

THE INVISIBLE HANDS OF U.S. COMMERCIAL BANKING REFORM

# **The Invisible Hands of U.S. Commercial Banking Reform**

**Private Action and Public Guarantees**

by

**Margaret M. Polski**

*Institute for Development Strategies,  
Indiana University, Bloomington, U.S.A.*



SPRINGER SCIENCE+BUSINESS MEDIA, B.V.

A C.I.P. Catalogue record for this book is available from the Library of Congress.

ISBN 978-1-4613-5078-1      ISBN 978-1-4615-0441-2 (eBook)  
DOI 10.1007/978-1-4615-0441-2

---

*Printed on acid-free paper*

All Rights Reserved

© 2003 Springer Science+Business Media Dordrecht

Originally published by Kluwer Academic Publishers in 2003

Softcover reprint of the hardcover 1st edition 2003

No part of this work may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, microfilming, recording or otherwise, without written permission from the Publisher, with the exception of any material supplied specifically for the purpose of being entered and executed on a computer system, for exclusive use by the purchaser of the work.

# Table of Contents

Dedication	vii
Preface	ix
Chapter One: Introduction	1–11
Chapter Two: Theoretical Foundations	13–25
Chapter Three: A Theory of Change and a Framework for Analysis	27–40
Chapter Four: Economic Change 1960–2000	41–58
Chapter Five: Institutional Change 1960–2000	59–84
Chapter Six: Explaining Commercial Banking Reform	85–102
Epilogue: The Future of U.S. Commercial Banking	103–106
References	107–114
Appendix 1: Short-Term Interest Rates	115
Appendix 2: Income of Insured Commercial Banks and Trust Companies	117–118
Appendix 3: Financial Performance of Insured Commercial Banks and Trust Companies	119–120
Appendix 4: Federal Banking Legislation 1863–2000	121

# Dedication

In memory of my parents, Philip and Catherine Polski, who taught me to keep my eye on the ball, and for Lin and Vincent Ostrom, who gave me a court in which to play.

# Preface

This book is a product of my commitment to developing both theory and practice in political economy. I first became interested in economic and institutional change in the commercial banking industry when I took a seminar on financial institutions led by Robert Glauber in the Kennedy School of Government at Harvard University in the spring of 1995. In my experience, Bob is one of a handful of teachers who has the verve to challenge and inspire both esoteric and practical inquiry: the seminar grappled with practical business and policy problems in a way that posed a significant challenge to existing theories. In addition to demonstrating the need to better integrate theory and practice, it provided a perspective and an approach that I continue to find useful in research, consulting, and teaching.

Conducting the research for this study has taught me many things about banking, regulation, and policy making, and I am grateful to a very large number of people for their assistance. Bob Glauber continues to be generous in discussing the challenges of change in the financial services industry. Colleagues in the Workshop in Political Theory and Policy Analysis and the Institute for Development Strategies at Indiana University as well as a workshop on the future of banking in the advanced economies held in March, 2002 at the European University Institute have also been enormously helpful: David Audretsch, Richard Deeg, Marcello di Cecco, Jeff Hart, Michele Fratianni, Lin and Vincent Ostrom, Daniel Verdier, and Elmus Wicker have been particularly generous. I owe a particular debt to Thráinn Eggertsson, who provided encouragement at one of those critical points that are the bane of an author's existence. Last but not least, I am deeply indebted to clients and other executives and professionals in the financial services industry, policy makers, and friends and colleagues too numerous to mention who have discussed issues and events with me, shared their experience and perspective, read chapters, tolerated my single-mindedness, and enthusiastically encouraged me to press on. Naturally, none of these generous people bear any responsibility for the product of this study – all errors and omissions are mine alone.

Margaret Polski  
November 2002