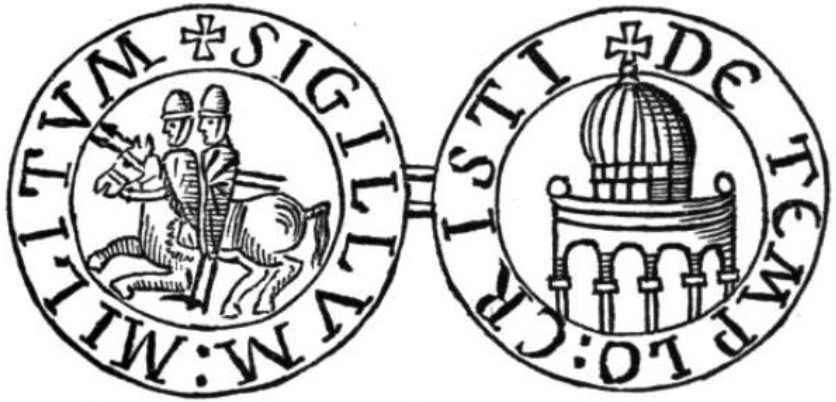
Banking, finance and the emergence of financial globalisation

Course Outline

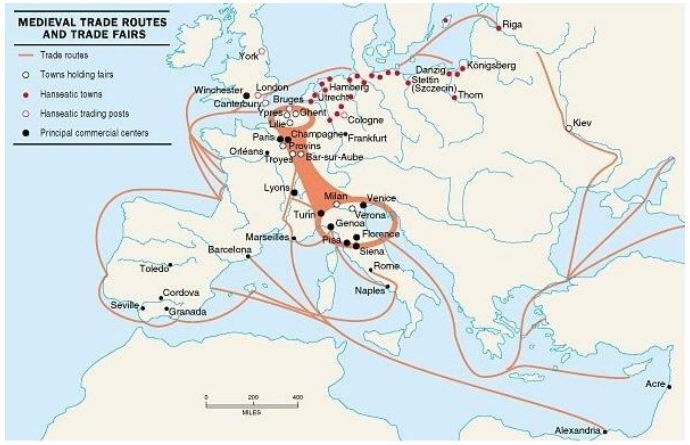
- 1/ A very brief look at the origins of finance and banking
- 2/ The functions and fundamental fragility of banking
- 3/ Global financialisation as a historical process

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





[Dome of the Rock]



MONTE PASCHI BANQUE

Maison mère fondée à Sienne en 1472





Source: Daniel Dematos, "Medieval Trade Settlement and Credit", The Tontine Coffee-House, April 15, 2024.

The Central Banks

Sveriges Riksbank
Sveriges riksbank



Head office building (since 1976)

Headquarters	Brunkebergstorg 11 103 37 Stockholm Sweden
Established	17 September 1668;

Founded in 1694

Seal of the Bank of England



The Bank of England building

Headquarters	Threadneedle Street, London, England

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

Andy Tarrant, Peter Holmes and R. Daniel Kelemen, "Equivalence, mutual recognition in financial services and the UK negotiating position", UKTPO/UK Trade Policy Observatory, Briefing Paper 27 – January 2019. https://blogs.sussex.ac.uk/uktpo/publications/equivalence-in-financial-services/

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 accoYunts, 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** Forbes +2
Equipment / vehicle financing	Usually **2 to 7 years**, depending on useful life of the asset Forbes +2
Lines of credit	Often **6 months to 5 years** Forbes +1
Conventional bank term loans (non-real estate)	Often **3 to 10 years** Investopedia +1
Real estate / fixed asset / long-term growth loans	Could be **10-25 years** or more if property real estate is involved SoFi +2

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)



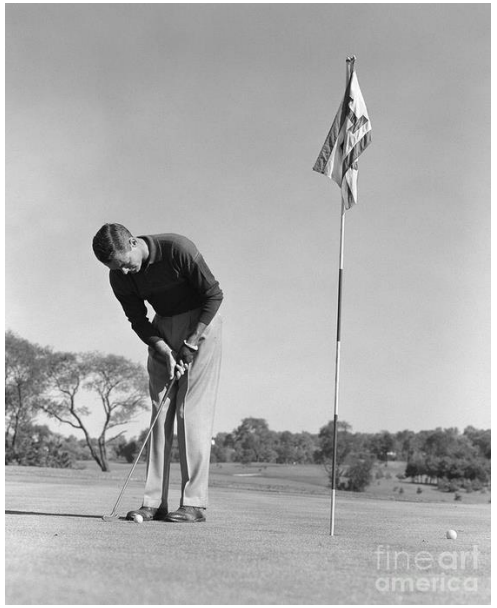
IDEAL-X – 1955
operating on
the US East Coast



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

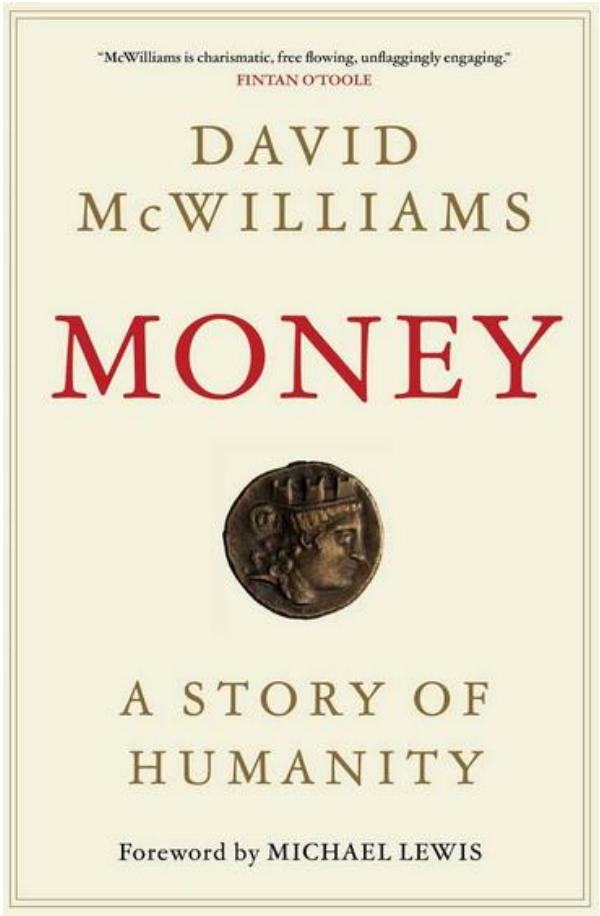
International financial reporting standards (IFRS) adopted in Europe in 2005

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



Simon & Schuster, 2024

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

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

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.