

## MAKING MONEY WORK: HOW CAN WE RECONNECT CAPITAL WITH COMMUNITY?<sup>1</sup>

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Our investments tend to fund consolidation and speculation. But new models are emerging that allow us to finance the economy we really want. The financial crisis has provided us all with a crash course on how much of our economy is based not on the creation of real value, but on speculation. Over the last year, we have learned that the speculative economy—the one that trades in exotic derivatives like credit default swaps and makes short-term, bubble-inducing bets on assets like real estate and tech stocks—is vast and highly rewarded. We have learned that the speculative economy undermines and consumes the productive economy. And we have learned that money made by speculation is often treated much more favorably by tax systems than money earned through real work.

We have also learned how entangled we all are in the speculative economy. If you think about it, there are very few opportunities for you and me to invest our savings in ways that would strengthen our local economies. Most of us, whether we like it or not, have our retirement and other savings invested in funds composed of stocks, derivatives, and other speculative vehicles. This de-linking of money from place and productive investment is not the inevitable result of economic evolution. Money is a human invention and the rules that control its dynamic are also a human invention. The rules in place today favor mobility over community, speculation over productive investment, volatility over permanence.

How can we reconnect capital with community needs? Global climate change has created an urgent need to retool much of our infrastructure, develop regional food systems, retrofit buildings, reestablish neighborhood enterprises, and so on. And yet our system for pooling and deploying capital is completely ill-suited to this task, oriented as it is to maximizing short-term gains rather than building long-term community capacity. There are very few opportunities for you and me to invest our savings in ways that would strengthen our local economies. How can we reconnect capital with community needs?

One way we might begin to reorient the financial system is to establish a modest tax on all financial transactions, including international currency trades. This would lessen the appeal of high-frequency speculative trading. It would also generate a stream of revenue that could be used to establish a publicly owned wholesale bank or fund that would channel capital to Community Development Financial Institutions. These in turn would finance small businesses, cooperatives, and social enterprises. We might also consider funding, as the New Economic Foundation has suggested, a Green Industrial Bank to provide long-term financing for green infrastructure and renewable energy development. At the local level, cities are already pioneering ways to finance the transition to renewable energy. The city of Berkeley, California, for example, is using its bonding authority to provide long-term, low-interest loans that enable homeowners to become electricity producers by installing solar cells on their rooftops. The debt,

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which stays with the house if the owner moves, is repaid over a 20-year period through a fee added to their biannual property tax bill.

Another useful model, which relies on a mix of public and private investment, is Pennsylvania's Fresh Food Financing Initiative. This \$120 million fund has provided low-interest, long-term loans to finance over 60 locally owned food markets in neighborhoods and small towns that lacked places to buy fresh food. All but one of these stores has succeeded, demonstrating that the reason "food deserts" exist in so many low-income communities is not that grocery stores are not viable in these areas, but rather that banks have been reluctant to finance these ventures. We ought to build on this model by establishing similar funds to capitalize a new generation of neighborhood stores, small-scale farms, and other enterprises that can expand the capacity of communities to meet more of their needs locally.

In the private sector, we should look to reform the banking industry by both breaking up big banks and adopting policies that favor independent banks and credit unions. These smaller institutions have generally been much more responsive to their local communities. And, while big banks have focused on the needs of big business, small banks operate at a scale better matched to the needs of local economies.

Financial institutions are not the only way to link local capital with community enterprise. A growing number of local businesses are being financed directly by their customers. In the United States, Community-Supported Agriculture schemes, or CSAs, which enable people to fund the operations of a farm in exchange for a share of its harvest, have multiplied to well over 3,000. Hundreds of independent bookstores, restaurants, and other local businesses in both the U.S. and the U.K. have raised capital from their customers to sustain or expand their operations. Earlier this year, more than 100 customers of the Busy Bee Toyshop in Greater Manchester put up £32,000 to take over the store, which had recently closed, and operate it as a cooperative. In Brooklyn, a similar initiative made hundreds of customers investors in their local bookstore. People have come together not only to save or grow local businesses, but also to start them. Six years ago, in Powell, Wyoming, over 800 families invested \$500 each to capitalize a new community-owned downtown department store.

Many political and corporate leaders are eager to put the financial crisis in the rear-view mirror and return to business-as-usual. But we should not let them. More than ever, we need a vision for a new economy. We need a bold new deal that reorients antitrust, planning, and financial policy to shrink the power of corporations, resurrect citizenship, nurture local enterprise, and build a sustainable future.