

# **Narratives about the future of banks: how thinking about markets and institutions influences thinking about the future of banks**

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## **Abstract**

Banks, who have for some time been challenged by new competitors, are central to our economic system. The ongoing debate concerning the future of banks is therefore of high importance, especially as the narratives interwoven with this debate can have a performative effect, which can also be inspired by economic theories. The aim of this paper is to identify how thinking about markets and institutions according to economic theory can influence thinking about the future of banks. The new institutional economics (NIE), especially transaction cost theory and agency theory, serves as a theoretical starting point. Strong market thinking and a tendency to Panglossianism are characteristic of the NIE, which means that new challengers can be interpreted as a perfection of the market. In this context, banks play a rather passive role and have to subordinate themselves to the market. A consolidation process could then take place in which banks merge to reduce transaction and agency costs and to become more competitive. Some banks could thus disappear from the scene, leading to a new market equilibrium with fewer banks and more new competitors. Overall, following the ideas of the NIE leads to a gloomy narrative of the future of banks, which is discussed critically. Blind spots of the NIE are uncovered, and the theory is brought into discourse with alternative economic thinking that opens up a different narrative. Through discussion of the meaning of uncertainty, trust, and power, a picture emerges in which banks have broader options for action and are seen as having the ability to remain successful in the market for longer periods of time.

## 1. Introduction

In the social sciences, statements about the future are often viewed critically. This reflects the problem of overdetermination, but also the fear of many social scientists of being labeled as charlatans, or, even worse, of finding out in the near future that their predictions were wrong. Nevertheless, it is hard to look away when people talk about the future, as the narratives that emerge in this way can develop immense power and may even guide the future in a certain direction. This phenomenon, which is known as performativity, has been described in the context of economics by, for example, Callon (1998) and MacKenzie (2006).

One topic that is regularly followed with excitement and attention concerns the future of banks, as they are central to our economic system. Publications such as “Bank 4.0: Banking Everywhere, Never at a Bank” (King, 2019) and “Banking 5.0: How Fintech Will Change Traditional Banks in the ‘New Normal’ Post Pandemic” (Nicoletti, 2021) try to satisfy this interest, whereby the most popular narrative still comes from Bill Gates: “Banking is essential, banks are not.”<sup>1</sup> This narrative hangs over the banks like a sword of Damocles, and its followers seem to be waiting for the moment when they can finally say, “That’s how it is, I always knew it.”

Astonishingly, such narratives have rarely been scientifically investigated. Hübenbecker (2023) has conducted a literature review of the narratives, inter alia, to identify their underlying assumptions. His results reveal a range of different narratives about the future of banks, but hardly any scientific debate between the authors. Moreover, there seems to be a lack of theoretical stringency, as the assumptions behind the predictions are often not (clearly) worked out.

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<sup>1</sup> In some variants, “Banking is necessary, banks are not.”

Given the phenomenon of performativity, these results are rather disappointing. The meaning of performativity, in times of crises and uncertainty, is emphasized by Biebricher (2018, p. 197): “Interpretation and narration as two crucial elements in the construction and definition of a crisis are ineradicably idea laden, and their import thus indirectly shapes both crisis management and, possibly, institutional transformations.” In this context, the reference to theory-ladenness raises the question of what economic theories can tell us about the future of banks, less in terms of a forecast than in terms of how they guide our thinking and enable us to think about the subject.

The aim of this paper is to find out how thinking about markets and institutions according to economic theory can influence thinking about the future of banks. The focus is on the very abstract categories of market and institution, because they characterize all economic thinking from the very beginning (see, for example, Williamson, 1975). This paper thus considers banks “only” as institutions, looking at the institutional challenges they face. In this context, few people would deny that banks are facing a whole range of new competitors, especially Fintechs and BigTechs, that are attacking the banks’ value chain. This phenomenon is widely referred to as disintermediation (Beck, 2001; Omarini, 2018).

The theoretical starting point of our analysis will be the new institutional economics (NIE). As the name suggests, the NIE is primarily concerned with institutions. From a sociological point of view, it represents the mainstream when it comes to an economic view of institutions. This can be seen not only in research but also in teaching, through its representation in many textbooks (see, for example, Furubotn and Richter, 2009).

In a second step, the narrative that the NIE offers us about the future of banks will be scrutinized. On the one hand, the NIE will be examined critically; on the other hand, the narrative itself will be brought into focus and blind spots will be pointed out. The critique will

not be designed to counter the NIE with an external standard. Rather, an attempt will be made to criticize it immanently, that is, “to find in the target of the criticism precisely the critical resources on which the criticism depends” (Sabia, 2010, p. 687). Consideration will be given to (post-)Keynesianism and Marxism as well as to the old institutional economics (OIE) to identify blind spots and inconsistencies in the narrative derived from neo-institutional thinking.

This paper contributes to the literature in three main ways. First, the consideration of narratives in general has an enormous and not yet fully understood importance for economics. By examining the case of the future of banks, we show how strongly, and sometimes even subliminally, abstract categories such as the market and institutions can shape narratives. Second, by addressing the role of banks in our current economic system, we clarify how the economy works, which, against the backdrop of a rapidly changing business world, is relevant not only for banks. Third, to investigate the narratives on the future of banks more closely, we bring different schools of thought into a discourse. As explicit reference is made to more than one economic theory, the narrative becomes transparent and comprehensible through critical observation. Moreover, we follow a principle which has not only legal but also scientific application: *audiatur et altera pars* (let the other side be heard as well).

The paper is structured as follows. In Section 2, the methodology is explained in detail. This is followed in Section 3 by a description of the transition from neoclassical economics to the NIE, namely transaction cost theory and agency theory. The implications for thinking about the future of banks are derived in Section 4. In Section 5, this narrative is evaluated critically and examined comprehensively for inconsistencies as well as blind spots, namely the aspects of uncertainty, trust, and power. The paper ends with a summary and conclusion.

## **2. Methodology**

Against the background of thinking about market and institutions, we look at the future of banks from different angles. A rather obvious approach would be simply to find out what has happened in “reality” in the recent past and then try to extrapolate this development using data and “facts.” This approach would produce content of thought about the object of investigation that stands in a (purely) historical/empirical context. It could be supplemented by logical/theoretical considerations that draw on an “appropriate” theory in order to formulate further content of thought about the object of investigation. However, what remains unconsidered is what we call the form of thought: what logic underlies the appropriate theory and, in a broader context, which theorizing dynamics have historically taken place and how any explanations of the object of investigation have come about. This addresses the point made by Somers (1998, p. 731) that “all of our knowledge, our logics, our presuppositions, indeed our very reasoning practices, are indelibly (even if obscurely) marked with the signature of time”; in other words, they are history-laden.

Not only can it be shown that, because of the problem of theoretical terms, empirical explanations always rely on theories (Zoglauer, 1993), it can just as easily be shown that the form and the content of thought are closely interwoven. This becomes evident in quite simple explanatory schemes like the deductive-nomological one, but also when the logic of a theory itself is taken into account. To give an extreme example here, the Nazi race theory follows a racist logic. The logic of the theory is, so to speak, the engine that generates thoughts about the object of investigation in the first place.

*Table 1: Scheme of thought*

	Historical/empirical	Logical/theoretical
Content of thought	(a) Historical development of banks	(b) Thinking about (the future of) banks with theory
Form of thought	(d) Historical development of theories (theory dynamics)	(c) Inner logic of the theory

Table 1 serves as an illustration of which aspects should be considered in order to examine a phenomenon comprehensively. For the object of investigation, the future of banks (which in this paper will be considered only in terms of thinking about market and institutions), this means not only (a) looking at what has happened historically/empirically with banks as institutions in recent years, and not only (b) referring to the supposedly appropriate economic theories that try to explain that development logically. Instead, we will also make the inner logic of these theories clear (c) to understand these theories with all its potential statements about the object of investigation historically from the dynamics of the theory (d). By specifically formulating intrinsic critiques of the theory (that is, critiques that do not use an external standard as a benchmark; Wrenn, 2016, p. 453), and by initiating a discourse with other theories and pointing out blind spots, the future of banks can be considered more comprehensively, elevating the debate to a new level.

### **3. Thinking about markets and institutions**

#### ***3.1. Neoclassical economics***

The market is the starting point of neoclassical thinking. This is also evident in neoclassical finance, which focuses on the purity of the market. For example, models of portfolio selection, asset pricing, capital structure, and option pricing are all based on a frictionless market. This view culminates in the efficient market hypothesis, which rejects any influence on the market for reasons of efficiency (Haugen, 2002; Bernstein, 2007).

The market is rarely defined or questioned in depth about its nature; rather, it is “taken for granted” (Hodgson, 1988, pp. 172–173). In the German-language literature, Ötsch points out the use of metaphors in neoclassical economics (1991) and elaborates on 50 fundamental principles of the market in his critique of neoclassical economics (2019, chapter 1). The market is seen, among other things, as a process of price formation that has inherent forces, as a social order, as a principle of freedom, as a mechanistic metaphor or machine, as a person acting, as a state of nature, or even as a utopia. In the English-speaking literature, Mirowski (1984, 1989) can be singled out for his analysis of the neoclassical worldview. He demonstrates that early neoclassicism is the replication of Newtonian mechanics and that the market in this respect resembles a mechanistic principle. For postwar neoclassicism, Mirowski (2007, p. 222) recognizes the metaphor of an information-processing computer.

It is typical that institutions (in the narrower sense), which are usually called firms, and especially financial firms, which include banks, do not exist in this model world. After all, the existence of such institutions questions the perfection of the market. However, one institution (in a broad sense) does exist, namely the market itself. In this respect, the tension between the terminology of market and institutions becomes apparent: institutions (in the broad sense) are a super-category under which the market also falls. Coase (1937) has already engaged with the

fact that there are no institutions in the narrow sense in the neoclassical model. In his landmark paper, he asked the question “Why do firms exist?” and thus laid the foundation for the NIE, which, however, did not really take off until the mid-1970s.

### ***3.2. The new institutional economics***

The NIE is concerned with the question of why firms (as institutions in the narrow sense) exist. It therefore lies squarely in the tradition of neoclassical economics, even if its assumptions can be assessed as more realistic (Dugger, 1983, p. 96, 1990, p. 429). Far from being a unified stream of thought (Rutherford, 1989, p. 300), the NIE subsumes many different approaches. In their classification of theories, Erlei, Leschke, and Sauerland (2016) distinguish between institutions in the market and institutions in the political sector. For institutions in the market, they refer to agency theory and transaction cost theory (Erlei, Leschke, and Sauerland, 2016, p. 59). In the following, these two strands of the NIE will be considered in more detail.

#### ***3.2.1. Transaction cost theory***

A variant of the NIE is the transaction cost approach, which goes back to a large extent to the work of Williamson (1975, 1985). The initiators of this approach acknowledge that markets are rarely efficient in reality (Dugger, 1983, p. 96), as there is a cost of using the price mechanism (of a market), which is the so-called transaction cost. Firms can deal with transaction costs more efficiently and thus gain their right to exist (Coase, 1937, pp. 388–390). Williamson points out explicitly that firms and markets are to be regarded as alternative instruments, both with the same goal “for completing a related set of transactions” (Williamson, 1975, p. 8). The hierarchy of internal organization thus has advantages over the market (Williamson, 1975, pp. 39–40).



This approach also addresses the phenomenon of market failure, which has been largely excluded from neoclassical economics. It also makes some relevant assumptions that allow a more realistic picture of the economy to be drawn. Unlike in neoclassical economics, individuals are not assumed to exhibit perfect rationality, but are characterized by bounded rationality and opportunism (Williamson, 1975, pp. 21, 26). Another far-reaching assumption, voiced explicitly by Williamson and relied on implicitly by other proponents of the NIE, is the almost Faustian statement that “in the beginning there were markets” (Williamson, 1975, p. 20, 1985, p. 87). This means in effect that the market becomes a universal category that has always existed (Ankarloo and Palermo, 2004, p. 417). Only institutions in the narrower sense (i.e., firms) can be justified by market failures or transaction costs, since they are more efficient than the market. They can carry out exchanges in ways that are less transaction cost-intensive (Dugger, 1990, pp. 425–428). All this happens in the absence of coercion or power. Instead, Coase and Williamson prefer to speak of “authority” in the sense of acting “voluntarily” (Pitelis, 1998, p. 1002). On this view, institutions serve as an extended arm of the market, or rather, they serve the market and restore its harmony.

The harmony of the market is also reflected in equilibrium thinking, which is based on methodological individualism, a focus on atomistic individuals with rigid preferences who are socially disembedded. In this respect, Williamson’s approach to transaction costs is comparative-static: “Typically, the incidence of transaction costs in equilibrium is compared in two or more governance structures, and the structure with the lowest costs is deemed to be more efficient” (Hodgson, 1996, p. 252). The comparative-static approach is also recognized by Dow (1987, p. 34), who draws parallels with neoclassical microeconomics.

The fact that these equilibrium models have a normative character, emphasizing the “self-regulating tendency of the market” (Valentinov, 2012, p. 256), is often underestimated or not recognized by economists. Equilibrium models demonstrate the ability of the market to

coordinate at the aggregate level, evoking an ideally functioning system (Boldyrev and Ushakov, 2016, p. 42; Boldyrev, 2019, p. 4).<sup>2</sup> Williamson himself later tried to make his view less attackable:

The efficiency perspective out of which transaction cost economics works further eschews Pareto optimality in favor of a remediableness standard – according to which an extant condition is held to be efficient unless a feasible alternative can be described and implemented with net gains. (Williamson, 1996, pp. 34–35)

In any case, it is clear that microanalysis is an important component of the transaction cost approach, as even Williamson confirms: “Transaction cost economics adopts a comparative contractual approach” (Williamson, 1991, p. 91). Winter, likewise, comes to the conclusion that “few if any advocates of transaction cost or evolutionary economics have sworn to abstain entirely from optimization calculus” (Winter, 1991, p. 189).

To sum up, methodological individualism and equilibrium thinking are ontological basic principles, which are implicit assumptions supporting market thinking or efficiency thinking.

Market thinking also affects firms themselves. This becomes clear when we refrain from assuming a static state, looking instead at the dynamics in which firms find themselves.

Williamson’s book is called *The Economic Institutions of Capitalism*. He thus explicitly targets a period in history and aims to explain the institutions of capitalism in evolutionary terms

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<sup>2</sup> To what extent this comparative-static approach is about Pareto-optimal states is debatable, as is the question of whether it is a general Walrasian equilibrium or a partial Marshallian equilibrium. In fact, a Walrasian (general) equilibrium cannot be assumed, since the assumptions of complete information and honesty are not fulfilled (De Vroey, 1998, pp. 207–209). However, even a Marshallian (partial) equilibrium entails further conditions that are not (cannot) be fulfilled here. For example, by assumption, production must exist at first; but then we cannot start with the market. Moreover, households need income to be able to afford the products (De Vroey, 1999, p. 322). Last but not least, a perfect information context is of crucial importance (De Vroey, 1999, p. 323). Because of complexity and bounded rationality, however, this perfect information context cannot be assumed without further effort (Williamson, 1975, p. 31). A partial equilibrium can most likely be justified on the grounds that no global statements of efficiency except local ones can be assumed (Nutzinger, 1982, pp. 180–181). Following Nutzinger, (1982), Hodgson (1999a) arrives at a similar view, although he draws more attention to the contradiction that the transaction cost-minimizing rational agents of Williamson’s comparative static approach are difficult to fit with his assumption of bounded rationality (Hodgson, 1999a, pp. 208–209).

(similarly Palermo, 2000, p. 580; Meramveliotakis and Milonakis, 2010, p. 1057). Since firms exist as institutions in the narrower sense for reasons of efficiency, this approach goes so far as to suggest that the institutions that exist at the moment must be considered efficient; after all, they would not be able to exist otherwise.<sup>3</sup>

In this context, Williamson's assumption that "in the beginning there were markets" must be addressed again. It is impossible to consider it as a historical-empirical assumption. On the one hand, we cannot interpret it as a primordial beginning, not only because doing so would clearly contradict Williamson's intention in his book, but also because the development of mankind presupposes many other institutions, such as families and tribes (Hodgson, 1988, pp. 206–207; Pitelis, 1998, pp. 1000–1001; Meramveliotakis and Milonakis, 2010, p. 1061). On the other hand, the assumption is untenable in terms of a capitalist beginning because, even if Williamson wanted to get at the important characteristic of markets as a place of exchange, he would miss the point that the commodity form of assets in capitalism is a result of production. Williamson would thus be presupposing something that he wants to explain (Ankarloo and Palermo, 2004, pp. 423–426).<sup>4</sup> Thus, Williamson is not concerned with real markets as they really exist or came into being, but in a logical sense with "neoclassical markets as those of the GE [general equilibrium] world" (Ankarloo and Palermo, 2004, p. 423).

This analysis reveals the epistemological character of the assumption and thus of the transaction cost theory as a whole. Relying on idealizing assumptions is completely in the tradition of neoclassical economics and in this sense characteristic of market thinking.<sup>5</sup> If markets were assumed from the very beginning, they would not be the result of conscious human selection, which is compatible with the assumption of bounded rationality. If it was

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<sup>3</sup> A similar view can be found in Ankarloo and Palermo (2004, p. 418).

<sup>4</sup> This is also true for one-person companies, as Fourie (1993, pp. 43–44) shows.

<sup>5</sup> In particular, the important essay by Friedman (1953), who is known for his ultra-liberal stance on markets, can be mentioned here. See also Ankarloo (2002, pp. 26–28).

further presupposed that markets had transaction costs and that firms were more efficient than the market because of hierarchies, the evolutionary efficiency assumption would also be fulfilled. Thus, efficiency is made the engine of the market, with the result that the idealized world develops evolutionarily toward the best (in this case, most efficient) condition. So, even here the market is present in the form of an invisible (evolutionary) hand. In the literature, Williamson has thus been blamed for succumbing to Panglossianism (Granovetter, 1985, p. 503; Hodgson, 1991, 1993, p. 94), an allusion to the character Dr. Pangloss in Voltaire's *Candide* who tries to portray every bad event in the world in a positive light and as pointing to a path toward a better world. Accordingly, it is an extremely deterministic worldview that subordinates everything to functionalism. In this connection, Hodgson (1991) draws a parallel between the NIE personified by Williamson and the neoclassical economics personified by Friedman: "Panglossian writers like Friedman and Williamson take for granted that survival means efficiency" (Hodgson, 1991, p. 522).

### 3.2.2. Agency theory

Agency theory was explicitly developed by Jensen and Meckling (1976). However, the work of Alchian and Demsetz (1972) should be considered as the theory's precursor. Their work focused, among other things, on monitoring, and a considerable part of the literature on banks in the context of intermediation is based on (delegated) monitoring (e.g., Diamond, 1984).<sup>6</sup> It is important to note that agency theory and the monitoring approach go hand in hand, as monitoring is one possible instrument for overcoming agency problems.

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<sup>6</sup> This stream of banking literature will not be treated in more detail here. The monitoring function already concerns, in the broadest sense, a service offered by banks. Although what the banks do is of enormous importance, this paper aims at an understanding of the institutions themselves at a higher level of abstraction.

To justify the existence of firms, opportunistic behavior (which is also a focus of the transaction cost approach) and information asymmetries (which are mainly addressed within the firm) are among the central assumptions of agency theory. Both assumptions provide a more realistic picture of the economy than neoclassical economics. Jensen and Meckling (1976) accuse the supporters of the transaction cost theory of continuing to treat the firm as a black box. They emphasize the crucial importance of contractual relations within firms and beyond: “Contractual relations are the essence of the firm, not only with employees but with suppliers, customers, creditors, etc.” (Jensen and Meckling, 1976).

One aspect of opportunistic behavior that appears in the work of both Jensen and Meckling (1976) and Alchian and Demsetz (1972) is shirking, which is what makes monitoring within the firm important in the first place. Jensen and Meckling (1976) pointed out that “the term monitoring includes more than just measuring or observing the behavior of the agent. It includes efforts on the part of the principal to ‘control’ the behavior of the agent through budget restrictions, compensation policies, operating rules, etc.” (Jensen and Meckling, 1976, p. 308).

In this context, it is important to note that everything takes place without coercion and that power plays no role. “The firm [...] has no power of fiat, no authority, no disciplinary action any different in the slightest degree from ordinary market contracting between any two people” (Alchian and Demsetz, 1972, p. 777). This statement is clarified by the example of a grocery store. Customers can damage their grocer only by not buying his products again. This is also the case within the firm. All an employer can do is terminate the employment relationship. According to Alchian and Demsetz (1972), there is no difference between the two relationships. The market relationship between firm and customer thus has a mirror-image effect in the firm between employer and employee. The firm is no longer an alternative to the market, as in the transaction cost approach, but itself functions in principle like a market, or, as Alchian and Demsetz put it, “The firm serves as a highly specialized surrogate market” (Alchian and

Demsetz, 1972, p. 793). Jensen and Meckling (1976) express themselves even more precisely, using the vocabulary of the neoclassical model world to describe the balance between principal and agent: “In this sense the ‘behavior’ of the firm is like the behavior of a market; i.e., the outcome of a complex equilibrium process” (Jensen and Meckling, 1976, p. 311; similarly Palermo, 2000, p. 575).

From these quotations, it is clear that the market is omnipresent or represents a universal category in agency theory. A similar conclusion is reached by Palermo (2000), who calls the opposition between firm and market “illusory.” When the price mechanism is made ubiquitous, the market becomes a universal principle, even within the firm itself (Palermo, 2000, p. 575, 2007a, p. 152). A consequence of this social disembedding and of these methodological principles can be summarized as follows: “by severing the market from its structural-institutional context, it is reduced to nothing but inter-individual relations [...] the market is seen as a super societal organizer capable of regulating almost any societal activity or sphere” (Fourie, 1991, p. 54).

In summary, the NIE is subject to market thinking both in transaction cost theory and in agency theory, and in this respect it is clearly in the tradition of neoclassical economics.

#### **4. Implications for narratives about the future of banks**

Content of thought of a historical nature that relates to the future of banks from an institutional perspective is still missing from our schema of thought (see Section 2). Candidates for this content are the current challenges facing banks, although it cannot be concealed that the identification of such challenges naturally takes place through theory and is also captured in theoretical terms (Zoglauer, 1993). Nevertheless, one commonly recognized challenge stands out: new competitors, namely Fintechs and BigTechs, are attacking the value chain of banks

and thus may cause disintermediation (see point (1) in Table 2).<sup>7</sup> The question here is how the NIE can deal with this historical-empirical issue of new competitors for banks, that is, what narrative about the future of banks this theory can offer us.

The existence of firms, and especially banks, can be justified by the existence of transaction costs or agency problems due to informational asymmetries (see point (2) in Table 2). Moreover, we showed in Section 3 that the NIE stands in the tradition of neoclassical thinking and is subject to strong market thinking in its inner logic (see points (3) and (4) in Table 2). Because firms themselves are also subject to this market thinking, one implication is that they are to be regarded as “passive players” (see Meramveliotakis and Milonakis, 2010, p. 1058). In terms of thinking about the future of banks, this means that, in the broadest sense, banks are passive players that have to subordinate themselves to the market (activities). Following the Panglossian story, the new competitors can be seen as perfecting the market because they simply act more efficiently than banks (see point (5) in Table 2).<sup>8</sup>

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<sup>7</sup> The concept of intermediation presupposes intermediation theory, which can be derived from the NIE literature. However, it is still unclear how the new competitors can be classified in the existing theory: “So far, the literature on fintech has simply bootstrapped fintech platforms to models of financial intermediary existence” (Thakor, 2020, p. 6).

<sup>8</sup> For a similar argument, but with a much stronger reference to the Arrow and Debreu model world and disintermediation, see Scholtens and van Wensveen (2003, p. 9).

Table 2: Scheme of thinking about banks

	Historical/empirical	Logical/theoretical
Content of thought	Historical development of banks (1) New competitors attack the value chain of banks	Thinking about banks with theory (2) NIE explains institutions (banks) via TCT and AT (5) New competitors serve to perfect the market
Form of thought	Historical development of theories (4) NIE stands in the tradition of neoclassical economics	Inner logic of the theory (3) NIE is dominated by market thinking and Panglossianism

Note: NIE = new institutional economics; TCT = transaction cost theory; AT = agency theory.

In order to complete the narrative about the future of banks, we have to think about reasonable reactions by the banks. For this purpose, the so-called bathtub model of Coleman (1990), which was further developed by Hedström and Swedberg (1998), will be applied. The model makes it possible to explain social mechanisms via a macro-micro-macro transformation, which would otherwise be observable by the researcher only at the macro level (Hedström and Swedberg, 1998, p. 22). Coleman can be seen as a follower of a rational choice sociology (Swedberg, 2003, p. 38). His model accommodates the NIE approach chosen here, applying and evaluating the NIE according to standards that correspond to its intention.

The starting point for the bathtub model is the market environment at the macro level (see Figure 1). From there emanates the situational mechanism that sees individuals exposed to a particular situation (Hedström and Swedberg, 1998, p. 23). Opportunistic customers who want



to take advantage of services that are favorable for transaction costs, as well as transaction cost minimizing banks who are competing with new competitors, are located at the micro level.<sup>9</sup>

The second mechanism that comes into play is the action-formation mechanism, which shows how a particular combination of desires, beliefs, and action options produces a particular action (Hedström and Swedberg, 1998, p. 23). Customers at the micro level switch to the most favorable provider, which means that the new, more efficient competitors can count on an influx of customers. As a result of this mechanism, the banks enter a transaction cost downward spiral. However, there is the possibility of mergers among banks, allowing them to become more transaction cost-efficient (Dugger, 1990, p. 425).

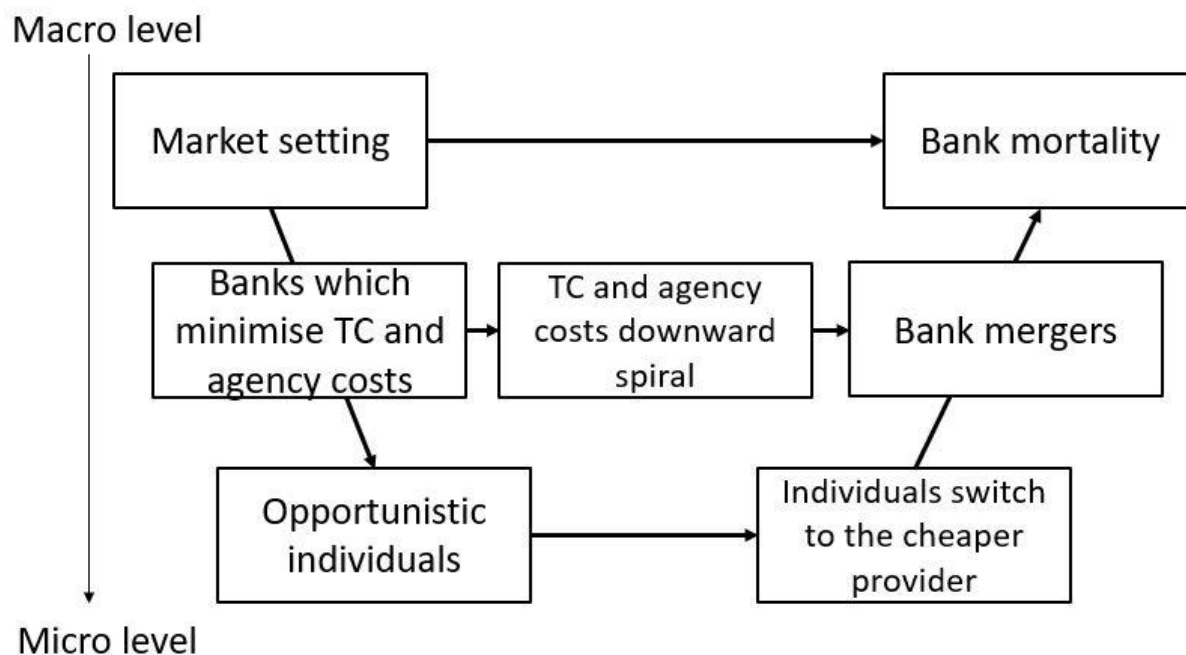
In a final step, the transformational mechanism is considered. Individuals interact with each other, and their social actions are cumulated, so to speak, leading to a collective outcome (Hedström and Swedberg, 1998, p. 23). Through bank mergers and customers switching to the most favorable provider or to the new competitors, a loss of importance of single banks and a not insignificant dying of banks is likely. Not all banks will disappear, but the market will tend to perfect itself through the new competitors. Moreover, banks might have difficulties retaining their customers in the long run.

The passivity of banks, due to the strong market thinking within the NIE, prevents them from opposing these mechanisms in a hopeful way. According to agency theory, management might come somewhat more into play, but since there is no power for the firm vis-à-vis the customers (and no market power), the banks' options for action are still limited.

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<sup>9</sup> The banks stand above the customers here, since they are, in the broadest sense, institutions that come close to what is called a "meso unit," located between the micro and macro levels (Dopfer, Foster, and Potts, 2004, pp. 267–270).

Figure 1: Bathtub model



Note: TC = transaction costs.

## 5. Discussion

In this section, the rather pessimistic narrative about the future of banks developed above will be evaluated critically. The evaluation is carried out, on the one hand, via criticism of the NIE; if the weak points of the theory are exposed, then the substantive aspects of the narrative can also be seen as at least questionable. This is a kind of meta-critique. If the schematization of thinking (see Table 2) is used, then the form of thinking of the NIE will be questioned in its inner logic and, in addition, the theory will be historically classified. On the other hand, the narrative itself will be brought into focus and blind spots will be pointed out. This critique concerns the content of thought, is more pragmatic in nature, and indirectly enables an alternative narrative on the future of banks. More specifically, the meaning of uncertainty, trust,

and power for the narrative is discussed. Consideration is given to (post-)Keynesianism and Marxism as well as to the OIE.<sup>10</sup>

### ***5.1. Uncertainty***

A fundamental assumption of transaction cost theory is bounded rationality, which is linked to uncertainty and complexity (Williamson, 1975, pp. 21–23). In complex (even deterministic) situations, “computational inability” (Simon, 1972, p. 170; Williamson, 1975, p. 23) leads to decision-making under uncertainty.<sup>11</sup> Williamson’s concept of uncertainty is thus rather restrictive and driven mainly by the decision-makers’ rational limitations.

This insight becomes even more significant when other distinctions between different kinds of uncertainty, by authors who are primarily associated with post-Keynesianism, are consulted. For example, Langlois (1984) distinguishes between “parametric uncertainty” and “structural uncertainty,” the former referring to the lack of certain parametric values or parametric information and the latter to a fundamental uncertainty or lack of knowledge (Langlois, 1984, pp. 29–31; see also Hodgson, 1988, pp. 203–204). A further division into “substantive uncertainty” and “procedural uncertainty” can be made (Dosi and Egidi, 1991). The former, as the name suggests, refers to the lack of the information needed to make decisions, and the latter includes limitations of the cognitive possibilities. This distinction is also explicitly based on Herbert Simon’s differentiation between substantive and procedural rationality (Dequech, 2006, p. 112). Other classifications include “weak uncertainty” and “strong uncertainty”

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<sup>10</sup> The OIE is not simply a historical predecessor of the NIE. The term “old” is misleading in this respect, because there are still economists who work in this paradigm. Adherents of this school of thought today prefer to call themselves “radical” institutionalists in distinction to proponents of NIE (Dugger, 1989, p. vii). Nevertheless, especially in comparisons of the two schools of theory, the terms “new” and “old” have more or less prevailed (see also Rutherford, 1994).

<sup>11</sup> Williamson and Coase make little effort to provide really solid definitions of uncertainty (Dunn, 2000, p. 420). For a more detailed interpretation of Williamson’s understanding of uncertainty, see Dequech (2006, p. 113).

(Dequech, 1997), or uncertainty (1) and uncertainty (2) or “pure uncertainty” (Fontana, 2009), or, as Hodgson calls his concept in contrast to the NIE, “radical uncertainty” or “real uncertainty” (Hodgson, 1988, p. 205).

What all these distinctions have in common is that uncertainty is not simply uncertainty, as trivial as this may sound. Bounded rationality leads to “behavioral uncertainty” but neglects “fundamental uncertainty” (Dunn, 2001). All the authors mentioned above emphasize that there is an uncertainty that exists independently of human and computational possibilities. That uncertainty makes future predictions or forecasts difficult or even impossible.

For Fontana, uncertainty is a “first principle” that runs counter to the “invisible hand theorem” and thus opposes harmonic equilibrium views that assume market adjustment or self-correction (Fontana, 2009, p. 7). In this context, the OIE school of thought considers predictions to be uninteresting. If prediction is used at all, it is a matter of making general qualitative predictions and not specific quantitative ones (Dugger, 1979, p. 905). This view is justified by the fact that the economy should be regarded as a process: “All institutionalists, including those who do not stress its radical nature, argue that the economy is a process, not an equilibrium” (Dugger, 1988c, p. 4). In a nutshell, central to the OIE is the “concept of process,” whereas the NIE focuses on the “concept of optimum” (Dugger, 1990, p. 424).

This argumentation rejects the starting point and the entire market understanding of the NIE:

It is the contention of the institutional economist that the economic system is not controlled by the price mechanism or the market mechanism, and that it is not to be understood by starting from that premise. [...] The economic system is, rather, to be understood as a congeries of a multitude of forces – institutional and technological, social and historical. (Cochran, 1955, pp. 248–249; see also Reuter, 1996, p. 139)

This has a direct logical impact on model thinking in economics. It can no longer be assumed that the economy tends toward a state of equilibrium. The market is not a harmony-producing construct, an automatic mechanism, or even an invisible hand<sup>12</sup> that provides balance.<sup>13</sup> Dunn has argued that the bounded rationality argument for transaction costs is in any case only a “short-run perfectionist argument” and that transaction cost theory cannot explain firms adequately in the long run (Dunn, 2000, p. 425).

On this line of argumentation, Panglossianism cannot be applied, and economic events cannot be viewed deterministically. For the narrative about the future of banks it follows that the new competitors can no longer be understood as a perfection of the market, displacing the banks and creating a new equilibrium. However, when equilibrium is not achieved in the long run and the harmony of the market cannot be preserved (or must be preserved because the uncertainty is so great), then institutions in general and banks in particular can be accorded a much more prominent role than that of mere preservers of continuity.

Underlying this argumentation is a psychological explanatory approach that sees institutions as a stronghold of continuity. The more uncertain the future appears, the more important the role of institutions:

Specifically, in a world of flux and uncertainty the institution has been regularly identified as a relied-upon source of endurability, of continuity and stability, and indeed as the most significant such source. And this fits with the conception of institutions [...]

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<sup>12</sup> Hahnel, who is influenced by Marxism, argues that markets are inefficient because disequilibrating forces that are not weak, non-competitive market structures are common, and externalities are the rule rather than an exception, which is why he uses the term “invisible foot” for all bad tendencies of the market (Hahnel, 2007, pp. 1141–1142). Perelman (1999), also a Marxist, portrays the influence of markets in this respect even more starkly: “Pure market forces have the tendency to run amok” (Perelman, 1999, p. 150).

<sup>13</sup> A distinction can be made here between post-Keynesians and New Keynesians. In the tradition of Keynes, New Keynesians assume that in the short run there are no automatic adjustment processes in the market. For the long run, however, they join the neoclassicals in believing in self-adjustment of the market. Post-Keynesians assume that neither in the short run nor in the long run are processes at work that cause an automatic adjustment toward equilibrium (Fontana, 2009, pp. 2–3).

as particular social phenomena, mostly social systems, or structured processes of interaction, that are relatively enduring and recognized as such. (Lawson, 2005, p. 14)

Hodgson (2000) also emphasizes this view: “Through this circle of mutual engagement, institutions are endowed with a stable and inert quality, and tend to sustain and thus ‘pass on’ their important characteristics through time” (Hodgson, 2000, p. 117).

In this respect, the emphasis on uncertainty provides a basis for the existence of firms, which can also apply to the relatively old institution of banking. Therefore, the pessimistic view on the future of banks discussed in Section 4 must be put into perspective by expanding the notion of uncertainty.

## **5.2. Trust**

In the NIE, opportunism plays an important role in explaining institutions in a narrower sense (i.e., firms). For the transaction cost theory, Moschandreas even speaks of opportunism as the “sine qua non” (Moschandreas, 1997, p. 41). Opportunism in the form of shirking is also given a prominent position in agency theory (see Section 3.2.2).

Williamson’s argument that hierarchy (through authority in firms) mitigates opportunism leads, first, to trust playing no role either inside or outside the firm, and, second, to the opportunism of authority being neglected (as pointed out especially by Dow, 1987; see also Moschandreas, 1997, p. 49). More precisely, transaction cost theory assumes that authority in the firm is responsible for transaction costs being allocatively efficient (Dow, 1987, p. 33). However, it is not clear why the assumption of opportunism is not taken to its logical conclusion. Who monitors the authority or who monitors the monitors (Dow, 1987, pp. 20, 24)? This question is addressed by Alchian and Demsetz (1972) and by Jensen and Meckling (1976), but they do not explicitly consider authority.

As shown in Section 3.2.1, the NIE is a further development of neoclassical economics (and the concept of *homo oeconomicus*). Humans are still rational agents (albeit in transaction cost theory their rationality is limited). *Homo oeconomicus* cannot be left behind, because the NIE is based on the calculation of costs, whereas norms and conventions are not included (Hodgson, 1988, p. 206). The epistemological parallel to neoclassical economics can again be drawn here, since the NIE considers opportunism “as if [it] were the invariant core of human nature and trustworthiness no more than a supplement that varies from country to country, depending on culture and institutions” (Noorderhaven, 1996, p. 106).

The OIE can be distinguished from the NIE in its emphasis on the importance of habits (Hodgson, 2000, p. 117). This also includes cultural conditions, in which the distance from the NIE is again very clear: “The mind of Williamson’s individual is bounded; the mind of institutionalism’s individual is culturally conditioned” (Dugger, 1990, p. 427). In relation to Williamson, it can be stated that the NIE adopts an individual choice approach, instead of the collective action approach advocated by Commons (Dugger, 1994, p. 378). As a result, the supporters of the OIE also have a different image of human agents. For example, Veblen’s (1898) “instinct of workmanship” in some respects represents a counter-design to shirking. It is worth quoting at length to demonstrate the difference:

By selective necessity he [the human being] is endowed with a proclivity for purposeful action. He is possessed of a discriminating sense of purpose, by force of which all futility of life or of action is distasteful to him. There may be a wide divergence between individuals as regards the form and the direction in which this impulse expresses itself, but the impulse itself is not a matter of idiosyncrasy, it is a generic feature of human nature. [...] Cases occur in which this proclivity for purposeful action is wanting or is present in obviously scant measure, but persons endowed in this stepmotherly fashion are classed as ‘defective subjects’. [...] Within the purview of economic theory, the last

analysis of any given phenomenon must run back to this ubiquitous human impulse to do the next thing. [...] In the intervals of sober reflection when not harassed with the strain of overwork, men's common sense speaks unequivocally under the guidance of the instinct of workmanship. [...] They like to see others spend their life to some purpose, and they like to reflect that their own life is of some use. (Veblen, 1898, pp. 188–189, cited in 2011, pp. 159–160)

While Veblen's concept of instincts is controversial, it should be noted that, unlike in the case of *homo economicus*, instincts are subject to social influences (Reuter, 1996, pp. 212–216; Jennings, 1999, pp. 519–520). In this respect, the OIE also distinguishes itself from the NIE in its definition of institutions. According to North, institutions are “humanly devised constraints” (North, 1990, p. 3). However, a conception of institutions as mere constraints could lead to the assumption that unbridled free markets are, so to speak, the state of nature against which those constraints are then directed (Bromley, 2006, p. 32). Indeed, passages can be found in North's work in which the market logic is to be discovered: “The profitable opportunities in trade and commerce seemed everywhere circumscribed by privileges, barriers to entry and mobility, which had only to be removed to increase the scope and profitability of enterprise and consequently to promote economic growth” (North and Thomas, 1973, p. 148; cited in: Mirowski, 1981, p. 575). Hodgson points out that, in North's definition, the “absence of the word ‘habit’ [...] is not accidental” (Hodgson, 1999b, p. 535). In Veblen (1909), however, habits are explicitly addressed in the definition of institutions<sup>14</sup> as “settled habits of thought common to the generality of men” (Veblen, 1909, p. 626 cited in 2011, p. 518).

This is important, because “habits both reinforce and are reinforced by institutions” (Hodgson, 2000, p. 117). This interaction is particularly interesting in the aspect of trust toward

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<sup>14</sup> In general, the definitions of institutions are broad and include not only organizations (as well as banks) but also social entities such as money, language, and law (Hodgson, 1999b, p. 535).



institutions. It creates a circle according to which trust creates habits, and habits in turn create trust. In this context, Moschandreas points out that “Trust reduces costs in long-term relationships” (Moschandreas, 1997, p. 45). For this reason, aspects which cannot be explained via transaction costs, such as trade partnerships, must be taken into account; therefore, it can be argued that the NIE approach is not sufficient to fully explain institutions or the existence of firms (Moschandreas, 1997, p. 45). Trust is thus a blind spot in the narrative about the future of banks considered in Section 4.

Trust and habits are essential for firms to exist at all. Williamson’s assumption of opportunistic behavior, which he applies to the market as well as to firms, is contrary to this assumption (Hodgson, 1988, pp. 209–211). For the future of banks, this is interesting, in that banks have a trust advantage due to usually long relationships with their customers, which translates into the habit of staying with the bank. (For the phenomenon of relationship lending see, for example, Boot and Thakor, 2000; Kysucky and Norden, 2016.) New competitors have to build up this trust over a long period of time. Therefore, the narrative developed in Section 4 might overestimate the speed with which the competitors establish themselves and the banks are displaced.

### **5.3. Power**

In principle, power plays hardly any role in the NIE. Within agency theory, power structures are completely absent, both inside and outside the firm. According to transaction cost theory, the existence of the firm is explained via the advantages of a hierarchy, but externally the firm does not possess any power either.

This approach becomes more understandable when the ontology behind it is considered. For the NIE, as for neoclassical economics, power and a perfectly functioning market are antipodes.

Two systems are conceived in theory: one without imperfections, in which perfect competition governs all individual relations (a perfect decision-making context), and one with imperfections, in which individual relations are also characterized by power (an imperfect decision-making context) (Palermo, 2007b, p. 545, 2007a, p. 164, 2019, p. 1359). Accordingly, in the NIE, imperfections are “the true cause of power” (Palermo, 2019, p. 1359). If imperfections are abolished, then power relations will automatically disappear (Palermo, 2007a, p. 164).

However, it is doubtful that power has no meaning at all in the justification of the existence of firms (and especially banks).<sup>15</sup> For example, it is not explained why two individuals would agree that one is the employer and the other is the employee. In particular, the amount of compensation would matter to the employee, not the transaction costs. The power to employ is at least implicitly assumed; after all, not everyone can hire workers at will. In this respect, employer and employee are already in a power relationship that is socio-economic in origin (Meramveliotakis and Milonakis, 2010, p. 1061).

Similarly, Pitelis (1998) considers the argumentation of the NIE in the context of capitalism:

Within the capitalist logic of profit generation for the principals, the employment relation is transactionally superior to the price mechanism and is thus a more efficient means of the organization and division of labor. In this sense, the transactional properties of firms are not per se the reason for market failure; the reason is the transactional properties needed for capitalist control to be established. Such control is easier under the employment relation, which renders the latter transactionally superior from the capitalist point of view. Given this, (transactional) efficiency cannot in itself

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<sup>15</sup> It is not the task here to refute the NIE. Rather, the criticism serves a meta-argument: if the representation of the firm in this theory is wrong (logically as well as historically), or if false assumptions form the basis of the NIE, then the derivations of the theory will be at least questionable and the corresponding narrative about the future of the banks subject to doubt.

explain the existence of firms; the principals' objectives (thus power and distribution) also need to be considered. (Pitelis, 1998, p. 1010)

Besides the logical inconsistencies, the NIE's argument that hierarchies emerged without coercion cannot be sustained historically (Palermo, 2007b, p. 544; for a more comprehensive look at the matter, see Gerstenberger, 2017).

Power plays a role not only within a firm but also outside it, that is, between the firm and other firms, and between the firm and individuals. In this regard, different dimensions of power are addressed. Following Lukes (1974), Young (2002, p. 51) proposes four categories of power:

1. A has the ability to win in overt conflict with B;
2. A is able to divert B's wants;
3. A is able to reconstitute B's wants;
4. A is able to reconstitute B's wants against B's interests.

Levels 2 to 4 address the possibility of changing preferences. However, since the NIE excludes exactly that (Hodgson, 1994, p. 399), a significant form of power is not recognized. In the OIE, in contrast, preferences are not taken for granted: "Wants are not just givens" (Dugger, 1988c, p. 5). Power is a more important factor than efficiency, which means that this tradition of thought is directed against the concept of the survival of the fittest; that is, efficiency is not mixed with existence (Hodgson, 1988, p. 214). Power does not always have to be based on brutal coercion and force: "power is difficult to see and to analyze because it is secure and based on voluntary compliance" (Dugger, 1980, p. 905).

These considerations lead us to the conclusion that, in a certain sense, there is a contradiction in the NIE regarding power. On the one hand, power relations are almost completely disregarded, such that individuals have sovereignty, and they possess and exercise power over themselves. On the other hand, individuals are slaves to their own preferences, which are

merely given, and which they cannot question or change. This is also reflected in institutions. They are free of constraints, but at the same time they have no power to act,<sup>16</sup> except to reduce (transaction and agency) costs. In this sense, the banks are subject to a superior structural coercion that is exercised by the market or at the level of the market.

A structural form of power is also found in the Marxist view. This is mainly because class struggle is assumed within society. Thus, there is not only a relational notion of power (power over somebody) and a dispositional notion (power to act), but also a kind of invisible coercion (Palermo, 2019, p. 1357). At a model-theoretical level, this view is directed against a methodological individualism that does not allow for social classes (Palermo 2019, p. 1360). Without going too deeply into the aspects of money, credit, and capital, in order not to lose sight of the institutional perspective, it can be stated that capitalism itself is in essence a system of power (Palermo, 2007b, p. 556) and that “to have authority in production or market power in circulation, one must first have purchasing power” (Palermo, 2007b, p. 551). This point is essential here because it rejects the opposition of power and efficiency and considers both aspects together. In the OIE, a circle results: power leads to growth in size, and at the same time growth in size leads to a drive for even more power to keep the company coherent and capable of action (Dugger, 1988b, p. 80).

Because of the emphasis on social structures and the primary emphasis on power issues, followers of the OIE, such as Dugger (1988c), arrive at a completely different assessment in their thinking about the market:

The market does not just happen. It is not a natural phenomenon. The market is a set of instituted social relations [...] the market is not a result of Adam Smith's natural system

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<sup>16</sup> This concept is also discussed by Lukes (1974) and Palermo (2019).

of liberty. It is a result of the exercise of power [...] the market is not a cause, but an effect. (Dugger, 1988c, p. 8)

In contrast to the NIE, where the market appears as an active agent, in the OIE the market is an explicitly “passive institution” and the modern economy is a “corporate economy” (Dugger, 1988a, p. 984).

This assessment has several implications for thinking about the future of banks. First, banks are no longer merely passive actors that can at best lower transaction and agency costs. By incorporating several dimensions of power, banks have the possibility to change preferences (i.e., the possibility of power over somebody) and to (pro)actively shape their situation to their advantage. Banks can thus actively manage their customer relationships.

Second, assuming that endowments are distributed asymmetrically, banks also have power to act. In relation to the banks’ rather small new competitors, Fintechs, this seems to be without a doubt the case. In relation to their larger BigTech challengers, things look different. However, banks are not necessarily powerless here, either.

Third, and more fundamentally, the abolition of the separation of efficiency and power casts the bank as an actor in a different light. The model world of the perfect market is fading and with it the idea of perfecting the market by means of new competitors. Power is no longer a defect that arises from imperfection, but an original category that exists between the actors and determines the framework for action.

## **6. Summary and conclusion**

In this paper, we have outlined a narrative of the future of banks against the background of neo-institutional thinking about markets and institutions. As a starting point, we referred to

Fintechs and BigTechs as new challengers that are attacking the value chain of banks. Strong market thinking and a tendency toward Panglossianism were identified as characteristics of the NIE, which leads to the new challengers being interpreted as a perfection of the market. In this context, the banks are regarded as playing a rather passive role and as having to subordinate themselves to the market.

In line with Coleman's bathtub model, this path was further developed. Banks might be displaced by the new competitors. A consolidation process could take place in which banks merge in order to reduce transaction and agency costs and to become more competitive. Some of the banks could therefore disappear from the scene, leading to a new market equilibrium with fewer banks and more new competitors. Overall, following the ideas of the NIE leads to a rather gloomy narrative concerning the future of banks.

In a second step, we evaluated this narrative critically by examining the (assumptions of the) NIE and by pointing out blind spots. Specifically, the meaning of uncertainty, trust, and power for the narrative was discussed in detail with reference to the OIE, (post-)Keynesianism, and Marxism. In the NIE, uncertainty is closely linked to individuals' bounded rationality and can thus be understood as behavioral uncertainty. Such an understanding, however, cannot express itself in an appreciation of institutions that may have a legitimizing effect via a more fundamental form of uncertainty. In terms of trust, the immanent critique shows, first, that the assumption of opportunistic behavior can be mitigated by authority, although in that case it is not clear who is supervising the authorities. Second, and even more importantly, the assumption of opportunism leaves no room for trust, which may be a significant factor in explaining the existence of institutions. In the case of power, the immanent critique is evident from the ontology according to which efficiency and power form antipodes and institutions are justified only on efficiency grounds. On this reading, power cannot play any role. However,

even in logical terms, it is not evident that power is not being used as an explanatory factor for institutions.

Overall, the immanent critique and the characterization of alternative traditions of thought result in a more comprehensive narrative about the future of banks. If uncertainty, trust, and power are taken into account, a strongly altered picture of the future will appear. Uncertainty (in a wider sense) can lead individuals to rely on old, familiar, trusted institutions for the stability they offer. Banks could be seen as institutions that provide security, making many of their customers unwilling to change. This goes hand in hand with trust. With the recognition of strong uncertainty, it becomes important to have trustworthy partners that accompany individuals through the uncertain future. Here again, banks can build on a trust advantage over their new competitors, as bank customers already know what they are getting. In addition, cooperation based on trust can form habits that further strengthen the circle of trust and habits, which is beneficial for the relationship between bank and customer. New challengers must first, at great effort, create trust and try to convince customers. They can also use one of the forms of power described above to change the preferences of bank customers. However, banks, too, are in a position to change customers' preferences in such a way that customers do not choose the cheapest and/or most efficient provider, but instead focus on other aspects. Banks are no longer passive players that can only reduce transaction and agency costs and have to subordinate themselves to the market. Banks can take action themselves and use their power against the new competitors or to shape customer preferences, be it in the form of capital or in the form of trust. In this way, banks are seen as having the ability to remain successful in the market for a longer period of time.

By working out the assumptions of thinking about the future of banks, the paper lays the foundation for a better understanding of narratives on this topic. At the same time, it highlights the importance of plural economic thinking, once again underlining that the content and the

form of thought are inextricably linked. It provides a tangible example to illustrate that, for economic science, there is not and cannot be only one theory; a broad knowledge of theories is necessary, also in teaching, in order to explain social phenomena comprehensively.

This conclusion primarily has implications for academic practice. Shedding more light on the assumptions of the theories used when discussing the future of banks would be very helpful. This is all the more important because economic theories can have a performative effect and thereby change the direction of their object of study. Therefore, it is incumbent on scientists to recognize and seek to fulfill their social responsibility.

In terms of practical implications, our findings are also relevant for banks. We establish that banks can recognize narratives about their future at an early stage, especially the origins of certain narratives, and think about how to counteract them.

Of course, this work is not free of limitations. First, when criticizing schools of thought, there is always the risk of attacking a straw man, and it must be questioned whether economists really do think about the future of banks in the ways represented here. However, doubt as to whether economists think in these ways consciously does not make the analysis in this paper less relevant; because of their tacit knowledge of the NIE, economists might still think in these ways unconsciously. Second, the account given in this paper has been presented in terms of the economic categories of market and institutions. However, a narrative may change its orientation by adding or omitting categories, and by weighting categories differently. Therefore, further research is needed to examine the influence of other economic categories, such as regulation and technology, on thinking about the future of banks.



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