Oscar Ugarteche Galarza
Instituto de Investigación, Universidad Nacional Autónoma de México (UNAM), Mexico

Paper presented at the 13th International Karl Polanyi Conference, "The Enduring Legacy of Karl Polanyi," Concordia University, 6-8 November 2014

THE BANKING COMPLEX AND THE PRIVATISATION OF FINANCIAL GOVERNANCE[1]

Introduction

The present work will review aspects of the possible transformation of the financial system into a banking complex, and analyze the scope and consequences of these changes on the monopolisation of financial capitalism and international financial governance. This work contains three subsections. The first reviews the different approaches to the concept of *system*; the second reviews the concept of *complex*; and the third, the relationship between the privatisation of governance and current financial problems.

1. The financial *system.* Is it a *system*?

The central question is whether the international financial *system* is in the second decade of the 21st century, still a *system* or has it undergone a transformation that needs to be acknowledged. In this work, we will review the concepts of *system* and of financial *system* and its role within development processes and how it has become functional to the concentration of national and global revenue/income. We will explore whether we are facing the emergence of a banking financial complex taking Harvey's (2004) notion. Harvey (2004) suggests that the complex is the integration between Wall Street, the Federal Reserve, and the IMF. We want to argue that the United States Treasury was taken over from the 1980s by banking and finance sector agents, and that it acts on and defines public policy from this perspective and from it influences the IMF. On the other hand, it is known that the FED is historically directed by commercial bankers. For this reason, I have not taken Harvey's criterion and have preferred to investigate the banking complex.

> Class A directors represent the member commercial banks in the District, and they are mostly bankers. Class B and class C directors are selected to represent the public, with due consideration to the interests of the agriculture, commerce, industry, services, labour, and consumer sectors. Class A and class B directors are elected by member banks in the District, while class C directors are appointed by the Board of Governors of the Federal Reserve System in Washington. (The Structure of the Federal System, http://www.federalreserve.gov/pubs/frseries/frseri4.htm)

[1] Text prepared especially for las Jornadas Monetarias del Banco Central de la República Argentina, 1 & 2 of October 2012.

What is a *system*

The linguistic definition of a *system* is a "1. a set of rules or things so related or connected as to form a unity or organic whole; as a solar system, irrigation system, supply system. 2. The world or universe. 3. The body considered as a functioning organism. 4. A set of facts, principles, rules, classified in regular orderly form so as to show a logical plan linking the various parts.". (Webster Dictionary)

The financial *system* would be according to the first definition, the total sum of banks, pension funds, investment funds, trusts, stock exchanges, commodity and exchange markets, and other financial institutions that contribute to the creation of money and credit markets in order to facilitate the movement of resources from surplus sectors to deficit sectors with the purpose of stimulating physical investment, production of goods and services, and consumption.

The view that a system is a set of rules or principles on a matter rationally linked together, leads us to question whether having different rules for institutions that are part of the same *system* is rational. Grouping "too big to fail" banks together with banks that can fail is not coherent within a *system* as defined above. There would need to be in any case, a sub*system* of "too big to fail" banks and another of "the right size to fail" banks. The two sub*systems* nevertheless would not manage to form a single *system* because in one the officials do not fear collapsing and can be reckless in their pursuit of profits; and in the other, the officials must be responsible and act with prudence in their pursuit of profits. These two sub*systems would* not operate with the same set of rules nor with the same rationality, therefore they do not constitute a *system* in the linguistic sense.

From a scientific viewpoint, Von Bertalanffy (1968) asserts that in order to recognise a *system* as such, it must have its own feedback mechanism so that it can self-regulate. *Systems* are, by definition, self-regulating. For example, the thermostat constitutes a *system* by excellence because it knows when it needs to turn the heat on and when to turn it off. The heart is another example, that regulates the blood pressure.

Kühn (1974: 21) says that "a *system*, in the broadest sense, is any pattern in which the elements interact with enough regularity as to merit attention". A pattern is any relation between two elements and the elements can have direct relation in the real world or indirectly in the imaginary world.. An element is an identifiable entity - concrete or abstract, object or event, individual or collective. In our case, an example of a pattern could be the relationship between the value of stock capitalisation in the stock market and the dynamics of the real economy. So that there is a relationship between both. What was obvious between 1980 and 2012 is that there was no close relationship between them and at times no relationship at all. Greenspan stated "But how do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions as happened in Japan over the past decade?" (Greenspan, 1996).

Kühn (22) says that in an acting *system, A* acts on *B* through a movement of matter-energy or information[2], the nature of the change depends both on the nature of B and the nature of the movement. For instance, an investment bank A in New York sells commodities in the London Exchange B. If A and B were a system, the output of A, the order of sale of the commodities, would turns into the input of B, that receives the order of sale itself of the commodities. But the sale itself is not an input but another output. It is to say A does not act on B but in conformity with B. Kühn proposes that nothing must be called system that is not subject to the system analysis. (23)

Some operating *systems* are named after the function they perform, the material they process or the analysis they apply, even though sometimes there are no clearly defined physical entities. The components of an operating *system* are related by their actions whilst the components of a *system* of patterns have syntactic relationships. Only the actors, not the actions or patterns of actions, can constitute operating *systems*. (24).

A functionally defined *system* is not subject to spatial boundaries. For instance the circulatory *system* is in every cubic millimetre of the human body. Its spatial boundary would have to include the respiratory *system*, the endocrine *system, the digestive system, the nervous system* to mention a few. The financial *system* would be of this type.

In this sense, if a financial *system* existed, it would be abstract and it would include all the agents involved in the supply and demand of financial assets. A study of the financial *system* would have to include the global economy and, within it, the financial *systems* of France, Germany, Great Britain, the United States etc. Alternatively, the international financial *system would* be studied and the sub*systems* of each country, together with their existing regulatory *systems* would be set aside. That is to say, the central banks would not be part of the *system*, nor would the risk assessment or specialist financial information firms. In other words, it would be limited to the entities involved in the supply and demand of financial assets of all types.

Controlled *systems* have detecting, selecting and acting functions that operate for the whole *system* as a unit and around which the *system* analysis is carried out. Control refers to internal controls not to restrictions placed or imposed from outside the *system*. In other words, the controls would be placed by the sellers and buyers of financial assets not by agents who are not part of the transaction.

The notion of a self-regulating financial *system* was introduced by bankers through the Gramm Leach Bliley Act in 1999, which essentially placed the responsibility of self-regulation in the hands of the agents involved in the supply and demand for financial assets, following the *systems* theory principles. However, it became apparent that the entities involved in the market preferred to willingly mislead their peers in order to profit. The two best examples are the Libor scandal (2012) and the subprime mortgage crisis (2007). It was also apparent that agents are willing to deceive their clients for the same reason, like in the cases of Stanford and Madoff, to mention the most well-known examples. On the other hand, it was also apparent that those promoting self-regulation between 1994 and 1999 (Robert Rubin from

[2] From here on, given the financial system operates on the basis of information, we reduce Kühn's definition to this aspect.

the office of the Secretary of the Treasury, Henry Paulson from the office of the President of an investment bank, and Larry Summers from the office of the Secretary of the Treasury) went into the executive branch from a banking or banking academic background.

It is obviously clear that since the early 80s, during the debt crisis, the Secretaries of the Treasury come from a financial background, and within it from investment banking, which had not been the case previously. Between 1961 and 1981 there were two investment bankers made Secretaries, Douglas Dillon and David Kennedy, while all the rest came from the industrial world. If we go through the Secretaries of the Treasury we can clearly see that since 1981 the Secretaries of the Treasury have come from the financial sector, specifically from investment banking except three James Baker, Paul "Tip" O'Neal, and John Snow.[3]

In G. William Miller, 1981, we have a transition stage where a lawyer for commercial banks becomes a member of the board of the Boston Fed and then Chairman of the Federal Reserve. This is the financial deregulation stage that began in 1980 and culminated in 1999, and marked the prelude to the crisis of 2007 onwards. Looking at direct action within the executive we can see the strategy of "entrism" being used by the part of the financial sector controlling the policies of the executive from the office of the Secretary of the Treasury.

Self-regulation, it has been seen, did not prevent excessive exposure to risk and it is clear that agents risked depositors' funds in a manner that was neither responsible nor secure. The most salient example was the Baring Bros. scandal in 1994 (Austin, 2007) which brought the bank to collapse in 1995 through a gamble in the stock market that took a turn in the opposite direction than the expected by the operator. A similar example is JP Morgan's loss of 6 billion dollars in London in 2012, caused by a high risk operation with depositors' money during the financial crisis.

"An uncontrolled system is any operating system that is in dynamic equilibrium, in which the components continue to change, but are balanced so that a variable stays within a specified range. (Kuhn, 27) The national financial system of a country could be seen, therefore, as an uncontrolled system in dynamic equilibrium where GDP growth is the variable that stays within the specified range and the prices of financial assets continually change outside the ranges of GDP. However there is no limit as to how much can the prices of financial assets grow in relation to GDP growth. That is to say that there is no real point of dynamic equilibrium nor is a dynamic or static equilibrium being sought, rather it exists because of the variation in prices of the financial assets, without regard to whether there is or not any relation with the established stable variable or a stable growth in relation to a set variable within a specified range. This is the phenomenon Alan Greenspan christened "irrational exuberance", as mentioned above.

The result of stock exchange indicators rising above GDP growth in an exuberant and irrational manner is that banks will lend more money because the value of expressed guarantees in the pledged financial assets rises well above GDP growth. Thus, the national banking *system* will increasingly grant loans retrofeeding growth in the stock exchange index and real estate value. With no relationship between the prices of financial assets in the

[3] http://www.treasury.gov/about/history/Pages/edu_history_secretary_index.aspx

stock market; real estate market indices; and GDP, any fluctuation in interest rates outside the national *system* or any hint that banks are overexposed will have negative impact on the agents, and result in a Minsky style situation of overexposure to risk and capital depletion. The best examples are the 1990 Japanese crisis, the Mexican banking crisis of 1995, the Asian banking crises of 1997 and the Latin-American crises of 1998; and the 2007-2009 financial crisis in the United States. The stock market lost in all these cases substantial capitalisation value, and real estate prices shrunk dragging down a considerable number of large and small banks; impoverishing the population. In the case of Japan, the size of the bank bailout (200% of GDP) has prevented the recovery at a strong growth rate. The same appears to be true for the US and Europe.

For Kuhn there are open and closed *systems*. Open *systems* are in some relation with their environment; they receive inputs and provide products to their environment. That is to say that they influence and receive influence from their environment. All real *systems* are open at some point for some period of time. Closed *systems* are *systems* where the interactions occur solely within the components of the *system*. An analytical *system* can be closed, assuming it does not receive influences from its environment (Kuhn, 28.)

As the financial *system* is abstract and not real, the first thing we need to acknowledge is that it operates within itself. In other words, buyers and sellers of financial assets operate amongst themselves without any interference from their environment and without informing the environment either. This has led to the creation of financial instruments and institutions whose *modus operandi* was unknown to end point owners, shareholders or equity holders, (CDS, CDO, etc) and to the creation of operations with no real prints, as is the case of part of the derivates market. What takes away from a system's characteristics is when the market collapses and losses have to be assumed, it then opens up to absorb resources outside the *system*, and then it closes up again.

2. The banking complex

We want to suggest that from the 1980s onwards the concept of system has been gradually replaced by the concept of complex in Eisenhower's sense of the term. Paraphrasing his farewell speech (1961), replacing the words military and industrial by banking and financial, one could say that:

> *This conjunction of an immense banking establishment and a financial industry is new in the American experience. The total influence -- economic, political, even spiritual -- is felt in every city, every State house, every office of the Federal government. We recognize the imperative need for this development. Yet we must not fail to comprehend its grave implications. Our toil, resources and livelihood are all involved; so is the very structure of our society.*
>
> *In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the financial banking complex. The potential for the disastrous rise of misplaced power exists and will persist.*
>
> *We must never let the weight of this combination endanger our liberties or democratic processes. We should take nothing for granted. Only an alert and knowledgeable citizenry can compel the proper meshing of the huge financial and banking*

machinery of defense with our peaceful methods and goals, so that security and liberty may prosper together.
(http://coursesa.matrix.msu.edu/~hst306/documents/indust.html)

The notion of complex is defined by Eisenhower when he signals that there are economic interests that absorb the resources of the State using their influence both in academic and business research. They form an elite that captures public policy and skews the management of the State in its favour. To paraphrase Eisenhower: the complex joins together an immense financial *establishment* with a new banking industry. The three new components of the complex are the media, academia and risk agencies. As Simon Johnson (2010) has pointed out and Charles H. Ferguson underlined in the *Inside Job* (2010) documentary[4], academia has become a part of the complex and provides it with uncertain theoretical upholding such as in the Black and Scholes work and award and their *Long-Term Capital Management L.P. (LTCM)* fund that lost 100,000 USD that had to be rescued in 2000. That was one of the first financial rescues and it happened to two Nobel Prize winners. The list of financially related work awarded Nobel Prizes is one third of all awards since 1969.

In order to determine whether or not a *banking complex* exists in the United States, one must first examine the size of financial banking activities in the United States and how they have developed since the beginning of the financial deregulation; that is to say since 1971, when the free exchange market was established bolstering commodity and securities markets. There are several ways to do this: by measuring the size of the banking financial GDP; measuring the financial assets in the GDP; and by measuring the size of employment in the banking sector. Then the appearance of new instruments and institutions during the deregulation period could be reviewed. The increase in financial research during the period between 1980 and 2010 could also be reviewed. On the other hand, in order to see the impact on public policy, the presence of players from the sector inside the executive machinery and the impact within the United States Legislative together with the reduction of public regulation and the increase of fiscal spending devoted to this sector could be reviewed.

The weight of financial activity, in the broadest possible economic definition that includes commercial banking, insurance, stocks, funds, real estate and financial leasing, has doubled in the US GDP between 1970 and 2010 from 15% of GDP to 31%. More specifically, the proportion by which the weight of the financial sector increased was the same as the proportion by which the weight of the manufacturing industry and commercial sector declined. This could mean that the weight of the productive sector on the GDP during the stages prior to 1970 would have shrunk compared to the growing weight of the financial banking sector.

According to the *Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States:*

> *The Commission concluded that this was an avoidable crisis. The crisis was a result of human action or inaction, not of Mother Nature or computing models gone crazy. The captains of finance and the public guarantors of our financial system did*

[4] http://www.dailymotion.com/video/x1zx56p_inside-job-full-movie-hd_shortfilms

not heed the warning and did no question, understand or manage the growing risks within the system, which is essential for the welfare of the American population. Theirs was a serious fault, not a mishap. Whilst the business cycle cannot be cancelled, a crisis of this magnitude did not need to happen. Paraphrased from Shakespeare, the fault lies not on the stars, but in us. (Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States. Conclusions, xvii)

Enough is said by recalling that Henry Paulson, former CEO of an investment bank, whilst carrying out his duties as Treasury Secretary, forced investment banks, and all shadow banks that wanted to receive public support, to become *bank holding companies.*[5] The reason for this was that banks are protected by the FDIC; are covered by deposit insurance; have access to the FED discount window; and have access to a wide range of new FED mechanisms to give credit to the banking sector. None of this would be possible while they remained part of the non-bank financial system.

The result was that there was wider access to lower cost credit in the United States, something that did not happen in the rest of the world, where capitals were transferred to in search of profits lost. It is not possible to look at what occurred within the United States financial sector without at least glancing at what were the effects on the rest of the world. The report acknowledges that the financial sector is much more dominant. The figures reveal that it is *the dominant sector* in the United States expressing more than a third of their GDP, which is double than that of the productive sector.

Between the years 2000 and 2010, the weight of the sector increased, which in an economy with very low growth and that had declined in 2009, results in its weight being greater after the crisis caused by the financial sector than before it. Put differently, the financial crisis that chiefly impacted the US economy and spread to the rest of the world did not significantly affect the United States financial sector in spite of being a manmade crisis where those responsible did not own up to their responsibility.

The financial sector assets in the broadest sense increased from $3 billion to $36 billion between 1978 and 2007, or by more than twice the GDP of the United States in 2007[6] . According to *The National Commission on the Causes of the Financial and Economic Crisis,* in 2005, 55% of the financial sector's assets were held by the 10 largest commercial banks in the United States, which more than doubles what it was in 1990. According to the same Commission, this figure rose in 2012 to 73% after the $11 billion loss, as we will see later.

---

[5] "Paulson: Worsening Crisis Forced Change in Strategy", By: CNBC.com | 14 Nov 2008 | 03:32 PM ET. Consultado Accessed en http://www.cnbc.com/id/27721218

"Why is Everyone Becoming a Bank Holding Company? It's All About the Benjamins" *by Kristin Jones, ProPublica, Nov. 12, 2008, 6:05 p.m. Consultado en http://www.propublica.org/article/why-is-everyone-becoming-a-bank-holding-company-1112, 23 September 2012.*

[6] *National Commission on the Causes of the Financial and Economic Crisis*, p. xvii. http://fcic-static.law.stanford.edu/cdn_media/fcic-reports/fcic_final_report_conclusions.pdf

The lack of impact of the crisis on this industry's GDP is related to the manner in which the industry has defended its performance and to the purchase of devalued assets at the same time as public resources and the Fed's credit were being injected into the system; a benefit that no other sector enjoyed at this time or at any other time. This is telling of a split within the financial sector. Some are part of the complex and some are not. The too large to fail banks are part of the complex and the ones that have the right size to fail, are not. This results in the banks that are the right size to fail having responsible bankers and in the too big to fail banks that always will be rescued having high risk taking or overtly greedy bankers.

Looking carefully into the financial sector, which is very significant for the total GDP of the United States, it is surprising that taxes have such low weight in the structure of the Value Added. Adding up all the subsectors of the financial sector already mentioned, taxes make up approximately 5% of the total contribution. With a weight of 31% of the GDP and participation of 5%, the contribution towards the country's tax burden is 1.6% of GDP. The average of the US's tax burden at all levels (federal, municipal and state) is 24% of GDP according to OCDE. In other words, the tax contribution of the financial sector which reflects a third of total US GDP is only of 6.6% of the Treasury's revenue for all concepts at all levels. This is a construction achieved with the aid of steps taken by the Legislative branch and the promotion of financial and tax havens whose aim is tax avoidance.

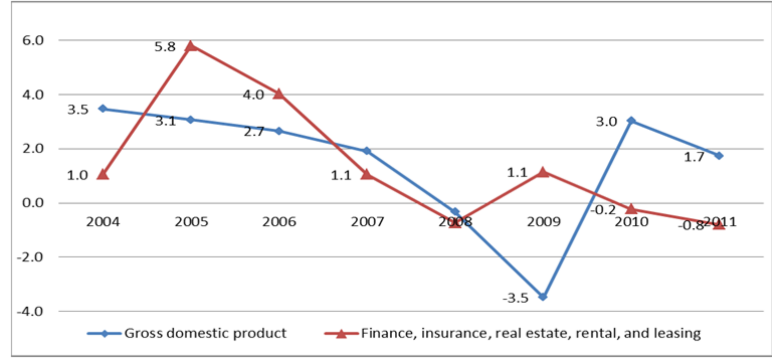
TABLE 1. GDP strucure of the US financial banking complex 2004-2010

GDP	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Total banks, stocks, insurance, funds, real estate, rentals, and financial leasing	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***	***100%***
profits/GDP	***79.77%***	***80.23%***	***80.04%***	***80.08%***	***79.90%***	***80.68%***	***80.27%***
salaries/GDP	***14.99%***	***14.79%***	***14.91%***	***14.85%***	***14.81%***	***13.87%***	***14.18%***
taxes/GDP	***5.24%***	***4.98%***	***5.06%***	***5.07%***	***5.29%***	***5.45%***	***5.56%***

Elaboración propia fuente www.BEA.org

This very low revenue together with the financial support the sector received from the Trasury in 2008-2009 possibly helped it to avoid the 2009 contraction and not lose its drive at the same rate as the rest of the economy during the 2008-09 crisis (see Figure 1). What is certain is that while it did not collapse with the rest of the economy it has followed a declining trend in growth, while the rest of the economy has painfully reversed the drastic fall of 2009.

FIGURE 1. GDP and Finance, Insurance, Real Estate, Rentals and Leasing (Percentage rate)



Source: Real Value Added by Industry, Bureau of Economic Analysis

The further component of the complex is the media that helps to create a common sense and repeats financial information from New York and London. World wide the *Financial Times* and the *Wall St Journal* can be read in most leading newspapers in all continents not because the GDP of the US and Britain is brilliantly growing with exemplary macroeconomic data but because the largest financial markets are there. Notably CNN and BBC repeat this information on cable television and other sources are available in the internet such as Bloomberg. This fourth leg of the complex makes it a common sense that the economy is managed in a particular way that favours the financial sector. They will aggressively come out if the macro economy is not handled in that particular way. The attacks on Venezuela and Argentina are two cases in point between 2010 and 2014.

The least seen but an important side of the complex are credit rating agencies of which only three exist that have US Government approval. All three are American: Fitch's, Standard & Poor and Moody's. Arthur Anderson, the auditing firm and credit risk agency was shut for corruption when the Enron case erupted in 2001. The role of these has been seen to favour certain presidential candidates if they are pro market, warning of the dire effects on not electing them. The cases of Humala in Peru in 2011, of Correa in Ecuador in 2007 are examples of this. They were mistaken in their risk predictions in both countries as GDP grew significantly under their presidencies.

3. The *banking complex* and the privatisation of financial governance

The modus operandi of the *banking complex* lies in the bilateralisation and privatisation of the financial sector, given the international financial institutions' focus on the expansion of Anglo-Saxon criteria and standards in the regulating of the financial markets. (Nölke, 2011; 9) For example, restrict banking regulations or create capital control mechanisms, similar to those included in the WTO Financial Services Agreement while ignoring Article VI.3 of the IMF Foundation Regulations that states

> Section 3. The control of capital transfer. Members can apply the control they deem necessary in order to regulate the movement of interna-

tional capital, but no member can apply these controls in such a manner as to restrict the payment of current transactions or unduly delay the transfer of funds for the payment of commitments, except under the circumstances prescribed by Article VII, Section 3 (b) and by Article XIV, Section 2.

(http://www.imf.org/external/pubs/ft/aa/index.htm#a6s3)

Table shows that with 80% of the value added as operating surplus and 14% in salaries, the financial sector is the branch with the highest concentration of revenue in the United States. The question is whether this was always the case or turned into this value added structure in recent decades. The hypothesis is that it became this searching for opportunities, lifting restrictions and deregulating activities in financial markets and foreign banks from the 80s and 90s onwards.

The first step towards deregulation was taken in 1980, when the United States Congress, during the time when Miller, former Chairman of the Board of Governors of the Federal Reserve, was Secretary of the Treasury. At that time the *Depository Institutions Deregulation and Monetary Control Act* (DIDMCA) was discussed and passed with the goals of removing the regulations restricting the banking industry and of strengthening the Fed in relation to the creation of money by non-member banks (Viecke, 2012; 25). The enforcement of this law allowed the removal of Regulation Q which set interest rate caps. This was followed by the DIA *Garn-St Germain Depository Institutions Act of 1982*, a law which aimed to revitalise the housing industry, strengthening the housing mortgage institutions' financial stability and ensuring the availability of home mortgages (Viecke; 26). Through the DIA, *Banking Holding Companies* were authorised to buy failing institutions in other states, a reversal of the Glass Steagall Act, which only allowed operations within the state in which the bank is registered. It also opened up the possibility for banks to have other, non-commercial banking activities, for example real estate consulting services, credit card services , to act as brokers of municipal and government securities, and grant students loans (Compton in Viecke; 27).

In 1989, during the government of the first Bush, the *Financial Institutions Reform, Recovery, and Enforcement Act of 1989* was passed with the goal of rescuing the savings and loans institutions, historical mortgage entities in the United States, which had collapsed due to high interest rates during the 1980s. The Resolution Trust Corp., a public agency with large funds that allowed the acquisition and rescue of these mortgage banks, was created for this purpose, indicating that they could operate in a risky manner because they would be rescued.

In 1994, the *Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994* was passed, with the aim of amending the Banking Holding Companies Act of 1956, the revised statutes of the United States, and the FDIC law, in order to allow interstate banking and branching. This process of deregulating interest rates, together with the existence of an entity that rescued mortgage banks, and the extended role of the FDIC, started opening the path for a dynamic growth in the sector's profits as well as risks. This deregulatory process occurs at the same time as the control of the Treasury turns in a different direction in 1980 and Treasury Secretaries are appointed from the investment banking sector. To put it in Crockett's terms (2000) in Sauvé & Steinfatt, 1998): "financial services are the central nervous *system* of the body economic" (351) and what they did was to provide the space for

them to gain weight within the economy, creating a larger concentration. According to the FDIC, the number of bank branches grew from 1984 onwards from 40,000 to 70,000 whilst the number of banks declined from 14,000 to 8,000 in 2004. (Larsen in Viecke; 45).

Later on, in 1999, the Gramm Leach Bliley Act was passed to "strengthen competition in the financial services industry allowing a reasonable margin for banks, stock traders, insurance companies and other providers of financial services to join, as well as for other purposes". When the law was passed, it was warned that it would bring with it a crisis of great proportions because, among other things, it allowed investment banks, brokerage houses and insurance companies to merge with commercial banks. This law was put together, proposed debated during the time the Treasury was administered by investment banker, Rubin, and Geithner was Undersecretary of Treasury and was followed through with the support of Summers and the same undersecretary.

The discussion about mergers between banks and insurance companies and brokerage houses was sparked by the 1998 merger between Travellers Group, an insurance company which owned together with Citibank the Shearson Lehman and Salomon Smith Barney brokerage houses; which led to the creation of Citigroup[7]. This was done by requesting a legal exemption, but it forced a change in legislation. At that time, Senator Byron Dorgan warned that this would create too big to fail banks with dire consequences (Dorgan, 1999). After the law was passed, the Secretary of the Treasury, Rubin, went on to be the CEO of Citigroup.[8]

It is evident that the period between 1980 and 1999 produced a concentration of political power in a group of banks that managed to make all the legal modifications necessary for them to make themselves too big to fail ensuring thus that they could act without regard to any risk as they would always be rescued with taxpayers' money. Their objective is the accumulation of revenue in the financial sector. This would be the result of the operations of the banking complex during the consolidation process between 1980 and 1999. Having political control, they do not allow those who wish to regulate or moderate its operation to operate outside the complex.

The change in the banking structure during the 1980s led to a growing concentration of banking activity. For example, between 1960 and 2005, the number of United States banks fell from 13,000 to 6,500. Janick and Simpson found that before 1980, when deregulation began, banking growth was consistent with Gilbrat's Law which states that the growth rate of a firm is independent of its size. They found that after 1980 Gilbrat's law no longer holds and that the largest banks grow the fastest, although this slowed down during the first five years of the first decade of the new century. The study is up to 2005. What the crises confirms is that the concentration was consolidated even further.

Between 2005 and 2012 the additional decline has been due to the collapse of 457 medium size and small banks (FDIC) and the merger of large investment banks with too big

---

[7] http://www.citifinancial.ca/USCFA/history.do

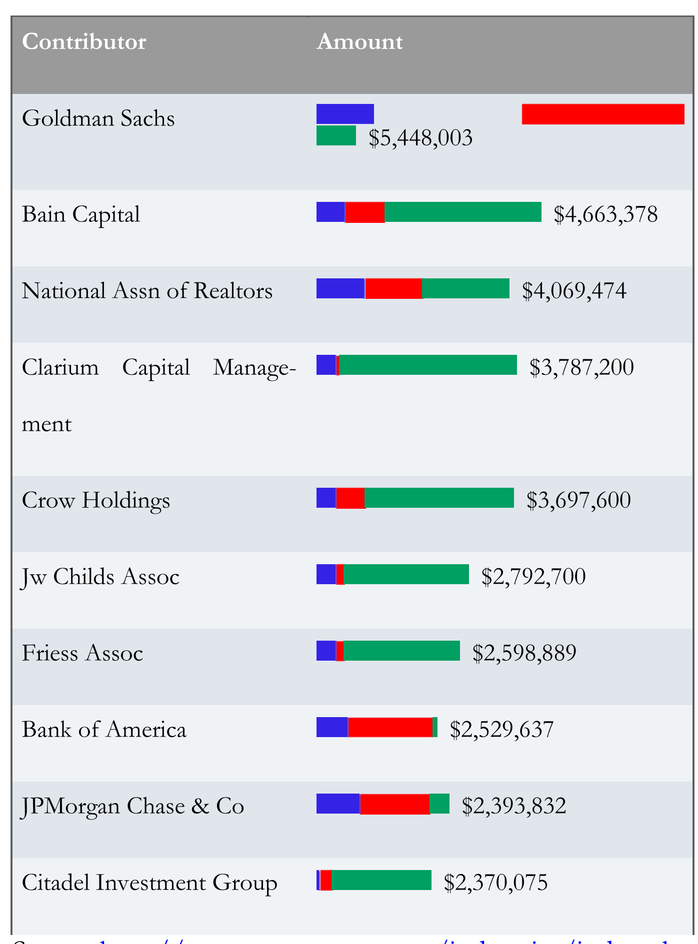
[8] http://www.citigroup.com/citi/press/2009/090109d.htm

to fail commercial banks, creating new Bank Holding Companies that consolidate the process of financial concentration. According to the National Information Centre, from the 50 Bank Holding Companies to 30 June 2012, the largest ten represent 73.8% of the total assets of the 50 largest and are 34 times larger than the ten smallest banks out of the 50. The implication of this is that there are really only ten banks that constitute the financial complex and decide and define its *modus operandi*.

The assurance of political influence in the United State is bought. According to the *Centre for Responsive Politics in* Washington D.C., the top largest contributors to the electoral campaign come from the banking sector and of these the one to contribute the largest amount of money to the 2011 and 2012 electoral campaign is Goldman Sachs followed by Bain Capital, owned by Republican presidential candidate Mitt Romney. The Bank of America is in eighth place and JP Morgan Case in ninth place. (See TABLE 2) blue corresponds to the Republican Party and red to the Democratic Party.

TABLE 2. Contributors from the *banking financial complex*

to the 2011-2012 electoral campaign



Contributor	Amount
Goldman Sachs	$5,448,003
Bain Capital	$4,663,378
National Assn of Realtors	$4,069,474
Clarium Capital Management	$3,787,200
Crow Holdings	$3,697,600
Jw Childs Assoc	$2,792,700
Friess Assoc	$2,598,889
Bank of America	$2,529,637
JPMorgan Chase & Co	$2,393,832
Citadel Investment Group	$2,370,075

Source http://www.opensecrets.org/industries/index.php

The *banking complex* also stands out as the largest participant within the array of activities that contribute towards the campaign while the defence sector has lost positions, thus this complex becomes the determinant of United States national policy as well as the largest employer after the Government. (See TABLE 3)

TABLE 3. Contributors by branch to the

11-2012 presidential campaign

RANGE	Sector	AMOUNT	Weight
1	Finance/insurance/real estate	$372,005,817	21.1%
2	Others	$262,610,710	14.9%
3	Miscellaneous businesses	$239,380,099	13.6%
4	Lawyers and lobbyists	$156,747,409	8.9%
5	Ideology/single issue	$149,878,483	8.5%
6	Health	$147,136,594	8.3%
7	Communications/Electronics	$108,870,209	6.2%
8	Energy/Natural Resources	$79,558,248	4.5%
9	Construction	$69,899,432	4.0%
10	Labor	$69,573,860	3.9%
11	Agribusiness	$50,231,068	2.8%
12	Transport	$42,840,528	2.4%
13	Defense	$17,579,225	1.0%
	Total	**$1,766,311,682**	**100%**

http://www.opensecrets.org/industries/index.php

TABLE 4. ***Financial banking complex contributors to the 2011-2012 presidential campaign.***

Industry	Total spending
Insurance	$159,508,505
Securities and Investments	$101,933,226
Real Estate	$67,128,304
Commercial Banking	$61,376,654
Finance and Credit Companies	$33,448,119
Miscellaneous Finances	$30,898,863
Accountants	$15,080,000
Savings Banks	$8,984,004
Mutual Lending Institutions	$840,000

http://www.opensecrets.org/industries/lobbying.php?cycle=2012&ind=F

Table 4 shows who within the complex have the most interest in keeping their influence with the next government, and we can appreciate that these are the insurance companies followed by Securities and investment funds. Banks as such take a fourth place. This classification illustrates how the members of the complex try to exercise their power during the electoral campaign.

During the 80s and 90s the size of banks was deregulated and in 1978 the operating scope of banks was deregulated. The remaining restrictions were eliminated by the Riegle Neal Interstate Banking and Branching Efficiency Act of 1994. (Janicki & Simson Prescott, 2006; 296)

TABLE 5. The top 10 Bank *Holding Companies* "too big to fail" in the United States. (to 30 June, 2012)

	Institution Name (RSSD ID)	Location	Total Assets
1	JPMORGAN CHASE & CO. (1039502)	New York, NY	$2,290,146,000
2	Bank Of America Corporation (1073757)	Charlotte, NC	$2,162,083,396
3	Citigroup Inc. (1951350)	New York, NY	$1,916,451,000
4	Wells Fargo & Company (1120754)	San Francisco, CA	$1,336,204,000
5	Goldman Sachs Group, Inc., The (2380443)	New York, NY	$948,981,000
6	Metlife, Inc. (2945824)	New York, NY	$825,188,490
7	Morgan Stanley (2162966)	New York, NY	$748,517,000
8	U.S. Bancorp (1119794)	Minneapolis, MN	$353,136,000
9	Bank Of New York Mellon Corporation, The (3587146)	New York, NY	$330,490,000
10	HSBC North America Holdings Inc. (3232316)	New York, NY	$317,482,38

http://www.ffiec.gov/nicpubweb/nicweb/Top50Form.aspx

Thus, the recommendations of the Stiglitz Report (2010) to reform the international banking and financial *system* presented to before the United Nations in March 2009, for example, were set aside in order to favour the United States bilateral measures through the Dodd-Frank Act of 2010. This act is subject to the influence of the *banking complex* through lobbying in Capitol Hill and the role of the Secretary of the Treasury.

The financial complex gained political access to the Executive and Legislative branches and the FED by becoming the main source of information and advice about monetary policy. (Posen, 1995; 257). According to the Centre on Public Integrity[9], there are five lobbyists for each representative in Congress. The complex spent 1.3 million dollars a day in 2011 influencing members of congress. This is more than double the US$ 6000,000 spent in 2000, a decade earlier. For example, Washington lobbies are working very hard to stop at

[9] http://www.publicintegrity.org/2010/05/21/2670/five-lobbyists-each-member-congress-financial-reforms. Consulted last 12 September 2012

all costs the restrictions to the operations of the complex proposed by the Volcker[10] regulations that separate activities as before 1999.[11]

The public policy formulation process in the United States needs to be explained. The combined action of the banking sector *over* the Government through lobbying – results in the representation within the government of the interests of the banking sector – through the appointment of the Secretary of the Treasury-. This is the *banking complex,* using the fortunate term used by Eisenhower, to refer to the industrial military complex. As the complex owns part of the central banking *system* (FED) and it also proposes the secretaries of the Treasury, it has the ability to privatise the regulating process. This was witnessed during the deregulating process started in 1980.

According to Posen (1995)

> *When measuring a political system's openness to interest-group influence, it must be known who decides on policy goals within that system, and who implements them. The answers can be termed a political system's discipline of legislating and its centralization of policy execution.*

In this manner, the Congress passes in a disciplined manner laws launched from the White House and the Treasury. The Secretary of the Treasury having a pivotal role as a leader in the *banking complex* is able to *control* the finance and national banking agenda which in turn spreads internationally through the IMF. And from 2008 also through the G20. These dynamics together with British and European pressure facilitate the privatisation of the United States and global financial governance.

It can also be claimed that the weight of financial activity is large enough as to have an impact on the G20's global agenda. There is a growing belief that multilateralism is dysfunctional and must be replaced. Using the words of Mr. Carrier, the President of the International Chamber of Commerce in Paris, during a private meeting in Los Cabos "multilateralism is a diminishing force."[12]

Two guiding principles for the reform of financial markets were established during the 2008 G20 summit in Washington: One was to promote solid (national) regulations and the other was to backup international cooperation so that (national) laws could be more consistent across all the markets. Within this vision national economy *systems* were treated as if they were closed and the discussion was about how to embed them in transnational regulations made up by coordinated national regulations.

---

[10] http://definitions.uslegal.com/v/volcker-rule/

[11] http://www.bloomberg.com/news/2012-02-23/banks-lobbied-to-widen-volcker-rule-before-inciting-foreigners-against-law.html

[12] See the event transcript for "Outlook for G20 in Los Cabos" sponsored by the Center for Strategic and International Studies (CSIS), the US Council for International Business (USCIB) and the ICC G20 Advisory Group, on June 5, 2012: http://csis.org/event/outlook-g-20-los-cabos-summit . Consulted 8 September 2012.

Four years later, this vision has been transformed into the exchange of policies from a trans-border perspective and thus there is a need for Basel Committee regulations. However the *banking complex* gathered in the B20 has shown little interest in Basel III, rather it has shown a growing interest in becoming the G20's Secretariat.

To summarise, it appears that there is a banking and financial deregulation process occurring which has led to a very high concentration of financial activity under the protection of the United States banking umbrella. This is impacts through the influence of the IMF and more recently the G20 on the manner the sector operates all over the world.

The financial system, known for being a closed and relatively regulated system since the 1930s, became a complex which incorporates financial, stock market, insurance and banking activities; that requires political power to secure legislation in its favour; that has the academic sector thinking their arguments; and that invests in the American Congress and in the electoral campaigns in order to secure the concentration of investment in its *financial complex*.

After the crisis, everything seems to indicate that the complex continues operating and that its incorporation of the academic with the political and the banking guild has gained more weight so that it seeks to privatise governance completely. The consequence is increasing world income concentration and greater inequality.

Austin, P.E. (2007) *Baring Brothers and the Birth of Modern Finance,* Pickering & Chatto, London

B20 Task Force Recommendations: Concrete Actions for Los Cabos (June 2012) seen in http://b20.org/documentos/B20-Task-Force-Recommendations.pdf. Last reviewed September 9, 2012.

Bordo, M. y Schwartz, A. (2001), " From the Exchange Stabilization Fund to the International Monetary Fund", NBER Working Paper 8100, January

Crockett, A. 2000. "Insurance and Financial Stability: What Is the Nexus?" Keynote address to the Seventh Annual Conference of the International Association of Insurance Supervisors. October 10, Cape Town, South Africa.

Dorgan, B. (1999), "Financial Services", speech in Capitol Hill, November, 1999, viewed in CSPAN2 at http://billmoyers.com/content/a-senators-prophetic-words-then-and-now/

Eisenhower, D. (1961), "Military-Industrial Complex Farewell Speech", Public Papers of the Presidents, Dwight D. Eisenhower, 1960, p. 1035- 1040, http://coursesa.matrix.msu.edu/~hst306/documents/indust.html, Consultado 23 de septiembre de 2012

Elwell, C.K. (2011), "Brief History of the Gold Standard in the United States", Congressional Research Service, 7-5700, R41887 en http://www.fas.org/sgp/crs/misc/R41887.pdf Consultado 24 de septiembre de 2012.

FMI, (1977) *The Monetary Approach to the Balance of Payments: A Collection of Research Papers by Members of the Staff of the International Monetary Fund,* Washington D.C.

Frenkel. R. yM, Rappetti (2011) "Fragilidad externa o desindustrialización: ¿Cuál es la principal amenaza para América Latina en la próxima década?", Cuadernos de la CEPAL, serie Macroeconomía para el desarrollo, No. 116, Santiago

Garber, P. (1991) "The Collapse of the Bretton Woods Fixed Exchange Rate System", en Bordo, M. y Eichengreen, B., *A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform,* University of Chicago Press

Greenpan, A. (1996), "The Challenge of Central Banking in a Democratic Society", Remarks by Chairman Alan Greenspan At the Annual Dinner and Francis Boyer Lecture of The American Enterprise Institute for Public Policy Research, Washington, D.C. December 5

Hayter, T. (1971) *Aid as Imperialism,* Penguin Books, London

Harvey, D. (2004) "El Nuevo imperialismo. Acumulación por Desposesión" en *Socialist Register*, CLACSO, Buenos Aires, pp. 99- 129.

Johnson, H. G. (1977) "The Monetary Approach to Balance of Payments Theory and Policy: Explanation and Policy Implications", *Economica,* New Series, Vol. 44, No. 175 (Aug.), pp. 217-229

Johnson, S. and J. Kwak (2010), *13 Bankers: The Wall Street Takeover and the Next Financial Meltdown,* Random House.

Nölke, A. (2011), "Transnational Economic Order and National Economic Institutions. Comparative Capitalism meets International Political Economy". MPlfG Wordking Paper 11/3, Max Planck Institut Für Gesellschaftforschung, April.

Myrdal, G. (1957) *Economic theory and the underdeveloped regions.* London, Duckworth

Polak, J. (2001) "The Two Monetary Approaches to the Balance of Payments: Keynesian and Johnsonian."IMF working paper wp/01/100, Washington D.C.

_____ (1991) "The Changing Nature of IMF Conditionality", Working Paper 41, Research programme on: Financial Policies for the Global Dissemination of Economic Growth, OECD, Paris.

Posen, A. S. (1995), "Declarations Are Not Enough: Financial Sector Sources of Central Bank Independence" in Bernanke, B and Rotemberg, J. (1995), *NBER Macroeconomics Annual 1995*, Volume 10 (1996), MIT Press

Rostow, W.W. (1960) *The Stages of Economic Growth: A Non-Communist Manifesto,* Cambridge University Press, Cambridge

Sauvé, P y Steinfatt, K.(2001). "Financial Services and the WTO: What Next?", Brookings Institution, Washington D.C..

Stiglitz, J. (2010), *The Stiglitz Report: Reforming the International Monetary and Financial Systems in the Wake of the Global Crisis*, New Press, N.Y.

Ugarteche, O. (2014) *La Arquitectura Financiera Internacional: una Genealogia 1850-2008*, IIEC UNAM, Mexico DF

Viecke, M. (2011) "La regulaciòn de las tasa de interés en Estados Unidos", ms. Tesis de Maestrìa en Economìa, UNAM-

Zweig, P. (1995) *Wriston: Walter Wriston, Citibank, and the Rise and Fall of American Financial Supremacy,* New York : Crown Publishers.