The Impact of Government Deregulation on Bank's Behaviors: Comparison of China and US Context

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Abstract. Deregulation, also known as deregulation, refers to the relaxation or removal of some controls, such as changing the controls on business entry, pricing and investment from a licensing system to a reporting system. The main reasons for deregulation are technological innovation centred on information technology and other high technologies, lower barriers to entry for natural monopolies, and the internationalization of factors of production and other changes in the socio-economic structure. Deregulation should be preceded by the design of new competition rules so that an effective competitive market structure can emerge after deregulation. The problems of regulation itself are also what prompted deregulation. Often there are inefficiencies within regulated firms that limit the pace of technological innovation; rent-seeking behaviour may arise; the increasing costs of government regulation and the slow progress in improving service quality and tariff structures and reducing tariff levels in regulated industries due to cumbersome and delayed regulatory procedures deregulation may also have a social cost, resulting in some social Therefore, this paper examines the differences between China and the United States and the different outcomes achieved through a three-way comparison of the two countries.

Keywords: Deregulation · Banking Expansion · Banking Operation · Banking System · China · USA

1 Introduction

Against the backdrop of the collapse of the Wall Street stock market in the 1930s, the US Congress passed the Glass-Steagall Act, which implemented the principle of segmentation by prohibiting the payment of interest on demand deposits and imposing a maximum interest rate cap on time deposits (Clause Q). This rule was progressively refined and strengthened by the subsequent Securities Exchange Act and the Investment Company, creating a framework of segmented financial markets and financial separation. As financial institutions are specialized, they operate simply and safely [1].

The simplicity and safety of their operations meant that during this period they were generally safe and rarely failed in their operations. However, as economies became more integrated, financial services became globalized. However, the subsequent floating

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exchange rate regime and free movement of capital increased interest rate risk and exchange rate risk, and in order to transfer and diversify risk, major financial institutions began to seek new ways of doing business and business strategies, and engaged in various financial innovations. In order to transfer and diversify risks, major financial institutions began to seek new ways of doing business and business strategies, and undertook various financial innovations. In this context, commercial banks, investment banks and large corporations needed a financial instrument that would enable them to lock in returns at a fraction of the cost, and so financial derivatives were born. The most fundamental feature of financial derivatives is in fact their risk transfer function. This is also the case with home mortgage securities, a derivative designed to help lending banks diversify their risk and increase the liquidity of their assets. Financial liberalization is a risky process of institutional change and must therefore be implemented under an effective financial regulatory system and in accordance with strict rules. We will discover the results of the respective measures of the two countries in different policy and national contexts in the following comparison of Chinese and American studies. Do you want to know in which specific aspects the differences between China and the US are manifested?

This paper therefore examines the behaviour of banks after deregulation and compares the US and China to illustrate the differences in the impact of deregulation on the banking sector in different national contexts.

2 The Impact of Government Deregulation on Bank's Behaviors: China

2.1 The Impact of Deregulation on Bank Expansion

Since the 1990s, and especially since the establishment in 1998 of the strategic goal of building a multi-level financial system and accelerating the market-oriented reform of the banking system, China's financial system, dominated by large state-owned banks, has undergone profound changes. The most notable of these changes are along with the introduction and implementation of a series of policies such as the deregulation of the market for the establishment of off-site branches in the banking system, the structure of China's banking industry, which was dominated by the absolute monopoly of the five largest state-owned banks, has been subject to a huge external impact of the reform policy [2]. "The decision since the 18th Party Congress to accelerate the development of private financial institutions has further pointed to the evolution of the structure of China's banking sector.

2.2 Impact on the Structure of the Banking System

In order to give full play to the role of the financial system in guiding the structural transformation and upgrading of the Chinese economy, and to promote the role of the financial system in supporting the innovation-driven development strategy, one of the most important directions of reform is to allow the establishment of joint-stock commercial banks, urban commercial banks and urban credit unions, and to gradually decentralize the financial system by gradually decentralizing the establishment of branches

[3]. The introduction and implementation of policies to regulate the establishment of off-site branches of joint-stock commercial banks, urban commercial banks and urban credit unions, and the encouragement of joint-stock commercial banks, urban commercial banks and urban credit unions to establish branches and sub-branches across regions and expand the number of business outlets, thus promoting the formation of a modern banking institution system that is multi-level, multi-type and meets the needs of multiple service providers [4]. Under the guidance and promotion of this reform, China will gradually break up the monopolistic banking structure dominated by the five largest state-owned banks in most regions, thus bringing about an increase in market competition between different types of banking institutions [5].

2.3 The Impact of Deregulation on Banking Operations

By its very nature, a bank's core business is the provision of immediate financing, not the provision of financing per se. There is a real and obvious reason why dry banks do not have a competitive advantage when it comes to providing financing to high quality customers. The fact that banks are constantly converting their assets makes it difficult for investors to understand their asset and liability positions. This problem is exacerbated by the fact that banks are increasingly engaged in equity transactions, loan purchases and sales, and derivatives trading. The existence of this information asymmetry makes investors demand an extremely high premium for asymmetric information and moral hazard from banks. Moreover, the interest rate demanded by the investor does not directly correspond to the marginal return on the bank's loan. The main reason for this is in the dry:the investor does not know what the loan will be or even when it will be reflected on the bank's balance sheet.

In other words, when entry controls are imposed on the banking sector and the banking sector has a high credit rating because it has a monopoly rent for deposit business credit rating, banks can provide financing to high quality firms at lower interest rates. However, when the banks' credit ratings fell, they cut their business loose. They can allow investors to provide finance directly to businesses by way of commercial paper, but banks are more sensible to loose their business when their credit rating falls.

Directly to the business, but the bank provides a credit guarantee for this financing to ensure that the investors in the commercial paper can recover their investment. The advantage of investors providing finance directly to the business is that they receive an interest return that matches the risk of the business.

Rather than matching the average risk of a lower credit grade bank. The bank still monitors the business's behaviour (as it provides a guarantee for the commercial paper) and the bank still monitors the behaviour of the business (because it guarantees the commercial paper) and provides it with liquidity insurance, but no longer provides direct financial support to the business. It has been shown that banks are no less profitable through this type of business than they would be if they were to provide loans directly. When a bank's non-interest income is capitalized and increases the bank's assets, the size of the bank's assets expands furtherp[6].

3 The Impact of Government Deregulation on Bank's Behaviors: USA

3.1 The Impact of Deregulation on Bank Expansion

Protected by the 1927 McFrench Act, which restricted interstate branching, the United States has been the largest unitary bank in the developed world, and while most of the bank's assets have long been concentrated in only about 500 large banks, five out of six independent banking institutions are small local banks, primarily engaged in deposit and loan business in local and agricultural areas. The disregard for local interests by the large banks made it difficult for small businesses and farmers to obtain loans, and the restriction on interstate branching was also intended to limit the penetration of large banks into these areas to absorb capital, as the large banks focused on economies of scale and neglected small loans [7].

After the crisis of the 1930s, the United States imposed fraud restrictions on the establishment of new banks as a measure to enhance security. In addition to confirming the need for a new commercial bank and meeting the conditions for registration, the establishment of a new bank should also be considered as not endangering the security of the financial system.

The requirements for capital ratios in bank assets in the US were more flexible until the 1980s. The general regulatory measures required lower capital ratios for large banks due to the higher level of operational risk diversification identified for large banks The capital ratio for large banks was 39% (1979) below the average capital ratio for banking institutions of 59%, compared to 8.5% for small banks r In terms of the ratio of loans to assets, it was 55.5511979 for all banking institutions, compared to 57.5%; the ratio of cash and securities to assets is also lower for large banks, averaging 32.2% compared to 38.3% for all banks, and until a uniform capital ratio is prescribed, the lower capital ratios of large banks clearly favour their high profitability. On the other hand, before capital ratios were set for off-balance sheet business, the advantage was even more pronounced as off-balance sheet business was mainly concentrated in large banks [8].

3.2 The Impact on the Structure of the Banking System

The regulation of the banking sector is a matter of financial market stability and long-term economic development. As a monetary and credit institution, it has many important responsibilities, including attracting public deposits, granting loans and discounting bills. The level of regulation of the banking sector has a direct impact on the power of capital circulation in the economy. Too much regulation can weaken the lending capacity of banks and affect the long-term development of the economy. Too loose regulation can in turn increase bad bank loans and sow the seeds of a financial crisis. By considering four initial conditions that may negatively affect the measure before deregulation: unit banking (i.e. only one banking point), market share of small banks, market share of small businesses, and dispersion of the population [9]. It was found that allowing only unit banking, the higher the market share of small banks, the higher the market share of small businesses and the more dispersed the population, the more significantly the Gini index fell after deregulation. Deregulation thus allows more small banks to participate in the

process of mergers and acquisitions, resulting in larger banks and optimize resources. And the removal of geographical restrictions allows banks to reach out to more remote locations.

3.3 The Impact of Deregulation on Banking Operations

3.3.1 Deregulation has Expanded the Scope of U.S. Banks' Operations

For example, deregulation allowed federal thrift savings banks to engage in consumer and commercial credit up to certain limits, a statute designed to help savings institutions increase their sources of funding; savings and loan associations were allowed to offer some trust services with the permission of the Federal Home Loan Bank Board; and certain loans made by savings and loan associations were not subject to the "gross loan percentage" limit. These include: overdraft loans on deposit accounts, single and multiple dwelling mortgages, loans for the purchase of federal government bonds, home improvement loans and mobile home loans. In particular, single or multiple residential mortgages may be granted for up to 90% of the estimated value of the home. Thrifts are permitted to make commercial, corporate and trade loans up to 5% of the bank's assets in the state in which they are located or within 75 miles of their premises [10]. The purpose of this provision is to help savings institutions expand their sources of funding and diversify their portfolio of profitable assets beyond fixed-rate mortgages so that they can compete more effectively with commercial banks.

(i) Expanding the scope of depository institutions' liability business

For example, depository institutions were permitted to open Money Market Deposit Accounts (MMDAs) from 14 December 1982, which are the same as shares in money market mutual funds, are federally insured (up to a maximum of US$100,000), pay market rates (no ceiling), have no maturity and can be opened by for-profit institutions, with no reserves for individual accounts and a reserve rate of 3% for non-individual accounts [11]. Permitted depository institutions have been allowed to open Super Now accounts since 5 January 1983, with a maximum deposit insurance limit of US$100,000, unlimited interest rates and all the features of NOW accounts, except that account holders are limited to natural persons, non-profit institutions and government agencies. Allows federally registered savings and loan associations and thrifts to open demand deposit accounts for customers if the depositor has a commercial loan relationship with the institution or if the depositor wants to deposit his or her business income into the account. Authorization the Depository Institutions Deregulation Board to remove, with effect from 1 January 1984, the disparity in interest rate restrictions between banks and non-bank depository institutions as a result of the phasing out of interest rate restrictions under Regulation Q [12].

(ii) Expansion of the scope of asset business and other powers of depository institutions

Deregulation will relax the prohibition on savings institutions operating commercial and consumer credit businesses by increasing portfolio investment powers and allowing

savings institutions to invest in bonds issued by state or local governments. Savings institutions will be allowed to change their operating licenses more freely. They can convert state licenses to federal licenses and, similarly, federal licenses to state licenses where state law permits. They can convert between savings and loan associations and mutual savings banks and can also easily convert between mutual organizations and joint stock company forms. Depository institutions are permitted to grant variable-rate mortgages of the borrower's choice, and where the cantonal government prohibits mortgage contracts from including the phrase "to repay the mortgage as soon as the borrower sells the dwelling", the decree Authorization the federal government to invalidate this prohibition, as it protects against the risks of mortgages [13]. In addition, the Act expanded some of the powers of banks, such as: allowing them to set up finance companies that the Federal Reserve considered similar to banks to provide various financial services on a daily basis; Authorization subsidiaries of companies in which banks held shares…. Could lend and borrow on a wide scale, but prohibited the bank holding division from doing insurance business as itself, as an agent or as a broker; although some exceptions were listed [14].

3.3.2 Deregulation Would Remove Restrictions on Interest Rates on Bank Deposits

Deregulation could remove interest rate restrictions for all depository institutions, but the restriction that interest may not be paid on demand deposits would remain in effect. And interest rates on deposits paid by federally insured depository institutions would be eliminated if there were state restrictions [15]. For the US financial industry, continued high inflation has caused market interest rates to rise, while banks are restricted by Regulation Q from raising interest rates, resulting in a large amount of capital flowing into the financial markets and even producing the phenomenon of "Demonetization", with bank profits falling sharply. The removal of interest rate restrictions on deposits solved the problem of the weakened ability of deposit-taking institutions to take deposits, and to a certain extent reduced many of the market risks associated with the "short deposit and long loan" nature of the business of savings and loan associations. It has also reduced the spread of financial demonetization to a certain extent [16].

4 Differences Between the US and China

In this section, the paper summarized the Differences between the US and China, as show in Table 1.

Table 1. Differences between the US and China

Country	
US	The US financial regulatory policy has gone through a ten-year cycle from enhanced regulation to deregulation. While the Obama administration strengthened the financial regulatory system and introduced the Volcker Rule, the Trump administration has vigorously relaxed financial regulation to enhance international competitiveness. The Trump administration has raised the threshold for determining the assets of systemically important financial institutions, relaxed the regulatory standards for large banks, significantly relaxed the regulatory requirements for small and medium-sized banks, made efforts to relax the Volcker Rule, and moderately reduced the regulatory requirements for capital markets. The regulatory relaxation is conducive to improving the international competitiveness of US finance, but it may lead to a restructuring of international regulatory cooperation, inducing negative spillover effects and global regulatory arbitrage, and triggering major new financial risks.
CHINA	China's financial regulation has recently been gradually strengthened, which is closely related to the differences in the stage of financial development, financial structure and regulatory system between the US and China. China needs to focus on containing the spillover impact of US financial deregulation, comprehensively deepen financial reform and opening up, effectively prevent internal and external risk resonance, eliminate regulatory gray areas and regulatory gaps, and, at the same time, draw on the US to implement differentiated regulation and vigorously improve the level of financial services for SMEs and consumer protection.

5 Conclusion

Financial Liberalization is not an impractical financial innovation, not simply abandoning government regulation, but changing the role of government regulation financial Liberalization is not a mere abandonment of government regulation, but a change in the way government regulation works and the policy instruments financial disincentives that hinder financial development and economic growth, rather than Financial Liberalization does not abandon all the legitimate and necessary rules of the game of the financial system. In fact In fact, for financial Liberalization to lead to real financial development and economic growth, there must be a set of sound and effective In fact, for financial Liberalization to lead to real financial development and economic growth, there must be a set of sound and effective legal regulations and market rules to support the financial system. In fact, for financial Liberalization to lead to real financial development and economic growth, there must be a set of sound and effective legal and market rules to support the process of financial system Liberalization.

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