D5.3 ANALYTIC REPORT ON THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON SOCIETAL SECURITY

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D5.3 Analytic report on the impact of the global financial crisis on societal security

Abstract: This report provides an overview of the short and medium term effects of the global financial crisis on societal security in Europe.

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Executive summary

The 3rd deliverable of work package 5 assesses the effect of the global financial crisis on societal security. In a first step it analyses the consequences of the crisis for financial security in Europe, measured in terms of the impact on unemployment, pensions and material deprivation. Given the significance of societal values to the concept of societal security, the next section discusses the social value of finance from a post-crisis perspective and reviews the growing sector of alternative finance. The final section assesses the post-crisis resilience of European societies in terms of the more general effect the crisis has had on social cohesion, defined in both political and social terms. The report finds significant short- and medium-term effects of the financial crisis on societal security in terms of material consequences for financial security, the perceived value to society of the financial sector and increasing cohesive cleavages in European societies.
1. Introduction: Financial crisis and societal security

The present deliverable concludes the task of WPS to examine the various relations between global finance and societal security with a preliminary assessment of the impact of the global financial crisis on societal security in Europe. This is a complex task, not only considering the various finance-security relations dissected so far in the work package, but also relating these different dimensions in turn to societal security. Rather than delivering a final conceptualization of the interlinkages between financial crisis, financial security and societal security that would be beyond the scope of this deliverable, the present report purports to show the perspectives and limitations that these concepts involve, and the different ways in which they enable to understand and conceptualise the effects of the crisis. The overarching question of the impact of the financial crisis on societal security in Europe will thus be addressed in terms of three distinct but interweaving dimensions. It first demands an evaluation of how the financial security of European societies has been affected by the crisis itself, as well as by crisis governance. Second, given the strong emphasis on societal values in the definition of societal security, the question calls for renewed reflections on the social value of finance. Third, the financial crisis has not only directly impacted the financial security of European societies but has had consequences for societal resilience in broader terms.

These three dimensions to the question of the impact of the global financial crisis on societal security in Europe structure the report. Following an assessment of the impact of the financial crisis on financial security measured in terms of unemployment, pensions and material deprivation in the first section, the second section reviews the social value of the main features of the growth of finance since the 1980s. As Nigel Dodd has remarked: ‘This is a crisis of legitimacy as much as of economics, provoked by the contrast between the resources that governments have devoted to rescuing banks and on the other hand, their subsequent willingness to make dramatic and socially corrosive cuts in public expenditures.’¹ Lord Adair Turner, the chairman of Britain’s Financial Services Authority, has described the majority of financial transactions as ‘socially useless activity’ in the wake of the crisis.² This crisis of legitimacy has led to a stark rise in the demand for as well as supply of alternative finance schemes and currencies, aspiring to a different value system and deliberately positioning themselves outside the official financial system backed by governments. The third section considers the short- and medium term impact of the crisis on societal security broadly speaking and discusses its effects on social cohesion and resilience. Here it is worth pointing out that the crisis should not be conceived as a catastrophic event striking from the outside, and that money, finance and credit play an important role in creating social cohesion in the first place. Before going into the three dimensions outlined, the next two sections will discuss conceptual distinctions and connections of societal security, social security and financial security and provide an overview of the global financial crisis.

¹ Dodd, Nigel (2014: 3) The Social Life of Money (Princeton)
2. Conceptual definitions

2.1 Societal vs social

The semantic distinction between social and societal is controversial, yet there are some grounds for a meaningful differentiation. The older word social, originally meaning capable of association, may be understood to signify interpersonal relations, or relations pertaining to members of a society. Societal in contrast, emerging at the turn of the 19th century along with the discipline of sociology, refers to society as a whole, implying notions of basic structure, organisation, institutions, laws and functioning.  

Akin to this understanding, the European Commission in a 2010 document distinguishes as follows: ‘In order to strengthen corporate governance and corporate social - and even societal - responsibility, attention will have to be focussed on improving transparency’, indicating a difference between social responsibility towards members of society and societal responsibility towards society written large. 

Mann notes a link between the emergence of sociology and a ‘more rigorous and ambitious’ conceptualisation of society as totality and unitary social system, a notion that he sees shared by the coiner of the word sociology, Auguste Comte, as well as by Spencer, Marx, Durkheim, classical social anthropology and their disciples and critics. Social thus implies a focus on the interactions of individuals and groups and is sometimes associated with a micro or bottom-up perspective while societal holds macro connotations and pertains to societies as entities. Yet the distinction in terms of level is problematic: social should not be seen as lesser in dimension or scope as it carries a far more extensive history and status in the great controversies of political systems. A different way of distinguishing may be between a deliberate stress of the unitary dimension of society and aspiration to objective description (societal) and the explicitly political contestation of the dominant schemes of distribution in society (social).

2.2 Societal security vs social security

In combination with ‘security’, societal and social call up additional connotations. The DoW notes that societal security

‘is to be distinguished from the concept of ‘social security’ as it emerged in association with a variety of welfare state arrangements in the post-World War II period. These arrangements concern primarily

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3 See the definition of ‘societal’ in The American Heritage Dictionary: ‘Of or relating to the structure, organization, or functioning of society’. Available at https://www.ahdictionary.com/word/search.html?q=societal  
5 Compare also the following example: ‘Accordingly, though the term social determinants of health is widely used, here we employ the term societal determinants of health to refer to the structural forces that affect health. Strictly speaking, the social determinants refer to those factors related to interactions among people and communities, whereas societal determinants emphasize a broader array of structural influences’ in Birn, Anne-Emmanuelle, Yogan Pillay and Timothy H. Holtz (2009: 310) Textbook of International Health: Global Health in a Dynamic World (Oxford: Oxford University Press, 3rd edition).  
7 Mann himself rejects the notion of unitary totality: ‘Human beings need to enter into social power relations, but they do not need social totalities. They are social, but not societal, animals’ (1986: 14)
varieties of social insurance aimed to improve the well-being of individuals in society through state-supported programmes of poverty reduction, retirement pensions, disability insurance, survivor benefits and unemployment insurance. In this respect, societal security means the security of societal sources of human well-being in general, and the societal sources of individual security in particular. It overlaps but is not identical with the notions of social security, state security and human security, and fills a void in the literature on security.

It is noteworthy that the notions of social security and societal security not only overlap, but security and welfare share a close and complex historical connection: A distinction between external security, referring to foreign and military policy and achieved through alliances, third party guarantees and war, and internal security achieved through Polizey became common in Europe during the Holy Roman Empire and was theorized in the natural contract theories of Hobbes and Pufendorf in the 17th century. Internal security initially combined the preservation of the people with the welfare/happiness of the people, both embodied in Polizey – but it also carried an ambivalence of securing the people and securing the political order against rebellion and sedition. In the 19th century liberal thinkers like Kant and Humboldt argued to reduce Polizey to (internal) security and refrain from interference into civil liberty in the name of welfare, based on a Lockean understanding of security as a right. The security of the law [Rechtssicherheit] against Polizey provided the legitimation of the constitutional state [Rechtsstaat] as opposed to the police state [Polizeistaat] and influenced the American and French revolutions, the development of human rights and the European understanding of liberalism. The welfare connotation of security was taken up again under somewhat different circumstances in the 20th century as social security in response to the Great Crash of 1929 – then the greatest financial crisis in history – when President Roosevelt addressed the need for the ‘security of the home, livelihood and social insurance’ in the 1935 (first named Economic, then) Social Security Act. Shortly after, ‘security’ emerged as the key paradigm for international politics from the creation of the UN Security Council in 1946 and the Truman 1947 National Security Strategy onward, while the national interest in US foreign policy changed from an economic interpretation in terms of welfare to one of security.

The close historical entanglement and contraposition of security, welfare and liberal rights has in recent decades undergone a further twist: The social security and welfare arrangements that developed over the 20th century have since the 1980s to different degrees been dismantled by neoliberal rationalities of individual responsibilisation and risk-taking. At the same time, police and intelligence services have begun to intrude on civil rights in the name of surveillance and the War on terror. Amidst a changing landscape of threats, the explicit targeting of society by terrorist acts and a perception that the state is no longer the only referent of security, the notion of societal security emerged to direct attention to social cohesion and other vital elements for the survival of society. Rather than a trade-off of core values for security, societal security implies the preservation of a

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9 Conze, Werner (1984: 858)
10 Wolfers, Arnold (1952) National security as an ambiguous symbol, Political Science Quarterly 67(4): 481-502

11 Wolfers, Arnold (1952)
society’s key values, that is, it seeks to secure a (liberal) way of life. Yet instead of a rights-based definition it takes a functional approach to security.12

2.3 Societal security, social security and financial security

Overlaps and connections not only exist between societal security and social security, but also between social security and financial security and between societal security and financial security. Financial security was in D5.1 defined as 1) collateral, or pledge, 2) negotiable instrument (claim on sequence of future payments), 3) smooth consumption and 4) systemic risk. Since the effect of the financial crisis on financial stability in collateral-based finance has been analysed in D5.2 in the discussion on post-crisis financial regulation, D5.3 will focus on a post-crisis assessment of financial security in the sense of smooth consumption. Here financial security implies individual welfare over the time of a lifespan and is theorized in economic theory as the utility preference of consumption smoothing achieved by a balance of spending and saving over different phases of life. In this sense financial security is close to the sense of social security in that it focuses on welfare in material terms, yet it does not share connotations of state support and intervention. It does however entail a connection to financial markets, since saving and borrowing are important elements in achieving financial security and the very raison-d’etre of the financial system is held to be its function to match surplus funds with deficit funds. Important factors of financial security are the home and provision for old age, both of which have become increasingly dependent on financial markets in with financialisation and the securitization of mortgages. The relationship between financial security, financial crisis and societal security will be explored in the remainder of this report in the various dimensions indicated in the introduction.

3. Global financial crisis 2007 -

The global financial crisis – sometimes termed the GFC – denotes the largest financial meltdown since the Great Depression and is often characterised in two parts: an Anglo-Saxon part originating in the US and UK financial system in 2007-2008 and the Eurozone sovereign debt crisis from 2010-2015.13 While most commentators agree on the beginning of the crisis in 2007, widely differing views exist on the time of its ending – Andy Haldane, chief economist at the Bank of England, has recently prognosed part III of the crisis taking place in emerging markets from 2015. The crisis was built-up by a complex interplay of US policies that encouraged home ownership and extended lending to sub-prime borrowers, securitisation and the design of complex credit derivatives and loose monetary policy. Housing prices began to fall in the US in 2006, causing many homeowners to default on their mortgage payments since they could neither borrow more nor sell the house to service the debt. Trouble in the mortgage-based securities market caused a run on Northern Rock in the UK in September 2007 and problems for the US bank Bear Stearns in March 2008, which was taken over by JP Morgan Chase with a USD 30 billion loan from the Federal Reserve. Later in 2008, the US government was forced to take over 80% of the federal housing financing agencies Fannie Mae and Freddie Mac, which by 2010 had

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12 Burgess, J. Peter (2011) Global Societal Security (Policy Brief)
cost the government USD 200 billion.\textsuperscript{14} What really triggered the global financial crisis however was the default of Lehman Brothers in September 2008, a pillar of the US system since 1850 and the largest bankruptcy in US history, forcing the Fed to bail out the insurance company AIG the following day with a USD 85 billion loan. The Icelandic financial system and currency collapsed in the same year due to an overleveraged banking system and the global contraction of consumption and investment severely affected construction sectors in Ireland, the UK and Spain.

‘Part II’ of the crisis began with growing concerns on public debt, partly due to the financial crisis but precipitated by the revelation of the Greek government in 2009 that their debt was substantially higher than declared. Sovereign debt differentials increased between Germany and Greece as well as several other peripheral European countries from early 2010 (see Figure 1).

\textbf{Figure 1 Long-term interest rate on Public Debt}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{Figure1}
\caption{Long-term interest rate on Public Debt}
\end{figure}

The request for financial support issued by the Irish government on 21\textsuperscript{st} November 2010 did not lift the pressure on the other countries, and for the first time the euro was seen at risk. In response, austerity plans were passed across Europe in order to calm down markets, arguably reversing the various stimulus packages that had been implemented before their effect could manifest. Nonetheless a series of bilateral loans by the European Commission and bailouts by the newly created European Financial Stability Facility (EFSF), followed by the European Stability Mechanism (ESM), and at times involving the IMF and the World Bank were necessary (see D5.2). Between 2009 – 2016 eight members

\textsuperscript{14} https://www0.gsb.columbia.edu/faculty/sbigio/papers/Crisis_Slide.pdf
of the euro zone were forced to ask for financial assistance,\textsuperscript{15} and a number of other countries were downgraded, including France and Austria.\textsuperscript{16} The difference in geographical and institutional foci is not as neat however as the separation into ‘parts’ suggests: prominent banks in Europe also suffered vast losses or had to be saved in ‘part I’ – in the period August 2008 – February 2014, the European Commission received 440 requests from EU member states to provide state aid to financial institutions in peril, 413 of which were granted.\textsuperscript{17} Meanwhile, the US received its first ever downgrade in 2011 and was forced to increase its debt ceiling in 2011, 2013 and 2015 in ‘part II’.

The Better Markets institute calculates the total loss for the US economy from the financial crisis at USD 20 trillion,\textsuperscript{18} including

- USD 7.9 trillion in actual losses of GDP relative to potential GDP as currently estimated;
- USD 3.6 trillion in reduced GDP potential, primarily as a function of reduced capital stock and labor hours resulting from effects of the Great Recession; and
- USD 9.1 trillion in losses that would have occurred, if not for the extraordinary fiscal, financial market, and monetary interventions undertaken by the government early in the crisis.

No such estimates exist for the total cost of the Eurozone crisis. Yet as of September 2014, 110 EU banks – representing about a quarter of the EU banking system by assets – have directly received state aid (most of these required restructuring plans, and in some cases, banks were put into orderly resolution). Public support to banks has come in two main forms: capital injections and assets relief measures, and other stabilization tools, such as guarantees. From 2008 to the end of 2013, over 600 milliard euros of public capital were injected into banks, equivalent to just over 5% of EU GDP.\textsuperscript{19} In many cases, public debt was issued so that the needed capital could be raised. Besides, public guarantees were immense: at the highest point, more than 800 milliard euros were compromised in guaranteed liabilities although only a fraction of these has been triggered.

\hfill
\textsuperscript{16} http://www.reuters.com/article/us-eurozone-sp-idUSTRE80C1BC20120114
\hfill
\textsuperscript{17} ESRB (2014): Is Europe Overbanked?, European Systemic Risk Board Advisory Scientific Committee, ASC Report, n° 9, June
\hfill
\hfill
4. Financial security post-crisis

4.1 Unemployment

As a recent OECD report notes, while economic output has begun a recovery in most countries – even if it remains below pre-crisis levels – employment and wages have not.\(^{20}\) Of all the economic losses, the ‘income drops suffered by workers have turned out to be the most difficult to reverse’.\(^{21}\) In some of the worst-affected countries, labour income – households’ most important income source – keeps on falling, even as GDP stabilises. These ‘jobless’ recoveries and falling wages not only severely affect the financial security of individuals but also have macroeconomic implications by weakening the potential role of consumers in economic recovery.\(^{22}\)

The impact of the financial crisis on employment has been larger in Europe than in other developed economies. Unemployment in the euro area has increased by 3.4% from the first quarter of 2007 to the first quarter of 2015, while in the US the increase was 1.1% and in Japan it fell by 0.5%. EU countries outside the euro zone and EEA countries\(^ {23}\) also had a lower unemployment rate increase of on average 1.3% during this period. Within the euro zone there are stark differences: Poland (-2.8%), Hungary (0.2%) and the Czech Republic (0.0%), have had a positive labour market evolution while unemployment has reached depression-level figures in some peripheral euro area countries, notably Greece, Spain and Cyprus (see Figure 2).

**Figure 2**   **Evolution of unemployment in Europe during the crisis (2007-2015)**

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\(^{21}\) OECD (2014: 17)

\(^{22}\) OECD (2014: 18)

\(^{23}\) UK, Sweden, Denmark, Norway and Switzerland.
Table 1 groups euro area countries according to their performance in employment during the crisis. The US, Japan, Norway, Switzerland, the UK, Sweden and Denmark are taken as benchmark. The average increase in unemployment in these countries during the considered period has been 1%. Only five European countries have performed better than this average. In the first quarter of 2015 unemployment figures in the euro area are dramatic: Nine countries, totalling more than 200 million citizens, have unemployment rates over 10% (in some cases, as Greece, over 25%); a further four countries’ rates are between 9% and 10%. Of the 19 countries of the euro zone, only four (Germany, Malta, Austria and Luxembourg) match the benchmark of the US, Japan, the UK, Switzerland and Norway of an unemployment average of 5.5%.

Table 1: Evolution of unemployment in the Euro Area (changes 2007-2015)

<table>
<thead>
<tr>
<th>Countries that have performed better than the benchmark</th>
<th>Germany</th>
<th>Malta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>0.5%</td>
<td></td>
</tr>
<tr>
<td>Slovakia</td>
<td>0.7%</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>0.9%</td>
<td></td>
</tr>
<tr>
<td>Estonia</td>
<td>1.2%</td>
<td></td>
</tr>
<tr>
<td>Luxembourg</td>
<td>1.4%</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>1.9%</td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>2.1%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Countries that have performed similarly to the benchmark</th>
<th>Netherlands</th>
<th>Latvia</th>
<th>Slovenia</th>
<th>Portugal</th>
<th>Lithuania</th>
<th>Ireland</th>
<th>Italy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>2.7%</td>
<td>3.4%</td>
<td>3.9%</td>
<td>4.2%</td>
<td>4.8%</td>
<td>5.4%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Malta</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Countries that have performed worse than the benchmark</th>
<th>Cyprus</th>
<th>Spain</th>
<th>Greece</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>12%</td>
<td>15.1%</td>
<td>17%</td>
</tr>
<tr>
<td>Malta</td>
<td></td>
<td></td>
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</table>

Source: Tecnalia with data from Eurostat July 2015

In total, at the end of the first quarter of 2015, more than 23.5 million citizens of the euro area remain unemployed. This is 7.5 million people more than the number of unemployed euro area nationals in 2007. In comparison, in the US the number of unemployed people is around 8.7 million, 3 million more than before the crisis.

Youth have been particularly affected by the deteriorated labour market situation and unemployment rates have reached unprecedented levels in Europe, although here too considerable differences prevail. The unemployment rate for young people aged 16-24 – so-called NEETs (‘Not in Education, Employment or Training’) – increased by 20% or more from mid-2007 to mid-2013 in Greece, Portugal and Spain. Percentages rose to 56.8% in Greece, 53.9% in Spain and 49% in Croatia at the beginning of 2014. At the other end of the scale, youth unemployment rates dropped in Austria, and Germany.

24 Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.
25 OECD (2014: 100-101)
Overall 23% of young job-seekers in the EU were not able to find a job as at January 2014. As a report by FutureLab finds, NEET is not the only relevant category and does not fully capture the uncertainty and anxiety that pervade the lives of young people in Europe: increased sporadic and temporary employment also lead to financial insecurity and make it difficult for young people to plan their future, buy a house and start a family. Where numbers in youth unemployment are falling, this may also indicate a brain drain, that is, emigration of the best qualified people abroad, which may have a stark impact in these countries in the years to come. Receiving countries in Europe may benefit from the influx of qualified European young workers from Europe’s periphery.

4.2 Pensions

Pensions have been affected in a number of different ways by the crisis. First, private pension funds have suffered direct losses since they were heavily invested in securitization products and stock markets. Second, as mostly conservative savers they have been greatly affected by low-interest rate policies and quantitative easing, as well as by negative interest rates in safe haven countries. Third, pension reforms have been a major focus of austerity programmes introduced to reduce sovereign debt. Pensions were not only directly affected by the financial side of the crisis but also indirectly by its economic side, where increased unemployment and lower earnings reduced the contribution revenue of pay-as-you-go pension systems, making it more difficult for these systems to deliver pension benefits.

In OECD countries, private pension funds lost 23% of the real value of their investments in 2008, the equivalent of USD 5.4 trillion. Ireland was hit hardest (38%), and Belgium, Hungary and Iceland also had losses over 20%, while Germany, the Slovak Republic, Norway, Spain and Switzerland suffered more modest losses around 10%. The difference is due to the degree of exposure to falling equity markets, in which Ireland’s pension funds had invested 66% of assets. Some big European pension funds lost up to a quarter of their investors’ money in 2008. Even over five years the average fund invested in Europe lost 16.5%, with some down as much as 40%.

Crisis governance policies of quantitative easing and low short-term interest rates have also collapsed annuity rates of pension funds, in particular in the UK, Germany, the US and Japan. ‘Flight to safety’ investment strategies in response to the Greek debt crisis have led to negative interest rates on government bonds in safe haven countries, further pushing down annuity rates to the point where government bonds in safe haven countries, further pushing down annuity rates to the point where

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27 FutureLab Europe (2013: 7) Europe’s lost generation? April 2013
29 Ibid.
31 Invesco Perpetual European Equity, with capital of GDP 1 billion, was down 26%, while the GBP 200 million Artemis European Growth fund lost 25.8%.
32 http://www.theguardian.com/money/2012/may/18/eurozone-crisis-five-ways-affects-you
33 http://www.theguardian.com/money/2012/may/18/eurozone-crisis-five-ways-affects-you
investors pay in order to lend money. In May 2012, the *Guardian* noted that British gilt yields had fallen to the lowest level since the Bank of England records started in 1703 and provides the following example for its effect on pensions:

‘When a man aged 65 [today] swaps £100,000 in his pension pot for an annuity – a regular monthly income for the rest of his life – the sum will be just £6,000 a year. That compares with the £14,000 a year that someone retiring in 1990 earned from a savings pot of £100,000. If the pensioner wants to build in 3% a year cost-of-living increases into the annuity, the rate he'll get for that £100,000 will be a paltry £4,150 a year.’

Finally, post-crisis austerity programmes carried out across Europe in response to budget deficits and mounting sovereign debt have exacerbated the already existing demographic pressure on pension systems. Reforms were implemented in four Southern European countries (Greece, Italy, Portugal, and Spain), five Central and Eastern European states (Hungary, Latvia, Romania, Poland and Estonia) and in Ireland, causing ‘substantial and immediate negative impact on the living conditions of present and future retirees’. The reforms were either imposed on governments by actors in charge of financial assistance as ‘conditionality programs’ (IMF, the ‘Troika’) or defined as an irrefutable necessity in the respective national context (Italy, as well as the 2011 reform in Spain). Reforms took the form of rapid policy changes rather than a process of consensus seeking and compromise building, with no transitional period, due to external pressure from financial markets and supranational actors and a perceived urgency of fiscal consolidation. A comparative study of eight countries by the Centre for Social Sciences (ZeS) concludes that after 2008 financial pressure on pension schemes was relieved by a variety of measures, including suspended or less favourable indexation rules; nominal cuts of pensions in payment (in Hungary, Greece and Ireland, but ruled unconstitutional in Romania, Latvia and Portugal); the termination of early retirement pathways; the tightening of entry conditions or computing decrements when the pension is claimed prematurely; and by increasing normal retirement age.

An increasing number of countries are also introducing automatic adjustment mechanisms or sustainability factors that aim to rebalance pension systems in line with the evolution of demographic, economic and financial parameters.

### 4.3 Material deprivation

Material deprivation rates gauge the proportion of people whose living conditions are severely affected by a lack of resources. Eurostat defines the severe material deprivation rate as the proportion of people living in households that cannot afford at least four of the following nine items:


35. Greece, Italy, Portugal, Spain, Hungary, Latvia, Romania and Ireland.

36. The retirement age has been increased to an average of 67 years, with some countries moving to 68 or 69 years, and the Czech Republic implementing an open-ended increase of the pension age by two months per year.


- mortgage or rent payments, utility bills, hire purchase instalments or other loan payments;
- one week’s holiday away from home;
- a meal with meat, chicken, fish or vegetarian equivalent every second day;
- unexpected financial expenses;
- a telephone (including mobile telephone);
- a colour TV;
- a washing machine;
- a car; and
- heating to keep the home sufficiently warm.

As Table 2 shows, material deprivation has in particular increased in the peripheral euro area, while it has decreased for new members outside the euro zone. Figures for 2014 indicate that severe material deprivation decreased in most European countries except for Greece.\(^{40}\)

### Table 2  Evolution of Material Deprivation in the Euro Area (changes 2007-2013)

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Core euro area</td>
<td>4.680</td>
<td>5.360</td>
<td>5.121</td>
<td>4.541</td>
<td>5.233</td>
<td>4.815</td>
<td>5.184</td>
<td>504</td>
</tr>
<tr>
<td>Other euro area</td>
<td>2.016</td>
<td>1.669</td>
<td>1.799</td>
<td>2.090</td>
<td>2.055</td>
<td>1.980</td>
<td>1.792</td>
<td>-224</td>
</tr>
<tr>
<td>Traditional members outside euro</td>
<td>2.863</td>
<td>2.978</td>
<td>2.302</td>
<td>3.242</td>
<td>3.395</td>
<td>5.159</td>
<td>5.572</td>
<td>2.709</td>
</tr>
<tr>
<td>UE-28</td>
<td>45.196</td>
<td>42.451</td>
<td>40.809</td>
<td>41.858</td>
<td>44.391</td>
<td>49.673</td>
<td>48.265</td>
<td>3.069</td>
</tr>
</tbody>
</table>

Million people with material deprivation. Source: Eurostat 2013 is the last available data.

**Conclusion for this section:**

A review of representative indicators of financial security as smooth consumption shows significant effects of the financial and economic crisis on employment, pensions and material deprivation in Europe, albeit with stark differences across countries. Recent analyses have suggested that the austerity measures implemented in order to reduce government deficits are likely to ‘contribute to a failure to achieve the employment and reduction of poverty goals of the Europe 2020 growth strategy’,\(^{42}\) set by governments in 2011. In the same vein, the European Parliament has stated that austerity measures exacerbate the negative social consequences of the crisis and that a comprehensive impact assessment of their social repercussions should be carried out.\(^{43}\) These social repercussions also matter for societal security, as will be expanded on in section 6.


\(^{41}\) Peripheral Euro area includes Ireland, Greece, Italy, Spain, Portugal and Cyprus. Core countries include Germany, the Netherlands, Luxembourg, Austria and Finland. Other euro area countries include Slovenia, Slovakia, Estonia, Latvia, Lithuania and Malta. Traditional members outside the euro are the UK, Sweden and Denmark. The other countries outside the euro include Croatia, Hungary, Poland, Czech Republic, Romania and Bulgaria.


\(^{43}\) Ibid.
5. The social value of finance

The enormous scale and social impact of the crisis poses the historically recurring question of the value of finance to society with renewed urgency. This section will be discussed under the conventional heading ‘social value of finance’, since it has a clear distributional and material dimension of welfare (see section 2.1). The post-crisis debate has become somewhat polarized between a defense of financial markets as ‘lifeblood’ of the economy and indispensable element of economic prosperity and their characterization as a ‘toxin’ and ‘cancer that is growing to infinite size, until it takes over the entire body’. Neither side however spends much time defining the terms – the social value of finance tends to be assumed to be equivalent to the value-added of the finance sector to the real economy and the problem of finance is more often than not treated primarily in terms of regulation and reform.

For those in favour, the main value of the financial system derives from financial intermediation, that is, the provision of versatile and diverse instruments to accommodate the widely differing needs of savers and borrowers in terms of size, timing and maturity. This entails a macroeconomic and microeconomic benefit: The efficient use of savings and resources, where banks identify and finance the entrepreneurs with the greatest potential for adding economic value and thus act as a source of capital formation, has traditionally been argued to promote economic prosperity. Consumption smoothing, or the de-synchronisation of income and consumption streams, provides financial security in the sense of smooth continuous consumption for individuals (see section 2.3). Financial markets not only engage in matching providers of funds with users of funds, but especially intermediate non-matching providers and users of funds through the pooling of risk, maturity transformation, the provision of liquidity and risk-return transformation. In general, as Adair Turner points out, ‘the impact of transformation of risk-return and liquidity possibilities will be to produce a level of savings which is optimal even if not necessarily higher, i.e. a level of savings which best reflects individual preferences and which thus maximises welfare.’

The picture of finance as an efficient allocation machine that puts capital to its best possible uses faces a long tradition of criticism. According to Keynes, the tendency of speculation (short-term guesses of

49 Turner, Adair (2010: 11)
50 Turner, Adair (2010: 10).
the psychology of the market) to dominate sound investment decisions based on long-term prospects derives directly from the successful organisation of liquid capital markets and he concludes that it is in the public interest to limit access to the stock exchange. Minsky’s financial instability hypothesis argued that credit markets inevitably swing from robustness to fragility, and the field of behavioural economics held that the growth of financial markets is driven by bubbles guided by irrational exuberance and followed by crashes. Another cause for bubbles has been defined in incentives by bankers, asset managers and investors resulting from their contractual relationships, as well as in the non-regulation of the shadow banking system, lax monetary policy and the in-built expectation of government bail-outs, distorting risk. To varying degrees, in these views finance poses a severe threat to economic activity through the misallocation of resources, rent-seeking and as cause of recessions. There is also skepticism about the incremental social value of securities trading given that much of it is zero-sum in nature, that is, for every person who gains on a contract, there is a counter-party who loses. The next sections will consider some of the defining elements of the growth of finance and financialisation since the 1980s in terms of their value to society and then extend the discussion to the growing field of alternative finance.

5.1 Size of financial system

Acharya et al entitle their analysis of the social value of the financial system with the sub-heading: ‘Too big to fail, or just too big?’ Since the 1980s the financial system has undergone unprecedented growth, whether measured in terms of share of GDP, quantity of financial assets, employment, or average wages. Between 1980 and 2007 the value of total financial assets in the US across all sectors doubled from 5 times GDP to 10 times GDP; a similar increase occurred in the ratio of financial assets to tangible assets (industry and equipment, real estate, residential structures). This growth has primarily been driven by the securities and credit intermediation industries (50% and 25% respectively), including debt and derivatives. Active asset management, the largest component of the securities industry, grew by roughly 36% as a share of GDP and was equal to USD 341.9 billion in 2007, well over four times the level in 1997. Household credit, mostly mortgage debt, grew most dramatically from 48% of GDP in 1980 to 99%, in particular fueled by the housing boom of 2000-2006. As

56 While futures and options are zero-sum, the stock market as a whole however is not: investors may bid share prices up or down depending on numerous factors such as the economic outlook, profit forecasts and valuations, without a single share changing hands. When an investor buys a stock, it is a share of ownership of a company that entitles that investor to a fraction of the company’s profits. The value of a stock can go up or down depending on the economy and a host of other factors, but ultimately, ownership of that stock will eventually result in a profit or a loss that is not based on chance or the guarantee of someone else’s loss. Gambling on the other hand means that somebody wins the money of another who loses it.
57 Acharya, Viral V. et al (2013)
Greenwood and Scharfstein point out, despite this growth, banks held approximately the same share of GDP in the form of household credit (ca. 40%) at the beginning and end of the period, implying that all of the incremental growth in credit as a share of GDP came from securitization, that is, the pooling of illiquid assets into securities that were traded and managed by professional investors.\(^{59}\) In their 2012 working paper the authors offer a preliminary assessment of whether the main areas of growth in the financial sector – active asset management, household credit, and shadow banking – have been socially beneficial and come to a mixed conclusion.

### 5.1.1 Active asset management

Greenwood and Scharfstein cautiously assert that the rise of ‘professional asset management was beneficial in that it facilitated an increase in financial market participation and diversification’ with households holding more diversified portfolios and enjoying easier access to credit. Active asset management supposedly increases the monitoring of management, although ‘evidence is mixed that such monitoring creates value’.\(^{60}\) Active asset management further promotes the quality of information embedded in security prices that trade at smaller deviations from fundamental value because active asset managers are more adept than individual investors at assessing a security’s value, or because there are economies of scale in collecting and interpreting information. Yet the authors concede that there is little evidence that active managers are able to use this information to outperform passive index funds.\(^{61}\) Socially valuable information produced by asset management is on the one hand seen to also have a positive effect on the real economy by reducing the cost of capital. Here, from a social benefit perspective, ‘the critical question is not whether active management leads to excess returns—it does not. Rather what matters is whether the pursuit of excess returns produces socially valuable information.’ While the social benefits from efficient markets are difficult to measure, ‘one of the main benefits is that firms can raise new capital at prices that accurately reflect their fundamental value, i.e., that they can raise money in primary markets to fund real investments. If prices are closer to fundamental value it encourages firms to invest in the most productive projects, and to choose the appropriate scale of investment over time. One area in which information—and thus professional asset management—is particularly valuable is in the funding of start-up firms, where uncertainty and information asymmetries are large.’\(^{62}\) Not all information collection can be assumed to be socially valuable however:

> ‘For example, a hedge fund may be willing to pay $20,000 to form a more accurate prediction of a company’s earnings to be released in the next week. To the extent that this information allows the hedge fund to profit at the expense of other less informed market participants, the fund earns an excess return. Hirshleifer (1971) calls information production of this type “foreknowledge,” but explains that it has no social value in an exchange economy without production. In other words, the $20,000 expenditure is a social loss because getting this information into prices one week earlier is unlikely to lead to a more efficient allocation of real resources. An extreme but still representative example of this comes from investments in “co-location hosting services,” enabling electronic orders to arrive milliseconds faster because of their geographical proximity to trading centers.’\(^{63}\)

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\(^{59}\) Greenwood, Robin and David Scharfstein (2012: 24)

\(^{60}\) Greenwood, Robin and David Scharfstein (2012: 16)

\(^{61}\) Greenwood, Robin and David Scharfstein (2012: 17)

\(^{62}\) Greenwood, Robin and David Scharfstein (2012: 17)

\(^{63}\) Greenwood, Robin and David Scharfstein (2012: 18)
A further distortion of efficient information collection is argued to be caused by a combination of naïveté of households, who do not understand the financial products they buy and chase past performances instead of risk-adjusted return and the exploitation of this naïveté by asset managers.\textsuperscript{64} Financial illiteracy and socially inefficient behavior by financial advisors produce a significant deviation from a ‘world with sophisticated investors’.\textsuperscript{65} The authors conclude that to the extent that professional asset management has led to more information collection, ‘it has probably brought with it both more socially valuable and more socially wasteful information collection’.\textsuperscript{66} Overpayment for asset management may even lead to too much socially valuable information acquisition relative to its social cost. Thus, the enormous growth of asset management after 1997 driven by high fee alternative investments shows little direct evidence of social benefit and potentially large distortions in the allocation of talent away from more productive sectors.\textsuperscript{67} Finally, over the last 15 years, ‘despite increased resources devoted to asset management, there have been two large and socially costly valuation errors – the internet bubble at the end of the 1990s and the overvaluation of mortgage-backed securities during the 2000s’.\textsuperscript{68} In conclusion the paper invokes Samuelson’s assessment of modern financial markets as displaying ‘considerable micro efficiency’ while retaining potentially large ‘macro inefficiency’.\textsuperscript{69}

One of the driving factors of the growth of the financial system was securitization, connected to the rise of the shadow banking system (see D5.2). As Shiller\textsuperscript{70} recalls, the core idea of securitization was

‘to create from a class of hard-to-evaluate risky assets a subclass of riskless securities that is information-acquisition insensitive, that is, that anyone can quickly judge as riskless without an expensive process of information collection, and without fear of being picked off by unscrupulous promoters of bad products. The Aaa tranches would be easily sold to the public, while the remaining tranches, including the “toxic waste,” would be retained by issuers or sold to knowledgeable speculators. This practice would result in benefits to society, in making mortgage credit more available’.

In fact, the increase in the length of the credit intermediation chain added to the complexity and instability of the financial system and produced a systemic risk that was not internalized and priced in. The reliance of the shadow banking system on short-term funding to fund the purchase of longer-term, less liquid and more risky securities also made the financial system significantly less stable. The potential benefits of households’ increased access to credit – the main output of the shadow banking system – are thus substantially outweighed by the risks associated with shadow banking.\textsuperscript{71}

\begin{itemize}
  \item \textsuperscript{65} Greenwood, Robin and David Scharfstein (2012: 19)
  \item \textsuperscript{66} Greenwood, Robin and David Scharfstein (2012: 17-18)
  \item \textsuperscript{67} Greenwood, Robin and David Scharfstein (2012: 31)
  \item \textsuperscript{68} Greenwood, Robin and David Scharfstein (2012: 19)
  \item \textsuperscript{69} Greenwood, Robin and David Scharfstein (2012: 25)
  \item \textsuperscript{71} Greenwood, Robin and David Scharfstein (2012: 25)
\end{itemize}
5.1.2 Compensation

The increase in the size of the financial system has been mirrored by a phenomenal growth in compensation: while a financial service employee earned the equivalent as his counterpart in other industries, by 2006 employees in finance earned an average of 70% more. The level of wages and bonuses of bankers in the face of the economic havoc caused by their activities was a primary target of public outrage. While finance professionals argue that their pay is set according to the demand in the marketplace for their services, the Squam Lake Report, written by 15 prominent financial economists in 2010, states that ‘there is a conflict of interest between society as a whole and the private owners of financial institutions [...] if things go well, the firms’ owners and managers claim the profits, but if things go poorly, society subsidizes the losses’. In 2009, when many people were facing pay freezes or worse, the average pay of employees at major banks involved in the crisis such as Goldman Sachs, Morgan Stanley, and JPMorgan Chase’s investment bank increased by 27%, to more than USD 340,000.

Since the creation of the European Banking Authority (EBA) in 2011, the institution issues an annual report analysing high earners in the financial industry, mostly in banking. The status of high earner is achieved when the employee receives more than 1 million euros in compensation per annum. In the period 2010-2012, nearly 19 milliard euros were paid to at least 3,500 individuals that classified for this status. This amount equals the lending capability of major development banks. In comparison, the paid-up capital of the European Stability Mechanism (ESM) is EUR 700 billion. Table 3 shows the number of high earners and total amount received in 2010-2012.

Table 3  High earners in European Economic Area, aggregated data

<table>
<thead>
<tr>
<th>Year</th>
<th>Nº</th>
<th>Amount Paid</th>
<th>Average / employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>3,435</td>
<td>7,528,79</td>
<td>2,19</td>
</tr>
<tr>
<td>2011</td>
<td>3,175</td>
<td>4,807,87</td>
<td>1,51</td>
</tr>
<tr>
<td>2012</td>
<td>3,530</td>
<td>6,627,26</td>
<td>1,88</td>
</tr>
<tr>
<td>Total</td>
<td>10,140</td>
<td>18,963,92</td>
<td>1,87</td>
</tr>
</tbody>
</table>

Source: Tecnalia with EBA data. Million €

More than three quarters of the total amount paid to high earners in the European Economic Area (EEA) was paid by the City of London (see Figure 3). British high earners also account for around 75%

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74 This figure includes modestly paid workers at reception desks and in mail rooms and thus understates what senior bankers earn. See http://www.newyorker.com/magazine/2010/11/29/what-good-is-wall-street

75 This figure does not mean that over 10,000 people benefited from these high compensations, as seems to be an educated guess that most of those that were high earners in 2010, continued to be so in 2011 and 2012.
of the total number, highlighting the significance that the UK assigns to supranational European control of the financial system.

Figure 3  Compensation paid to high earners 2010-2012

In 2009, despite questions about its legality, the U.S. Congress approved a retroactive 90% levy on bank bonuses of bailout banks. A practice of ‘clawback’ rules is gaining traction among financial institutions, linking compensation to performance over a longer period of time. One form of ‘clawback’ is deferred compensation in the form of restricted stock that cannot be sold for several years, thus linking employees’ decisions to the stock price of their company. The US Securities and Exchange Commission (SEC) in 2015 narrowly voted (3-2) for new rules requiring that public companies revoke top executives’ incentive pay if the firms’ financial statements later are found to contain errors, significantly expanding the situations in which clawback rules are used. The proposal constitutes a long-delayed provision required by the 2010 Dodd-Frank financial reform Act, but the SEC will have to vote again after collecting public comment on the measure before it will go into effect. Generally however, reform efforts have been hampered by the lobbying power of finance.

5.2 The social value of financial economics

The unprecedented influence of modern finance theory on financial practices extends the question of the social value of finance to the social value of financial economics as an academic field. While Shiller puts much hope into the teaching of finance and its value system to ‘set the stage for improving the social norms of business even further, and making for a yet better society’ and precursor to

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77 http://www.wsj.com/articles/sec-proposes-broadened-corporate-clawback-rule-1435763570
78 Zingales, Luis (2015)
79 Shiller, Robert (2013: 11)
financial regulation, Wang et al show in an experiment that the teaching of economics ‘makes students more selfish and less concerned about the common good’.  

\[\text{Zingales similarly cautions that}\]

‘experimental evidence … seems to suggest that we inadvertently do teach people how to behave and not in a good way… Our standard defence is that we are scientists, not moral philosophers. Just like physicists do not teach how atoms should behave, but how they do behave, so should we. Yet, physicists do not teach to atoms and atoms do not have free will’.  

As van Dijk outlines in his inaugural address as Professor of Financial Markets at the Rotterdam School of Management, Erasmus University, the evaluation of financial economics extends beyond a question of normative or descriptive behaviour and includes counterproductive incentives in the profession of academia.  

The constraints of academic publication processes over several years discourage younger researchers from engaging with current events and tend to ‘disadvantage innovative research, especially when it conflicts with existing belief systems’. Van Dijk identifies the largest research effort of the field of financial economics in asset pricing – even after the financial crisis, one third of the articles in the most prominent finance journals engages with this topic – and wonders whether the time and effort invested by the profession is justified from the perspective of the field’s value for society. Moreover, despite the Capital Asset Pricing Model (CAPM) for 25 years known to be a poor description of reality, ‘it is still the standard introduction in undergraduate and MBA and key prescription for estimating equity capital.’  

Caballero (2010) likewise argues that macroeconomics has become ‘so mesmerised with its own internal logic that it has begun to confuse the precision it has achieved about its own world with the precision that it has about the real one’. He warns about the ‘pretense-of-knowledge’ of academic macroeconomics and cautions that the field is currently on a track in which, too preoccupied with its dominant model of dynamic stochastic general equilibrium, it leaves real world problems mostly to informal commentators. In a survey of PhD students at seven top US universities Colander examines the attributes thought necessary for a successful career as an economist and finds that only 9% of students deemed a ‘thorough knowledge of the economy’ as very important, and 51% held it to be unimportant. By contrast ‘excellence in mathematics’ was deemed important by 30% and unimportant by 14%.

5.3 Alternative finance and currencies

In the face of the questionable social value of the financial system and public resentment of the values driving financial markets, the alternative finance sector has soared in popularity in the US, the UK and

\[\text{References}\]

81 Zingales, Luis (2015: 4)
83 Van Dijk, Mathijs A. (2014: 12)
84 Van Dijk, Mathijs A. (2014: 18)
85 Van Dijk, Mathijs A. (2014: 16)
continental Europe. Alternative finance refers to financial instruments and distributive channels that have been explicitly set up outside the official financial system and state-backed currencies. It is ‘based on a different set of economic practices rooted in the quest for the use value of life and for meaningful personal relationships’. Money and finance are practiced in new ways that are at least in part designed to operate with an explicit sociality at their heart. Online platforms facilitating ‘crowdfunding’ and ‘peer-to-peer lending’ have become particularly prominent, and alternative finance is now lauded for ‘supplying credit to SMEs, providing venture capital to start-ups, offering more diverse and transparent ways for consumers to invest or borrow money, fostering innovation, generating jobs and funding worthwhile social causes’. Commentators are even more enthusiastic about alternative currencies such as ‘bitcoin’ and in particular the ‘blockchain’ technology on which it is based. As one article on the online openDemocracy platform suggests, ‘the built-in incentive structure of this game-changing innovation offers humanity a path to divest from the military-industrial complex, war economies, sweat shops and debt slavery as well as Stasi-like surveillance.’

This section introduces the key features of alternative finance schemes and alternative currencies. The purpose is three-fold: (i) to understand the extent to which the global financial crisis has increased their supply and perceived value; (ii) to examine the extent to which these ‘networks of solidarity, support and experimentation’ actually represent or embody alternative values and processes to existing forms of financialised capitalism (are they more 'human', more explicitly social/ community-oriented, more secure, more democratic etc.?); (iii) to see how they might increase societal security in respect to concerns about the resilience of the financial system and its susceptibility to future shocks.

Section 5.3.1 looks at alternative finance schemes (ways of raising finance without resort to traditional lenders); section 5.3.2 looks at alternative currencies (any currency used as an alternative to the dominant currency system).

### 5.3.1 Alternative finance

‘Alternative finance’ is an umbrella term covering a very diverse sector comprised of multiple models that allow individuals and organisations to raise financial capital without using traditional lenders (i.e. high street and specialist banking facilities). As shown in Figure 4, below, it includes ‘peer-to-peer’ (P2P) lending, ‘crowd-funding’, community/cooperative share capital, and debt-based securities (i.e. bonds). According to the University of Cambridge’s Centre for Alternative Finance, the total transaction volume of the online European alternative finance market was EUR 2.96 billion in 2014, up 133 % from EUR 1.21bn in 2013, and expected to more than double again to EUR 7 billion in 2015. The UK is the

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90 Wardrop, R et al (2015: 9)

91 Blockchain versus vulture capitalism, [https://www.opendemocracy.net/ourkingdom/nozomi-hayase/blockchain-versus-vulture-capitalism](https://www.opendemocracy.net/ourkingdom/nozomi-hayase/blockchain-versus-vulture-capitalism)

92 Castells, Manuel et al (2012: 201)

dominant market, accounting for almost 80% of all European transactions, but France, Germany, the Netherlands, Spain and the Nordic countries are all reported to have recorded significant growth in recent years.

A study by Nesta and the University of Cambridge published in 2014 has examined the development of the UK alternative finance market, which it says was expected to reach GBP 1.74 billion by that year’s end. As shown in Figure 5, below, based on volume of funding facilitated, P2P business and P2P consumer lending dominate the market with GBP 749 million and GBP 547 million lent through those models respectively in 2014, accounting for almost three-quarters of the total UK alternative finance market. The report suggests that strong growth is likely to continue, providing a significant source of funding for SMEs – based on the Bank of England’s 2013 baseline figures, alternative financing already accounts for somewhere in the region of 2.5% of total cross national bank lending in the UK. Current users of alternative platforms indicate that they are “very likely” to use alternative finance models more in the future, and awareness and usage of alternative finance in the UK is still growing from a low base.

Figure 4  Models of alternative finance

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95 Baeck et al (2014: 12)
96 Baeck et al (2014: 13)
There is certainly evidence to suggest that alternative finance has emerged not only as deliberate choice but also out of financial exclusion and diminished access to traditional forms of finance resulting
from risk aversion on the part of lenders in the wake of the global financial crisis. The Nesta/Cambridge survey found that 79% of those who had raised funds via P2P business lending had first attempted to get a bank loan, with only 22% being offered finance. In addition to providing alternative sources of funding, many crowdfunding initiatives are also predicated on ‘alternative’ means of production that bypass the incumbent financial and economic system, allowing investors to make a ‘positive difference’ with their money. This is particularly the case for donation and reward-based crowdfunding – platforms used predominantly by the creative and social sectors – and community finance systems, though together these platforms only make-up a tiny fraction of the total UK alternative finance market (less than 3.6%). Interestingly, alternative financing also seems to replicate wider gender inequalities.

For all the talk of ‘alternatives’ and societal values, the primary motivation of investors in the major platforms is return on investment, which in turn attracts the kind of big institutional investors that the new platforms are supposed to circumvent. According to the Nesta/Cambridge survey, the prospect of obtaining financial return was ‘important’ or ‘very important’ to 82% of P2P business lenders and to 96% of investors in equity-based crowdfunding, whereas this was only ‘important’ or ‘very important’ to 24% of the (relatively tiny) number of people who bought community shares. The report also notes that invoice trading is ‘funded mostly by institutional investors and high net-worth individuals.’ Similarly, writing in Cultural Studies about alternative finance in the US, Rob Aitken has suggested that:

‘Despite this initial formulation as a mechanism of social lending, p2p networks have increasingly become enmeshed within the very logics of financialization they initially sought to supplant... The largest of these networks, ZOPA, Prosper and Lending Club, have now become enormously successful forms of financial practice increasingly enabled by forms of institutionalized financialization: an increasing repackaging of p2p loans now as investable assets; the construction of a dense set of webs, which connect p2p lenders and the banking institutions they were designed to transcend; and most importantly, a growing set of linkages between p2p networks and large institutional investors keen to realize value from p2p lending arrangements.’

In terms of societal security, by ‘leveraging the power of goodwill’, alternative finance schemes have for example been used to fund community owned renewable energy schemes. They can also be linked

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98 Baeck et al (2014: 31)
99 Baeck et al (2014: 20-12)
100 According to the ‘2014 Alternative Finance’ report: “It is evident that alternative finance is primarily utilised by men. Looking at those securing funds through P2P business lending and equity–based crowdfunding, around three-quarters of those who successfully raised finance were men. This suggests alternative finance may facilitate the same gendered patterns of funding as seen in traditional finance models. However, this is not the case for all types of alternative finance. Female fundraisers made up 51 per cent and 64 per cent of the survey respondents for reward and donation–based crowdfunding respectively. Again, these findings are in line to those found in elsewhere, that women are better represented in social enterprises than in mainstream businesses (Baeck et al, 2014: 20-12).
101 Baeck et al (2014: 20-12)
102 Baeck et al (2014: 21)
103 Aitken, Rob (2015: 2) ‘Everyday Debt Relationalities’ in Cultural Studies, DOI: 10.1080/09502386.2015.1017147. Available at: http://dx.doi.org/10.1080/09502386.2015.1017147
104 Stanboulian, Barret (2013) ‘Social leverage and the power of the intangible asset’ in Arvidsson, Adam and Giordano, Alex (eds), "Societing Reloaded. Public production and social innovation" (Egea).
to the wider ‘sharing economy’ and a broader set of disruptive technologies that people hope or expect will underpin a nascent ‘post-capitalism’. But as long as alternative finance platforms remain embedded in the existing financial order (and subject to takeover or appropriation by incumbent financialised institutions), they are likely to remain an alternative means of financing innovation and social entrepreneurship, rather than an alternative to financialised capitalism itself.

5.3.2 Alternative currencies

Any currency used as an alternative to the dominant national or multinational currency systems can be seen as an ‘alternative currency’. When alternative currencies are used in combination with national or multinational fiat currencies they may be referred to as complementary currencies (for example, local currencies such as the ‘Bristol Pound’). Barter can also be seen as a type of alternative currency. But it is virtual currencies such as ‘Bitcoin’ that have generated the most interest. Bitcoin was created in 2009 by an unknown person or entity using the name Satoshi Nakamato. It uses encryption techniques to regulate the generation of currency units and verify the transfer of funds, operating independently of central banks. A public ledger distributed across the computers of the users of bitcoin containing the records of all of the bitcoin transactions that have ever been executed provides a ‘trustless’ proof mechanism, or ‘blockchain’ – one that dispenses with the need for the contractual relationships that substitute for trust in transaction counterparts or third-party intermediaries, like banks. The algorithmic self-policing of the system is predicated on the elimination of the possibility to cheat or defraud, making it a particularly attractive model for economic trade. Bitcoin is the first and largest decentralised ‘cryptocurrency’, comprising around 85% of total market capitalisation, but there are now hundreds of other ‘alt coins’ offering alternatives to bitcoin. They employ different encryption protocols but are based on the same blockchain principles. In November 2015, Coinmarketcap.com put the total market capitalisation of 664 listed virtual currencies at EUR 5.23 billion (see Figure 6), but of the 664 listed currencies, less than 30 have a market capitalisation of more than EUR 1 million, and none have achieved anything like the current exchange rate valuation of almost EUR 300 per bitcoin.

Figure 6 Top ten virtual currencies by market capitalisation
People are excited by bitcoin and its counterparts for three reasons. The first is the way that the currencies are ‘minted’ independently of any central bank and therefore beyond the control or influence of any national government and the systemic financial risks it faces. The second reason is the security of the bitcoin financial architecture, which is derived from the ‘blockchain’ system it uses. The third is the disruptive potential of blockchain architecture in the financial sector and beyond, with transparent, distributed public asset ledgers seen to have the potential to transform incumbent political and economic systems and processes.

Bitcoins are not actually minted but mined, a process that uses special software (known as ‘Bitcoin Miner’) with which privately owned computers perform long and tough ‘hash’ calculations to find a new block in the chain of Bitcoin network. Bitcoin mining is a business: whenever a new block is found, its owner is gifted with 50 Bitcoins. Bitcoin also effectively solved the problem of ‘double spending’, including counterfeiting, by showing all transactions in a public list. Whenever a new transaction is made, its validity is checked by confirming from the list that the digital currency was not used before.105 It is this publicly distributed asset ledger – the blockchain – which as yet appears impossible to defraud, that is so attractive from both a societal security and economic perspective, bringing as it does the prospect of a much more resilient financial system, a much more secure means of transacting, and a much more transparent and accountable financial infrastructure.

Taking the blockchain out of the bitcoin context, a whole host of disruptive and transformative technologies emerge. Among the existing trust-based procedures that its advocates see blockchain underpinning in the future are passports, land registries, the voting system, contracts and keys. The

105 See further ‘10 Things You Need to Know About Bitcoins’ (HongKiat). Available at: http://www.hongkiat.com/blog/bitcoin-questions/
blockchain could also eliminate spam, end the ‘piracy’ of music, films and TV programmes, provide the architecture for self-driving cars, and spell the beginning of the end for thousands of lawyers, accounting staff and bureaucrats. More than that, ‘blockchain’ appears to offer what Leigh Phillips has termed ‘algorithms for self-government’. As Nozomi Hayase, writing on openDemocracy has explained:

‘The core of this technology is algorithmic consensus that enables digital scarcity; a way to make an object in the digital world scarce without central control. This solves the problem of the double-spend [and] makes permissionless transaction and innovation possible, as well as removing monopolistic control of the production and transfer of money. But more fundamentally, this scarcity offers a key to open society to move beyond the current oligarchical rule of the neo-Darwinian dog-eat-dog world that has now turned into the lions eating the lambs… Unlike the managed scarcity of centrally controlled markets, Bitcoin’s digital scarcity is created through voluntary agreement of its participants. Its open source protocol grants users power to choose what kind of network they wish to create or be a part of, as codes can be modified by anyone. Combined with game theory that enforces fairness, this scarcity creates a new form of capital, one that is open source and distributed. This brings a radical departure from the current vulture capitalism that promotes cheating and wealth without work by means of usury, rent-seeking and quantitative easing (taxation through inflation)... All this has become an engine to build a system that is impervious to internal or external attacks. The mining rings that have now achieved global level security perform a kind of safeguard of real democracy, through which spontaneous forces of We the People can be unleashed.’

There can be little doubt that virtual currencies and the blockchain technology invented by bitcoin’s mythical founder are here to stay. This in turn has great disruptive potential in respect to the existing financial system. Whether computer code begins to replace government with ‘algorithmic consensus’, and where people might wish it to do so, remains to be seen however. In this regard, two further factors are important: the regulatory framework and the embrace of blockchain in the incumbent financial system. The EU does not yet have a formal policy toward virtual currencies (VCs). The European Banking Association (EBA) has proposed a regulatory framework and advised its members against using or holding VCs until such a framework is implemented. For its part, the European Central Bank (ECB) has been monitoring the issue and produced several reports stressing that, although a lack of formal regulation poses various risks, the material risk to the ECB’s tasks remains low. However, because people can use and trade virtual currencies anonymously, their use has attracted a lot of interest from EU law enforcement bodies, whose public statements have meant that bitcoin has become almost synonymous with the ‘Dark Net’ and crimes like drug trafficking and money laundering. In 2014, Europol held a joint meeting with the US Department of Homeland Security and law enforcement officials from 21 countries, where participants ‘voiced concerns over the anonymity

107 Hayase (2015)
108 The EBA proposes virtual currencies should ultimately be regulated and advises that financial institutions should not buy, hold or sell until no such a regime is in place. See European Banking Association advisory, 4 July 2014. Available at: https://www.eba.europa.eu/-/eba-proposes-potential-regulatory-regime-for-virtual-currencies-but-also-advises-that-financial-institutions-should-not-buy-hold-or-sell-them-while-
of financial transactions through some virtual currencies, such as Bitcoin, and the challenges this posed to ‘following the money’ during criminal investigations’. In 2015 Europol produced a report, ‘Exploring Tomorrow’s Organised Crime’, which it said reflected ‘massive changes in the criminal landscape’. The report warned of ‘a virtual and global criminal underground made up of individual criminal entrepreneurs’, arguing that VCs ‘increasingly enable individuals to act as freelance criminal entrepreneurs operating on a crime-as-a-service business model without the need for a sophisticated criminal infrastructure to receive and launder money’. Omri also points out that ‘[c]ryptocurrencies offer, at least theoretically, a near-perfect alternative to tax-evaders who can no longer find a safe haven in tax-haven jurisdictions.’

However, although bitcoin is often described as an ‘anonymous currency’ – because it is possible to send and receive bitcoins without disclosing any personally identifying information – it is actually pseudonymous. Those seeking to preserve their anonymity have various options and services they can use – just as various techniques for de-anonymising transactions in the bitcoin ledger have been developed. Regardless, the potential threat said to be posed by virtual currencies has become intertwined with broader debates about the increased take-up of encryption technologies. In 2014 a joint conference by CEPOL, the EU Police Training College, and the Latvian EU Presidency stressed ‘[t]he need to consider the practical challenges that “encryption by default” would present to law enforcement authorities and look into the technological solutions that might facilitate or overcome these challenges, taking into account the privacy and human rights implications’. In the UK the government has threatened to ban newly encrypted communications applications like WhatsApp; in the US law enforcement agencies have been demanding encryption keys from the likes of Apple and Microsoft.

What the surely unworkable demands to ‘ban’ encryption, or provide ‘backdoors’ that create vulnerabilities for all users of these systems miss, is the fact that the growing use and popularity of encrypted communications is first and foremost an economic response to the lax approach to information security and the kind of unchecked government surveillance policies revealed by Edward Snowden. In the same vein, virtual currencies are growing in popularity not simply because they can

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110 Europol press release, 17 June 2014, ‘Cybercrime Experts Tackle the Criminal Exploitation of Virtual Currencies’. Available at: https://www.europol.europa.eu/content/cybercrime-experts-tackle-criminal-exploitation-virtual-currencies

111 Europol press release, 17 June 2014, ‘Massive Changes in the Criminal Landscape’. Available at: https://www.europol.europa.eu/content/massive-changes-criminal-landscape


113 If the addresses to which users send and receive bitcoins are revealed to belong to an individual, then their entire transaction history can be reconstructed from the blockchain. For many users of bitcoin, who access the currency through popular online wallet or exchange services, their participation entails linking their personal identity to their bitcoin holdings from the outset. Bitcoin for these users is effectively no more anonymous than a bank account (although this loss of anonymity takes place at the point of entry into the currency and is not a feature of the bitcoin protocol itself). See further Ludwin, Adam (2015) How Anonymous is Bitcoin? A Backgrounder for Policymakers (CoinDesk). Available at: http://www.coindesk.com/anonymous-bitcoin-backgrounder-policymakers/

provide anonymity to their users, but because they are based on sound economic and security principles that appear much more resilient to the corruption, fraud and secrecy that is incumbent in the existing financial architecture. This was underscored recently by news that nine of the world’s biggest banks have signed up to a project based on replicating the technical architecture of the bitcoin ledger to execute their own trades. Similarly, a recent report of the Canadian Standing Senate Committee on Banking, Trade and Commerce underlined the risks linked to cybercriminal activities and the banking system, but also and more prominently the promises of both the delivery system of de-centralised VCs for security and privacy as well as of virtual currencies themselves for economic growth. There is no less excitement about blockchain in the booming world of ‘fintech’. According to a 2014 Accenture report, ‘global investment in financial technology (‘fintech’) ventures has more than tripled during the last five years – from under $930 million in 2008 to more than $2.97 billion in 2013’. The two biggest centres of fintech investment are Silicon Valley and London, with the former accounting for one-third of all global fintech financing (32%) and 20% of all deals on 2013, and the latter accounting for ‘the lion’s share of Europe’s fintech deals’. With this in mind, the question is now whether the blockchain will be deployed in Canary Wharf’s own image before it gets to underpin post-capitalism. In terms of the theory of money that Bitcoin represents, Dodd points to a curious paradox:

‘Bitcoin’s goal was to establish a form of money in which there is no need for trust. If money’s users no longer have confidence in banks or states – or, perhaps each other – to regulate and preserve the value of money, Bitcoin dispenses with the need for it by building trust into the software. On the face of it, the underlying rationale of Bitcoin is to ensure that money has anything but a social life… There are further curiosities to Bitcoin as a theory of money. Although it is a virtual currency, the philosophy behind Bitcoin implies that we must think of money as a thing: an asset whose value must be zealously protected over time… One could say that Bitcoin is a virtual form of gold – only more so, because in theory at least it is absolutely fixed. For these two reasons – the absence of trust and the view of money as a thing – Bitcoin arguably relies on an extraordinarily old-fashioned, even reactionary, image of money… what makes its development so interesting [is that] it seems to excite people for reasons that are anything but reactionary.’

Conclusion for this section:

While a sophisticated financial sector is still regarded as necessary for a developed economy, a growing number of economists such as Zingales find that ‘at the current state of knowledge there is no theoretical reason or empirical evidence to support the notion that all the growth of the financial sector in the last forty years has been beneficial to society’. Even the Economist remarks that while

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118 Accenture (2014: 2)

119 Dodd, Nigel (2014: 362)
‘ordinarily, economic actors ought to be left in peace to do as they wish until it can be shown that their actions are causing some kind of harm’, at this point ‘it seems fair to place the burden of proof on the financial sector that their practices are worth the trouble to society’. The perceived moral deficiencies and socially exploitative character of the financial system have led to a soaring alternative finance sector. In particular Bitcoin offers the hope of an incorruptible financial system, substantially reducing systemic risk. Yet despite its emancipatory zeal, alternative finance is not neatly able to distinguish itself from the values underlying financialisation. Virtual currencies, along with barter, have seen increased use in Greece in the recent crisis years in reaction to capital controls and reductions in liquidity. While these schemes enable the continuation of economic activity in the short run, they also create risks of further undermining the already strained Greek tax system and inflating the country’s sizeable shadow economy. This may in turn further circumscribe the possibility of countercyclical and progressive economic action, the lack of which, as we shall see in the next section, has been devastating for Greece and many other countries in the wake of the crisis.

6. Post-crisis resilience of European societies

The third dimension to the overarching question of the report will now be pursued in an assessment of the effect of the crisis on societal security broadly speaking. The DoW of SOURCE posits that ‘by society we mean not only the physical gathering of individuals, but also the organic, dynamic, collective life of a community. Society is a set of values, of customs, traditions, shared experiences, languages, legal and artistic traditions, economic institutions, a certain shared experience of place, and of history’. Societal security therefore comprises not only material aspects of survival, but also depends upon ‘complex moral and social aspects such as confidence, trust, belonging, and loyalty’. Insofar as societal security has been conceptualized as resilience, it signifies an ability to withstand stress and bounce back after shock and implies a qualitative assessment of maintaining social cohesion when undergoing perturbation. Certain forms of stress on a social structure may reduce its cohesion, and both stress and cohesion entail material and immaterial elements. A crucial factor here has been indicated in societal values. As Burgess has noted,

‘among the multiple ways in which the European Union seeks to constitute itself as a quasi-sovereign political body endowed with the legitimacy necessary to execute monetary policy, enact law, and deploy

127 DoW, 5/75
a unified foreign policy, is through a reference to a discourse of value: the European Union is construed as community of values whose necessity, cohesion and self-evidence is implicit’.\(^{128}\)

The Charter of fundamental rights in the Annex to the Treaty of Lisbon names these values as ‘the indivisible, universal values of human dignity, freedom, equality and solidarity’, the principles of democracy and the rule of law. In so far as values are ideals, it is less the values themselves that are subject to threat however, than the social cohesion they produce:

‘If we understand moral values to be purely principled, timeless, placeless concepts, then it goes without saying that no empirical change, creation or destruction can destroy them...Values themselves are never under threat – neither the subsistence of the shared values nor their sharing is empirically in doubt, only the cohesion of those who share the moral values in question... that precedes [the community] and remains external to it.’\(^ {129}\)

Before assessing factors of post-crisis societal resilience in Europe, the next section will consider the concept of social cohesion more closely.

### 6.1 Social cohesion

Studies on social cohesion have predominately taken place in the disciplines of sociology and social psychology\(^ {130}\) and invariably point to the definitional challenges and pitfalls of the concept. Bruhn holds that ‘while the concept of social cohesion is intriguing, it has also been frustrating because its multiple definitions prevent its meaningful measurement and application’.\(^ {131}\) He concludes from his historical literature survey from the end of the 19\(^{th}\) to the early 21\(^{st}\) century that ‘there are only disciplinary pockets of agreement on the definition of cohesiveness. We seem to define cohesiveness best by identifying consequences when it is absent and are less clear about how cohesiveness is created, nourished, and sustained’.\(^ {132}\) Hadjiyanni states that the concept has become a ‘battleground of opposing forces’ and ‘construed in numerous ways to suit a variety of situations/agendas’.\(^ {133}\) Carron and Spink note that ‘it could be argued that the terms cohesion and group are tautological; if a group exists it must be cohesive to some degree.’\(^ {134}\) The normative dimension of social cohesiveness not only poses difficulties of objective assessment but is also blind to potential negative effects of strong cohesiveness – social insularity and backwardness and economic sclerosis have been identified as such.\(^ {135}\) The dependence of humans on membership in a collective for their security – for which the


\(^{129}\) Burgess, J. Peter (2011: 145)


\(^{131}\) Bruhn, John G. (2009: 31)

\(^{132}\) Bruhn, John G. (2009: 47)


sociologist Arthur Stinchcombe introduced the term ‘community of fate’—is also troubled by the fascist connotation of mystical union of solidarity [Schicksalsgemeinschaft].

Despite being fraught with difficulties, the concept of social cohesion nonetheless becomes central to societal security, as the primary signifier of social bonds is shifted from state boundaries to the quality of societal relations, or, in the case of the EU, from predominately national to supranational common European values. Durkheim used the notion of social cohesion as the foundation of social order and defined it as a bond created by loyalty and solidarity among individuals. Social cohesion goes significantly beyond financial security as described above, yet at the same time the literature on social cohesion per se does not adequately take into account monetary and financial factors that affect cohesiveness positively or negatively. Historically, national communities have been forged by print and currency. Anderson’s seminal work *Imagined Communities* derived national cohesion from the invention of print, which produced a specific sense of simultaneity and mono-linguality. Print products created new and durable communities but were in themselves a product of capitalism—what he terms ‘print capitalism’. A critical instrument of social cohesion has also been seen in money. Mauss argued that ‘money is by no means a material and physical fact; it is essentially a social fact, and its value is that of its purchasing power and the extent of the confidence we have in it’. Rather than a mere tool of trade, money is a public good that borders the sacral, as the social faith in it demonstrates. To have money is to possess credit with the community and money receives its credibility via the invocation of the faith in community. As such money contradicts the basic tenet of the market economy centred around the individual: money can only function as belief system if the community is conceived as exceeding the level of individuals. Currencies create a common space of belonging, marking boundaries of inclusion and exclusion.

In line with this, Johan Fornäs in a contribution to a blog by the London School of Economics on the Euro crisis recalls that one cultural tool through which to emotionally strengthen citizens’ identification with basic values of the European project has been the symbol of the Euro, introduced in 2002 and threatened by the Greek sovereign debt crisis of 2010-2015. The euro coin literally embodies the union of unique national identity and overarching European values:

‘By specifying the denomination, it is the fronts that guarantee the economic exchange-value of the coin, while the reverses manifest the diversified symbolic use-values of cultural identity ... The current financial crisis has most intensely struck Greece, regarded by many as the cradle of European civilisation—not least by the European Union, who chose for its currency the name (Euro, introduced already in

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140 Anderson, Benedict (2006: 40)
1995) and the symbol (€). The latter is based on the Greek epsilon letter, with two horizontal lines added to symbolise the currency’s stability, again testifying to the centrality of confidence for money value. It was consciously designed to remind its users of Europe’s Greek roots, in an attempt to strengthen the credibility of the Union by means of historical continuity. If Greece would leave the Eurozone, this will not only create monetary difficulties but also question the signifying force of the € symbol.144

The euro zone crisis thus affects social cohesion on a variety of levels: by directly destabilizing one of the elemental unifying factors of European society as well as by indirectly affecting other indicators of societal security. The next section will consider this impact in terms of 1) political factors of societal resilience, such as the rise of extremism, an erosion of trust in government and a decline in participation in the political system, and 2) the resilience of societal relations, affected by social policies, family relations and mental health. It should be pointed out that while all of Europe has experienced some consequences of the crisis, it is quite clear that nowhere have the effects been as pronounced as in Greece and, to a lesser degree, the other countries that entered into sovereign debt crises: Cyprus, Ireland, Portugal and Spain. For that reason, there will be a certain slant in the material towards observations of developments in the most severely affected countries.

6.2 Political factors of post-crisis resilience

Societal resilience in Europe has been affected by political turmoil, increased extremism, an erosion of trust, increased tension between groups in society and reductions in political engagement. While the initial economic downturn certainly set the scene for these events, some of these also originate in public dissatisfaction with the management of the crisis.

In the hardest hit EU countries, there has been a clear activation of social movements of crisis. As an example, Rüdig and Karyotis145 have examined anti-austerity protests in Greece during 2010. According to the study, about 30% of the population was engaged in some form of protest that year. Police recorded over 7 000 demonstrations during the year, to be compared with an average of around 200 demonstrations per year during the early 1990s, which has been considered a period of high incidence. The unrest in recent years thus stands without comparison in recent history. Kerbo146 notes that movements of crisis are likely to be accompanied by outbursts of hostility and collective violence, which is also in line with the observed developments in Greece. Significant protests have also been seen in Spain147148, although not as frequent or intense as those in Greece.

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Extremism is on the rise in Europe today as part of a wider phenomenon of political polarization and fragmentation. Funke et al\(^\text{149}\) point to some robust findings in a study of the political fallout of 140 years of systemic financial crises\(^\text{150}\), including the recent one: (i) support for far-right parties increases strongly\(^\text{151}\), (ii) government majorities shrink, (iii) fractionalization of parliaments rises and (iv) the number of parties represented in parliaments increases. When these effects materialize, crisis resolution becomes considerably harder and political deadlock can ensue. The result tends to be slow recovery at a time when social cohesion and political decisiveness is vital. In line with this, Hernanández and Kriesi\(^\text{152}\) state that ‘the main beneficiaries of the economic hardship [in Europe] are new parties, as well as of the radical populist right and the radical left’. They add that ‘[r]adical parties benefited especially in the hardest hit countries’. Klapsis\(^\text{153}\) argues that judging from the Great Depression and events in recent years, it seems like Europe’s political landscape is more sensitive to such effects than is the US’s. In Greece, this has meant that Syriza (extreme left) and Golden Dawn (extreme right) have seen dramatic success\(^\text{154}\). Syriza has gone from 4.6 % in the 2009 elections to 35.5 % in the September 2015 elections (almost 800 % increase) and Golden Dawn went from 0.3 % in 2009 to 7 % in 2015 (over 2300 % increase). Local elections in Spain in 2015 also indicate a significant political movement to the left.\(^\text{156}\) One hypothesis as to why left-wing parties have grown to higher levels than right-wing in Spain, Portugal and Greece is a remaining political taboo after previous periods of fascist rule.\(^\text{157}\)

Eurofound\(^\text{158}\) has found that trust within the EU has been severely affected: ‘Average levels of trust in other people declined between 2003 and 2011, and there was an even sharper fall in trust in institutions.’ The Eurobarometer\(^\text{159}\) corroborates these latter findings, as trust in the EU as well as


\(^{150}\) The same effects do not follow other forms of economic crises or normal recessions, where the effect instead

\(^{151}\) After Word War II, support for the far-left also increases, although not as much.


\(^{153}\) Klapsis, Antonis (2014: 196) Economic crisis and political extremism in Europe: from the 1930s to the present, European View 13:189-198

\(^{154}\) www.ypes.gr/en/Elections/NationalElections/Results


national parliaments and governments fell sharply between 2007 and 2013, from 57 % to 31 % (EU), from 41 % to 23 % (national governments) and from 43 % to 25 % (national parliaments). Similarly, positive views on the EU fell from 52 % in 2007 to 30 % in 2013. However, the sense of belonging to the European Union, at least as queried by asking to what extent one feels like a citizen of the EU, varied little between 2010 and 2013 (between 61 % and 63 % answering yes), and has in fact risen to 67% in the most recent study. Even in Greece, one of the lowest scoring countries in both 2013 and 2015, the rate has come up from 44 % to 50 %. Even if trust has made an observable decline, Eurofound cautions against inferring that the financial crisis is the only factor at play:

‘While it may be tempting to see the decrease of levels of trust in people in the context of the global economic downturn of 2008–2010, one should note that in all but five countries of the EU27, levels of trust in 2011 are lower than they were in 2003. The decreased average levels of trust in the EU countries since the first EQLS in 2003 (rather than only after 2007) suggests that there might be broader changes in the quality of society taking place that go beyond or are not exclusively limited to the impact of recession.’

The OECD notes that ‘[t]he link between economic difficulties and people’s mistrust of national governments appears to be more clear-cut.’ The report adds:

‘Such trust declined in most OECD countries from 2007 to 2012, with the largest drops coming in Greece, Ireland, Portugal, and Slovenia. However, young people in Spain and Portugal tended to trust their governments more than their adult counterparts, and their confidence also declined less. There has been a much sharper fall in trust in financial institutions across virtually all OECD countries […].’

Finally, political engagement, at least in the form of election participation, has decreased in the most affected EU countries. Turnout figures for the most affected economies in the EU are presented below, with data for the nearest two elections on each side of the start of the crisis. It is worth noting that bailout packages and required austerity measures started in 2010 and 2011 for the five, with Ireland, Portugal and Spain having left the bailout programs between late 2013 and mid-2014.

### Table 4  Impact of financial crisis on voter turnout in sovereign debt crisis countries

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161 Ibid.

162 OECD (2014: 30)

163 [www.idea.int](http://www.idea.int)
Orange fields in the tables represent a downward adjustment compared to the previous election, while a green field represents an upward adjustment. With the exception of Ireland, parliamentary turnout has either turned down or decreased faster than previously in the hardest hit countries. Portugal and Spain saw voter turnout increase in the national elections prior to the crisis, only to turn down afterwards. In the recent (2015) parliamentary elections in Greece, voter turnout rose somewhat from the 2012 level to 63.6%\(^{164}\), although this remains well below pre-crisis levels. EU parliamentary election turnouts in the group have been in a longer downward trend, with Ireland again standing out with a pre-crisis peak in voter turnout. The last EU parliament election in Greece also saw an increase in participation, reversing a negative trend since 1999. Spain saw a dramatic downturn in voter turnout even before the crisis, although the trend remains negative. Of the five, Ireland’s voter turnout looks to have been the least affected during the period, suggesting some underlying source of resilience.

Funke \textit{et al}\(^{165}\) offer a few hypotheses as to the mechanisms by which financial crises produce political disruptions, increased extremism and societal tension, in ways that other economic crises do not. The first of these is that financial crises tend to be perceived as endogenous, products of policy failure and moral hazard, whereas non-financial economic crises tend to be triggered by events perceived as exogenous. Under the first perception, the electorate blames the political level for its perceived incompetence, whereas under the second it rallies behind the sitting government. The second hypothesis is that the developments are driven by general unpopularity of the bailouts associated with financial crises. Such bailouts tend to be seen as using tax-payer money to save excessively risk-taking and wealthy institutions and individuals, a seemingly highly regressive course of action. These unpopular policies then result in widespread political dissatisfaction. A third and fourth hypothesis are that creditor-debtor disputes become more vicious in the wake of financial crises (as has certainly been observed in the sovereign debt crisis) and that inequality rises comparatively more after financial crises than it does in other economic crises. Klapsis\(^{166}\) cautions that financial crises do not, by themselves, create political extremism – ‘[t]he seeds of authoritarianism, nationalism, racism, xenophobia, anti-Semitism and so on had been planted well before the bursting of the US housing bubble and the collapse of Lehman Brothers in 2008’ – but the tensions, fears and disappointments that the crises generate provide fertile ground for an increased radicalization of politics.

\(^{164}\) www.idea.int.

\(^{165}\) Funke, Manuel \textit{et al} (2015:35)

\(^{166}\) Klapsis, Antonis (ibid.)
6.3 Social factors of post-crisis resilience

The crisis has also deeply affected societal structures and social relations in ways that go beyond political structures as well as beyond the macroeconomic indicators of unemployment, pensions and material deprivation discussed in section 4. In a survey of 187 banking crises in 126 countries over the period 1970-2009 van Dijk shows that in the six years following a crisis, average life expectancy declines by nine months, primary school enrolment drops by 3.5%, and fertility drops by 5.5% (while adolescent fertility rises by 4.5%).\(^{167}\) He also finds a short-run worsening of poverty and income equality and a lasting 50% increase in outbound refugees and inbound foreign aid. Generally, the social costs of financial crises are greater for less-developed countries.

The OECD\(^{168}\) report *Society at a glance* states that ‘there is overwhelming evidence that long spells of unemployment and joblessness are detrimental to both mental and physical health.’ Paul and Moser\(^{169}\) have found that the prevalence of *psychological disorders* in unemployed people is more than twice that in employed people, indicating a link between microeconomic stress and psychological stress. Eurofound further points to indications that *interaction within families* has decreased, and comments on the issue of causality:\(^{170}\)

> ‘When comparing the pattern of contact with family and friends between 2007 and 2011, the most significant difference is the decrease in the frequency of contact with parents […] The finding that not only the frequency of contact face-to-face but also via telephone or mail has diminished points to lack of available time to interact with parents, rather than just resources. Nevertheless, the change is directly or indirectly connected to economic strain. It is attributed especially to people in the lower income quartiles, who were previously found to have more contact with their family than others.’

Staying with family relations, according to the “cost of divorce” perspective\(^{171}\) the *divorce rate* is inversely correlated to the unemployment rate. Accepting this would lead to an expectation that divorce rates in the EU would have fallen between 2008 and 2013, after which they should have started to rise again. The number of divorces were, however, largely unaffected both in the EU as a whole and in four of the five hardest hit countries\(^{172}\). Marriages, on the other hand, declined. There has been a long-term downward trend for marriages in Europe since (at least) the 1960s\(^{174}\). Whether the decline in recent years has been accelerated compared to previous periods remains unclear. Since divorce

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168 OECD (2014)
172 Spain being the exception with falling divorce rates between 2007 and 2009.
174 Ibid.
rates remained stable, this might be interpreted either as a counterexample to the theory or, alternatively, as an indication of a lack of resilience in European marital structures, i.e. the divorce rate was unexpectedly high during the worst part of the crisis.

Families can augment individual well-being, both physical and psychological, as well as dampen the effects of external pressures. However, in stressful times, they can also be an arena for conflict and abuse. Domestic violence, both towards women and towards children, tends to rise in times of economic strain\textsuperscript{175,176}, raising security concerns. Domestic violence is a difficult area to study, but there are worrying indications. According to Thomson Reuters Foundation\textsuperscript{177}, Greek police saw a 72\% increase in reported cases of domestic violence between 2010 and 2012. Further, Safe Ireland\textsuperscript{178} reports that in 2012, 36\% more women received support from a domestic violence service in Ireland than in 2008. Reeves \textit{et al}\textsuperscript{179} have studied excess suicides in Europe and North America during the period 2007-2010. Up until 2007 suicide rates had been falling, a trend which was then reversed. The authors estimate that this reversal corresponded to around 8,000 additional suicides in Europe between 2007 and 2010, compared with an extrapolation of the previous trend. An analysis of official Greek statistics showed a 35 \% increase in male suicide rates and a 32 \% increase in female suicide rates between the years 2010 and 2012\textsuperscript{180}.

\textit{Tensions} have also increased between social strata:

‘When considering levels of perceived tensions at European level, the most notable change is an increase in perceptions of tension between the rich and poor. The proportion of people reporting a lot of tension went up from 30\% in 2007 to 36\% in 2011. It is indicative of economic difficulties encountered by many countries due to the economic downturn, but also reflects a global trend of growing income inequalities that has been noted by research in recent years.’

In addition, while the overall trend regarding societal tension is inconclusive, some countries have experienced rising ethnic tensions\textsuperscript{181}:

‘[R]eported tension between social groups in the EU (measured multidimensionally) seems to be decreasing, with the exception of the EU12, where tensions between racial and ethnic groups are perceived as having increased between 2007 and 2011, having fallen between 2003 and 2007.’\textsuperscript{182}

\textsuperscript{176}Jewkes, Rachel (2002) intimate partner violence: causes and prevention, \textit{The Lancet} 359(9315): 1423-1429
\textsuperscript{177}Thomson Reuters Foundation (2013) Greek police report spike in domestic abuse cases. Available at http://www.trust.org/item/20131202115332-op5h6/?source=dpagerel
\textsuperscript{180}Rachiotis, George \textit{et al} (2015) What has happened to suicides during the Greek economic crisis? Findings from an ecological study of suicides and their determinants (2003-2012), \textit{BMJ Open} 5:e007295. Available at http://bmjopen.bmj.com/content/5/3/e007295.full
\textsuperscript{181}Eurofound (2012:142)
\textsuperscript{182}The EU12 are the countries that joined in 2004 and 2007: Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.
In the case of Greece, the OECD\textsuperscript{183} reports a considerable decrease (between 16 and 27 percentage points) in tolerance towards immigrants and ethnic minorities as well as towards gays and lesbians between the years 2007 and 2012. On the other hand, certain measures of tolerance\textsuperscript{184} in two of the other sovereign debt crisis countries, Ireland and Portugal, actually improved during the period.

**Conclusion for this section:**

The experience of the financial crisis has varied greatly for different EU countries: for some the quality of life has not changed in significant ways, while in particular for those in the periphery, the social consequences of the financial crisis raise a series of issues concerning the deepening cohesive cleavages. Social cohesion has been affected by increases in inequality and a growing divergence in values, as indicated by political polarization and fragmentation. Lower trust levels and political fragmentation suggest that collective action will be harder in the immediate future. But it also affected by social factors: the OECD has broadened the indicators of social cohesion to *life satisfaction, tolerance, confidence in institutions, safety and crime and helping others.*\textsuperscript{185} Social policies are seen as necessary to ‘ease the consequences of economic shocks and strengthen families’ ability to adapt and respond to economic difficulties when they occur. Income transfers, health care, and other public services make major shocks both less likely and less damaging.\textsuperscript{186} For society as a whole, social policies are important tools to prevent cyclical or temporary downturns from turning into protracted social crises. It should moreover be recognized that ‘the major health-related and societal problems that a deep economic crisis may trigger are unlikely to materialise immediately\textsuperscript{187} and the long-term effects of the crisis on societal resilience may be even more severe. Finally, the Euro serves an important function in providing a unifying European identity and the euro zone crisis may have had an effect of rising uncertainty about the strength of that monetary bond.

### 7. Conclusion: Societal security after the crisis

The impact of the global financial crisis on societal security has been analysed in three main sections: The first dimension to the question has been the effect on the financial security of European societies in terms of macroeconomic indicators, and here severe, if uneven, consequences have been shown for unemployment, pensions and material deprivation. It is important to realise that the financial crisis originated in a core tenet of financial security – the home – and the changes effected by financialisation and securitization. Secondly, the social value of finance post-crisis has been discussed in some detail, to gauge the impact on one of the core societal values of liberal societies. Not only is the actual social value of financialisation since the 1990s difficult to prove, but criticisms of the field of financial economics point to its secluded character and distance from real world problems. There is an urgent impetus for financial economists to become ‘the watchdogs of the financial industry, not its lapdogs’.\textsuperscript{188} A large gap exists between the self-perception of financial professionals and the outside perception of their role in society that undermines the political viability of a well-functioning financial system.

\textsuperscript{183} OECD (2014:137)  
\textsuperscript{184} Towards ethnic minorities, and towards gays and lesbians.  
\textsuperscript{185} OECD (2014)  
\textsuperscript{186} OECD (2014: 12)  
\textsuperscript{187} OECD (2014)  
\textsuperscript{188} Zingales (2015: 3)
Moreover, the categories used for measuring social welfare are in need of revision and broadening. As van Dijk notes, ‘one of the things that strikes me as remarkable is the ease with which economists talk about maximising social ‘welfare’ (usually based on some specific utility function), without having anywhere near the necessary (philosophical) background to comprehend what social welfare really means’. While alternative finance systems profit from the present disenchantment with the official finance sector and its governance, it struggles to differentiate itself truly from the values underlying financialisation. At the same Bitcoin technology is increasingly eyed by representatives of the official financial system possible future monetary channel. The third section addressed the broader implications of the crisis for societal security. Here European nations face a difficult situation where the sovereign debt crises are seen to require an imperative of austerity but the effects of austerity give strong indications to undermine the resilience of European societies. Societal structures experienced serious perturbations following these attempts to counteract economic decline, and there is increasing evidence that for many countries the measures were also economically ineffective. The UN High Commissioner for Human Rights has gone so far as calling the measures “contradictory”, stating that they have exacerbated the crisis and stalled recovery. Although networks of support may initially be strengthened in times of need and mutual support becomes vital when economies are weak, the stress absorbed over time may eventually erode relationships and affect family ties as well as attitudes to fellow citizens and social, economic and political institutions, including rising polarization and fragmentation. Social cohesion has thus been affected significantly by the financial crisis and its governance, demonstrating an important correlation between financial markets and societal security.

189 Van Dijk, Mathijs A. (2015: 14)