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Alternative forms of finance: A literature review

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Alternative forms of finance: A literature review

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Abstract: This paper explores "alternative forms of finance" as part of a focus within the FESSUD project on examining the functioning of financial systems in order to ensure that they are better able to contribute to citizens' well being. The paper considers the extent to which various financial institutions and systems in Europe have been able to escape the pressures or imperatives that have come with financialisation and serve the needs of non-elite households and small businesses. Such needs include access to affordable credit and financial services while remaining insulated from financial market instability. The paper is not a comprehensive review of every such initiative but selects some of the most important as exemplars. In particular it focuses on the issues of stakeholder value banking, peer-to-peer lending and alternative currencies; lessons are drawn from their successes and failures.

Key words: Financialisation, Finance, Banks, Savings Banks, Europe, Peer-to-peer Lending, Alternative Currencies, Cooperatives, Building Societies

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1 Introduction

This paper explores "alternative forms of finance" as Deliverable D5.10 under the EU FP7 FESSUD grant. FESSUD, *Financialisation, economy, society and sustainable development* aims to understand how finance can better serve economic, social and environmental needs and to develop a comprehensive policy agenda for changing the role of the financial system. Work Package 5 of FESSUD (within which this paper falls) focuses on the relationships of households with the financial system. The overall objective of the Work Package is to examine the functioning of financial systems in order to ensure that they are better able to contribute to citizens' well being.

This paper explores "alternative" or "people-centred" forms of financial institutions and financial systems with a focus – in line with Work Package 5 – on households and small businesses. This hazy mandate is sharpened by considering the extent to which various financial institutions and systems in Europe have been able to escape the pressures or imperatives that have come with financialisation and serve the needs of non-elite households and small businesses. Such needs include access to affordable credit and financial services while remaining insulated from financial market instability. The study does not focus directly on, the now well-chartered, territory of households' deeper integration within financial markets, for example via credit card and mortgage debt or financial asset ownerships through for example pension funds. Rather, it takes as its point of departure institutional forms and systems that profess to be offering an alternative to the heavily financialised integration of households into financial markets. The paper is not a comprehensive review of every such initiative but selects some of the most important as exemplars. Within these it does not comprehensively review every European country under consideration but provides case studies which illustrate divergent trends.

The paper is divided into two main sections. Section two focuses on "traditional" alternative financial institutions, most notably cooperative and saving banks and building societies, and the extent to which these were, and have remained, "people-centred" and avoided financialisation pressures. Most notable amongst these pressures is the drive for shareholder value maximisation and the various ways this has changed lending patterns and skewed them against non-elite households. We see here both success and failure at resisting such pressures. Section three focuses on "new" alternative financial systems using two of the most significant developments as case studies: peer-to-peer financing and alternative currencies. The first represents an attempt to bypass traditional financial institutions – premised on the latter's failure to cater to ordinary households and small businesses – while the second is an attempt to establish an alternative financial architecture insulated from the imperatives of contemporary financial markets. It is shown here that both ventures are flawed; the first appears to be increasingly drawn into circuits of financialisation and the second unable to offer a systemic alternative because of its own internal contradictions. Section four briefly situates these trends within the context of European financial reforms more broadly and concludes. As evident a choice has been made to focus on depth rather than breadth, honing in on the most prominent "alternatives" relating to households from which we can draw broader lessons.

Throughout, different facets of financialisation are explicated as relevant to the objectives of the case studies. In general, financialisation, a complex and contested notion, is understood to refer to the predominance of the influence of financial markets over more and more spheres of economic, political and social life and the subjugation of these to the logic, dictates and imperatives of financial markets. The extent to which financial institutions and systems exist which can withstand such dictates is the focus of this enquiry.

2 "Traditional" Alternatives

2.1 Shareholder value versus stakeholder value

One facet of financialisation – with particular reference to corporates and capital markets – is the rise of shareholder value (SHV) maximisation. This has meant the prioritisation of (often short-term) shareholder gains over other aspects of business growth, achieved through: high dividend payouts; diverting profits to share buybacks and other means of raising market capitalisation value; mergers and acquisitions prioritised over long-term internal growth; and focusing on projects with high short-term returns on equity. These processes have been facilitated through a market for corporate control whereby companies, or company shares, are bought and sold by investment banks, hedge funds, etc. and institutional investors as bundles of assets; thus imposing "market discipline" upon these companies (see, for example, Froud *et al.* 2000, Lazonick and O'Sullivan 2000).

Commercial banks are subject to such forces. However, there have traditionally existed financial institutions with different priorities, what are termed stakeholder value (STV) institutions whose ownership is not based on shareholders but comprised of 'a social group or organisation whose members share a common interest related with the provision of funding or the promotion of savings' (Anguren Martín and Marqués Sevillano 2011, p. 28). These have sought not only to maximise profit and shareholder value but to achieve various social ends for their stakeholders (notably customer-members in the case of cooperative banks and building societies and the regional economy and society in the case of savings and public banks); the so-called "dual bottom line" (Ayadi *et al.* 2010).

Such financial institutions include Savings Banks, Cooperative Banks, Public Post Banks and Building Societies and come out of the self-help tradition of early mutual societies, cooperatives, traders associations and philanthropic organisations of the eightieth and ninetieth century. They spread throughout most of continental Europe in the second half of the ninetieth century. Whereas, at the time, banks confined their activities to urban areas and served the affluent, savings and cooperative banks sought to bring together the savings of an emerging class of workers, shopkeepers and farmers to provide affordable loans to these segments, which might now be termed the "financially excluded" (Ayadi *et al.* 2010, p. 1, Anguren Martín and Marqués Sevillano 2011, p. 29). Over time they evolved, the joint liability of cooperative members was dropped, geographical expansion took place and the socio-economic groups served broadened (Ayadi *et al.* 2010, p. 2). From the early 1980s onwards, rapid reforms took place in many European countries with demutualisations, privatisation and diversification occurring. In 2010, cooperative banks held 13% of assets and deposits and 15.5% of loans in the EU (ECB 2010, Birchall 2013, pp. 14–15). Savings banks (those which are members of the European Savings and Retail Banking Group), in 2012, had a market share of 15.2% of assets and 19% of loans in the EU (WSBI and ESBG 2015). Including other STV banks (such as credit unions and building societies) the sector accounts for approximately 35% to 40% of the EU banking market.

All financial institutions, however, have been subject to the pressures of financialisation and the drive for SHV maximisation. In addition, European integration has placed added pressures on the banking sector. As Dymski and Kaltenbrunner (Dymski and Kaltenbrunner 2014, p. 2) note: "competitive pressures from inside and outside of Europe have eroded the local banking structures that traditionally supported the small and medium sized enterprises at the heart of a numerous European economies' growth engines". Integration has meant greater competition and the consolidation of banking sectors with the prioritisation and dominance of "national champion" mega-banks as well as orientating banks towards more speculative practices.

The extent to which STV banks have succeeded in resisting such pressures is the focus of this section. We cannot possibly comprehensively review all STV banks across Europe, nor is this necessary here as we primarily seek to understand their potential. In line with this, we offer two in depth case studies – the Savings and Cooperative Banks in Germany and Building Societies in the UK – with reference to other examples.

2.2 Saving and Cooperative Banks: Ownership, Control, Operation and Benefits

The labels of cooperative and savings banks – which differ from one another in important ways – now cover a heterogeneous set of institutions. Nevertheless, in both cases a number of common characteristics can be discerned, both in the "ideal case" and in practice. These characteristics, with reference to ownership, control operations and who benefits, are discussed below. Table 1 (for cooperative banks) and Table 2 (for savings banks) show their respective market shares and together they account for approximately 40% of European deposits and loans.

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Table 1: Cooperative Banks Market Share (2010)

	Market share of deposits (%)	Market share of loans (%)	Number of customers (millions)	No. of local / regional societies
Total Europe	21	19	181.1	3874

Note: Figures for 2010 from the European Association of Cooperative Banks. The Swiss Raiffeisen Federation and German regional group WGZ are missing from these figures as they are not members of the Association.

(Source: Birchall 2013)

Table 2: Savings Banks Market Share (2012)

	Market share of deposits (%)	Market share of loans (%)	Market share of assets (%)	Savings and retail banking institutions
Total	19.7	19.5	16.4	917

Note: Figures from 2012 from European Saving Banks Group and refers to the countries within which the Group has members. Percentages are a portion of total monetary financial institutions (MFI) which includes central banks and resident credit institutions. Not all savings banks are necessarily part of the Group.

(Source: WSBI and ESBG 2015)

2.2.1 Cooperative Banks

Ownership. Cooperative banks are owned by their members, usually local or regionally centred, with each member buying one (in general) non-marketable share. However, '[t]he capital base of a cooperative bank (i.e. its net asset value) does not belong to the current cohort of members'. Rather, '[c]apital is essentially an intergenerational endowment held by the cooperative in perpetuity for the benefit of current and future members' (Ayadi *et al.* 2010, p. 14). Cooperative banks do service non-members and there is no formal distinction in services offered between owner-customer and non-owner-customer. Various specifics of ownership and control are defined internally but over time a body of law governing cooperatives has developed including EU-wide regulations (Ayadi *et al.* 2010, pp. 13–14, Birchall 2013, pp. 1–2).

Control. Owners – at least in theory – are integral to the governance structure on the basis of one person, one vote in the election of governing boards and the endorsement of various resolutions. The growth of cooperatives and the formation of centralised institutions (see below) has diluted effective control, in particular member involvement has become notoriously weak, visible, for example, in low attendance at annual meetings (Ayadi *et al.* 2010, pp. 13–14, 33, Birchall 2013, pp. 1–2).

Operations. Cooperative banks generally focus on high street retail banking using members' deposits to fund loans with the main source of capital being retained earnings from previous loans (in the main they cannot issue equity in financial markets although various forms of subordinate debt and equity now exist). They are generally regionally specific, adhere to the "regional principle" of not competing with other cooperatives in other regions and generally have close ties with local borrowers and SMEs. However, with the geographical growth and mergers of different cooperatives these relationships have become more distant (Bülbül *et al.* n.d., Ayadi *et al.* 2010, pp. 2, 13–14, Birchall 2013, pp. 1–2, Prieg and Greenham 2014, p. 6).

Dense networks of vertical and horizontal cooperation between local, regional and national branches have arisen and recently these have been formalised into a tiered structure with regional and national central organisations. The driving force behind their creation was the need to manage liquidity and access to capital markets, in particular via an intragroup interbank market (Ayadi *et al.* 2010, p. 19). However, they also serve to pool the group's risk, achieve economies of scale (and scope) especially regarding back office and administrative functions, and provide centralised services (such as product development, public relations, marketing, training programmes, and lobbying efforts). The influence and role of these centralised bodies differs in each country (Ayadi *et al.* 2010, pp. 17–23).

Benefits. The benefits of cooperatives accrue to member and non-member customers in that value added is distributed *ex ante* in the pricing of deposits and loans and/or quality of services meaning customers get cheaper loans and higher interest on deposits than at other banks (Ayadi *et al.* 2010, p. 11). Members may also receive irregular dividends, subject not to share of ownership but the use they make of the business. Local communities may also benefit through lending to SMEs and investment in local projects (discussed below) (Birchall 2013, p. 2, Prieg and Greenham 2014, p. 5).

2.2.2 Savings Banks

The changes which savings banks have undergone in the last twenty-five years makes a generalisation of their character almost impossible. Here we describe both their traditional and realigned orientations.

Ownership. Savings banks were traditionally sponsored, but not necessarily owned, by public institutions, that is, the authorities did not have property rights to the bank. Rather, ownership could be constituted of depositors, employees, investors, local and regional public authorities or non-profit foundations. Recently, in certain locales, for example in Spain, saving banks have been privatised (Bülbül *et al.* n.d., pp. 2–3, Anguren Martín and Marqués Sevillano 2011, pp. 29–30).

Control. A board elected from local, regional and/or national government and local non-government bodies (such as trade associations) traditionally governed savings banks. In some countries saving banks were/are constituted under public law. (Bülbül *et al.* n.d., pp. 2–3, Anguren Martín and Marqués Sevillano 2011, pp. 29–30).

Operations. Savings banks had, and continue to have, a regional, even local, focus and adhere to the "regional principle" mentioned above. They continue to focus on savings and the mobilisation of savings. They are also part of dense and cooperating networks of legally independent institutions that constitute a special banking group. These networks offer a common appearance and allow them to share information and "outsource" certain functions (like those described with reference to cooperative banks) in order to achieve economies of scale. Like cooperatives they have restrictions on sources of capital and the use of their assets (Bülbül *et al.* n.d., pp. 2–3, Anguren Martín and Marqués Sevillano 2011, pp. 29–30).

Benefits. Saving banks do not have specific members to serve but have rather traditionally focused on supporting the local economy and local people through low-cost services and favourable lending. In addition, they play a social responsibility role, for example sponsoring local arts, culture and sport.

2.2.3 Pressures to reform

With the onset of financialisation the structure of savings and cooperative banks came to be regarded as anachronistic and came under pressure to reform. This was symptomatic of the rise in SHV orientation and the movement away from relational banking on the premise that risk could be managed via diversification and sophisticated modelling. The subordination of banks to financial markets and increased competitive pressure from commercial banks also drew the focus of some STV banks away from their traditional business and into high risk activities (Ayadi *et al.* 2010). Interestingly, this diversification – away from a focus on the financially excluded – may have facilitated the expansion of this sector in certain locales (Anguren Martín and Marqués Sevillano 2011, p. 28). In the main, these STV banks came to be regarded (without much evidence) as uncompetitive and inefficient. In many instances this resulted in demutualisation or privatization, for instance in Italy, or in hybridization for instance in Austria and Finland.

2.3 German Saving and Cooperative Banks

Germany was the birthplace of cooperative banks and Hamburg's first savings bank was one of the first in Europe, it is also a locale in which these banks have largely remained true to their original purpose and orientation. Cooperative banks emerged in two locations and in two forms, both in the middle of the ninetieth century. The rural Raiffeisenbanken – named after their founder Friedrich Wilhelm Raiffeisen – were self-help institutions, relied on social solidarity, and were self-administering small financial intermediaries. The mainly urban Volksbanken (people's banks) typically served craftsmen and petty traders along the same principles. Both developed rapidly and remained largely separate until 1972 when they merged. This was also the period in which they were allowed to take on non-members as customers (Bülbül *et al.* n.d., pp. 5–7, Anguren Martín and Marqués Sevillano 2011, pp. 30–32, Simpson 2013, pp. 3–11).

Savings banks (Sparkassen) emerged even earlier in northern Germany cities in the late part of the eightieth century. They were first founded 'with the philanthropic aim of providing the poor with the opportunity to deposit small amounts safely, earn interest and thus have funds available to combat the adversities of illness and old age' and progressively 'developed to include support for local tradesmen and businesses' (Simpson 2013, p. 6). By 1913 there were 3,000 savings banks in operation, most founded by local communities. These banks are not state banks but 'essentially credit institutions operating under public law' with no private owners and serving the public interest of their region (Simpson 2013, p. 3). The responsible public body (not owner) is its local authority or a special purpose association of a local authority established to oversee the bank. This ensures that the local population (customers, residents, employees and town/city council) is represented on the supervisory board, whereas the management board comprises of hired professionals.

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Both German savings and cooperative banks very much follow the ideal type laid out in the previous section, including adherence to the "regional principle". Today, they comprise two of the three "pillars" of the German banking system (the third being commercial banks). By 2012 saving banks accounted for 22% of all banking institutions and 28% of total bank assets and cooperative banks make up 56% of banking institutions and 12% of total assets; together they account for over 50% of loans to and deposits from non-banks (see **Table 3** below) (Bülbül *et al.* n.d., pp. 7–8).

Both have developed regional and national institutions. In the case of savings banks, regional Landesbanken were created to support local banks with two prominent functions: to serve as house banks of their respective state, providing for the needs of local government, and to act as the clearing houses or central banks for the local saving banks of their region. They take different legal forms; some are joint stock companies while others are still public law institutions. Ownership lies in the hands of local savings banks, regional public bodies, or, in some cases, other Landesbanken. There is also a national central institution, DGZ Dekabank Deutsche Girozentrale (DGZ Dekabank) acting as a national Landesbank and 50% owned by the regional Landesbanken and 50% by the local Sparkassen via the national association of savings banks (Deutscher Sparkessen und Giroverband, DSGV). It is not a hierarchal system and decision-making power does not reside at the top.

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Table 3: German Banks Market Share (2000 and 2012)

	Institutions		Branches		Total assets		Loans to non-banks		Deposits and borrowing from non-banks	
	2000	2012	2000	2012	2000	2012	2000	2012	2000	2012
Private commercial banks	10.7%	19.7%	15.1%	26.5%	28%	39%	26%	27%	26%	36%
Big banks	0.1%	0.2%	6.6%	19.4%	16%	25%	15%	13%	14%	17%
Regional banks and others	7.3%	10.6%	8.2%	6.7%	10%	10%	10%	13%	12%	16%
Branches of foreign banks	3.3%	9.0%	0.2%	0.3%	2%	4%	1%	1%	0%	3%
Savings banks group	21.0%	21.9%	40.5%	36.1%	35%	28%	35%	36%	39%	34%
Saving banks	20.5%	21.4%	39.0%	34.9%	16%	13%	19%	21%	26%	24%
Landesbanken and DekaBank	0.5%	0.5%	1.5%	1.2%	20%	15%	16%	15%	13%	11%
Cooperative banks group	65.5%	56.0%	35.5%	32.5%	12%	12%	12%	15%	18%	17%
Cooperative banks	65.4%	55.9%	35.4%	32.5%	9%	9%	11%	13%	17%	16%
Central institutions	0.1%	0.1%	0.1%	0.0%	4%	3%	2%	2%	1%	1%
Other banks	2.7%	2.4%	9.0%	4.8%	24%	20%	26%	22%	17%	12%

Note: Due to rounding not all columns add up to 100%
(Bülbül *et al.* n.d., pp. 7–8)

In the case of cooperatives the regional central banks became redundant with time and have almost completely disappeared. Today, there are local cooperatives and two central institutions: the larger one is Deutsche Zentral-Genossenschaftsbank or DZ Bank, Frankfurt, and the smaller is WGZ-Bank, Düsseldorf. Both of these also operate as commercial banks, with DZ Bank being Germany's fifth largest bank. The network (Verbund) includes regional associations – such as the Auditing Associations – a national association, other financial and non-financial organisations – such as the Cooperative Housing Bank, the insurance giant R+V-Versicherung and the groups' own guarantee organisation, Sicherungseinrichtung – and several training institutions, bookkeeping and computing centres and the like. The Verbund encompasses 1,200 separate institutions and employs around 180,000; the saving bank network is about twice as large.

In the post-war period both groups underwent a process of consolidation and professionalisation, reducing the number of local institutions to less than one half over time and deepening cooperation within their respective networks. During this period they were the most successful groups in the segmented German banking system which allowed them to be the main providers of retail banking services to households and SMEs. In the 1960s, the big private banks started serving the general public, placing some competitive pressures on cooperative and savings banks. The market share of commercial banks in loans to non-banks and deposits from non-banks rose between 1970 and the 2000s from approximately 22% (for both) to 28% and 32%, respectively, predominately at the expense of savings banks (Ayadi *et al.* 2010, p. 36). More recently (in 2005) the phasing out of former public guarantees for local and regional savings banks was completed. This did not affect local savings banks much because of their reliance on retail deposits and effective internal risk control (Bülbül *et al.* n.d., p. 6), but for Landesbanken the lack of guarantees meant potentially lower ratings, increased costs to raise capital (about a third of capital of Landesbanken was market financed) and pressure on profit margins.

In the last four decades further concentration has taken place; the number of cooperative banks has declined from some 7,000 in 1970 to just 1,159 at the end of 2009 (Ayadi *et al.* 2010, p. 30) with the average size increasing dramatically. Between 2000 and 2012 the number of savings bank institutions contracted by 25% (from 575 to 432) (Bülbül *et al.* n.d., p. 7). Similar consolidation took place in other countries, for example in Italy, the Netherlands and Finland (Ayadi *et al.* 2010).

Despite this, on the whole, German savings and cooperative banks, have managed to maintain their traditional foci. We see in Table 3 that for savings and cooperative banks their branches account (in 2012) for 36% and 32.5% of bank branches in the country despite their assets only being 28% and 12% of total bank assets respectively, indicating more priority given to branch networks in comparison with commercial banks. Their loans to non-banks and deposits and borrowing from non-banks also exceed their asset market share with saving banks holding 36% and 34% respectively and cooperatives holding 15% and 17%, respectively; saving banks also constitute the principal account of over half of all German bank customers (Bülbül *et al.* n.d., pp. 7–8, Simpson 2013, pp. 14–15). This indicates a bias towards household and SME lending with the ease of access to financial services in Germany attributed to the existence of savings and cooperative banks and their local presence in almost all parts of the country (Ayadi *et al.* 2010, p. 40). Further, much of this lending for both household and business is geared towards the longer term, for instance mortgages and long-term business loans, respectively (Ayadi *et al.* 2010, p. 7).

Savings banks have a strong focus on business and small and medium size enterprises (SMEs) in particular, an important sector given that nearly 99% of German businesses have annual revenues of less than €10 million. They

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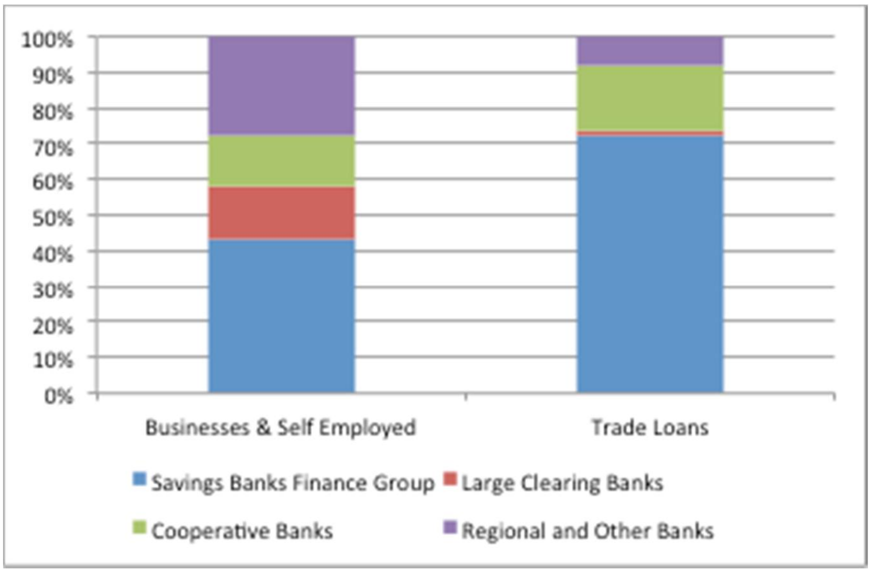
provide 42.7% of all finance for German businesses as seen in **Figure 1** allowing many family-owned SMEs, which do not wish or are unable to obtain market finance, to retain control of their businesses (Simpson 2013, pp. 4–5). Most illustrative is that they provide just under 56% of financing for small business start-ups with guarantees provided by the Kreditanstalt für Wiederaufbau (KfW)[1] (Simpson 2013, pp. 15, 17).[2]

Figure 1: Loans to Business: Percentage Market Share



(Source: Simpson 2013, p. 14)

This focus on SMEs is characteristic of different types of smaller and more locally focused banks, including cooperative banks. There is some evidence to suggest that loans in German cities are more expensive than in rural communities indicating the strong presence and support of local banks in rural areas. This local lending helps to support regional economic growth through preventing "capital drain", supporting local business and contributing to higher and stable tax revenue (Ayadi *et al.* 2010, pp. 106–107, 114–115). Statistical and econometric analysis, of the period 2000 to 2008, reveals that the presence of cooperative and savings banks has a regional pro-growth impact in Austria, Finland, Germany and the Netherlands; in Germany it appears as a virtuous cycle (Ayadi *et al.* 2010, pp. 137–140). The strong local presence also supports both household and SME lending through screening and monitoring borrowers and enforcing repayment in a manner not possible (or avoided) by large centralised commercial banks. For cooperative banks this is heightened by formal or informal intra-member screening, monitoring and enforcement mechanisms, including via social sanctions (Ayadi *et al.* 2010, pp. 105–106). In addition to these lending patterns these banks offer significant philanthropic support with the Savings Banks Finance Group the largest non-governmental sponsor of art, culture and sport, and one of the largest sponsors in the social sector and of scholarships (Simpson 2013, p. 17).[3]

Despite the above one may still question whether banking of this nature is of benefit to customers; as already noted allegations of inefficiency and poor performance have been lodged, over the past 35 years, against STV banks. In general, the evidence does not support these charges with STV banks performing as well as or better than their commercial counterparts.

STV banks have been shown to be more stable than commercial banks with lower volatility of returns. This is because they are less dependent on volatile wholesale-funding markets; are able to use customer surplus as a cushion; have less incentive and inclination to take excessive risk and operate in less risky retail banking markets; tend to be highly capitalised; and have strong networks of mutual support (Ayadi *et al.* 2010, p. 116). Their more risk-averse approach is further supported by less pressure to maximise short-term returns for outside shareholders (Ayadi *et al.* 2010, p. 16). In Ayadi et al.'s study, with data from 2000 to 2008, focused on Austria, France, Germany, Italy, Finland, the Netherlands, Spain and the average of 15 EU states,[4] earning stability is analysed through z-scores, a measure of standard deviation from the mean. In Germany savings and cooperative banks score better than commercial banks, a result repeated in the other case studies with the partial exception of the Netherlands (where savings banks score poorly) and Spain (where savings banks beat cooperative and commercial banks which score on par with one another) (see figure in Ayadi *et al.* 2010, p. 133). These results are confirmed by an IMF study of European banks between 1994 and 2004 (Birchall 2013, p. 20). STV banks also generally have larger capital cushions with their Tier 1 capital ratios stronger than for commercial banks.[5] This is in part because of restrictions on the types of assets they may hold but also because SHV banks are under more pressure to use or distribute their reserves during upturns, whereas STV banks often keep these to facilitate inter-temporal risk smoothing (Ayadi *et al.* 2010, pp. 107–109). Together these make STV banks less crisis prone.

STV banks also tend to operate more or less as cost-efficiently as their commercial rivals but are sometimes found to be less profitable (Ayadi *et al.* 2010, p. 118). Relying on return on assets (RoA) Ayadi et al. show that between 2000 and 2008 German cooperative and savings banks are equally or slightly more profitable than their commercial rivals. The same is true in Italy and Spain and for Finnish cooperatives where RoA is almost double that of commercial banks. Both savings and cooperative banks in Germany offer a higher return on equity (RoE) than their commercial rivals, the only country where this is the case.[6] Another study of European banks between 2002 and 2008 found that cooperative banks have a RoE of 9.3% compared to investor-owned banks of 13.4%, but then cooperative banks do not aim solely to maximise profit (Birchall 2013, p. 24).

Contrary to market perceptions, this lack of an exclusive focus on profit maximisation does not hurt efficiency. German cost-to-income ratios are almost identical between STV banks and commercial banks and this is similar in the other countries with the partial exception of Italy (where commercial banks trump savings and cooperative banks) and Spain (where cooperative banks score poorly but savings and commercial banks are equivalent) (see figures in Ayadi *et al.* 2010, pp. 129–131). Other studies on cost-efficiency produced similar results (see Birchall 2013, p. 19). Proponents of STV banks argue that they also serve to improve overall stability within the banking sector through greater diversity which is itself valuable in that it spurs creative and dynamic competition.

In large part the success (or advantages) of STV banks is underpinned by the specific structures of ownership, control, operations and benefits (discussed above). Critics of STV banks argue that cooperative ownership or public management may weaken members' incentives to monitor managers' performance (as cooperative members cannot sell their shares) (Fonteyne 2007) or lead to political capture (in the case of publicly run savings banks). But these dangers are purportedly obviated in the case of SHV banks. While capture by special interests is possible, a principle benefit of the STV model is precisely that they are not subject to shareholder value maximisation pressures and "market discipline".[7] While this may lead to difficulties in raising wholesale finance, STV banks are able to pursue a stable banking model orientated towards the long term without incentives to take excessive risks. This also helps ameliorate conflicts of interest between shareholder-owners and local customers and, while critics argue that managers, not earning exorbitantly high salaries and sharing in shareholder value rewards may be less incentivised, the recent crisis has highlighted that this may be an advantage of STV banks. It is member or local authority control which guarantees the above benefits as well as providing informational advantages and allowing for the pursuit of ends other than profit maximisation. Overall, the presence of STV banks offers significant economic, systemic and welfare benefits.[8]

This said, STV banks have not been immune to the changing business environment and the competitive challenges posed by large commercial banks. This has, in certain instances, led to them pursuing profit maximisation as aggressively as their SHV rivals and straying from their local, low-risk and retail orientation (Ayadi *et al.* 2010, p. 105). The consequences of this became apparent in the 2007/8 financial crisis and subsequent recession.

The evidence comparing how STV and SHV banks fared during the crisis is mixed. Anguren Martín and Marqués Sevillano (2011) present data on 52 commercial banks and 78 STV banks in France, Germany, Norway Spain and the United Kingdom using median values.[9] Their picture of the pre-crisis performance of STV banks in comparison to SHV banks is less glowing than those given above – possibly because of the countries selected and the inclusion of mutual, building societies and other STV banks not discussed here. Regarding the impact of the crisis, in percentage terms, the RoA and RoE of commercial banks fell more sharply than for STV banks and Tier 1 capital ratios were stronger for STV banks.[10] However, the ratios of impairments to loans and to tangible equity and reserves rose more for STV banks, possibly due to their high exposure to housing lending,[11] although the ratio of credit costs to pre-impairment profit rose significantly more for commercial banks (Anguren Martín and Marqués Sevillano 2011, p. 36). Groeneveld (2011), on the other hand, shows that European cooperative banks, despite a market share of 13% to 15%, only accounted for 8% of direct loses and write downs following the financial crisis. Nevertheless, STV banks did receive considerable public funds although, except in the case of France, this was almost exclusively savings banks in locales where in the last two decades these banks have unsuccessfully transformed from public saving banks to universal cooperative banks.

In Germany some diversification into investment banking activity has taken place and this heightened vulnerability during the crisis. For instance, the largest German cooperative bank, the "bank of doctors and pharmacists" (Ärzte und Apothekerbank, Düsseldorf) carried a sizable portfolio of up to €5.5 billion in toxic assets, such as mortgage-backed securities, before and after the

2007/8 financial crisis (Ayadi *et al.* 2010, p. 41, Reuters 2014). Similarly, a number of German Landesbanken (regional saving banks, in particular HSH Nord, BayernLB, SachsenLB and WestLB) suffered significantly, accounting for 41% of German banking losses despite a market share of 21%, indirectly causing large losses to local savings banks and other institutions in the banking group in their roles as co-owners, guarantors and business partners. Some have argued that this is a result of becoming detached from their traditional orientation (like in the case of French savings banks) (Bülbül *et al.* n.d., p. 10, Cassell 2015).

Interestingly the most significant manner in which German cooperatives strayed from their traditional orientation was through their central national institutions, DZ Bank and WGZ-Bank, both of which operate as commercial banks. The majority of shares in DZ Bank are owned by smaller cooperatives but DZ Bank owns and has interests in a number of other companies. Many of these service the needs of the cooperative banks but DZ Bank subsidiaries have also been very active in investment banking, especially in capital markets. DZ Bank's suffered write-downs and losses – the second highest of large European central cooperative institutions – but these were not excessive at 14% of equity between 2007 and 2008; in 2008 it made a loss of around €1 billion but returned to profitability in 2009. Events in France were similar with the investment banking arm of various central institutions taking heavy losses leading to all three French cooperative banks accepting public funds at the height of the crisis in October 2008. Institutions which strayed even further were more vulnerable. For example, Austria's cooperative central banks, which – through their members and in their own rights – are heavily exposed in Central and Eastern European markets and very active in international capital markets, saw plummeting stock prices in 2008/9, and one of them, ÖVAG, needed government bond guarantees and an equity injection of €1 billion (Ayadi *et al.* 2010, pp. 55–56).

Cooperative banks however have fared better than any other banking groups in Germany (Birchall 2013). Despite accounting for 20% of the European banking market, cooperative banks accounted for only 7% of write-downs and losses between the third quarter of 2007 and the first quarter of 2011. One reason for this was their limited exposure to toxic mortgages at the local level due to less risky lending practices. Overall, the assets of cooperative banks in Germany rose by €25 billion between 2007 and 2010 (a trend similar to cooperative banks everywhere but in Austria) and their market share of deposits and loans rose by 1% (again similar to most of Europe); Volksbank (the second largest) reported its best year ever in 2008. During 2008 the capital bases of German, Dutch and Finnish cooperatives strengthened to a 12% Tier 1 ratio, while other European cooperatives strengthened theirs to 8%. Cooperatives have also managed to maintain their ratings of A upwards. However, due to their heavy involvement in retail and SME lending they could potentially face credit losses with rising post-crisis numbers of corporate and private bankruptcies (Ayadi *et al.* 2010, p. 41, Birchall 2013, pp. 23–26).

This is in line with cooperative banks' strong reputation for weathering crises. According to Birchall (2013, pp. 11–12) German cooperatives suffered far less in the 1930s than either investor-owned or savings banks, the same in the Netherlands and Austria at that time and Finland in the 1990s. This resilience relates to their ownership, control, operations and beneficiary profiles discussed in Section 2.2. Because they are not subject to shareholder value maximisation pressures and because they are restricted from most investment banking activities, their investments are less risky and their capital bases robust. They are also embedded within strong networks with joint liability schemes and other support measures (see for instance Simpson 2013, pp. 28–30). Interestingly the crisis has led to a change in attitudes towards savings and cooperative banks from many analysts, academics and policy makers (Bülbül *et al.* n.d., pp. 18–19) and an appreciation that losses 'tend to occur when they stray beyond the traditional scope of their business' (Ayadi *et al.* 2010, p. 116).

In Germany, in contrast to other banks, savings and cooperative banks have not curtailed lending during the crisis (Bülbül *et al.* n.d., p. 9) and have played a crucial role in supporting the real economy despite depressed economic conditions. The value of new loans to companies and the self employed dispersed by saving banks actually rose (in nominal terms) from €42.5 billion in 2006 to €66.7 billion in 2011 (Simpson 2013, p. 13). This counter-cyclical lending was critical to German resilience. Birchall notes (2013, p. 2) of cooperatives: 'Most came through it without needing any government bailouts, without ceasing to lend to individuals and businesses, and with the admiration of a growing number of people disillusioned with 'casino capitalism'.'

In sum, it is no accident that German savings and cooperative banks stand out as those which have weathered the crisis better than their other European peers. This is because Germany also stands out as the country 'in which there was no substantial change [to the business models of saving and cooperative banks] in the last decades'. This means that their traditional local, low-risk and retail orientation has been maintained along with the distinctive nature of ownership, control and operations which has insulated them (although not entirely) from shareholder value maximization pressures and allowed benefits to be passed onto household clients and businesses; this is particularly true at the local level. Traditional STV models have therefore been most resilient and best served the needs of their populace (Bülbül *et al.* n.d., p. 16).

2.4 UK Building Societies

Building societies are another form of STV financial institution – traditionally specialising in the collection of retail savings and the recycling of these into residential mortgages – and have been very prevalent in the United Kingdom.

This case study of British building societies complements the above in two ways. First, it analyses the extent to which building societies have served their purported beneficiaries – ordinary working people – and shows that the results are checkered. Second, it shows that building societies, rather than offering an alternative, conformed to prevailing economic logic of the time, drawing people into the financial sector as homeowners, and to an extent reinforced prevailing patterns of wealth and property ownership. Third, it highlights that unlike German savings and cooperative banks, building societies bear little resemblance to the mutual societies they once were. In tracing this change we show how a "traditional alternative" was fundamentally transformed by financialisation.

Ketley's Building Society, the first in the UK founded in 1775, was in Birmingham and reflected its origins in the rapidly industrializing English Midlands. Members of the society paid monthly subscriptions to a central pool and were allocated home loans, via lottery, from this pool. Most of the original societies were "terminating," meaning that once all members had built houses the society was closed. They were supported, in their infancy, by older mutual associations. In the 1830s and 1840s "permanent" building societies emerged.

The earliest law regulating building societies was the Benefit Building Societies Act 1836 which, amongst other things, codified the favourable tax status that building societies continue to enjoy. After this, building societies grew rapidly both in number – from around 100 to over 2000 – and in size – from membership of less than 80 each to thousands. Building societies became the main repository of working and middle class household savings and extended the overwhelming majority of residential mortgages (Talbot 2009, pp. 4–5).

The inter-war years were a period of expansion during which building societies' share of the institutional mortgage market rose from just over 30% to almost 70% (Samy 2008, p. 6).[12] Favourable taxation on deposits continued to assist in drawing in funds, including from wealthier depositors who became an important target market (see below). On the demand side incomes rose and costs of houses fell (Humphries 1987). Geographical changes also occurred in this period with northern societies having excess funds and southern societies excess demand (Scott and Newton 2012, p. 403).

During and post WWII various regulations were passed to regulate acceptable mortgage security, expand disclosure requirements and increase prudential rules and supervision. The Conservative government of the 1950s wanted to expand owner occupancy and the building societies participated in this in exchange for continued tax benefits and designating their deposits as trustee investments (Bátiz-Lazo and Noguchi 2014). From 1979 onwards the sector underwent rapid and radical transformation to which we return shortly.

Like the friendly societies that predated them, building societies were self-help groups, a direct response by workers to the vicissitudes of industrial life. Even when the 1874 Building Societies Act established a recognised prudential regime setting up societies as financial intermediaries, they remained organisations underpinned by member relations and based on members' funds and loans. This did not fundamentally change, legally speaking, until the Building Societies Act 1986 (Talbot 2009, pp. 3–4, 6). In terms of their ownership, control, operations and benefits, permanent buildings societies for most of their existence functioned much the same as cooperative banks. Their members are the shareholders with non-transferable equal stakes run on the basis of one member, one vote, with the main source of capital coming from deposits and retained earnings.[13] From the time of their expansion, member control has been diluted and management has played a dominant role (Talbot 2009). Both members and non-members can deposit savings at building societies and benefits are distributed via the favourable pricing and accessibility of home loans and offering good interest rates to savers.

But who were the members and who were building societies serving? Building societies purported to be catering to the 'lower classes' and 'undistinguished people' (Samy 2008, p. 6) but in the main served the needs of the upper end of the working class and the middle class. The picture is not uniform with smaller societies generally lending to those red-lined by larger societies, with some larger societies, most notably the Co-operative Permanent Building Society (CPBS), explicitly targeting lower-income earners. But even for these societies there is a bias towards the upper strata of the working class. This can be seen in: a. the profile of borrowers: older people with steady incomes, households with two wage earners, and often people who possess sufficient personal savings to make a down-payment; b. the size of the loan: in 1925 the percentages of loans less than £500 was above 60% for only one major society, and c. the location and type of the house: overwhelmingly newer houses and in streets defined as "Mixed" or "Fairly comfortable" and not "Lowest," "Very Poor," or "Poor" according to Booth's poverty map (McLeay 1984, Samy 2008). Some have argued that building societies' misrepresentation of themselves as catering to the poor delayed necessary housing assistance to this demographic (Samy 2008).

Building societies certainly improved the lives of segments of the working class and for much of their existence did offer an "alternative" to the mainstream financial sector in so far as they avoided speculative investment and offered favourable and affordable loan terms. Compared to other financial institutions, shareholders and depositors benefited more than borrowers as interest rates on mortgages were commensurate with other providers while interest paid out on deposits, was well above average. During the twentieth century depositors were increasingly better-off taking advantage of the favourable tax status of these savings accounts.

Building societies sold themselves as a 'powerful tool for social reform', promoting 'self-help' and 'thrift', or even in the words of one director in Yorkshire as 'the best kind of socialism' (Samy 2008, pp. 6–7). They were, however, essentially reformist in nature operating within the prevailing mainstream capitalist paradigms of the time. They promoted home ownership, transforming working-families into asset owners, a well worn means of achieving "social stability". Their advertising – which grew in the inter-war period – clearly promoted houses as an aspirational purchase and a manner of gaining entry into respectable society (Scott and Newton 2012).

The lending bias inherent in building societies has to an extent reinforced, rather than disrupted, patterns of wealth accumulation through property acquisition and inheritance that favour the already (slightly) better off, and entrenched patterns of housing tenure and the structure of neighbourhoods and cities (McLeay 1984). In latter years their practice of portraying themselves as community-centric and philanthropic (including via philanthropic donations) was opportunistic and an attempt to resolve the crisis of legitimacy and identity they faced as the driving motives behind mutuality were lost (Campbell and Slack 2007).

Partially accounting for the above biases is the loss of member control that occurred as building societies grew and management changed from being voluntary to professional and costly, and whose power increased with mergers and expansion. The leadership of the Building Society Association (BSA) was drawn from the 'oligarchy' (a club of long-serving building society directors) and came to play a strongly interventionist role (Talbot 2009, p. 8). Building societies gradually moved away from being truly stakeholder value orientated and became what Talbot calls a management controlled organisation (MCO). While the prejudices and class position of this layer of management may have biased the workings of building societies, operating as a MCO also insulated building societies from shareholder value pressures and allowed them to pursue objectives such as stability, sustainable growth and fair labour practices (Talbot 2009). The changes that were to come in the 1980s, fundamentally disrupted this.

The 1986 "big bang" deregulation of the UK financial sector represents an important moment in the neoliberal insurgence and the rise of financialisation. In this context building societies began to be radically transformed. The 1980 Wilson Report on financial institutions accused the building societies of crushing competition and institutionalising discrimination, a coded push for deregulation. The general deregulation of the banking sector meant that building societies faced greatly increased competition in mortgage lending and deposit taking. This drove societies to find new ways of raising funds which they did in competitive open markets, which brought new pressures (Rodgers 1983). The BSA's Spadling Report of 1982 noted that societies needed to compete more effectively for savings, that members wanted a wider range of financial services and that housing needs of the nation were changing. Building societies – the largest of which were by the 1980s comparable in size to the major banks (Shiwakoti *et al.* 2008, p. 320) – thus sought new ways to compete with banks, including in their central business – the transmission of money – leading eventually to a convergence of business practices (Rodgers 1983, Roberts 1984)

The central (and neo-liberal) response from government was the 1984 Green Paper 'Building Societies a New Framework' much of which was canonised in the Building Societies Act of 1986 and new regulation in January 1988. These allowed for societies to offer full personal banking and money transmission services as well as other financial services (some of which were already on offer); expand their role in insurance; facilitate the liberalisation of mortgages including via extending unsecured lending and altering capital requirements (they also abandoned a centralised interest rate pricing mechanism);[14] and

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most crucially allowed societies to demutualise and become companies (Rodgers 1983, Speed 1990, Drake 1991, Hammond and Thwaites 2000, Talbot 2009).[15] To date societies accounting for over 80% of all building society assets have demutualised (Talbot 2009, p. 18). The BSA concurrently argued for new restrictions on members' rights (Rodgers 1983).

Within this context and in response to the structural change taking place – deregulation, the slowdown of the mortgage market during a recession in the first half of the 1990s and government policies shifting away from favouring mortgage debt – societies responded differently with some focusing on new services and others consolidating existing business (Stephens 2001). For the largest 11 societies between 1987 and 1993 growth in income from non-mortgage sources as well as growth in non-mortgage assets grew faster than those from mortgages but mortgages remained at just over 95% of total commercial assets (Hammond and Thwaites 2000).

Even before these reforms there had been intense consolidation in the sector with a wave of mergers; from 2000 societies at the turn of the twentieth century the sector shrunk to 467 in 1971, 273 in 1980, 84 in 1990 and 78 in 1996 (Rodgers 1983, p. 370, Stephens 2001, p. 344). Originally, up until the 1970s/1980s, mergers were predominantly an amalgamation of local and regional societies to form larger societies over a wider geographical base. More recently they have focused on increasing efficiency and gaining economies of scale but research suggests this was rarely achieved (Thwaites and Edgett 1991, p. 350, Stephens 2001).

Demutualisation began in 1989 with Abbey National but the dam burst after Cheltenham & Gloucester agreed to sell itself to Lloyds Bank in 1995. In 1997 five (Halifax, Woolwich, Alliance & Leicester, Northern Rock and Bristol & West) of the remaining nine largest societies demutualised (including three of the top four) followed by others in 1999 and 2000 (Blair 1997, Stephens 2001, BSA 2014). This led to a dramatic drop in market share for the remaining societies from two-thirds of residential mortgage assets and half of all short-term savings in 1995 to one-quarter of mortgages and less than one-fifth of savings in 1997 (Stephens 2001, p. 336). Significant branch closures, not limited to building societies, preceded and accelerated after demutualisation (Stephens 2001, French *et al.* 2013).

The post-demutualisation era brought new challenges to both converted and non-converted societies. The core business of remaining building societies – mortgage lending and personal savings – continues to be encroached upon by new competitors (such as online and direct marketers, and supermarkets) (Hongwei He and Baruch 2010), and societies continue to respond in diverse ways.

Arguments have been made that converted societies fared better than those remaining as mutuals; the evidence, however, is thin. The converting firms (led by the then dominant societies) were more profitable and efficient and enjoying higher growth and diversification pre-conversion than those which remained as mutuals. Post-conversion the big four converted societies continue to outperform the non-converted but profitability and growth paths did not change significantly post-demutualisation (Shiwakoti *et al.* 2008). It is difficult to maintain that demutualisation brought significant performance improvements.

A number of converted building societies have not fared well during or after the financial crisis. Northern Rock – reliant on the wholesale market for most of its funding and significantly exposed to toxic assets such as mortgage-backed securities – is the most prominent example having been "temporarily" nationalised in February 2008. Bradford & Bingley followed a similar fate before being sold to Santander in 2008. By contrast those which remained as mutuals have fared far better. Failing smaller societies were pre-emptively merged with larger ones, most often at the behest of managers not members, and these have remained stable (Talbot 2009). The remaining building societies have seen growth in membership, profits and market share in recent years (Dakers and Spence 2014, Goodway 2014).

Demutualisation, as discussed shortly, is clearly a capitulation to the forces of financialisation. However, this is not often acknowledged and the range of reasons given for demutualisation include: (1) greater access to capital or raising equity; and a desire for market discipline (2) protection from hostile take-overs; and maintaining full organisational and/or operational independence; (3) efficiency gains; (4) diversification of business activities; less restrictive regulatory regimes; and greater freedom to compete; (5) members' revolt[16] (Stephens 2001, Shiwakoti *et al.* 2008).

It is important to note that no outright crisis preceded demutualisation, unlike with the conversion of US Savings and Loans organisation in the 1980s. Demutualisation was a response to structural change within the industry, but as Stephens (2001) shows only one of a number of possible options. Regarding the first, oft-cited, reasons, only Abbey National raised new equity during its IPO whereas other societies returned capital to shareholders after demutualisation. Building societies pre-conversion could not access equity capital but could issue permanent interest bearing shares and subordinate debt (Stephens 2001, Shiwakoti *et al.* 2005, 2008). There is, therefore, little to support capital-raising as a justification. Doubt is also cast on the second set of reasons as there was only one hostile bid between 1994 and 2001. Nevertheless, 'medium-sized societies seemed to have convinced themselves of their imminent vulnerability' (Stephens 2001, p. 347) and undertaken demutualisation (outright or via mergers with existing private banks that often guaranteed operational independence) as pre-emptive protection.[17]

Regarding the third set of reasons, there is little evidence, as mentioned above, that efficiency gains were made post demutualisation. Diversification was a factor but, since the 1986 Act, this was also possible (within certain limits) for mutuals. Members successfully pushing for demutualisation against the will of management was fairly rare but did happen, most notably in 1999 in the case of Bradford & Bingley by then the second largest society (Stephens 2001).

In contrast with the reasons above, a number of authors have emphasised motives associated with shareholder value maximisation, appearing in nascent forms, with regards to building societies as early as the Spadling Report (Rodgers 1983).[18] Previously societies had been concerned with providing safe savings with good interest rates and accessible mortgages and any surpluses were reinvested towards these ends; traditionally building societies eschewed the notion of profit maximisation, indeed even profit itself, referring only to a surplus in their accounts (Ingham and Thompson 1993). In reorienting to become shareholder value organisations (SVOs) the priority became rising share prices and distributions to members; in this and other ways "market discipline" is established.

Business models also changed in line with the already established shift in "financialising" companies from "retain and invest" to "downsize and distribute" (Lazonick and O'Sullivan 2000). Acquisitions became a preferred form of growth under the SHV paradigm and this strategy has been pursued by a number of converted societies (Stephens 2001). SVOs are preferred by "financial markets" in that agency conflicts can be obviated by aligning managers' interests with shareholders via share options and a market for corporate control can arise with standard performance metrics such as share prices (Talbot 2009). Investors stood to benefit from stakes in thriving financial institutions with large market shares. Investment banks in the City and Wall Street were directly involved in pushing for demutualisation and often, not coincidently, earned hefty fees as advisers in eventual flotations or takeovers (Pollock 2008).[19]

Management has played a key role in driving SHV within firms and, in the case of converting societies, benefited through increased salaries, greater wealth through share options, and enhanced career opportunities through the visibility provided by being part of the plc market place. John Wriglesworth, a UBS analyst and later senior director at Bradford & Bingley argues that management "used words like 'freedom to compete' and 'access to capital,' but the main reasons were excessive pay, share options and testosterone" (quoted in Pollock 2008). Indeed board and CEO pay at converted companies grew at a significantly faster rate compared to pre-conversion and their mutual peers, despite the relationship between performance and board remuneration being negative for converted societies (no relationship is seen for remaining mutuals).[20] For CEOs no relationship is observed between performance and pay for converted societies whereas there is a positive relationship for unconverted societies (Shiwakoti *et al.* 2004).[21]

Through these processes converted building societies became subject to the imperatives of financialisation including: the engendering of short-termism in business decision making through managers being subject to financial market "discipline"; the myopic measures of success exacerbated by the rise of institutional investors; the often poor performance, and investment decisions (e.g. share buybacks), that a SHV orientation engenders; and exposure to financial market instability. What was once, at least in part, a proud alternative to mainstream financial institutions – albeit one not necessarily serving the poorest – has become another agent in a heavily financialised financial sector.

2.5 Conclusion: Traditional Alternatives

This section has approached, from two directions, the question of whether long-standing non-commercial financial institutions offer an "alternative". First, we have explored the extent to which these organisations have managed to avoid the pressures brought by financialisation with particular emphasis on shareholder value maximisation. While no set of institutions has been completely immune from the altered dynamics of the financial sector, it has been shown that German savings and cooperative banks have managed to resist being transformed into shareholder value orientated financial institutions. This is not the case across Europe but the German example reveals that the traditional structures of ownership and control and the business operations these engender – to the extent to which they are maintained – can insulate these institutions from the pressures of financialisation. The case of British building societies reveals how the processes of financialisation have radically transformed some of these traditional alternatives to such an extent that they differ little from other financial institutions.

Second, we questioned the extent to which these "alternatives" are geared to serving the needs of households and small and medium businesses. In the case of British building societies we showed that while these societies expanded access to housing finance to working- and middle-class households, they neither served those with least access nor fundamentally challenged the prevailing economic logic. Regarding German savings and cooperative banks we see that there is indeed a bias towards local retail lending to both households and SMEs and that they better serve these constituencies than their commercial rivals.

The reasons why different paths were taken in different countries have not been assessed and would require further detailed research. What should be noted here is how the context has shaped both possibilities and outcomes. Financialised neoliberalism has placed tremendous strain on such models, limiting the potential for non shareholder-value orientated institutions to survive. Financialisation and neoliberalism hold sway across Europe but manifest differently. It is not surprising that the UK, whose contemporary commercial financial sector exercises enormous influence over the rest of its economy and policy making, saw the virtual obliteration of its mutual banking institutions in the form of demutualising building societies.[22] It is also not a surprise that it is in Germany, a traditionally more bank-based financial sector with significant economic and political decentralisation and a thriving real economy, that cooperative and savings banks have remained truest to their origins. The onset of financialisation and neoliberalism, and the manner in which they have manifest in different locales, has thus shaped the course that these "alternate" financial systems have taken as well as constrained their ability to function, or not, as an "alternative".

What we are concerned with here is the *potential* that these organisational forms have to serve as alternatives; the feasibility of such models within a given economy is a broader and deeper question. In answering the question of potential, in both case studies the impact of the recent financial crisis is illuminating. It shows that the business models of savings and cooperative banks have proved resilient due to their local, low-risk, retail orientation and that lending by these banks to businesses has helped mitigate recession. It was in the cases where these institutions strayed from their traditional orientation that the crisis took its greatest toll. British building societies confirm this latter point as they have been embroiled in the financial crisis just as badly as other British banks. The cooperative, public or quasi-public nature of traditional building societies, cooperative banks and savings banks therefore do stand out as potential alternatives to the financialised nature of commercial banking.

3 "New" Alternatives

The era of financialisation, as noted in the introduction and elaborated on below, has curtailed household and small business access to affordable finance and exposed them to the vagaries and instabilities of financial markets.

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The disappearance or co-option of traditional alternatives, as seen in the case of British building societies, has been a part of this problem. These sectors have pursued a variety of means through which to a. gain access to affordable finance and b. insulate themselves from global financial markets. Some of these have been little more than creative tampering with the status quo, for example business-to-business lending. However, some have attempted to offer systematic alternatives. Here we explore two of these, peer-to-peer lending and alternative, complementary and virtual currencies. These are chosen because they attempt to offer such alternatives regarding access to finance and insulation from financial markets, respectively, and because they represent two of the most developed and highly publicised such attempts.

Their ultimate failure is also emblematic of this generation of "alternatives". Rather than attempt to steer the financial system away from its financialised path and towards a more "people-centric" orientation, they operate on the fringes of it – unlike in the case of STV financial institutions reviewed above. This is typical of a number of "progressive" alternatives to neo-liberalism, seen sharply at the extreme by the anarchic move towards "local" production or "off-grid" living. It is borne out of not only faulty theoretical premises but the relocation of political struggle from the institutional or national/international to the individual or "local". The unfortunate outcomes of this have been either a co-option of these "alternatives" within the mainstream financial system – in the case of peer-to-peer lending – or their inability to grow and gain traction – as in the case of alternative currencies – with some overlap between these two cases. This is unpacked below with regard to both the empirical success (or lack thereof) of these alternatives, and – in the case of alternative currencies – their theoretical weaknesses.

3.1 Peer-to-peer Lending

The rise of peer-to-peer (P2P) finance over the last decade can be seen as a response to the changes in banking priorities. These transactions take place via online platforms that 'facilitate financial services via direct, one-to-one contracts between a single recipient and one or multiple providers' (Moenninghoff and Wieandt 2012, p. 2). Would-be borrowers can register their borrowing requirements and personal or business profile and would-be lenders can choose to loan them money either at a stipulated interest rate or through a reverse auction ebay-like process; to facilitate this the site makes available information relating to the borrower. These loans are unsecured and generally not protected by government insurance. Zopa, the first such platform launched in 2005 is UK-based and focuses on consumer loans.[23] Since then, similar platforms – e.g. Funding Circle – have been launched to facilitate loans to SMEs and, more recently, platforms for P2P equity investment, P2P currency exchange, P2P financial market investment and trading, and P2P foreign exchange hedging have emerged (Moenninghoff and Wieandt 2012) (the latter set are not discussed here, see Moenninghoff and Wieandt 2012, pp. 12–14).

Peer-to-peer lending, while facilitated by technological innovation and the ubiquity of the internet and online social networking, is also a response to financial market trends associated with financialisation. Regarding personal banking, in many heavily financialised economies we have witnessed surging consumer debt but often at very high interest rates with difficulty in acquiring affordable loans. We have also seen shifts in bank's business models leading to higher bank charges and a diversion of funds into financial markets (dos Santos 2009). At the same time interest offered on bank deposits has, in many locales, been poor.

For SMEs borrowing has proved particularly difficult. The ECB's Survey on the Access to Finance of Enterprises (SAFE) shows that micro and small and medium size enterprises consistently face greater barriers to finance, with micro firms the hardest hit (ECB 2015); a PricewaterhouseCoopers' report notes this problem as 'probably more acute than at any time in recent history' (PwC 2014, p. 3). This constrains investment in a sector which accounts for 99% of all EU businesses and 58% and 66% of the EU nonfinancial business sector's value added and employment, respectively (Klein 2014). This contributes towards an overall decline in non-financial corporations' investment expenditure in the real economy (as a share of their own and aggregate economic activity) a phenomenon driven by shareholder value maximisation pressures exerted over big business (see for instance Orhangazi 2008).

Peer-to-peer lending emerged as a new means through which to plug these credit gaps in both consumer and small business loans.[24] Platforms facilitating personal loans exist in at least the UK, Germany, Poland, Italy, France, Switzerland, Finland, Estonia, Spain, the Netherlands, Romania and Hungry, as well as the Americas, Asia and Australasia. Evidence from the USA shows that peer-to-peer lending is cheaper for borrowers (particularly those with higher credit ratings) than credit card debt and standard consumer-finance loans as well as servicing previously excluded individuals while maintaining low default rates (Demyanyk and Kolliner 2014).

While only constituting 0.2% of global consumer credit markets in 2012 they grew at an average compound annual growth rate of 107% between 2006 and 2011 (Moenninghoff and Wieandt 2012, pp. 8–10). P2P business lending is also well developed but a tiny portion of the business lending market. P2P equity investing is a less mature market despite the first platforms emerging in 2006. However, between 2010 and 2012 the market grew at an average rate of 10% per month and by 2012 in Europe such platforms existed in France, Germany, the UK, Switzerland, the Netherlands, Iceland, Finland and Italy (Moenninghoff and Wieandt 2012, pp. 11–12).

P2P lending differs from traditional banking in that the (for-profit) companies providing the platform, who earn a percentage of the interest fee charged borrowers, do not fulfil all the traditional functions of banks. Moenninghoff and Wieandt (2012) argue that P2P finance 'disintermediates' the four traditional banking functions: the transformation of assets, liquidity and payment services, monitoring and information processing, and risk management. They partially perform some of these, for example collating and rating the risk profile of borrowers, but their role is primarily one of brokerage with individual lenders assuming the risks of uninsured lending.

Three relevant questions emerge. First, to what extent is P2P servicing the needs of low- and middle-income households and SMEs? Whilst there is limited statistical analysis of this question the anecdotal evidence indicates that these are the markets being reached (Collinson 2010, *Consumer Action News* 2012, Goff 2012, Demyanyk and Kolliner 2014). Second, to what extent can P2P be scaled up? Here expectations vary. On the one hand Executive Director for Financial Stability at the BoE, Andrew Haldane, argues that, '[w]ith open access to borrower information, held centrally and virtually, there is no reason why end-savers and end-investors cannot connect directly. The banking middle men may in time become the surplus links in the chain.' (quoted in Moenninghoff and Wieandt 2012, p. 7). On the other hand, analysts caution that P2P financing has yet to experience a cyclical credit downturn, that a thorough regulatory framework is still lacking and that risk management would need to be reintroduced in some manner (Moenninghoff and Wieandt 2012, Scully 2014).

Third, and most relevant here, is whether P2P finance is an "alternative" to existing financial praxis. This is not simply a question of scale but the extent to which it is disruptive to the status quo or mitigates the imperatives brought by financialisation. The trend, observed mainly in the United States, is that P2P financing is being incorporated into the mainstream financial system. Most significant is that it is losing its peer-to-peer nature with institutional investors, such as hedge funds, now providing loan capital to borrowers through P2P lending platforms, for example 80-90% of capital deployed through Prosper and Lending Club (two of the biggest P2P platforms) comes from institutional lenders, similar fates appear to be awaiting SoFi (P2P lending for student loans) and Funding Circle (P2P lending for small businesses) (Athwal 2014). Some P2P lenders have also forged formal referral agreements with traditional banks as well as other forms of cooperation.

The largest P2P lenders have listed on stock exchanges with big name Wall Street firms buying sizable stakes; Wells Fargo (through its venture capital arm) is, for example, the largest investor in Lending Club. Further, financial executives, including those in Morgan Stanley and Citigroup have taken up directorships on the boards of P2P lenders. Also important is that a secondary market for P2P loans has emerged, allowing for "transparent" securitisation where loans are sold individually with the profile of the borrower/loan given or credit-rated (another sign of institutionalisation) bonds, linked to loans, are sold by the P2P companies. In addition, financial institutions, pioneered through the P2P site Prosper, can now sell loans they originate to P2P investors (Kim 2009).

It is difficult to foretell the future of peer-to-peer finance and thus far it has provided funding to underserved markets and given ordinary savers better interest rates on their "deposits" (loans). However, it appears that the P2P industry is being drawn within the web of mainstream financial markets and as Athwal (2014) notes 'the very institutions that these P2P platforms were meant to disrupt are now its dominating figures'.

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3.2 Alternative/Complementary Currencies

A myriad of currencies have developed as alternatives or supplements to national (e.g. the US dollar) or supranational (e.g. the Euro) currencies in the last three to four decades. These are pertinent to our discussion here because their proponents suggest they are able to insulate local communities from many trends which we identify as consequences of financialisation (and neoliberalism and globalisation more generally), offer a systemic alternative to current predominant currencies, and/or participate in shaping a socially, economically and environmentally sustainable future. The promises and reality of these currencies and the (faulty) theoretical framework that underpins them are discussed below after beginning with an explanation of what alternative/complementary currencies are.

An important distinction can be made between "alternative" currencies which carry the connotation of being a replacement for state-issue currencies and "complementary" currencies that do not; "community" currencies, the most commonly considered, are geographically local, mainly "complementary" currencies. Simply put, such currencies are 'agreements within a community to accept something else than national currencies as a means of payment' (Complementary Currencies 2014); these currencies are not backed by a national government and not necessarily legal tender. The issue of CCs forms part of a broader debate around monetary issues, a debate which is unfortunately often dominated by hocus-pocus; as George Douglas Howard Cole noted almost a century ago:

> 'Monetary questions crop up so constantly in the newspapers, form so large a part of the substance of political and economic controversy, and above all, attract so many cranks that it has become indispensable for intelligent people to know something about them.' (Seyfang 2000, p. 227)

Unfortunately much the same can be said about a substantial portion of the literature on complementary/alternative currencies today.

Contemporary CCs draw inspiration from historical examples, most notably the Wörgl experiment in Austria (1932-1933) and various scripts that arose during the Great Depression in the United States, as well as currencies in pre- and early-capitalist societies, although often contemporary CCs differ markedly from these examples (discussed below, see for example Elvins 2012, Wainwright 2012).[25]

CCs can roughly be divided into four types.[26] The most common are "service credits," for example Time Dollars or time banks. Here members enrol and list the services they wish to offer and receive, and a central broker matches people up, with "time credits" being the currency and everyone's time worth the same. This is mainly a formalised reciprocal volunteer scheme aimed at building social cohesion and rewarding neighbourly support, social care and community-based activities. They arose in Japan in 1973 and the United States in 1986 and spread to the UK in 1997. In 2012 Seyfang and Longhurst (2013) found there were approximately 1715 such projects in 11 countries on four continents (50% of all CCs).

The second most prominent are "mutual exchanges" (41% of the total CC schemes, active in 14 countries on five continents) with the most well known being Local Exchange Trading Schemes (LETs) which were pioneered in Canada in 1983. In these exchanges goods and services are valued at a particular price in an exchange-specific currency. These currencies are created in the act of spending: 'one person's credit equals another's debit to the system, accounts always sum to zero and both the value and utility of the currency is maintained by the trust in other members to meet their commitments (as 'debts' are known)' (Seyfang and Longhurst 2013, p. 69). Some projects link the value of the currency to that of the national currency

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while others prefer a time-based system, some mix both. These schemes are almost entirely locally focused on social and economic objectives.[27]

The third group of CCs are geographically-bounded, paper-based, 'backed' local currencies aimed at keeping money within specifically (relatively-small) communities. They are a form of fiscal localism to increase the local economic multiplier and support local business; the involvement of local business being a crucial difference between this third group and the other two above (North 2014). Of the 243 projects active in 2012 (7% of CCs in six countries on four continents) the most well known are Ithaca Hours (in the US) which began in 1991, the German Regiogeld (actually a series of CCs) and the "Transition Currencies" now in five neighbourhoods/cities in the UK (e.g. the Brixton or Bristol Pounds).[28] These currencies are often – but not always – convertible (at varying rates and with different restrictions) with national currencies and usually – but not always – tacitly backed by a store of national currency.

Fourth, there are "barter markets" (48 projects in four countries on two continents) which are a hybrid of local currency and mutual exchanges and provide the infrastructure to enable people to exchange goods and services within a limited site-specific event without the need for national currency. The most famous example is Argentina where they boomed during the 1999-2002 financial crisis (see North 2005), and more recently the French SOL (see Fare 2011).

There are also hybrids of these schemes most prominently those associated with various environmental initiatives aimed at "sustainable" local consumption, local social and economic development and rewarding voluntary action. Within all these currency types emphasis may vary, for example between the relative importance of local development, community support or economic objectives via market exchange (Sotiropoulou 2011). By 2012, the majority (68%) of the currencies in the four categories above exist within

Europe,[29] of these 54% are mutual exchanges, 44.5% are service credits and 1.5% are local currencies. Just over half of these are growing, with around a quarter "stable" and a quarter below a previous peak; service credits are experiencing the most growth (83% are growing) followed by mutual exchanges (44%), local currencies (33%) and barter markets (25%). This should, however, be read with caution as "stable" could mean "stagnant" and a boom-bust cycle is also present (Seyfang and Longhurst 2013).[30]

As each new wave of CCs arose they were lauded for their "potential" but have all thus far failed to offer a systemic alternative to conventional currencies. Despite this they have had some small-scale positive impacts. The more general failure is based on both practical limitations and faulty theoretical foundations. The latter is discussed after we explicate the promise professed by their proponents – and how these are actually attempts to mitigate trends which we identify as a product of financialisation (and neoliberalism and globalisation more generally) – and evaluate their success.

North notes that alternative currencies have been described as: 'lifeboats against globalization developed by the marginal in spaces suffering from uneven capitalist development (Pacione 1997); as attempts at local re-embedding against global dis-embedding (Thorne 1996); as 'locally defined systems of value formation and distinctive moral economic geographies' (Lee 1996, 1377); as micropolitical challenges to capitalism (North 1999a), or as eco-socialism (Bowring 1998)' (2005, p. 222). In light of this Jacobs argues for a 'range of currencies' each with a different purpose: 'time banks to underpin the social economy, local currencies to keep money and resources circulating locally and regional currencies to provide low cost finance to small business. It is also argued we need a range of experimental (asset based …) currencies based on anything from renewable energy to the value of local vegetables' (quoted in Adams and Mouatt 2010, p. 8 emphasis in cited work).

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The first set of aims of CCs relates to *local community building* and seeks to create solidarity, empowerment and a sense of community at the local level. There can be no doubt that social dislocation is a feature of contemporary capitalism and that the penetration of financial markets has contributed towards this. Schemes such as time banks and LETs put people in touch with others in their local community with whom they are able to exchange goods and services and in doing so receive support to which they may not otherwise have access. They also attempt to compensate for the general casualisation of labour and growing unemployment through offering people a wider range of outlets for their skills or time. Paper currencies, such as the Stroud Pound, can have the effect of generating community pride and a sense of belonging to a community unit. Some, such as Clayton (2010, p. 276), have argued that such "social restoration" is a necessary precursor to "economic regeneration".

Second, and almost ubiquitously mentioned (in one form or another) is the use of CCs as a tool of *fiscal localism* in order to achieve *economic regeneration*. One aspect of the critique underpinning this is that globalised production – represented in this instance by mass retailers – has meant that resources flow out of many poorer communities and wealth becomes highly centralised and concentrated; an oft-cited statistic is that 80 pennies on the pound spent at a chain store leave that locale. As Dow and Rodríguez-Fuentes note, 'subnational regions and localities can be considered as 'very small open economies', with no monetary tools or control over inflow or outflow of money to meet local policy objectives and satisfy local needs' (quoted in Seyfang 2000). By establishing a local currency wealth is contained and able to circulate locally, creating a local multiplier effect. Encouraging local consumption is also celebrated as an environmental intervention, reducing carbon footprints and support to local (possibly organic) agriculture.

A related critique is that private banks, underwritten by the state, hold a monopoly on money creation and that such funds are not directed to those most in need (poorer households or SMEs) and also come in the form of debt. Consumers, it is argued, have 'no say in either the production or allocation of new money' (Bindewald 2013). A local currency allows communities to bypass banks in money creation. Such fiscal localism is particularly useful in the wake of a recession and where conventional economic regeneration programmes are ill-suited to the communities' needs.[31]

Third, and related, such currencies are argued to serve as a *bulwark against financial instability* in so far as they make communities and businesses less reliant on mainstream financial institutions (particularly banks) and limit their exposure to the effects of financial turmoil on liquidity or currency fluctuations (Graugaard 2012). Tied to this is a critique of how sovereignty (on the local and national level) has been eroded by international financial markets and how CCs offer 'a chance for localities to develop self-reliance and insulate themselves somewhat from the impacts of exogenous financial speculative investment upon concrete realities of production, employment, consumption and local social relations' (Seyfang 2000, p. 228). Local currencies are able to empower local investment which may not be possible in the context of investment decisions made elsewhere which are subject to pressures towards SHV maximisation. CCs may also support investment through being issuable without interest charged.

In addition to being cited individually these purported benefits have come together under notions of community "resilience" or "sustainable development" (see Graugaard 2012 on the former, and Seyfang and Longhurst 2013 on the latter). It is argued that local currencies can lead to the 'development of a slower, steady state economy' as part of a broader movement towards localising economies (North 2005, pp. 224–225).

Inherent in these avowed benefits is an environmental and political (class) critique, although often a shallow one. The basic thrust is that globalised production has led to social dislocation and the destruction of the fabric of local communities, the concentration of wealth outside of these communities, exposure to financial instability and environmental degradation. In all these regards there is a sense of government inaction or neglect.

One can hardly contest these points but do CCs offer a viable response or alternative? The success of these schemes is severely constrained by the inability of almost all to achieve a meaningful scale. LETS in the UK grew significantly since 1992 when there were only five schemes to somewhere around 300 in 1999 and dropping to around 250 in 2012 (Williams *et al.* 2001, Seyfang and Longhurst 2013). Each scheme is small with an average of 72 members in 1998. The level of participation is also low and concentrated around a small number of members, some of whom, it has been found, would have been exchanging with each other anyway (Aldridge and Patterson 2002, p. 371). An estimate in 2001 was that the total turnover per member per year was on average only £65.50 (£1.4million for 21 800 members) (Aldridge and Patterson 2002, p. 372). Community currencies have grown in recent years, with five emerging in the UK in the last decade. However, the usage of these currencies also remains low. In its first year the number of Lewes Pounds in circulation fluctuated between 5 and 20,000 (Graugaard 2012) but others such as the Bristol Pound have a wider circulation.

The greatest successes of these schemes has been in local community building with users reporting an increased sense of pride, social support and solidarity (Williams *et al.* 2001, Nakazato and Hiramoto 2012). However, even this can be hampered by lack of scale and distrust for the system and/or other participants (Seyfang 2000).

The fiscal localism of CCs has had mixed success. Service and mutual exchanges have generally excluded businesses and remained tiny and peripheral to local economic life. Issued local currency that has specifically targeted supporting local business and where these businesses are dependent on local clientele and have wide networks of local suppliers, who will accept the local currency, then the benefits are tangible and they report satisfaction and increased traffic. However, given the very limited geographical scope of most schemes this is often the exception (successful local businesses may also logically look to expand to areas beyond the boundaries of the currency). In both exchanges and issued local currencies the limited range of goods and services available is a retarding factor.[32] The largest schemes, which were forcibly shut down by the authorities, were the barter exchanges in Argentina. However, rather than representing an "alternative" to capitalist market places, many of these were simply a substitute for them during a time of crisis without any unique social benefits (North 2005).

The extent to which these schemes are reaching or benefiting those most in need is also questionable. Many of the schemes have an educated middle-class bias who buy into the idea ideologically, some who are inclined towards an anarcho-syndicalist worldview with the misguided notion that such projects are politicising the community and undermining capitalism (Clayton 2010, p. 40). Williams et al (2001, p. 359) found that in 1999 62% of UK LETS members held graduate degrees or above and 48% supported the Green Party. These people have often chosen low incomes not because they are socially excluded but because money does not motivate them and they have a non-materialistic, environmental worldview (North 2005, p. 227). This sometimes manifests as tension between community currency organisers and local traders whose livelihoods depend on the success of their businesses and are less inclined to take risks (North 2014, pp. 261–262) as well as with other community members, thus exacerbating social divisions. One non-user of the Lewes Pound described users as "lentils", saying: "Lewes lentils [. . .] 'oh, we mustn't have this . . . oh, it's so wonderful not to have an incinerator . . . no, I walk everywhere . . . no, I grow all of my own clothes . . . oh no, I . . .' lentils. You get the idea."' (Graugaard 2012, p. 254).

LETS schemes can exclude the poor because of membership fees or participation costs (Aldridge and Patterson 2002, North 2005) and because of the threat, for example in the UK in the 1990s and early 2000s, that significant trading activity could impact on eligibility for welfare benefits (Seyfang 2000, p. 233). The impact on poverty alleviation is also questionable given the practical need for national currency to obtain the very essential requirements of life, such as cheap food, housing or clothing. Further, there appears to be a reluctance to go into "debt" (in the case of LETS) and an understandable conservatism about money.

Many advocates would put some of these limitations down to a, very real, set of organisational barriers to growth including the lack of staffing and financial resources to run the projects which often rely on volunteers. This is to some extent easing with local authorities more keen to participate but it is doubtful whether such organisational constraints are the main factor behind the projects' limited success. The misplaced confidence in the "potential" of CCs to expand or pose a systemic alternative to national or supranational currencies is rooted in faulty conceptualisations of the role of money in the economy and of the theory of money more generally.

The critique of money as privately created by banks, with state support, and premised upon the expansion of debt is sound. That this expansion – the growth of the money supply – is integral to capitalist growth is also correct in so far as growth cannot be accommodated without it (Fantacci 2005, p. 56, dos Santos 2011) and bank debt-issued money requires expanded production in order to ensure the repayment of the loan (Collins *et al.* 2013, p. 21). Also true is that

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the vehicle for this expansion (private financial institutions) offers financial capital an opportunity for accumulation via interest repayments. This plays a role in the concentration and centralisation of capital, and the population at large has no control of the expanding supply of money and cannot allocate it towards socially desirable ends (Bindewald 2013). Further, there can be little doubt that money creation and circulation is deeply embedded within class relations with capital (especially financial capital) historically preferring "sound" or "hard" money – premising money's value on its scarcity and limiting inflation – and households, farmers and small scale business preferring "soft" money – easier lending and borrowing seen to be more prone to inflation.[33] Most certainly, money is not a neutral lubricant of exchange as neoclassical economic theory would propose nor is it legitimised by its intrinsic value (particularly not modern fiat money) (Collins *et al.* 2013, pp. 17–18). Rather, money is deeply socially embedded in existing power and class relations and holds value simply due to its social acceptance.[34] Finally, that there is a contradiction between money's role as a medium of exchange, for which it must circulate freely, and its function as a store of value, because of which it is hoarded, and that this can lead to liquidity shortfalls particularly during times of crisis,[35] is undoubtedly accurate.[36]

The difficulty faced by proponents of CCs is to substantiate how CCs obviate these problems, lead to a socially more desirable outcome and pose a systemic complement or alternative. A central problem is ascribing to money all sorts of evils for which it is not fully responsible, for example, considering it the key driver of inequality without reference to the structure of productive relations in the economy. Related is the willingness to portray alternative monetary forms as the panacea to capitalism's ills. This leads to a strange confluence of monetarist and mercantilist theory where the local currency is supposed to establish an internal trade barrier and the money supply is portrayed as driving economic growth (the quantity theory of money) because the lower (or negative) interest rate charged is able to spur a higher rate of monetary circulation (Clayton 2010, pp. 154, 164).[37]

CCs are thus justified theoretically both from within an orthodox monetary framework and as a challenge to it. Regarding the former, barter-like exchanges are considered to be rational when there is a shortage of hard currency and transaction costs in small communities are low; alternative currencies are seen as both a viable way of overcoming scarce money when this scarcity occurs due to hording and a way of supplementing local money stocks due to money's mobility; and the privatisation of money (through things like virtual currency rewards) is seen as a viable business strategy. Challenging orthodox conceptions of money some CC advocates see CCs as a way of reclaiming the social role of money in building community cohesion, "socialising" money's creation and promoting moneyless utopias (Seyfang 2000). In many commentaries on CC the two sets of objectives are mixed together creating a theoretical hodgepodge.

What CCs often amount to is a far cry from their purported "potential". In certain instances they are little more than glorified barter; in others they become a roundabout way of reviving local banking (Clayton 2010, p. 285) and providing loans for socially desirable ends. For instance, in many (but not all) forms of "energy money" consumers buy energy credits in advance, these serve as a means to raise the capital necessary to install renewable energy capacity in that locale (Collins *et al.* 2013). This is an admirable end but could also be achieved through developmental lending to, or funding of, renewable energy initiatives by, for example, state banks. Indeed, much of the supposed economic benefits of CCs could be achieved through transforming banking to ensure STV banking predominates.

Similarly, in exchange schemes in which products or services are exchanged at market rates (albeit expressed in that scheme's currency) what is being

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offered is a chance to earn extra income in an alternate currency (with far less acceptability) and the ability to go into interest-free "debt" to the scheme as a whole. The latter is not trivial but the underlying issue is surely that insufficient fairly remunerated work is available within the economy at large and/or that wealth redistribution is desperately needed. Local community currencies, if printed by local authorities and not necessarily backed one-to-one by national currencies, offer a mechanism through which to achieve local fiscal stimulus, but this could also be achieved – more effectively – through allocating municipalities a share of funds from a national fiscal stimulus, which could with more credibility be financed by the state printing money.

Slightly unrelated to monetary theory is the promise of fiscal localism, or localising economies, as an overarching economic strategy. While it is nice, even important, for towns to support local (non-chain store) businesses, a general localisation of economic life is fanciful. The international division of labour has occurred on such a scale that almost all of what is produced, especially more complex products like computers, cars or machinery, are simply not viable to produce on the local level. This is visible by the inability of these schemes to expand, as North (2014, p. 263) notes:

> 'Thus what is not yet demonstrated is the capacity of grassroots actors to use these currencies to materialise their visions of a convivial localised economy by extending the range of locally produced goods and services available. As tools for material changes in the way production and consumption work in local communities, as tools for activists to decide what they want to produce and consume, the effectiveness of community - created paper currencies has yet to be demonstrated.'

It is even less likely that an economically disadvantaged community would be able to sustain itself.[38] It is even more dangerous to conceive of economic localisation as a viable environmental strategy; the looming environmental catastrophe will not be averted by buying our fruit and vegetables locally however important this may be for local farmers and a sense of community and social cohesion.[39]

The danger posed by this mis-theorisation and the subsequent promotion of CCs is that they conflate changing monetary forms with challenging the prevailing mode of production (see for instance Adams and Mouatt 2010, Collins *et al.* 2013). This is premised on a misunderstanding of the role of money within capitalist reproduction and/or a construal of capitalism as not hegemonic.

Of course there are varying levels of sophistication in proposed (and piloted) CCs and not all are subject to the full gamut of criticisms discussed here. Further, none of this means that CCs have no place in contemporary economic life as a palliative to some of capitalism's ills. As Clayton (2010, p. 273) notes: 'soft money systems can — with appropriate discounts — co-exist with a hard money system, and that soft money systems tend to get replaced by hard money systems as regions become more established and prosperous'. We should also not discount the role, as noted above, that these schemes can play in social restoration (Clayton 2010, p. 276). However, as a systematic alternative they are found wanting both empirically and theoretically.

3.3 Virtual currencies

In recent years virtual currencies have also proliferated. Some of these are digital platforms for CCs but in the main virtual currencies are discrete undertakings. These currencies resemble money and come with their own dedicated retail payment systems. There are three main types. Type 1 refers to closed virtual currency schemes used in online games where users pay a subscription fee and then earn virtual money based on online performance, and spend the money within the virtual community. An example of this is World of

Warcraft, an online role-playing game. Type 2 are virtual currency schemes that have a unidirectional flow (usually an inflow), i.e. there is a conversion rate for purchasing the virtual currency, which can subsequently be used to buy virtual goods and services, but exceptionally also to buy real goods and services. An example of this is the, now defunct, Facebook credits. Type 3 are virtual currency schemes that have bidirectional flows, i.e. the virtual currency acts like any other convertible currency, with two exchange rates (buy and sell), which can then be used to buy virtual goods and services, but also to purchase real goods and services. The most famous examples of this are Linden dollars used by "avatars" (digital characters) in the game Second Life, essentially a complete virtual world, and Bitcoin (ECB 2012).

Virtual currencies differ from electronic money in so far as they have no physical counterpart that is legal tender. They are also generally not intermediated by banks or traditional financial institutions, the links between them and regular currencies are not regulated by a coherent body of law, and control of the currency lies with the issuer (ECB 2012). The rationale behind launching virtual currencies varies. Type 1 and 2 are generally associated with particular virtual environments or communities, most notably online games, whereas Type 3 is often driven by ideologically motivated groups or individuals looking for an alternative to national and supranational currencies.

Bitcoin, an example of Type 3, is the most relevant to our purposes here as it was designed as a substitute to existing national currencies, to play both the role as means of payment and store of value – with its scarcity supposedly guaranteeing its value. Its proponents argue that it avoids state surveillance and offers anonymity and privacy, is easy to use and has zero transaction fees, and is more secure than online banking (see Digital Currencies: Bitcoin » Collaborative Finance 2014). Despite this, it has essentially become a speculative virtual asset with the tension between its two purposes clearly visible. Its value, like that of other traded financial assets, is essentially imputed based on the expected value that the next investor will be willing to pay for it. The value of Bitcoin has grown more than 50-fold in its short life, from $20 in January 2013 to a value of $1,147 at the end of 2013 only to crash to $430 after the meltdown of the largest trading platform Mt. Gox (Brustein *et al.* 2014). It is also an incredibly volatile asset, in 2013 the price swung by more than 10 percent in a single day on 42 occasions, on a number of occasions it doubled in value and then lost half its value in a matter of days (Is bitcoin the next investment bubble? 2014). It, and other virtual currencies like it, are highly unlikely to serve as an alternative to national currencies, free from state management, as their founders may have wished.

4 Conclusion: Financial Reform in Europe

The needs of ordinary Europeans is summed up well by Dymski and Kaltenbrunner (2014, p. 2) when they argue that:

> 'The people of Europe need a financial system that provides for their credit and payments-system needs without imposing costs from excessive volatility, recurrent crises and financial discrimination. ... As things stand, the European financial system both reflects the effects of three decades of worsening inequality and operates in ways that deepen it.'

In this paper we have explored some attempts to realise the needs of ordinary Europeans. Two sets of distinctions appear before us. The first is the difference between alternatives that directly obviate a crucial element of financialisation – as in the case of cooperative and savings banks' alternative to shareholder value maximisation – and those that attempt to skirt or avoid elements of financialisation – as with community currencies. The latter is a response to the symptoms but not an accurate diagnosis and treatment of the pathology. The second distinction is between reforms which attempt to achieve a more responsive form of contemporary capitalism, and those which seek to build an alternative to capitalism. Regarding the latter it is crucial to apprehend correctly the role of the financial system in capitalist reproduction and to understand that while important direct interventions can be made via the financial system, ultimately the mode of production itself must be tackled in its entirety; in this regard anti-capitalist proponents of CCs appear to have come unstuck.

Financial reforms aimed at modifying (but not dismantling) contemporary capitalism must focus on reversing various trends associated with financialisation. A greater focus on relational stakeholder banking, clearly separated from investment banking and not subject to shareholder value maximisation pressures, is one aspect of this. Others (not specifically linked to households) include: eliminating excess risk-taking, reining in too-big-to-fail megabanks, gaining regulatory control over shadow banking and off-shore tax havens, regulating cross-border capital flows, establishing the ECB as a lender of last resort with employment as a specific target, scaling up the developmental mandate of the European Investment Bank, eliminating predatory lending, and rethinking European financial integration with the rest of the world (Dymski and Kaltenbrunner 2014). More radical alternatives (potentially including things like complementary currencies) must be correctly embedded within a more general programme of establishing an anti-capitalist alternative. Regarding the first type of reforms we have already noted STV banking as one such alternative and little else appears on the horizon. Regarding the second, the options currently available, as already argued, provide little succour.

Despite the financial crisis and ongoing Eurozone turmoil the financialised path of the European economy has not been fundamentally altered and notwithstanding much talk, substantive and meaningful financial reform has not materialised (for a discussion of why this is so see Bieling 2014). The issue is therefore both theoretical and political; not only do the solutions need to be found but they need to be fought for. The problem is not only that financialisation (and neo-liberalism and globalisation more broadly) have produced particular economic institutions and systems but that these are sustained by webs of economic and political power. To succeed, any alternative, therefore, requires not only technical and theoretical soundness but political power and determination.

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Financialisation, Economy, Society and Sustainable Development (FESSUD) is a 10 million euro project largely funded by a near 8 million euro grant from the European Commission under Framework Programme 7 (contract number : 266800). The University of Leeds is the lead co-ordinator for the research project with a budget of over 2 million euros.

THE ABSTRACT OF THE PROJECT IS:

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?'

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THE PARTNERS IN THE CONSORTIUM ARE:

Participant	Participant organisation name	Country
1 (Coordinator)	University of Leeds	UK
2	University of Siena	Italy
3	School of Oriental and African Studies	UK
4	Fondation Nationale des Sciences Politiques	France
5	Pour la Solidarite, Brussels	Belgium
6	Poznan University of Economics	Poland
7	Tallin University of Technology	Estonia
8	Berlin School of Economics and Law	Germany
9	Centre for Social Studies, University of Coimbra	Portugal
10	University of Pannonia, Veszprem	Hungary
11	National and Kapodistrian University of Athens	Greece
12	Middle East Technical University, Ankara	Turkey
13	Lund University	Sweden
14	University of Witwatersrand	South Africa
15	University of the Basque Country, Bilbao	Spain

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[1] The KfW (Credit Institution for Reconstruction) was established as part of the Marshall Plan after WWII to assist in economic recovery in Germany (Simpson 2013, p. 51).
[2] Enhancing access in remote regions and providing credit to households and SMEs remains at the centre of cooperative and savings banking in other countries also, for example in Italy, France and the Netherlands.
[3] A myriad of other studies, at different points in time, confirm such findings. For example several empirical studies found that local banks enhanced development prospects in underprivileged regions in postwar Italy (Ayadi *et al.* 2010, p. 58)

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[4] The EU15 comprised the following 15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom.
[5] As competition for retail deposits accelerates this will place pressure on STV bank capital (McCarroll and Habberfield 2012, p. 3).
[6] In general, German bank profitability is well below the EU-15 average due to strong competition and productivity gains passed onto consumers (Simpson 2013, p. 20).
[7] The aforementioned critique begins from the faulty premise that shareholder value maximization leads to optimal business outcomes, a premise which leaves room for only one conclusion: that STV banks are suboptimal. Ayadi et al. (2010, pp. 24–26) argue that cooperatives are actually better able to deal with these agency problems.
[8] Cooperative and saving banks currently face a number of regulatory challenges including the danger or inappropriate or too much regulation aimed at making them conform to international banking norms even when these may be inappropriate to their banking models (McCarroll and Habberfield 2012, pp. 3–4, Birchall 2013, pp. 49–50) (see also Anguren Martín and Marqués Sevillano 2011, pp. 40–44).
[9] The authors note that 'interpretation of the results should be made with extreme caution and should take into account limitations arising from medians' (Anguren Martín and Marqués Sevillano 2011, p. 35).
[10] There is some evidence that Tier 1 capital for SHV banks has strengthened more quickly in the wake of the crisis (in some cases, with government support) than for STV banks (McCarroll and Habberfield 2012, p. 3).
[11] In Spain for example, whereas saving and cooperative banks, respectively, accounted for 48% and 5.3% of total loans, they held 55.7% and 6.5% of mortgages (Ayadi *et al.* 2010, p. 88).
[12] Many analysts have attributed this to the advent of "cheap money" in the 1930s but the boom in the housing and mortgage markets, and in the role of building societies, begun in the 1920s; building societies' share capital actually grew by 40% in 1927/28 and 53% in 1929/30, both higher than subsequent years (Humphries 1987, p. 326). Humphries (1987) argues that this boom was originally driven by expanding deposits and high rates of repayments, to this Scott and Newton (2012, pp. 400, 405) add product innovation, liberalised lending terms and organisational efficiency.
[13] Criteria for membership are defined by each Society but generally almost all holders of retail accounts (depositors) are members and many mortgagors are borrowing members. While the latter have no ownership claim they are able to vote on certain resolutions (Armitage 1991, p. 459).
[14] This liberalisation is one key factor in the sharp rise during the 1980s in capital and income gearing in the housing market. Consumer credit to personal disposal income also rose from 7.6% in 1981 to 13.8 in 1989 (Drake 1991, pp. 522, 525).
[15] The 1997 Building Societies Act further broadened the scope of societies' activities while maintaining mortgage lending through member savings as their 'principle purpose' (Stephens 2001, p. 335).
[16] Members' pushing for demutualization against the wishes of management was rare but did take place. These "revolts" were led by long-standing members but "punters" did sign up to building societies shortly before demutualisation in order to benefit the distribution of funds that normally followed demutualisation.
[17] Outright demutualisation was viewed as offering protection because: a. the 1986 Act offered a five-year legal protection against hostile takeovers and b. capital could be raised to protect against such a bid. However, the 1997 Act made the 5-year protection void if the converted society itself undertook a takeover (viewed as important for growth and survival), and capital was not immediately raised by these converting societies (Stephens 2001).
[18] For an example of how the academic literature pushed SHV regarding mutuals see Ingham and Thompson (1993), also discussed in Talbot (2009).

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[19] Interestingly the reforms of the 1980s also pushed building societies towards supporting more neoliberal housing policies (see, for example, Smallwood 1992).
[20] These results may be biased because there appears to be a strong correlation between board remuneration and size and almost all of the largest societies converted (Shiwakoti *et al.* 2004).
[21] The centrality of management interests is contested with some advancing the efficiency argument as a more important factor (see, for example, Shiwakoti et al. 2008). Others have argued that because surplus accrued in mutuals is not distributed to shareholders scope for rent-seeking amongst management is opened. Others have argued that irrespective of ownership type competitive market conditions may constrain managers of mutuals to act in line with the public company equivalents irrespective of ownership form (Ingham and Thompson 1993).
[22] As well as demutualization of other institutions such as insurance companies, (as with what is now Aviva) and even the AA (Automobile Association).
[23] Today Zopa facilitates £829 million in loans, has over 100,000 current borrowers and 51,000 active lenders. Since 2010 its bad debt has been only 0.25% (Zopa 2015).
[24] A host of other new business financing innovations have also developed in recent decades. Traditional financial institutions (mainly banks) have secured loans in various ways, including against particular assets (asset-backed lending), outstanding payments due (factoring or invoice discounting), purchase orders (purchase order financing) and inventories (inventory financing) or offered loans through credit cards. These and other lending have also been undertaken by non-bank financial institutions such as hedge funds and venture capitalists. All of these, however, do little to insulate businesses from the trends associated with financialisation.
[25] A small number of examples are constantly repeated to give credence to the "success" of such currencies.
[26] There is some contention over the best typology to be used to delineate CCs, see Blanc (2011), Blanc and Fare (2013), Martignoni (2012), Witt and Lindstrom (2004) and Seyfang and Longhurst (2013). The following draws predominately from Seyfang and Longhurst's (2013) relatively simple classification which suits our purposes here.
[27] For more on LETs in various countries see Clayton (2010, p. 35), Jelínek et al. (2012) and Williams et al. (2001).
[28] On Ithica Hours see Burke (2006) and North (2014), on German Regiogeld see Thiel (2011) and on UK Transition Currencies see Ryan-Collins (2011a, 2011b, 2012), Burton (2012) and Smedley (2014).
[29] On Greece see Sotiropoulou (2011), Hungary, Austria and Croatia see Szalay (2011), France see Fare (2011), Central European post-communist countries see Jelínek et al. (2012), and Germany see Thiel (2011).
[30] The literature contains at least three other currency themes. One of these is proposals to 'back' local, national or international currencies in unconventional ways (that is, not with precious metals or by state issued fiat-money) for example a basket of common goods, or with energy credits (see for example Collins *et al.* 2013). Another is "virtual currencies" which may or may not be related to CCs and are discussed below. Finally there are commercial "reward currencies," for example air-miles, which are not dealt with here.
[31] There is an interesting tension between this and the former dimension. Despite purportedly drawing inspiration from Depression era United States scrip currencies these currencies were in fact embedded within US notions of individualism and self-help and not community solidarity. Elvins (2012) argues that despite the proliferation of CCs at the time few Americans were willing to embrace radical change or saw these as a vehicle to do so.
[32] One of the most successful currencies was the Chiemgau in Chiemsee in Germany. This, North (2014, p. 263) argues, is because Chiemsee is a wealthy area with strong local financial institutions, a Mittelstand of local businesses and a large number of local suppliers, all in place before the advent of the local currency.

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[33] Ingham notes that the scarcity of money is 'always the result of very carefully constructed social and political arrangements' (2004, 8 quoted in Wainwright 2012). Wainwright (2012) goes on to argue that these are fundamentally about shaping class relations, as Clayton (2010, p. 272) notes: 'Hard, scarce money tends to favour the wealthy and established, because it preserves the value of existing wealth. Soft money, with easy borrowing, offers a means whereby those with few assets can establish a business and better their position'.

[34] As Ingham notes 'modern credit-money is itself, first, a social relation and second; that as such its elasticity of production is entirely a social construct' (1999, 80; quoted in Wainwright 2012).

[35] This contradiction (noted as far back as classical political economists) is a feature of modern money because of the needs imposed by capitalist production. Capitalism required a currency to serve as a reserve of value, to transfer value over time, and to anticipate and delay payments. Attempting to create a currency (which can have widespread use, for example energy monies) within the confines of a capitalist economy that does not embody this contradiction is like trying to fit a square through a round hole.

[36] It would be overly generous to ascribe all these critiques of money to most proponents of CCs. More often than not the theoretical arguments advanced are polemical nonsense completely unsubstantiated and devoid of a viable theoretical base (see for example Boyle 2011). Nevertheless, this summary combines theoretical critiques made by various authors cited above.

[37] The designer of LETS, Michael Linton, argued that it is impossible for inflation to occur in a LETS scheme because the amount of LETS currency exactly matches the amount of trade performed, a clear statement of orthodox monetarism (Seyfang 2000, p. 232).

[38] There is an inherent drive with capitalism to expand globally and local monies come into contradiction with this and are limited by it whereas conventional monies do not; as Fantacci (2005, p. 57) notes: '[m]odern money is functional to the extension without boundaries and the expansion beyond any given measure of the self-regulated market'.

[39] Attempts at creating "energy monies," currencies in one way or another tied to renewable energy generation, are a very different means through which to link money with environmental concerns (see Collins *et al.* 2013). These deserve their own consideration but are not, in general, immune to the criticisms raised here.