Author would like to acknowledge Morgan Ricks, Assistant Professor of Law at the Vanderbilt Law School, whose published work and insight informed this commentary. Further information available at http://law.vanderbilt.edu/ricks
Critical Observations

- **Physics vs. Engineering**
  - The importance of law and political economy in financial stability outcomes

- **Banking as public-private partnership**

- **Democracies as particular challenge**
  - No one really wants to buy insurance

- **Universality of credit bubbles**
  - Why do some metastasize into financial crises?
Another Actor

• **A License to Print Money**
  • Banking “Leakage”
  • Decentralized Chartering and/or Shadow Banking

• **Political Economy of Shadow Banking**
  • Borrowers
  • Corporate and Industrial Interests
  • Non-Banks (Securities / Asset Management)

• **Marginalization of the “Bank, as defined”**

• **Can banking be a purely private sector activity and be stable?**
• **More powerful, centralized banking sectors with little leakage are more stable**
  • How do banks retain this market power?
  • Why didn’t shadow banking develop?
  • Why was the coalition that generally supports shadow banking absent or marginalized politically?

• **Populists = Borrowers (Sometimes)**
  • Consumer credit behaviors

• **Agrarian vs. Industrial**
  • Absence of a competing interest group
Non-US Case Studies (Cont’d)

• **Canada**
  • Re-chartering
  • Lack of populism / demand for consumer credit

• **England**
  • Brokered bill market – the original shadow banking
  • Power of industrialists

• **Scotland**
  • Agrarian
  • Much less non-bank activity
• **Decentralized Chartering Authority**
  • Constant through most periods of instability
  • Equivalent to shadow banking

• **1930 - 1980**
  • Financial repression
  • Golden Age of the “Bank, as defined”?

• **1980 -**
  • Consumer credit behavior changes
  • Non-banks themselves become very politically active
Financial Crisis

• **A Securities Crisis**
  - A false sense of liquidity

• **The Bank Holding Company**
  - Short-duration wholesale funding
  - Non-bank activities

• **GSEs – Non-bank Banks**
  - Unique political economy

• **Financial crisis tends to follow a loss of control over money-like instruments**
Other Culprits

- **A Government in Need**
  - Do governments tolerate less stable banking systems in periods where they need to raise substantial sums themselves?

- **The 30-Year Fixed Rate Mortgage**
  - Anti-stability properties; requires complex financial system design to achieve stability
  - Exists in 2 countries – United States and Denmark
Concluding Thoughts

- **A License to Print Money**
  - Follow the ducks

- **Conundrum of Bank Size**
  - Sometimes (AUS/NZ/CAN) size means stable
  - Other times (Ireland, Iceland, Cyprus, Spain) it does not
  - Composition of businesses, funding structure, participation in “safety net”