

# Banking at Bay

- Credibility challenged
- A lot of ink, hard to say something new
  - Focus on banking in “market-driven systems”
  - Reexamine dichotomy, market/bank
  - Compare some banking systems
  - Examine power of national regulation
  - Say something about Canada, less studied

# Key Points

- Distinction between market/bank not clear
  - Never has been
  - More convergence since 1970
  - Transnational banking
- Cannot understand without fall of Bretton Woods
- Supranational banking with very important national twists
- “Back to the Future”
  - US banking facilitating investment into US
  - UK banking profiting from locational advantages
  - Canada’s focusing on relatively closed, well-controlled, and regional bank model

# Market- versus Bank-Based

- Only important to institutional economists
- Cloudy distinction, especially over time
  - Users of capital relatively easy access to equity and debt via public markets
  - Users of capital dependent on relationship to banks for capital, mostly debt
- Consider following:
  - Bank concentration even in “market” economies
  - Bank assets huge in many “market” economies

# Some Data

- 1970-2012 Citibank's assets as % US GDP, 2.3 to 12%
- Barclays UK, 6 to 62%
- In 2012, in my market economies:
  - US, Bank assets 92% of GDP
  - Canada, 212%
  - UK, 448%
- By way of Comparison, Germany and France, 311% and 387% respectively

# Turning Point for Banks 1970s

- Well Known, but important for this story
  - Volatile inflation, FX, and interest rates
  - New sources of liquidity
  - Increased FDI, including banks
  - Greater importance of Euromarkets, for example
  - Death of many traditional activities
- Banks from all over more investment:
  - Geographic reach
  - Products
  - Technology
  - Later regulatory compliance

# US Case

- From exceptionalism to conformism:
  - Road from limited state banking to universal national banking
  - Hardly ever completely split
  - 1970-2000 explosion of international banking
- “Something old and something new”:
  - International Banking Act of 1978
  - Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994
  - Gramm-Leach-Bliley Act (Financial Services Modernization Act of 1999)
  - Commodities Futures Modernization Act (2000)
- Strategies:
  - Connect international users and borrowers
  - US focus, CDOs and CDSs
  - Platforms

# UK Case

- Well known revival of London after WWII owes much to British history
- Much done to attract banking there
- British banks still serve as links between the rest of the world and London markets
- Still leaders in FX trading and merchandise related transactions

# Canada

- National and adaptive banking system, combining experiences of UK and America
- Relatively stable, despite absence of central bank
- Recent moves toward universal banking
- Private/public cooperation – shared rules of the game
- Limited internationalization, LDC crisis and regionalization
- Protected home market, but some innovation

# Conclusion

- Market financial systems not so market
- Convergence
- Some major differences in market economies
  - Securities held
  - Number and breadth of foreign operations
  - Regulatory relationships
- Future of transnational banking
  - International rules, but nations can make a difference
  - “Still need the eggs”