

# Banking, finance and the emergence of financial globalisation

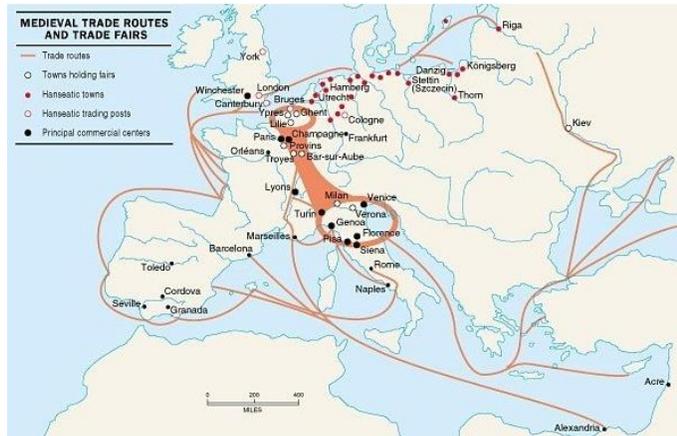
# Course Outline

- 1/ A very brief look at the origins of finance and banking
- 2/ The functions and fundamental fragility of banking
- 3/ Global financialisation as a historical process

# From Ancient Temples, to the Knights Templar, Letters of Credit (bearer instruments) , and Italian Bankers



Dome of the Rock



# The Central Banks

Sveriges Riksbank  
Sveriges riksbank



Head office building (since 1976)

**Headquarters** Brunkebergstorg 11  
103 37 Stockholm  
Sweden

**Established** 17 September 1668;



Seal of the Bank of England



The Bank of England building

**Headquarters** Threadneedle Street,  
London, England

Founded in 1694

Banque de France



Siège social de la banque

18 janvier 1800



Founded 1913

Deutsche Bundesbank



**Headquarters** Frankfurt, Hesse, Germany  
**Established** 1957

# Commodity Futures and Insurance

1697



Dōjima Rice Exchange ukiyo-e by Yoshimitsu Sasaki

**Chicago Board of Trade (CBOT), 1848**  
now part of the Chicago Mercantile Exchange Group or CME Group



The 1986 Lloyd's building in Lime Street, London

Founded in the coffee-house of Edward Lloyd in 1689.

It is a market not a company

**Table 1: The potential availability of equivalence for UK financial services products**

Product-type	EU law	Importance of EU Passport to UK financial services	Is Equivalence Available	Does equivalence permit passporting?
Banking	Market in Financial Instruments Directive II/ Regulation	High: portfolio management, investment advice	Yes	Yes
Banking	Capital Requirements Directive (CRD IV)	High: wholesale and retail banking services such as deposit taking, commercial lending and payment services	No	No
Asset management	Alternative Investment Fund Managers Directive (professional clients)	Medium: marketing and management of investment funds across borders to professional clients	No, but there is trade precedent for indirect portfolio management	No, but absent a deal, individual Member States may permit
Asset management	Undertakings for Collective Investment in Transferable Securities Directive	Medium: as above but to retail clients	No	No
Insurance	Solvency II Directive	Low: cross-border reinsurance	Yes (reinsurance)	Yes
Insurance	Solvency II Directive	Low: cross border direct insurance; most insurers which operate cross-border have established independent subsidiaries in other Member States	No (direct insurance)	No

# What are the fundamental functions of banking?

## (ChatGPT prompt, 25 September 2025)

The **fundamental functions of banking** can be grouped into a few core categories. At its heart, banking is about acting as a trusted intermediary between savers and borrowers, while also providing essential payment and financial services. The main functions are:

- **Accepting Deposits**
  - Banks provide a safe place for individuals, businesses, and governments to deposit money.
  - Deposits can be demand deposits (checking/current accounts, available on demand) or time deposits (savings accounts, term deposits, certificates of deposit).
- **Providing Credit / Lending**
  - Banks lend money to individuals (loans, mortgages, credit cards), businesses (working capital loans, investment loans), and governments.
  - This transforms short-term deposits into longer-term credit, a process known as *maturity transformation*.
- **Facilitating Payments**
  - Banks provide the infrastructure for payments, such as checks, debit/credit cards, online transfers, and digital wallets.
  - They ensure secure and efficient settlement of transactions in the economy.
- **Money Creation**
  - Through the lending process, banks create new money in the form of deposits.
  - This function is central to the modern monetary system and is regulated by central banks.
- **Safekeeping and Wealth Services**
  - Banks safeguard valuables (lockers, custodial services) and financial assets.
  - They offer investment products, wealth management, and advisory services.
- **Risk Management**
  - By pooling resources and offering products like insurance, hedging instruments, and diversification opportunities, banks help manage financial risks.
- **Supporting Economic Development**
  - By mobilizing savings and channeling them into productive investments, banks support business growth, trade, and overall economic development.

## A key source of fragility : dealing with “maturity mismatch”

Banks borrow “short” (sight deposits) and lend “long” (to businesses and households).

### Typical Term / Maturity Ranges

Here are common ranges for U.S. small-business loans, depending on loan type:

Loan Type	Typical Term / Maturity
Short-term or working capital loans	3 to 24 months <small>Forbes +2</small>
Equipment / vehicle financing	Usually 2 to 7 years, depending on useful life of the asset <small>Forbes +2</small>
Lines of credit	Often 6 months to 5 years <small>Forbes +1</small>
Conventional bank term loans (non-real estate)	Often 3 to 10 years <small>Investopedia +1</small>
Real estate / fixed asset / long-term growth loans	Could be 10-25 years or more if property real estate is involved <small>SoFi +2</small>

Source: ChatGPT reply to the prompt, “What is the average length of a loan made by a commercial bank to a small business?”, 25 September 2025.

# Why was there no fundamental structural change to finance after the global financial crisis (GFC) 2007-2008?

- Complexity
- Capture
- Too many jurisdictions
- Too many products, markets and actors
- No alternative theory
- “Finance” is multidimensional, transnational

**The result of a historical process**

# Shipping, Telecoms & Finance Leading Globalisation (the long history of containerisation)



*IDEAL-X* – 1955  
operating on  
the US East Coast



A 50-year  
history... and  
counting

# Beginnings in the 1960s

- Bretton Woods: a stable, structured system
- Currencies pegged to the dollar and gold
- Regulations and credit controls
- Separate business entities
- 3 – 6 – 3 banking



**No financial crises**  
**Currency crises (Britain, France and the “franc lourd”)**

# Changes

- Eurodollar markets (Moscow Narodny Bank in London, 1957)
- Eurobonds (Warburgs, in London, 1963) – the iconic “Belgian dentist” investing offshore to avoid tax.
- Securitisation of mortgages: Ginnie Mae (Housing Department – HUD) – mortgage backed securities 1970. Support homeownership for Afro-Americans.

# End of Bretton Woods

- Fiat money
- Floating currencies
  - Friedman paper, 1971
  - Leo Melamed > International Monetary Market, May 1972 – Chicago Mercantile Exchange



# London – hub for international finance

- US banks avoiding Regulation Q
- Re-cycling of petro-dollars after 73/74 oil shock
- Walter Wriston (Citicorp):  
“countries don’t go bust”



# Inflation and the “Volcker Shock”

- Fed funds rate peaked at 20% spring 1980
- Dollar surge
- August 1982 – Mexico Default

Third World Debt Crisis

“Washington Consensus”

- Savings & Loan crisis

# Shareholder value

- Milton Friedman: 1971 “A Friedman doctrine”  
*companies social responsibility is to make profits*
- Jack Welch – August 12, 1981, at The Pierre hotel:  
“Growing fast in a slow-growth economy”  
Stock-options for top management

# Deepening of financial liberalisation in mid-1980s

- 1986 – London > “Big Bang”
- 1987 August: Alan Greenspan Chairman of Fed
  - Self-regulation
- October crash 1987
  - Liquidity support – interest rate cuts
  - “Clean not lean” and the “Greenspan put”

# Liberalisation/deregulation of markets

- End of capital controls in Europe (1990)
- Erosion of Glass-Steagall Act and repeal 1999
- No regulation of derivative markets

# Financial innovation and technology

## Derivatives trading exploded in 1990s

- CDOs – collateralized debt obligations (1986): bonds restructured into “tranches” carrying more or less risk (with less or more returns)
  - Synthetic CDOs
- CDSs – credit default swaps (1994): insurance against risk

Risk became a tradeable commodity (John Kay)

# The end to “home bias” in investment

- ICT – Internet mid-1990s onwards
- Convergence of accounting standards



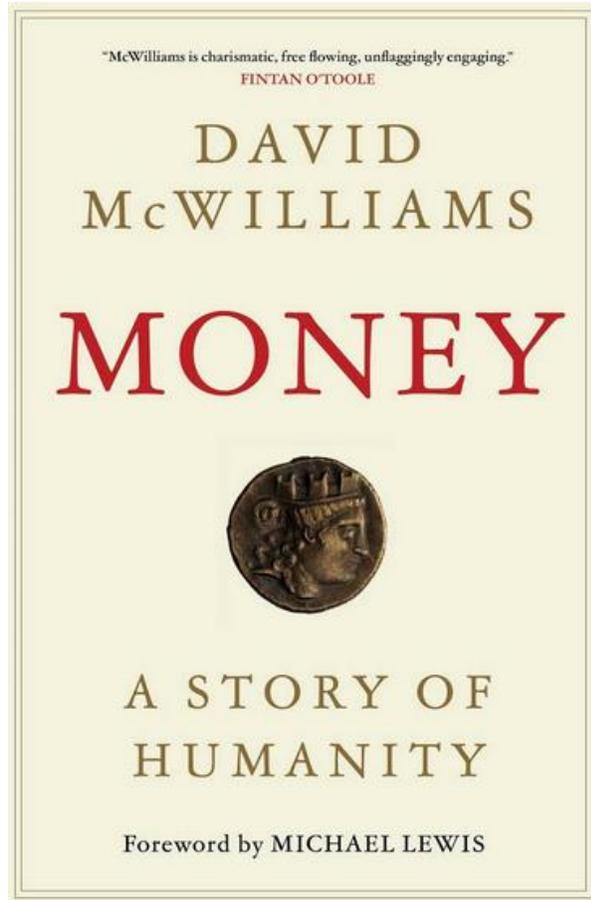
International financial reporting standards (IFRS) adopted in Europe in 2005

**Ease of cross-border transactions and transparency**

# Repeated crises

- The Third World Debt Crisis in the 1980s
- The Savings & Loans crisis in the US in the late 1980s
- Japan 1989-1992 > two decades of stagnation
- Mexican crisis 1994
- Asian crisis 1997
- Russian and LTCM crisis August/Sept 1998
- Dotcom bubble – late 1990s (TMT stocks)
- General “irrational exuberance” in stocks
- Global financial crisis (2007-2009)
- 2023 the collapse of Silicon Valley Bank, etc. the end of Crédit Suisse

# Central Banks are always trying to “catch up” with private money creation



Today’s money is “unbound” – footloose (the Eurodollar market on a massive scale)

Private agents (including banks) create money... “pulling” along central banks

Simon & Schuster, 2024

# Takeouts



1/ Banking and money-lending go back to the origins of money

2/ Financial services are exceedingly diversified, even if some functions are perennial.

3/ In today's world of "fiat" money, it is mainly the private sector which creates money. The central banks try to control the process.