

The Banking Crisis and Management Research : A View from the Policy World

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Origins of the crisis

- Bad mortgage lending (US subprime)
- Bundled into complex securitized products
- ‘Gambling mentality’
- Insufficient capital (overall / for some assets)
- Extreme maturity mismatch + interconnectedness
- Bigger and bigger banks
- Some ‘classical bubbles’ (Spain, Ireland)
- Sovereign crisis in Euro area

Main policy responses

- More capital (overall / on some activities / for large banks)
- Resolution: Bail-in / living wills
- New liquidity standards
- ‘Macroprudential policy’ (e.g. counter-cyclical capital buffer)
- US: Consumer Financial Protection Bureau (+ fines !)
- Eurozone: Banking Union
- Structural reforms: Vickers (UK), Volcker (US₃)

**Some 'unresolved' areas:
Complexity, culture, control**

Complexity

- Paul Volcker: “the only socially useful innovation in banking has been the ATM”.
- Complexity of products for general public (despite MiFID)
- Complexity of products for institutions: “simple and transparent securitization”
- (next to complexity of regulation ...)

Culture

- Should banking become 'boring'?
- How to deal with (short-termist) excesses?
- Would we have had the financial crisis if Lehman Brothers had been Lehman Sisters?

European Banking Authority High Earners (HE) 2012

	BE	DE	FR	UK
Total number HE	15	212	177	2.714
Average Comp. (M€)	1.3	1.6	1.6	2.0
% Investment B.	27	47	66	81
% Retail B.	13	8	2	2
% Asset Man.	0	8	10	7
% Other bus. Areas	60	37	22	10

Control

- General debate about ‘shareholder value’ versus ‘stakeholder value’
- Specificity of banking: VERY high **leverage**, and thus a potentially big difference between firm value and shareholder value. Can we introduce more debt control?
- Paradox: everybody complains about excessive banking leverage ... but tax system subsidizes debt relative to equity

The contribution of doctoral training

Economics and management doctoral training

- Strengths of top (US) economics PhD programs: (i) broad array of **PhD courses** ; (ii) returns to **agglomeration** (teachers and students)
- **Advantage** of management research: **diversity**
- **Challenge** of management research: **diversity**

Goals of doctoral training

- Do provide **specialized knowledge** (**networks** very useful here)
- While pushing for **interdisciplinarity** and ‘broad’ thinking
- Contrasting views on (US) doctoral programs in economics: Piketty versus Banerjee-Duflo
- Unavoidable tension in development of scientific paradigms (Kuhn)