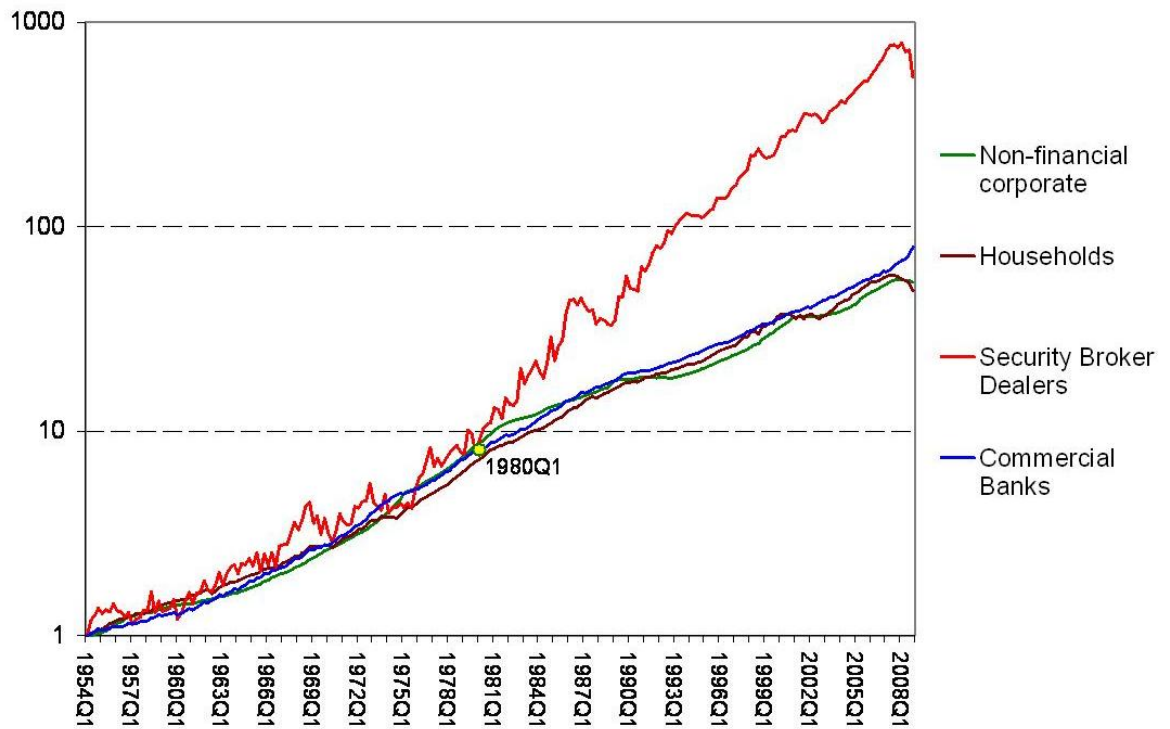


Figure 13
Growth of four US sectors (1954Q1 = 1) (in log scale)



The relative size of the securities sector can be seen as a mirror of the lengthening intermediation chains in the market-based system of financial intermediation. One could reasonably conclude that some of the baroque flourishes that appeared in the Indian summer of the expansion of the securities sector (such as the growth of exotic asset-backed securities such as CDO-squared) have gone for good, and are unlikely to feature in a steady state of the securities sector.

Overall, it would be reasonable to speculate that the securities sector that emerges from the current crisis in sustainable form will be smaller, with shorter intermediation chains, perhaps less profitable in aggregate, and with less maturity transformation. The backdrop to this development will be the regulatory checks and balances that are aimed at moderating the fluctuations in leverage and balance sheet size that were instrumental in making the current financial crisis the most severe since the Great Depression.