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Cooperative banking has arrived

Alternative to the bad corporate giants are growing in the U.S. and abroad -- and they could transform our economy

BY ELLEN BROWN

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According to both the Mayan and Hindu calendars, 2012 (or something very close) marks the transition from an age of darkness, violence and greed to one of enlightenment, justice and peace. It's hard to see that change just yet in the events relayed in the major media, but a shift does seem to be happening behind the scenes; and this is particularly true in the once-boring world of banking.

In the dark age of Kali Yuga, money rules; and it is through banks that the moneyed interests have gotten their power. Banking in an age of greed is fraught with usury, fraud and gaming the system for private ends. But there is another way to do banking; the neighborly approach of George Bailey in the classic movie "It's a Wonderful Life." Rather than feeding off the community, banking can feed the community and the local economy.

Today, the massive too-big-to-fail banks are hardly doing George Bailey-style loans at all. They are not interested in community lending. They are doing their own proprietary trading—trading for their own accounts—which generally means speculating against local interests. They engage in high-frequency program trading that creams profits off the top-of-stock market trades; speculation in commodities that drives up commodity prices; leveraged buyouts with borrowed money that can result in mass layoffs and factory closures; and investment in foreign companies that compete against our local companies.

We can't do much to stop them. They've got the power, especially at the federal level. But we can quietly set up an alternative model, and that's what is happening on various local fronts.

Most visible are the Move Your Money and Occupy Wall Street movements. According to the Web site of the Move Your Money campaign, an estimated 10 million accounts have left the largest banks since 2010. Credit unions have enjoyed a surge in business as a result. The Credit Union National Association reported that in 2012, for the first time ever, credit union assets rose above $1 trillion. Credit unions are non-profit, community-minded organizations with fewer fees and less fine print than the big risk-taking banks, and their patrons are not just customers but owners, sharing partnership in a cooperative business.

Move "Our" Money: The Public Bank Movement

The Move Your Money campaign has been wildly successful in mobilizing people and raising awareness of the issues, but it has not made much of a dent in the reserves of Wall Street banks, which already had $1.6 trillion sitting in reserve accounts as a result of the Fed's second round of quantitative easing in 2010. What might make a louder statement would be for local governments to divest their funds from Wall Street, and some local governments are now doing this. Local governments collectively have well over a trillion dollars deposited in Wall Street banks.

A major problem with the divestment process is finding local banks large enough to take the deposits. One proposed solution is for states, counties and cities to establish their own banks, capitalized with their own rainy day funds and funded with their own revenues as a deposit base.

Today only one state actually does this: North Dakota. North Dakota is also the only state to have escaped the credit crisis of 2008, sporting a sizeable budget surplus every year since. It has the lowest unemployment rate in the country, the lowest default rate on credit card debt, and no state government debt at all. The Bank of North Dakota (BND) has an excellent credit rating and returns a hefty dividend to the state every year.

The BND model hasn't yet been duplicated in other states, but a movement is afoot. Since 2010, 18 states have introduced legislation of one sort or another for a state-owned bank.

Values-based Banking: Too Sustainable to Fail

Meanwhile, there is a strong movement at the local level for sustainable, "values-based" banking—

conventional banks committed to responsible lending and service to the local community. These are George Bailey-style banks, which base their decisions first and foremost on the needs of people and the environment.

One of the leaders internationally is Triodos Bank, which has local offices in the Netherlands, Belgium, the United Kingdom, Spain, and Germany. Its Web site says that it makes socially responsible investments that are selected according to strict sustainability criteria and overseen by an international panel of “stakeholder” representatives representing various community, environmental, and worker interest groups. Investments include the financing of more than 1,000 organic and sustainable food production projects, more than 300 renewable energy projects, 33 fair trade agricultural exporters in 22 different countries, 85 microfinance institutions in 43 countries, and 398 cultural and arts projects.

Two U.S. banks exemplifying the model are One PacificCoast Bank and New Resource Bank. Operating in California, Oregon and Washington, One PacificCoast is comprised of a sustainable community development bank with around $300 million in assets and a non-profit foundation (One PacificCoast Foundation). Its commercial lending business focuses on such sectors as specialty agriculture, renewable energy, green building, and low-income housing. Foundation activities include programs to “help eliminate discrimination, encourage affordable housing, alleviate economic distress, stimulate community development and increase financial literacy.”

New Resource Bank is a California based B-corporation (“Benefit”) with $171 million in assets, which focuses its lending and banking services on local green and sustainable businesses. New Resource was recognized in 2012 as one of the “Best for the World” businesses, being in the top 10 percent of all certified B-Corporations and scoring more than 50 percent higher than 2,000 other sustainable businesses in overall positive social and environmental impact.

All this might be good for the world, but isn’t investing locally in a values-based bank riskier and less profitable than putting your money on Wall Street? Not according to a study commissioned by the Global Alliance for Banking on Values (GABV). The 2012 study compared the financial profiles between 2007 and 2010 of 17 values-based banks with 27 Globally Systemically Important Financial Institutions (GSIFIs)—basically the too-big-to-fail banks, including Bank of America, JPMorgan, Barclays, Citicorp and Deutsche Bank. According to the GABV report, values-based banks delivered higher financial returns than some of the world’s largest financial institutions, with a return on assets averaging above 0.50 percent, compared to just 0.33 percent for the GSIFIs; and returns on equity averaging 7.1 percent, compared to 6.6 percent for the GSIFIs. They appeared to be stronger financially, with both higher levels of and better quality capital; and they were twice as likely to invest their assets in loans.

CDFIs

Along with the values-based banks, community investment is undertaken in the United States by Community Development Financial Institutions (CDFIs), including community development banks, community development credit unions, community development loan funds, community development venture capital funds, and microenterprise loan funds. According to the CDFI Coalition, there are over 800 CDFIs certified by the CDFI Fund, operating in every state in the nation and the District of Columbia. In 2008 (the last year for which a report is available), CDFIs invested $5.53 billion “to create economic opportunity in the form of new jobs, affordable housing units, community facilities, and financial services for low-income citizens.”

Two of many interesting examples are the Alternatives Federal Credit Union and Boston Community Capital. Alternatives FCU, located in Ithaca, New York, is committed to community development and social change and is part of the Alternatives Group, which includes a non-profit corporation (Alternatives Community Ventures); a 40-year old trade association of community groups, cooperatives, worker-owned businesses and individuals (Alternatives Fund); and a not-for-profit organization that facilitates secondary capital investment in the credit union (Tomkins County Friends of Alternatives, Inc.). The credit union has over $70 million in assets and offers many innovative financial products, including individual development accounts—special savings accounts for low-income residents that offer matching deposits of two to one up to a certain amount—in addition to more traditional services such as loans for minority and women-owned businesses, and affordable mortgages. The credit union also offers small business development (classes, seminars, consultation, and networking programs), free tax preparation, and a student credit union.

Although its lending programs focus on lower-income borrowers, Alternatives FCU has had lower delinquency and charge-off rates than many major banks that avoid these types of customers. Boston Community Capital (BCC) is a CDFI that is not actually a bank but invests in projects that provide affordable housing and jobs in lower-income neighborhoods. BCC includes a loan fund, a venture fund, a mortgage lender, a real estate consultation organization, a solar energy fund, and a federal New Markets Tax Credit investment vehicle. Since 1985, it has invested over $700 million in local organizations and

businesses. These funds have helped build or preserve more than 12,800 affordable housing units, as well as child care facilities for almost 9,000 children and healthcare facilities that reach 56,000 people. Their investments have helped renovate 850,000 square feet of commercial real estate, generate 5.9 million KW hours of solar energy capacity, and create more than 1,500 jobs.

Less Money for Banks and More for Workers: The Models of Germany and Japan

Values-based banks and CDFIs are a move in the right direction, but their market share in the U.S. remains small. To see the possibilities of a banking system with a mandate to serve the public, we need to look abroad.

Germany and Japan are export powerhouses, in second and third place globally for net exports. (The U.S. trails at 192nd.) One competitive advantage for both of these countries is that their companies have ready access to low-cost funding from cooperatively owned banks.

In Germany, about half the total assets of the banking system are in the public sector, while another substantial chunk is in cooperative savings banks. Germany's strong public banking system includes 11 regional public banks (Landesbanken) and thousands of municipally owned savings banks (Sparkassen). After the Second World War, it was the publicly owned Landesbanks that helped family-run provincial companies get a foothold in world markets. The Landesbanks are key tools of German industrial policy, specializing in loans to the Mittelstand, the small-to-medium size businesses that drive the country's export engine.

Because of the Landesbanks, small firms in Germany have as much access to capital as large firms. Workers in the small business sector earn the same wages as those in big corporations, have the same skills and training, and are just as productive. In January 2011, the net value of Germany's exports over its imports was 7 percent of GDP, the highest of any nation. But it hasn't had to outsource its labor force to get that result. The average hourly compensation (wages plus benefits) of German manufacturing workers is $48—a full 50 percent more than the $32 hourly average for their American counterparts.

In Japan, the banks are principally owned not by shareholders but by other companies in the same keiretsu or industrial group, in a circular arrangement in which the companies basically own each other. Even when there are nominal outside owners, corporations are managed so that the bulk of the wealth generated by the corporation flows either to the workers as income or to investment in the company, making the workers and the company the beneficial owners.

Since the 1980s, U.S. companies have focused on maximizing short-term profits at the expense of workers and longer-term goals. This trend stems in part from the fact that they are now funded largely by capital from shareholders who own the company and want simply to grow their returns. According to a 2005 report from the Center for European Policy Studies in Brussels, equity financing is more than twice as important in the U.S. as in Europe, accounting for 116 percent of GDP compared with 62 percent in Japan and 54 percent in the eurozone countries. In both Europe and Japan, the majority of corporate funding comes not from investors but from borrowing, either from banks or from the bond market.

Funding with low-interest loans from cooperatively owned banks leaves greater control of the company in the hands of employees who either own it or have much more say in its operation. Access to low-interest loans can also slash production costs. According to German researcher Margrit Kennedy, when interest charges are added up at every level of production, 40 percent of the cost of goods, on average, comes from interest.

Globally, the burgeoning movement for local, cooperatively owned and community-oriented banks is blazing the trail toward a new, sustainable form of banking. The results may not yet qualify as the Golden Age prophesied by Hindu cosmology, but they are a major step in that direction.

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