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The Democratic Banker

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- ◆ Banks contribute not only to the economic development of emerging countries but also to political development.
- ◆ International bank flows in an emerging country tend to grow during the three years immediately following transition to a democratic regime.
- ◆ New instruments are needed to continue to confirm bank preference for democratic regimes. For instance, it would be useful to have an indicator to measure the level of banking activity in countries that respect human rights.

A bad reputation is what banks and bankers usually have. Those who handle other people's money are frequently labelled as greedy and smug and do not enjoy a good public image. Portuguese poet Fernando Pessoa may well have tried to present them as somewhat more conventional characters in *The Anarchist Banker*, but his story did not exactly meet with colossal enthusiasm. Reality is, however, moving away from these stereotypes. It should be noted, for instance, that banks and bankers tend to make distinctions amongst political regimes and tend to prefer democratic ones.

In fact, in the world of finance, preference for democracy is massive. The majority of the world's financial assets are concentrated in the democratic countries of the OECD. The same developed democracies monopolise the major part of bank credit activity. In 2005, cross-border bank flows totalled nearly \$570 billion, out of which barely \$50 billion – just 9 per cent of the total – involved emerging countries. The same year, the overall volume of international bank credit amounted to nearly \$21 110 billion. Emerging countries only represented a small part of this volume, barely 7 per cent, or about \$1 410 billion; most of these bank flows involved emerging democracies such as South Korea, Mexico and Brazil. Flows in China, for instance, only reach about \$105 million, or not more than 0.5 per cent of the world's total volume. Most outstanding, according to a recent study by the OECD Development Centre, is that international bank-credit flows tend to increase substantially in the years following

a democratic transition, particularly in Latin America and Eastern Europe¹.

Bankers are also players in the developed countries' democratic game. In the United States, political spheres are not hermetically sealed from financial spheres, and a good many bankers have moved from New York to Washington. A banking entity as emblematic as Goldman Sachs, for instance, has provided successive US administrations, both Republican and Democratic, with a large number of cabinet members and high-ranking public officials. In 2006, Henry Paulson left his position of CEO of the New York private investment bank to become US Treasury Secretary. Joshua Bolten, another former executive of the same bank, became White House chief of staff. In the opposite direction, banking also constitutes a recycling area for high officials leaving the administration. Robert Zoellick, deputy secretary of state to Condoleezza Rice, went on to become vice chairman of Goldman Sachs. This game of musical chairs is neither new nor is it played along party lines. Goldman Sachs itself – no need to look any further – counts amongst its ranks Bill Clinton's former Treasury Secretary Robert Rubin. As for another former CEO of the New York bank, Jon Corzine, he now occupies the governor's office of the state of New Jersey, which is controlled by the Democrats.

1. See Javier Rodríguez and Javier Santiso, "Banking on Democracy: The Political Economy of International Private Bank Lending in Emerging Markets", *Working Paper* No. 259, OECD Development

The waltz between the worlds of finance and politics is not limited to developed democracies. It is also a favourite dance in developing democracies. In Brazil, the administrations of former labour leader Lula da Silva and of his predecessor, the sociologist Fernando Henrique Cardoso, included distinguished persons from the financial community, amongst which an asset manager from Soros Fund Management (who later went back to the finance sector) and a senior executive from a big US bank. The Spanish bank BBVA has become a mine of officials for Latin American administrations and international organisations. These past few years, its former chief economists in Chile and Peru were asked to fill important positions in the countries' administrations, the former as head of the pension-fund regulation agency (one of the most highly priced positions in the Chilean administration), and the latter as minister of the economy and treasury in Alán García's mid-2006 government. Also from the BBVA have hailed economists who have taken hold of high-responsibility positions in international organisations such as the Inter-American Development Bank, the International Monetary Fund and the Organisation for Economic Co-operation and Development. The Spanish bank has also supplied the public administrations of its own country with senior officials, including ministers, secretaries of state and several successive directors of the economic cabinet of the government presidency.

The links between banks and emerging democracies were more systematically examined in the above-mentioned OECD Development Centre study, which confirmed the preference of banks for emerging democracies. The study demonstrates, with figures, that international bank flows towards emerging countries tend to be concentrated on the democratic regimes. It underscores that when a developing country carries out its democratic transition, international bank flows towards the country in question tend to grow during the three years following the regime change. This observation is clearly confirmed in the cases of Eastern Europe and Latin America where most of the democratic transitions took place in recent decades. Continued monitoring of bank preference for democratic systems would require new instruments, such as an indicator to measure the level of banking activity in countries that play by the rules of democracy. This inclination for democracy is most likely motivated more by reasons of economics than of ethics, given that democracies usually show more stable growth patterns – a factor highly appreciated by bankers.

Most likely, too, banks and bankers will continue to project a dreadful image. Nonetheless, there is no denying that not only do they contribute to the economic development of emerging countries, they are also an active ingredient, though less patently so, of political development.



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