

## Banking by John Hoefle

### Fewer and larger is not better

*The current wave of bank mergers shows only one thing:  
The bigger they get, the harder they'll fail.*

One week after Travelers Group and Citicorp announced their merger to form the \$698 billion Citigroup, two new, big bank mergers were announced: NationsBank and BankAmerica are merging to form a \$570 billion giant, and Banc One is buying First Chicago NBD, doubling its size to \$240 billion.

The combination of NationsBank and BankAmerica—NationsBank is the buyer and will dominate the new bank, although the combined bank will use the BankAmerica name—joins two regional giants, and creates the closest thing yet to a nationwide bank, with operations spanning the Southeast, the Midwest, Southwest and West Coast. The new BankAmerica will have more deposits—\$343 billion—than any other bank in the nation, and will lead in that category in seven states, including California, Texas, and Florida. It will not have much of a presence in the Northeast and upper Midwest, holes which it no doubt plans to fill as soon as it can.

Both NationsBank and BankAmerica have grown sharply during the 1990s, gobbling up other banks right and left. Among its larger acquisitions, BankAmerica took over Security Pacific, Continental Illinois, and Sea-First, along with a bevy of savings and loans. NationsBank, formerly NCNB, took over First Republic Bank of Texas in a sweetheart deal, transformed itself into NationsBank with the acquisition of C&S/Sovran, then added Boatmen's and Barnett Banks, along with many smaller banks. With the acquisition of BankAmerica, it is now one of the biggest banks in the world.

Banc One's acquisition of First

Chicago NBD will, at least temporarily, move the bank from tenth spot to fifth, among U.S. banks. Banc One will move its headquarters to Chicago, from Columbus, Ohio. This is the second takeover in recent years for First Chicago, which was taken over by Detroit's NBD in 1995.

These mergers have transformed the face of American banking, for the worse. For some 60 years, from the passage of the McFadden Act of 1927 until the late 1980s, U.S. banks were basically prohibited from branching across state lines. The result was a wide distribution of banking assets, with local banks serving, to a greater or lesser degree, the needs of local communities. The traditional money centers existed—New York, Chicago, and San Francisco—but their financial reach was limited. With the Bank Holding Company Act of 1956, the major banks in each state began to form holding companies, which rose to regional dominance in the 1970s and 1980s.

In the mid- to late-1980s, with the precipitous drop in real estate values and the collapse of the S&Ls and the Texas banking system, banks began moving across state lines, via separately chartered banks in their new states. These steps toward interstate banking, while part of a larger plan to concentrate the U.S. banking system into the hands of the financial oligarchy, was driven by bankruptcy: Someone had to be found to bail out the S&Ls and the Texas banks, or the whole system would collapse (which would have been preferable, given the damage done by the "rescue" efforts).

It wasn't until 1994 that Congress passed legislation allowing unrestricted interstate banking, provisions which did not fully go into effect until mid-1997.

The result has been a rapid concentration of the banking system, into increasingly fewer and larger banks. With this concentration came another transformation, the shift from banks whose growth depended upon the increasing prosperity of their home areas, to banks whose prosperity depended upon their success in gambling in the global casino. The bigger the bank, the more its focus shifted from promoting the economic growth of its service area, to pulling money out of that economy to play the casino.

Since the mid-1980s, the number of U.S. banks has dropped steeply; at the end of 1984, there were 14,496 U.S. banks, but by the end of 1997, the number had dropped to 9,143, a decline of 5,353, or 37%. During that period, 1,371 banks failed, and another 6,288 banks were merged.

Along with the shrinkage, has come the rise of a new class of banking giants. At the end of 1985, just two U.S. banks, Citicorp and BankAmerica, had assets exceeding \$100 billion. The top ten banks combined, had assets of \$775 billion, not much more than the new Citigroup has today. By 1991, the Fed had secretly taken over the bankrupt Citicorp, and arranged a wave of big bank mergers, which continues to this day. Charlotte, North Carolina, home of the new BankAmerica and of number-six, First Union (which gobbled up First Fidelity and CoreStates, among others), now ranks second to New York as a banking center.

But bigger is not better, and these giants are no longer banks, but speculators. When the derivatives markets blow, nothing will be left of these new titans, and all their seeming power.