

THE LAUGH'S ON U.S.

THOSE WHO LIVE IN GLASS STEAGALLS . . .

by Sheldon Richman

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Just who do those big shots at CitiCorp and the Travelers Group think they are, merging to create the largest financial-services company on earth? Do they really think that they can just waltz in and overturn more than sixty-five years of good government regulation of banking, finance, and insurance because they want to merge? Well, gentlemen, that's not the way things work around here.

Let me remind you of a little history. Back when Mr. Roosevelt ran this town (with considerably more discretion, I might add), he and his eminent Brain Trust decided that permitting one kind of financial business to cross into another was intolerable madness. They knew what they were doing.

What does a commercial banker know about investment banking anyway?

What does an investment banker know about insurance?

What does a politician know—wait, never mind that.

The important thing is that we cannot have any paper-pushing money-changer fervidly wake up with a big idea in his head and go wandering onto the turf of others willy-nilly. Imagine the chaos! That is especially so in banking. Why in the world would we want banks to diversify? Better to have some institutions specialize in commercial loans, others in home mortgages, and still others in investment banking. It has worked marvelously well for decades. If it ain't broke don't fix it.

Call me nostalgic, but there was something neat and elegant about

the arrangement that FDR's Brain Trust crafted, particularly through the Glass-Steagall Banking Act of 1933. It was that kind of creativity that brought us government deposit insurance and other far-sighted measures. (That S&L crisis in the '80s that cost us a half-billion bucks was a fluke, honestly.) Ah, 1933, those were the good old days of the business-government partnership. The NRA Blue Eagle still squeezes the patriotic juices in some of us. We need more of that spirit today.

Unfortunately, we've been letting the good fruits of the New Deal rot. The Glass-Steagall rules are not what they once were. The Federal Reserve Board, which of late, has been in the hands of virtual anarchists, has let the major banks' subsidiaries charge into Wall Street like, well, like bulls in a crowded stock exchange. Banks now are actually allowed to operate in more than one state! What are those New Yorkers from CitiBank doing in my beloved Virginia anyway? This laissez-faire thing has gone too far. At least FDR's heirs, the House Republicans, realize this; they've wisely shelved that bill to loosen up the venerable banking rules.

It's not as though businessmen are better than the government at thinking up better things to do. Our well-trained regulators have done just fine. They permit just the right amount of innovation. Not so much that we get all dizzy from the change. As that Patent Office chief said at the turn of the century, all the good ideas have been thought of anyway. The last

thing we need is to be confused by bankers at liberty to offer a variety of services.

Once again we can blame the 1980s. I mean, you do a little deregulating and these people want to be able to do anything! (As long as no one comes onto their turf.) They don't even want to have to check with the government first. And some economists with Ph.D.s from our top universities back them up! The best reason they can come up with for financial deregulation is that in a world of uncertainty, entrepreneurs need the flexibility to respond to unforeseen circumstances.

Come on! That's the best they can do? Unforeseen circumstances? Name one.

That's precisely why we have the government to guide our financial sector: to eliminate uncertainty. Why settle for a way of responding to uncertainty if we can get rid of it altogether? Globalization schmobilization.

Oh sure, some self-styled consumer advocate (not a real consumer advocate like the reliable Ralph Nader) will say that people might like the convenience of CitiBank, Travelers insurance, and Salomon Smith Barney under one roof—a financial supermarket with all the efficiencies and low-prices—oh horror!—of Wal-Mart. Past attempts have failed, but this time they might get it right.

I asked a regulator friend if perhaps consumer service should be allowed to drive those decisions. He got a strange look in his eyes and said, "Don't go there."