

**REMARKS DELIVERED TO THE CHICAGO FEDERAL  
RESERVE BANK  
CONFERENCE ON BANK STRUCTURE.**

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I certainly do not have the academic or legal credentials of my distinguished fellow panelists. I am just a former community banker from Missouri and currently represent the Independent Community Bankers of America.

I do, however, possess one qualification that they do not: I have actually chartered, owned and run a community bank, and a bankers' bank which dealt only with community banks.

I have had to deal with real customers, examiners, competitors, and government officials. Additionally, I was the director of taxation for the state of Missouri, and in a state that is two-thirds Ozark hill country that is not an enviable job. I have experienced every kind of individual customer and small business situation imaginable.

When you deal with taxpayers, consumers and small business owners every day you learn a thing or two about human nature.

**Voltaire said, "History never repeats itself; Man always does."** That single statement sums up nicely my opposition to the mixing of banking and commerce. And while it is true that no two historical events are exactly alike, history is made by people and the nature of people never changes. When overwhelming power is concentrated in one or only a few hands, whether economic or political, it corrupts.

The issue of mixing banking and commerce is enormously complex and convoluted. I know that many academic and regulatory studies exist on this matter. These studies are generally well done, thoroughly researched and many contend (but not all) that far from harming our economic

system the wholesale mixing of banking and commerce would be a boon to our economy.

In my view, this issue is not about competition *per se* nor is safety and soundness the central issue – although both play roles. In the first instance by allowing the creation of great combinations of behemoth bank and commercial organizations you eventually diminish competition and choice. In the second instance many senior regulators have privately expressed concerns to me on their struggles to adequately supervise the very largest \$2 trillion-dollar banks today.

Think about their concerns of supervising merged bank/commercial conglomerates many, many times larger and more complex. Enron was supervised by the SEC and a respected major accounting firm. That did not go well.

Imagine the former Enron with a wholly owned \$1 trillion

dollar insured Enron bank as one of its many subsidiaries during the weeks Enron (the parent) was collapsing? What kind of crises of public confidence in the subsidiary Enron bank would have ensued; and at what risk would the deposit fund have been placed? Not only would these conglomerates be too big to supervise, they may be both too big to discipline adequately and to liquidate without catastrophic effects on the economy.

But these matters are peripheral to the core of this issue, because this issue is larger than competition or supervision. This issue is about who we are as a nation. This is a societal and cultural question as much or more than an economic or business question. There is a human face to this issue.

This nation has a deep distrust of plutocracy or kleptocracy or any of the other “ocracys” except democracy. Our founders had a deep distrust of the over-concentration of

power. Indeed, our Constitution is the very embodiment of the notion of fragmentation of power and individual rights. Our founding fathers were right to be deeply suspicious of the concentration of political and economic power because they are one and the same. If you don't think money isn't the "electricity" that turns on the lights in Washington then you have not been to Washington.

Does anyone here seriously believe that the overwhelming concentration of economic and financial power in the hands of the few does not lead to corruption in both the political and economic arenas? I am sure we all remember the S&L crisis and the Keating 5; or Enron or WorldCom and the tentacles that worked their way into the halls of the top political offices on both the state and national levels.

That nagging doubt in the back of everyone's mind over mixing banking and commerce is our collective culture's

deep distrust of concentrated power in any one or few hands.

Three books that illustrate my point are instructive here: “The Great Illusion” by Sir Norman Angell (which I will discuss later); “Generations” by Neil Howe and William Strauss; and “A Distant Mirror” by Barbara Tuckman.

In addition to the books I cited, to understand the truth of the matter one need only look at the other two great periods of financial concentration and excesses in our own economic history; the Gilded Age (which ironically began at roughly the same time in the 19<sup>th</sup> century and had nearly the same duration as the current period of financial excess and concentration) and the 1920s (in their zeal for deregulation and financial and commercial consolidation the Coolidge and Reagan administrations closely resembled one another).

Also illuminating is the keiretsu system in Japan. I can recall as a younger banker in the late 1980s going into book stores and being overwhelmed by books on how Japan's economy would rule the world and make the United States a third class economic power by the mid 1990s.

At that time policy makers and leading financial commentators made a great deal of the fact that the 10 largest banks on earth were all Japanese, and America had lost financial preeminence in the world.

Do you remember when all the gurus who published those trendy books strongly suggested that we all learn Japanese?

This infatuation with the Japanese economy was based largely on admiration of their keiretsu system-second only to our fascination with their quality circles (remember those?).

After nearly 15 years of recession and economic stagnation in Japan you don't see those books anymore.

We hear echoes of Voltaire's warning in the following letter.

"I see in the near future a crisis approaching that unnerves me and causes me to tremble for the safety of my country.

... Corporations have been enthroned, and an era of corruption in high places will follow, and the money power of the country will endeavor to prolong its reign by working upon the prejudices of the people until all wealth is aggregated in a few hands and the Republic is destroyed. I feel at this moment more anxiety for the safety of my country than ever before." Abraham Lincoln, Nov. 21, 1864.

Lincoln's fears are as relevant today as they were when he wrote this letter in 1864.

What followed not even a decade later was the beginning of the "Gilded Age" and the first of the great periods of economic concentration, financial excesses and

redistribution of wealth from the many to the few. As Lincoln predicted political and business corruption was rampant during this period as well.

The economic Darwinism of the Gilded Age reigned supreme underpinned by compliant government bodies that embraced the “laissez faire” philosophy (what we call “free market” today).

While one can point to some grand achievements during the height of the Gilded Age, the economic Darwinism and the financial excesses and exploitation of the era proved ruinous to millions of workers, several regions of the country, and certain segments of our society.

It took the Teddy Roosevelt administration to begin to bring the economy back in balance. In the landmark 1904 case *Northern Securities v. US*, Attorney General Knox cited

British philosopher Benjamin Kidd. Kidd argued that *laissez-faire* economics might suit one stage in a nation's development, but not necessarily the next. And as Knox himself put it, "Uncontrolled competition, like unregulated liberty, is not really free."

It is ironic that the two greatest republican presidents Lincoln and Teddy Roosevelt were also the two most distrustful of overwhelming concentrations of commercial and financial power.

Another republican president, Eisenhower, coined the term "military/industrial complex." I believe that today it is more appropriate to refer to the threat of the "financial/commercial complex." I believe that we are in the third great period of financial and commercial concentrations and excesses; and if it continues it won't turn out any better than the first two.

History shows that the more we deregulate or remove government constraints, the more income is re-distributed to the wealthiest of our society and the further behind the mass of Americans fall with all the attendant problems such gaps beget.

A favorite quip of the free market crowd that would have been just as popular during the Gilded Age as it is now is “a rising tide floats all boats.” That is good if you have a boat. If you don’t have a boat the water rises, goes up your nose and you drown.

Aren’t there are enough excesses in the financial world (for example the current subprime melt down or the S&L crisis of a two decades ago) and the commercial business world (witness Enron; WorldCom and the like)? Do we really want to combine them into a kind of allegorical economic IED that

will explode not only in the face of the FDIC but in the faces of consumers, taxpayers and small businesses alike?

Have we not seen enough depopulation and decay of the rural countryside and small town America? Will further concentration of economic resources make this better? Will the new behemoths formed by these concentrations of banks and commercial firms serve these areas? I think not.

In 1983 then-congressman Dorgan [current U.S. senator for North Dakota] said, “There have been some benefits from deregulation, but they have gone largely to the population centers, while the costs have gone to rural areas. It’s the same old economic cow – it feeds in the rural areas but is milked in the cities.”

Former Senator Pressler from South Dakota said, “There are the affluent suburbs and cities that everybody wants to

serve, and then there are the rural areas.” Does anyone here believe that the small towns and rural areas of America are prospering as a result of the massive economic concentrations we are witnessing today?

I find it ironic that those that fought the hardest and screamed the loudest against indexing the deposit insurance fund or God forbid raising the \$100 limit to \$115—using the S&L collapse as an example of the ruinous consequences of extending the Federal deposit safety net—are many of the same people that have no problem at all extending the deposit insurance fund to the largest commercial corporations on earth that are many times more susceptible to economic swings than heavily regulated banks.

Still more curious are those that rail about the great and dangerous systemic risk of the two major housing GSEs based on their perceived government backing, while

simultaneously advocating the extension of the federal deposit safety net to the largest commercial firms on earth whose sheer size and complexity make the housing GSEs look like corner lemonade stands.

Of course those same voices will say that regulatory safeguards and walls can be constructed between the commercial parent and the insured bank to protect the FDIC fund, consumers, and taxpayers from any self dealing or other mischief. I could cite many examples where the walls have been breached to ruinous effect!

In my view regulatory “firewalls” are like the French Maginot line, they are a monument to the folly of man. There is always a Rommel (or in our present context Keating, Lay or Ebbers) that will devise a way around.

Those that advocate for allowing the integration of banks and commercial firms will say that commerce and banking are already mixed—look at Unitary Thrifts? No harm there. They will use other examples as well. But commerce and banking aren't REALLY mixed. Banks are still special. Banks can still create money and still largely control the payments system and the credit allocation system—especially so in rural and small town America. There is still diversity in our nation's economy, still choices. The relationship between banks and commercial firms still largely resembles a layer cake and not the mixing bowl.

In 1912, Sir Norman Angell wrote "The Great Illusion." The central thesis of this book was that war had become obsolete because the economies of nations were so interdependent that no nation would risk war with another because each belligerent would suffer equally, thus there was nothing to gain. Academics and leading thinkers of the

age hailed the book. It was well researched, its arguments logical and sound. “Great Illusion” societies sprang up all over Europe and governments shaped their readiness policies around its findings.

What followed just two years after publication was the most catastrophic war in world history to that time—made more catastrophic by some of the decisions of governments based on the central thesis of the book. But what was most tragic was the plight of the individual soldier. For the individual foot soldier, WWI was the most brutal war in history.

I believe those that advocate for the integration of mixing banking and commerce are as flawed in their arguments as those that adhered to the thesis of “The Great Illusion.” If we fundamentally change the nature of our economic structure, I believe that over time, the individual, the small business owner, small towns and the rural countryside will suffer

economically in the same way the soldiers suffered in the trenches of WWI. Economic Darwinism will be unleashed to a greater degree than it is already. More and more power will devolve to fewer and fewer hands and economic diversity will wither and with it choices.

While population centers may flourish the decline of rural and small town America will accelerate and our rural infrastructure decay further. The less advantaged of our society will be even more disadvantaged. As economic concentration rushes to the top, those at the lower levels of the pyramid will be crushed.

There is an old African warrior saying, “When elephants fight, it is the grass that suffers.” In the present context it is our small towns, small businesses and rural countryside that will suffer when the “elephants” roam our land.

For nearly 250 years our republic has recognized that banks are special and they should not be combined and integrated into commercial and mercantile businesses. Banks are *sui generis*.

Money never spoils. Money does spoil people. We are not dealing with widgets, or perishable inventory items, we are dealing with money. So, before we fundamentally alter our economic system keep these bits of wisdom in mind. From the 1785 federalist publication *Publius*, "If men were angels, no government would be necessary." Or this from Will Durant, a historian, "Change is certain; progress is not." And please remember this variation of Voltaire's warning, "History Never repeats itself; Wal-Mart always does."