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Roland Benedikter

Social Banking and Social Finance

Answers to the Economic Crisis

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Answers to the Economic Crisis

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For Ariane and Judith

Foreword

In this intellectually provocative volume, Roland Benedikter provides a lucid, cutting-edge treatment of the present-day process of banking and financing in the global economy. The description of the anatomy of the crisis of 2007–2010 is followed by a disquieting analysis of the many pathologies involved, which, if not cured, might jeopardize the stability of our model of Western democratic social order. The sense of omnipotence, fostered over the last three decades by an ambivalent economic theory that insisted on the self-referential nature of finance, came to dominate the mental habitus not only of traders and financial institutions, but also of political authorities and educational agencies.

Against such a picture, Benedikter advances the proposal of social banking and social finance as new, progressive approaches to money and finance, capable of re-orienting the present situation. The author not only provides a most useful array of information about social banks, but successfully endeavors to make explicit the philosophical background underneath this specific mode of exercising the banking and finance activity.

All the great economists, from Adam Smith onward, have recognized that economic institutions – such as the banking and finance system – do not emerge in a cultural vacuum, as if they were given by nature. They have also recognized that market institutions generate and induce desirable as well as undesirable social traits. It follows that we cannot simply exonerate ourselves from the duty of considering the feedbacks of specific economic arrangements on human character. The main point advanced by the author of this volume is that there is not a unique route to economic progress. On the contrary, there is a variety of models of market economy, each one of them in tune with a particular cultural matrix.

According to Roland Benedikter, finance can once again become a humane – and humanistic – activity in the form of social banking and social finance, where interpersonal relations (not to be confused with mere social interactions) and ethical values occupy the center of the stage.

In this sense, this volume represents an important addition to the literature groping for a new “financial humanism” in our time. Benedikter has rendered us a great service by contributing so much to this urgently needed area of inquiry. The closely

knit narrative tells a fascinating story, so much so that the reader feels that one cannot leave it aside too lightly.

I would strongly recommend the reading of this volume.

Cambridge, Massachusetts
December 2010

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Introduction

The global financial and economic crisis, which began in 2007 and is still having repercussions in 2010, instigated the re-evaluation of the way we do business in many parts of the world. Coming under renewed scrutiny are particularly our financial institutions and the political will to regulate them in ways that will protect the assets of those who have trusted their fiduciary commitments, perhaps too easily.

The emerging fields of social banking and social finance represent fairly recent attempts to include broader considerations of fairness, social value, and justice in our models of economic well-being. They are approaches to the financial industry that have surfaced and gained public attention mainly during the most recent economic crisis. In the wake of this crisis, they may provide useful lessons concerning how to improve local and global financial systems by serving as “best practice” examples.

Why, how, and where?

Social banks were among the most successful economic endeavors worldwide during the 2007–2010 period with annual growth rates of up to 30%, whereas most mainstream banks suffered during the global crisis. Social banking is not about fundamentally changing the capitalistic system, but rather about improving some of its core features by putting into practical use the *triple bottom line* principle which identifies *three areas of focus*: profit, people, and the planet – instead of profit alone. To be useful for the greater task of improving the global financial system, a comparison between social banks in Europe and the United States, such as the one contained in this volume, proves to be particularly fertile – because most of the existing social banks are currently found on the two sides of the Atlantic, and because their differences and similarities are instructive.

While this brief volume is not restricted to the most recent economic crisis, it uses it as the starting point to explore the general approach of social banking and social finance now being practiced in Europe and in the United States. It has been written in cooperation and exchange with some of the most important leaders of social banks of the world.

The main audience for this volume are students and teachers in colleges and universities, members of the civil society as well as “average” citizens who want to know more about how to concretely improve the current management of money and

finance. Thus, the primary goal of this volume is to enhance the “financial literacy” of the general population, among them first and foremost the future generations of “world citizens.” It attempts to explain some perspectives of the unprecedented global financial crisis of 2007–2010 in an easily accessible way in the hope that new approaches can be developed to ensure innovation as a feasible alternative to our past focus.

I hope this volume succeeds in its task.

Stanford, California
December 2010

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This text has been written in cooperation with Julian Kühn, director of the Institute for Social Banking Bochum, Germany, and executive board member of the GLS Treuhand Foundation. Julian has been a chief executive and board member in the international social banking sector for more than two decades. His direct experience in the field was of inestimable value for this text.

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Stanford University
December 2010

Roland Benedikter

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Social Banking and Social Finance

Abstract This small volume provides a concise introduction to contemporary social banking and social finance. Written in a short and easily understandable manner, it explains the history, the philosophy, the current state, and the perspectives of social banking and social finance. It describes their place within the global economy and the visions of their “global alliances” for the years to come. The focus is on the basic mindset that gave birth to social banks about a century ago, and that still constitutes their main driving force in the age of globalization, and on the comparison of the current state of social banking in the United States and Europe. Since most social banks are found on both sides of the Atlantic, their interplay can be considered as instructive also regarding the worldwide development of social finance.

This volume consists of three parts. Part 1: Social banks have been among the most successful financial institutions worldwide during the economic crisis of 2007–2010 and have emerged strengthened by it. Therefore, the volume provides a short analysis of this crisis from the viewpoint of social banking and social finance. Part 2: It then describes the main ideas and methods of social banking as new approaches to money and finance, capable of re-orienting the financial system in order to avoid further crises. Part 3: Finally, it draws the perspective of how social banking and social finance – as integral parts of the growing global civil society and the broader international movement toward sustainability – may work together with the mainstream banking and finance industry by serving as “best practice” examples in selected fields.

Keywords Financial and economic crisis of 2007–2010 · Globalization · Capitalism · Civil society · Financepeace · Financial humanism · Liberation finance · Microfinance · Social banking · Social finance · Sustainability · Triple bottom line

1 Preface by the author: Recommendations on the Didactical Use of This Volume

Social banking and social finance are relatively new developments within the international banking and finance industry. While their “basic mindset” dates back about

100 years, their establishment as modern institutions has been only a recent process since the 1970s. While most social banks developed *locally* in competition with the mainstream banking and finance business, their rise was closely interwoven with the spread of *national* and *international* civil society movements in the 1980s and 1990s. And while early social finance movements brought together social activists and innovators already since the financial and economic crises of the first half of the 20th century, their surfacing to the attention of the broader public of our days, as well as their affirmation as serious actors in an increasingly multifaceted concert of global financial players, occurred only with the most recent financial and economic crisis.

Indeed, there is some evidence that the definitive consecration and recognition of social banking and social finance institutions as parts of the global financial and economic system occurred not before the crisis years of 2007–2010, when they celebrated an overwhelming success by factually doubling their assets within less than 3 years. In doing so, they benefited from a broad spectrum of customers who were disappointed with mainstream finance and who started to shift remarkable amounts of money to social banks – some of them in protest, but most in search of a better perspective: of transparency and reliability, a down-to-earth approach of investment, a focus in the “real economy” with practical local ties (instead of abstract international speculation), a new “financial humanism” in the form of a heightened responsibility for sustainable development both in the social and in the environmental spheres (instead of maximum short-term gains at any cost, which proved to be socially and environmentally unhealthy). This shift toward social finance was, in its essence, part of a basic mindset shift under the influence of the crisis. It increased the potentials and the outreach of social banks noticeably.

Today, in the aftermath of the peak of the crisis, social banks find themselves in a situation so far unprecedented in their history. Although it would be premature to speak of a “breakthrough” toward becoming actors of equal importance to the international mainstream financial players, social banks have stably established themselves on a worldwide scale. They have become realities that can no longer be ignored. Their viewpoints on economic and social development, in the past often considered as “alternative” or “exotic”, have become part of the ratio of public discourse.

Strengthened by this new visibility, social banks have forged worldwide alliances that aspire to provide “best practice” examples of how to run banking and finance in a less speculative, more reality-oriented manner in order to avoid further crises. While social banks do no pretend to change the basic pillars of current capitalism, they conceive themselves as progressive, i.e., more community- and environmental-friendly approaches to capital and money: as more sustainable forms of finance. They envision themselves as parts of the global trend toward a new “human ecology,” connected with a vast array of innovative fields which comprise, among others, green technologies and renewable energies, free software and open knowledge, civil society community participation, and grass roots democracy. All of these developments foster a new combination of global and local (sometimes branded “glocal”), as well as a new, conscious intertwining between private and public. And all of them believe in the slogan “All different – all equal” propagated years ago by the

United Nations. Indeed, social banking is about fostering radical individual creativity through the creation of greater social fairness. Since money stands in the midst of the capitalistic society of our days, social banking is an approach to finance that is relevant to all these developments.

In short, what becomes visible today is that although social banks – as well as the social finance sector, which comprises not only banks but also foundations and social enterprises – are numerically and quantitatively still relatively small factors within the international financial business, their importance is growing. This momentum creates a side effect which in the long run may be of greater importance than the sheer numbers of assets: it starts to create a cultural influence.

Social banks are becoming cultural powers or, to better put it, timely expressions of the contemporary cultural innovation. To put it with the director of the Birkbeck Institute for the Humanities of the University of London, Slavoj Žižek, social banking starts to function as an “agent of economical subjectivation”: by addressing a *specific* and *confined* field of the current societal system (i.e. the financial dimension), it starts to influence and thus to change the system as a whole.

This situation is, from my viewpoint, similar to the momentum which progressive civil society organizations dedicated to the environment, like for example “Greenpeace” dedicated to the rescue of nature, represented in the 1980s and 1990s. One single whale saved by Greenpeace was factually only one single whale, but the action was about *whales* and, by extension, *whale catching* as such, and even more – about our relationship with animals and the planet. Like Greenpeace in its best days (and they are certainly not over yet!), social banks today are competing for a “symbolic worldview supremacy” in their field. Like Greenpeace in the days of the worst environmental pollution (and the damaging mindset behind it), social banks after the worst financial crisis in decades are increasingly recognized by the broader public as actors that may contribute to correct things – i.e., as constituent parts of a new culture of finance.

As we will see, the affinities reach out also into the terminological field, but with changed presuppositions. As “Greenpeace” was regarded as “rebellious” by the institutionalized political spheres of the 1980s and 1990s, today there is a broad political call for a new “Financepeace” to be co-inspired by alternative institutions like social banks – a call issued officially by nobody less than a group of members of the European Parliament in Brussels, which represents 27 nations with more than 490 million European citizens.

Without doubt, this positive reputation may be only temporary, or reveal itself as marginal. In any case, the current situation puts a lot of new responsibility on the social finance sector, now in a much broader and internationally received dimension than ever before.

In this situation of transition, the present volume provides an introduction to the philosophy, methods, current organization, and perspectives of social banking and social finance. To tie this information to the current state of affairs, it uses the crisis of 2007–2010 as a point of departure.

Nevertheless, it has no pretension to explain the full array of origins and causes of this crisis, since the latter was of very, maybe even exceptionally, complex origins. Thus, the following pages are about sketching only some main motives that triggered

the crisis, in order to see to which extent social banking and social finance may provide answers to the shortfalls of the mainstream system. One “main motive” of the crisis of 2007–2010 consists, in the view of most social bankers, of what we will call the “Sandglass principle” of “neoliberal” mainstream capitalism between 1989 and 2007 (including its surviving remnants until today).

The text is structured in three parts as follows:

1. A short and simplifying analysis of the crisis of 2007–2010 (Sections 2 and 3);
2. An introduction to social banking and social finance as answers to the crisis in selected fields (Sections 4–9);
3. Perspectives resulting from the dialogue between the mainstream financial industry and social banking for the future (Sections 10–14).

In addressing these points, this volume has a didactical stance. Its main purpose is to serve students and teachers, the civil society, and the broader public.

The volume focuses on the comparison between the United States and Europe. The two primary reasons are

- *first*, that the large majority of social banking and social finance institutions are still found on both sides of the Atlantic;
- *second*, that by analyzing their interaction and relationship, an introductory overview of the basic issues connected with the topic on an international dimension can be achieved.

While the center of attention of this volume lies on social banking and social finance as innovative models to improve the existing capitalistic system, it also tries to introduce some basic critical understanding of how the current system of money and finance works. This is another reason why I depart from the economic and financial crisis of 2007–2010.

In order to serve its didactical purposes, I have structured the text as a *dialogue between the main text and the footnotes*. The main text gives the essence, while the footnotes comment on it, question it, or complement it – and thus differentiate it to the extent that is necessary to create a “living” and open picture. I hope that with this “two-dimensional” method, an inner dialogue within the reader is stimulated that may open up questions (which in my view are of greater importance than “answers,”) and that may serve as a basis for further discussions.

I suggest the 12 sections to be used as 12 single lessons. In my experience, the procedure that has proven to be most effective for students and teachers is to read through the whole volume and then review each section, with two groups giving presentations on each of the parts: one or more students giving their personal account of the *main text* and others commenting on it with the help of the *footnotes*. Another idea to make the sometimes complex content appealing to “beginners” includes the option to designate individual students and/or civil society members to “play” the persons that are cited in the text, by reading (or reciting) their statements or by acting in their place. I encourage the reader to “use” the text actively in a “Brechtian”