economics as if people and the planet mattered

Ten Steps to Save the Cities

The new economics agenda for thriving local economies

Contents

Executive Summary

There is an urgent need in the cities in the UK, especially in the north, for a new set of economic policies to kickstart local recovery. The Treasury has no such plan. The cities themselves often believe they must wait patiently until the government, or the economic cycle, bails them out.

But a new economic agenda is emerging, borrowed often from the most successful cities in Europe and North and South America, which can effectively allow cities to take back control of their economic destiny. This is the outline of this agenda. It will vary between the places that put it into effect – that is the point – but the basic ideas are recognisable, and can be summed up in ten linked propositions:

1. **Rebuild local economies by plugging the leaks that are draining local money away.** How money circulates in an area is just as important as the amount of money flowing into it. Traditional economics suggests that cities must specialise. That may be true for the largest businesses, but it is irrelevant for local business. For them, the best way forward is not just by specialising, but also by building diversity and looking for ways of replacing imports.

2. **Develop local diversity and distinctiveness.** Too many of our cities have devoted their imagination and resources to making themselves look the same as each other. But because economic diversity keeps money circulating locally, it is critical that any new developments design well-being, distinctiveness and sustainability indicators into Master Planning processes and that any new retail effort must make high streets more, not less, diverse.

3. **Bust local monopolies to let enterprise flourish.** One major reason why so many of our local economies have been hollowed out is that so many cities have been using net wealth destroyers as anchor stores.

4. **Organise enterprise coaching, support and advice in every neighbourhood.** Coaches, backed up by a panel of local business people, bank managers and other local volunteers, can help to break down the barriers preventing enterprise from starting, replicating the kind of social networks that successful places have.

5. **Use local resources to build an effective new local lending infrastructure.** Our businesses are now in a far weaker position than

American or German competitors, and potential competitors, because we have no equivalent lending infrastructure. The real problem is not lack of capital to lend, it's a serious lack of institutions capable of lending it.

6. **Invest in local energy.** At present only 0.01 per cent of electricity in England is generated by local authority-owned renewables, despite the scope that exists to install projects on their land and buildings. In Germany the equivalent figure is 100 times higher.

7. **Use waste products as raw material for new enterprises.** Traditional economics confines its interest to the point where money becomes involved and to the point when a product is thrown away. Cities are often blind to the potential value of what is wasted and thrown away – because all these have potential for enterprise.

8. **Use public sector spending to maximise local money flows.** Making sure that public sector contracts build the local economy, and provide permanent economic assets for depressed areas.

9. **Launch a range of new kinds of money.** Successful models are now running all over the world, keeping local resources circulating locally and providing independence for impoverished communities. They can provide low-cost or free credit, and – in some countries – they underpin whole sectors of the economy.

10. **Experimenting with new kinds of credit creation for local public benefit.** There will be occasions when regional economies require the creation of new public money, free of interest, where necessary to cope with unprecedented financial emergencies, and as the basis for loans to rebuild the infrastructure of productive local economies.

Not all of these ideas can be organised tomorrow, at least not without central government support. Providing new kinds of quantitative easing and making it available to the regions is not something that local government can organise by itself. Getting the banks to fund a new community banking infrastructure – capable of supporting the small-medium enterprises market, as they do in the USA – depends at least on co-operation between the banks.

But the rest can all be done by imaginative and forward-looking city leaders, and can be done immediately, grasping the new powers of general competence that are being made available in the Localism Bill. All of these ideas have been put into practice somewhere. What has not happened so far is for enlightened local government to knit all these approaches together and claw their way out of recession by doing so.

That is the challenge for them, and the challenge for us in the world of new economics, is how best to support them.

Introduction

It is a truth universally acknowledged that a government in recession must be in want of a recovery policy. Their budgets are eagerly awaited for signs of anything that could possibly jump-start the economy. Their pronouncements are scoured for evidence that they may be considering anything that might possibly smack of active intervention. Usually in vain.

But inside the coalition, the real issue is more precise but spoken only quietly. It is how to revive the northern cities, which are taking the lion's share of cuts when they are already overly dependent on public sector employment. This is critically important, not just for the cities themselves – and for the unbalanced economic policy that affects them – but for the future of politics. No government wants to risk a return to the kind of economic collapse in the north that characterised the early 1980s, and culminated in widespread rioting. But in the case of this coalition, northern urban collapse would create the kind of political tensions that could pull the coalition apart.

The problem here is that Whitehall doesn't really have a policy along these lines. The regional policies of the 1970s are long out of favour, though there is a good case for learning from the experience of other countries here, because regional policy can now be targeted and highly-effective – and wholly different from the 'picking winners' approach of the old days.[1]

There was the New Labour approach – a 'Tesco' approach – which was to give privileges to the big service employers and hope that they would mop up the jobless. But this is a *jobs* plan rather than a recovery plan. It provides a few service jobs often at the expense of local small businesses, particularly on the high street, and tends to take money out of the local economy in the long run.

Then there is the old ideological approach that – if you get out of the way, clear away the foliage of bureaucracy – enterprise will rush in to fill the vacuum. That is true, of course, in some places, but we all know it tends not to happen where it really matters. Nor is it going to rebalance the economy or produce a low carbon Britain, both of which are high on the list of the government's priorities. Nick Clegg's speech in February 2011 talked bravely about tackling the banks and rebalancing the economy, but the gap was still there.[2]

This gap is serious, because within it are all the ingredients for the current economic disaster and the weakness of the UK economy over the past generation – the combination of implacable centralisation and an industrial policy gauged to suit the City of London (low-to-zero regulation, massive political support, bailouts for failures) that has seriously distorted the entire economy, undermined the provision of investment in sustainable transport and energy (conservation and generation) infrastructure, with the weak regional institutions unable to row against the tide that draws investment and people to London. Now that the regional institutions are almost non-existent there is little policy structure to make the rebalancing of the economy actually happen.

At local level, things are little better. Central government regards economics as their remit, but do not have the levers that can make a difference locally. Local government has some of the levers available but still believe they are dependent on the centre to shift their economic fortunes. There is also a continuing faith in big infrastructure investment, some of which will still be available, but not on the scale we have become used to, and there is anyway very little evidence of their impact on small enterprise and real regeneration.

Yet, without the will to revitalise local economies – and some kind of road map for doing so – localism is really meaningless. Localism without an economic dimension will allow cities to take decisions about waste collection, but will leave them as supplicants to Tesco and Barclays. These issues are now urgent as the Localism Bill emerges from Parliament promising new local powers, but little local understanding of the possibilities of shaping and reviving local economies.

Cities are collections of local economies, as well as major economies in their own right. They are in that sense microcosms of the national economy, and will require some re-localisation themselves, so that local assets are used effectively to create wealth and people live near where they work. But because of that, cities are in an excellent position to pull together environmental sustainability, human well-being and equality. City officials and councillors are on the spot and can see the ways in which these objectives connect with each other. They have the levers to pull in front of them, if they can mobilise and inspire local people, when central government does not. They can co-ordinate the funding mechanisms that can make things happen in neighbourhood economies.

So, as a contribution to the debate, we at **nef** (the new economics foundation) offer this ten-point prescription for reviving local economies. It is not the whole answer to the problem, but there is no doubt that – if the cities of the UK put these measures in place – they will begin to claw back some of their economic destinies.

Ten ways forward

1. Rebuild local economies by plugging the leaks that are draining local money away

How money circulates in an area is just as important as the amount of money flowing into it, both into cities or into the neighbourhood economies that make them up. You might have places with the same amount of money coming in, but in one of them it gets spent in the supermarket and then it leaves the area straight away. In another place, the income gets passed on from local business to local business, over and over again. This is the same money, but every time it changes hands, it creates local wealth.[3]

Of course outside investment is important if it is available, but the money that is flowing through the local economy can be used more effectively if local business relies on each other for custom, and if that business is diverse enough.

Our measurement tool LM3 allows cities to look at their local economies, or to compare alternative investments, according to where the money is actually being spent. In practice, this means that money which circulates around a local economy a number of times before seeping out of an area is a measure of economic resilience. If you have a high street where all the stores are owned by big chains, you are more vulnerable economically than a high street – which might not be nearly as wealthy – but where there is a diverse range of interdependent businesses trading with each other. The latter will survive an economic downturn. The former may well not.[4]

The lesson for cities is that they need to be aware of where the money goes and where the leaks are, and to look for opportunities to create businesses to minimise the leaks. Traditional economics suggests that cities must specialise. That may be true for the largest businesses, but it is irrelevant for local business. For them, the best way forward is to emulate the way that cities developed through history – not just by specialising, but by creating diversity within the local economy, and by looking for ways of replacing imports.[5] That implies a different role for cities in enterprise development, not just waiting hopefully for new business to emerge, but actively nurturing the talent and imagination and directing it at areas that can plug those local economic leaks. That will mean:

- Deciding on rival developments according to the extent to which they are likely to keep earnings circulating locally.

- Supporting the growth of local small business with local lending and mentoring infrastructures.

- Protecting the economic diversity of local high streets as well as of the local authority area as a whole.

- Scouting out, encouraging and nurturing new enterprises that can replace local imports with local goods and services.

2. Develop local diversity and distinctiveness

Too many of our cities have devoted their imagination and resources to making themselves look the same as each other. Ubiquitous housing or retail developments have, all too often, made them indistinguishable. Yet the truth is that most people want to live and invest somewhere with some character and history, somewhere they can be proud of because it is ‘real’. But because economic diversity keeps money circulating locally, it is critical that any new developments design well-being, distinctiveness and sustainability indicators into Master Planning processes and that any new retail effort must make high streets more, not less, diverse.

Street markets, for example, keep more money circulating in the local economy for longer. They provide twice as many jobs for the investment as supermarkets, support retail diversity by providing space for a range of independent local traders, and provide a low risk environment in which new enterprises can flourish. Our analysis of Queens Market in East London found that it generated over £13 million for the local economy, of which £9 million was spent on food.[6] The market provided employment for 581 full time equivalent employees, of which 308 were local. Employment density (the ratio of employment per square metre of space) was one employee per 10 square metres at the market, nearly double the rate of employment at food superstores and supermarkets. Similar figures were found at markets all over London, and where food was priced up to a third lower than in nearby supermarkets.[7]

Of course, money is not only spent directly at markets. The markets support other local retail and bring wider regeneration benefits. They are a critical part of the mixture of retail, cultural and environmental uses of public space which keeps high streets alive. The vast sums spent by local authorities to compete in the regional retail competition by looking the same as neighbouring centres are destined, inevitably, to fail. The solution is to build loyalty to local centres by making them more distinctive, more bustling and more authentic. This means in practice:

- Revitalising local street markets, providing low cost food and spaces to help train people into retailing.

- Designing well-being, distinctiveness and sustainability indicators into local development and neighbourhood plans.

- Experimenting with systems that reward loyalty to local town centres, and other forms of mutual support, like the innovative Wigan Plus card.8

- Incentives for independents with proven local supply chains, such as discounts on business rates for as long as they maintain the high local multiplier (rate of money circulating locally).

3. Bust local monopolies to let enterprise flourish

Commissioning on an increasingly big scale is making it harder for small local business to compete for public service contracts. That is limiting the kind of competition which has the potential for keeping costs low and service good and personal – particularly in sectors like waste and transport.

Local authorities also need to do much more to distinguish between new stores which will be genuine anchors – which will bring in more customers to the local high street, and increase the money that stays circulating in the local economy – and those which will not. Sadly, many of those superstores which were sold as anchors are anything but. They are intending to compete with the surrounding shops and, since the big four supermarkets are semi-monopolies – which have huge power over suppliers – they will tend to drive out any local competition. Companies which intend to compete in nearly every retailing market will rarely be effective anchors. One major reason why so many of our local economies have been hollowed out is that so many cities have been using wealth destroyers as anchor stores.

American cities are leading the way on this. The California city of San Diego has just enacted a local law which forces grocery superstores over 90,000 square feet to get a Site Development Permit (SDP). These permits will only be issued if the developer can show that their new project will not increase neighbourhood blight, adversely affect the city's small businesses, negatively impact the city's Business Improvement Districts, Redevelopment Areas, or Micro Business Districts, or adversely affect the character of the surrounding area.

UK cities need some similar kind of powers, just as they need to have the support of a service that will enforce local competition limits, as proposed by the Competition Commission, the antidote to towns like Bicester which has six Tesco branches for a population of 30,000 – the opposite of a thriving local economy. That means:

- Setting up a local competition ombudsman and using new devolved local planning powers to help tackle local monopoly.

- Forcing retail developers to demonstrate that they will improve economic diversity.

- Reviewing local procurement systems, and especially the size of contracts, to make sure that they do not all go to the same set of big national contractors.

- Taxing out of town retail developments and using the proceeds to support small local shops.[9]

4. Organise enterprise coaching, support and advice in every neighbourhood

Not all economic resources are monetary. When **nef** starts work in a new neighbourhood, we get people measuring where their spending goes, and working out how they can plug some of the leaks in that leaky bucket with new businesses. We don't say 'what needs fixing here?' Or 'what's the problem here?' We say: what is the enterprise opportunity from these money leaks, and does anyone want to take action to plug them. We then link those people passionate about taking an idea forward, not with a ubiquitous training programme to tell them how to write business plans, but with local networks of support. Locally based flexible enterprise support using coaching approaches is the most effective way of supporting local business We call this BizFizz, and coaches work with local people who want to start or develop their business, and do whatever is necessary to make them happen.[10]

They are backed up by a panel of local business people, bank managers and other local volunteers, who meet once a month and give their advice on how to overcome specific barriers faced by the entrepreneurs – providing a social network of support around the new enterprises and facilitating more local supply chain connections. Barriers range from sourcing second hand equipment, identifying local investors in new ventures, to accessing or sharing premises and it is very personal advice – not generic. At the local level, this results in underused assets of knowledge, skills, equipment, space and buildings being used more effectively.

nef has now helped create nearly 800 businesses in areas of deprivation with a four-year survival rate in excess of 90 per cent. We know the essential elements are local purchasing (see below), local financial support (see below), but also this combination of a coaching approach, combined with effective local network support. That means:

- Setting up BizFizz networks, or similar, to provide enterprise coaching in every neighbourhood that needs it.

- Starting enterprise teaching in schools, showing young people how to make things happen in practice, including financial literacy.

- Celebrating local entrepreneurs and measuring their local economic impact.

5. Use local resources to build an effective new local lending infrastructure

Our businesses are now in a far weaker position than American or German competitors, and potential competitors, because we have no equivalent lending infrastructure. There are only 170 branches per million people in the UK, compared to 520 in Germany and 960 in France. The importance of local banks is made even clearer now that local and state government in the USA is increasingly moving their money out of big banks and into their local competitors. That gives advantages to states like North Dakota which own their own bank (as Birmingham used to do), and six US states are now debating whether they should do likewise.[11]

The future in the UK is legislation like the US Community Reinvestment Act, which lays duties on the banks to lend where they accept deposits – and which allows them to fund a new community banking sector that *is* able to lend to small-medium enterprises (SMEs) and social enterprises because they have the expertise and ability to do so. An alternative is to agree a voluntary approach so that the banks agree to fund a new local banking sector, in lieu of the money they are not lending to SMEs and social enterprises – in return for a final settlement of the argument about whether they are lending to the right places.

But the real problem is not lack of capital to lend, it is a serious lack of institutions capable of lending it. We already have commitments for a Green Investment Bank and a Big Society Bank, but we also need a Postbank[12] and much else besides. We also need local pension funds, which can be invested in local infrastructure, as they are in other countries, but – most of all – we need local banks which can use local authority reserves and invest them as productive loans or mortgages. These could also take over some of the grant-making functions of the Big Lottery, which needs to return some of its functions to the local level.

The current structure of the banking system – dominated by a few oligopolistic universal banks – results in a misallocation of credit to non-productive, speculative sectors, and a serious lack of investment in SMEs, high growth sectors, manufacturing and all those sectors that will make such a difference to regional cities. We need more local and regional banks, perhaps carved out of the existing publicly owned banks.

This means:

- Ending the oligopoly of the big four UK banks, which together with Santander, have 80 per cent of the domestic market for personal banking and 88 per cent of the small business market13, and turning the existing banks in public ownership into a network of regional banks.

- Working with the big banks to fund a new local banking infrastructure to lend in sectors where they are unable to lend effectively.

- Setting up the new lending institutions – including local authority banks and a Postbank – that we need to support thriving local enterprise.

- Ending the unfavourable regulatory treatment of credit unions, community development finance institutions and smaller banks.

6. Invest in local energy

Swedish cities have been responsible for generating energy since 1980, and UK cities are a long way behind, despite the pioneering role played by places like Woking. At present only 0.01 per cent of electricity in England is generated by local authority-owned renewables, despite the scope that exists to install projects on their land and buildings. In Germany the equivalent figure is 100 times higher. But all that can change since the Coalition Government ended the rule that prevents councils from selling electricity.

The scope for local renewables is huge.[14] One plant in Copenhagen generates electricity for 800,000 homes and provides heat for another 180,000. Leicester has just signed a 25-year contract for district heating in four areas of the city. But the key point is that, generating locally can reduce waste – about two thirds of electricity is currently lost in transmission on the grid – and spread the economic benefits locally.

The task is huge. The London Borough of Haringey has launched their own Haringey 40:20 organisation[15], involving business and civil society, because of the scale of the challenge – one in four homes will need to improve energy efficiency, 20,000 will need some kind of renewable generator capacity fitted, and 30,000 local homes will need to be linked up with local energy networks.

But if cities generate energy then local people are employed. If local authorities have a stake in the financing of this, then the surplus can be re-invested into the less well-off areas of a city to increase sustainability. If community organisations are able to invest in energy generation, like the pioneering Peckham Power company[16] in London, then there will be an ongoing benefit to local people which has huge implications for local economies.

That means:

- Investing in decentralised energy systems, and especially in Combined Heat and Power (CHP) and solar photovoltaics, at household and estate level and on brownfield sites.

- Developing financial partnerships whereby communities can own and benefit from energy generation.

- Making sure every building is a net contributor to local energy.

7. Use waste products as raw material for new enterprises

Narrow definitions of economics exclude the beginning and end of product life-cycles. Traditional economics confines its interest to the point where money becomes involved and to the point when a product is thrown away. A forest has no value in old economics – no place at all in fact – until it is cut down and turned into toothpicks or paper, or until it is designated for that.[17] In the same way, cities are often blind to the potential value of what is wasted and thrown away – because all these have potential for enterprise.

The new industries which need to emerge in UK cities will need to be, as far as possible, closed loop production cycles – minimising waste and using waste where possible as raw materials nearby. They need to be at the heart of the new repair economy, with new products designed for robustness and durability.

Just as Liverpool has begun using food waste as compost for growing more food, and for generating electricity, so other cities need to be aware that waste land can sometimes be used for growing or reclaiming or repairing, and that any of these – and any of the waste products that used to go into landfill – have potential here. This is not just about raw materials like cardboard or glass, but vital basic resources which are usually imported and which could – in the event of some kind of economic or geographical shock – suddenly become scarce, like cobalt, phosphorus and aggregates.[18]

It is exemplified by the innovation of the Furniture Resource Centre and Bulky Bob's in Liverpool.[19] Bulky Bob's is a successful social enterprise that collects bulky household waste like old cabinets or sofas and reuses and recycles these materials to divert waste from landfill. At the same time, it creates training programmes for the long-term unemployed and people with learning difficulties encouraging them to attain qualifications. Working with local councils, Bulky Bob's has developed a transferrable business model with proven cost savings for its public sector clients. Bulky Bob's priority is reusing rather than recycling or burning the materials because this reduces carbon emissions on a larger scale. Similar possibilities exist for white goods, computers and a range of other material that normally goes into landfill. That means:

- Setting up information systems that can divert wasted resources to local businesses that can use them.

- Boosting local employment by building a reuse and repair economy, in the way that has been pioneered by the Liverpool social enterprise Bulky Bob's.

- Re-thinking the future shape of cities to provide for the space that is needed for re-using local resources locally.

8. Use public sector spending to maximise local money flows

Back in 2006, **nef** helped Northumberland County Council find ways of increasing the impact of their regeneration spending four times over if they made sure that more of the local procurement contracts went to local suppliers.[20] This then developed into a project which benchmarked spending in 25 local authorities across the North East. Other local authorities have been thinking along similar lines, but the city which has developed the idea furthest is Cleveland, Ohio, the American city worst hit by the sub-prime mortgage crisis.

There are two major economic players still active there, the university and the hospital. To put the hospital to better economic use, they have borrowed an idea from one of the great success stories of co-operative business, in Mondragon in Spain. The Evergreen Project in Cleveland has been setting up local co-ops, employing local people, and clustering them around the hospital, starting with a sustainable laundry business.[21] The second project is a renewable energy company, starting with installations on the hospital roof.

The Evergreen Project draws on experience from Mondragon. The Mondragon story dates back to just after the Second World War, when the local Catholic priest founded the first worker's co-op to employ local people and meet local needs. Half a century on, there are now 256 linked co-operative businesses, employing nearly 100,000 people and with offshoots worldwide, and they've been doing even better during the global downturn. So much so that the US steelworkers union have signed a long-term agreement to do something similar in North America.

What Mondragon has now is a whole network of businesses, which can trade with each other, but which employ and are owned by local people. A city which is thinking about how more of the rewards of local business can stay locally – and they do need to think about this – will need to look at Mondragon and learn how to create their own new networks of employee-owned co-ops.

The idea is to make sure that the hospital's spending is genuinely 'best value' by using its spending power to launch and underpin these new businesses. It also requires no new money. This important model re-interprets the potential for 'best value' in UK procurement. It means:

- Making sure that public procurement bids in struggling areas show what impact they will have on the local economy.
- Working with local enterprise agencies to set up co-operatives capable of delivering local public sector contracts.
- Finding new ways that local people can benefit from their efforts by generating income streams.

9. Launch a range of new kinds of money

Complementary currencies are in their earliest stages of development, but have a successful track record of providing local means of exchange, when money is running short in the local economy. Successful models are now running all over the world, keeping local resources circulating locally and providing independence for impoverished communities from government largesse. They can provide low-cost or free credit, and – in some countries – they underpin whole sectors of the economy (the Swiss WIR system underpins the building and restaurant trade).[22]

Many of them are modelled on the life-saving complementary currencies that grew up on both sides of the Atlantic during the Great Depression. Policy needs to be directed at encouraging a multiplicity of experiments, and providing an explicit legal power to local authorities to set up currencies systems – regulated by a new e-money regulator – and to accept them for local taxes and fines.

UK cities need to set up their own small business barter system – along the lines of those in the USA and Australia – to provide local business with very low cost credit and to encourage those ties of mutual support that can make all the difference between survival and failure. But they also need to learn from experience in Uruguay and Brazil. There are now 51 community banks in Brazil, issuing and managing social currencies – which are legally food and transport tokens – but also organising microcredit loans in both currencies.[23] The community banks are based in poorer districts where there are discounts for paying in social money. They offer conventional loans at only two per cent APR or a social currency loan at no interest (for small loans). To get these loans, you can bypass the credit protection agencies as long as your neighbours vouch for you. There are plans for 300 community banks by 2012.[24]

In Uruguay, Commercial Credit Circuits (C3) – an innovation by the Dutch NGO and consultancy STRO, backed by the World Bank, the ILO and the European Commission – are designed to increase the liquidity of SMEs, especially those which have to pay bills now but don't get paid for their own services until later.[25] The withdrawal of the big banks from the SME market makes this a serious problem.

C3 makes it possible for member companies to use low cost factoring services, allowing them to pay other members in C3 credits (basically promises to pay later). The C3 takes on the debt and insures it against default and pays out in C3 credits. C3 turns debts into useable C3 credits and speed up the circulation of money. There is usually a negative interest of 0.5 per cent to stop people hoarding credits.[26] All state-owned enterprises (water, electricity, public transport, communication) now accept C3 credit and taxes can be paid in C3 credit too. The World Bank has agreed to back the project with a loan of $250 million.

The idea is that, on this scale, C3 will force down the mainstream cost of borrowing for SMEs. This will also encourage local business to trade and source products locally, cutting down on carbon emissions.

That means:

- Setting up community banks, along the lines of Brazil's networks or the Swiss WIR system, that can provide very low cost credit to small business in widely accepted parallel currencies.

- Making sure that all local authorities and state-run services accept approved local currencies in payment or part-payment of rent or rates.

- Experimenting with institutions that can support local business by taking debts and turning them into local currency, along the lines of C3 in Uruguay.

10. Experimenting with new kinds of credit creation for local public benefit

The problem with quantitative easing (QE) as recently practised in the UK and USA is that it simply fuelled the institutions which had failed the economy so spectacularly. QE simply inflated asset prices providing windfall gains to the already wealthy with absolutely no way of guaranteeing that this will stimulate productive investment or employment.

There will be occasions when regional economies require the creation of new public money, free of interest, where necessary to cope with unprecedented financial emergencies, and as the basis for loans to rebuild the infrastructure of productive local economies. In contrast to the inflationary effects of QE, public money created in this way can be used directly to bring idle resources back into use, grow the productive economy, and get people back to work.

During the financial crisis of July 1914, David Lloyd George did this to underpin the banks. We should not make the mistake that the creation of money in other ways – in the form of bank lending – is somehow the only authentic way of doing it. Private banks have enjoyed a sizable, indirect subsidy through being allowed to create money[27], and there is no reason why money creation should not happen in the name of direct public benefit. The Bank of England should exercise its power to create money to provide the loan finance for the new local lending or green infrastructure without wasteful payments to financial intermediaries. This should then be repaid, free of interest, when the task is complete, and then withdrawn from circulation.[28]

Conclusion

Not all of these ideas can be organised tomorrow, at least not without central government support. Providing new kinds of quantitative easing and making it available to the regions is not something that local government can organise by itself. Getting the banks to fund a new community banking infrastructure – capable of supporting the SMEs market, as they do in the USA – depends at least on co-operation between the banks.

But a great deal can be done by imaginative and forward-looking city leaders, and can be done immediately, grasping the new powers of general competence that are being made available in the Localism Bill. All of these ideas have been put into practice somewhere. What has not happened so far is for enlightened local government to knit all these approaches together and claw their way out of recession by doing so, as part of a balanced approach that raises local well-being, lowers carbon emissions and makes urban populations less unequal.

It is a local, and a neighbourhood, approach to making economics work for people rather than against them – based on increasing the local velocity of money, on import replacement not comparative advantage, and on a much more personal approach to enterprise. Much of it is tried and tested and waiting for local government to see the opportunity and forge an approach which is, in its own way, as important as Joseph Chamberlain's urban revolution of the 1870s.

That is the challenge for local government, and the challenge for us in the world of new economics is how best to support them.

Endnotes

[1] Greenham, T. et al. (2011). *The Good Jobs Plan: A new approach to industrial strategy.* London: **nef**.

[2] Clegg, N. (2011, 4 February). Building a New Economy [speech]. Retrieved from http://www.dpm.cabinetoffice.gov.uk/news/building-new-economy-speech

[3] See for example: Sacks, J. (2002). *The Money Trail: Measuring your impact on the local economy using LM3.* London: **nef**.

[4] Cox, E., Squires, P., Ryan-Collins, J. & Potts, R. (2010). *Re-imagining the High Street: The 2010 Clone Town Report.* London: **nef**.

[5] Jacobs, J. (1986). *The Economy of Cities.* London: Penguin.

[6] Rubin, G., Jatana, N. & Potts, R. (2006).*The World on a Plate: The economic and social value of London's most ethnically diverse street market.* London: **nef**.

[7] See Taylor, J. et al. (2005).*Trading Places: The local economic impact of street produce and farmers' markets.* **London:** nef..

[8] See www.wiganplus.com

[9] Schoenborn, S. (2011). *The Right to retail*, London: ResPublica.

[10] See Squires, P. et al. (2007). *Who's the Entrepreneur? The BizFizz Story.* London**: nef.**

[11] Hodgson Brown, E. (2011, 7 March). How Wisconsin can turn Austerity into Prosperity – Own A Bank. *Baltimore Sun.*

[12] See www.neweconomics.org/projects/campaign-post-bank; **nef** Postbank report forthcoming (July 2011).

[13] Independent Commission on Banking. (2011). *Interim Report: Consultation on Reform Options.* London.

[14] Greenpeace UK. (2005). *Decentralising UK Energy.* London.

[15] See www.haringey2040.org.uk

[16] See www.peckhampower.org

[17] Waring, M. (1988). *If Women Counted.* London: Macmillan.

[18] See for example: Scottish Environment Protection Agency. (2011). *Raw Materials Critical to the Scottish Economy, a research project funded by the Scottish Environment Protection Agency.* Edinburgh.

[19] See furnitureresourcecentre.co.uk and wwwbulkybobs.co.uk

[20] Sacks, J. (2006). *Public Spending, Public Benefit*. London: **nef**.

[21] See www.evergreencoop.com or also Alperovitz, G. et al. (2009, June). Cleveland's worker owned boom. *Yes Magazine.*

[22] Stodder, J. (2010). The Macro-Stability of Swiss WIR-Bank Spending: Balance versus Velocity Effects. Hartford, CT: Rensselaer Polytechnic Institute.

[23] Place,C. (2011). Community currency progress in Latin America. *International Journal of Community Currency Research*, Vol 15.

[24] Sanches, M. (2009, 23 March). *Epoca.*

[25] See www.socialtrade.org

[26] Van Hilten, R. (2009). *Commercial Credit Circuit Reader*, Utrecht Social Trade Organization. (In Dutch.)

[27] Greenham, T., Simms, A., Prieg, L. & Potts, R. (2011). *Feather-bedding Financial Services: Are British banks getting hidden subsidies?* London: **nef**.

[28] See for example Ben Dyson et al. (2011). *Towards a 21st century banking and monetary system: Submission to the Vickers Commission*. Positive Money, **nef** and Southampton University.

Author: David Boyle

Cover image: Andy Welsh via Flickr

new economics foundation
3 Jonathan Street
London SE11 5NH
United Kingdom

Telephone: +44 (0)20 7822 6300
Facsimile: +44 (0)2078206301
E-mail: info@neweconomics.org
www.neweconomics.org

Registered charity number 1055254

ISBN: 978 1 908506 01 6