

BANKS

The traditional function of banks has been to hold customer deposits and issue loans, but banks have recently expanded into many other financial businesses, including securities, mutual funds, investment banking and insurance. Sociologists who have studied banking have recently turned their attention to these changes. Historically, however, sociologists have also documented the prominent role of banks in national business communities, and the degree of banks' economic and political power has been the source of considerable debate. In this essay we examine the place of banks in historical perspective. Because of the enormous cross-national variation in banking systems and laws, our focus will be on the United States. We do include comparisons with the German and Japanese banking systems, however.

Banking in the US developed in a decentralized manner. Banks that were national in scope had already developed in the early nineteenth century. By the Civil War, however, public fear of consolidated financial power led to a series of governmental actions, most notably the National Banking Acts of 1863 and 1864 that eliminated national banks and branch banking. This resulted in banks being generally confined to the state of their headquarters, and in many cases limited to a single office (Roe 1994). In contrast with the US, concerns about consolidated financial power were less widespread in Germany and Japan, and banking thus developed in a more concentrated fashion in those countries. By the early twentieth century, a limited number of German and Japanese banks came to dominate their respective economies, typically by acting as the central

funding source for a network of connected businesses. Although the American banking system was generally decentralized, it is important to note that large US banks were still able to achieve consolidated power through mechanisms such as **interlocking directorates**. This concentrated power subsided, however, after the Clayton Act of 1914, which limited interlocks among competitors, and the Glass-Steagall Act of 1933, which separated commercial and investment banking. The US banking industry continued to include a number of powerful 'money centre' commercial banks, based mostly in New York, for much of the twentieth century. On the whole, however, banks were primarily locally based, and most banks maintained close ties to their communities. Beginning in the 1980s, many of the earlier geographic constraints and restrictions on function began to fall. US banks began to branch out nationally, and they developed increasingly into financial conglomerates. The Glass-Steagall Act, which had forced the separation of commercial from investment banking, was repealed in 1999.

The implications of these historical changes for the social role of banks have been a source of continuing controversy among sociologists. For decades, sociologists debated the extent to which banks held disproportionate power, both in the business community and the larger society. In one influential study, Mintz and Schwartz (1985) argued that because of their control of a universal resource – capital – banks have been the most powerful members of the corporate communities in developed capitalist societies. The continuing centrality of banks in networks of interlocking directorates was viewed by many sociologists as consistent with this argument (Mizruchi 1996). As alternative forms of financing emerged during the 1980s, however, nonfinancial corporations began to borrow less from banks, and banks found it necessary to move away from cor-

porate lending toward more fee-based strategies. By the 1990s, perhaps as a result of these changes, banks were no longer the most central firms in the national interlock network (Davis and Mizruchi 1999), although they do remain central in many local interlock networks. The situation in Germany and Japan remains considerably different from that in the US. Banks in Germany and Japan are permitted to directly hold equity in firms, and non-financial firms in both countries are more likely than in the US to raise capital through the use of credit rather than the capital market. This may explain why banks appear to be more active in setting firm policies in both Germany and Japan than in the US.

The significant transformation of the banking industry since the 1980s has raised questions about the future of banks as an institutional form. Many banking firms in the US have evolved into full service financial corporations, similar to the 'universal banks' that exist in Germany and Japan. The 1998 merger that created the financial services company Citigroup combined into a single firm the extensive commercial banking operation of the former Citibank, the Travelers insurance company, and the retail brokerage and investment banking businesses of Salomon Smith Barney. Banks have also expanded geographically, resulting in a new organizational form – the super-regional. To take one example, as of 2003, Bank of America had over 4,000 branch locations in twenty-one states. Only twenty years earlier, its precursor, NCNB, was a small regional bank in Charlotte, North Carolina. Some investigators have suggested that the rise of alternative sources of financing has led to a decline in bank power, both economic and political. The consolidation of the financial industry across both function and geography indicates that banks, in their new form, will continue to be important. Banks' traditional source of power – their control

of capital – may be less significant at the turn of the twenty-first century than it was in earlier years. The massive size and scope of these new banking organizations suggests that they will continue to exercise influence, both economically and politically!

References and further reading

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