

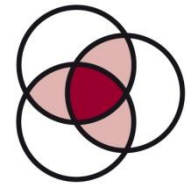
Banking Systems in the Crisis: The faces of liberal capitalism

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Marc Fovargue-Davies

Keynes Seminar

Robinson College, 29 January 2013

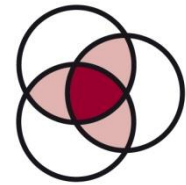
The Empirical Puzzle



	Change in Mkt Capitalization (\$bn) 1999-2009	Bank bail-out package as a % GDP (March 2009)
Canada	97.5	0.0 %
Australia	85.6	0.1 %
New Zealand	NA	0.0%
USA	-676.1	6.8 %
UK	-244.3	19.8 %
Ireland	NA	43.0%

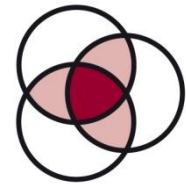
Source: *Financial Times*, 23 March 2009, p.9. 1999 values are as of 31 May 1999; 2009 values are as of 17 March 2009; Stewart 2009.

Defining our terms



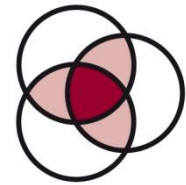
- Neo-liberalization
 - The return to economic liberalism following the paradigm shift of the late 1960s and 1970s
 - Economic liberalization
 - A process of macro-institutional change in which the central pillars of a country's political economy shifts towards greater reliance on market-based coordination
 - Financialization
 - A process of macro-institutional change in which finance serves as a driver of economic growth and assumes an increasingly important role in the political economy
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Int'l Research Network on Varieties of Liberalism



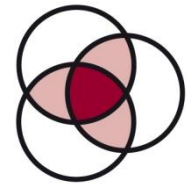
- London Centre for Corporate Governance & Ethics (Birkbeck, University of London)
 - Centre for Regulation & Governance (UC Dublin)
 - Centre for Banking & Finance (University of N. Carolina)
 - College of Law & College of Business (Uni. of Illinois)
 - Critical Laboratory in Law & Society (York Uni., Canada)
 - Centre for Law, Markets & Regulation (University of New South Wales, Australia)
 - College of Business (Massey University, New Zealand)
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Book Layout



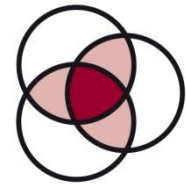
- **Part One: Introduction**
 - The ‘not so global’ crisis
 - The return of ‘financialized’ liberal capitalism
 - **Part Two: Country Case Studies**
 - How the institutional configurations in each country – and their financial systems – influenced the outcomes of the twin processes of financialization and neo-liberal reforms
 - **Part Three: Analysis & Conclusions**
 - Institutional foundations of the Anglo-Saxon banking systems: Some are more liberal than others
 - The ‘Ordoliberal’ variety of neo-liberalism
 - Conclusions
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Economic Liberalization



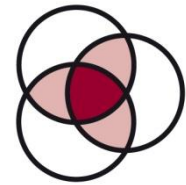
- Canada's 1964 Porter Commission
 - The 1970s return to economic liberalism
 - US discontinues gold backing of the American dollar, leading to the collapse of Bretton Woods
 - UK introduces policy of 'Competition & Credit Control' and makes a 'Dash for Growth'
 - Radical liberalization in the US, UK and Ireland
 - 'Reaganomics' and 'Thatcherism'
 - Awakening the 'Celtic Tiger'
 - Pragmatic liberalization in Canada, Australia & NZ
 - Social Democracy, 'Economic Rationalism' and Rogernomics'
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Institutional Effects of Liberalization



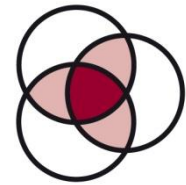
- Changing role of the Central Bank & Central Government
 - Central Bank granted operational independence and assigned responsibility for monetary policy (price stability)
 - US, UK & Ireland: Central Bank power was extended beyond deposit-taking institutions
 - Canada, Australia & NZ: Separate regulatory agencies were set-up early-on to deal with non-bank financial entities
 - Central Government assigned responsibility for maintaining market freedom
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Institutional Effects of Liberalization



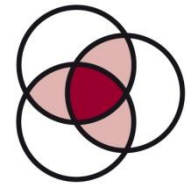
- Financial Market liberalisation & regulation
 - US, UK & Ireland: New York ‘May day’ 1975 & London ‘Big Bang’ 1986; 1995 Irish Stock Exchange gains independence from London Stock Exchange
 - Canada, Australia & NZ: Incremental & prudential
 - Structure of Financial Market Regulation
 - UK, Ireland & NZ: Unified
 - Canada & Australia: ‘Twin Peaks’
 - USA: Fragmented
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Changes in Firm Behaviour



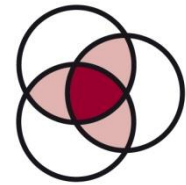
- Financial Conglomeration via Mergers & Acquisitions
 - US, UK & Ireland
 - Internationalization & Bifurcation
 - Investment banks manage commercial banking activities
 - Regulatory challenges:
 - ‘Too big to fail’ dilemma
 - Threat of regulatory arbitrage
 - Shifting power relations & regulators’ conflicting objectives
 - Canada, Australia & NZ
 - Large domestic banks dominate
 - Commercial banks manage investment banking activities
 - Regulation much more straight-forward
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Changes in Firm Behaviour



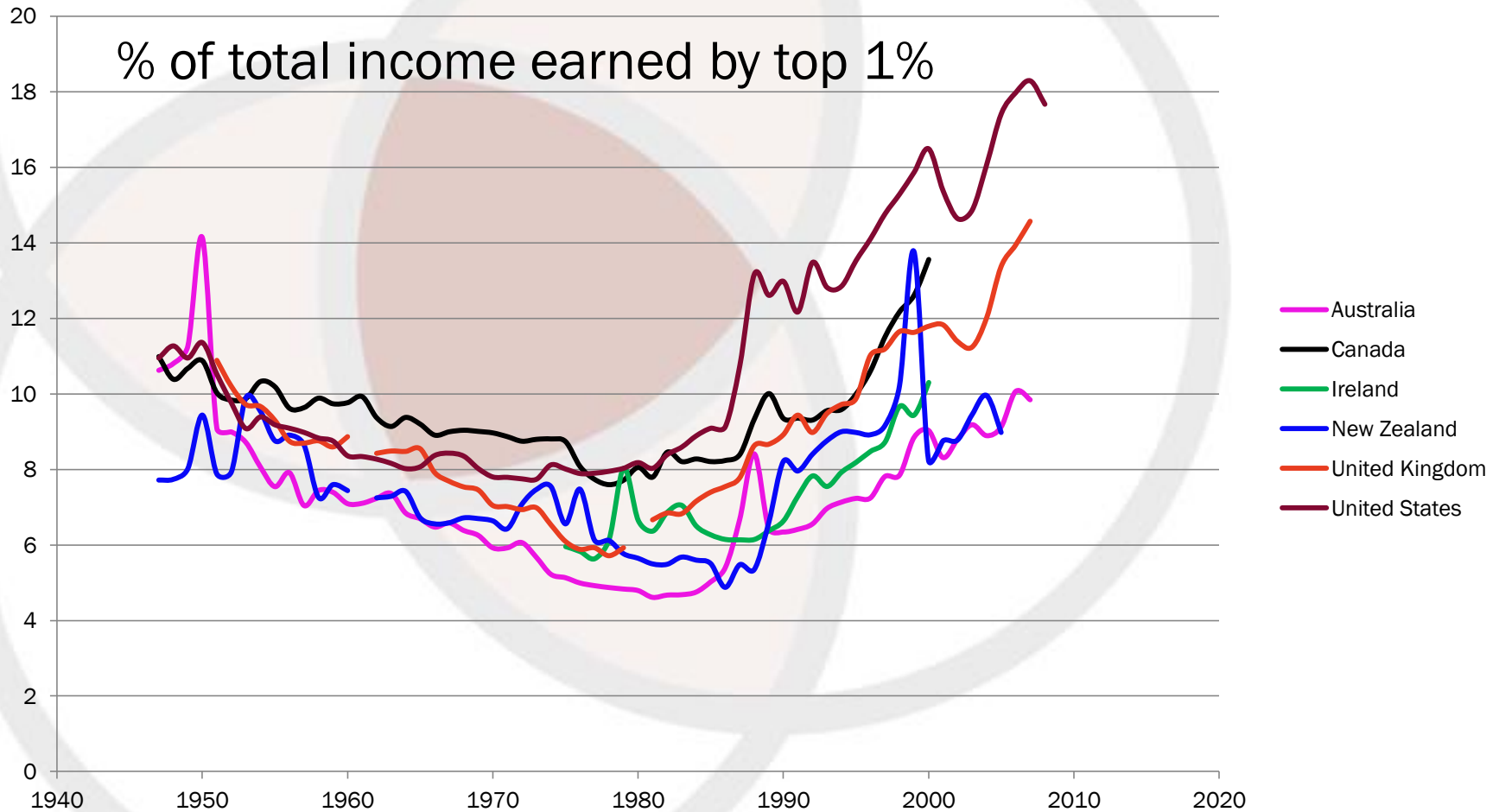
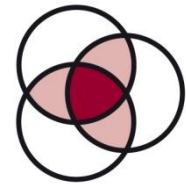
- Change in Banking Business Model: ‘Originate & Distribute’ replaces ‘Originate & Hold’
 - US, UK & Ireland:
 - Drive for profits & short term share price appreciation
 - Shadow banking reduces regulatory capital holdings
 - Financial innovation & securitization encourages risk taking & easing of credit standards, esp in US and Ireland
 - Canada, Australia & NZ:
 - Shareholder pressures unimportant
 - Conservatism in Banking Practices
 - Little enthusiasm for shadow banking & financial innovation
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Feedback Effects

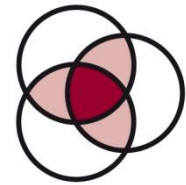


- ‘Regulatory Dialectic’ Effects
 - Australia’s ‘corporate cowboys’
 - The American Savings & Loan crisis
 - Canadian and British bank, insurance trust & investment house failures
 - Looking into the abyss ...
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Macro Feedback Effects

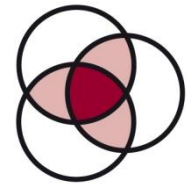


Macro Feedback Effects



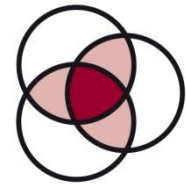
- Financialization & industrial restructuring
 - Deindustrialization, wage & income stagnation
 - Diversion of investment funds towards speculative uses
 - Unbalancing the production & financial sides of the economy
 - Financialization & the political process
 - Prioritization of financial interests (& the wealthy)
 - Marginalization of left wing movements & parties
 - Financialization of households, workers & the poor
 - Cumulative causation ...
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Concluding Thoughts



- Financialized Neo-liberalism Assessed
 - Markets are social and political constructs – even ‘laissez faire’ is a policy decision – So in whose interests are markets designed to operate?
 - Inherent tendency towards macro-economic imbalance and inequality – But how far is this from instability?
 - Direction of change comparable, although pace and intensity varies across the LMEs – But what about the future? Dodging one bullet is no guarantee of survival.
 - LMEs can develop different institutional responses to a common external shock
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Where is liberal capitalism heading?



- The ‘Alternatives’ within
 - What are the alternatives paths of development latent within the LME model?
 - Financial systems
 - Economic and industrial policy
 - Corporate law
 - Are these alternatives politically and institutionally feasible – and what are the forces that make them more (or less) likely?
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