

Social Aspects of the Banking System

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Abstract

The author rests on the US constitution and the German Basic law for supporting his argument on how the original relatively fair capitalism was lately converted into a vulgar and brutal system. Past years clearly indicate that the banking system, as an authentic representative of the capitalist regime, failed in providing a decent service to the general public.

Another sign for the failing system's limits was the significant large scale of government involvement in the economy by investing huge amounts of money in contrary to the classical free market proponents' opinions. The proposed reformed paradigm, most pertinent for our time is the Social-Capitalism model. It consisted of four major principles: (1) Building a dynamic balance between Capital and Labor interests, (2) Endorsing Collaboration rather than sticking with competition (3) Promoting Private–Public Partnerships (PPP) and (4) Combining several alternatives rather than adopting one only.

The author sees two distinct roles for the banking system, a. the classical and b. the social-oriented one. Banking should be divided according to these two roles. The Communal banking system should fulfill three objectives: a. meeting the financial needs of the citizens, b. satisfying small business financial requirements, and c. complying with regulatory and environmental demands. The strategy for meeting these goals rests on the following assumptions: (1) Democratic states need very competent banking systems, (2) Communal banking system is the most appropriate financial tool for meeting social needs, (3) A competent banking system is a promising platform for development and prosperity, and (4) A reliable banking system, at present, must be transparent and accountable.

Keywords: Banking System, Capitalism, Collaboration, Social needs, Socio-economic Paradigm.

1. Preface

Two canon documents, The US Constitution and the updated German Basic Law, are used by the author as a departure haven for developing the calling for revising, reforming and enhancing the Post-modern socio-economic order. The American Founding Fathers did not hesitate to claim 230 years ago that their goal was "*to form a more perfect Union.*"ⁱ Similarly, the goal of German Parliament members who were inspired by "*Conscious of their responsibility before God and man*"ⁱⁱ was "*to promote world peace.*" But, these two principal documents hardly refer to the critical point of how to achieve these upgraded goals. Therefore they concentrated only on the

formal, legislative and administrative aspects.

In the Constitution Preamble the following objectives are enumerated: "*establish Justice, insure domestic Tranquility, provide for the common defense, promote the general Welfare, and secure the Blessing of Liberty.*" This manuscript refers to the last two objectives, promoting the general Welfare, and securing the Blessing of Liberty by offering The Social-Capitalism Paradigm as a renewed socio-economic perception. It is assumed that this revised paradigm develops, enhances and expands the meaning of the above two missions and give them a more relevant meaning for the citizens of today.

The basic message and the main implication, derived from the renewed social-capitalism paradigm is that socio-economic affairs should be run in a balanced way. Only a balanced mode of operation that negates extreme and one-sided actions had the just chance to succeed and the right justification for surviving. Keeping a workable active equilibrium between the interests of the participating parties is, therefore, the correct mode of operation that can meet most interests.

2. Introduction

The present slowdown of World economy, which emerged from the global financial crisis, commencing in 2008 in US, and continuing to the present banks' hardships in Cyprus, indicates that "something is wrong in the banking system". The simple fact that such a global recession lasts for over five years and encompasses US and most of the European nations points to the understanding that some basic ground rules functioned bad. Some will claim that this slowdown emerges from citizen's bad habits; "they are lazy" "they spend more than they earn" or "they purchase houses too expensive for their income." Others will blame the banks and other financial institutions that enslaved themselves to the rat run of increasing revenues and profits and being driven by the greedy spirit of their owners, directors, managers and officers. A very instructive description of the manners of the New York Stock Exchange traders in particular, and the leading vulgar capitalists in general is portrayed in L. Michael (2010) and Ha-Joon Chang (2010). The third factor that is deeply involved in the banking system breakdown is governments and their regulatory agencies. The mode of operation of the regulation agencies, as well as their size, amount and form, are not technical or bureaucrat issues only they should be the concern of the general public. Regulation agencies and their activities are the products of a political-economy ideology and a social-economy perception about banks' transparency and accountability.

Regarding the world economic crisis and the basic question-marks it put on the global agenda, it is obvious that something new is needed. Therefore this manuscript proposes "The Social-Capitalism Perception" as an integrated view for improving socio-economic life. The section on the banking system is just one chapter of the whole work.

3. Background

Most writers agree that the banking system had a significant role in the current financial breakdown. Whether it was the greedy aptitude of the American investment banks, the reckless tendency to provide unrealistic mortgages or other exaggerated loans does not matter. The fact was that large amounts of capital were in the market and it attracted too many customers that

most of them had no proper credit history.

In addition, a wrong conception of slack regulation loose supervision was imposed by President G.W. Bush's administration, which strongly promoted the free market competition practices. .

Resulting from this situation emerged the 2008 financial crisis in America. It shocked and drove many banks to bankruptcy, crushed the real estate market, endangered the future of many industries and had increased unemployment rate to its highest level eve. After President Obama had streamed into the economy humongous amounts of Federal funds and the system started to recover, the crisis moved from US to Europe. Without going into too many details, the recent occurrence in Cyprus strongly emphasizes the weakness of the current banking practices and their failure to meet the demands for transparency and accountability characterizing our time. The narrow minded approach of the banking system, the poor regulation practices and the failure to meet the requirements of the general public, emphasize the need for introducing a revised strategy for the future. The Social-Capitalism Paradigm provides a framework for a whole socio-economic reformed order and it is a proper platform for the needed revised banking strategy.

4. The Social-Capitalism Strategy

4.1 Social-Capitalism Leading Principles

As already mentioned the basic idea of the Social-Capitalism paradigm is the idea that a permanent urge for achieving a dynamic equilibrium should motivate and lead operations. This understanding enforces seeking a strategy that endorses a balanced situation, a one that promises better, more effective and more justified results. A more detailed discussion on the social-capitalism paradigm is presented in A. Avny (2012) publication, "*How to Secure the Blessing of Liberty.*" Some implementation's guidelines are presented below:

4.2 Building a dynamic balance between Capital & Labor interests

Traditional and of course Free Market supporters claim that conflict of interest and contradiction exists between Capital's genuine desire of maximizing revenues and Labor's demand of maintaining decent income. Such an approach not only is wrong and obsolete but also irrelevant for the advanced industries of the 21st Century.

High-tec initiatives, advanced pharmacological industries, sophisticated machinery manufacturers and many others, look today for high professional personnel similarly to their search for competent capital providers. Smart and capable industrial leaders do not favor one factor on the other, because they need today both of them. They know that the hidden key of success lays in the ability to inspire and satisfying both competent workers and inspired investors.

At its first copy for the third Millennium "Time Magazine" had publically stated that Ideas, creative thoughts and innovative thinking, are the most rare and therefore, demanded goods and commodities of the coming time. Unquestionably, these products are initiated and created by inspired people and very competent human beings. Nations should encourage and support the

creation of a general socio-economic atmosphere that would promote the growth and prosperity of such an environment.

4.3 Endorsing Collaboration rather than sticking with competition

Most business persons know that although competition is healthy for business, more revenues are generated from cooperation. Academicians and other writers promote wrongly the idea that what is good for business is bad for the common person. They, therefore, support vehemently continued price competition. Lessons from the street life could teach us about the limits of such a price competition perception. At the vegetable and fruit markets basic competition exists among the different traders, but the general price level is determined somehow, few times a day and it is firmly imposed on all participants. Similarly is the case with taxis. Although every cab is free to charge its rate, a generally regulated fare is in fact compulsory. Frequent air travelers usually appreciate and prefer in the airports, a more regulated taxi service than an independent cab driver hunt down.

Most advanced enterprises are operated by groups of workers and by team work. It is interesting to listen to NASA's guide when he/she describes the complexity of their mission and how they are proud on their cohesion and togetherness. The high-tec start-ups depend on team-work and even the automobile industries, the originators of the assembly-line concept, are moving toward a more cooperative mode of operation.

Consequently, common wisdom teaches us that on top of the basic market competition runs frequently a sophisticated type of relationships, which rests on mutual dependency, cooperation and collaboration. All concerning parties, public, private and academic establishments, must understand and endorse this view in order enabling beneficiary functionality of the Private – Public Partnerships.

4.4 Promoting Private–Public Partnerships (PPP)

Similarly to the previous section, many, in government and business, fail recognizing the advantages of PPP. Such a rejection may be caused by fear, ignorance or narrow-mindedness. Although these two original parties come from different milieus, distinct organizational culture and diversified tradition, they both can gain from working together. Even when a third sector - the non-for profit entities - joins the operation and makes it more complicated, the mutual benefit grows. Although complexity adds difficulties but it also opens new horizons and options.

In many countries, all over the globe, current affairs strongly indicate that today to lead successful small or large nation (Cyprus or Italy, for example) is a very complex undertaking. Such a mission enforces the unification of rival political opponents as much as it requires the collaboration of the economy's three sectors. A mutual recognition of every sectors' potentials and limits and a clear definition of the missions and responsibilities may yield a fruitful results for all concerning parties.

For the coming years a shortage of funds is foreseen in many countries. There is no question that a financial leverage would seek for enabling furthering growth. Such leverage will combine public budgetary and non-budgetary funds, long and short term private investments and private

and public contributions and donations. It is believed that only by working together and collaborating meeting the growing needs would be met.

4.5 Combining several alternatives rather than adopting one only

The previous classical approach taught that analysis is concluded by choosing the best option available. Post modern complex reality indicates that this is an obsolete conception. Since the world is changing so rapidly and today's events have little effect on tomorrow's developments, one should not be stuck with only a single solution. In addition, every proposal had its own strong and beneficiary contribution. Choosing only one option means to give up or losing other contributions.

Such a strategy, named by J. Collins, (2004) a famous management Guru, as "*the tyranny of the ifs*" had already been replaced in the Management teaching and there is no good reason why it should stay in Economics. The proper strategy to use at present, therefore, is embracing of maximum positive recommendations from all options available.

4.6 The Banking System through the Social-Capitalism Eyes

The Social-capitalism view claims that the banking system has a double mission. The first one, not to be discussed here, is the classical role as a financial instrument for fueling the economy. The second role, which is the subject matter of this paper, examines banking as one of the fundamental organizations that characterize modern societies. According to this view the banking system, like transportation and communication systems, were created, maintained and administrated in order to fulfill some basic individual and social needs. This social-oriented approach emphasizes the supremacy of the end user over all other considerations.

Administrating competently a modern state requires that all flows of money will be monitored and under control. Large scale cash operations are a tempting track for fraud and corruption. On the other hand, maximizing the use of personal bank accounts could assist households to run better their living. Following this line of thoughts the banking system has two main missions: one, serving and meeting common citizens' financial requirements on a minimum cost level. Secondly, operating as a sophisticated professional instrument, dedicated to maximizing revenues for profit-oriented entities. Any attempt to disregard this distinction and to mix the two missions into one operation, is wrong, ineffective and dissatisfactory. Both parties will reject it and will use their direct and indirect powers to prevent it.

It is worth to note that the idea about maintaining a communal banking system, based on the perception of prioritizing the fulfillment of people's needs emerged from the rationale of the American founding fathers, when considering the establishment of a Federal Postal Service. They thought that "free speech" means the spreading of reliable and credible information for maintaining a strong and just democratic regime. For meeting that objective establishing a Federal Postal Service is imperative because it will assure the delivery of governmental messages, general data and other elementary information to all citizens. This genuine foresight secures the existence of the Federal Postal Service as a communal service, for more than 230 years until today. This approach about the Federal Post Service did not prevent the establishing over the years, other profit-oriented delivery services, like Federal Express, UPS, DHL and

others. Thus and because the establishment of the Federal Post Service was incised in the Constitution, all the efforts to change its nature or to make it profit-oriented had failed. Those who wish to promote the business of making profit from paper and objects delivery were directed toward the free market and the firms working there. Many had tried some had survived.

Such a mixed realm of Not-for-profit and For-profit organizations, functioning within the same territory in parallel, envisioned two hundred years ago, is relevant also for running other socio-economic services in the future. It is recommended, therefore, to split the banking system in accordance with its designated objectives and its end-users' preferences. Communal banking system will serve common people. Commercial banking institutions will work with traders, business-persons and corporations while Investment banking organizations will serve investment funds and international corporations.

This complex mode of operation does not depend on the ownership construct. Banking corporations could be owned by private or public entities and still be functionally divided in accordance with their missions. Private ordinary capitalists could own a modest and very conservative banking corporation that will serve properly the general public. On the other end there could be public banking corporations that will concentrate on financing risky operations and hazardous initiatives. A clear and obvious distinction should be maintained between banks' ownership and their functionality. Consequently, it is obvious that every type of banking organization will be administrated in consonance with its specific set of rules and regulations.

4.7 Goals and Objectives of the Communal Banking System

Within the framework of this paper we concentrate on the communal banking system because it represents the essence of the change proposed. Much literature exists on theory and practice of traditional banking systems. But, on the social aspects of the banking system relatively little was written.

Since I asses that this perception is different, and yet not popular, I will concentrate on further contemplating this idea. The communal banking system represents and materializes the idea of social needs' supremacy over economic considerations. Therefore it is so important and needs much support. This perception fits also to one of the major democratic rule of meeting the needs of the majority. Communal banking system is the instrument that best serves the interest of the general public rather than serving the interest of the ruling dominant minority.

Based on the Social-Capitalism teaching (previously mentioned) and following the requirements of a 21st Century Post-modern democracy, the goal of the communal banking system should be defined as follows. Basically it is composed of three major components:

- A. Meeting the daily financial needs of the citizens
- B. Being an effective instrument for running business financing
- C. Complying with regulatory and environmental rules and regulations.

The strategy for meeting these goals rests on the following assumptions:

1. Democratic states need very competent banking systems

Running properly financial operations in the 21st Century stipulates setting up a financial establishment that would be able to contain all the required funds, institutions and auxiliary offices. Post modern developed nations must wish to contain most of their citizens' financial activities and other financial operations within the banking system. As prior mentioned the communal banking system is and must be an indispensable part of this establishment.

2. Communal banking system is the most appropriate financial tool for meeting social needs

Basically, dissonance exists between common people's elementary needs, desires and expectations and those of the business sector. When meeting the banking system, ordinary people seek credibility, steadiness, long-term modest prospects and fairness. Business persons who are accustomed to risk taking seek different things. They require fast reaction activities, less rigid procedures, more dangerous initiatives and higher less secure future prospects. A competent banking system should be so constructed that it will be able to meet properly the distinct demands of these two sectors.

In all cases, as a service oriented industry, the banking system must be friendly-oriented toward the two different types of customers, secure-seeking individuals and risk taker business entities. .

3. A competent banking system is a promising platform for development and prosperity.

A developed country should permanently crave to combine private and public efforts for creating and increasing the national wealth and urging for a prospering economy. The banking system is an indispensable vehicle for enabling and hastening the attainment of this goal. At a time when common individuals need communal banking system for running their financial affairs, business persons and firms need commercial banking for managing their operations, for having a credible line of credit and for financing their business initiatives. A country without a modern effective banking system consisting of both communal and commercial operations will fails getting prosperity.

4. In the 21st Century, a reliable banking system must continuously be fair, transparent and accountable.

The lesson learnt from the 2008 financial breakdown at New York Stock-Exchange and the shameless greedy behavior of the banks there, force all of us to emphasize the elementary demand for fairness and accountability. The ruthless policy that steered bankers, owners and high ranked officers, at the past must stop. Today's sophisticated communication and presentation means enable to monitor almost every financial activity and trace it moves. The fact that the federal government was asked and provided huge amounts of public funds to rescue private enterprises justifies the request for credible information and firm regulation.

5. Conclusion

It is quite pretentious assuming that ideas presented in a paper like this one would bring salvation

to the ailing banking systems in Europe and the greedy ones in US. However, the Global financial crisis is so deep that new strategies should be introduced with the intention of offering new remedies. This paper proposes a revised approach to the prevailing socio-economic regime and recommends on the Social-Capitalism as the reformed paradigm for the future. This renewed approach in essence, claims that in democracy, most socio-economic systems, like transportation, communication and banking, were created for serving the ordinary person. Making money and generating profits are only secondary to that primary mission. Brutal Capitalism, with the help of careless supporting governments, turns the original order upside down and made collecting revenues as the primary goal of every socio-economic system. This article claims that after five years of global crisis, today is the proper time for turning back the ideological tendency. Now is the right time for establishing the Social-Capitalism regime, which will urge to meet the needs and balance the interests of all members of society. Based on historical experience it is assumed that such a meaningful transformation would require 5 – 10 years period for prevailing. In any case, the Banking System, the subject matter of this paper, will be requested to comply with the new Social-Capitalism conception and to find proper solutions for satisfying the needs of ordinary citizens.

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