EDITORIAL DESK

Too Big To Fail

By JEFFREY E. GARTEN (NYT) 673 words
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The recent consolidation of firms on Wall Street accelerated on Wednesday when the Travelers Group announced its intention to pay $9 billion for Salomon Brothers.

Now the deal will be scrutinized from every angle: How will shareholders fare? How powerful will the new firm be? Who will be laid off? But one question should not be forgotten: Are these financial megamergers in the public interest?

It is no mystery why these behemoths are evolving. For the first time in half a century, financial deregulation is permitting banks to operate nationally and banking and securities underwriting to be done under one roof.

On top of this, a more open and brutally competitive world market requires firms with deep pockets and global reach. Mergers also save money because back office operations and investments in new technology can be consolidated.

But the rapid evolution of our financial system into a handful of conglomerates raises serious concerns. A few big banking supermarkets will simultaneously manage our savings, underwrite and distribute stock offerings, engineer and bankroll mergers and corporate restructurings, invest their own capital in big firms and in startups, and engage in speculative trading in risky options and futures contracts.

The sheer size of these firms will lead to ever more impersonal service, particularly for the average American with a checking account. Because their internal corporate cultures will be so hard to shape and manage, there will also be more opportunity for unsavory ethical practices -- a recurrent problem in the financial industry anyway.

But the most worrisome problem is that these new Goliaths will touch every American citizen and corporation, and will be so intertwined with major financial firms around the world that they will never be allowed to fail.

Knowing that they cannot go belly-up, these firms may take even more risks than they now do. On the one hand, taxpayers may be called upon to shore them up when they get into big trouble. But even if that doesn't happen, financial firms that are not disciplined by real threats of failure could create economic havoc by financing too much or too little and by exaggerating the already rising volatility in world stock markets and currencies.

None of the giants that are emerging would deliberately take foolish risks. But several factors could lead them into dangerous territory. They will be ferociously competing with one another and with their European and Asian rivals. The firms' top managements will be increasingly reliant on computers to assess investments precisely when human judgments about risk have never been more critical.

In addition, our Rube Goldberg regulatory system, composed as it is of the Federal Reserve, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Securities and Exchange Commission, stock exchanges and numerous state authorities, may be too fragmented to keep up with the new conglomerates.

The changes deserve close public scrutiny. At a minimum, continuous Congressional oversight of the broader trends ought to be used to inform the public.

In addition, those who head up the new financial giants need to accept responsibility for much more than providing value to their own shareholders. Like it or not, these leaders, as well as their top lieutenants, also have a responsibility to the public.

The boards of these behemoths also need to be vigilant, independent and technically qualified. It would not be a bad idea, in fact, to set aside a directorship in big firms for someone who is nominated by the Fed or the S.E.C.

Mild as these measures may sound, it will be hard to persuade politicians and business leaders to take even these steps. The objective should not be to ignore market pressures but to recognize the potential risks to the public interest in the changing face of Wall Street.