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CUI BONO? SOME REFLECTIONS ON MONEY AS A PUBLIC/PRIVATE GOOD IN THE AFTER-CRISIS PERIOD

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─Abstract ─

In this paper we present some tendencies characterizing situation in Polish banking system in the after-crisis period. Accordingly, as conventional banking system seems to be an instrument increasing social tensions and frictions, we hypothesize that to some extent inspiration might be taken from dynamically expanding Islamic capital markets.

Furthermore, we bring up questions concerning a socially desirable shape of banking system, the problem of dual (public/private) character of money and present some reflections on euro. Referring to the public/private framework of analysis, we remark that if particular functions of money are realized efficiently in distinct contexts or spheres, circulation of a single type of money may favour certain groups of agents.

Key Words: *money, banking system, Poland's economy, euro*
JEL Classification: E42, G21

1. INTRODUCTION

The scale of the global financial crisis and the sovereign debt crisis in the European Union made the economists once again question to fundamentals of the financial markets. The aim of the paper is to discuss some controversies regarding the functioning of the banking system and money (including circulation of euro) and to demonstrate that Poland's economic performance in recent years to a large degree have resulted from underdevelopment of its financial market.

2. POLAND'S CASE STUDY – SOMETIMES WORSE MEANS BETTER

Since the beginning of the global financial crisis and sovereign debt crisis Poland's economic performance has stood out among European countries. For instance, Poland was the only economy in the European Union that observed positive real GDP growth in 2009 and is expected to have the highest real GDP growth in the European Union in 2012 (table 1).

Table 1. Real GDP growth rate (%) in selected countries.

countries	2007	2008	2009	2010	2011	2012 (forecast)	2013 (forecast)
EU (27 countries)	3,2	0,3	-4,3	2,0	1,5	0,0	1,5
Euro area	3,0	0,4	-4,3	1,9	1,5	-0,3	1,3
Bulgaria	6,4	6,2	-5,5	0,4	1,7	1,4	3,0
Germany	3,3	1,1	-5,1	3,7	3,0	0,6	1,5
Estonia	7,5	-3,7	-14,3	2,3	7,6	1,2	4,0
Greece	3,0	-0,2	-3,3	-3,5	-6,9	-4,4	0,7
Spain	3,5	0,9	-3,7	-0,1	0,7	-1,0	1,4
France	2,3	-0,1	-2,7	1,5	1,7	0,4	1,4
Italy	1,7	-1,2	-5,5	1,8	0,4	-1,3	0,7
POLAND	**6,8**	**5,1**	**1,6**	**3,9**	**4,3**	**2,5**	**2,8**
Romania	6,3	7,3	-6,6	-1,6	2,5	1,6	3,4
Slovakia	10,5	5,8	-4,9	4,2	3,3	1,2	2,9
United Kingdom	3,5	-1,1	-4,4	2,1	0,7	0,6	1,5
Turkey	4,7	0,7	-4,8	9,0	7,5	3,0	4,1
United States	1,9	-0,3	-3,5	3,0	1,7	1,5	1,3
Japan	2,2	-1,0	-5,5	4,4	-0,7	1,8	1,0

Source: Eurostat: 2012: www.

These positive economic results should be analyzed through the prism of a relatively good condition of both real sphere and financial sphere of Poland's economy which faced the crises having strong economic fundamentals. Firstly, a large domestic market makes Poland's economy less dependent on exports. Secondly, Poland has not yet adopted euro and its flexible exchange rate has facilitated adjustments to the external shocks. And finally, Poland has a very profitable banking system which could be distinguished by much slower credit expansion than in other countries.

Taking into account a relatively low degree of integration of Polish financial market with the global financial market, one can state that to some extent Poland's economic results were also due to its underdevelopment. Indeed, the ratio of the assets of the financial system to GDP in Poland is lower than in other countries, especially those constituting euro zone (table 2).

Table 2. Assets of the financial system as percentage of GDP in selected countries (%).

countries	2004	2005	2006	2007	2008	2009	2010
POLAND	**78,6**	**85,0**	**96,5**	**103,1**	**110,3**	**111,0**	**117,6**
Czech Republic	119,3	126,7	125,6	134,3	137,3	138,4	136,0
Hungary	100,0	114,9	128,4	141,5	152,3	165,0	162,0
Slovakia	100,5	110,9	101,5	113,5	:	:	:
Euro Area	365,7	419,8	442,7	465,3	461,2	481,7	493,6

Source: NBP: 2011a: 8; NBP: 2010: 13.

Despite the fact that Poland did not experience recession, banks operating in Poland started to require additional collateral and tightened lending criteria regarding both mortgages and consumer credits. As a result of limiting lending activity, incomes of the banks decreased which in turn made the banks look for another sources of profit. Since then Polish consumers have experienced both overestimated currency spreads and higher bank commissions and charges. (Consumers,2009:11) Consequently, in recent years profits of banks operating in Poland have been higher than before crisis and in 2011 financial result of Polish banking sector was expected to reach its historical nominal maximum. (NBP,2011b:7)

It was possible, *inter alia*, because bank deposits of economic agents from different sectors of Poland's economy have been continuously rising for several years, while the total amount of interest have exhibited a descending trend. And if someone compares tendencies of deposit interest rates offered by commercial banks (or simply the ratio of interests on deposits to the amount of deposits) to the interest rates fixed by National Bank of Poland (e.g. NBP deposit interest rate), he will see that these tendencies are contradictory (cf. table 3).

Table 3. Stocks of bank deposits and other liabilities to individuals in Poland, ratio of interest to deposits and NBP deposit interest rate.

year	2010				2011			
month	bank deposits and other liabilities to individuals (millions of PLN)	interest on deposits (millions of PLN)	ratio of interest to deposits from individuals	NBP deposit interest rate	bank deposits and other liabilities to individuals (millions of PLN)	interest on deposits (millions of PLN)	ratio of interest to deposits from individuals	NBP deposit interest rate
Jan	353 043,3	4 184,3	1,19%	2,00%	386 419,8	3 167,2	0,82%	2,25%
Feb	358 992,1	4 200,9	1,17%	2,00%	393 321,9	3 170,0	0,81%	2,25%
Mar	359 040,6	3 930,2	1,09%	2,00%	396 846,7	3 051,1	0,77%	2,25%
Apr	359 338,8	3 455,4	0,96%	2,00%	398 023,8	2 992,7	0,75%	2,50%
May	363 025,0	3 286,0	0,91%	2,00%	396 705,1	2 964,2	0,75%	2,75%
Jun	367 032,6	3 098,7	0,84%	2,00%	399 419,3	2 879,4	0,72%	3,00%
Jul	368 250,6	3 144,0	0,85%	2,00%	403 571,4	2 940,3	0,73%	3,00%
Aug	369 347,0	3 185,7	0,86%	2,00%	408 448,6	3 011,0	0,74%	3,00%
Sep	369 640,1	3 115,1	0,84%	2,00%	415 477,4	2 940,4	0,71%	3,00%
Oct	370 343,5	3 140,2	0,85%	2,00%	419 143,7	2 926,6	0,70%	3,00%
Nov	374 002,3	3 154,0	0,84%	2,00%	425 914,3	2 879,4	0,68%	3,00%
Dec	381 815,2	3 121,4	0,82%	2,00%	435 012,3	2 845,3	0,65%	3,00%

Source: NBP: 2012: www.

It seems that people become increasingly aware not only of an asymmetry of economic power between them (as clients) and the banks, but also of an asymmetry of information. A survey conducted for the Office of Competition and Consumer Protection showed that only 14 percent of Polish consumers perceive their knowledge of their rights and obligations on the financial services' markets as good or very good. (Consumers,2009:12) More and more people do not trust banks seeing asymmetrical distribution of benefits. (Consumers,2009:13)

To some extent this distrust is deepened by the fact that Poland's banking system is dominated by foreign-owned banks (in 2010 of 42 banks with domination of private equity operating in Poland only 2 were characterized by domination of Polish equity (NBP,2011:101)) that are still facing challenges in other countries. Recently, Polish media have started to raise the issue of repolonization of banks. Of course, such a concept is related not only with an outflow of dividends strengthening parent banks abroad, but it also can be treated as a possible way of decreasing risk in the banking sector.

Moreover, it is worth mentioning that on average banks operating in Poland are smaller than their foreign counterparts and the structure of their assets depends mostly on receivables from non-financial sector. Most of the banks struck by crisis suffer from their close relationship with global capital market which made them vulnerable to financial contagion.

In general, one can state that Poland's economy has benefited from the underdevelopment of its financial market, making it less vulnerable to the proliferation of the global financial instability (which can be treated as a public/private bad produced by too big institutions of financial system).

3. BANKING SYSTEM – PROBLEM OF INCOHERENCE AND RISK

The observations concerning Poland's economy and economies struck by crisis are related to the problem of the shape of the banking system, its connections to the real sphere of an economy and money upon which banking system is built. Should banks play their original, instrumental role as specific mediators between economic agents competing horizontally? Or may we allow them to accumulate huge assets via market hierarchy and create complex vertical structures and instruments that are very fragile when losing completely their real starting point? Perhaps, at a certain stage of development of the financial system, there are negative effects of scale in terms of stability.

It seems that one of the main problems of banking system regards the fact that there are two fundamentally different ways of creating money: by commercial banks (inside money) and central banks (outside money). These two mechanisms are incompatible and have different relations with the real sphere of the economy. Therefore, one can come across many contradictory opinions on the shape of banking system. For instance, for some economists, supplying the commercial part of banking system with the right to create money (treated as a common good) and determine interest rates should be perceived as unacceptable in a sovereign country. (Dobija,2009:330) Others add that when money is created on the basis of debt, it makes the system fundamentally unstable. (Douthwaite,2006:23)

Of course, the outcome of different strategies realized by commercial banks and central banks is not necessarily beneficial for the society, especially when it comes to the problem of power resulting from concentration and centralization of capital. Apparently, conventional banking system can be perceived as an instrument deepening social inequalities and lowering social welfare.

There is also a problem of moral hazard, hypocrisy or at least inconsistency: how could most of the banks reconcile a neoliberal attitude with their hopes that the government would eventually help them, which resulted in the lack of adequate risk management? (The fact that many financial institutions have been saved by governments and taxpayers presumably will not make banks change this attitude (Kayed,2011:363) and constitutes an important source of social dissatisfaction or even indignation). Not only did the banks take greater risk, but they also imitated the products implemented by other banks, thus contributing to a kind of race to the bottom meaning excessive lending, inadequate discipline (related with the lack of risk sharing), expansion of derivatives and the above mentioned attitude of banks ("too big to fail"). Indeed, such banks are too big to serve the society.

As long as agents active on financial markets undertake actions that may lead to negative consequences many times greater than their capital, the regulations should provide an internalization of these externalities by the parties involved in order to prevent critical situations on financial markets. (Tambovtsev,2009:47)

From the point of view of the society, it would be desirable that financial institutions realized activities associated with the concept of corporate social responsibility, invested in ventures socially profitable in the long-term perspective (thus eliminating unemployment and poverty), did not create artificial instruments with almost no relations to the real sphere of economy and actively participated in financed ventures, sharing the risk borne by investors or entrepreneurs. In fact, these characteristics correspond with the rules of Islamic banking and finance. By the way, it has to be stressed that Islamic banks and financial institutions have been dynamically expanding despite the crisis which makes them sort of a benchmark for other institutions.

In Islamic finance income must result from productive economic activities (Kayed,2011:368) and financial institutions get involved in profit and loss sharing. Islamic finance is characterised by different mechanisms of redistribution and is often perceived as a more humanistic solution than its conventional counterpart. (Karim,2010:120-121) From the economic standpoint, Islamic finance is compatible with modern capitalism, but Western economists are usually reluctant to look for alternative systems of capitalism. (Karim,2010:105)

In the evolutionary approach, processes shaping the banking system can be interpreted in terms of mutation, imitation and selection. Financial innovations *per se* cannot be stopped, but it may be advisable to limit possibilities of implementation and diffusion of socially costly instruments in order to prevent the destabilization of the system. Promoting competition, decentralization, profit and loss sharing and internalization of social costs, as well as accentuating the role of values (not necessarily those underlying Islamic finance, perhaps related to protestant ethic), may increase the probability of realization of socially desirable processes and the stability of the whole financial system, including banking system.

4. MONEY – TOWARDS VARIETIES OF MONIES

Contemporary economics refers mostly to the quantity theory of money, without any deeper reflection on the nature of money. (Tambovtsev,2009:43) As there are virtually no socio-economic phenomena without monetary aspects, it seems essential to discuss its characteristics, at least some of those that may influence its role in preventing or propelling financial crises.

Money circulates as a private good (contract) and simultaneously as a socially significant good related with such positive and negative externalities as stable prices or inflation. (Tambovtsev,2009:44-45) Every single use of money, even if it concerns one-to-one private transaction, refers to the whole society, i.e. expectations and potential actions undertaken by other agents. (Weber,2002:483)

The complexity of relations between the state, society and financial sector motivates to pose the title questions of the paper: who benefits from money? Is money a public or a private good? Basically, both questions are mutually related and refer to the functions of money. The former question, in a mainstream interpretation, would encompass the benefits from the common use of money as a unit of account, the effects of reduction of transaction costs when money is used as a medium of exchange and the most selective advantages that can be derived from money being the store of value. Nevertheless, these benefits can be far outweighed by the profits gained by the issuer. It can be stated that in an honest system money is issued for the benefit of the community, while in a fraudulent one for the benefit of the issuer. (Soddy,1934:26) If money is issued as a debt, it will lead to the domination of the banks over the other agents, (Soddy,1934:42) as it is in the case of contemporary banking system.

As far as the latter question is concerned, many economists would point out that money does not meet the criterion of non-rivalry or even the criterion of non-excludability and therefore should not be treated as a public good. Theoretically, social exclusion may refer, *inter alia*, to the unavailability of money for some social groups. However, in the era of electronic money commercial banks try to incorporate as many members of the society into the banking system as possible. Of course, this process implies uneven costs for different social groups (e.g. if bank commissions and charges are related to the frequency and volume of concluded transactions, on average less wealthy agents will be charged more). Furthermore, until recently, excessive lending activity of banks meant that economic agents practically did not have to rival for money.

Anyway, interpreting money as a social convention and a widely recognized symbol, it seems that the very concept of money can be perceived as a public good just like the idea of a wheel. More precisely, money can be treated as a public good only as a unit of account, because realization of this function is independent of its supply and demand. In the other functions is rather a common good or even private good, if the limited right to create money is taken into consideration. Although these statements may sound simplistic, they lead to more profound conclusions. If particular functions of money are realized efficiently in distinct contexts or spheres (e.g. because of different pressures exerted in the public/private environment), it is possible that circulation of a single type of money favours certain groups of agents and precludes the whole system from reaching the highest level of social welfare attainable in a given moment. Furthermore, one may observe changes of the public/private context during the course of business cycle (in expansionary phase money seem to be more public, facilitating exchange an productive activities, while during economic contraction it is often “privatized” as an unproductive source of income).

Society may also expect that the stability of the financial system to be provided as a public good. These social expectations are contradictory with the expectations of financial institutions oriented towards profit-making activities. It is obvious that the system of fiat money makes the banks much more privileged than the society, facilitating them to benefit from the instability on financial markets.

In general, money should be created by its users (or on behalf of them) and not by the profit-seeking institutions. (Douthwaite,2006:14) Furthermore, various monetary systems lead to different economic consequences, so there may exist a combination of these systems that is more beneficial for the society than a homogeneous system. (Douthwaite,2006:10) Even if there would be a certain loss in terms of efficiency, in order to maintain financial stability on the global market it is worth postulating that there should coexist different monies (including parallel currencies) based on different standards, operating in different scales (from local to international) and realizing different functions. Positive effects related with a common currency are noticed mostly by the most mobile, active and wealthy agents, able to exploit existing possibilities, while the rest of the society may need stability provided by a more complex system.

All these observations refer also to the problems of the euro. Taking into account the domination of the financial sphere over the real sphere in the economy and the attitude of contemporary banks looking in the first place for profits at the expense of the society and as a side effect augmenting social inequalities, one can state that the decision of introducing a single European currency without having achieved satisfactory level of economic convergence was irresponsible. There is also a question why countries entering the euro zone had to resign completely from their national currencies, if the euro zone (as a political construction) has never constituted an optimal currency area. Such a solution has again favoured financial institutions instead of European citizens, suffering from the crisis. In consequence, it seems that recent propositions to dissolve the euro zone are also too drastic and that regions or countries should be allowed to issue (according to the needs of the real sphere) local or national currencies circulating concurrently with euro.

5. FINAL REMARKS

Conducted considerations, although simplified, allow to draw some conclusions. Of course, in many countries (including Poland) there is a need to build a strong, civil society capable of exerting pressure on banks that are not only too big, but also too uniform which makes them more vulnerable to financial crises. There is also a need to diversify the structure of the banking system, leaving a fair share of the market for alternative banks, credit unions and other institutions not necessarily looking for maxim profits in the first place. Furthermore, one may doubt whether the concept of social responsibility on money markets goes together with the Western interest-based paradigm.

The last reflection concerns euro which is a common good for the countries constituting euro zone. In the light of current crisis euro is susceptible to the tragedy of commons in the game-theoretic approach. One can ask, how to interpret – from the axiological point of view – a situation when European economic agents speculate against the euro? It is myopic to protect one's short-term profits (eventually, counting on others, presumably on the governments to support them), increasing the risk that if such speculations causes the fall of euro, in long term there will be a severe recession impoverishing whole societies. However, such a behaviour is in accordance with the dominating strategy in this game.

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