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Good and Boring

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In times of crisis, good news is no news. Iceland's meltdown made headlines; the remarkable stability of Canada's banks, not so much.

Yet as the world's attention shifts from financial rescue to financial reform, the quiet success stories deserve at least as much attention as the spectacular failures. We need to learn from those countries that evidently did it right. And leading that list is our neighbor to the north. Right now, Canada is a very important role model.

Yes, I know, Canada is supposed to be dull. The New Republic famously pronounced "Worthwhile Canadian Initiative" (from a Times Op-Ed column in the '80s) the world's most boring headline. But I've always considered Canada fascinating, precisely because it's similar to the United States in many but not all ways. The point is that when Canadian and U.S. experience diverge, it's a very good bet that policy differences, rather than differences in culture or economic structure, are responsible for that divergence.

And anyway, when it comes to banking, boring is good.

First, some background. Over the past decade the United States and Canada faced the same global environment. Both were confronted with the same flood of cheap goods and cheap money from Asia. Economists in both countries cheerfully declared that the era of severe recessions was over.

But when things fell apart, the consequences were very different here and there. In the United States, mortgage defaults soared, some major financial institutions collapsed, and others survived only thanks to huge government bailouts. In Canada, none of that happened. What did the Canadians do differently?

It wasn't interest rate policy. Many commentators have blamed the

Federal Reserve for the financial crisis, claiming that the Fed created a disastrous bubble by keeping interest rates too low for too long. But Canadian interest rates have tracked U.S. rates quite closely, so it seems that low rates aren't enough by themselves to produce a financial crisis.

Canada's experience also seems to refute the view, forcefully pushed by Paul Volcker, the formidable former Fed chairman, that the roots of our crisis lay in the scale and scope of our financial institutions — in the existence of banks that were "too big to fail." For in Canada essentially all the banks are too big to fail: just five banking groups dominate the financial scene.

On the other hand, Canada's experience does seem to support the views of people like Elizabeth Warren, the head of the Congressional panel overseeing the bank bailout, who place much of the blame for the crisis on failure to protect consumers from deceptive lending. Canada has an independent Financial Consumer Agency, and it has sharply restricted subprime-type lending.

Above all, Canada's experience seems to support those who say that the way to keep banking safe is to keep it boring — that is, to limit the extent to which banks can take on risk. The United States used to have a boring banking system, but Reagan-era deregulation made things dangerously interesting. Canada, by contrast, has maintained a happy tedium.

More specifically, Canada has been much stricter about limiting banks' leverage, the extent to which they can rely on borrowed funds. It has also limited the process of securitization, in which banks package and resell claims on their loans outstanding — a process that was supposed to help banks reduce their risk by spreading it, but has turned out in practice to be a way for banks to make ever-bigger wagers with other people's money.

There's no question that in recent years these restrictions meant fewer opportunities for bankers to come up with clever ideas than would have been available if Canada had emulated America's deregulatory zeal. But that, it turns out, was all to the good.

So what are the chances that the United States will learn from

Canada's success?

Actually, the financial reform bill that the House of Representatives passed in December would significantly Canadianize the U.S. system. It would create an independent Consumer Financial Protection Agency, it would establish limits on leverage, and it would limit securitization by requiring that lenders hold on to some of their loans.

But prospects for a comparable bill getting the 60 votes now needed to push anything through the Senate are doubtful. Republicans are clearly dead set against any significant financial reform — not a single Republican voted for the House bill — and some Democrats are ambivalent, too.

So there's a good chance that we'll do nothing, or nothing much, to prevent future banking crises. But it won't be because we don't know what to do: we've got a clear example of how to keep banking safe sitting right next door.