THE EVOLVING U.S. LEGISLATIVE AGENDA IN BANKING AND FINANCE

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ABSTRACT

For most of the items on the 1995–1996 congressional agenda for financial modernization, legislation has stalemated. This chapter seeks to explain why. The explanation offered is that, in deciding whether to relax statutory restrictions on the services that different types of financial institutions may perform, regulatory turf and money politics are far more important than projected societal benefits. Money politics and regulatory competition make it hard to revoke any longstanding statutory prohibition until sympathetic regulatory enforcement legitimated by court-approved reinterpretations of venerable exclusionary statutes has virtually eliminated the de facto value of the targeted provisions to their sponsoring coalition. Even then, as a bill relaxing an exclusionary restriction moves through Congress, it tends to attract riders that render it increasingly more costly to its nominal beneficiaries. Such a bill becomes loaded with side deals intended to quell opportunistic opposition from parties whose interest in the permissions at stake is relatively tangential. Typically, an overloaded bill’s adherents accept the wisdom of Ring Lardner’s view of the increasingly unsuccessful attempt to outlaw alcohol consumption in the United States: “Prohibition is better than no liquor at all.”

INTRODUCTION

Financial supervision and regulation in the United States illustrate the richest meanings of the terms jumble and confusion. At every level of government, contradictions in statutes and regulations not only abound, but