The causes and consequences of Banking regulation: the case of Sweden

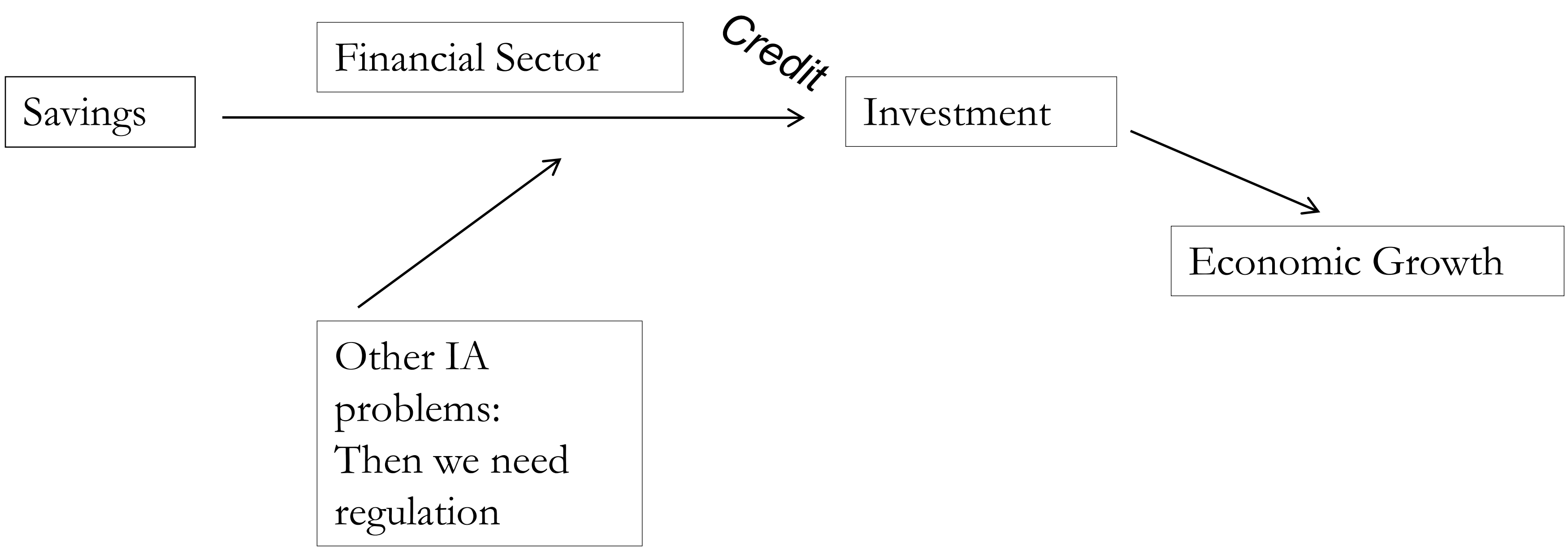
(A mexican view)

Comments prepared for the CEPR PPP 4 Conference

Geneva, 3-4 February

Success story?

- Developed a strong financial sector
- There was a « financial revolution » (Anders, 2010)
- Serious people.



When does regulation change?

- Scope for improvement in the financial sector
- Problem identified (typically after a financial crisis)

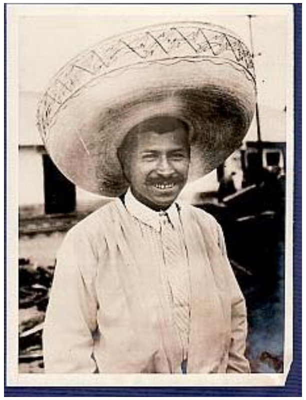
Financial Crisis → Problem Identified → New regulation → Financial sector operates under new rules until…the next crisis…

The main message:

Do not look at Sweden!!

2 parts:

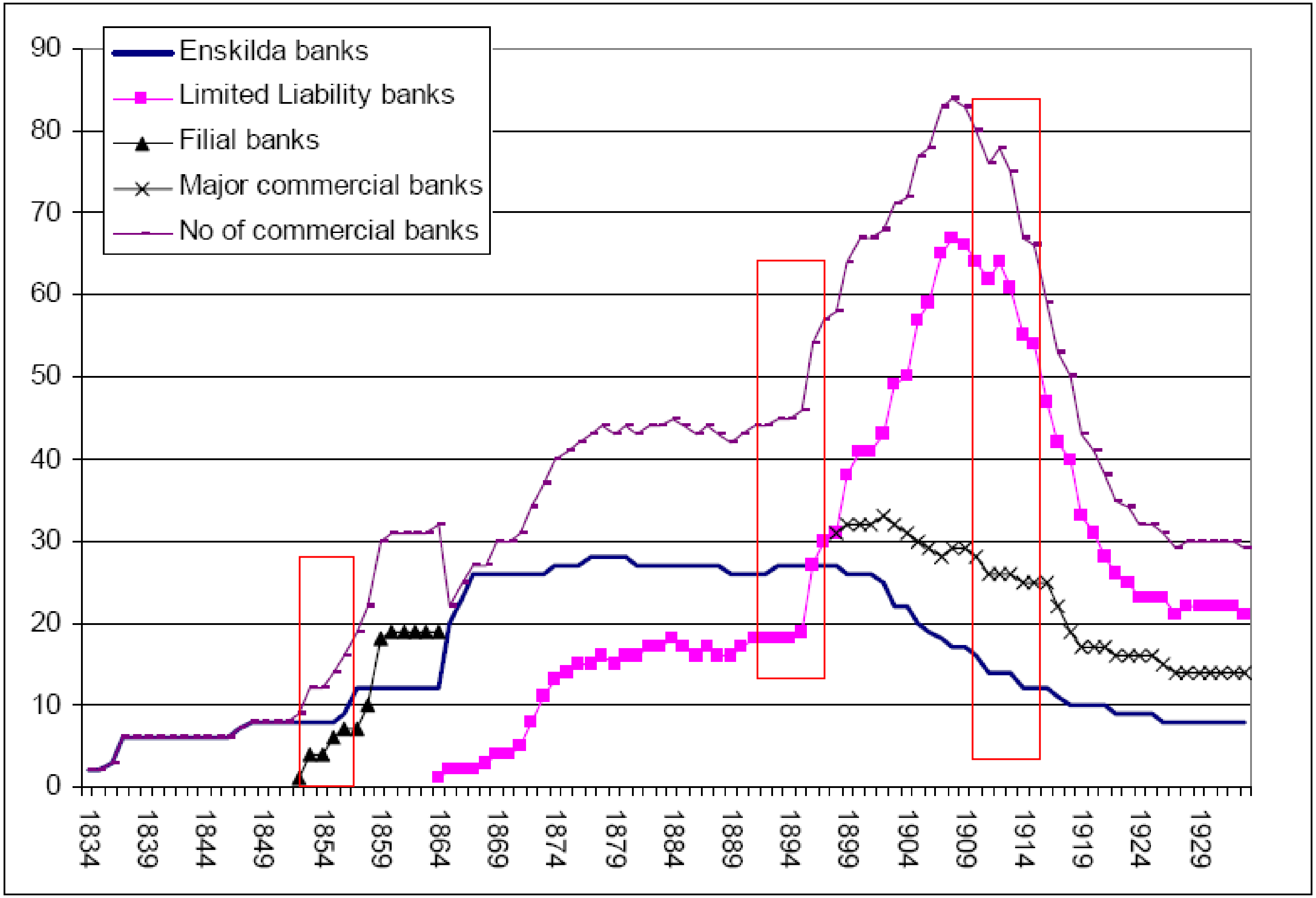
- What did I like?



- What did I like less?

1)

- The narrative of the evolution of banking and entry barriers in19th century Sweden (until 1930)
- The description fits well with the data
- The political economy side is nicely introduced.
- The continous link between bank note issuing function and the central bank monetary policy is veeeeery well explained



Enskilda banks
Limited Liability banks
Filial banks
Major commercial banks
No of commercial banks
0
10
20
30
40
50
60
70
80
90
1834
1839
1844
1849
1854
1859
1864
1869
1874
1879
1884
1889
1894
1899
1904
1909
1914
1919
1924
1929

Swedish regulation:

Policy interventions	1824-1863	1864-1897	1897-1910	1911-1933
1) Entry	X*	X (easier)		
2) Capital requirements	X	X (noteholders)	X	X
3) Limits on economies of scale	X			X
4) Limits on economies of scope	X	X	X (note issuing right but also share trading)	X
5) Price limitations	X	X		
6) Liabilities insurances	X			
7) Disclosure rules				
8) Bank examinations	X (after the Law of 1846)		X	
9) Bank supervision				

Why do we have changes in regulation?

- Mainly, changes in power within the government.
- Financial crises? We do not know the causes (though we may go back to Ögren, 2003) so we assume it was all about individual interests (Crown, Nobility, Peasantry) and crises were « utilized » to impose one of these interests.
- Makes sense, as most crises are imported!!

Final discussion

- Effects of the regulation of note issuance (and its backing) on monetary policy, mainly base money expansion.
- On this, see Ögren (2006, 2008, 2009)
- The rest remains on the margin:
  - Demand for credit? Credit booms? Interest rates?
  - Which sectors benefiting from credit? Local authorities? Housing? Evidence of bad behaviour of banks?
  - Did regulators learn from the crises? Can we really exclude this? What is the contemporary perspective?