ABSTRACT

BANKING DISTORTIONS IN THE FINANCIAL
STRUCTURES OF POST-WAR ECONOMIES
(The Experience of Jamaica, Korea, Trinidad and Tobago
and the U.S.A.)

This study assesses the evolution of the banking system in the financial structures of selected economies in the post-war years 1960 through 1980. In an examination of Jamaica, Korea, Trinidad and Tobago and the United States of America, the study identifies and speaks to the emergence of a largely financial phenomenon which it calls 'financial asphyxiation.' This phenomenon is deemed to exist when, contrary to orthodox theory and historical experience, the banking subsector (central and commercial banks) systematically at the margin, commands a larger share of the financial system, despite markedly less efficient incremental operational performance than non-banks. Thus, in time, the banking system succeeds in stifling or 'asphyxiating' the healthy evolution of the non-banking system, introducing into the financial system major distortions, that are readily transmittable to the economy at large.

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the study identifies the occasional presence of the financial asphyxiation phenomenon in all four of the economies, especially the United States. The most overwhelming determinate factor appears to be government, whose role in and influence over the financial system of most economies appears to be not only substantial but usually highly skewed in favour of their banking systems. Another factor appears to be inflation, itself largely government driven.

In terms of the impact of the phenomenon, the costs to economic welfare in the survey countries is estimated at as much as two percent of their annual Gross National Product, often being higher. Thus, the resultant distortive economic effects are quite significant and deserving of urgent remedial responses.

With specific reference to the Caribbean economies (the Caricom region), the study concludes that policy responses for this financial sector imperfection must necessarily center around a comprehensive program of financial innovations and reforms designed to radically deepen the 'lukewarm' process of indigenization and integration now obtaining in the region's financial systems. Central to these reforms must be an increasing role for the private sector, given the sustained and significant roles of the public sector in the first post-independence phase of the indigenization and integration efforts in these economies--factors themselves partially responsible for the presence of financial asphyxiation. In this context, some specific thoughts are presented covering the years 1987-2002.