Victoria Chick's Stages of Banking Development Framework

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Methodological significance of the framework

- Stylised representation of the history of the English banking system as basis for analysing other systems
- Analytical history – sets out a logic of the evolution of banking
- Reflects Keynes's warning against 'treating the material as constant and homogeneous'
- Provides a basis for understanding exceptions, eg US, Scotland
- The approach mirrors Adam Smith's use of Newtonian experimental methodology
- Macroeconomic and monetary theoretical and policy analysis should address the relevant institutional structure and the forces behind it (Minsky, Niebyl)

The stages of banking development

- Stages 1-4:
  - confidence in emerging banks encourages use of liabilities as means of payment
  - bank capacity to create credit grows
  - central bank takes on responsibility for supporting banks
  - bank credit increasingly facilitates investment and growth

- Stages 5-7:
  - regulatory change to increase competition among financial institutions encourages liability management: structural market diffusion
  - competition over market share drives credit growth detached from real economy
  - central bank attempts to constrain credit further encourages securitisation
  - increase in shadow banking + digital currencies: the end of banking?
  - efforts to maintain stability sows the seeds of instability (cf Marx, Minsky)

Critiques from Alternative Perspectives

- Money is credit money:
  - money’s nature is to be the counterpart to credit
  - no active role for the demand for money
  - credit money has always been endogenous
  - no scope for degrees of endogeneity

- Monetary circuit:
  - de-emphasise institutional context
  - closed circuit rather than open process conditioned by uncertainty
  - bank lending creates the power to repay it