FINANCIAL CONGLOMERATION:
ISSUES AND QUESTIONS

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CONTENTS

Abstract

Introduction

Banking Mergers
   Cost Savings
   Corporate Control
   Too Big to Fail
   Diversification
   Market Power

Expansion of Banking Scope

Contrasting Financial Conglomeration with Nonfinancial Divestitures

Concerns About the Future
   Expanded Taxpayer Liability under Federal Deposit Insurance
   Will Financial Innovation Be Hurt?
   Will Consolidation Lead to Oligopolistic Pricing?

Summary and Conclusion

References

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ABSTRACT

This chapter discusses recent developments in financial conglomereration. My focus is on two types of conglomereration—mergers within the commercial banking industry and expansion of the scope of banking activities—that are fundamentally transforming the financial-services industry. I examine the various reasons for these developments and offer some thoughts about the future evolution of the global financial-services industry.

INTRODUCTION

With the passage of the Neal-Riegle Interstate Banking Act and the gradual erosion of the Glass-Steagall restrictions on banks, we have recently witnessed two interesting phenomena. First, spectacular mergers of banking giants such as Bank of America and Security Pacific, Chase Manhattan and Chemical, and First Fidelity and First Union are becoming commonplace (see Table 1). Second, commercial banks—largely confined until recently to the traditional banking activities of gathering deposits and making loans—have greatly expanded the scope of their activities. There has been a dazzling proliferation of off-balance-sheet activities like swaps, loan commitments, and standby letters of credit. Moreover, the traditional distinction between loans and traded debt instruments—fundamental to the interpretation and implementation of Glass-Steagall—has been made virtually obsolete by the burgeoning volume of securitization. And since numerous bank holding