credit worthy and that the mortgaged properties were sound.

This well-regulated, decentralized banking system provides a working model for the system we need to restore financial and economic integrity and prosperity.

To better understand the wisdom of the post-depression banking system, it is helpful to review where things went wrong over the last 40 years.

WALL STREET TAKEOVER

Erosion of the regulations that secured the system's integrity began in the 1970s with a Supreme Court decision that allowed banks to solicit customers across state lines and to charge whatever interest rates were allowed by the state in which the bank was physically located. This opened the way to charging interest rates considered usurious in the state in which a loan was made. The Depository Institutions Deregulation and Monetary Control Act of 1980 abolished caps on mortgage interest rate charges. The Alternative Mortgage Transactions Parity Act of 1982 opened the way to the adjustable rates, balloon payments, and interest-only loans that played a major role in the 2008 financial collapse.

The Wall Street-engineered system redesign shifted the focus of the money/banking/finance system from investment in real wealth creation to a focus on using money to make money through unproductive speculation, arbitrage, usury, deception, and market manipulation. As community banks were bought up and consolidated into larger regional and national banks, banks began to transfer mortgage lending risks to investors in bond markets through mechanisms that eliminated the incentive for them to assure the creditworthiness of borrowers.

The redesign process was driven in part by the ideology of market fundamentalism, which claimed, in effect, that anything that makes a profit for Wall Street benefits society and should be legal. By the distorted Wall Street reckoning, any government interference reduces public benefit.

The process was also driven by tax policies that tax capital gains at a lower rate than ordinary income. This disparity drove a number of changes. First, most corporations reduced or eliminated dividend payments, which are taxed as ordinary income, and self-financed growth with retained earnings to inflate share price—which produces capital gains. Corporations thus had less need to borrow.

Furthermore, when corporations did borrow, they found it cheaper to borrow from the bond market than from a bank. This shift cut sharply into the earnings of Wall Street banks. Yet financial institutions not subject to banking rules, such as hedge funds and private equity funds, were making eye-popping returns. Consequently the banks lobbied to free themselves from restrictions applied to them, but not to other financial institutions they viewed as their competitors.

Wall Street claims that the re-engineered financial system increased financial efficiency. From its perspective, it was more efficient because it increased profits and lowered borrowing costs for Wall Street corporations. But from the perspective of public benefit, it was highly inefficient. The costs of borrowing for small businesses, home buyers, and consumers increased. The system's priorities shifted from funding productive investment to financing speculation. Speculators profited and major Wall Street players swelled the ranks of Forbes magazine's list of billionaires. The real economy and the less wealthy bore the price.

A Bipartisan Project

The dismantling of regulatory safeguards began with the Democratic Carter administration. The Republican Reagan administration drove it forward as a defining ideological mission.

The Democratic Clinton administration later picked up from Reagan to dismantle the remaining constraints on Wall Street concentration and

excess. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 completed the removal of barriers to interstate banking and opened the door for cross-state mergers and acquisitions. The Financial Services Modernization Act of 1999, which effectively repealed Glass-Steagall, eliminated barriers to depository banks acquiring and engaging in insurance, investment banking, and brokerage functions. The actions of these three administrations unleashed the frenzy of speculative excesses that ultimately brought down the global economy in 2008.

The Wall Street-driven social engineering experiment in deregulation shifted the locus of financial power from Main Street to Wall Street, freed financial institutions from public accountability, redirected the focus of the financial system from funding production to funding speculation, and created what *Financial Times* chief economics commentator Martin Wolf described as a "financial doomsday machine."

At the Expense of Community Banking

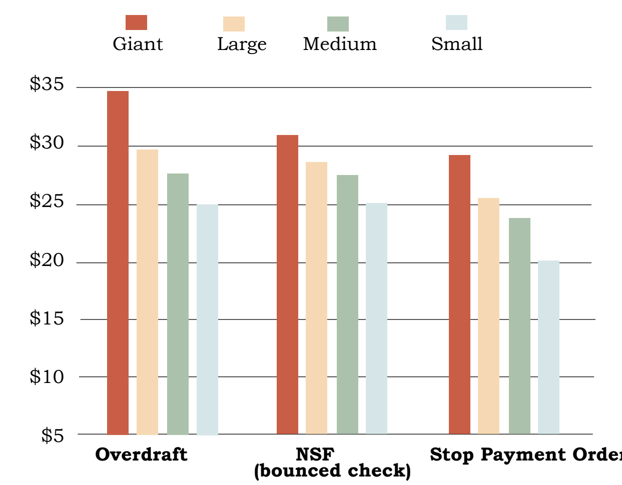
Stacy Mitchell, New Rules Project senior researcher, notes that since the onset of banking deregulation, more than half of the local banks with assets of $1 billion in assets or less have disappeared, with disastrous consequences for small community-oriented businesses. Small and mid-sized banks now control only 22 percent of all bank assets but account for 54 percent of small-business lending. The country's largest 20 banks control 57 percent of bank assets, but only 18 percent of their commercial loan portfolios fund small businesses. Locally owned banks and credit unions offer the same banking services at lower costs and with less systemic risk. See chart "Average Fees by Size."

Editorial cartoon by Polyp.org.uk

According to Mitchell, in 1994 the five largest U.S. banks held only 12 percent of total U.S. deposits. Fifteen years later, in 2009, they held nearly 40 percent. The current cap on bank size would allow as few as ten banks to control the entire U.S. banking system.

New Rules Projects
Community Banking Initiative

Average Fees by Size of Financial Institution in 2009



Source: Moebs Services
Notes: Data includes banks, thrifts, and credit unions. Small institutions are defined as those with $100 million in assets or less. Medium are those between $100 million and $1 billion in assets. Large institutions are $1 billion to $50 billion in assets, and giant ones have more than $50 billion.

Subsidies for a Doomsday Machine

Editorial cartoon by Ingram Pinn for the Financial Times

The Wall Street takeover has created a little-noted anomaly. Public support and oversight programs for the banking sector, including deposit insurance, mortgage guarantees, and liquidity support, were put in place to support a system of independent local banks that functioned as a well-regulated public utility to provide essential financial services to local real-wealth economies. It was a sensible and effective public-private partnership.

However, these once-sensible government programs now guarantee and subsidize loosely regulated too-big-to-fail private banks that finance speculation, financial bubbles, predatory lending, asset stripping, and investment fraud—activities that government should be regulating and taxing out of existence. The result is the financial doomsday machine that drives toward ever more risky and unproductive financial excess—and will continue to do so until either it is restructured, or government's financial capacity is exhausted and the entire financial system goes into terminal, unrecoverable collapse.

"If necessary, I can be ethical. Fortunately, it hasn't come to that."

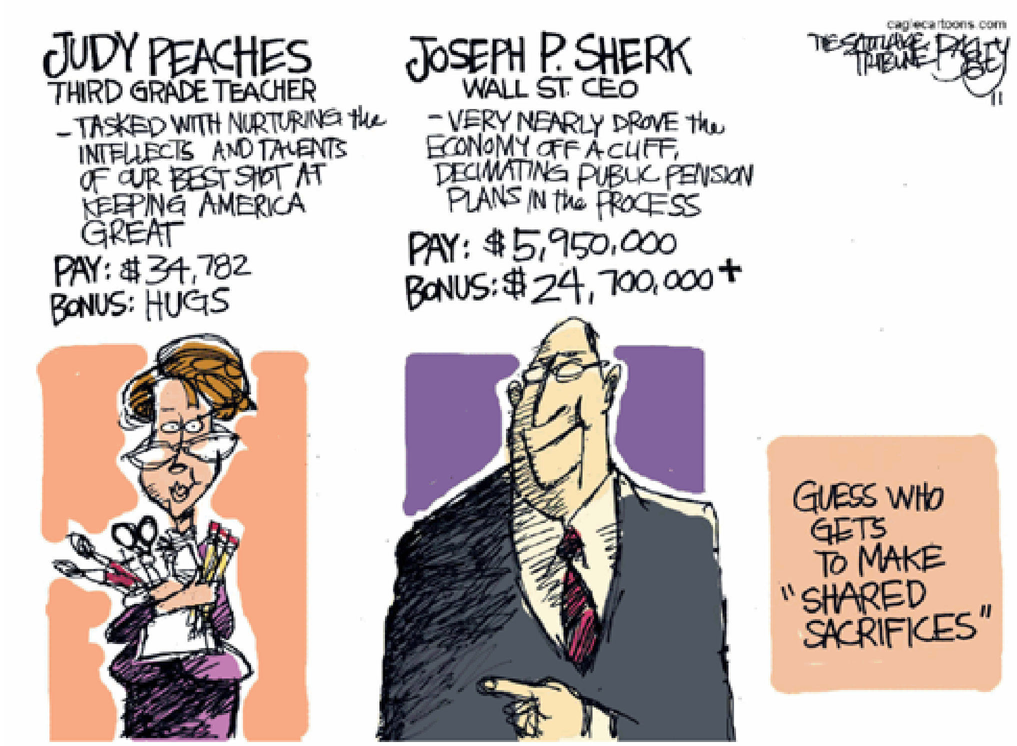
Editorial cartoon by Eric and Bill Teitelbaum for Tribune Media Services

MORAL FAILURE

The Wall Street crash revealed a systemic pattern of extreme greed, deception, and disregard for any consequence other than personal financial gain. With the continued absence of adequate regulatory oversight, the deception and fraud continue at great cost to hard-working Americans who are trying to play by the rules.

For example, there have been persistent reports of banks foreclosing on properties without proper documentation. Paul Krugman reports that more recently, investigations by state attorneys general have uncovered a persistent practice of banks approaching owners of homes scheduled for foreclosure with bogus offers of mortgage modification they have no intention of actually approving. It is a tactic used to extract additional payments and fees from the borrowers to drain them dry financially before ultimately kicking them out of their homes.

The crash also revealed the extent to which the Wall Street system created perverse incentives for top management to make decisions that generated risk-free gains for themselves by shifting risks to others—including their own shareholders. See the inset, "Shareholders Beware!"



Editorial cartoon by Pat Bagley for the Salt Lake Tribune

Blaming the Victim

Adding insult to injury, Wall Street interests have sponsored well-funded campaigns to convince the public that government fiscal crises created by the financial crash, the subsequent bank bailouts, and tax breaks for people with incomes over $250,000 are actually due to "greedy" teachers, police, firefighters, and public unions rather than greedy bankers.

Bad Science

Wall Street's guiding market fundamentalist ideology rests on the empirically, logically, and ethically flawed premise that society does best when each individual and enterprise seeks to maximize financial return without regard to the consequences for other people, the health of society, or the biosphere. This elevates greed, long considered a deadly sin, to the status of a moral imperative and legitimates a system that attracts and promotes to top management positions sociopathic personalities who feel comfortable with the system's perverse moral code. The system in turn affirms their psychological disability and rewards it as an asset.

The financial instability, environmental destruction, extreme inequality, and political corruption created by Wall Street's experiment in market fundamentalism should have put this logical and moral perversion to rest long ago. The healthy function of society depends on individuals acting with integrity and accepting responsibility for the consequences of their actions. This is a foundational moral teaching of every major faith tradition and is within the means of every morally and psychologically mature adult to uphold. It is the standard to which we should all be held, including corporations and their managers.

Flawed Legal Doctrine

In *The Failure of Corporate Law*, (pp. 73-74) Professor Kent Greenfield of Boston College observes that the law normalizes, and even defends, corporate law breaking. He summarizes the recommendation of widely quoted legal scholars Fran Easterbrook and Daniel Fischel that "corporations should, with some exceptions, seek to maximize profits even when they must break the law to do so… . As long as the expected penalties from illegality are less than the expected profits, the corporation should act illegally." According to Professor Greenfield "there is not a single contemporary example of a court finding that managers breached their fiduciary duty by causing a firm to break the law when it was profitable to do so."

Such perverse legal interpretations affirm the inclinations of the unscrupulous and give them moral and legal cover as they subvert justice and democracy by avoiding prosecution for a negotiated fee and buy legislation to make their crimes legal. It works well for the ethically challenged for whom personal profit is the operant ethical standard. It is obviously a disaster for society.

A perverse legal doctrine may absolve individual corporate managers of legal responsibility for their actions; it does not absolve them from their personal moral responsibility.

✓ **Shareholders Beware!**

Corporate CEOs are often criticized for neglecting all interests other than those of their shareholders. Those were the good old days. Corporate governance expert Robert A. G. Monks explains how the structure of the incentive programs of top Wall Street bank managers now leads them to place both shareholders and the public at risk to maximize their personal financial gain.

Compensation plans for top corporate managers are designed, in theory, to reward them for maximizing shareholder returns. To this end, executive bonuses are commonly tied to achieving a target increase in the percentage return on equity. As noted in a report of the federal Financial Crisis Inquiry Commission,

"One way a firm can boost its return on equity is to buy back some of its own stock; this reduces the size of its [equity] capital and means that its earnings get spread over a smaller base. Another option is to increase its leverage, or borrowing."

Buying back shares reduces the number of shares in the market, thereby increasing earnings per share and driving up the share price. To maintain its total capital base, however, the firm needs to increase borrowing, which essentially means trading equity for debt. The combination increases leverage, i.e., the debt-to-equity ratio, and thereby increases the firm's risk of default if markets turn down.

Pervasive across Wall Street prior to the crash, this pattern of system gaming by top managers explains why Wall Street firms were so heavily overleveraged and had no cushion when the market turned down. Some managers also took a hit, but most walked away with personal fortunes. Shareholders, taxpayers, unemployed workers, and foreclosed homeowners were left to absorb the losses when the bubble bust.

The Purpose of Business

From a societal perspective the primary reason for any business to exist is to serve its community by providing useful goods and services and fulfilling, living-wage employment. A fair profit is a means to financial viability and a reward for saving and risk taking.

There is, however, an important difference between a fair profit and maximum profit. To make profit the defining purpose of the enterprises is to convert a means to an end.

This distinction is particularly important for banks and other financial services institutions. Their power to determine who gets access to credit and who does not is easily abused. Financial services are as essential to the health and well-being of a modern community as is the provision of water and electricity. It is essential that they all be managed responsibly in the public interest.

The ownership structure of financial institutions plays a critical role in creating internal incentive structures that can support either destructive or responsible behavior.

Michael Lewis, a former trader at Salomon Brothers, once a prestigious Wall Street investment bank, observes that when Salomon Brothers converted from a private partnership into a public corporation in 1981, the partners "made a quick killing and transferred the ultimate financial risk from themselves to their shareholders." This inspired a wave of such conversions, unleashing excessive risk taking and helped set the stage for the 2008 financial crash. Lewis notes in *The Big Short*,

No investment bank owned by its employees would have leveraged itself 35:1, or bought and held $50 billion in mezzanine CDOs [a high-risk category of collateralized debt obligation]. I doubt any partnership would have sought to game the rating agencies, or leapt into bed with loan sharks, or even allowed mezzanine CDOs to be sold to its customers. The short-term expected gain would not have justified the long-term expected loss. (pp. 258-259)

When institutional structures incentivize immoral behavior, they cultivate a culture of excess and irresponsibility not just as a norm, but even an ideal. Many Wall Street employees come to their jobs with high personal moral standards, but the pressure put on them to set aside their personal values by the perverse incentives and culture of Wall Street's defective institutional design is enormous.

Cooperative or local public ownership makes a clear link between the rights and power of ownership and the broader public interest. Local

Dilemma of the Aspiring Philanthropist

Many wealthy individuals are donating substantial portions of their fortunes to organizations working to advance economic justice and environmental sustainability. Few are aware that the problems their philanthropy addresses are caused by the same institutions through which they build their fortunes.

Some young people take this as a model and choose conventional Wall Street careers as a way to build a personal fortune for the purpose of later funding beneficial philanthropies. They might consider instead devoting their careers to developing and serving ethical businesses that create real value and contribute to eliminating the systemic causes of injustice and environmental destruction.

businesses owned by individuals who recognize their responsibility to the community in which they live and work also make that connection. The link is broken, however, when ownership shares are publicly traded in distant financial markets and subject to speculation by "owners" who have no personal connection to the enterprise or to the community it serves.

MONEY SYSTEM DESIGN

Our common future depends on redesigning the money/banking system to:

1. Shift the locus of control over money creation and allocation from Wall Street to Main Street.

2. Assure public accountability and instill a culture of service and moral responsibility.

3. Direct the flow of money to productive real-wealth Main Street investments that create family wage jobs and produce essential goods and services in response to the self-defined needs of people and community.

4. Harness the Federal Reserve's money creation powers to finance investment in essential public goods rather than to fuel Wall Street financial bubbles.

The measures proposed here will likely draw criticism from market fundamentalists, who express alarm at any restraint on Wall Street power, but they will in fact serve to restore responsible market discipline.

Basic Market Principles

Wall Street presents itself as the champion of democracy and market capitalism. It in fact represents a concentration of economic and political power that is both anti-democratic and anti-market. The antidote for Wall Street's distorted values and abuse of power is a system that aligns with four basic market principles.

1. Size

It is common sense that no bank should be too big to fail. More to the point, no bank should be too big to be held accountable by the place-based community it serves. The market ideal is a condition of perfect competition among numerous small enterprises that function within a framework of community values and compete for consumer favor and community support based on price and service. Competition among numerous community-based financial institutions offering essential banking services would subject them all to positive market discipline and eliminate the risk that the failure of an individual institution would seriously damage even the local economy, let alone the entire global economy.

2. Ownership

When ownership is rooted in the community of place in which a local financial institution is located, owners have a natural stake in assuring that management decisions reflect the financial, social, and environmental interests of the community rather than the financial interests of anonymous absentee owners. There are many appropriate models, as discussed below.

3. Transparency

A foundational principle of market economics specifies that markets work best when both buyer and seller act with full information. Democracy also requires that decisions bearing on the public interest be open to public view and that voters be fully and accurately informed. Given that the flow of money determines the flow of power in modern society, democracy requires that the financial system be transparent at every level from the Federal Reserve to local community banks and credit unions. Secrecy creates a barrier to essential public scrutiny and invites corruption and insider dealing contrary to the public interest.

4. Regulation

Markets need rules to maintain the conditions of efficient market function. No firm can be allowed to acquire monopoly power. Full costs must be internalized in market prices. Decision makers must be legally accountable for the harms they do. Decision making bearing on the public interest must be open to public scrutiny. Setting and enforcing appropriate rules through transparent and publicly accountable political processes is an essential governmental function.

These are all well-tested, common-sense principles much like those implemented in the design of the financial system that once made the U.S. economy the envy of the world. As a general rule, the more the power to create money is decentralized, equitably distributed, transparent, focused on productive investment, and subject to clear and appropriate market rules, the greater the level of public accountability, the less the potential for abuse, and the less the need for government oversight to assure system stability and integrity.

Money Creation in the Current System

Under our current money system, the Federal Reserve is responsible for managing the money supply and has a variety of tools for expanding and contracting it. The tool of immediate relevance to this discussion is the Fed's ability to create new money with a simple accounting entry and then put that money into circulation by extending credit to member banks or buying treasury bonds or other public or private securities. This money then becomes available to the banking system to lend to borrowers.

By the rules of fractional reserve banking, a bank must maintain an amount in reserve equal to a set percentage of its deposits. Assuming a 10 percent reserve requirement, the new money introduced into the system by the Federal Reserve allows the banking system to expand the

✓ **Money Without Growth**

Critics of the bank-credit money system commonly observe that the demand to repay newly created bank-credit money with interest creates an artificial imperative for the economy to grow simply to generate demand for new debt to create the money required to pay the interest due on prior debt and prevent systemic default. This is an accurate criticism of a Wall Street money system controlled by a privileged class of financiers who in effect rent the money supply to the rest of the society.

The problem, however, is not inherent in interest. It is inherent in the division of society between a financial oligarchy that lives from returns on money and those who must borrow to make ends meet. A system of cooperatively owned financial institutions that allow members to rotate between borrower and lender roles and to essentially pay interest to themselves does not create an aggregate growth imperative. Nor does it lead to an inevitable concentration of wealth.

Farmers Market, Madison, Wisconsin.
Photo by Mingfong Jan

money supply by 10 times as credit flows from one bank as a loan to another as a deposit. The reality is more complex, but for current purposes we will assume that each new dollar introduced into the banking system by the Fed eventually multiplies to $10 of new credit circulating through the economy.

This arrangement can work to the benefit of the society; if the banking system directs the money it creates into the real-wealth economy to fund productive investment and exchange.

When, however, this power is monopolized by a financial oligarchy solely for self-enrichment, it becomes a form of theft, the ultimate instrument of tyranny, and an intolerable and unsustainable burden on society.

In her forthcoming book tentatively titled *Private Ownership for the Common Good*, Marjorie Kelly, author of *The Divine Right of Capital*, makes a crucial distinction between generative and extractive economic systems and investments. A Main Street banking system that serves and is accountable to a community of place for funding productive investment is an example of a generative system. A Wall Street banking system controlled by an unaccountable financial oligarchy devoted solely to maximizing financial returns for its exclusive benefit is an example of an extractive system. The purpose of the following agenda is to replace the extractive Wall Street money system we have with the generative Main Street money system on which a prosperous national and human future depend.

AGENDA FOR A MAIN STREET MONEY SYSTEM

Most financial reform proposals focus on regulatory measures intended to limit the damage caused by the current system. Such measures are necessary, but inadequate.

To create economic health, the banking system must be restructured to direct the focus away from extractive finance—the predatory expropriation of real wealth—to generative finance that expands the pie of real wealth to the benefit of all within the limits of healthy biosystem function.

The desired transition will require a sustained and orderly process of rebuilding the money/banking system from the bottom up as a well-regulated community-accountable public utility. Necessary measures include restoring tax and regulatory rules that 1) restrict bank size, 2) limit public guarantees and subsidies to financial institutions engaged exclusively in performing basic banking functions, and 3) render extractive finance illegal and/or unprofitable.

The following are some specific proposals suggestive of the possibilities, working up from the community to the global level.

1

Rebuild a National System of Community-Based and Accountable Financial Institutions

The well-regulated system of locally rooted and accountable financial institutions that we had prior to the 1970s provides a reasonable first approximation of the system we must now create. Local financial institutions provide the communities they serve with a capacity to mobilize otherwise idle productive resources in response to local needs and opportunities. Fortunately, we still have remnants of this system on which to rebuild.

The New Rules Project reports that the United States still has about 8,000 credit unions and more than 7,600 community banks ($1 billion in assets or less). Partly as a result of the success of the "Move Your Money" campaign, which encourages people to transfer their bank accounts to local financial institutions, credit unions are thriving and experiencing a major expansion in deposits and lending.

Local financial institutions can be just as customer unfriendly, discriminatory, and predatory as any Wall Street bank, but they are more likely to define themselves as service providers to the communities in which they are located. They too need regulations that discourage socially damaging behavior. A select few are experimenting with innovative ownership structures that support a strong community-service, social-mission orientation. These include a number of inspiring examples of institutions committed to serving communities of color and other groups that the banking industry has historically underserved or targeted for exploitation.

As a group, these smaller community-based financial institutions provide a foundation on which to rebuild a system of community-oriented, real-wealth financial services institutions that operate within a strong regulatory framework as transparent public utilities.

There are opportunities to achieve real economies of scale and the benefits of risk diversification without absorbing or driving out competitors or losing accountability to the communities served. We might begin with the rule of thumb that for-profit community banks with conventional private ownership should be limited to $1 billion in assets.

A larger limit may be appropriate for banks with cooperative ownership structures—for example credit unions and mutual savings and loans—that firmly link them to the interests of the places in which they do business. There might also be exceptions for for-profit financial institutions owned by nonprofit foundations that reinvest profits in the community either through expanded lending or grants to community organizations. The inset "Financial Innovators for a 21st Century America" describes some promising experiments.

The financial innovations that will build a 21st Century America are found on Main Street, not Wall Street, and center on creating a system of Community Development Financial Institutions (CDFIs), also known as Community Development Banks, that give priority to building and sharing community wealth. These are privately held, federally insured for-profit banks and thrift institutions supported by socially motivated investors who believe that financial institutions should put community service ahead of maximizing profits, and who accept a less than market return for the satisfaction of putting their personal and institutional wealth to work building a future they can be proud to leave to their children.

CDFIs finance affordable housing, small businesses, community facilities, consumers, and mixed use and commercial real estate in low income communities. They also support the development and application of green technologies.

The basic standards of integrity and community service to which CDFIs are held are properly applied to all financial services institutions in a moral economy, including those serving more affluent communities.

According to the Social Investment Forum, the combined assets of community development banks, community development credit unions, community development loan funds, and community development venture capital funds increased from $5 billion in assets in 1999 to $41.7 billion in 2010. The Forum calls "community investing…the unsung hero in thousands of towns and neighborhoods across America, where it quietly has added jobs, local services, and support for small businesses where traditional lenders have been unable or unwilling to do so."

The following actions are recommended at the federal level to break up concentrations of financial power and restore and support a system of Main Street financial institutions as the foundation of America's 21st Century Banking System:

▶ **Implement strict anti-trust enforcement to restore market competition and assure that no bank is too big to fail or to be held accountable to market forces and democratic public oversight.**

▶ **Scale bank taxes, fees, equity and reserve requirements, and all public subsidies and guarantees for the banking sector to favor smaller community banks over larger Wall Street banks. Introduce a graduated financial assets tax on banks with more than $10 billion in assets to motivate the voluntary breakup of large banks and the deconcentration of the banking system.**

▶ **Strengthen and expand the community reinvestment act that requires banks to meet a minimum standard for reinvesting in the communities in which they are located, recognizing that this should be the primary purpose of any state or federally chartered bank.**

▶ **Create a Cooperative Community Banking Institute to provide technical support to groups interested in establishing member-owned financial services and to manage the restructuring of banks closed by the FDIC to break them up and convert them to cooperative community financial institutions. Give particular priority to previously underserved communities.**

▶ **Instruct the FDIC that when it takes over a failed bank, rather than facilitating the merger into a larger competitor bank, it will turn the failed bank over to the Cooperative Community Banking Institute to restructure and reorganize.**

▶ **Implement an updated version of Glass-Steagall to prohibit banks from trading in, creating a market for, brokering, or financing the purchase of securities, and holding securities for their own account other than federally guaranteed U.S. Treasuries.**

▶ **Close the tax loopholes that allow profitable Wall Street banks to avoid U.S. taxes. All banks that operate in the United States should be chartered and pay taxes in the United States on all profits properly attributable to U.S. operations.**

Main Street Financial Innovators

We need to look to Main Street for examples of the kinds of financial innovation required to secure America's future. Here are four examples of community banks that are pioneering unconventional community service models of ownership and governance.

The Bremer Bank, featured in David Brancaccio's PBS documentary "Fixing the Future," is owned 90 percent by a nonprofit foundation that returns all profits to the community. The bank's employees own the other 10 percent. The Bremer Bank operates in Minnesota, North Dakota, and Wisconsin, manages $8 billion in assets, and specializes in serving the financial needs of local farms and businesses.

One PacificCoast Bank was founded as OneCalifornia Bank to serve low-income communities. Financier Tom Steyer and his wife, Kat Taylor, made an initial philanthropic investment of $22.5 million to create the nonprofit One PacificCoast Foundation. The foundation maintains control of the bank's mission focus as the legal owner, receives all financial benefits, and engages in charitable and educational grant making in support of the bank's social goals. In 2010, OneCalifornia Bank acquired ShoreBank Pacific, which specialized in providing loans for local businesses engaged in the restoration and sustainable management of environmental resources. The combined banks now operate as One PacificCoast Bank.

Southern Bancorp, with over a billion dollars in assets, is one of America's largest and most profitable development banks. It is a for-profit bank, but with unusual restrictions on ownership participation. Most of its shareholders are foundations and corporations that invested with an expectation of social rather than financial returns; most of them have no rights to receive dividends, share in profits, sell their shares, or convert the bank to a conventional for-profit model. The board oversees a family of companies that includes traditional community banks and 501(c)(3) nonprofit organizations. Their mission is to achieve over the course of 20 years three transformational goals for the communities they serve in Arkansas and Mississippi: 1) reduce the poverty rate by 50 percent; 2) reduce the unemployment rate by 50 percent; and 3) improve high school graduation rates by 50 percent.

Southern Bancorp offers a full range of banking services to the poor, including checking accounts, credit cards, check cashing, small consumer loans, and several nontraditional financial services such as matched savings accounts and free tax preparation. The banking operations are profitable, but profits go either to increase the capital base to support expansion of the lending programs or recirculate back to the poorest elements of the community as banking services or philanthropy. Foundations, corporations, and high net-worth individuals participate financially through grants, loans, and financially unremunerated ownership shares.

The Enterprise Cleveland Group (ECG) is an Ohio tax-exempt nonprofit CDFI that assists the growth of small businesses through loan capital and rigorous technical assistance. It manages the Enterprise Growth Fund and helped incubate the Evergreen Cooperative Development Fund (The Fund), which expects to become an independent CDFI within the next year. The fund was established by the Cleveland Foundation, the nation's first community development foundation, working in partnership with the Democracy Collaborative at the University of Maryland and the Ohio Employee Ownership Center. Together, these groups have launched a growing network of employee-owned businesses that build community wealth and provide employment for Cleveland's low income communities. The employee-owned companies are in turn committed contractually to dedicate at least 10% of their profits to seeding new investments as co-investors in the Fund. The Fund also raises investment funds from institutions, foundations, government programs, and individuals in the form of grants and socially responsible investment funds.

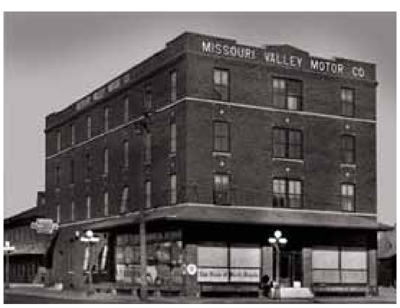
2

Create a State Partnership Bank in Each of the 50 States

State governments can play a major role in keeping money circulating within the state to fund productive investments that create jobs and strengthen state revenues rather than flowing to Wall Street to fund derivatives, currency speculation, and financial bubbles.

The Bank of North Dakota (BND), which was established in 1919 to promote agriculture, commerce, and industry in North Dakota, has played an important and fascinating role in the state's history. It is the country's only state-owned bank and now serves as a model for state partnership bank initiatives in other states.

The BND is 100 percent owned by the State of North Dakota, and its officers are appointed by and are employees of the state. It conducts its business solely in the public interest in partnership with the state's local private banks. Its deposits are primarily interest-bearing accounts of the state and its political subdivisions. Deposits are guaranteed by the full faith and credit of the State of North Dakota.



1920, BND's first home

Bank of North Dakota's current home

By statute all North Dakota State funds, including funds of state penal, educational, and industrial institutions must be deposited in the BND. The BND accepts additional deposits from all sources ranging from individual private citizens to the U.S. government. It has only one physical location, however, and makes no attempt to compete with the retail banking arms of other North Dakota banks. Less than 2 percent of its deposits are from private citizens. It funds residential mortgages and student, commercial, and agricultural loans and has a special program for business startups.

Most loans in which the BND participates are initiated by one of the state's private banks, which then seek BND participation to keep down interest rates and give them the capacity to expand their lending in support of community economies in North Dakota. The BND is a major reason why the State of North Dakota has more local banks per capita and a lower default rate than any other U.S. state. It also explains why its community banks were relatively unscathed by the Wall Street credit crisis.

As awareness of North Dakota's experience has spread, partly due to the writings of Ellen Brown, interest has grown in applying this model in other states. As of March 2011, state partnership bank legislation had been introduced in eight states: Maryland, Oregon, Hawaii, Washington, Illinois, Louisiana, Massachusetts, and Virginia, with the support of the Public Banking Institute and the Center for State Innovation. See the Spring 2011 Legislative Guide to Public Banking in America. Additional state bank legislative initiatives are in the works in Maine and California.

Based on the BND experience, proponents of state partnership banks cite four major public benefits:

1. Support local job creation by increasing access to capital for businesses and farms within the state in partnership with

local financial institutions.

2. Provide stability to the local financial sector and reduce defaults and foreclosures without competing with community banks, credit unions, or other financial institutions.

3. Reduce the state's cost for basic banking services.

4. Contribute to funding governmental operations with a portion of the bank's earnings.

It is recommended that the state governments of each of the 49 state governments that do not yet have a state partnership bank:

▶ **Establish a state partnership bank modeled on the Bank of North Dakota with a mandate to partner with community financial institutions in funding private and public initiatives that build strong local economies, rebuild local food systems, advance conversion to green energy, and create the energy efficient infrastructure essential to a 21st century economy.**

3

Restructure the Federal Reserve to Limit its Function to Money Supply Management and Subject it to Federal Oversight and Public Accountability

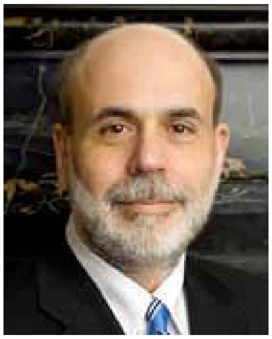
A central bank responsible for money supply management is essential to any modern economy. The U.S. Federal Reserve fulfills this function for the United States. It has the power to create money by the trillions of dollars with a few computer key strokes and direct those dollars to the beneficiaries of its choosing. Under current rules, it does so with no public accounting or oversight. It considers its primary mandate to be assuring the solvency and profitability of Wall Street's megabanks. It is a badly misplaced priority given that these banks are managed to maximize the compensation packages of their top managers, who acknowledge no obligation or commitment to serving the interests of

William Greider: Man with a plan for a transparent and accountable Federal Reserve

the United States and its citizens.

In an August 3, 2009, *The Nation* article, "Dismantling the Temple," William Greider, author of *Secrets of the Temple* and a leading Fed expert and critic, called the Federal Reserve "the black hole of our democracy—the crucial contradiction that keeps the people and their representatives from having any voice in these most important public policies... [Its] power depends crucially upon the people not knowing exactly what it does."

The Federal Reserve bears major responsibility for the 2008 financial collapse. Its former chairman, Alan Greenspan, was an ardent proponent of market fundamentalism and architect of the policies that unleashed and financed Wall Street excesses. Under his leadership, the Fed failed to enforce established regulations and largely ignored the needs of community banks, while violating his own "free market" principles by providing subsidies and implicit guarantees



Ben Bernanke, Federal Reserve Chairman: Creates trillions of dollars with a keystroke to spend as he chooses with no public accounting or oversight

Alan Greenspan, Former Federal Reserve Chairman: Ardent market fundamentalist and admirer of Ayn Rand

for Wall Street megabanks. When the crash came, the Fed, by then under Ben Bernanke, stepped in to shield Wall Street banks from the consequences of their reckless decisions.

There is an essential need for a transparent and publicly accountable national central bank with a substantial degree of political independence to manage the money supply and oversee banking functions.

The following recommendations are adapted from a proposal spelled out by Greider in "Dismantling the Temple":

▶ Reorganize the Federal Reserve to function as a true independent federal agency subject to strict standards of transparency, public scrutiny, audit by the General Accounting Office, and Congressional oversight. As is currently the case, it would function under a board of governors appointed by the president and confirmed by Congress and be responsible for managing the national money supply to maintain full employment and the value of the currency.

▶ Relieve the Fed of its regulatory function and assign responsibility for regulating commercial banks, as well as the "shadow banking system" of hedge funds, private equity firms, and others, to a new regulatory agency established for this specific purpose.

▶ Instruct the restructured Federal Reserve that when it identifies a need to expand the money supply, rather than directing newly created money to Wall Street banks, the funds will be transferred to the account of a newly created Federal Recovery and Reconstruction Bank as recommended below.

▶ Establish a special committee on monetary policy in each house of the Congress staffed by elected members expected to acquire expertise in monetary policy. Consistent with the Constitutional prescription that "The Congress shall have the power to coin money [and] regulate the value thereof," these committees will regularly review Fed action, consult with the Fed on monetary policy, and put forward proposals for Congressional action to command new Fed policy directions as they deem appropriate.

▶ Establish a nonpartisan professionally staffed Congressional Monetary Policy Office similar to the existing nonpartisan Congressional Budget Office to advise the Congressional committees responsible for monetary policy oversight.

▶ Establish a diverse and rotating Monetary Council of Elders to publicly challenge monetary policy decisions of both the Fed and the Congress to assure that monetary policy options receive full public airing. The Council would be comprised of experienced, preferably retired, leaders whose thinking is no longer defined by party politics, personal ambitions, or institutional roles. They would be appointed by the President, with Congressional confirmation.

4

Create a Federal Recovery and Reconstruction Bank

William Greider proposed the creation of a Federal Recovery and Reconstruction Bank (FRRB) in a December 6, 2010, article in *The Nation,* "Will the Federal Reserve's $900 Billion Revive a Stalled Economy?" The logic of Greider's proposal is clear and simple. The Fed now flows new money into the banking system at the top through Wall Street megabanks in the hope they will choose to use it to expand the availability of credit to the real-wealth Main Street economy. Instead, Greider suggests, inject the new money directly into the productive economy through a special institutional mechanism created to finance essential green infrastructure under provisions that favor local contractors and suppliers who hire local workers and procure locally.

The money so spent would flow directly to construction workers and to local contractors and suppliers as local wages and profits. The recipients would use the money to make mortgage payments, put food on the table, pay off credit card debt, meet payroll, and pay taxes. New tax revenues would flow into governments to fund public programs, and new deposits would flow into the banking system at the bottom rather than the top. As the banking system itself is restructured and the public is educated in the benefits of local banking, this money can flow increasingly to community financial institutions that will reinvest it in the community.

Investing new money in productive infrastructure in a down economy with large-scale unemployment and unutilized productive capacity is not inflationary and need not add a penny to the federal deficit or to the burden on taxpayers. If only $3 to $4 trillion of the $12 trillion in keystroke money created by the Federal Reserve following the 2008 crisis had been directed to building an energy efficient green physical infrastructure, we would now have a booming national economy and be on our way to securing the future of America's children.

As proposed by Greider, the FRRB could be created by an act of Congress and given an initial list of well-defined projects and appropriations to be funded with interest-free-in-perpetuity performance bonds issued by the Federal Reserve. The FRRB would be required to repay

✓ **Will corporations or nations be the instrument through which We the People exercise our sovereign powers?**

Responsibility for controlling and allocating the wealth of the biosphere can reside with governments or corporations, but not both.

Global corporations are devoted to monopolizing control of markets, resources, technology, money, and jobs for the financial benefit of their top managers and wealthiest owners. National governments are responsible for the well-being of everyone who resides within their borders and most are legally accountable to their citizens.

Corporations are creations of governments and thereby of the people. They enjoy no natural right beyond what the people may choose to grant them.

An unregulated corporation is like an uncontrolled cancer that seeks unlimited growth without regard to the consequences for the body on which its own existence depends. It can be a useful servant, but it is a poor master.

the Federal Reserve only if it failed to deliver on the promised projects. The agreements and transactions would be wholly transparent and subject to Congressional and public oversight to assure accountability. The approved project lists and related appropriations would be updated by Congress as appropriate.

We recommend that the federal government:

▶ **Create a Federal Recovery and Reconstruction Bank to fund green public infrastructure projects authorized by Congress and financed by the sale of interest free performance bonds to the Federal Reserve.**

5

Rewrite International Trade and Investment Rules to Secure National Ownership, Self-Reliance, and Self-Determination

The current rules of the global economy give priority to the interests, rights, and power of global corporations over the interests, rights, and power of people and the governments responsible for their well-being. Money is free to go wherever it finds an opportunity for return, no matter what the costs to the countries and peoples involved. People and nations are pitted against one another in a global competition for the favor of those who control access to money.

The gap between the profligate and the desperate grows ever wider. Countries, corporations, and individuals with the largest numbers in their bank accounts span the world to buy up the world's increasingly scarce land, water, energy, and mineral resources. Global corporations avoid paying taxes in the countries from which they extract their largest profits through creative accounting that transfers their profits to offshore tax havens.

The poor are left with decreasing options as the price of basic subsistence rises ever further out of reach. By the rules currently in place, national governments are prohibited from interfering, even though the security and well-being of their own people are placed at extreme risk.

Our common future depends on global cooperation among the world's people and governments to create economies that assure every child of every nation the chance for a prosperous, secure, and meaningful future irrespective of nationality, race, or religion. This requires new rules that put the rights and interests of people ahead of the power and profits of corporations, favor a democratic distribution of power, support positive life-values of cooperation and sharing, and limit the ability of the richest among us to roam the globe expropriating what remains of the world's diminishing resource base for their exclusive private benefit.

The basic framework is neatly summarized by legendary economist John Maynard Keynes in a 1933 article in the *Yale Review*.

> *I sympathize, therefore, with those who would minimize, rather than with those who would maximize, economic entanglement among nations. Ideas, knowledge, science, hospitality, travel—these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible, and, above all,* ***let finance be primarily national****... [Emphasis added.]*

This framework is consistent with the market principles outlined by Adam Smith and the trade theory framed by David Ricardo.

In defiance of logic and experience, market fundamentalists argue that the unrestricted free flow of goods and money across national borders produces maximum economic benefit for all players. Their claim is based on the theory of comparative advantage, which says that trade is mutually beneficial when certain essential criti-

Editorial cartoon by RJ Matson for the St. Louis Post-Dispatch

cal conditions are met.

Market fundamentalists conveniently ignore the conditions: Each of the trading partner countries must be largely self-reliant in meeting its own needs, trade only its surplus with its neighbors, keep exports and imports in balance, and keep capital [ownership] national. This means that trade is mutually beneficial when each country is living within its own means and its productive assets are owned its own citizens. When the necessary conditions are met, there is no international debt and there are no international capital markets or flows.

The borderless global economy favored by market fundamentalists fulfills none of these conditions and, far from being beneficial to all, primarily benefits the economy's most powerful players who, by the removal of the restrictions of rules and borders, are free to consolidate their control over the world's real wealth as they wish for exclusive private benefit.

Furthermore, the current highly specialized and interdependent global economy, with its emphasis on local specialization and long, vulnerable, energy-intensive supply lines, is inherently unstable. There is extreme and unnecessarily high risk of global system disruption as a consequence of a local disaster, such as the earthquake and tsunami that caused the Fukushima nuclear meltdown.

The interlinked obligations of complex financial derivatives products create a risk that the failure of a single financial institution might bring down the entire global financial system, a fear that compelled the 2008 Wall Street bailout. Because of Europe's interlinked debt obligations, financial failure in one country places the entire European economic system at potential risk.

Earth's biosphere offers a well-proven system model that fulfills nature's equivalent of the conditions required for a mutually beneficial trade system. The biosphere is locally self-reliant and self-organizing everywhere on Earth with an extraordinary capacity to optimize the use of locally available resources to support life.

Fishing in the Bay of Bengal. Photo by Soumya (soumya_b5@yahoo.com)

A pattern of local self-reliance and system redundancy assures system resiliency and capacity for continuous adaptation and innovation. It offers a proven model for the design of a global system of resilient, locally rooted, self-reliant regional economies that self-organize toward ecological balance, shared prosperity, and living democracy.

At the planetary level, our human task is to reorganize human economies to function as locally self-reliant subsystems of their local ecosystems. This requires segmenting the borderless global economy into a planetary system of interlinked, self-reliant, bioregional living economies, each rooted in a community of place and organized to optimize the lives of all who live within the community's borders.

Regional economies properly meet most needs with local production using local resources in the manner of local ecosystems and benefit from trading their surplus with their neighbors in return for that which they cannot reasonably produce for themselves. This is the trade model David Ricardo had in mind and it provides an essential framework for humanity as we now strive to bring our species into balance with the biosphere on which the lives of all the world's people and species depend.

As people come to recognize and accept the idea of living within the generative capacities of their regional ecosystem, the need to eliminate wasteful and destructive resource use will become evident. The costs of population growth will become more apparent. Global GDP will shrink, and overall human well-being will increase. Our species will bring itself into balance with Earth's biosphere. And our children's future will be assured.

We recommend the following actions at the global level:

- **Rewrite the rules of global commerce to secure the right of each nation to regulate cross-border financial and trade flows to keep them in balance, maintain national ownership of economic assets, and optimize national economic self-reliance.**
- **Require corporations that choose to oper-**

ate in more than one country to charter an independent local subsidiary in each country of operation with majority ownership by that country's nationals. Each such subsidiary would be democratically accountable to the government of its host country for following its rules and paying its taxes.

▶ **Create an International Finance Organization (IFO) responsible for working with member countries to achieve and maintain balance and stability in international trade and financial relationships. It would issue and facilitate implementation of recommendations for an orderly process of winding down international debts, trade imbalances, and foreign ownership of productive assets to establish the integrity and self-determination of all the world's domestic economies and to eliminate and prevent cross-border financial speculation.**

6

Implement Measures to Secure the Integrity of the Money/Banking/Finance System

There is no place in a healthy economy for fraud, deception, usury, financial bubbles, and high stakes gambling. Consequently, there is no legitimate reason for government to provide subsidies and protections to banks that engage in such activities. There is no legitimate place in a healthy economy for hedge funds devoted to highly leveraged high-stakes gambling with other people's money to maximize management fees or for private equity funds engaged in corporate consolidation and asset stripping. These activities impose intolerable costs on society while producing nothing of value in return. They are appropriately treated as a form of theft and should be made illegal by appropriate regulation and/or rendered unprofitable by a combination of criminal penalties and tax policy.

Appropriate actions include:

▶ **Introduce a financial speculation tax on all securities transactions. A small tax will have negligible impact on real investment but will render most high-speed computerized trading unprofitable and eliminate an important source of unearned financial profit and needless market volatility.**

▶ **Eliminate the temporary Bush tax cuts on incomes of $250,000 or more, the carried interest loophole that taxes the earnings of Wall Street traders at preferential capital gains rates, and the capital gains tax treatment of profits from the sale of assets held for less than six months.**

▶ **Facilitate employee and community buyouts of publicly traded corporations to replace short-term absentee owners with rooted, responsible owners.**

▶ **Prohibit trading in securities with borrowed money. It is perfectly appropriate to borrow to finance a productive enterprise. No public purpose is served by allowing either individuals or institutions to gamble on market trades with borrowed money. It simply invites market manipulation and instability.**

▶ **Prohibit financial institutions from trading for their own accounts in securities they sell to the public. Prohibit selling or borrowing against an asset not owned by the seller, insuring an asset not owned by the insured, issuing any security not directly backed by a real asset, or buying an option for a commodity the buyer lacks the capacity to receive and store.**

Implementation of these recommendations will evoke charges of governmental interference in the market. It is a less than compelling argument when applied to a sector that owes its very existence to extensive government subsidies and guarantees.

Most Wall Street institutions are corporations created and granted special privileges by a government-issued charter. The government helps banks secure deposits by insuring depositor accounts. Every time the Federal Reserve acts to secure and fund the banking system, it interferes with the market.

Expecting certain standards of public accountability from the beneficiaries of these governmental actions to secure fairness and integrity is nothing more than a sensible quid pro quo.

A more valid criticism of these proposals is that these actions will shut down much of Wall Street as we know it. That, of course, is the intention. Society will be relieved of a costly and unsustainable burden. The brainpower and computing capacity now devoted to trading electronic documents in speculative financial markets will be freed up to address society's pressing social and environmental needs and to provide financial services to life-serving Main Street enterprises.

Wall Street defenders will also raise the question of how the operations of global corporations will be financed without large Wall Street banks. This is also a false issue. As many as 70 percent of trades on Wall Street are high frequency trades made by computers that may hold a given asset no more than a few microseconds. This has nothing to do with productive investment and is simply a device for extracting unearned profits. It is a source of market instability and will not be missed by anyone other than the speculators who profit from it.

The proper function of finance is to fund productive long-term investment in the real economy to provide real goods and services in response to consumer demand. Most global corporations engaged in producing things of intrinsic value are either self-financed with retained earnings or the sale of bonds. Bonds can still be sold to individual investors or to retirement and other funds engaged in making long-term investments for honest long-term returns.

CITIZEN ACTION

Most of the recommendations put forth above require political action by the federal government. The necessary leadership is unlikely, however, to come from within the Washington political establishment so long as it operates as a wholly owned subsidiary of Wall Street. In matters of financial reform, as in all matters related to establishing and maintaining the democratic accountability of society's governing institutions, strong and independent citizen organizations are essential.

Implementation of the agenda outlined here will depend on effective broad-based citizen action from outside the establishment to build public consciousness of the institutional and cultural sources of their economic distress and engage public participation in:

- **Building new institutions grounded in community,**
- **Creating a moral culture of cooperation and sharing, and**
- **Demanding that elected officials change the rules to support the new institutions and culture.**

Success will depend on transcending the division between conservatives who blame Washington for their pain and liberals who blame Wall Street. Both have a piece of the truth. The

Move Your Money campaign
protesting outside a bank in Wisconsin.
Photo by Karen Hickey

real villain is the Wall Street-Washington axis of power controlled by members of an ambitious ruling class who seek unlimited power without responsibility for, or accountability to, the rest of the society. Members of this alliance secure their own power by skillfully playing both ends of the political spectrum against one another.

The division, however, is not inevitable. The issues transcend established political labels. It is well within the means of responsible, mature adults from across the political spectrum to recognize our common interest in creating institutions that are democratically accountable to the will and interests of the sovereign people.

Creating a money and banking system that roots power and accountability in people and communities of place is essential to secure for everyone the opportunity to assume responsibility for their own well-being, as well as for the well-being of their families, and communities. It requires citizen action from individuals and organizations working at all levels from the local to the national. The following are some of the possibilities:

▶ **Use all available means of print and electronic communication to raise public consciousness and understanding of money as a system of power, the corruption of the Wall Street money system, alternatives to the Wall Street system, and the ways in which individuals and organizations can make a constructive difference.**

▶ **Organize Resilience Circles, workshops and public teach-ins to facilitate shared learning, assure people that others share their concern and commitment, and build the connections essential to effective citizen mobilization.**

▶ **Support the Move Your Money campaign encouraging people to move their savings, credit cards, and borrowing from Wall Street banks to local banks. Initiate and support campaigns to encourage businesses, religious institutions, public agencies, retirement funds, and institutional investors to do the same.**

▶ **Document and publicize stories of innovative ownership and governance models for Community Development Financial Institutions that give community service priority over profit and provide innovative ownership and governance models to inspire others.**

▶ **Support U.S. Uncut and its campaigns of nonviolent direct action designed to focus public attention on corporate tax dodgers and their responsibility for public budget deficits.**

▶ **Initiate or support a campaign in your state for a state-owned partnership bank.**

▶ **Support public policy campaigns calling for structural reforms in the money/banking system.**

▶ **Start a credit union or cooperative community bank in your community.**

▶ **Foundations or high net worth philanthropists might consider leveraging their financial resources to advance local economic development by capitalizing a community bank on the model of the Bremer Bank, One PacificCoast Bank, Southern Bancorp, or the Enterprise Cleveland Group.**

▶ **Unions might consider using pension funds to capitalize union owned banks devoted to financing worker co-ops on the model of the Mondragon cooperatives in Basque Spain.**

The most powerful master is the one who rules unseen and unmentioned. In modern societies, the money system is that master. Those who control the creation and allocation of money control the nation's values and priorities.

When the system gives to an elite group of private bankers the power to determine who has access to money and who does not, it renders democracy impotent and virtually assures an extreme and growing gap between the profligate few and the desperate many. When the citizenry is uneducated in the nature of money and the implications of money system design, it is powerless to resist.

Our common future depends on educating ourselves regarding the true nature of money and the implications of the structure of the institutional system by which it is created and allocated. Only then will we create a democratically accountable money system that operates as our servant, not our master.

Farmers market in Troy, New York.
Photo by Kyle McDonald

APPENDIX

NAVIGATING THE TRANSITION TO A NEW ECONOMY

The New Economy Working Group

The clearer our vision of the economic system we seek and of the ways it differs in its values and structures from the system we have, the greater our ability to prioritize policy changes that support the vision.

Wall Street corporate interests designed and manage the existing economic system to maximize financial returns to themselves. This system treats the conversion of the real living wealth of the many to the phantom financial wealth of the few as a net gain for society. The system's internal dynamics increase financial instability, wealth concentration, environmental stress, and political corruption—thus creating a growing risk of environmental social, environmental, political, and economic collapse.

Healthy System Conditions

The existing economic system has long been destined to fail because it works in opposition to Earth's biosphere. It uses an unsustainable fossil-fuel subsidy to mine, suppress, and control the biosphere's dynamic generative processes in a suicidal quest for short-term financial gain.

The human future depends on navigating a transition to a real-wealth economy—a New Economy—that works in cooperative integral partnership with the biosphere to secure healthy, happy lives for all. Appropriate system values and institutional structures support dynamic self-organization toward:

Ecological balance between aggregate human consumption and the regenerative capacity of Earth's biosphere.

Equitable distribution of real wealth to meet the needs of all.

Living democracy to secure economic and political accountability to people and community through active citizen participation.

Financial stability to avoid needless costly economic disruption.

Achieving these system outcomes requires a transition in the economic system's

Defining value from money to life,

Locus of power from global to local,

Favored dynamic from competition to cooperation,

Defining ethic from externalizing costs to embracing responsibility, and

Primary purpose from growing the financial fortunes of the few to enhancing the health and well-being of everyone.

Transition Strategy

The strategy to achieve this system transition has three essential elements:

1. Change the cultural stories that frame the relevant actions: The prevailing cultural story/belief that there is no viable alternative to the economic and political systems now in place may be the single greatest barrier to change. Successful transition requires replacing this story with the story that there is an alternative based on properly regulated markets and real democracy with the potential to work for everyone. Other stories that must change include those by which we understand the purpose of the economy, the nature of wealth, and the possibilities of our human nature.

2. Create a new economic reality by building a new economy from the bottom up: Perhaps our greatest source of hope is the fact that countless individuals and groups are already engaged in rebuilding values-based Main Street economies comprised of independent, locally owned, human-scale enterprises devoted to serving the needs of people, community, and nature. In addition to creating a new reality, this contributes to changing the story and builds a supporting political constituency for new rules.

3. Change the rules of the game: Current public rules and policies favor the rights and interests of Wall Street corporations. It is our democratic right and responsibility to replace them with rules and policies that favor the rights and interests of people, communities, and nature.

Seven Action Clusters

Given the scope and complexity of the policy changes required to favor the emergent New Economy system over the self-destructing Old Economy system, it is helpful to group needed policy actions into seven clusters focused on seven critical system pressure points. Each addresses a key source of Old Economy failure.

1

Problem: Financial Indicators. The use of financial indicators like gross domestic product and the Dow Jones industrial average to assess the performance of the economy gives priority to financial values over life values. This leads to the sacrifice of human, community, and natural health to make money for people who already have more than they need.

Solution: Living Indicators. *Optimize sustainable human well-being by evaluating economic performance against indicators of human- and natural-systems health. The Bhutan experiment with a happiness index is an excellent start.*

2

Problem: Wall Street Money and Banking System. Wall Street control of the creation and allocation of money gives control of our lives and national priorities to institutions devoted solely to maximizing their own financial return through financial games that contribute nothing to the creation of anything of real value.

Solution: Main Street Money and Banking System. *Decentralize and democratize the money system so that the power to create and allocate money resides in a system of community banks, mutual savings and loans, and credit unions accountable to local people and devoted to serving local financial needs. It would look much like the system we had in the United States before the disastrous banking deregulation that began in the 1970s.*

3

Problem: Wealth Concentration. Wall Street interests use their political power to cut taxes for the rich and advance trade, fiscal, workplace, and social policies that suppress wages, erode worker protections, and cut services and safety nets for those most in need. The ever more extreme concentration of wealth leads to ever greater social dysfunction.

Solution: Equitable Distribution. *Implement fiscal, workplace, and social policies that distribute income and ownership equitably. Equitable societies are healthier, happier, more democratic, and avoid both extravagance and desperation.*

4

Problem: Soulless Corporations with Absentee Owners. An ideology of market fundamentalism has embedded a belief in the public culture that the sole purpose and responsibility of a business enterprise is to maximize financial returns to its owners. This belief legitimates the control of productive resources by soulless corporations possessed of artificial rights bestowed by unelected judges that seek immediate profit for absentee owners without regard for social and environmental consequences.

Solution: Living Enterprises with Responsible Living Owners. *Advance public policies that favor living enterprises with living, locally rooted, responsible owners who seek a living return that includes a healthy community and a healthy natural environment. Cooperative, worker- and community-owned enterprises are positive examples. Tax away the profits of short-term capital gains to discourage the speculative public trading of corporate shares by absentee owners.*

5

Problem: Market Monopolies and Big Money Politics. Global corporations operate beyond public accountability to monopolize economic and political power under unified management with no external accountability. They use this power to manipulate markets, extract public subsidies, and externalize social and environmental costs—all in violation of foundational principles of socially efficient fair market competition and one-person, one-vote democracy.

Solution: Real Markets/Real Democracy. *Create real rule-based markets and real democracy by breaking up concentrations of corporate power, barring corporations from competing with living human beings for political power, and implementing rules and incentives that support social and environmental cost internalization, and fair competition. Corporations are creations of government and government has a responsibility to assure that they are democratically accountable and play by proper market rules.*

6

Problem: Fragmented, Colonized Local Economies. Fragmented local economies dependent on global corporations for jobs and basic goods and services leave people and nature captive to the financial interests of distant institutions that have no concern for their well-being and no accountability to their interests.

Solution: Self-Reliant Bio-Regional Economies. *Pursue local economic development programs that build diversified, self-reliant, energy efficient, democratically self-organizing regional economies comprised of locally owned living enterprises accountable to local owners and devoted to serving local needs.*

7

Problem: Global Rules By and For Corporations. Global rules formulated and enforced by corporate dominated institutions like the WTO facilitate and enforce the concentration of corporate power and place it beyond democratic accountability.

Solution: Global Rules By and For People. *Restructure global rules and institutions to limit the concentration of corporate power and secure the economic sovereignty of people by assuring that any corporation that operates across national borders is democratically accountable to the communities in which it operates.*

New Economy
WORKING GROUP
Equitable Economies for a Living Earth

The New Economy Working Group (NEWGroup) is an informal alliance of the Institute for Policy Studies (IPS), YES! Magazine, the Business Alliance for Local Living Economies (BALLE), and the Living Economies Forum, plus individual members Gar Alperovitz, Stacy Mitchell, and Gus Speth. For further development of the NEWGroup framework presented here see neweconomyworkinggroup.org, livingeconomies-forum.org, and David Korten, *Agenda for a New Economy: From Phantom Wealth to Real Wealth, 2nd edition.*