

Sistema financiero sin bancos ¿es posible?

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Los autores entrevistados de “El fin de la banca: el dinero, el crédito y la revolución digital” responden que sí. Anuncian segundo libro.

Sara Gallardo M.

Detrás del seudónimo Jonathan McMillan están los dos autores del libro “El fin de la banca: el dinero, el crédito y la revolución digital”, postura asumida para hablar de esta vida y la otra que se avecina con pasos de animal grande en el sector financiero mundial.

Sin aspavientos de ninguna naturaleza se atreven a vaticinar el funcionamiento del ambiente de las finanzas sin bancos, o por lo menos,

sin los que conocemos en la actualidad. Cada vez que pueden y sin parecer presuntuosos enfatizan en que “es irremediamente necesario”. Opinión que con toda seguridad describirán a fondo en el nuevo libro que preparan -noticia del momento- envuelto en un huracán pronosticado.

Cada uno de los autores acumula en su caja fuerte del saber un amplio recorrido profesional.



Jonathan McMillan. Photographer: Goran Basic

El primero, experto en economía, M.Phil de la universidad de Cambridge, Ph.D de la ETH Zurich y un incansable investigador sobre el impacto de la regulación bancaria en la estabilidad macroeconómica y el bienestar social, quien no dudó en renunciar como editor económico de un diario suizo y dejar atrás la academia, para afilar la pluma y dedicarse a la escritura del nuevo libro. Entre párrafo y párrafo, practica deportes al aire libre, se lanza a

conocer lugares por el mundo y a nutrir su creatividad culinaria para reunir a su familia y amigos en largas tertulias.

El segundo autor, muy destacado en los mismos terrenos, se mantiene firme en una empresa, sumándole tiempo a los diez años de experiencia en banca de inversión y gestión de patrimonio. Aunque es crítico señalando los defectos del sistema financiero actual, ama su

trabajo y las finanzas son su pasión; de ahí que, mientras ve crecer a su pequeña hija, dedique sus mejores esfuerzos en propuestas de reformas significativas que impacten ese ambiente de negocio, para verla disfrutar de una vida estable y próspera. Entre el trabajo, el nuevo libro y la familia busca su espacio propio para la excursión, esquiar y los infaltables videojuegos.

Aunque en el intercambio de mensajes para esta entrevista sus identidades salieron a flote, figurarán como “autores” en cada una de las respuestas, en agradecimiento y respeto por su privacidad.

Revista Sistemas: How was the book born? What was the motivation to write it?

Autores: The book was born in a London Pub in 2011. I was back in the UK for a reunion at university, while Jorge was on an assignment in the city. We met over the weekend to have a beer and chat about old times. The financial crisis was very much the dominating topic back then. So no wonder the two of us, economists as we are, mostly spoke about the collapse of the economic system. We were both disappointed how economists and finance professionals reacted to the crisis. For Jorge it got clear that three years after Lehman, banking was already back to business as usual. At the same time, I was disillusioned about academia: Macroeconomists largely stick to their old

flawed models that have just spectacularly failed. So after a couple of pints, we decided that we cannot remain quiet. We had to step up. But how should we do that? Well, by writing a book about what we think is wrong in economics and in today's financial system.

RS: Did using a pseudonym obey to prevent some type of risk? Which one?

Autores: There are a couple of reasons for using a pseudonym. First, Jorge was and still is working in the financial sector. So to avoid conflict with his employer, he could not publish under his real name. Second, we have worked on this book for years. Over the course of this time we have rewritten every part like twenty times. It was no longer the product of Jorge or of Jürg, it was the product of something the two of us have grown into. So we wanted to reflect this in the choice of only one pseudonym.

RS: You warn about factors that affect the functioning of the financial system, observe that something is going wrong and that you have lost control of the financial system, what do you specifically refer to?

Autores: Frankly, many problems are obvious. Overall debt levels have risen even beyond records set before the last financial crisis. The financial system remains highly leveraged and fragile while the real

economy struggles. Central Banks have created asset bubbles in every corner of our economy. And bankers are still earning ridiculous amounts of money for running an overly complex financial system. So what are the factors that are at play? Some people think that we have to deal with hundreds of factors and that the entire situation is very complex. The financial system for sure looks like a complex beast. But once you dive into the matters and discover what is going wrong at the most fundamental level, you start to realize that all those factors tie back to one fundamental flaw: We have allowed financial companies to create systemic financial risk and undermine our core economic principles of freedom and competition. Here we call for a simple, but radical change to remediate the foundations of our economic system.

RS: *How have the digital revolution and new technologies influenced the financial sector, so that there is talk of an imminent need for change?*

Autores: Banking has always been the source of systemic risks, inequality, crises, and recessions. This is why we have a central bank, and why governments more often than not rescue troubled banks. But this safety net only works if we also effectively regulate banks, so that they cannot abuse their privileged position. Now this banking regulation has always been difficult. Note

that banking is an entirely virtual business. It is human imagination in its purest form. Regulating an entirely virtual business is an entirely different ballgame than regulating physical industries and their factories. Now, in the industrial age, the problem for regulators of imposing undesired banking restrictions was nonetheless still manageable. The reason was that banking faced physical constraints back then: Each and every transaction had to be recorded, confirmed, calculated, and reconciled with pen and paper. Today it is hard to imagine that a banking book once actually was a physical book. In turn, bankers were forced to keep things simple and contained. Banking took place on one balance sheet. And this was a regulators dream. They just had to keep an eye on everything that happened on the accounting books of banks. It was not that difficult to identify if bankers overstepped boundaries and ramped up excessive risks. The digital revolution has changed this fundamentally: The digital revolution mobilized credit. Information technology enabled financial institutions to slice, dice and redistribute financial obligations across balance sheets and jurisdictions at high speed and low costs. Financial contracts could now be sent from one balance sheet to another one with just a few mouse clicks. This had a profound effects on the macroeconomic level, because banking increasingly took place outside the balance sheet of the individual banks; it

spread and became a business conducted on not one balance sheet but within a complex web of balance sheets. Therefore the old approach to safeguard our financial system, which dates back to the Great Depression in the 1930ies, is no longer working. We can no longer control systemic risk. So only if we prevent systemic risk from arising in the first place, can we restore stability and prosperity.

RS: Does the technological and digital impact originate the tendency toward the radical disintermediation of the financial system, as opposed to money and credit in the exclusive hands of banks?

Autores: We have the technological capabilities to disintermediate our financial system as the recent rise of fintech – short for financial technology – demonstrates. New fintech-companies have started to perform the functions of traditional banks without creating the systemic risks that banking brings along. But despite technological feasibility, we have not seen any trend in finance away from the too-big-to-fail banks. The problem is that within today's legal framework, it is always more profitable to conduct banking, which is basically outsourcing a large junk of risks to society, instead of providing financial services in a disintermediated and market-based way. Even though technologies today allow for a competitive, efficient and stable financial system that is

decentralized, our outdated legal framework is preventing this.

RS: In your opinion, how does impact the bank that we know the economy of a country and globally affect?

Autores: Today's unconstrained banking is detrimental to stability and prosperity. Currently, it might seem like the global economy is doing well. But beneath the surface, the seed for the next, potentially even more devastating crisis is planted. Instead of supporting the real economy with loans to support jobs and productivity growth, our financial system provides loans to fuel real estate and other asset price bubbles. And, as always in history, these bubbles will pop, and banking institutions will again face imminent collapse and require government assistance. Of course, regulators and central banks would like to step in beforehand with regulation. But as we have just described, information technologies undermined the working of all old-school banking regulation.

RS: How do fintechs appear in that context? How do you define fintech? What is its impact and how do they define it in the financial sector?

Autores: Fintech stands for financial technology, and as we know, technology in itself is never per-se good or bad. It matters how it is used. For sure, fintech has the po-

tential to power a decentralized and market-based financial system. Many of the original fintech startups began with this purpose in mind. However, the legal framework has pushed many of these idealistic companies to change their course of action and turn to a banking model disguised by fancy buzzwords instead. So fintech really is not much of a useful term anymore, as it can mean both the use of digital technology to replace the old banking model, or the use of technology to conduct shadow banking, that is, banking outside the regulators spotlight.

RS: *In your opinion, fintech, will be absorbed in the medium term by traditional banking? Will they work together? Will they begin to occupy leadership positions in the financial sector?*

Autores: Within the current framework, parts of fintech will become a new form of shadow banking. In some areas, the parallels to the 2000s are striking. Also back then, people thought that new financial technology will transform the financial system to the better. The term that was used back then was “financial innovation”. But eventually, financial innovation was just one piece of shadow banking, used to fuel the subprime bubble that formed the epicenter of the Financial Crisis of 2007-08.

RS: *Should central banking become a digital central bank?*

Should it issue cryptocurrencies?

Autores: We propose that only digital currency should be issued, because it allows a more effective monetary policy. Digital currency can be issued by an unconditional income to everyone, and withdrawn via a liquidity fee. With paper currency, central banks have to resort to inflation to promote the circulation. However, inflation is like ketchup in a glass bottle: it is very hard to get the right dose. Regarding cryptocurrencies: We just do not know yet which technology is best for managing a public digital currency. Cryptocurrencies offer some advantages, but current solutions come with some serious drawbacks.

RS: *Will cybersecurity in banking be the new normal of your operations to ensure a better relationship with your customers?*

Autores: Trust and security have always been prime factors when offering financial services. This will not be any different going forward.

RS: *According to the reflections of your book, will banking have less and less importance? Or reinvent your current role?*

Autores: As said, it depends on the regulatory framework. If it stays as it is today, unconstrained banking will reemerge in new forms of shadow banking and cause new booms and busts.

RS: *Is there a regulatory system for the proposed new banking environment? How do you define it? What would be the ideal regulatory system?*

Autores: This is exactly what our book is about. We offer a blueprint for a decentralized and resilient financial system for the digital age. We are convinced that our systemic solvency rule will set the ideal boundary, that is, the ideal legal framework for a financial system in the digital age.

RS: *Trust is a very important value for the consumer of financial products and for the States, what do you think about it? How does it work in the context you propose?*

Autores: We believe that individuals who take responsibility and are well informed can make better decisions than a central authority that has not always the best interest of the people at its heart. We think trust should be established by those who offer financial services, and not by the government providing backstops if those who offer financial services fail. Overall, this will lead to much better outcomes for the society as a whole, as there will be free competition for trust. Reputation will be the most valuable asset of the new financial institutions.

RS: *How have you done with the book? In which countries does it*

circulate? How many copies have been printed?

Autores: In a way, the book is a bit of a late starter. We have initially self-published “The End of Banking” in 2014. By doing so, we have chosen the rough way as the fight for attention is pretty hard in today’s world. Nevertheless, we managed to get reviews in well-known publications such as the Financial Times Alphaville and Reuters Breakingviews –even Vítor Constâncio, then Vice President of the European Central Bank, has taken up our ideas. So with time, we got more and more traction. A decisive moment was, when the spanish branch of Penguin Random House discovered the book. That led to deals with renowned publishers around the world. “The End of Banking” has now been translated to spanish, portuguese, french, italian, german, russian, and japanese. It will soon be published in chinese as well.

RS: *What has been the response of the different readers among public officials, businessmen and consumers of the financial sector?*

Autores: The reactions have surprised us, as we have faced very little opposition. In particular in the financial sector. There many people told us they couldn’t agree more with how much the system is messed-up and that they think, too, only radical change will help. As the book was