

Federal Reserve Bank of Atlanta – Financial Markets Conference  
Political Systems and Stability

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- **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?

- **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)*

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- **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

- **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**

- **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*

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- **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”