
Why the U.S. had a crisis but Canada didn't

By Editor Test *Wed, Sep 7, 2011*

Two Rutgers professors explain how fragmentation of the banking system in the U.S. has led to a long series of panics here, of which the Great Recession was only the latest. Canada's financial history has been quieter.

The U.S. financial system has been prone to crisis from its very beginning, thanks to a fragmented banking system, a fragmented regulatory framework, and to the growth of a less-regulated "shadow" banking system that was itself a by-product of that very fragmentation.

By the same token, Canada's financial system didn't implode in 2008 because it consists of strongly regulated monopoly of a limited number of full-service national banks. That makes for a less creative financial environment but also a less fragile one.

That's the argument made by Rutgers economists Michael D. Bordo and Hugh Rockoff along with Angela Redish of the University of British Columbia in their concise and entertaining paper, ["Why Didn't Canada Have a Banking Crisis in 2008 \(Or in 1930, Or in 1907, Or...\)"](#) The paper was published this month by the National Bureau of Economic Research.

Bordo et al trace the recent U.S. financial crisis to the conflict between federal authority and state autonomy that began even before the founding of the country and which has frustrated the establishment of coherent national policy in almost every realm, including banking.

The root of the problem could be found in the Constitution, Bordo and his co-authors write, which gave the federal government the power to coin money and issue currency, but not the authority to regulate banking. In the British North American Act, which created Canada, the national government was given jurisdiction over all three.

While Democrats and Republicans continue to argue over whether excessive deregulation or excessive government interference caused the current crisis, these authors point out that the Great Recession bears a certain similarity to the panics that have plagued the U.S. financial system since its founding.

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