
The role of Public Banks in market economies

Carmem Feijo*¹, Carlos Henrique Horn*², and Fernanda Feil¹

¹Universidade Federal Fluminense [Rio de Janeiro] – Brazil

²Universidade Federal do Rio Grande do Sul [Porto Alegre] – Brazil

Abstract

The development process requires a set of factors acting in consonance towards the achievement of this goal. It is what has been called the "convention to growth", when most of the actors of the society – State and public institutions coordinating this movement – are operating towards the same objective. The institutions are the tools, the State arms, that should be used for the goal to succeed. Important part of this coordination is the capacity to finance the process. Usually, long-term investment are not as profitably as the short term ones – banks are profit orientated and therefore tend to favour short-term projects. Thus, the consolidation of financial systems, in particular for the supply of long-term credit, is not an easy task in market economies. A recurrent discussion in the literature about the 'ideal' architecture of the financial systems is about the role of public banks and the provision of long-term financial resources.

The argument about the provision of long-term financing started to shape up during the 1950s with the need to rebuild the economies destroyed by the Second World War. The debate at that time consolidated the understanding of the importance for the countries to create public banks, especially development banks. Mostly, public banks worked in consonance with the government's strategic planning, inserted in a broader set of actions that had the goal to promote economic growth. In this sense, public banks were part of this "convention to growth" that had taken over most of States around the world in a period known as the "capitalism golden age".

This understanding began to be reversed with the change in the paradigm of economic science and the application of neoliberal policies after the 1970s. This slow and gradual process eventually changed the understanding of the importance of the State in financial intermediation, with a reduction in its participation - although many public banks, especially development banks, have resisted the mentioned change.

However, the major financial crisis in 2008 begun, a more positive view of public banks was once again considered. As a result, their functions as development agents and public policy arm has taken hold again. Nowadays, public banks are seem as instruments of the State to act in those niches that are important for the policies established by their controllers. This relationship narrows or broadens according to the State development level and the scope of government's policy. Nonetheless, this relation still embryonic and thus not fully operational. That is, is yet not clear the coordination between the State's strategic planning and its state-owned institutions, especially the public banks. Considering the current neoliberal macroeconomic paradigm, that perceives the State intervention as being deleterious for the economy, the recreation of the "convention to grow" is harder than in the previous period.

*Speaker

In sum, we conclude that public banks are necessary to ensure that one of the main functions of the credit market is met - to guarantee the economic growth process, by ensuring its capacity to finance the investment, acting in those sectors and regions, which need to be encouraged in order to assure the continuity and sustainability of the development process. That is, although private financial institutions are important for the running of the financial system, they end up choosing smaller maturation projects that are less risky and more profitable.

Keywords: Development Banks, development, State, financial System