FEDERAL RESERVE BANK
OF SAN FRANCISCO

ECONOMIC REVIEW

International Banking

SPRING 1976

CALIFORNIA ENERGY STUDY

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Monthly Review—monthly through December 1972

Business Review—bimonthly all of 1973, quarterly 1974 through 1975

Economic Review—(name change only), quarterly beginning December 1975

The Federal Reserve Bank of San Francisco's *Economic Review* is published quarterly by the Bank's Research and Public Information Department under the supervision of Michael W. Keran, Vice President. The publication is edited by William Burke, with the assistance of Karen Rusk (editorial) and Janis Wilson (graphics). Subscribers to the *Economic Review* may also be interested in receiving this Bank's Publications List or weekly *Business and Financial Letter*. For copies of these and other Federal Reserve publications, contact the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, California 94120. Phone (415) 544-2184.

U.S. West Coast as an International Financial Center

Hang-Sheng Cheng

The study of regional international financial centers is a long-neglected subject. In the literature on international finance, it is customary to consider the world as consisting of separate national money and capital markets, linked together by international capital flows, with each national market assumed to be a uniform, homogeneous entity. Alternatively, the entire world is regarded as a single market in which competition for national funds takes place through various institutional channels such as banks, international bond markets, etc. By and large, these analytical approaches have served their purposes well. But, with their emphasis on national and international developments, they do not take into consideration the rise in the last decade or so of regional international financial centers such as Singapore, Panama, and the U.S. West Coast. These new regional centers have contributed importantly to the growth of international finance by being both competitive with, and complementary to, old-established centers such as London, New York, Frankfurt, and Zurich.

A number of studies have now appeared on various regional financial centers, both old and new, but none as yet on the rise of the U.S. West Coast as an international financial center. The purpose of this study is to fill that gap.

Economic Factors

Despite these recent contributions, a conceptual framework for the study of regional financial centers is still lacking. Regional economics, with its sophisticated theoretical models of locational distribution of industry and intra-urban land use,[2] rarely concerns itself with the location of finance. There appears to be no obvious way to apply the factor-endowment approach (Heckscher-Ohlin) or the distance-from-center approach (von Thunen) used in regional economics to the explanation of regional financial centers. On the other hand, a growing literature on the pivotal role of money and capital markets in economic development[3] leaves largely unexplored the question of the location of financial centers and the functional links among these centers.

It is beyond the scope of this study to develop a rigorous theoretical framework for analyzing the factors underlying the rise and fall of regional international financial centers. Nevertheless, it would be useful to consider briefly a few relevant hypotheses in economic literature that might throw light on the subject.

First, we may consider the portfolio-balance theory of finance, as used in the analysis of international diversification of asset-holdings and international capital flows.[4] In essence, it states that an asset-holder (say, a bank) that desires maximum return from his investment portfolio with minimum risk can improve his welfare through international diversification of his asset holdings, and that his gains are the larger the less (algebraically) the returns from the various assets are correlated with one another. This paper contains partial evidence suggesting that, in the 1973-74 environment, an internationally diversified portfolio apparently assisted a number of West Coast banks in improving their overall earnings.

Second, we may consider economies of scale. The portfolio-balance theory, while accounting for banks' desire for international asset diversification, can not tell us why, at one particular juncture in the early 1970's, so many West Coast banks initiated or expanded international activities. Obviously, overseas branching is costly, requiring a certain minimum scale of operations to undertake. In this respect, it may be pertinent to note that loans and investments of all commercial banks in the San Francisco Federal Reserve District nearly doubled from $51 billion in 1967 to $101 billion in 1974, increasing at an average rate of 10 percent per year.[5] Presumably, during this period a number of West Coast banks must have attained a size sufficiently large for them to initiate profitable international operations.

Third, growth of international banking is related to that of international trade. Between 1967 and 1974, the total value of West Coast foreign trade (exports plus imports) rose three and a half times to $37 billion[6]—at an average growth rate of 24 percent per year. About two-thirds of this trade was conducted with the booming economies of the countries located around the Pacific Basin.[7]

Fourth, insights obtained from studies of industrial structure might throw some additional light on the subject. Among the West Coast banks now active in international banking, by far the largest are California banks. Besides its substantial economic base, California is also noted for a liberal banking law that permits statewide branching. Presumably, the resultant sharp competition among banks may have driven profits from domestic operations down to a level that provided a strong incentive for expansion in areas where competitive conditions were less severe, as in the less-developed areas of the world.

Keeping these factors in mind, we may now turn to an examination of the rise of the West Coast as an international financial center during the 1970's. Following a quick overview, we will look into the various components of the growth process: the overseas expansion of West Coast banks, the activities of Edge Act corporations on the West Coast, and the activities of foreign banks in the region. One section analyzes the experience of West Coast banks during the turbulent 1974-75 period, and another the profitability of international operations. Finally, some preliminary conclusions are drawn concerning the future of the West Coast as an international financial center.

Overview of Growth, 1969-75

Table 1 summarizes the growth of West Coast international banking from 1969 to 1975. Not all the series are available for the entire period, but the overall impression of rapid growth is unmistakable.

Between 1969 and 1974, total foreign assets of West Coast banks increased from $7 billion to $32 billion.[8] Moreover, there was a broad participation of West Coast banks in this rapid expansion. In 1969, only five West Coast banks had more than $100 million in foreign assets;[9] by 1974, the number has increased to eleven.[10] Five of these banks—Bank of America, Security Pacific, United California, Wells Fargo, and Crocker—each had more than $1 billion in foreign assets; together the five accounted for $30 billion of the $32 billion of total foreign assets of all West Coast banks in 1974.

The number of banks having branches abroad increased from nine in 1969 to twenty in 1975. The number of branches rose from 102 to 138, and the number of representative offices from 28 to 61, while foreign-branch assets jumped from $5.6 billion to $35.7 billion.

Table 1
Growth of West Coast International Banking 1969-75[a]

	1969	1975
Total foreign assets of West Coast banks (billions of dollars)	7.0	32.0
Overseas Branches		
Number of West Coast banks	9	20
Number of branches	102	138
Branch assets (billions of dollars)	5.6	35.7
Number of representative offices abroad	28	61
Edge Act Corporations		
Number of Edge corporations	7	23
Total assets (millions of dollars)	80	930
Foreign Banks		
Number of agencies and branches	16	50
Agency assets (billions of dollars)	0.7	9.0
Number of subsidiary banks	7	15
Subsidiary bank assets (billions of dollars)	0.9	4.5

[a]Data for total foreign assets are as of end-1969 and end-1974; overseas branch data, end-1969 and end-1975; Edge corporation data, end-1969 and mid-1975; and foreign bank data, mid-1969 and mid-1975.

Sources: Based on subsequent tables.

Increased activities of Edge Act corporations also testified to the growth of international banking in the region. The number of such corporations increased from 7 in 1969 to 23 in 1975, while their total assets increased more than 11 times from $80 million in 1969 to $930 million in 1975.

Another measure was the expansion of foreign banks' activities on the West Coast. Agencies and branches of foreign banks increased from 16 in 1969 to 50 in 1975, and foreign-owned state-chartered banks increased from 7 to 15. The total assets of these foreign banking offices increased from $1.6 billion in 1969 to $13.5 billion in 1975.

The growth phenomenon was also reflected in a substantially enlarged volume of international capital flows reported by West Coast banking institutions. Over the 1974-75 period, U.S. capital outflows reported by West Coast banks (measured by changes in U.S. foreign assets) averaged $3.2 billion per year, or about 18 times the average rate of the 1969-70 period. Foreign capital inflows reported by West Coast banks (measured by changes in U.S. foreign liabilities) averaged $740 million per year during the 1975-75 period, or about three times the average 1969-70 rate. U.S. capital outflows through West Coast banks accounted for 20 percent, and foreign capital inflows 6 percent, of the respective total flows reported by all U.S. banks during the 1974-75 period. By coincidence, these percentages were almost the same as the West Coast banks' shares at the end of 1975 in the total U.S. claims on foreigners and liabilities to foreigners reported by banks—20 percent and 7 percent, respectively.[11]

Overseas Branch Activities

West Coast banks were relatively late starters in overseas banking. As late as 1968, Bank of America was the only West Coast bank with branches abroad, although a few others—Bank of California, Crocker, United California, Wells Fargo, Security Pacific, and National Bank of Commerce of Seattle (now Rainier)—maintained representative offices and interests in joint ventures in a handful of foreign countries.[12]

Bank of America opened its first foreign branch in 1931, but did not add another until 1947. It added a total of 21 foreign branches in the 1947-63 period. But then, in a burst of expansion covering the 1964-68 period, it opened another 64 branches—more than one new overseas branch a month on the average. Despite a

Table 2

Growth in Overseas Operations of Individual Banks
1969-1974
(Deposit and loan volume in millions of dollars)*

		1969	1974	Ratio: 1974/1969
Bank of America				
Deposits:	Total	21,509	45,348	2.11
	Overseas	5,040	18,110	3.59
	Percent Overseas	23%	40%	
Loans:	Total	13,842	27,649	1.99
	Overseas	2,402	8,459	3.52
	Percent Overseas	17%	31%	
Security Pacific				
Deposits:	Total	4,474	10,047	2.25
	Overseas	20	2,276	113.80
	Percent Overseas	0%	23%	
Loans:	Total	3,873	8,612	2.22
	Overseas	36	1,068	29.67
	Percent Overseas	1%	12%	
United California				
Deposits:	Total	3,934	7,098	1.80
	Overseas	270	1,799	6.66
	Percent Overseas	7%	25%	
Loans:	Total	2,709**	5,114	1.89†
	Overseas	87**	598	6.87†
	Percent Overseas	3%	12%	
Wells Fargo				
Deposits:	Total	4,542	9,065	2.00
	Overseas	101	1,670	16.53
	Percent Overseas	2%	18%	
Loans:	Total	3,386	7,336	2.17
	Overseas	29	941	32.45
	Percent Overseas	1%	13%	
Crocker				
Deposits:	Total	4,169	7,896	1.89
	Overseas	283	1,431	5.06
	Percent Overseas	7%	18%	
Seattle First				
Deposits:	Total	1,612	3,118	1.93
	Overseas	2	354	177.00
	Percent Overseas	0%	11%	
Loans:	Total	1,187	2,317	1.95
	Overseas	3	117	39.00
	Percent Overseas	0%	5%	
Rainier††				
Deposits:	Total	1,078	1,861	1.72
	Overseas	90	298	3.31
	Percent Overseas	8%	16%	
Loans:	Total	683	1,271	1.86
	Overseas	11	130	11.82
	Percent Overseas	2%	10%	

*Daily or weekly average balances.
**1970
†Ratio, 1974/1970.
††Excluding Edge Act subsidiaries.

Sources: 1974 Annual Reports of the respective banks.

later slowdown in the expansion pace, it maintained at the end of 1975 a network of 107 overseas branches and 13 foreign representative offices, with $33 billion in weekly average assets in the bank's World Banking division—about 54 percent of the bank's total average assets.[13]

Other West Coast banks started overseas branching in 1968, with the opening of a London branch by National Bank of Commerce of Seattle. As shown in Table 1, by the end of 1969 there were nine West Coast banks with overseas branches,[14] with total branch assets amounting to $5.6 billion. However, aside from Bank of America branches, all were located in either London, the Bahamas, or Luxembourg. During the six years 1970-75, 11 other West Coast banks opened branches abroad.[15] The combined assets of the foreign branches of all West Coast banks increased to $35.7 billion at the end of 1975.[16] During this period, they undertook extensive branching activities in Japan and other countries in the Far East.

These aggregate data reveal little about the operations of individual banks. However, seven individual banks report considerable detail in their annual reports to stockholders (Table 2). Over the 1970-74 period, total loans and deposits of each of seven major West Coast banks about doubled; but in all cases, their overseas loans and deposits grew at a much faster pace. Overseas operations more than tripled for Bank of America, an established international-banking institution, and jumped over a hundred-fold for such newcomers as Seattle First and Security Pacific. As a result, overseas loans and deposits were by 1974 a substantial portion of portfolios for all these institutions—from a high of 40 percent for Bank of America to between 10 and 20 percent at other banks.

Table 3

Total Assets of Foreign Branches of West Coast Banks, by Region December 31, 1975

Region	Total Assets	Share of Total
	(Millions of Dollars)	(Percent)
Europe*	23,188	65
Caribbean	5,619	16
Pacific Basin[1]	6,863	19
Total	35,670	100

[1]Japan, Korea, Taiwan, Hong Kong, Philippines, Malaysia, Singapore, Thailand, and Indonesia.

Source: Based on data reported by banks to the Federal Reserve System.

Overseas operations have remained heavily concentrated in Europe and the Caribbean (Table 3), reflecting the importance of Eurodollar operations. The only other measurable activity was in Pacific Basin countries—almost entirely in Japan, Singapore, and Hong Kong.[17]

Besides overseas branches, West Coast banks also have invested large sums in foreign affiliates which are engaged in all sorts of banking or near-banking activities. These activities include merchant banking, investment banking, finance companies, leasing, mortgage, trust, factoring, etc. Data on the amounts involved, however, are lacking.[18]

Edge Act Corporations on the West Coast

Edge Act Corporations are wholly-owned subsidiaries of U.S. banks set up under Section 25(a) of the Federal Reserve Act to facilitate international banking activities. They may be established in states outside their parent banks' home states, and therefore represent an exception to the usual barriers against interstate branching by U.S. banks. This provision enables banks which are located outside major financial centers to engage in international banking in such centers; on the other hand, it also permits banks which are located in one major financial center to participate in international banking in other centers. The establishment of a large number of out-of-state Edge corporations in a region is, therefore, a good sign of the region's growing importance as an international financial center.

In addition to their international banking activities, Edge corporations may also make equity investments in foreign corporations which do not transact business in the United States—an activity which their parent banks are prohibited by law from doing. Hence, many banks which are located in an international financial center may set up Edge corporations in the same locale, often on the same premises, for conducting international equity-investment businesses. These Edge corporations are commonly referred to as "investment Edges," in contrast to the "banking Edges" described above.

Edge activity on the West Coast was quite modest until recently. As late as 1965, there were only three such corporations: a banking Edge in Seattle (International Bank of Commerce) and two investment Edges in San Francisco (Crocker International and Bank of California International). In 1967, First National City Bank of New York opened a banking Edge in San Francisco—the first representative from outside the region—and then five West Coast banks (Security Pacific, Bank of America, U.S. National of Oregon, Seattle First, and Union) established investment Edges. By the end of 1969, seven Edge corporations were operating on the West Coast, but with total assets of only $80 million.

The big wave hit the West Coast in 1973 and 1974, when ten new Edge corporations were established—mostly from outside the region—raising the total number to 23 and their aggregate assets to $1 billion. The wave then appears to have subsided, as the total assets fell to $930 million by mid-1975,[19] and the number dropped to 22 with the merger of two investment-Edge subsidiaries of Crocker in August 1975. Today, there are 13 banking Edges—8 from New York, 3 from Chicago, and 1 each from Boston and Seattle—along with 9 investment Edges which all represent West Coast institutions.

Measured by asset size, the banking Edges are far more important than investment Edges. At mid-1975, banking Edges had total assets of $841 million, compared to only $88 million for all investment Edges. Activity is largely concentrated in San Francisco ($418 million in assets) and Los Angeles ($500 million), with the balance about equally distributed between Portland and Seattle.

Foreign Banks on the West Coast

Most foreign banks on the West Coast use the agency form, rather than the branch form of organization.[20] The latter is effectively barred from California, because the state requires all domestic deposits to be insured by the FDIC, and the FDIC insures only U.S.-chartered banks. A similar situation exists in Oregon, although the branches of two foreign banks—Bank of Tokyo and Canadian Imperial—have "grandfather" privileges there. The state of Washington permits branches of foreign banks, but with domestic deposits severely limited by law, the branches in effect act much like agencies. The most effective arrangement has evolved in California, where foreign banks have established both agencies and full-service state-chartered subsidiary banks, in an attempt to obtain flexibility in both lending limits and deposit-accepting capabilities.[21] In fact, each of the 15 foreign banking subsidiaries in California, except for Lloyds, operates in tandem with an agency of the same parent bank.

Foreign banks came early to the West Coast. Canadian Imperial Bank of Commerce opened an agency in San Francisco in 1902, and Bank of Montreal established a subsidiary bank in San Francisco in 1918 and an agency there in 1934. Other Canadian and Far Eastern banks followed in the 1930s and after the Second World War. Yet by mid-1969, there were only seven foreign subsidiary banks and sixteen agencies and branches of foreign banks on the West Coast, with assets totaling about $1.5 billion.

The pace of expansion was relatively slow until mid-1971. But within the next four years, 29 new agencies and 8 banking subsidiaries opened in California and 4 new branches opened in Seattle. At mid-1975, agency and branch assets totaled $9.0 billion and subsidiary-bank assets $4.5 billion—13 times and 9 times their respective sizes only six years earlier. Within the same period, their share of all commercial-bank assets within the San Francisco Federal Reserve District increased from 2.1 percent to 9.8 percent.

Foreign banks prefer California to any other state (except New York) as a place to conduct business. As of last September, 66 branches and agencies were located in New York, 43 in California, and 35 elsewhere; while 16 subsidiary banks were in New York, 15 in California, and only 2 elsewhere. New York accounted for 68 percent, California 26 percent, and other regions only 6 percent, of the $56.5 billion total assets of all the foreign banking offices in the United States.[22]

Banks from thirteen foreign countries in Asia, Europe, and the Americas are now represented on the West Coast. The Japanese banks account for a full two-thirds of the $13.5 billion total assets of all foreign banking offices in California; four British banks account for 15 percent; six Canadian banks for 9 percent; and seventeen other foreign banks for the other 9 percent.[23]

Foreign banks bring to a region financial expertise and special ties with foreign business partners which local banks do not possess. Their comparative advantage in this respect enables them to overcome the cultural and business barriers of entry into a (for them) foreign environment. Being complementary to the indigenous banks, foreign banks help to broaden and strengthen a region's institutional base as an international financial center. In addition, as they become established in the new market, they help to enhance competition by offering local savers and borrowers a greater choice of financial services.

Recent Developments

Nineteen seventy-four was a particularly turbulent period for international banking. The lifting of U.S. capital controls in January 1974 coincided with the liberalization of controls over international capital flows by other major industrial countries. This coordinated shift in policy occurred just as the world's major banks were called upon to help manage the huge flows of international oil payments. At the time, there was widespread concern over the banks' ability to handle such flows and to bear the risks involved. Then in May, 1974, came the Franklin National failure, followed soon after by the Herstatt debacle and a series of other international banking failures and near-failures. On top of it all, inflation became rampant worldwide, causing interest rates to soar and the world bond market to decline during a time of large international-payments imbalances. From late 1974 on, a spreading business recession engulfed the world, with declining export markets, falling commodity prices, and continually rising import costs seriously undermining the payments positions of a number of developing nations and forcing them to seek substantial loans from the banking system. Through it all, international banking underwent considerable strains while offering unprecedented opportunities as well.

How did West Coast banks manage through that period of perils and opportunities? In response to the lifting of capital controls and to the world-wide demand for the financing of oil deficits, West Coast banks stepped up their foreign lending very sharply during the second quarter of 1974, both at their head offices and through their foreign branches, as shown in Table 4. Following the Herstatt debacle, they drastically reduced their lending activities, leading to a substantial net liquidation of head-office loans during the third quarter and of foreign branch loans in the fourth quarter of 1974. Subsequently, however, foreign lending recovered momentum, and head-office lending even surpassed the 1973-74 pace.

Thus, in fact, West Coast banks did not undergo as much of a "consolidation and retrench-

Table 4
International Activities of West Coast Banks and Their Foreign Branches Quarterly, 1974-75
(Millions of dollars)

Period	West Coast Banks: Change in Foreign Assets	West Coast Banks: Change in Foreign Liabilities	Foreign Branches: Change in Total Assets
1973[1]	515	173	1,944
1974 I	537	260	1,199
II	2,138	186	4,458
III	– 705	766	1,887
IV	487	391	– 191
1975 I	1,123	68	394
II	587	– 143	528
III	780	– 88	458
IV	1,529	41	2,403

[1]Quarterly average.

Source: Based on data reported by banks to the Federal Reserve System and the U.S. Treasury.

ment" in 1974 as was alleged in the financial press. Reports of "an age of expansion in international banking coming to an end" were unfounded. Measured by banks' foreign claims, any retrenchment was quite brief—lasting no more than one quarter of a year. Foreign lending resumed growth at both head offices and foreign branches in 1975, although the foreign-branch expansion was at a slower pace than previously.

Profitability of International Operations

The feature attracting banks to international operations must be their profitability. Indeed, a recent industry study shows that the international earnings of a group of nine major U.S. banks increased at a 37-percent annual rate over the 1970-74 period, compared to only a 3-percent rate of gain for domestic earnings.[24] Comparable data for West Coast banks are not available for that period, but scattered data for 1973 and 1974 show the same type of upsurge in overseas earnings (Table 5). In the three cases shown, earnings from international operations grew considerably faster than domestic earnings between those two years. Thus Bank of Amer-

Table 5
Assets and Earnings of Selected Individual Banks 1973 and 1974
(Millions of dollars)

	Assets 1973	Assets 1974	Assets Changes	Earnings 1973	Earnings 1974	Earnings Change
Bank of America						
Total	49,400	60,400	+22%	219	257	+17%
International	18,000	25,000	+39%	70	100	+43%
Domestic	31,400	35,400	+13%	149	157	+ 5%
Security Pacific						
Total	9,756	12,069	+24%	60.0	56.0	– 7%
International	808	1,068	+32%	5.4	6.7	+24%
Domestic	8,948	11,001	+23%	54.6	49.3	–10%
Seattle First						
Total	3,595	4,190	+17%	25.5	29.5	+16%
International	89	117	+31%	1.5	3.4	+127%
Domestic	3,506	4,073	+16%	24.0	26.1	+ 9%

Source: Estimated on basis of data in 1974 Annual Reports ica's international earnings increased 43 percent, compared to only 5 percent for domestic earnings; those of Seattle First increased by 127 percent, compared to only 9 percent for domestic earnings; and those of Security Pacific by 24 percent, compared to an 11 percent decrease in domestic earnings.

To a large extent, the faster increase in international earnings can be attributed to a greater growth rate in international assets than in domestic assets. Indeed, between 1973 and 1974, Bank of America's international assets grew by 39 percent, compared to 13 percent for domestic assets; while the comparable figures were 31 to 16 percent for Seattle First and 32 to 23 percent for Security Pacific.

If the average rate of return is measured by the ratio of earnings to assets, then changes in the profitability of an operation can be measured by the difference between the earning-growth rates and asset-growth rates. Thus, on the basis of the data in Table 5, the profitability of Bank of America's international operations appears to have improved slightly between 1973 and 1974; while Seattle First's improved enormously, and Security Pacific's declined somewhat. In contrast, the three banks' domestic profitability all declined sharply, apparently as a result of the U.S. recession in 1974. Thus, in two of the three cases examined, increased profitability in international operations provided a cushion against the decline in profitability of domestic operations. Even in the third case, where international profitability also declined, the absolute increase in such earnings helped to offset the decline in domestic earnings.

A similar picture is presented by recently published 1975 data for Bank of America (Table 6). Clearly, the 23-percent growth in its international earnings in 1975 remained considerably above its 12-percent growth of domestic earnings. (The comparable growth figures for 1974 were 43 percent and 5 percent, respectively.) When deflated by the respective growth rates in earning assets, the bank's international profitability continued to improve, and its domestic profitability to deteriorate in 1975.

Table 6

BankAmerica Corporation
Growth in Earnings and Assets
International and Domestic
1974-1975

	Average Earnings			Average Earning Assets		
	1974	1975	Increase	1974	1975	Increase
	(Million $)		(Percent)	(Billion $)		(Percent)
Total	257	302	17.5	43.5	49.3	13.3
International[1]	136	167	22.8	23.9	27.1	13.4
Domestic	121	135	11.6	19.6	22.2	13.3

[1]World Banking Division. Data differ from the corresponding figures presented in Table 5, because of "profit center changes, changes in international allocation of overhead expenses and risk changes and improvements in building block system."

Source: BankAmerica Corporation, *Annual Report 1975*, p. 50.

Conclusion

As stated at the outset, the rise of regional financial centers has been one of the most interesting developments of the past decade in international finance. These newly-developed centers both complement and compete with old-established centers in the allocation of the world's financial resources. To the extent that these centers have provided closer contacts between international and regional sources and users of funds, they have enhanced the efficiency of international financial markets. Moreover, they have undoubtedly added to the prosperity and economic growth of the regions in which the centers are located.[25]

This paper has traced the rise of the U.S. West Coast as an international financial center. The rise has been remarkably rapid since 1969. In terms of both the volume of capital flows and the worldwide financial interests represented, the West Coast has become today a significant factor in international finance.

Economic theory has largely ignored the phenomenon of regional financial centers. Yet, for both regional economics and development economics, it should be a topic of considerable interest. Recent contributions to economic analysis have emphasized the central role of financial markets in promoting economic growth. To a large extent, the analysis should be applicable to both developed and developing economies. Regional financial centers have evolved in both types of economies to provide important links between national money and capital markets on the one hand and broader world markets (such as the Euro-currency market) on the other. Further, the regional clustering of international banking institutions suggests that the optimal geographic size of financial markets is perhaps smaller than a large country (such as the United States) and larger than most small countries.

At the present stage of knowledge, this paper is more concerned with *what* has occurred than with *why*. Nevertheless, the brief discussion of economic factors suggests that as commercial banking expanded on the West Coast, a growing number of banks in the past decade attained a size sufficiently large to reap the benefits of international portfolio diversification. Available profits data appear to reinforce the impression that banks were indeed able to reap such benefits by balancing declining domestic loan demand (due to the U.S. recession) with increased international loan demand (due to large payments deficits abroad).

Another key factor has been the rapid growth of West Coast international trade, which has attracted many Edge corporations and foreign banks to the region while inducing domestic banks to start or expand their own international operations. In 1975, the growth of trade slowed down considerably as a result of the worldwide recession. Nevertheless, as many as seven new agencies and branches of foreign banks were opened on the West Coast, and nine new branches of West Coast banks were established abroad. Thus, it appears that the banking industry's interest in international banking on the West Coast remained undaunted by the recession. Both domestic and foreign banks apparently saw the need to maintain their present stake in the market, and thus set the groundwork for further profitable operations in the years ahead.

FOOTNOTES

1. Charles P. Kindleberger, **The Formation of Financial Centers: A Study in Comparative Economic History,** Massachusetts Institute of Technology, Department of Economics, Working Paper No. 114 (August 1973). Harry G. Johnson, "Panama as a Regional Financial Center," **Economic Development and Cultural Change,** (January 1976), pp. 261-286. Robert F. Emery, **The Asian Dollar Market,** Board of Governors of the Federal Reserve System, International Finance Discussion Papers, No. 71 (November 1975). The older literature includes Margaret C. Myers, **The New York Money Market** (New York: Columbia University Press, 1931); Frank Tamagna, "New York as an International Money Market," **Banca Nazionale del Lavoro Quarterly Review,** (June 1959), pp. 201-234; Sidney M. Robbins and Nestor E. Terleckyj, **Money Metropolis** (Cambridge: Harvard University Press, 1960).

2. A useful survey of the literature on the subject is Gerard S. Goldstein and Leon N. Moses, " A Survey of Urban Economics," **Journal of Economic Literature,** (1973), pp. 471-515.

3. Raymond W. Goldsmith, **Financial Structure and Development** (New Haven: Yale University Press, 1969); Arnold W. Sametz, editor, **Financial Development and Economic Growth** (New York: New York University Press, 1972); Ronald I. McKinnon, **Money and Capital in Economic Development,** (Washington, D.C.: Brookings Institution, 1973); Edward S. Shaw, **Financial Deepening in Economic Development** (New York: Oxford University Press, 1973).

4. Herbert G. Grubel, "Internationally Diversified Portfolios: Welfare Gains and Capital Flows," **American Economic Review,** (December 1968), pp. 1299-1314.

5. Federal Reserve Bank of San Francisco, **Western Economic Indicators,** January/February 1976, p. E-4.

6. Ibid., p. A-8.

7. Raymond Jallow, "World Trade in the West," **California Business,** (May 16, 1974), p. 2.

8. By convention, a bank's total foreign assets equal the difference between its **global** consolidated total assets and its **domestic** assets. Global-asset data are published annually in **Rand McNally International Bankers Directory** (Chicago: Rand McNally & Co.). Domestic asset data are reported weekly by large commercial banks to the Federal Reserve System.

9. The five were: Bank of America, United California, Crocker, Wells Fargo, and National Bank of Commerce of Seattle (now Rainier).

10. The newcomers were: Security Pacific, Seattle First, Bank of California, Bank of Tokyo of California (now California First), U.S. National of Oregon, and Sumitomo Bank of California.

11. At the end of 1975, the claims on foreigners reported by West Coast banks amounted to $12.0 billion, and the liabilities to foreigners $6.4 billion.

12. **American Banker,** February 29, 1968.

13. BankAmerica Corporation, **Annual Report,** 1969, and **Annual Report,** 1975.

14. The nine banks were Bank of America, Bank of California, Crocker, First Western, Security Pacific, Union, United California, Wells Fargo, and National Bank of Commerce of Seattle. **American Banker,** February 27, 1970.

15. The eleven were Arizona Bank, First of Arizona, Valley National, Lloyds of California, Tokyo of California, Sumitomo of California, Barclay of California, First of Oregon, U.S. National of Oregon, Seattle First, and First of Hawaii. **American Banker,** February 27, 1976.

16. Data reported by banks to the Federal Reserve System.

17. However, the data do not include assets of a) European branches whose total liabilities payable in U.S. dollars amount to less than $10 million, and b) those elsewhere (except Bahamas) whose total liabilities payable in U.S. dollars are less than $30 million. Such foreign branches are exempted from reporting their monthly assets and liability positions on FR 502.

18. For a listing of these activities at the end of 1974, see **American Banker,** February 28, 1975.

19. Data on total assets understate the Edge corporations' operations. Since their loan limits are tied to the size of their capital, it is common practice for Edge corporations to generate loans and then sell them or pass them on to their parent banks. There may have been about $425 million outstanding in such loans at West Coast banking Edges in 1975.

20. The differences between the various types of organizations are discussed elsewhere in this issue. Robert Johnston, "Proposals for Federal Control of Foreign Banks."

21. U.S. Department of Commerce, **Foreign Direct Investment in the United States,** Interim Report to Congress (October 1975), Volume 2, Appendix VIII: "Foreign Banking in the United States," esp. pp. VIII 5-10.

22. George W. Mitchell, Vice Chairman, Board of Governors of the Federal Reserve System, **Statement Before the Subcommittee on Financial Institutions of the Senate Banking Committee,** January 28, 1976, Appendix, Tables 1-6.

23. Two banks each from France, Italy, Switzerland, Brazil, Mexico, and Hong Kong; and one each from Germany, the Netherlands, Korea, and the Philippines; plus a multinational bank, the European American Banking Corporation.

24. Cited in C. Frederic Wiegold, "Overseas Earnings in Sharp 5-Year Rise," **American Banker,** October 20, 1975, page 1.

25. See Harry G. Johnson, **op. cit.,** for an attempt at measuring the welfare gains from the rise of a regional financial center.