BANKING STRATEGY AND FINANCIAL EXCLUSION: TRACING THE PATHWAYS OF GLOBALIZATION

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1. INTRODUCTION

A billboard prominently displayed near Sao Paulo's Guarulhos airport advertises the HSBC Premier account, available on the same terms (the ad proclaims) as in 50 other countries of the world. This is just one indication that the age of financial globalization is upon us.[2] But what is the underlying dynamic of this age? Anyone looking into this question immediately confronts a series of puzzles.

It does seem sometimes that the strategic goal of the world's large financial conglomerates is to establish customer relations with every possible household and firm, as they expand into nation after nation. The ubiquity of global financial flows is illustrated not only by the movements of huge speculative sums into and out of developing-nations' currencies and securities, but also by the rapidly expanding sums of money wired across

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[2] Or, it might be more accurately said, this age is on us again. International debt flows and debt crises have a long history, but an unstable one (EICHENGREEN AND LINDERT, 1989). Bordo, Eichengreen, and Kim (1998) argue that financial integration has followed a U-shaped pattern: it was at very high levels until the early twentieth century, collapsed between the wars, and since then gradually returned to pre-1914 levels. So our concern here is with the determinants and character of the latest epoch of financial integration and globalization.

Economia, Curitiba, v. 31, n. 1(29), p.107-143, jan./jun. 2005. Editora UFPR

borders by migrant workers and recent immigrants in the U.S., Europe, and Japan. Every household, it seems, has access to Visa, or Visanet; every household, it seems, borrows. And increasingly this borrowing is done with financial firms that are intertwined in a web of global cross-ownership.

Yet the percentage of households with bank accounts across the world is still well below 40%; even in the wealthy U.S., unbanked households constitute 10% or more of the population. And a new term has been coined by activists and scholars: financial exclusion. This presents us with an apparent paradox – how can exclusion arise systematically if the tentacles of global finance are reaching ever more fervently into all the corners of the globe they have not yet permeated? This paper explores this paradox – the strange coincidence of the liberation of banking strategy and the rise of financial exclusion in this globalizing age.

This paper's exploration of the pathways of globalization makes the following argument: the current scenario of liberalized banking and financial exclusion has emerged because of two successive phases of financial globalization: a macro-scale globalization beginning in the late 1970s and persisting two decades; and a micro-scale globalization, beginning in the late 1980s and still gathering force. Many analysts assert that micro-scale globalization will create the preconditions for more stable and robust accumulation, insofar as it replaces inefficient and insulated banking mechanisms with open and efficient ones. This means that crises rooted in macro-scale globalization processes can be regarded as blessings in disguise. This paper argues to the contrary that micro-scale globalization is generating both financial inclusion for the privileged and financial exclusion for the poor or working poor. So the efficiency/inefficiency axis is not the only dimension along which micro-scale globalization operates. It also moves along an axis of wealth-equality/opportunity; moves in the direction of efficiency may force a given economy further from the point of equality of opportunity and wealth.

This argument turns on the contrast between macro-scale and micro-scale globalization. Macro-scale globalization refers to the emergence of new cross-border credit and capital inflows that create repayment commitments and due-diligence obligations primarily for borrower nations as a whole (that is, for the political leaderships of the nations receiving these credit and capital inflows). Micro-scale globalization refers to the emergence of new financial instruments and practices in any nation-state, wherein the creation of these instruments and practices is associated with the entry (or threatened entry) into this nation-state of one or more banking firms domiciled in other nations. The key difference from macro-scale globalization is that new repayment commitments and due-diligence obligations are created for individual economic units – households and businesses – and not for the nation-state as a whole. If, through one lens, globalization involves increasing linkages between one national area and other national areas, this distinction differentiates linkages whose protagonist is the host country as a whole (in a certain sense) via the intermediation of that country's political leadership, and linkages whose protagonists are individual units in the host country. Globalization in the former case only indirectly affects individual units, insofar as it either augments or shrinks their opportunities and constraints; in the latter case it operates directly, as action occurs at the level of the individual unit. The degree of penetration into the national economic and social fabric of the globalizing agent is then much deeper in the case of micro-scale globalization.

Most of the focus on the promised gains and realized dangers of financial globalization have centered on the macro level – on overall patterns of financial-resource flow, and on the breakdown or discrediting of formerly isolated national systems of finance and saving. But the 'micro' level is crucial; increasingly this level represents the central 'hub' of financial globalization processes. Yet whereas macro lending flows generated widespread concern among activists and scholars, micro-level shifts in banking have not. To the contrary, many observers agree that the penetration of formerly inefficient banking market by overseas megabanks with superior technology and market savvy will increase the functionality of developing-nations' banking systems, and hence lead to higher growth.

This paper calls this consensus into question; it is based on an argument made from first principles for a representative credit market serving a set of homogeneous, representative clients in a host country. This paper explores behaviors that unfold in multiple financial markets serving clients with diverse wealth and income levels; it takes as a premise that no one representative market can depict the impact of micro-scale globalization. Second, this paper develops an argument based on the historical evolution of banks, not on first principles about what banks might do in simple, well-defined choice-theoretic scenarios.[3]

[3] Many of those who advocate neoliberal policies are inclined to use well-defined choice-theoretic frameworks as their models of choice. The reader should not take this statement in the text or the author's choice of methods here as an indictment of choice-theoretic methodology; models built with those methods have their uses in political economy. They are not convenient here, given the attempt of this paper to set out a conception of the links between macro and micro institutional events in the global system. It is hoped that this paper will further the process of dialogue between those with different perspectives regarding the topics discussed here.

The history that leads into macro-scale and micro-scale financial globalization in the "real world" pulls us far from any simple Walrasian or principle-agent first principles. Specifically, this paper highlights two key elements of recent history, which are arguably central in the landscape of the overall financial-globalization process: the transformation of megabank strategies, and looming macroeconomic imbalances. These elements provide micro- and macro-push factors which are now transforming micro-scale banking throughout the world. This transformation is, indeed, bringing more people globally into the field of action of global megabanks; but not under the conditions of their choosing. In effect, one kind of financial exclusion is disappearing as the financial globalization process proceeds; but other kinds are emerging. And these involve financial-market bifurcation, a phenomenon that may severely retard global economic growth and worsen global inequality.

Roadmap. Section 2 below begins with this macro phase of financial globalization. It locates the roots of this process in the coercive interactions between a volatile macro environment and a tightly regulated banking system in the US. It focuses on the breakdown of the New Deal system and on the subsequent crisis of lending to Latin America. Section 3 goes on to discuss the transformation of US banking strategies and the emergence of the US bank merger movement. The strategic elements emphasized here are new standardized methods of loan-making and financial-service provision for upscale retail households.

Section 4 then analyzes the emergence of a global bank merger movement. In particular, Europe, Japan, East Asia, Latin America, and Africa have all become venues for the introduction of offshore banks, for domestic mergers, and for new banking practices. It is argued that US banks' strategic shifts are transforming banking methods globally, if often indirectly. Section 5 discusses a second key feature of the strategic banking shifts described in section 3: the systematization of financial exclusionary practices. Section 6 considers the relationship between micro-scale financial globalization and financial exclusionary practices. Section 7 then describes some implications of micro-scale financial globalization, especially for people in the global South.

2. THE ROOTS OF MACRO-SCALE FINANCIAL GLOBALIZATION: THE 1980S US BANKING CRISIS

Historically the U.S. banking system was based on a segmented-market approach, which was a reaction to U.S. banks' excessive risk-taking prior to the Great Depression. The U.S. banking system favored governmentally-controlled deposit and savings rates, together with strict limitations on households' ability to move their funds outside the banking system. Different segments of the system of depository institutions provided for different financing and transaction needs: commercial banks provided transaction accounts and met business working-capital demand; savings and loan institutions provided time deposits and funded long-term, low-interest home mortgages. Since this system disallowed price competition, competition took the form of customer-base maximization (within legislatively prescribed geographic market areas). This encouraged cross-subsidies between rich and poor households in banks' deposit market, and between larger and more prosperous businesses and smaller "mom and pop" businesses in their loan portfolios. In effect, the US's segmented-market, administered-pricing, nowhere-to-exit banking approach encouraged micro-scale bank-centered development. However, all the economy's credit and capital needs, even at the micro level, were not met by this banking system. In particular, banks did not provide start-up capital for new businesses.[4]

Banks in the 1960s captured most households' savings. But high and unstable interest rates in the 1970s led to disintermediation from banks – that is, to banks' loss of funds to non-bank intermediaries that could pay market interest rates far higher than banks' regulatory maxima. Money market mutual funds and a wide range of equity- and non-equity-based mutual funds were created, absorbing large portions of the savings of upper-income customers. This in turn encouraged the large firms who were traditionally banks' most profitable and creditworthy loan customers to go directly to the credit markets for whatever funds they needed. In the late 1970s, firms that had previously relied on banks for short-term credit largely borrowed in

[4] It is important to emphasize the limitations of banks in meeting credit and capital needs in real-world economies, because most economists' models of banking (Freixas and Rochet (1997)) proceed from the basis that banks do largely satisfy all significant credit and capital needs. However, banks seldom provide credit for business creation and development; just as banks absorb virtually all of any economy's savings only in particular historical periods.

commercial credit markets. These firms also aggressively expanded corporate bond markets.

Banks compensated for the loss of their blue-chip loan customers by cutting costs and reshaping their strategies. Banks' first strategic reaction occurred in the late 1970s and early 1980s: they made many loans abroad, either directly or by participating in loan consortia. The locus of most of these loans was Latin America. The historical linkages between the Americas and the uneven impact of the 1970s' oil crises on Latin America (Mexico and Venezuela had oil, the other nations largely did not) led to large loan flows from US banks to this region (Figure 1); interestingly, US banks made far lower levels of loans in this period to Asian nations (Figure 2).[5]

These loan flows were made with a sense of hubris, captured in Citibank Chair Walter Wriston's comment that "Countries don't go bankrupt." However, these loans were made in an increasingly stressed macroeconomic environment. The US economy slowed substantially at the end of the 1970s, even while price inflation (spurred by spiraling energy costs) skyrocketed. The Federal Reserve attempted drastic means to gain control over the situation: it permitted short-term interest rates to rise to unprecedented nominal levels. This move brought on even more profound macroeconomic and microeconomic chaos: it heightened disintermediation by US banks' depositors, and constrained growth and investment. Banks defended themselves in the unsettled environment by making more and more of their loans on a short-term, floating-rate basis. This sent debt payment levels for overseas debtors to stratospheric levels. The resulting recession, together with the discovery of some new global sources of oil, led to the collapse of commodity prices.

Caught in a pincers' movement of high interest rates, economic slowdown, and falling energy prices, Mexico – once the brightest hope for a commodity-led boom in Latin America – defaulted on its debt obligations in August 1982.[6] Other borrower nations followed, even as lenders became increasingly reluctant to roll over their outstanding overseas credits; so debt crisis swept across Latin America.[7]

[5] Since the BIS reporting system was set up in the wake of the 1980s international debt crisis, these data series begin only in 1983, when the crisis had already erupted.

[6] Cline (1984, 1996) provides overviews of this crisis. For a review of the academic literature, see Eaton and Taylor (1986).

[7] While cross-border lending booms and crises recur in history (see footnote 1), selective memory loss about these crises also recurs, as Guttentag and Herring (1984) point out. Charles Kindleberger's 1937 volume on cross-border capital move-

Domestically, this period's high interest rates paired with a deep recession to undercut the viability of the US savings and loan industry. When fixed-rate deposits were replaced by market-rate borrowing, the thrifts' very long-term, fixed-interest rate loan commitments began to generate negative cash flows. The US government stepped in an orchestrated sales of distressed thrifts (and of some commercial banks in hard-hit US oil-producing states).

3. THE US BANK MERGER WAVE AND THE TRANSFORMATION OF BANKING STRATEGY

So US banks embarked on a voyage of macro-scale financial globalization in the late 1970s. Where once galléons had sailed in search of silver and gold, North American banks now came seeking secure loan flows. This search ended in vain, with a catastrophic debt crisis in nations located in the southern reaches of America. The end of this lending boom, due to mistaken expectations about a long-term scenario of rising commodities prices, coincided with the onset of the domestic savings and loan crisis.

A consensus quickly formed among many North American economists about these two lending crises. These were manifestations of the existence of moral hazard and adverse selection problems in these loan markets. Both could be attributed to incentive problems: in the case of the US savings-and-loan crisis, to inadequate supervision, the absence of competition for depositors, and deposit insurance; in the case of the Latin American debt crisis, to the lack of a threat of punishment for non-payment (see, for example, Eaton, Gersovitz, and Stiglitz (1986)). This emphasis on perverse microeconomic mechanisms was encouraged by the broad acceptance of the importance of asymmetric information and principle-agent problems in credit markets, a set of ideas given its definitive statement in Stiglitz and Weiss (1981). This emphasis on lender-borrower relations as the heart of the debt-crisis matter has not lessened over time; subsequently, indeed, negotiations over debt rescheduling were treated as extensions of the "debt games" that had characterized this borrowing in the first place

ments noted that most of the motivations for these movements are destabilizing. He emphasizes the link between fear and capital flight, and observes, "the balance sheet position of the country may be weakened if short-term liabilities are acquired in exchange for assets not readily available" (p. 157).

(AGGARWAL, 1996). Consequently, numerous economists have continually called for macroeconomic reforms that would install discipline in principal-agent relations in developing (borrower) nations, and for improvements in the micro-management of developing-economy financial systems.

Aside from any principal-agent problems between borrower and lender nations, new relations were emerging between lender nations, due to the debt crisis and the unsettled international macroeconomic scenario which had triggered it. As Figures 1 and 2 illustrate, US banks had far higher loan totals in Latin America than did any other nation with BIS-reporting banks. A decade of intensive competition between the US and Japan for global economic hegemony was launched. One manifestation of this competition was the "twin deficits" problem of the US economy, which involved a structural trade deficit with Japan; another was the usurpation of world banking leadership by Japanese banks.[8] On the one hand, Japanese banks came to dominate the global economy in size and scale: this was due in part to Japan's economic strength in the 1980s, and in part to the absence of disintermediation problems in the bank-based Japanese economic system. On the other hand, the Latin American debt crisis devastated the balance sheets of most of the US money-center banks. These institutions had been so aggressive in making loans to Latin America that in some cases their net worth – once non-performing loans to Latin America were factored in – turned negative. Manufacturers Hanovers and Chemical ultimately disappeared; Citibank barely survived, its shares trading at $10 in the mid-1980s; and Bank America made no loans for a year in 1985. We return to the theme of Japanese-US financial competition below.

The question posed for the US system was what to do with a banking system with so many insolvent or nearly insolvent participants – the money-center banks, the savings and loans, and the oil-patch commercial banks (especially in Texas and Oklahoma)? There were three answers to this question. Regarding the banks specifically affected by the Latin American debt crisis, securitization of unpaid sovereign debt (including the "Brady bonds") and the creation of a secondary-market facility for this debt provided means whereby Wall Street could help the stronger money-center banks work their way back to financial health. For insolvent savings and loans and oil-patch commercial banks, distress acquisitions by stronger domestic partners provided a way out.

8 Figure 1 shows that Japanese banks assumed substantial Latin American debt as of 1984; Figure 2 shows that they steadily increased their loans in the Asia / Pacific region from the early 1980s through 1997.

The market solutions for distressed money-center banks provided no legal difficulties, as they fell under the umbrella of the Federal Reserve's "lender-of-last-resort" responsibilities. However, creating the conditions wherein strong banks could merge with weak thrifts and commercial banks required both the suspension of existing banking laws and regulatory changes. The problem was that potential acquiring banks were located in states that were the prime locus of savings-and-loan and oil-patch-lending problems — Texas, Oklahoma, Louisiana, and Arizona, in particular. But US banking laws prohibited multi-state banking; further, US banks were subject to anti-trust laws that discouraged excessive concentration in banking markets. Feeing banks to merge meant setting aside these laws and adopting a new regulatory philosophy.

This period of distress mergers led to a shift in regulatory philosophy. Until this period, regulators guided by anti-trust law and the Bank Holding Company Acts of 1956 and 1970 placed strong restrictions on bank activities and on banks' geographic expansion, based on the guiding principle that firms will exploit monopoly power in markets once they acquire it. However, these crises counterposed the principle of "least cost to the taxpayer" (eventually enshrined in the 1989 thrift bailout law) to the inherited principles of antitrust law. The administrators appointed to head financial regulatory agencies in this period – by market-friendly President Ronald Reagan — regarded inherited banking and antitrust laws as antiquated. Many of the economists working on regulatory policy began to adopt the Chicago "new learning" approach, which shifts attention from monopoly position to 'contestability.' Regulatory tests for market power were weakened, permitting Federal regulators to override product-line and geographic restrictions in approving distress mergers. The Federal Reserve in particular used its regulatory flexibility to force "modernization" in US banking. The twin premises of this new regulatory view was that the US is overbanked due to antiquated banking laws, and that financial innovations have made capital and credit universally available (so that fewer banks will not mean less capital or credit to deserving borrowers).

This triggered the bank merger wave. Figure 3 shows that failed-bank mergers began to climb as a share of all bank mergers as of 1982, reaching a peak of 30% of all mergers in 1990. And as noted, the changes in regulation that facilitated distress mergers across state borders also facilitated a broader wave of unassisted mergers. Figure 3 shows that unassisted mergers rose above the level of 2% of all existing banks in 1983, and after 1987 never fell below the level of 3% of all banks. At its peak in 1997 and 1998, over 6% of the banking industry was disappearing annually through voluntary mergers. The number of US commercial banks has declined dramatically from over 14,000 in 1980 to fewer than 8,000. The figures are even starker for savings and loans: almost two-thirds of all savings and loans operating 20 years ago have closed.

Prominent among the buyers were a set of "superregional" banks that had escaped significant exposure in the Latin American debt crisis, including North Carolina National Bank, (renamed NationsBank, and later Bank America), Bank One, US Bancorp, and Norwest (later renamed Wells Fargo). These superregionals, together with medium-size and small banks reshaped consumer banking and restored its role as the primary source of banking-system profits in the US. The core of the new consumer banking was re-imagined. The informational basis of loan-making shifted from personal knowledge and character assessments to balance-sheet- and income-based financial ratios. In the credit market, risk-taking was far more closely controlled: fewer cross-border loans were made, and standardized criteria were increasingly used to guide loan decisions.

This led to a decisive strategic shift in US banking, one motivated by the recent crisis and facilitated by the gathering merger wave. Banks seeking leading positions in the post-crisis US banking industry made heavy investments in centralized data-bases and data-processing facilities. These banks then created a range of loan and deposit accounts for prosperous middle-market customers; they offered other financial services as well, as "financial supermarkets." The profitable customers they sought were those who had secure income streams, and who had equity in real estate or in financial assets; once such customers bought into one line of banking business, they could be sold other financial instruments for other purposes. The surge of new services was facilitated by technological developments permitting upscale financial customers to access services and assets – such as mutual and hedge funds – previously accessible only to the super-wealthy. The growing number of individualized retirement plans (such as 401(k)) provided a further boost to this development.

In effect, banks could use technologically-driven market shifts to attract customers based on their asset-acquisition and wealth-management strategies. But they also have innovated rapidly on customers' liability side; the key development here was the explosive growth of markets for loan securitization. More and more categories and risk classifications of loans could be offloaded onto non-bank portfolios after being originated by banks (and, of course, by other lenders). It is important to emphasize that the availability of Wall Street expertise and funds has been a key prerequisite of this strategic shift. From the 1980s onward, the US complex of non-bank financial markets, funds, and instruments known collectively as Wall Street has far outpaced other global financial centers in size and sophistication. It consequently offers advantages of liquidity and underwriting that are globally unique.

Taken together, the expansion of financial services offered by banks and the growth of securitization led to a shift in the locus of bank income-earning. As Figure 4 illustrates, non-interest income has gained steadily in importance; it already exceeds interest income for large banks, and is approaching half of all bank income for the industry as a whole. Figure 4 also shows that these strategic shifts — in the locus of US banks' loan-making, in the use of standardized information in risk assessment, and in the financial services offered to desired (upscale retail) customers – have led to a decisive rebound in the volume of net income that US banks are generating on average relative to their expenses.

The banks making these investments were well-positioned for expansion: the standardized instruments they created were suited for large customer bases; so optimizing on the potential return from their investments meant finding more loyal, stable, multi-product customers. In part, this meant competing to install new branches in growing suburban areas. In part, it meant seeking out mergers and acquisitions. The bank merger wave that began with distress mergers in the 1980s has thus continued to the present (Dymski 1999), and reshaped US banking. As noted, superregionals such as NationsBank/BankAmerica, US Bancorp, and Norwest/Wells Fargo have used mergers to take dominant positions in US banking markets. The money-center banks that previously were at the center of US banking have, in many cases, failed. Those that survived – Citicorp and Chase, in particular – have used mergers to build diversified financial-services operations that include solid bases in consumer banking.

Figures 5 and 6 demonstrate the dramatic shifts that have occurred, even in the past several years. A key point about the use of standardized technology and an enhanced menu of financial offerings for desired customers is this: all things equal, the larger the customer base a bank can claim, the more desired (upscale retail) customers to whom it can sell its standardized products. The US system should move toward the domination of the market by fewer banks. Figure 5 demonstrates this trend by overlaying the size distribution of the 25 largest bank holding companies in the US at different points in the period 1997-2004. The banks in positions 10-25 (which differ in each snapshot) have about the same asset level in each time period; the banks in positions 1-9 are increasingly large. This does not represent the incremental growth in these banks' established customer bases, but rather their acquisition of new customer bases. Figure 6 then sets out in asset rank-order the top 24 US bank holding companies as of December 1997, and then illustrates the 14 subsequent mergers involving these institutions. As of March 2004, 13 institutions remain, two now foreign-owned (Deutschebank and HSBC); three have emerged as dominant – with two of these three being former money-center banks.

The emergence of US megabanks after the difficult 1980s does not mean that space for other sorts of intermediation is completely squeezed out. To the contrary, some niches remain. There is, on the one hand, a growing niche market for super-elite customers – with private banking and special private-equity funds becoming especially prominent. This market may be expected to grow insofar as the ranks of the super-wealthy are expanding in the US (even as the middle class shrinks). A second set of niches involves banking markets for locally-based businesses. Small-scale commercial banks aimed at servicing business clients are emerging in many locations throughout the US. Business loans are the most difficult to securitize, and hence these customers are often underserved by the megabanks. Local banks with localized knowledge then emerge. A third set of niches has arisen in those cities that have a critical mass of the growing population of minority customers. Leading the way here are Chinese American banks; see, for example, Dymski and Mohanty (1999) and Wei et al. (2002). Due to these niche strategies, new bank charters have been granted at a pace approaching half that of unassisted mergers (Figure 7).

4. Global Bank Merger Waves?

There is more to be said about banks' strategic transformation, especially with respect to the emergence of financial exclusion. First, we turn to the global banking scenario. For while US banks were working out new models of financial service delivery in the wake of a severe systemic crisis, a conjuncture of forces was opening the possibility of market entry and the adoption of new practices in many broad market areas throughout the world.

Western Europe is one such potential area. For years, European banking was characterized by substantial fragmentation and strong home-country advantages: banks specialized in bond issues and currency transactions in their home nations (DERMINE, 1996). Home-country advantage combined with high and relatively stable income flows and strong national loyalties meant stable profits. Until recently, a number of factors blocked changes in ownership and financial product-lines among European banks. Established corporate practices would make mergers untenable: for example, large German banks historically engaged in cross-shareholding and long-term relationships with large corporations. Differences in banking structures and regulations have also stood in the way of cross-border mergers, as have differences in national banking cultures.[9]

However, deregulation since the mid-1980s and the coming integration of European markets (Mullineux and Murinde, 2001) have put the customer bases of these nations into play for expansion-oriented banks. This situation changed, however, especially as the tight ties between non-financial corporations and banks began to break down. U.S.-based firms were able to penetrate European financial markets, especially in investment banking activities. These firms' entry began to dismantle the "webs of national influence built up over decades" (*The Economist,* June 23, 2001). On the retail side, they have begun to target the upscale retail customers they covet in the US. While many European loan markets operate quite differently than in the US, making entry by US lenders difficult, US banks have been able to target upscale and wealthy savers interested in higher returns with lower risks than their domestic banks and mutual funds currently offer.

The launching of European monetary union has triggered a merger wave within Europe. *Time International* (March 22, 1999) observed: "Banks within domestic markets are beefing up in preparation for the next stage: a slew of crossborder banking tie-ups between the remaining players." Mergers have occurred both across borders and within national areas. These are often defensive in character – the aim being to create larger and more defensible market areas. Other mergers are instead offensive – large banks such as Deutschebank have sought to open up new market areas, even while increasing the menu of financial products they offer customers.

Turning to Asia, Japan's banking market has been the focus of a sustained merger wave since 1990. Historically, Japan's main banks have had the same intimate relations with industry as have large German banks. At the very peak of Japanese banks' global dominance in the 1980s, Japan's non-financial corporations' performance was so strong that their need for funds from their main banks weakened. The large banks sought new

[9] *The Economist* (March 13, 1999) summed up European banks' cross-border merger challenges in this way: "Cross-border mergers are doubly difficult. There is little overlap between banks from the different countries and the logic here is different: less cost cutting, more revenue generation. Yet that is precisely why banks are hesitant. Buying a bank in another country with another language and another legal system is a risk that few want to take. ... full mergers have proved difficult."

investment outlets, including overseas loans (Figures 1 and 2), real estate, and equity. In 1990, prices in Japan's urban real-estate and equity markets collapsed, leaving Japanese banks with a huge and intractable volume of non-performing and insolvent loans. The large-bank sector as a whole became insolvent.

There have been two responses to this bank insolvency crisis: governmentally-guided defensive mergers, accompanied by government assistance in unloading bad debts; and further deregulation—including the Big Bang and the encouragement of foreign direct investment and mergers (*Japan Economic Institute Report* No. 23, June 20, 1997). By the late 1990s, every major Japanese bank had been involved in one or more mergers. However, these 'bigger is better' mergers did not resolve the large-bank sector's problems: gains in microeconomic efficiency were slight, and these banks' inability to lend compromised Japan's recovery from its sustained period of stagnation. In another parallel with European experience, US banks have pushed into Japanese markets, seeking out upscale-retail customers. On the day of the Big Bang, July 1, 2000, Citibank pushed a multi-page ad in Japan's financial daily newspaper, advertising its million-yen account. This competition for Japan's competitive customers has undermined Japan's well-known customer and national loyalty, and has led to increasingly intense competition for upscale customers.

Elsewhere in East Asia, banking crises came later, in a pattern resembling the Latin American crisis of 15 years earlier. As in Latin America in the early 1980s, rapid growth and soaring expectations led to huge increases in off-shore lending (Figure 2). Booming urban real-estate markets, unrealistic (and mutually inconsistent) prospects of export-led growth rates, and currency speculation eventually culminated in a severe year-long financial crisis (emerging in Indonesia and Thailand in May 1997 and rolling into Korea by November 1997). The result was the largely closed Asian markets were, under the guidance of the IMF, exposed to overseas ownership and deregulation. These nations also did what they could to orchestrate domestic mergers of stronger and weaker banks so as to protect domestic ownership of some portion of the banking system. The results have been uneven. In Korea, for example, efforts to jump-start market-based lending resulted in a second banking crisis in 2001-02; and private equity funds, not overseas banks (with one recent exception), have taken over insolvent Korean banks. Finally, Citibank Korea, Inc. opened officially on November 1, 2004, after acquiring the eighth-largest Korean bank. As in the case of megabanks' entry into the other nations described above, this megabank's Korean subsidiary "aims to focus primarily on credit cards and wealth management" (*Wall Street Journal*, November 3, 2004).[10]

This brings us back to Latin America. The most dramatic case, as in the 1980s crisis, is that of Mexico. Economic liberalization led Mexico to privatize key national and state banks in the early 1990s, including its three largest banks—Banamex, Bancomer, and Serfin. Mexican investors bought all three institutions. Questionable loans weakened these institutions; the peso's plunge in December 1994 hammered them. All three banks found foreign institutions to bolster their equity position in 1995 and 1996. The Mexican government stepped in, taking over bad loans. Serfin and Bancomer were found guilty of drug-money laundering in 1999; these institutions were seized by the government and sold off – this time (thanks to a change in Mexican law as of December 1998) to foreign banks. By 2002, Mexico's three largest banks were subsidiaries (respectively) of Citibank, Banco Bilbao, and Santander (the latter two both of Spain).[11]

In other nations in Latin America, the interaction of financial crises and government support paved the way for cross-border purchases of weak or insolvent banks in crisis-prone local systems. Brazil has constituted a partial exception to this pattern of overseas takeovers of weak domestic banks.[12] Some of its domestic banks performed well after the Real plan was implemented in 1994; they have been able to reverse some foreign entry into Brazilian banking markets. Itau bought out BFB, a subsidiary of the French Credit Lyonnais, in July 1995; and in December 2001 it announced plans to purchase Banque Sudameris, a subsidiary of IntesaBci SpA of Italy. When virtually all of Brazil's state banks became insolvent, they were offered for sale in what turned into a competition between domestic and overseas banks. Banco Bradesco acquired Banco do Estado da Bahia in June 1999, and Banco Mercantil do Sao Paulo in January 2002; Itau merged with Banco do Estado do Parana in October 2000; but ABN-Amro acquired Banco do Estado de Pernambuco in November 1998, and Santander bought the largest of the state development banks, Banespa, in November 2000. HSBC has also entered the market. Santander attempted a broad-based popular banking strategy in Brazil, and also in Argentina, but ended up losing substantial

[10] Dymski (2004a) analyzes the current situation of Korean banking in depth.

[11] See Dymski (2004b) for more detail on the transformation of Mexican banking.

[12] Carvalho (2001) and de Paula (2001) provide detailed information on foreign bank entry into Brazil. McQuerry (2000) discusses the impact of macroeconomic instability and reform on Brazil's banking sector.

sums; it ended up withdrawing completely from Argentina, and it adopted a more cautious loan-making strategy in Brazil.

This extremely selective survey of patterns of bank mergers suggests some overall patterns. First, the upscale retail customers in every banking market are in demand. This is putting pressure on banking systems that have previously – like the US's New Deal banking system – featured "one size fits all" banking. Second, mergers and consolidations of banking markets are occurring in many markets as banks that hope to compete technologically with overseas megabanks attempt to identify a large customer base. Third, while US superregional banks such as Bank America and Wells Fargo may have pioneered the techniques of upscale retail banking (see Dymski 1999), these are not the US banks that we find engaged in global expansion. Instead, Citibank has been playing a relatively unique global role in attempting to capture market share in both upscale retail markets and in bulge-bracket banking markets (where it competes with Deutschebank, CSFB, and Chase). The very possibility of market entry by Citibank or by other megabank competitors, however, has generated epochal change in banking market after banking market.

As Section 3 suggested, technologically-driven shifts in the US banking market lie behind the onset of the US bank merger wave: the creation of standardized borrowing and savings instruments; the aggressive use of loan securitization to convert long-term debt commitments to fee-based income; the bundling of returns from many individual funds into aggregated funds for which secondary markets often exist; and so on. This has resulted, as mentioned in Section 3, in the creation of three super-sized banks that have come to dominate US banking. Figure 8 shows data on the size-distribution of banking firms as of 1999 (Europe, Latin America) and 2000 (the US and Asia). These data illustrate graphically that no other global region's banking structure resembles that of the US (which became more dominated by the "big three" by 2004, as Figure 6 demonstrated). Europe in 1999 had a huge population of mid-size large banks — 28 institutions with assets of $200 billion or more, versus just 8 in the US. Asia's size-distribution resembles that of the US more closely; but its largest institutions, instead of leading the wave of innovative practices, are among its most troubled. Latin America's banking population is simply tiny, in 1999, compared to the other global areas.

Tables 1 and 2 investigate empirically what is innovative about US banks relative to other national banking systems. Table 1 contrasts US banks with 19 other national banking systems in Latin America and Asia, using data for 2000. Table 1 shows that US banks have a relatively high loan-to-asset ratio; only Argentina in Latin America has a higher one. Further, the ten largest banks in the US account for a much lower percentage of all bank assets than in any other nation (with the exception of Taiwan).

Table 2 contrasts some performance ratios for financial and non-financial firms drawn from Business Week magazine's list of Global 1000 Firms as of May 2004; these data are reported for global regions.[13] Turning first to data for financial firms (a category that contains primarily banks, but also insurance and securities firms), US financial firms have a high profit/sales ratio, and a low profit/assets ratio (Table 2). This suggests that the US banking system is efficient and competitive, compared to most other global regions. Only Asia (excluding Japan) matches this performance. The summary ratio data for non-financial firms, by contrast, finds US firms performing worse than two other global areas. This suggests an apparent relative global advantage in the financial sector not replicated in the non-financial sector. The share of financial firms among all firms in the Business Week 1000 is also calculated. The US's financial firms account for the lowest average shares of the market value of all equity shares, and of total sales. Financial firms' assets also comprise a lower share of all Global 1000 Firm assets than all but other global areas except Asia (excluding Japan). That is, compared to other global areas, large US financial firms absorb less equity and fewer assets, and account for a lower share of sales. By contrast, US financial firms account for a percentage of profits (32%) higher than any other area except Japan, among the firms listed in the Business Week Global 1000.[14]

Not only is the US financial sector relatively efficient and competitive; it has had a magic bullet through the latter 1980s and 1990s — Wall Street. Efforts to consolidate European exchanges have only recently begun to succeed; and Asia's exchanges have been in the doldrums since the Asian financial crisis. This advantage is by no means predetermined, but reflects current geo-political patterns and global political economic power (DYMSKI, 2002). Perhaps the defining aspect of this Wall Street advantage is the market value premium enjoyed by U.S. firms, including banks. While the largest banks in the U.S., Europe, and East Asia are similar in size (Figure 8), U.S. banks have a substantial lead in the market value of their equity. This

13 This annual survey publishes selected data on the 1000 firms globally with the highest "all in" market value of equity shares. This survey has been published using consistent criteria since 1989. Data are shown only for global regions with a significant number of listed firms.

14 *The Economist* recently reported that financial firms account for 40% of all US profits.

provides a tremendous advantage in individual banks' pursuit of specific merger targets; but overall it represents a huge source of national comparative advantage. Figure 9 documents the growing percentage of market value that is accounted for by US financial firms, in the period 1989-2004, as measured by firms listed in the Business Week Global 1000.

5. THE TRANSFORMATION OF INFORMAL FINANCE AND OF FINANCIAL EXCLUSION

Thus far we have described the spread of upscale retail banking practices as the defining feature of US banks' post-1980s crisis strategic shift. Previous sections have only hinted that some households and businesses are not included in the set of upscale retail customers. What has happened to those other financial customers – and how are those customers served, if at all, by the US banks involved in the US merger wave and in financial globalization?

First, it is important to begin by acknowledging that banking systems have always been uneven in their distribution over space and across customer classes. While the New Deal banking system provided banks with competitive incentives to maximize their customer bases, racial and other forms of discrimination still led them to ignore and underserve some areas. For those left out of the banking system, transactions and savings present very different challenges than they do for the banked. Previously — and even today — many lower-income households maintain whatever cash they have "under the mattress." Many such households are unbanked: they accomplish virtually all of their payments transactions either on a cash basis or by utilizing money-order and check-cashing services. When they need to borrow money, they bring durable goods to the local pawnshop. These individuals are subject to *financial exclusion* in that they do not have access to the same package of financial services that the average individual can obtain, at the same prices that the average individual pays; they have the use of fewer services, and pay more for the ones they receive.

The strategic shifts described above for large US banks had several implications for banking in lower-income areas. While branches were opened in upscale areas, they were closed in lower-income areas. Studies of Los Angeles in the 1980s and 1990s, for example, indicate that the highest-income census tracts had 3 times the number of branches per resident as did lower-income tracts. Further, this differential got worse through time. Since lower-income customers purchase fewer high-end financial products than upper-income customers, they are more likely to pay monthly and per-check fees for transaction accounts. So bank branches remaining in lower-income areas function less as mechanisms for pooling savings and more as vehicles for generating fee-based revenues.[15]

Branch closures in lower-income communities have been paralleled by the growth of a secondary tier of non-bank suppliers of financial services. This secondary tier consists of a wide range of vendors – from small entrepreneurs to franchisees to ethnic grocery stores — who provide substitutes for a subset of the services that formal-sector banks might otherwise provide. In Los Angeles in the late 1980s, for example, saw an explosion of check-cashing outlets, pawnbrokers, and mortgage brokers, bringing transaction services (checks into cash, money orders, cashiers checks, and so on) and credit to areas largely abandoned by banks and thrifts. These financial services are offered at a premium to most customers, yielding substantial fees. Indeed, in the past decade, informal check-cashing businesses have experienced some consolidation and franchising; some large banks have in turn acquired ownership stakes in these operations or have emerged as partners in credit or liquidity provision.

The unbanked — those who are unable to establish or maintain bank accounts — must turn to the second-tier financial sector to meet their financial needs. Check-cashing outlets, various short-term loans, and money order services are widely available to even the poorest households — for a price. Generally, the cost of these transactions varies inversely with the household's economic status. In particular, the credit market operates differently in second-tier financial markets than elsewhere. In first-tier markets, credit often facilitates the accumulation of new human or physical assets that enhance future income; in the second-tier nexus of pawnbrokers and pay-day loans, credit contracts often lead to households' decumulation of assets to meet current income crises. Aside from the onerous cost of credit, the main problem in lower-income communities is the absence of formal bank branches – that is, of mechanisms for capturing financial savings. These institutional gaps sometimes result from discrimination, especially racial discrimination; they also arise in areas whose residents have uncertain legal and immigration status. As such, they reflect the legacy of the uneven process of economic growth itself.

This portrait of the consequences of banking transformation in the US appears to be a story in which financial exclusion involves, very

15 See especially Dymski and Veitch (1996).

simply, the *exclusion* of some members of society from access to formal-sector banking. In earlier days, it would have been this simple; the check-cashers and loan stores in areas without bank branches were all locally funded and operated. But now, things have changed.[16]

Due to advances in securitization technology and in procedures for pricing and off-loading risk – the same factors that supported the explosive growth of upscale retail banking — a large portion of the flow of informal finance is now incorporated into Wall Street. The leading example is termed predatory lending: that is, housing-based loans targeted at borrowers with enhanced risk. Predatory loans – a category, it should be noted, that is not well defined – encompass second mortgages and home refinancing for existing homeowners, as well as home purchase loans for new homeowners; interest rates, fees and penalties, and trigger clauses for non-payment are all considerably tighter than for conventional mortgages. These loans, which have grown explosively in volume since 1999, occur with especially high frequency in minority neighborhoods. In effect, a potential minority borrower who in previous years may have been denied a mortgage loan may now instead be provided with a loan, albeit one that entails substantially higher carrying costs, more financial fragility, and more risk of loss. This borrower, who previously would have been the recipient of a loan in a relatively isolated circuit of capital, now participates at a distance in all the machinations of Wall Street's cash-flow-bundling and risk-redistribution apparatus. This borrower is, in effect, subject to financial exploitation. And whereas that financial exploitation would in the past have involved localized oppression, it is now conducted via the routinized extraction of excess interest payments and fees by megabanks and mutual funds.

Aside from predatory loans, technological change and business consolidation is also transforming the landscape of cash management and payments by lower-income households. The markets for cash cards are growing explosively. Check-cashing stores are now operated in many cases as franchises, with standardized products and routinized links with funds suppliers. These stores also routinely extend credit of various kinds – payday loans, tax-refund anticipation loans, and so on – to their customers. Another key development that is gathering global force is the emergence of the cash card (or money card). This card provides its holder with a portable means of storing purchasing power. Money received – for example, from an employer – is deposited electronically, and the card can be used to undertake

[16] Barr (2004) provides a comprehensive recent summary of studies of low-income and informal US financial markets and practices.

transactions that otherwise would require cash. It has the advantage of being more secure than cash – and of generating fees for use, for card providers. It is becoming an increasingly common way to store value and make payments, world-wide.

The dislocation of workers from their home communities has also created new opportunities for commodified financial exploitation. For example, the large inflows of immigrants to the U.S. in recent, at all wealth levels, has led to vibrant competition for both formal- and informal-market financial services. Ethnic banks have already been mentioned vis-a-vis the formal sector. In the informal sector, megabanks such as Citibank and Chase have opened distinct lines of financial services, or financed them, for lower-income and ethnically distinct customer bases. As Dymski (2004b) shows, many megabanks are now offering special ATM accounts and other inducements for Latino customers. These accounts aim at capturing the fees from remittance payments (at this writing, commercial banks control just over 3 percent of the remittance market in the U.S.). Similarly, for lower-income customers, megabanks are offering an increased number of options such as collateralized credit cards, debit-cards and ATMS, and money-cards. The active competition for such funds doesn't mean customers in these markets won't be exploited. In any event, this competition is asymmetric: these workers' transactions needs are the subject of fierce competition; their capacity and willingness to save is ignored.

6. Micro-Scale Financial Globalization and Processes of Financial Inclusion and Exclusion

Micro-scale financial globalization, as defined in section 1, occurs when new financial instruments and practices are created due to the entry (or threatened entry) of offshore banking firms. One defining instance of micro-scale financial globalization is clearly the spread of upscale retail banking (section 3). If this were the only aspect of micro-scale financial globalization, then this phenomenon would clearly bring about *financial inclusion*, as it has the direct effect of universally raising individual welfare.[17]

[17] There might be other indirect effects. For example, if a consumer-friendly banking emerges in place of an older system which was worse at meeting consumers' needs but better at financing business investment and affordable housing, then indirect output losses associated with the new system have to be balanced against direct welfare gains. Counterposing national-productivity / investment benefits against

In this case, an appropriate benchmark for the extent and effects of financial globalization (in any given area) would be the degree of global consumer-market access of that area's firms and households. That is, can a wealth-holder in a given nation purchase any financial asset emitted anywhere else in the world, with the same transaction cost and the same asset-resale conditions? (Alternatively, can a wealth-holder in a given nation earn the same return on a certain class of financial asset as he or she might in any other nation?) Does a bank savings account in Brazil, say, provide the same return and does it have the same liquidity characteristics as does a bank savings account in Miami?

If things are left here, then the case for micro-scale financial globalization is the case for financial inclusion of upper-income households. To the extent that any nation's elite, or its prosperous classes, could enjoy higher-return, lower-risk savings, a larger menu of financial services, and so on, then the case for micro-scale financial globalization on the basis of welfare enhancement is readily made. This is where things *are* left, in most discussions of this topic – the opportunity set of the elite is highlighted, other aspects of the problem obscured.

But the discussion in Section 5 took a different turn. It suggested that the strategic shifts that led to upscale retail banking in the US were linked to a reduction in the number of financial services provided to lower-income households, and an increase in their cost. Further, the megabanks involved in micro-scale financial globalization have in many cases provided financing for (or even bought all or part interest in) the informal financial suppliers to which non-upscale households turn. Some lose access to banks (due to physical inaccessibility, new enrollment policies, and so on); others retain their bank accounts, but pay significantly higher fees. In effect, a process of *financial exclusion* arises, which represents the other face of financial inclusion.

The institutional analysis of the US case of upscale-retail banking in Section 3 suggested that a conjuncture of macro-structural circumstances has opened the way to micro-scale globalization of these practices. In some cases, US banks have directly introduced upscale retail practices; in other cases, offshore banks (HSBC, in the case of Brazil) or domestic banks have

individual welfare gains in this manner is increasingly problematic, however; many of the nations whose banking systems previously were used to channel support for priority investment and affordable housing have been forced to break these linkages. Perhaps the extreme cases in point are Korea and Mexico. In Brazil, only one institution with the explicit mission of facilitating national economic and social development remains (BNDES); the other such institutions have been privatized.

done so. Two different questions then arise. First, might financial globalization increase the extent of financial exclusion, directly or indirectly? Second, will the informal-market practices described in Section 4, involving the systematization of financial exclusion on the basis of emerging technology and securitization practices, open up new channels of micro-scale financial globalization?

We take these questions in order. The first question has been fiercely debated regarding the consequences of macro-scale financial globalization. The finance ministers and executives who agreed to borrow extensively from US or Japanese or European banks, in the years prior to the Latin American, Asian, and Mexican debt crises, surely did not have the intention of maximizing the extent of financial exclusion. However, increased financial exclusion has been an indirect effect of macro-scale financial inflows in many countries, in that these inflows have often been followed by severe financial crises and by the adoption of strict orthodox economic policies.

We might again consider the case of Mexico. The neoliberal reforms of the 1980s and 1990s have resulted in lower incomes for poor and working class households, and some gains for the rich (PASTOR AND WISE, 1998). Further, a recent study by World Bank economists (HALAC AND SCHMUKLER, 2003) suggests that the financial crisis itself has resulted in the transfer of wealth and income from the lower-income households, and those outside the formal banking sector, to upper-income households and those with access to sophisticated financial services (including insured bank deposits). This experience has been repeated in many other nations – so frequently that critics of neoliberal globalization such as Bello (2004) assert that these are inevitable (if unintended) consequences of macro-scale financial globalization (at least, in the current global macro policy regime).

The increases in financial exclusion experienced in the wake of these episodes of macro-scale financial globalization have arisen as consequences of banks' loss of institutional capacity (branch closures, bank closures) and of economic units' loss of income and wealth. The possibility of micro-scale financial globalization aimed at lower-income customers is quite another thing. In this case, megabanks and other firms would establish a set of institutional practices and/or organizational alliances that would facilitate the spread of technologically sophisticated low-end banking practices. For example, customer information would be collected and used to make precise distinctions as to what kind of loan products would be offered, with what terms and conditions, in any of a number of borrowing areas. Further, check-cashing practices would be standardized; small local operations might be driven out of the market in favor of franchises controlled or owned by domestic or offshore megabanks.

The question faced by any lender contemplating a cross-border move to initiate micro-scale globalization of this type is simply whether the market opportunities are sufficiently large to warrant the setup costs and risks entailed. The US has already seen this sort of globalization, as foreign-bank entrants have purchased loan companies and other informal financial firms. But whether it would be acceptable for, say, Citibank to operate two kinds of operations in a given foreign nation is an open question: an announcement that Citi will market upscale bank accounts to elite customers while simultaneously opening up a systematic informal-banking/predatory-lending operation might generate a vigorous political and/or social reaction. This does not mean that local entrepeneurs might not put such arrangements in place.[18]

The case of Brazil illustrates the possibilities and limits of micro-scale financial globalization of this kind. In Brazil, the balance between living expenses and earnings streams is precarious for so many households that it has drawn substantial competition. The intermixing of credit and transactions arrangements is common – even for those with bank accounts and stable employment. These arrangements take many forms, including debit cards, secured credit cards, lines of credit, and loans against paychecks. Payment in many stores (including large consumer companies) includes an offer of store-sponsored credit; and prices on larger purchases already build in borrowing costs. Local and foreign-owned banks both take part in these arrangements. Banks make fine distinctions involving borrowing costs, deposit fees, and so on, as customers' account balances rise and fall. In the US, the categories of financially included and excluded are separated into relatively distinct subgroups, which receive relatively homogeneous treatment; in Brazil, financial inclusion and exclusion are defined along a varying continuum. If an offshore bank were to carve out and market to a bloc of upscale customers using a US-style approach, then the path toward a more radical distinction between the financially included and excluded may open in Brazil. If the upscale retail customer base is defined more sharply in this way, then the use of more precisely-designed financial instruments for those subpopulations that are financially active but not financially included (among the upscale) may soon follow.

[18] Recently, owners of micro-credit companies in South Africa visited several check-cashing store locations in the US, in a tour designed to acquaint them with industry 'best practices.'

7. FOLLOWING THE EMERGING PATHWAYS OF FINANCIAL GLOBALIZATION

A summary. This paper has argued that strategic changes organized by large banking firms are leading to a bifurcation in the provision of banking services, especially in consumer banking. For desirable customers, upscale retail banking services, with low or zero fees; for other customers, more costly and more limited pay-as-you-go services. This split, as it emerges, changes the terms on which lower-income households and small businesses can access the financial system. This change has occurred because of the transformed macro-environment and competitive terrains within which banks operate. Implicit or explicit cross-subsidies between elite customers with other customers, which historically have permitted banks to offer a relatively small number of homogeneous financial services, are being set aside. Since banks must compete globally for elite customers, they are reluctant to continue to subsidize lower-balance or riskier customers. Consequently, these developments are leading many households to become unbanked, and toward an ever clearer division between the financially included and the financially excluded.

This is a different model of banking and financial practices than has existed in most nations until now. In fact, these practices have been remarkably diverse. Asian banking systems have often featured universal participation, with government-directed credit and low but stable rates of return. European nations have often featured a range of functionally distinct institutions, some scaled locally and some nationally, again with universal participation as a defining feature. The US had a system of local, segmented banking markets, with nearly universal participation (the exceptions largely but not completely due to the US legacy of racial discrimination and inequality). Latin American nations have often featured universal banking in urban areas, combined with informal financial arrangements in rural areas. These older models are nationally idiosyncratic and interlocked with historically specific government policy regimes; in some nations, the terms and conditions of financial participation varied widely from place to place. What is replacing these diverse practices is a more and more homogeneous set of financial options for the upscale households in every nation. As the HSBC advertisement promises, they have the right to be treated the same as the upscale members of any other nation on earth; and if they are not, they can change banks! And as banks respond to the competitive threats and opportunities implicit in this micro-scale transformation, the treatment of lower-income households might also be expected to become more homogeneous.

US megabanks have led the way in this second — micro-scale — phase of financial globalization, in part because the first — macro-scale — phase of financial globalization (in the post-war period) contributed to a profound systemic crisis in US banking in the mid-1980s. US banks worked out models of financial-service delivery based on: (1) identifying an upscale retail customer base, which is given special consideration (previously only the rich were treated in this way); (2) the creation of standardized information in centralized databases, and its use in making customer-segment-specific decisions regarding the terms and conditions of credit, savings, and transaction accounts; (3) the aggressive use of loan securitization as a means of offloading risk and maintaining predictable cashflows; (4) the use of domestic mergers to enhance the potential return from these new decision technologies.

Subsequent global events – banking crises in Latin America and Asia, and economic unification in Europe – destabilized established banking practices in other global areas, and exposed these systems to global financial competition for their more desireable – upscale — customers. Either instantaneously or over time, banks in these other global areas began to adapt their policies, as they contended with aggressive entrants. The keys for the strategic entry of megabanks into US markets for lower-income financial services are items (2) and (3) in the above list – reliable customer information, the existence of sophisticated securitization mechanisms, and customers (largely funds) willing to hold the resulting securities. The extent to which practices of financial exclusion become standardized, with megabanks as suppliers, depends largely on these factors.

This conjuncture in the evolution of banking strategy has been accompanied by another conjuncture in the global macroeconomy. That is, not only is the US the issuer of the preferred global reserve-currency; it has been in the unique global situation of receiving huge capital-account surpluses on a relatively continuous basis during the past quarter century. This continual infusion of funds, during a period that has seen financial-market crisis and stagnation in many portions of the globe, has made Wall Street increasingly hegemonic in global equity markets and provided it with unprecedented levels of market liquidity and depth. Taken together, this double conjuncture has left US banks with the leading position in the world banking system and facilitated the spread of the US model of banking. No natural law requires that this double conjuncture persist. In particular, it might be conjectured that the persistence of extremely low interest rates in the US has facilitated an extended period in which consumer debt instruments can be created and distributed with artificially low risks of borrower default and security-buyer capital loss.[19]

"Financial citizenry" and financial inclusion. Whether the engineers of micro-scale financial globalization should be held accountable for directly or indirectly for the deleterious effects of this process is complicated and lacks a simple answer. As with Bello's (and others') assertion that macro-scale globalization bears responsibility for the emergence of more poverty and stagnation in the wake of global banking crises, it is a question of how one sees things. Citibank, for example, might not finance money-order or check-cashing outlets in a given foreign country, even while pursuing that nation's elite banking customers. If it can be argued successfully that Citi's entry has led to the bifurcation of the banking market in that nation, should Citi be held accountable?

Rather than attempting to resolve imponderables of this sort, it might be more fruitful to work with a more holistic conception of the impact of micro-scale financial globalization. For example, one might consider whether increasing access to global financial assets increases or decreases the number of "financial citizens" (Leyshon and Thrift 1995) in a given global area. The term *financial citizen* can be defined to denote any household or firm that has ready access to standard banking services, offered by formal-sector financial-sector firms subject to regulatory oversight, at competitive terms and non-premium prices.[20] That is, financial citizens are participants whose normal, day-to-day interactions with financial-service firms do not systematically erode their wealth, constrain their options, or precommit their future cash-flows.

The key question here is, what is meant by "standard banking services." The equivalent of a national citizen's "voting rights" (the right to select among available political candidates, for example) is the financial citizen's ability to select among the package of services offered by different regulated financial-intermediary firms. The key in this notion of selection is the idea that the suppliers of financial services do not have asymmetric power in this

[19] At this writing, the Federal Reserve has raised the interbank rate 7 times in the past seven months, without yet affecting longer-term rates (such as those on mortgages and consumer credit).

[20] The term "standard" banking services is preferred to "traditional" banking services, as what counts as "standard" is a far larger set of financial services than were traditionally available under pre-deregulation banking systems in most countries.

relationship – the ability to impose stricter terms or higher prices without any fear that the customer in question will cancel the relationship.[21]

We can then consider the impact of micro-scale financial globalization on financial inclusion from the perspective of the global expansion or shrinkage of *financial citizenship*. At first, glance, it might seem that the term "financial inclusion" is simply the obverse of "financial exclusion", and a synonym for the term "financial citizenship." But the proportion of any population that is financially excluded does not necessarily equal (1 – the proportion of financial citizens). Just as two very different meanings of the term 'market access' co-exist, so too, financial inclusion is an ambiguous phrase. This "inclusion" can mean, on the one hand, that increasing numbers of poor people have ongoing or even sporadic relationships with formal-sector banks. This could be achieved in the US, for example, if banks succeed in their goal of taking a larger share of the remittance market. No guarantees would be made about the terms and conditions of this "inclusion."

The question of what constitutes financial inclusion also turns on what package of 'standard banking services' is defined as constituting financial citizenship. This brings us inescapably to an ethical dimension in the analysis. Should every (financial) citizen have the right to make transactions at a percentage or per-transaction cost below some threshold? Should every (financial) citizen have the right to set aside financial savings? Should every (financial) citizen be free from "exploitative rates" when borrowing? These questions cannot be answered in a value-free way; they require making an ethical judgement about what is fair and unfair in financial practices. In a recent paper (DYMSKI, 2005), I have begun to explore the notion of "financial exploitation" as a benchmark for evaluating emerging financial instruments and practices. Given the shifting organizational structures and alliances among financial firms and megabanks in the global economy, it is perhaps crucial for those concerned about the circumstances

[21] This definition of power is derived from Hirschman's (1983) model of firm participation in exit, voice, and loyalty. In this model, workers can participate in shaping a work environment either actively – through expressing their ideas in mechanisms for their "voice" to be heard — or passively – by exiting the firm. If the threat of exit is real – if workers have outside employment options as good as their current jobs – then firms have an incentive to maintain high-quality work environments and to pay good wages. If there is no threat of exit, firms have no such incentive. In this sense, financial account-holders' ability to take their funds elsewhere checks financial firms' ability to impose onerous costs and to pay low returns.

of the working class and the poor in the current conjuncture to identify and defend a standard of justice and just treatment in financial practices. It is also important to advocate policies that establish the accountability of financial institutions to the members of the nations in which they operate.

ABSTRACT

This paper argues that the current world-wide scenario of liberalized banking and financial exclusion has emerged because of two successive phases of financial globalization: a macro-scale globalization beginning in the late 1970s and persisting two decades; and a micro-scale globalization – that is, the movement across borders of banking firms and banking practices - beginning in the late 1980s and still gathering force. Contrary to those who view micro-scale globalization as shifting formerly sheltered national banking systems toward efficiency, this paper argues that micro-scale globalization is generating both financial inclusion for the privileged and financial exclusion for the poor or working poor. That is, the micro-scale globalization processes move not only along an efficiency/inefficiency axis, but also along an axis of wealth-equality/opportunity; and moves in the direction of efficiency may force a given economy further from the point of equality of opportunity and wealth.
Key-words: banking strategy, financial exclusion, globalization.

RESUMO

Este artigo argumenta que o corrente cenário mundial de liberalização bancária e exclusão financeira surgiu em virtude de duas sucessivas fases de globalização financeira: uma globalização em macro-escala iniciada no fim dos anos 70 e que persistiu por duas décadas; e uma globalização em micro-escala – ou seja, o movimento além das fronteiras das firmas e práticas bancárias – iniciada no fim dos anos 80 e que ainda reúne força. Contrário a aqueles que vêem a globalização em micro-escala , este artigo argumenta que a globalização em micro-escala está gerando uma inclusão financeira para os privilegiados e uma exclusão financeira para os pobres ou trabalhadores pobres. Ou seja, os processos de globalização em micro-escala não se movem somente ao longo do eixo eficiência/ineficiência, mas também ao longo de um eixo de riqueza-igualdade/oportunidade, e os movimentos

na direção de uma eficiência podem forçar uma dada economia ir além do ponto de igualdade de oportunidade e riqueza.
Palavras-chave: estratégia bancária, exclusão financeira, globalização.

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Figure 1 - BANKS' INTERNACIONAL CLAIMS ON LATIM AMMERICA BY NATIONAL OF LENDING BANKS, 1983-2003 (MILLIONS US$96)

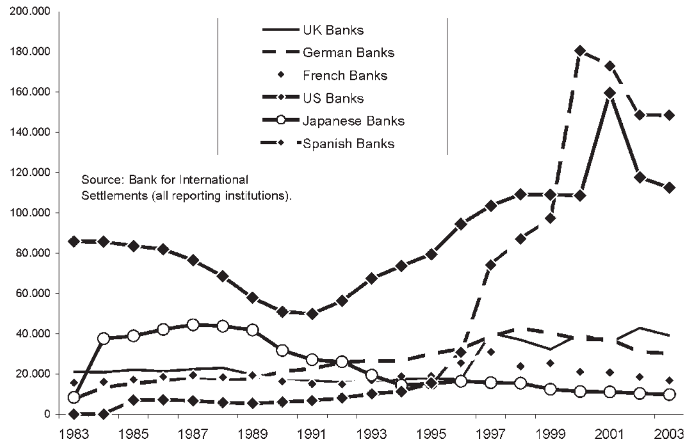

Figure 2 - BANKS' INTERNACIONAL CLAIMS ON ASIA BY NATIONAL OF LENDING BANKS, 1983-2003 (MILLIONS US$96)

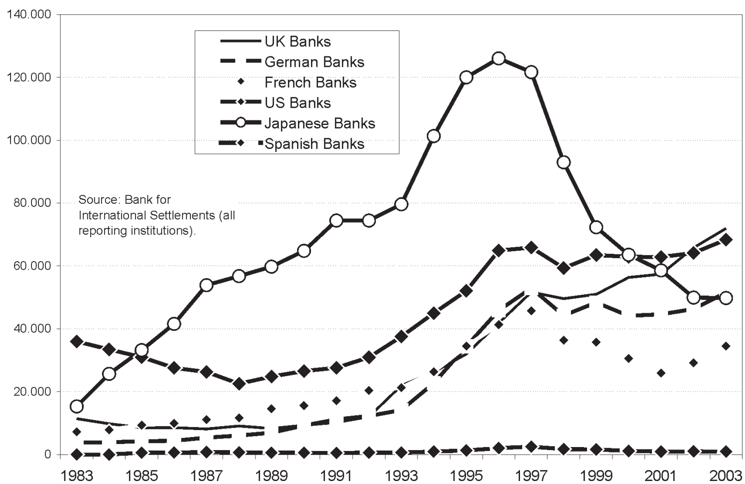

Figure 3 - U.S. COMMERCIAL BANK MERGERS, 1966-2003: UNASSISTED VS. FAILED-BANK TAKE-OVERS

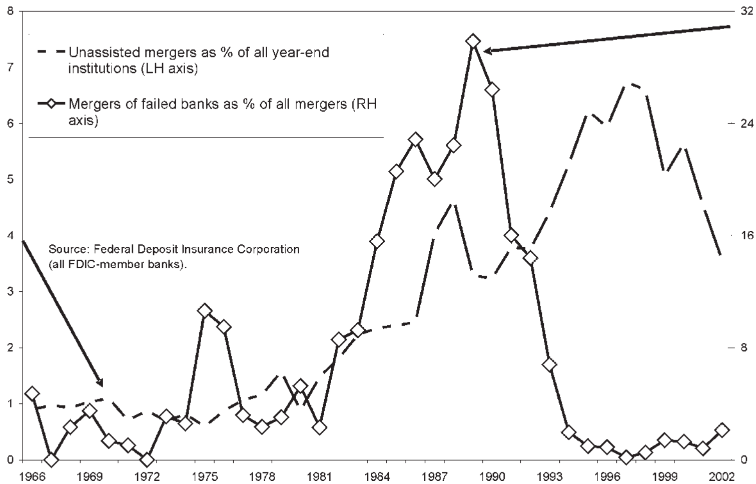

Figure 4 - INTEREST INCOME/NET INCOME AND NET INCOME/EXPENSE RATIOS, U.S. COMMERCIAL BANKS, 1966-2003

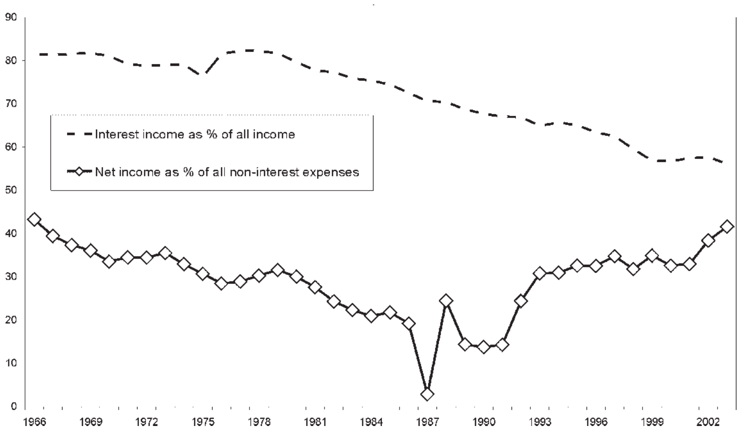

Figure 5 - ASSET SIZE OF TOP-25 BANK HOLDING COMPANIES, DECEMBER 1997 TO MARCH 2004 (US $000)

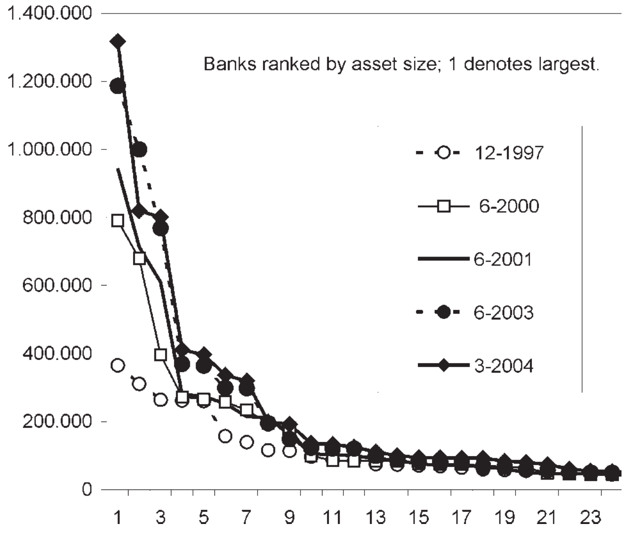

Figure 6 - THE SIZE-DISTRIBUTION OF THE 24 LARGERST U.S. MEGABANKS IN 1997 AS OF 2004, INCLUDING PATTERNS OF CONSOLIDATION (ASSETS IN $000)

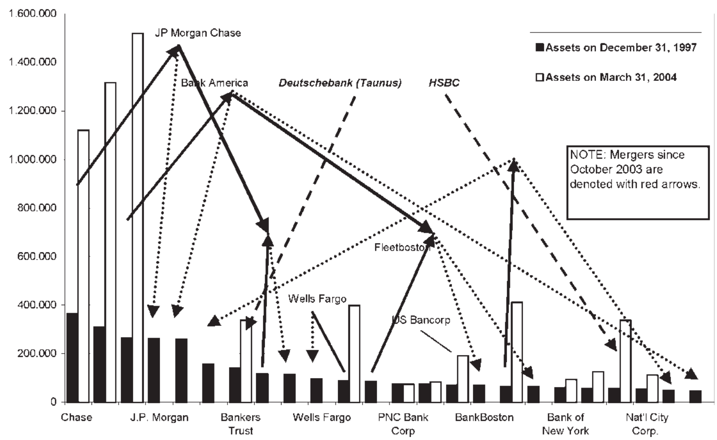

Figure 7 - NEW COMMERCIAL BANKS, 1966-2003: NEW BANK CHARTERS AND CONVERSIONS VS. UNASSISTED MERGERS

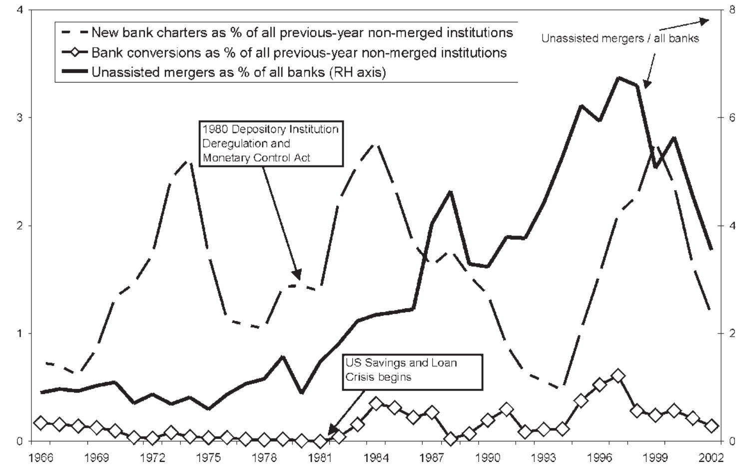

Figure 8 - RANK ORDER OF 50 LARGERS BANK HOLDING COMPANIES BY GLOBAL AREA, 1999-2000 (ASSETS IN US $000)

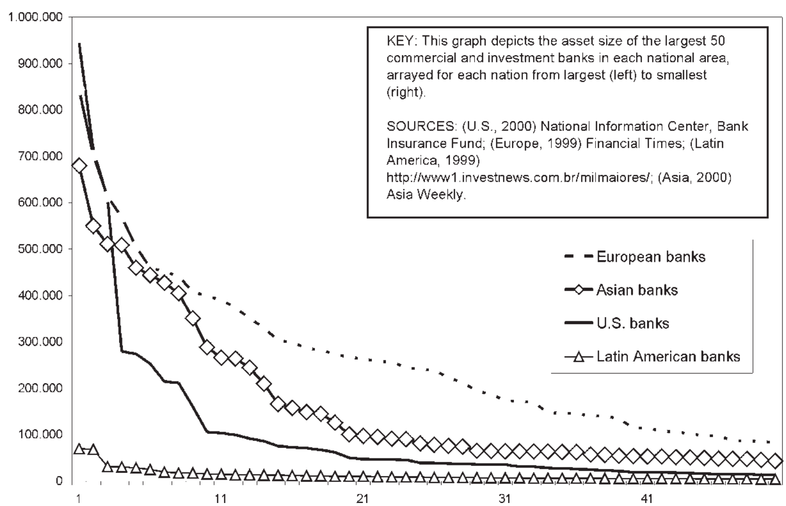

Figure 9 - MARKET VALUE OF FINANCIAL FIRMS LISTED IN BUSINESS WEEK 1000, BY GLOBAL AREAS, 1989-2004 (US $M)

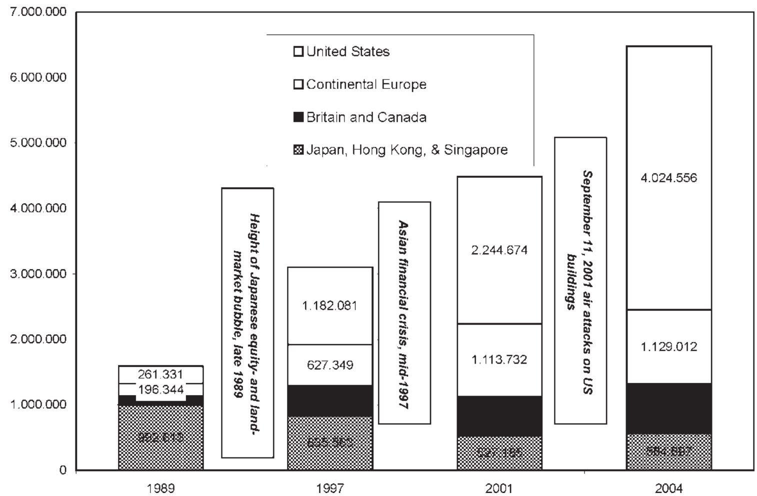

tabela 1 - LOAN/ASSET AND CONCENTRATION RATIOS, AMERICAM AND ASIAN COMMERCIAL BANKS, 2000

	Total loans as % of all assets for:		10 largest banks' assets
	All banks	10 largest banks	as % of all bank assets
America			
Argentina	70,3	72,5	70,4
United States	61,2	58,6	49,4
Mexico	52,2	52,2	94,9
Colombia	49,4	44,5	66,8
Venezuela	42,5	41,6	75,2
Ecuador	33,7	33,1	77,0
Chile	27,1	25,2	72,9
Brazil	21,6	20,3	67,0
Asia and Oceania			
Thailand	70,2	70,7	95,7
Singapore	69,6	69,6	100,0
Taiwan	66,1	65,8	48,5
Japan	63,1	61,7	56,0
Malaysia	60,5	59,8	73,1
China	58,5	59,4	95,0
South Korea	54,4	56,6	82,1
Philippines	49,0	48,1	80,6
Hong Kong	44,2	42,5	87,2
South Asia	39,1	37,4	63,9
Indonesia	18,9	15,9	86,8

tabela 2 - DATA FOR BUSINESS WEEK GLOBAL 1000 FIRMS, BY GLOBAL AREA (MAY 2004)

Financial firms only

	Profits/Sales	Profits/Assets
US	30,4%	1,2%
Western Europe	15,3%	0,5%
Southern Europe	NA	0,8%
Asia (exc Jpn)	57,0%	1,3%
Japan	14,4%	0,5%

Non-financial firms only

	Profits/Sales	Profits/Assets
US	6,4%	4,5%
Western Europe	5,4%	4,3%
Southern Europe	8,7%	5,1%
Asia (exc Jpn)	12,9%	8,1%
Japan	3,2%	2,7%

Financials as share of total for all Global 1000 firms

	Market Value	Sales	Profits	Assets
US	22,0%	9,1%	32,1%	63,8%
Western Europe	27,0%	13,7%	30,9%	79,5%
Southern Europe	30,4%	NA	30,3%	73,6%
Asia (exc Jpn)	25,4%	3,8%	15,0%	52,0%
Japan	73,8%	47,1%	79,9%	95,7%