This is part of a series of think pieces by scholars and practitioners working on a broad range of issues within the field of Social and Solidarity Economy. The series is being published in conjunction with the UNRISD conference "Potential and Limits of Social and Solidarity Economy". The conference took place on 6-8 May 2013 in collaboration with the International Labour Organization and the UN Non-Governmental Liaison Service.

The Social and Solidarity Economy (SSE), while not exclusively non-profit-oriented, is a deliberately low-profit endeavour. By this I mean that SSE businesses generate profits within strict constraints pertaining to criteria linked to social and solidarity-related values. As a result, their net financial surpluses are often lower than they would be in a similar business that did not embrace such constraints. Low-profit enterprises include both (i) non-profit businesses deliberately choosing to reinvest gross surpluses into the business and drive net profits down to zero; and (ii) what one might term pure SSE businesses producing a good or service whose very anchoring in social and solidarity-related values implies that it will not be produced by any for-profit firm.

Christian Arnsperger is an economist at the Université catholique de Louvain (Belgium) and is currently a research scholar at the Alternative Bank Switzerland (ABS) in Olten and Lausanne.

Introduction

In this think piece, I discuss the link between SSE growth perspectives and the ways in which SSE activities are routinely financed. By 'growth' I mean here the spread and diffusion of these SSE activities so that (*i*) all those who would like to, or can only, find work in social-and-solidarity contexts have access to a suitable job and (*ii*) all those who would like to, or can only, obtain need-fulfilling commodities provided in a social-and-solidarity spirit have access to the appropriate goods and services. There is no dynamic of market expansion driven by profit maximization in SSE. Of course, if there is an expansion of the need for goods and services that aren't offered by the state or the market and that are produced in democratic, cooperative and solidaristic ways, the opportunities to engage in SSE business will also expand. However, higher business volume and increased net financial surplus are not sought by SSE businesses as an end in themselves. Therefore, the whole logic of what some economists have called the free-market innovation machine is alien to the SSE.

I will put forward the idea that if SSE is to be more than a mere appendix to today's dominant for-profit, growth-and-consumption economy, alternative financing channels need to be put in place and fostered. This is because the manner in which the prevailing financial sector rations monetary circulation is structurally detrimental to SSE's focus on social and solidarity-related values. I use the word 'structurally' to insist on the *systemic* properties of our current money system. The specific character of SSE growth means that the logic of funding SSE activities through classic public subsidies, bank credit and financial markets, although not completely unwarranted, is ultimately unsuited to the very idea of a low-profit economy.

How money is created and circulated

I will not be focusing here only on the problem of cooperatives' access to credit and capital associated with underinvestment and credit rationing that relate to their specific ownership structure. These are certainly important questions. However, they do not exhaust the question of how SSE as a whole, characterized by low-profit activities, obtains funding for its activities.

The more general issue I want to discuss, rather, is how the money that underlies public subsidies, bank credit and financial asset trading is produced and circulated in our current money system—namely, as interest-bearing bank debt—and what structural difficulties this type of money poses for the project of a growing, thriving and coherent SSE.

Let's start by looking very briefly at how money gets created (Ryan-Collins, Greenham, Werner and Jackson 2012, Jackson and Dyson 2012). What is crucial is that the money we use daily, whether in our cash transactions or in our bank orders, is *not* created by the government. It is not even created, for the most part, by the central bank. The bills we carry in our wallets as well the amounts we see written in our bank accounts ultimately come from one source: bank credit. This means credit from commercial banks to businesses, households and the government, possibly backed by credit from the central bank to commercial banks. Every time credit is granted by a commercial bank, new money gets created and starts circulating, usually in the form of electronic bank orders from account to account (which includes electronic payments by debit or credit cards) and still occasionally in the form of cash. We all carry out our daily transactions, including our purchases of assets on financial markets, using what is effectively the counterpart to a pile of debt—and those debts will have to eventually be paid back with interest. *The bulk of the money we use on a daily basis is backed by nothing but debt-bearing bank credit, which means that most of it has been issued by private firms (the commercial banks) who want to make a maximal profit circulating it.*

The reason for this isn't anything natural. It's a choice that has been made over time. The reasons for it are complex. Suffice to say, in our money system, the agents to whom our rulers delegate the task of irrigating the economy with money are the banks. Why? Because one assumes—and this is crucial for my discussion of the SSE—that since they seek a maximal profit, they can be trusted to distribute credit to those businesses, households and governments that will be most efficient at generating the highest gains and, therefore, at paying back their debts as quickly as possible with the highest possible interest payments. This doesn't mean interest rates have to be high or that banks will all do equally well or even all survive, but it means total expected gains to the banking industry from interest payments are expected to be the highest possible, since the whole mechanism is driven by everyone's private profit motive.

Why classical finance can't, in the end, help SSE expansion

My claim is that this mechanism for creating and circulating money may not even be adequate to finance the conventional for-profit economy in a balanced was, as the 2008-2009 crisis has demonstrated, and it certainly cannot be expected to sustain an SSE that's growing in the right, organic way.

There are two main reasons for this.

First, standard banks generally don't like SSE businesses and, from their own point of view, that's understandable. In their terms, SSE businesses most likely won't perform well enough—that is, they won't grow, expand and behave in the way that's needed to repay interest-bearing debts that grow exponentially. SSE businesses aren't mainstream profit maximizers and can't be easily motivated to apply mainstream methods sometimes needed in order to satisfy creditors, such as ruthless cost slashing (possibly combined with restructuring and layoffs) or market realignment through the selling of new products, for instance. So actually, aiming to obtain finance through bank credit is likely to lead SSE businesses to renege on their social and solidarity-related values, or at least to water them down so as to satisfy the profitability criteria implicitly imposed by the banks. (This is the general argument that explains why, in particular, cooperatives often experience credit

rationing.)

Second, public subsidies are not the panacea either. It seems so only if one fails to remember that the government doesn't finance its own public expenditures interest-free—a fact that the current sovereign-debt crisis has driven home powerfully. In today's money system the logic of subsidies is basically akin to that of a credit union: a government uses its own credibility with private banks and investors to collect credit so as to redistribute part of it to low-profit businesses that can't get it easily themselves. To the extent that this credibility dwindles in the eyes of profit-maximizing private agents—as is the case nowadays—interest rate hikes and credit rationing will indirectly affect the SSE sector because the underlying logic of money circulation is unchanged. In fact, using public subsidies financed via interest-bearing bank-debt money in order to support SSE is a sure-fire way of keeping that SSE in the role of a structural appendix to the mainstream economy—effectively making SSE businesses play the role of quasi-public administrations catering to the un- or underemployed, impoverished or disenfranchised individuals whom the conventional part of the system is rejecting.

For these two reasons, limiting the circulation of money to the mechanism of interest-bearing bank debt generates a structural bottleneck for the development of a fully fledged, dignified and truly alternative Social and Solidarity Economy—one that would be a genuine *project* instead of a mere addendum to an unchanged economic system. SSE expansion and growth will mean that choices and options will remain structurally framed within the logic of interest-bearing bank debt, and a lot—if not the overwhelming majority—of the true innovative strength of SSE will be reined in or even stifled. This may be hard to shoulder for those of us working hard within SSE today, but as long as the basic logic of our money system isn't modified, SSE businesses will be similar to classic charitable institutions that get donations produced out of the very money system whose effects they are trying to eliminate. It's basically a losing game regardless of how worthy and heroic any particular SSE endeavour might be, because SSE as a whole is fully dependent on a capricious and unstable notion of profit-maximizing creditworthiness that contradicts its very aims.

Rethinking money circulation: Social banking, complementary currencies, public money creation and public banking

Those of us who want SSE to grow in the right, organic way—helping match un- or underused productive talents and potentials to un- or underserved needs and aspirations—must join the efforts of the scholars and activists who are, right at this time, starting to fundamentally rethink money (Lietaer and Dunne 2013). We need to be looking at several alternatives, most of which are already being experimented with all over the globe but have not yet reached the critical mass needed to dethrone the dominant mode of monetary circulation.

The most conventional alternative to mainstream interest-bearing bank credit is… non-mainstream interest-bearing bank credit. This refers to the whole landscape of small social banks (Remer and Weber 2011) which are making enormous efforts—and foregoing sizable profit margins—in the service of socially defensible and solidarity-oriented credit policies. Social banks can therefore be characterized as low-profit credit providers—that is, as the conventional banking arm of SSE. These alternative banks (such as Vancity in Canada, Triodos in the Benelux countries, GLS in Germany, or Alternative Bank Schweiz in Switzerland)[1] are offering depositors classic banking products and services that, however, cohere with strict positive and negative criteria of credit attribution. To the extent that they can justify it to their depositors and shareholders, they bring together underserved needs and underused potentials. In this sense, they are at the current vanguard in developing SSE as a genuine alternative. However, social banks, because they remain conventional banks, are under pressure from the logic of bank credit money creation and cannot be the sole instrument to help SSE

grow and expand.

A less conventional alternative that already exists alongside social banks is the vast and expanding galaxy of local, regional or global complementary currencies created by citizens' groups and business networks in order to circumvent the need for bank credit (Greco 2009, Lietaer, Arnsperger, Goerner and Brunnhuber 2012). Complementary currencies are mushrooming all over the planet—such as the WIR business-to-business currency in Switzerland (which offers SMEs stability through credit cycles) or the Fureai Kippu in Japan (which allows citizens to exchange healthcare and other care services without the need for public subsidies from an over-indebted state). One of the main mechanisms for the circulation of such currencies is so-called mutual credit, which allows citizens to create means of payment 'as they go', so to speak – that is, as their needs get met by production potentials – without needing to go into interest-bearing debt. Checks and balances are socialized and the bottleneck of profit-maximizing bank credit is avoided. Therefore, complementary currencies are perhaps the most important monetary innovation for those of us who wish SSE to become a long-term, stable alternative to market and state provision.

Finally, a more radical alternative would be the renationalization of money creation. State provision itself could be made socially less costly—and therefore, in principle, more conducive to the development of SSE—if it were the state through its public expenditures, rather than the banks through their private credit strategies, who put means of payment into circulation. This idea was already put forward by Irving Fisher's Chicago plan in the 1930s and has recently been revamped and advocated by two IMF economists (Benes and Kumhof 2012). Current variants include the Vollgeld (plain money) initiative in Germany and Switzerland (Robertson and Huber 2000, Huber 2011).

A still marginal but growing movement is currently advocating a cross between social banking and public money creation—namely, public banking along the lines of what, for instance, the Bank of North Dakota is practising in the United States: a bank owned by the democratic community and distributing low-interest or interest-free credit for, among others, public projects and for businesses thought to be aligned with the common good. Interest rates could be fixed outside the market in ways that encourage public-minded activities and discourage the erosion of solidarity. To the extent they would still exist, interest payments would flow back into the public purse instead of being appropriated privately by commercial banks. Current variants include the Public Banking Institute in the United States and the 'Gemeinwohlökonomie' (common-good economy) movement in Austria, Germany, and Switzerland which champions the creation of 'democratic banks' (Felber 2012).

Conclusion

Nationalized money creation and public banking could be a support for SSE's expansion and growth—to the extent the state accepts that SSE principles are important and need to be promoted as part of the common good. If it doesn't, however, these same ideas could actually also be used to further rein in and stifle SSE. This could be the case if the government is favourable to large corporate or financial interests or is sympathetic to a mainstream, profit-maximization-driven conception of economic growth.

In contrast, complementary currencies and social banking seem to be much more organically geared to SSE and its basic philosophy. Social banking is practised mostly by organizations that have an inherent pro-SSE bent and can make use of bank credit for the promotion of low-profit principles. Complementary currencies are more anarchical—in a positive sense—and more decentralized and can therefore, in many cases, help create from scratch SSE activities that would never have been

developed in their absence, even by social banks.

In any case, all of these ideas—and especially social banking and complementary currencies—deserve extremely careful and detailed scrutiny by anyone who would like the bottlenecks of conventional money and finance to be circumvented and the Social and Solidarity Economy to become more than a small subsidized niche, more than a fragile structure exposed to the vagaries of conventional money—in a word: more than just wishful thinking.

REFERENCES

Benes, Jaromir and Michael Kumhof. 2012. *The Chicago Plan revisited.* IMF Working Paper 12/202. International Monetary Fund, Washington DC.

Felber, Christian. 2012. *Die Gemeinwohlökonomie: Eine demokratische Alternative wächst*, new revised edition.Deuticke, Vienna.

Greco, Tom. 2009. *The End of Money and the Future of Civilization.* Chelsea Green, White River Junction.

Huber, Joseph. 2011. *Monetäre Modernisierung: Zur Zunkunft der Geldordnung*, Metropolis, Marburg.

Jackson, Andrew and Ben Dyson. 2012. *Modernising Money: Why Our Monetary System Is Broken and How It Can Be Fixed.* Positive Money, London.

Lietaer, Bernard, Christian Arnsperger, Sally Goerner and Stefan Brunnhuber. 2012. *Money and Sustainability: The Missing Link*, Triarchy Press, Axminster.

Bernard Lietaer and Jacqui Dunne, *Rethinking Money: How New Currencies Turn Scarcity Into Opportunities*, San Francisco: Berrett-Koehler, 2013

Remer, Sven and Olaf Weber (eds). 2011. *Social Banks and the Future of Sustainable Finance*, Routledge, London.

Robertson, James and Joseph Huber. 2000. *Creating New Money*, New Economics Foundation, London.

Ryan-Collins, Josh, Tony Greenham, Richard Werner and Andrew Jackson. 2012. *Where Does Money Come From? A Guide to the UK Monetary and Banking System*, 2nd edition. New Economics Foundation, London.

FOOTNOTES

[1]These banks as well as a number of others all over the globe are members of the Global Alliance for Banking on Values (GABV) which promotes social banking as a structural alternative to conventional banking.