

The real estate

and stock market bubbles in East Asia, we are told, were fed by excessive bank lending. Ditto in Japan, where banks are now so far underwater that they are refusing to provide credit for any corporation that really needs it. On the other hand, it is economic gospel that successful modern economies need banks to serve as efficient financial intermediaries – and that an underdeveloped banking system is a serious impediment to growth.

So where is the golden mean? What level of credit creation is enough, and what level is too much? Alas, the numbers for 1997, gathered by the capital markets group at The Milken Institute, don't offer much guidance.

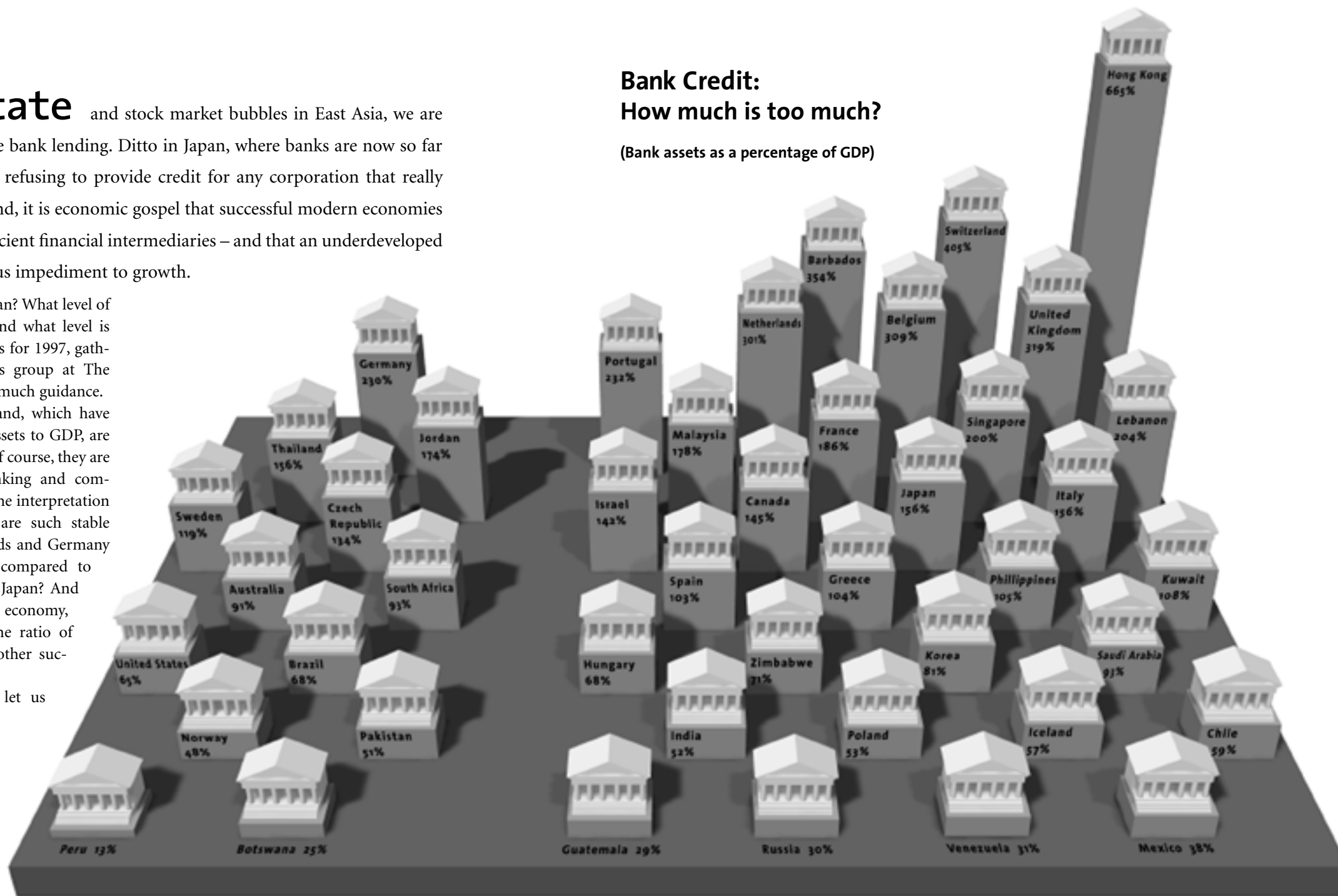
Hong Kong and Switzerland, which have the highest ratios of bank assets to GDP, are very successful economies. Of course, they are also global centers for banking and commerce, which may mess up the interpretation a bit. But why, pray tell, are such stable economies as the Netherlands and Germany swimming in bank assets compared to overextended Thailand and Japan? And why is it that one successful economy, Belgium, has three times the ratio of banks assets to GDP as another successful economy, Australia?

Once you figure it out, let us know.

— Thanks to Jim Barth and Glenn Yago

Bank Credit: How much is too much?

(Bank assets as a percentage of GDP)



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