Co-Operative Banking; An Alternative Finance After the Global Crisis.

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Abstract: Co-operative banking has the longest historical background in finance, while the foundations of the banking system lay on the ground of a “large scale, mutually beneficiary, liquidity buffer”. The banking system is being under a constant dispute, be it ideological, religious, philosophic, political, academic or scientific. The global financial crisis, which has been ignited by a misunderstanding between the banks shareholders, the real estate operators, the workers and the stock exchange market operators is becoming a lack of currency, mainly because the money referred to, existed only as accounting figures. The co-operative banks are using only real money in their operations. They borrow real money from their members – depositors and they lend these fiat money to their members in need for credit. Such a banking system, operating in parallel in most EU countries, is becoming an alternative source of liquidity for the SMEs and a secure deposit for the citizens. Examining the published results of a sample of co-operative banks and their similar institutions, in some EU countries, shows an increment of their volume of transactions, as the financial crisis was deepening, indicating some correlation.

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JEL Classification: *E41 (demand for money), G01 (financial crisis), G21 (Banks; Other Depository Institutions; Micro Finance Institutions; Mortgages)*

1. INTRODUCTION

The global financial crisis is stressing the attention of statesmen and academics on issues addressing the public deficit finance and the reaction of the traditional banking system and the stock market, directly correlated one to the other.

This is a diversion from the most hot economic concerns, at least as they have been known from economic history, like Gross National Product, Employment, interest rates and even Return on Investment (ROI).

The scarcity of these primary resources, like raw material, labor and capital, is long ago being seen as demand a supply question. There is also another dispute, whose the effect was the erection of the «iron curtain». Some are seeing only labor as a primary resource, while all the others derive from labor.

The market is not working this way, but in only rural and isolated economies. Open economies, as almost all in the globe fall in this category, are not restricted by their ability to produce goods and services, over-passing obstacles posed by restrictions in inputs of primary resources.

The classic economists and their successors at the first post-war years, were concentrated in the production part of the economy [1], either at an enterprise or regional, national or associative scale, same as the European Union, the Rising Sun Emerging countries, the South American, or any other organized economy.

While the offer side of the economy has been and still is preoccupied with production cost and volume, as this is institutionally expressed by the governments, the global markets are concerned with the expansion of the demand side. As market operators are mere «speculators», they drive the business managers to the belief that their priority is that of the maximization of the future cash flows, being already convinced that their employers are the shareholders [2].

The banking system and the stock market, belonging both to the financial economy, together with the insurance and pension funds, are gradually prevailing in the economy at such an extend, that goods and services trade is becoming second.

The original functions of money, after the facilitation of barter as an intermediary commodity, were also the wealth transfer without the fear of bandits and finally as availability over time, otherwise called credit [3].

Banks are commercial enterprises trading money. As shops are selling goods that they have bought from other enterprises, banks are lending money that they have borrowed from the depositors.

Yet, the banks are companies, whose owners are in the hunt of the maximization of their investment return (ROI), both as dividends and as increment of the market price of their shares.

Shareholders are not permanent [4]. The Stock Exchange market permits them to maximize short term profits, usually as a mix of dividends and a positive difference between the price they have paid for the shares and the price they can sell them for. They are so much temporary, that the slightest hope to become richer overnight with partly owning a bank, as a shareholder and selling back their shares, as soon as the particular speculation reaches the expected gain, concerns many stock exchange traders.

The contemporary banking system, [5] being such for more than three centuries, is becoming more and more subject to short term speculation than long term growth, following the fluctuations of the stock market worldwide.

Time dependent liquidity trading – borrowing and lending cash - is being gradually set aside. The banking system is becoming apparently complicated. The Banks are trying to balance between collateral, as a means of security for the depositors and profitability. The Collateral alleged value is supposed to cover at least four times the money lent. The maximization of the margin between the payment of interests and the revenue made from the utilization of this cash, as well as other placements – investments, without overcoming the necessity for a stably incremental course of the alleged value of each bank [6], calculated at stock exchange prices, is a view of the banks as any other public company.

The real estate crisis in US has shown that the banking system has suffered it because it was specialized in only one sector, the one of real estate. When the borrowers lost massively their ability to keep up with the payments of their debt.

Similarly, most of the banks are channeling the money of the depositors, together with the money borrowed from transnational and international organizations, to the coverage of the government deficits, since the gain of the banks seems to optimize the aspirations of both shareholders and managers.

They all think that governments always pay because they represent institutions that cannot go bankrupt. Yet, in order to safeguard the interests of the depositors, the investors and the managers, they are passing the risk to other players, who are acting as insurance guarantors, through the Credit Default Swaps (CDS).

The banks are avoiding risk, so they ask for collateral for every loan they give. CDS seems to be a better guarantee than real estate, because CDS are cash, instead of uncertain money through the auction of confiscated real estate.

The traditional banking system has, thus, shown a preference of governments, over enterprises and individuals.

The cooperative (or community, or microcredit) banking system is only marginally using the money of the depositors, who are usually also shareholders, for covering the public deficit, by buying bonds. Most of the money available are addressed to the market and mainly to the shareholders, whenever the statutes dictate that it is compulsory to be a shareholder, in order to get a loan or deposit money.

2. BIBLIOGRAPHY REVIEW

The intervention of the co-operative banks in the financial spectrum is not discussed in depth. This is given to the ambition of the (elected) boards to become strategic actors of a commercial bank, usually convincing the members / shareholders that they will multiply their property.

Many European banks of this community character have been transformed into ordinary commercial banks and others are trying to. Although there is no evidence of the fate of the members of the Boards, it may well be assumed that they have soon been replaced by delegates of institutional (fund) shareholders, replacing the community leaders with professionals.

Still, there is an extensive search for and publications of the correlation between various components and coefficients, connecting measurable with institutional and political framework. There are issues like ownership and control of the currency / money flow [7] and [7], that influence the credit trade business.

In the recent five years there is an increasing attention to the effectiveness and efficiency of the unconventional banking system, with a recent examination of the productivity of the co-operative banks [8], their reflection on the environmental impact [9] and the influence of the Non Government Organizations (NGO) on the strategies of the money connected corporations [10]

It is rather a solid hypothesis that Small and Medium Size Enterprises (SME), as well as Very Small Enterprises (PMI), are focusing on the financial sources of liquidity that pinpoint the unconventional banking [11], [12] or even availability of credit [13].

This is also posing the issue of microcredit and the microbanks as actors of the formation of an alternative cash trade businesses, even as a franchising [14] or [15].

In a parallel course of the commercial banks re-internationalization (if we see the banking roots in the value-exchange operations), the co-operative banks are seeing an international position (some of them mare already achieved this) from the same point of view with the established commercial (not just financial) world, through franchising [16], or even the use of funds for business expansion [17]

OECD in 2009, long before the appearance of the solvency emergence, has been aware of a disruptive evolution, publishing a relative study [18], concerning the cash flow from the banking institutions to the SMEs.

3. DATA REVIEW

The 2010 annual report of the European Association of Co-operative Banks is unraveling interesting information. In Finland, for example, the market share of the co-operative banks is 32%, as much as in Italy and Canada, while it seems that in France the co-operative banks represent almost 50%. Yet, it is arguable if Credit Agricole, for example, remains a co-operative bank after the acquisition of commercial banks and that in other countries.

The Italian co-operative banks, operating in the South, but also in the highly industrialized North and with very developed commercial ports, such as Genova, Venezia and Napoli, with a very long and successful history of industry and commerce, has employed a model very close to the traditional commercial banks, while they had gathered big capital contribution by the enterprises, not just the citizens.

The IMF has examined the robustness (stress test) of the financial institutions, at an attempt of setting a kind of standards [19], based on a search of the causes of the financial crises [20] and considering the cost of private dept [21] in an effort to determine relationships between policy implementation and results, as a tool for a solid suggestion of new policies.

4. DISCUSSION

The banking system, after the strong demand for credit, expressed by the governments and the invention of the CDS, as a guarantee (collateral), has changed the functions that were accepted as principals, such as to accept deposits and provide loans.

The predominant banking system is envisaged as a source of perpetual profits for all the parties involved; the depositors, the shareholders, the fiscal authorities and the speculators, for all those who are managing individual, institutional or other funds.

This system is controlling an unknown proportion, yet assumed as major, of the money flow, following the short-term profits. The flow control is expected to make profits [22] for some of those involved in either the control of the money flow or all kinds of real or apparent intermediary service providers.

This stream of common interests is apparently attracting the commercial banks to financing the government deficits more and more, at least as long as there are available CDS, which theoretically has no other end, but either an international agreement on the bankruptcy of the general governments, or the creation of an IMF mechanism trading CDS the same way it is using the Special Drawing Rights (SDR). Yet, without the CDS, many governments would have already declared bankruptcy.

Still, the financial needs of the government deficits are draining out the currency, instead of reserve, they are leading it to the creditors of the governments, thus putting it out of the money multiplication procedure.

The money multiplier is creating bank money out of an initial deposit of currency and is almost null, because commercial banks are buying more profitable and risk-free bonds.

The co-operative banks, the micro-credit institutions, mutual guarantee credit institution and other forms of «community banking», are all redistributing the currency to the businesses and the individuals of an almost clear geographic territory.

All businesses, Multinational, Large, SMEs, PMI and Sole, are expecting the banking system to provide them with credit, in order to increase liquidity and offer goods and / or services. The entrepreneur's culture is financial leverage oriented, so businesses expect to pay interest rates lower than their expected profits, assuming that the banks will provide them with credit nearing the usual 25% of real estate collateral.

The financial crisis, which was not only the real estate value collapse, or the mortgage overstepping, but also systemic, because credit has long being drained out of the market of goods and services and was being channeled to government spending of the past.

Government spending cuts, necessary because of an evident excess of the capacity of the fiscal authorities to finance them, are draining out the credit circulation, because the currency deposits are diminishing.

On the other hand, currency flow, passing through credit institutions other than the commercial banks, such as co-operative banks, is returning to the community for a new entrance in the system, at a rate proportional to the market share of the «non conventional» banks, since the currency receivers have an analogous probability to use such a bank for the 'money transfer'.

5. CONCLUSIONS

The co-operative banking evolution is expected to happen, because it represents a vehicle transporting liquidity surplus to businesses. Whenever the co-operative banks maintain their original character, in other terms: to only accept deposits and provide loans to the members /

shareholders and limit the right of equity to a number of shares or a percentage of ownership, they will keep on channeling the cash available, after the retention of the necessary reserves, to the same group of individuals. In a more pure operation of the co-operative banks, restricting the eligible clients to their own members, usually at a local or regional territory.

Microfinance is facilitated, when co-operative banks undertake the task of distributing the money deposited by their members with a liquidity surplus to their other members, in need of cash. On the other hand, publicly controlled microfinance is usually being distributed by commercial banks. Microfinance is rarely reaching the population, either of micro-entrepreneurs or of marginal groups of individuals, because such subjects rarely meet the commercial banks' eligibility criteria.

SMEs and Self Employed with a liquidity surplus, have reasons to avoid to deposit thir money in co-operative banks, until an international payment transfer is ruled. The pure co-operative banks, as well as other microcredit institutions, do not have yet a common “clearing” system, making money transfer from region to region (throughout Europe, at least). This is motivating businesses to use the commercial banks for their international transactions. An international system of "payments clearing" of the co-operative and other microcredit initiatives in the same credit transfer settling, will improve the degree of locally reused credit.

Global crisis is mainly credit drain out, the cooperative banks are recycling credit. Governments are not supporting the co-operative banking expansion and development. They are using “routine” econometric models, that are calculating the impact on the deficit covering. Although this is true, it can only refer to short term. It is rather a reaction at an alarming situation. The co-operative banking evolution is expected to contribute in forms of taxation related government income, but only with a delay, because taxes are collected with at least a year of delay.

6. REFERENCES

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