Finance and Politics in the USA:

From National City Bank to Citigroup : an American bank or a world bank ?

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Introduction

As the theme of this year's EBHA Conference hinges around the link between the wealth of nations and international business, this paper aims at trying to analyse the positioning, since its creation, of one American bank (Citibank) within the American political domestic scene and the wider globalization of financial services. The banking landscape in the USA has been shaped by various political and economic forces throughout the years and the interaction between banks and the state has, in the case of Citibank[1], been particularly close and has, in t 200political(?)" market forces.

Indeed, the role of globalisation and the number of mergers and acquisitions in the banking sector in the USA which has increased in the last decade[2] has clearly contributed to the blurring of the frontiers between domestic and international boundaries in financial operations. Citigroup has managed to hold both a strong local-consumer base together with a wide international network which has involved it in a number of emerging markets and even micro-finance development today. Hence when one discusses the interactions between finance and politics, one realises that, in the United States, historical events have played a significant role in explaining the idiosyncrasy of the American banking landscape but one may wonder whether finance could have, on the domestic political scene in the USA, managed to outweigh politics or rather to free itself from political considerations.

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[1] Throughout this paper, and for readability purposes, we will often use the name Citibank and then Citigroup (since 1998) but the bank's name has been modified to accommodate regulatory changes.
1812: City Bank of New York
1865: National City Bank of New York
1955: First National City Bank of the City of New York
1962: First National City Bank
1968: First National City Corpotation
1974: Citicorp
1976: Citibank N.A.
1998: Citigroup.

[2] Rhoades, Stephen A., "Bank Mergers and Banking Structure in the United States, 1980-98", Staff Study 174, Board of Governors of the Federal Reserve System, August 2000.

I - Historical background: Inside and Outside, National City Bank and political adjustments

National City Bank was chartered in 1812 , amid the "banking ethos" that pervaded New York state at the time [Wright, 1998, p.542]. It was then strictly a state chartered bank and it is, by its longevity, one of the oldest banks in the United States. It has been on many occasions running ahead of regulations and political decisions and legislation. Several political and financial turning points will be addressed here and in each of them National City Bank played a major role.

A- Banking legislation at the time of the Civil War

The seminal American banking legislation that was enacted during the Civil War in the United States was very much modelled on the New York State Banking Act of 1838 which preserved the principle of free entry into banking subject to a minimum capital requirement [Cleveland, 1985, p. 25]. Until the Civil War and since the beginning of the 19th century, banks chartered by individual states dominated the American banking scene. Under this system, the laws governing capital and reserve requirements, note distribution and loan management differed from state to state; this "wild cat" banking era came to be dominated by certain state bank systems which were quite sound especially in the North East whereas other state bank systems, especially along the western frontier were unstable and often poorly managed. Hence, an informal hierarchy of banks was thus established in the United States throughout the 19th century. In this hierarchical system, banknotes issued by state banks were in general heavily discounted by eastern banks due to lack of credibility of some Midwestern of frontier banks as well as the lack of anything like a national unified banking system [Ritter, 1997]. We thus witness the development of a banking stronghold around the New York area in the second half of the 19th century.
Furthermore, the frequent panics that recurrently plagued the American economy at the time, which led to the failure of over-extended banks, And to the adoption by Congress of a National Banking System in 1863 an 1864. The Congress had initially intended for the national banks to eventually replace the state banks, and the number of state banks did decline in the 1860s to the advantage of national banks. Basically, the Congress was seeking three objectives. One, it sought to create a uniform national currency (the greenback) which would

be guaranteed by public credit. Secondly, the National Bank Acts established a reserve structure to provide a safety net. Indeed, banks were required to hold a substantial reserve from their total notes and deposits outstanding but in the absence of a central bank which could hold these reserves, they were placed in national banks in designated reserve cities. This reinforced the pyramidal and hierarchical structure of the banking system in the United States since banks scattered in the country would have to hold reserves with a reserve city bank which in turn would hold reserves with a New York City national bank. The very central position of New York as a banking hub was thus definitely politically enshrined by the 1860s banking legislation[3].

B- A central bank at last: the Federal Reserve System

At the beginning of the 20th century, the absence of a central bank in the USA[4] proved problematic and the near bankruptcy of the City of New York in 1907 was avoided thanks to two private banks: Citibank and J. P. Morgan. James Stillman had tried from the very beginning of his tenure at the helm of Citibank to turn the bank into the American government's bank [Cleveland, 1985, p. 47] in particular as an issuer of Treasury bills and Treasury bonds.

After 1912, the US Congress, under the impetus of newly elected democratic president Woodrow Wilson, embarked on the drafting of legislation which would set up a central bank under a new guise in order to ressucitate what seemed "economically desirable but [had been] politically impossible" in the previous attempts at creating a central bank [Cleveland, 1985, p. 68]. The drafting of the banking legislation was entrusted to Carter Glass, a democratic congressman from Virginia who was the chairman of the subcommittee of the House Committee on Banking and Currency. Frank Vanderlip, the chairman of National City Bank voiced his opposition to Glass on the grounds that Congress had neglected bankers' advice on the framing of the bill.

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[3] See Irwin UNGER, *The Greenback Era; A Social and Political History of American Finance 1865-1879*, Princeton University Press, 1964.

[4] The very idea of establishing a central bank in the USA has been a sore political issue ever since the first one was established in 1791 (Bank of the USA in Philadelphia). Indeed, it raised a strong opposition from the Anti-federalists who campaigned against the Bank on constitutional grounds. The charter of the bank which expired in 1811 was not renewed by Congress and the second Bank of the USA was short-lived, from 1816 to 1832. The charter was merely renewed in 1816 to try and weather the financial demands of the 1812 War with England and of the abuses of banking privileges by the state chartered banks. President Andrew Jackson did not renew the charter if the second Bank of the USA when it expired in 1832.

The Federal Reserve Act was signed into law in December 1913 and it heralded the third attempt at creating a central bank in the USA here under the more decentralised form of the Federal Reserve System which was organised – and still is – around 12 regional reserve banks which encompass the whole territory of the United States. " The public policy role of National City Bank had played as the leading bank in a nation without a central bank was necessarily curtailed and it turned more into a business bank than a bankers' bank" [Cleveland, 1985, p. 71]. The political achievement of restoring a central bank in the United States seemed at first to run counter to the more private interests of National City Bank in particular as a partner of choice for the government's banking operations but that was soon to be mended since Charles E. Mitchell would combine the positions of chairman of National City Bank (February 1929 – February 1933) and director of the New York Federal Reserve Bank[5].

The Federal Reserve Act, furthermore, enabled national banks to have branches outside the United States and thus National City opened its first overseas branch in Buenos Aires, expand overseas and start building its international reach; the international reach that National City Bank enjoys today is due to more external forces related to the irresistible globalisation of financial markets. The implicit domestic backlash for National City Bank inherent in the adoption of the Federal Reserve Act was nonetheless weathered by a wider international opening which was hencewith made possible. Frank Vanderlip, from then on, aimed at building an all-purpose, worldwide financial intermediary. And he wrote James Stillman on 31st December 1915:

> "We are really becoming a world bank in a very broad sense, and I am perfectly confident that the way is open to us to become the most powerful, the most serviceable, the most far-reaching world financial institution that there has ever been" [Cleveland, 1985, p. 88]

The global network of National City was then well under way.

C- The Wall Street Crash and the political accountability of National City Bank

Another confrontation between National City and the political sphere came about at the time of the 1929 Wall Street Crash. Not until 1932 did the US Congress decide to organize hearings into the causes of the crash, in the hope that a rebound could be afoot and would turn the financial situation around [Perkins, 1999, p. 134]. Charles E. Mitchell, the president of the National City Bank as auditioned by the Senate Banking and Currency Committee, and

[5] John Kenneth Galbraith, *The Great Crash, 1929*, Penguin, 1992 [1st edition 1954], p. 63-65.

questioned by the Committee's counsel, Ferdinand Pecora. The hearings[6] were held between 21 February 1933 and 2 March 1933 and they revealed that most of the operations of the National City Bank and its subsidiaries were largely not communicated to their shareholders:

> *Mr Pecora*: Let me put it this way: Does the National City Co. make any annual report of its business operations?
>
> *Mr Mitchell*: A chairman of the three institutions [National City Bank, National City Co.; City Bank Farmers Trust Co.], we make a report to the shareholders at their annual meeting, and I report at that time on the operations of the National City Co. for the past year.
>
> *Mr Pecora*: So that the report which you as the chairman of the three institutions make every year is an oral report, is it not?
>
> *Mr Mitchell*: It is printed and sent to every shareholder.
>
> *Mr Pecora*: Insofar as that annual report alludes to the business of the National City Co., it is very general and sketchy, isn't it?
>
> *Mr Mitchell*: Well, I do not consider that it is more general and sketchy than with respect to the bank. It used to be that way; no report of earnings or the balance sheet of the National City Co. was furnished to our shareholders.
>
> *Mr Pecora*: When for the first time did the National City Co. furnish that information to its shareholders?
>
> *Mr Mitchell*: I think two years ago [i.e. 1931]
>
> *Mr Pecora*: Prior to that it never gave any such information even to its shareholders.
>
> *Mr Mitchell*: It did not. […][7]

Ferdinand Pecora's opposition to Mitchell, who then resigned in 1933, was rooted in the belief that banks, including National City Bank in particular, had played a very detrimental role in bringing about the stock market crash. Hence it was clearly exposed before the Committee, in particular by Senator Brookhart, that the public might have been heavily misled in its investment decisions:

> *Mr Mitchell*: I, individually have suffered a greater loss from the market failure in National City Bank stock than any other individual in the United States.
>
> *Senator Brookhart*: Well, the real fact is, then, that neither yourself not any of the financial crowd realized that this thing was inflated beyond all reason in 1929?
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> Mr Mitchell: I did not realize this, and I was looking over today –
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> *Senator Brookhart*: (interposing). The fact is that the public cannot rely on the judgment of the big financial crowd in these financial matters at all.

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[6] National City Bank through its president Charles E. Mitchell, was the first bank to be auditioned by the Senate Committee. But there also followed J. P. Morgan & Co.; Kuhn, Loeb & Co.; Dillon, Read & Co.; Chase National Bank, from May to December 1933.
Fletcher, Duncan U.,(Chairman), *Report from the Committee on Banking and Currency on Stock Exchange Practices*, U. S. G. P. O., 6 June 1934, p. 3.

[7] Hearings before the Senate Banking and Currency Committee, pursuant to S. Res. 84 and S. Res. 239, *Resolutions to Thoroughly Investigate Practices of Stock Exchanges with Respect to the Buying and Selling and the Borrowing and Lending of Listed Securities and the Effects of Such Practices*, U.S. G. P. O., Feb. 21 to March 2, 1933; p. 1783.

> *Mr Mitchell*: With respect to the future and on market prices and on the economics of the situation there are so many factors over which the men in finance have no control and really have comparatively little knowledge, that it is just as impossible for them to predict oa definite future as it is for anybody else.
>
> *Senator Brookhart*: Then, shouldn't they state that fact in every prospectus that they put out to the people? Shouldn't they state: we do not know and nobody can tell you what will happen, and it is impossible to tell.[8]

In the wake of the Senate Hearings major pieces of legislation were passed by Congress including the Banking Act (also known as the Glass-Steagall Act) –1933 - which clearly separated investment banking from commercial banking in order to protect consumers from speculative abuses.

D- Gnawing at Glass-Steagall

Towards the end of the 1990s the Glass- Steagall Act which had been passed in 1933 in the wake of the Great Depression became again the epitomy of a tension between the government, the Fed and Citicorp and Travelers. Sandy Weil, the chairman of Travelers had wanted to merge with Citicorp and the merger was hanging on the legislative barrier held by Glass-Steagall. There again Citicorp proved a catalyst of the political shift in favor of a revision of the legislation. Sandy Weil recalls a meeting with Alan Greenspan (then Chairman of the Fed) in 1998 about the compliance of the merger with Citicorp:

> "[Greenspan to Weil] I have to warn you that you'll have two years to comply with the Bank Holding Company Act [which disallowed affiliations between banks and insurers] or else you'll have to make changes. It's very possible that you could get three one-year extensions, but remember, this has happened once before. [Dutch insurer] ING bought a US bank and was confident that the laws would change, but that never happened, and they eventually had to choose between the banking and insurance businesses. Based on history, I'm not sure you should feel that you'll be any more successful." [Weil, 2006, p. 312]

Alan Greenspan though would later testify before the Senate Banking, Housing and Urban Affairs to express his views about the possible revision (or deregulation) of the 1956 and 1933 Acts. The Gramm-Leach-Bliley Act of 1999, which repealed the provisions of the 1933 Glass-Steagall Act, enabled single holding companies to offer banking, securities and insurance[9] as they had before the Great Depression. The reasons for the repeal of Glass-Steagall are to be found on empirical evidence as to the lighter responsibility for securities

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[8] Ibid., p. 1813.

[9] The Gramm-Leach-Bliley Act provides an initial list of activities that are considered 'financial in nature', including underwriting and dealing in securities; sponsoring and distributing all types of mutual funds; insurance underwriting and agency activities; merchant banking; and holding insurance company portfolio investments. [Barth, 2000, pp. 193-195]

activities of commercial banks in the 1929 crash [Barth, 2000, p. 191]. Indeed the role – or lack thereof – of the Federal Reserve in precipitating the crash has been documented[10]. Furthermore the experience of banks being gradually allowed into the insurance and securities business, of which the merger of Citicorp with Traveler's is a good exemple, led to the acceptation that the 1933 Glass-Steagall Act and the Bank Holding Company Act of 1956 (that separated commercial banking from the insurance business) were no longer tenable.

The 1999 legislation was voted **after** the actual merger of Citicorp and Traveler's and hearings held by the Senate Banking, Housing and Urban Affairs Committee enabled various constituencies to express concern at the potential "collusion" between Congress, the Fed and Citicorp and Travelers. Ralph Nader, amongst others, questioned the chronology of the sequence of events and denounced the undemocratic implications of the bill [H.R. 10] then under consideration by the Senate of the United States and the lack of concern for the American tax-payers:

> Despite liberal regulatory interpretations, the argument that there are not important limitations remaining in current law is simply not factual. Just ask Sanford Weil of Travelers and John Reed of Citicorp. Even with a friendly regulator providing temporary relief they must have HR 10 and its wipe out of the Bank Holding Company Act [1956] if they are to avoid ultimate divestiture of Travelers insurance company and its underwriting authority. These two corporate powers see HR 10 as their own private bill that will allow them to operate and expand the nation's largest financial services conglomerate. They're betting billions that they can bulldog Congress into validating the merger.
>
> Mr Chairman, your statement that Citicorp-Travelers merger represents a "conglomeration of activities" not contemplated by the Bank Holding Company Act is right on target. As you suggested, it appears that the Federal Reserve is willing to let Citicorp and Travelers "drive a truck" through provisions of the law which are designed to allow the orderly divestiture of only minor non-conforming activities of bank holding companies. […] [11]
>
> I hope that this committee will investigate the ex-parte contacts that took place between the Federal Reserve and Mr. Weil and Mr. Reed in the days prior to the public announcement of the planned merger and application to form a new holding company.

The creation of a financial juggernaut, on the grounds that this one-stop-shopping "department store" would be too big to fail seemed justified because the tax-payer money would not potentially be at risk if indeed the company **was** too big to fail.

The passage of the Gramm-Leach-Bliley Act in 1999 has also been seen as heralding the 'end of banking' as such. Indeed if one considers the initial – to this day's restrictive – definition of

[10] See Chapter 7, "The Great Contraction, 1929-33" *in* Friedman, Milton & Anna Jacobson Schwartz, *A Monetary History of the United States, 1867- 1960*, Princeton University Press, 1993, [1963], pp. 299-419; and also Charles P. Kindleberger, *Manias, Panics, and Crashes*, John Wiley & Sons, 1996, [1978], pp. 135 & 177.

[11] Ralph Nader, *Hearings on the 'Financial Services Act of 1998' [HR 10]*, United States Senate Banking, Housing and Urban Affairs Committee, 24 June 1998.

banking, that is the lending of money and the taking deposits and generating income from the spread between interest rates charged on loans and interest rates paid on deposits ; that definition has largely been outstripped by the more generic and expanding "sphere of finance" or the "portfolio model" [Barth, 2000, p. 202] of finance of which Citigroup is a good example. And It was thus definitely putting James Stillman's credo to the test as he had expressed it at the beginning of the 20th century:

> "I firmly believe…that the most successful banks will be the ones that can do something else than the mere receiving and loaning of money" [Cleveland, 1985, p. 301]

This premonitory advice as well as the modern global outreach of Citibank (now Citigroup) has to be traced back to the 1960s. Indeed, one has to go back to the tenure of Walter Wriston who headed Citibank from 1967 to 1984 to understand the modern reach of the bank. Under his leadership, Citibank tried to live up to its credo of being an 'all-around bank'. As former head of the Overseas Division, Walter Wriston wanted to "put a Citibank branch in every commercially important country in the world […] and to be everywhere there was a reasonable chance of turning a profit" [Cleveland, 1985, pp. 261-262]. One can safely say that even though Citibank had had a fairly far reaching branch network all over the world, it became a global financial corporation with Walter Wriston [Zweig, 1995, 131-40].

After the initial impetus provided by the adoption of the Federal Reserve Act in 1913, 19 branches were opened overseas mostly in Latin America (Argentina, Venezuela, Uruguay, Brazil, Colombia, Chile) and in Europe (Italy, France, Germany, Belgium) to complete the presence that had already been established in the UK in 1902 through the International Banking Corporation. From the late 1920s to the beginning of the 1950s the opening of foreign branches almost came to a standstill with the notable exception of India (1944). From the late 1950s onwards the expansion started anew and 44 branches were opened between 1960 and 1984 which covers Walter Wriston's leadership as head of Overseas division then as Chairman and President. He had been adamant that the way to growth for Citibank was through branch expansion at home and abroad and that financial innovation would also be a major propeller and he pioneered the use of the credit card (which had been minted by Chase Manhattan) but also of the negotiable Certificate of Deposit for example. The economic growth of the 1960s and the huge opportunity that was created by the tapping of the eurodollar market participated in the development of such financial advances but the sluggishness and the bear market of the 1970s as well as the continuing migration of American people to the suburbs left many New York banks (amongst which Citibank) with the daunting prospect of a narrower client base because of restrictive banking laws. Indeed, the 1927 Mc Fadden Act[12] had prevented interstate banking and the subsequent New York's 1934 Stephen's Act had ruled that the domestic branches of a national bank with headquarters in New York City were confined to the city. Then, when the Bank Holding Act was adopted in 1956, bank holding companies were brought under federal supervision.

Hence the prospect of lending to foreign governments seemed like a palatable alternative to domestic restrictions and Citibank used its foreign branch network to this end. Walter Wriston claimed that "loans made to foreign governments were among the most profitable on his books" [Geisst, 1997, p. 313]. That was going to prove wrong and Citicorp would have to face up to major debt default in the mid-1980s and in the summer of 1987 Citicorp announced the largest loss in corporate history because of the Third World debt crisis [Geisst, 1997, p. 348].

II- Globalisation : the "end of [American] banking" or the start of a world bank?

Since the adoption of the 1999 Gramm-Leach-Bliley Act, that is one year after the merger of Citicorp and Travelers Group, a number of questions have been raised concerning the reorganisation of the banking sector in the United-States under the leadership (pattern?) of Citigroup as well as the nature of the purely American imprint on the banking business. First of all, the combination of banking with other financial services has been considered as a way to increase the public's access to financial services and its diversification could be called on to weather economic downturns without corseting lending too much. However, the creation of a giant financial corporation such as Citigroup has also raised concern from smaller communities and constituencies which feared that large organisations would be uninterested in serving customers and could be tempted to "siphon off" funds from smaller markets to lend to big cities [Keeton, 2001, p. 25]. These concerns, in the face of further concentration on the financial sector as exemplified by the merger of Citicorp and Travelers Group, were nonetheless pitted against market forces which encompassed a territory well beyond that of the American borders. Indeed Alan Greenspan was very clear in the Hearings held before the House of Representatives in February 1999 that American legislation as such was no longer tenable in the face of very rapid technological changes and innovations that were dragging American banking institutions in one only inexorable direction: that of deregulation. Greenspan clearly stated that:

[12] The 1994 Riegle-Neal Interstate Banking and Branching Efficiency Act allowed interstate expansion.

> "The Federal Reserve continues to support strongly the enactment of such legislation [The Financial Services Modernization Act of 1999- HR 10] and believes that HR 10 contains the fundamental principles that should be included in such legislation.[…] US financial institutions are today among the most innovative and efficient providers of financial services in the world. […] Technologically driven proliferation of new financial products that enable risk unbundling have been increasingly combining the characteristics of banking, insurance, and securities products into single financial instruments. In the United States, our financial institutions have been required to take elaborate steps to develop and deliver new financial products and services in a manner that is consistent with our outdated laws. Unless soon repealed, the archaic statutory barriers to efficiency could undermine the global dominance of American finance."[13]

In other words the very existence of a **domestic** policy in financial matters is here explicitly questioned. How can the United States shape legislation that is inevitably the result of an idiosyncratic tradition in the banking sector without taking into account some broad developments that are defining globalisation? There is an interesting dialectic developed here by Alan Greenspan; he both underlines the dominance of the United States in the field of finance and at the same time expresses concerns about the inevitability for the US Congress to comply with evolutions which are beyond his reach and which cannot be bent. Indeed, Greenspan goes on and says that:

> "It is becoming increasingly evident that the dramatic advances in computer and telecommunication technologies of the past decade have so significantly altered the structure of domestic, indeed, global finance as to render our existing modes of supervision and regulation of financial institutions increasingly obsolescent. The volume, sophistication, and rapidity of financial dealings will inevitably lead to supervisory emphasis on oversight of risk management of financial institutions and a marked scaling back of outmoded loan file and balance sheet surveillance. […] This shift in supervisory mode, which is already underway, is market driven. It is not the result of some potentially reversible ideology."[14]

The market then would outrule politics in the field of finance. That position has been questioned for example by the likes of Michel Aglietta who considers that neoliberalism inverts the hierarchy between market forces and political forces [2004, p.79] and he advocates an "état cosmopolitique" which would not accept the idea that there is "one best way" in which global finance would be imposed on democratic regimes. The question of power arises here: Are we faced with a confrontation between the power of markets versus the power of governments [Tooze, 2002, p. 99]? This confrontation or this trend could be softened by the creation of regional economic spaces in order to foster a better international governance. It is interesting to notice that in 1999, the Secretary of the Treasury, Robert Rubin, was definitely

[13] Alan Greenspan, *Hearings on H. R. 10 – The Financial Services Modernization Act of 1999*, before the Committee on Banking and Financial Services, United States House of Representatives, 11 February 1999.
[14] Ibid.

emphasizing the harmony between the Treasury and the Fed but was nonetheless more cautious and more prone to voice a slightly more "cosmopolitic" position on the matter of financial reform and the future of Citigroup:

> "With respect to the overall objective of financial modernization, the Administration has always been committed to doing what best serves the interests of consumers, businesses, and communities, while at the same time protecting the safety and soundness of our financial system, and we will support legislation that achieves those aims. […] Financial modernization will continue, in our judgment, in the absence of legislation. But with good legislation, financial modernization can occur in a more orderly fashion. The treasury has long believed in the benefits of such legislation, but we also believe that any legislation has to be done right."[15]

As a Treasury Secretary which combined the experience of an investment banker, Robert Rubin was here voicing a more political argument which is that of overall economic policy as the prerogative of the Department of the Treasury and which needs to address several constituencies from which the Administration derives its political legitimacy which he thought might be impaired:

> "One of an elected administration's critical responsibilities is the formation of economic policy, and an important component of that policy is banking policy. In order for the elected administration to have an effective role in banking policy, it must have a strong connection with the banking system. That connection is currently provided through the Office of the Comptroller of the Currency, which regulates national banks. We believe if subsidiaries if national banks cannot be used to engage in new activities, then gradually banks will gravitate away from the national banking system and this critical connection will be lost."[16]

Besides, there emerges an asymmetry which rests on the fact that political representation and legitimacy lies in **territorial** constituencies[17] whereas banking policy as spelled out by Congress would apply to a territory-less constituency which is that of financial markets.What is at stake is then the capacity for the political sphere to retain control, or some control, over the world of finance while trying to discriminate what is really being created out of technological revolutions and innovations at the global level and how much can still be retained in the name of the historical tradition of banking practices in the United States. One thus needs to evoke the question of risk as a common element to both politics and finance. As Robert Shiller [2003, p. 1] reminds us, the principal subject matter of finance is "the management of risk" and one of the challenges, according to him, rests on the necessity to democratise finance and "bring the advantages enjoyed by the clients of Wall Street to the

[15] Robert Rubin, *Hearings on H. R. 10 – The Financial Services Modernization Act of 1999*, before the Committee on Banking and Financial Services, United States House of Representatives, 12 February 1999.
[16] Ibid.
[17] Andrew Rehfeld, *The Concept of Constituency in Political Theory and American Political Thought : Justification, Legitimacy, and Institutional Design*, Cambridge University Press, 2005, p. 8.

customers of Wall Mart.” The capacity to create credit, or provide money in the form of credit is one of the core elements of finance [Tooze, 2002, p. 87] but this necessarily rests on the assumed risk that “from the very beginnings of banking in the Middle Ages, this was the essence of banking that more was lent than was deposited”. The ingrained capacity of states to provide for safeguards to protect the consumers as voters and citizens is confronted to the pulls of market mechanisms which, according to Fernand Braudel, are to be found everywhere even in very nascent societies[18]. Would the market then precede any form of political system and thus be naturally prevalent over the corrective forces of politics which would then, at least in democratic societies, necessarily have a corrective rather than a normative function? The inter-penetration of the spheres of politics and finance and the role in policy shaping of Citigroup can in the end also be appreciated by the appointment of Robert E. Rubin, the Treasury Secretary under President Clinton, to the co-chairmanship[19] of Citigroup. Sandy Weil recalls the way and reasons why he decided to approach Rubin:

> “I barely knew Rubin. We had met once in the early 1980s when Bob solicited me for a presidential campaign contribution for Walter Mondale. Otherwise we rarely crossed paths until Rubin became Treasury Secretary. At that point, I met with him several times as part of a larger business delegation seeking his support for reforming the country’s outdated banking laws. […] Your experience puts you in a unique position to relate to what we are doing at Citigroup […]I played up the scope of Citigroup’s global franchise and how we could present him with an array of challenges.” [Weil, 2006, p. 361]

In turn, Robert Rubin echoes Weil’s approach in his autobiography:

> “Sandy is known for being a good salesman. He made Citigroup sound like a fascinating place. He told me it operated in 102 countries and had a huge diversity of activities: investment banking, insurance, retail and commercial banking, credit cards, asset management, a private bank, and a whole range of emerging market involvements. We ended up talking for a couple of hours.” [Rubin, 2003, p. 305]

Rubin was to accept Sandy Weil’s offer and join a tri-partite chairmanship at Citigroup (together with Weil and John Reed). He views this “passage” from government to Citigroup as a public sector-private sector evolution:

> “You’d have something more like the European system, where civil servants and politicians rarely have any experience in the private sector and the private sector has relatively few people who understand how government works.” [Rubin, 2003, p. 306]

[18] « Partout des marchés sont en place, même dans les sociétés à peine ébauchées, en Afrique Noire, dans les civilisations amérindiennes. A fortiori dans les sociétés très denses, évoluées, qui sont littéralement criblées de marchés élémentaires », Fernand Braudel, *La Dynamique du capitalisme*, Champs Flammarion, 1985, p. 34.

[19] This is not an unprecedented career evolution and there are some famous precedents amongst which: Donald Regan (January 1981 to February 1985) who was Ronald Reagan’s choice for Treasury Secretary and who had previously been the Chief Executive of Merrill Lynch. Again, William Simon (May 1974 to January 1977) , member of the executive committee of Salomon Brothers, became Treasury Secretary under Richard Nixon and Gerald Ford.

He seems to be downplaying the political meaning of his choice since a Secretary of the Treasury is not **any** government job and being the co-chairman of Citigroup is not **any** private sector job.

Thus, this nine-year old creature, Citigroup, was able to broaden its scope on two counts. First it now gathers a wider range of business which can be seen as a new development but which also zooms us back to James Stillman's idea of creating a financial "department store" Second, it has over the years tried to reinforce its geographical outreach which there again is reminder of Citibank's pioneering presence abroad as Sandy Weil colourfully remembers as he tours the world at the helm of Citigroup in 1999:

> "At the end of October 1999, Joanie and I set off on our most extensive tour, a two-week jaunt around the world where we visited eleven cities in eight countries and met five heads of state. The trip proved memorable for opening m eyes to the extent of Citigroup's potential and also for some very distinctive personal experiences" [Weil, 2006, p. 366]

Both the geographic reach and the product line are in keeping with what the current CEO, Chuck Prince (since 2003) calls a "three-pronged strategy" which consists in more expansion overseas, more integration at home, and cost efficiency to live up to a "financial services company that towers over most in its size, complexity and international scope"[20]. The process of globalization which has been greatly documented is characterized by an increasing interdependence among countries and citizens and it generates economic problems but not only [Fisher, 2003] related in particular to inequalities and poverty which has led Citigroup to offer microentrepreneurship and microfinance programs. It participates in the more general movement of a "deterritorialisation de l'économie"[21], indeed, the current global reach of world finance which is shaped and fuelled a communications network out of any geographical delineation. Hence, the power derived from a dominant presence on a market will outstrip the common understanding of political power.

Conclusion

Throughout the 20th century the major pieces of legislation that were passed by the American Congress and which affected the American financial system were very much the result of tensions between political intentions shaped by economic and social shortcomings and some

[20] Eric Dash, "Citigroup has a C.F.O. Now What?", *The New York Times*, 27 February 2007, p. C1.
[21] Pierre Rosanvallon, *Le Capitalisme utopique, histoire de l'idée de marché*, Points Seuil, 1999, [1979], p. 46-47, 89.

major financial institutions such as Citibank. It played a part not just as a lobbyist but also as an outright stakeholder to be championed or to be confronted. The gradual deregulation of the banking system in the United States since the New Deal seems to be a sign of the difficulty for a domestic political priority to coexist with globalized trends in finance. But it is also a sign of the renewed interest and debates that the "market" –although not an ideology as Alan Greenspan would have it – can spark as a political stepping stone. Adam Smith stated that:

> "Wealth, as Mr. Hobbes says, is power. But the person who either acquires, or succeeds to a great fortune, does not necessarily acquire or succeed to any political power, either civil or military. His fortune may, perhaps, afford him the means of acquiring both, but the mere possession of that fortune does not necessarily convey to him either."[22]

and in so doing instates the market as a political concept.

[22] Adam Smith, *The Wealth of Nations*, Prometheus Books, 1991, [1776], p. 37.

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<u>Table 1</u>*: Top 25 Banks by Market Capitalisation (Millions of $)*

Position	**Bank**	**Country**	**Market Cap. (June 2007)**	**Market Cap (June 2006)**
1	Citigroup	USA	261,270	242,000
2	Bank of America	USA	220,379	218,637
3	HSBC Holdings	UK	214,934	195,356
4	ICBC	China	209,060	*
5	JP Morgan Chase & Co	USA	168,585	141,067
6	Bank of China	China	157,343	*
7	China Construction Bank	China	132,224	95,529
8	UBS	Switzerland	128,331	113,039
9	Mitsubishi UFJ Financial Group	Japan	126,676	128,278
10	Royal Bank of Scotland	UK	119,808	101,820
11	Wells Fargo & Co	USA	117,492	112,427
12	Santander Central Hispano	Spain	114,095	85,263
13	BNP Paribas	France	109,388	81,586
14	Wachovia	USA	101,312	85,041
15	Barclays	UK	94,732	71,672
16	Intesa SaoPaolo	Italy	92,563	*
17	Unicredit	Italy	91,876	75,672
18	ABNAMRO Holding	Netherlands	90,526	*
19	Bank of Communications	China	88,122	*
20	Credit Suisse	Switzerland	87,168	66,932
21	Société Générale	France	85,755	59,485
22	Mizuho Financial Group	Japan	84,970	88,822
23	BBVA	Spain	84,142	65,573
24	Sberbank of Russia	Russia	81,700	*
25	HBOS	UK	76,249	66,153

* Not in last year’s list

Figures as of June 12, 2007 and June 16, 2006.

<u>Source</u>: Thomson Financial, *in* <u>The Banker</u>, 2 July 2007.

Table 2: ***Top 25 banks by Tier 1 Capital (Millions of $)***

Position	Bank	Country	Millions of Dollars
1	Bank of America Corp	USA	91,065
2	Citigroup	USA	90,899
3	HSBC Holdings	UK	87,842
4	Crédit Agricole Group	France	84,937
5	JP Morgan Chase & Co	USA	81,055
6	Mitsubishi UFJ Financial Group	Japan	68,464
7	ICBC	China	59,166
8	Royal Bank of Scotland	UK	58,973
9	Bank of China	China	53,518
10	Santander Central Hispano	Spain	46,805
11	BNP Paribas	France	45,305
12	Barclays	UK	45,161
13	HBOS	UK	44,030
14	China Construction Bank Corporation	China	42,286
15	Mizuho Financial Group	Japan	41,934
16	Wachovia Corporation	USA	39,428
17	Unicredit	Italy	38,700
18	Wells Fargo & Co.	USA	36,808
19	Rabobank Group	Netherlands	34,757
20	ING Bank	Netherlands	33,958
21	UBS	Switzerland	33,212
22	Sumitomo Mitsui Financial Group	Japan	33,177
23	Deutsche Bank	Germany	32,264
24	ABN AMRO Bank	Netherlands	31,239
25	Credit Mutuel	France	29,792

Source: The Banker, 2 July 2007.

<u>Table 3</u>: *Chairmen of Citibank 1909-2007*

James Stillman	1909 – 1918
James A. Stillman	1918 – 1921
Eric P. Swenson	1921 - 1929 (April)
Charles E. Mitchell	1929 – 1933
James H. Perkins	1933 – 1940
Gordon S. Rentschler	1940 – 1948
William Gage Brady, Jr.	1948 – 1952
Howard C. Shepherd	1952 – 1959
James Stillman Rockefeller	1959 – 1967
Walter B. Wriston	1967 – 1984
John Reed	1984 – 1998
John Reed & Sandy Weil	1998 – 2000 (Citigroup)
[Robert E. Rubin joins the two co-chairmen in 1999]	
Sandy Weil	2000 – 2003
Chuck Prince	2003 –

Table 4: ***Foreign Branches of Citibank since 1914***

1914	Argentina
1915	Brazil, Uruguay, Venezuela
1916	Chile, Colombia, Italy
1917	Dominican Republic
1918	Puerto Rico, **Indonesia**
1919	Belgium, France, Denmark, Spain, Trinidad and Tobago
1920	Peru
1922	Haiti
1925	Canada
1926	Germany
1944	India
1955	Lebanon, Egypt
1958	South Africa, Paraguay,
1959	Malaysia, Bahamas
1960	Jamaica, Ecuador
1961	Pakistan
1963	Switzerland
1964	Al Salvador, Greece, Netherlands, Taiwan, United Arab Emirates
1965	Australia, Bolivia, Honduras, Ireland, Nigeria
1966	Gabon
1967	Thailand, South Korea, Morocco
1968	Costa Rica
1969	Guam
1970	Luxembourg, Bahrain, Austria
1971	Congo, Caiman Islands
1972	Vietnam, Monaco, Brunei
1973	Norway
1974	Guatemala, Indonesia, Jordan, Kenya
1975	Tunisia, Ivory Coast
1976	Senegal, Sweden, Turkey
1977	Finland
1979	Sri Lanka, Zambia
1982	New Zealand
1983	Macau
1984	Nepal

1985	Hungary, Portugal
1987	BanglaDesh
1988	China
1991	Poland, Czech Republic
1992	Algeria
1993	Russia
1994	Tanzania, Kazhakstan
1995	Slovakia, Romania
1996	Israel, Angola
1998	Ukraine, Cameroon, Bulgaria
1999	Uganda
2003	Ghana
2006	Kuwait

Source: www.citigroup.com