impacts of local spending and saving are found in credit unions, LET schemes and farmers' markets. The long-term advantages of mutualism, embodied in trades unions, cooperatives, building societies and much of the banking, insurance and finance sector, were undermined by successive Westminster governments; they need to be reinvigorated and offered greater protection.

The regeneration of parts of the Highlands and Islands of Scotland through community buy-outs of their own land, following the land reform acts, demonstrates what ordinary people can do when the shackles of landlordism are removed. Repopulation, new companies and housing have all been achieved through their own collective enterprise, against stagnation and worse under private ownership. That this was only possible under devolution and that Scotland is faring better in this recession than England confirms that democratic changes are necessary and successful components of reform. The confidence and growing self-esteem that these developments have encouraged locally and nationally are critical to further progress. As important, policies and strategies to create a more equal and equitable society have to be introduced at all levels if evolution is to be positive and worthwhile. Fiscal reform is an essential part of this so that the excesses of the past quarter century are not repeated. In that regard, there must be a move to truly progressive taxation so that the poorest no longer pay a higher proportion than the rich of their incomes in tax—with unearned income the key target.

The most successful, sustainable and cohesive societies have weathered their own recessions and crises in recent decades by pursuing just and equitable paths. This recession makes the implementation of such reforms essential and long overdue. Now is the time for the arguments to be made even more strongly so that we progress through the coming months and years with hope for a better and sustainable future for all, rather than for the few. L&L

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edward j dodson's cooperative individualist view

For most of their history, banks were managed by people who understood the banking business to be that of an intermediary between lenders and borrowers. People who enjoyed incomes greater than their immediate needs deposited surplus cash with the bank. The bank created an account for the depositor and permitted the depositor to write checks against the account balance. The bank charged for this service when the depositor did not keep in the account an amount that enabled the bank to cover its own expenses by investing the cash elsewhere or making loans to borrowers. The bank would actually share its investment revenue by paying *interest* when the depositor agreed to open a savings account with more restricted access for withdrawal of funds. The bankers knew what their cost of funds was, knew what their expenses were to operate the bank, knew what market forces would permit as a profit margin, and charged borrowers *interest* accordingly.

What makes this rather straightforward model of the banking business more complicated is the process of evaluating risk. And, for bankers, there are several important risks to consider. First, there is duration risk; that is, the risk that an unstable interest rate environment will jeopardise profit margins when rates on deposits are rising while rates on loan assets are not. Second, there is default risk, where the creditworthiness of a borrower has been incorrectly analysed or has materially deteriorated while a loan is outstanding. And, third, there is business environment risk. To the extent possible, banks try to engage third parties to mitigate these risks, which adds another layer of complexity to the business model.

The current problem for banks of widespread defaults by borrowers, who were given loans for the purchase of residential properties, occurred because they ignored everything their predecessors had learned about risk. Instead, they accepted the dubious idea that government planners and central bankers had successfully developed the fiscal and monetary tools to achieve sustained economic conditions. And, they felt very protected by what almost everyone accepted as a positive economic indicator: rising property prices. With property as collateral for loans, losses due to defaults and foreclosures would be minimal or even non-existent. So confident were some bankers that they did not even require borrowers to pay for mortgage insurance when they could not make the *traditional* 20 percent down payment.

We are now in the midst of a global economic meltdown, and many banks are in danger of closing their doors. Failing to understand the cyclical nature of the land markets that drive property markets, banks have watched helplessly as the value of their collateral has fallen and continued to fall.

To save the surviving banks from themselves, this is an opportune time for new regulation that greatly restricts or prohibits banks—whose depositors are protected by government insurance—from accepting land as collateral for future loans. This one measure would remove a significant portion of the accelerant from the next credit-fueled upward movement in the land market cycle.