
Money creation, intermediation and shadow banking: the finance/funding nexus

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Résumé

The Global Financial Crisis shed light on what came to be known as the shadow banking system. Some authors were already witnessing the "emergence of an unregulated parallel banking system" in the early 1990's but it took more than a decade and a major crisis for the concept of "shadow banking" to emerge [1] (D'Arista & Schlesinger, 1993). After its collapse during the crisis, the shadow banking system quickly recovered. According to the last Global Shadow Banking Monitoring Report of the FSB, the size of the other financial intermediaries as a share of total GDP at the end of 2015 exceeded its pre-crisis peak [2] (Financial Stability Board, 2016).

However, there is still no clear consensus on how it should be regulated. More importantly, there is still no generally accepted definition of shadow banking. And this is because authors disagree on the very nature of the shadow banking system. While some believe that it should not exist, others consider that it is "the centrally important channel of credit for our times" (Kregel, 2014; Mehrling, Pozsar, Sweeney, & Neilson, 2013).

Our main hypothesis is that the root of this disagreement is to be found in monetary theory. Authors of the mainstream literature more or less explicitly rely on the financial intermediation theory or on the fractional reserve theory [3]. Conversely, the post-Keynesian analyses are based on the endogenous money theory. These different monetary theories lead to conflicting regulatory proposals. But both views provide important insights to understand the nature of the contemporary financial system. We will therefore use the classic distinction between finance and funding to try to integrate these insights into a coherent analysis. This distinction can help to understand both views as different moments of the finance/funding process.

The paper is structured as follows. Section 1 will provide a brief genealogy of the shadow banking metaphor. A presentation of the main findings of the mainstream literature will be given in section 2. An alternative view that relies on post-Keynesian monetary theory will be presented in section 3. The finance/funding distinction will be used in section 4 to try to integrate the main insights of the two views. Section 5 will conclude.

The term "shadow banking" was coined in 2007 by Paul McCulley.

"OFIs (or Other Financial Intermediaries) are comprised of all financial institutions that are

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not classified as banks, insurance corporations, pension funds, public financial institutions, central banks, or financial auxiliaries. It *can be considered as a conservative proxy or broad measure of shadow banking*" (Financial Stability Board, 2016, my italics). The scope of the report covers 21 jurisdictions and the euro area.

That is on the idea that banks are mere intermediaries that collect funds from savers and lend them out to borrowers.

Mots-Clés: shadow banking, endogenous money, finance, funding, intermediation