EDITORIAL DESK

Mega-Mergers, Mega-Influence

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Congress is about to eliminate the legal walls that separate commercial banks, brokerage firms and insurance companies -- opening the doors to a new wave of mega-mergers. Critics worry that huge banks will dampen competition and pay less attention to the average customer.

But by itself, sheer size -- whether in finance or in other industries -- should not be a concern. The real problem could be the unchecked political influence of the new global goliaths.

In just the past few years corporate giants have emerged across all industries. Citibank and Travelers, Bank of America and Nationsbank, and Deutsche Bank and Bankers Trust are among the major mergers that have reshaped banking. In other industries, Daimler-Benz has linked up with Chrysler; AT&T with Mediaone; British Petroleum with Amoco; Aetna with Prudential Health. Still awaiting regulatory approval are some of the biggest combinations of all, including those between Exxon and Mobil, MCI Worldcom and Sprint, and Viacom and CBS.

We are likely to see much more of this. For starters, deregulation in Europe, Japan and countries like Brazil and South Korea is leading to many more possibilities for large acquisitions.

In the past, a similar wave of mergers would have produced an outcry over mass layoffs, but with unemployment at 30-year lows, few today are complaining. Nor are many alleging today that competition is being eliminated. Because the markets are global, no company is reaching the size and scale that should cause concern about monopolies.

If executives can manage these large entities effectively, Americans -- in their roles as consumers, investors and even employees -- ought to benefit from these new, competitive companies, receiving more and better goods and services at a lower cost.

The big problem is not with how these businesses are affecting competition, but with the inability of our political system to respond to potential problems resulting from economic globalization. Business leaders understandably operate on a global stage, while government leaders act in a way that fails to recognize the new global economy. Members of Congress spend infinitely more time dispensing pork in their hometowns than they do worrying about the stability of the global financial system or the strengthening of the World Trade Organization.

Their narrow perspective on globalization is reflected in their eagerness to slice the budgets of the Securities and Exchange Commission and the Justice Department's antitrust division, the two institutions that have some ability to watch over global companies.

To put it another way, the seesaw of private and public power is seriously unbalanced.

Here is some of the fallout. Mega-banks like Citigroup or the new Bank of America have become too big to fail. Were they to falter, they could take the entire global financial system down with them.

Many mega-companies could be beyond the law, too. Their deep pockets can buy teams of lawyers that can stymie prosecutors for years. And if they lose in court, they can afford to pay huge fines without damaging their operations.

Moreover, no one should be surprised that mega-companies navigate our scandalously porous campaign financing system to influence tax policy, environmental standards, Social Security financing and other issues of national policy. Yes, companies have always lobbied, but these huge corporations often have more pull. Because there are fewer of them, their influence can be more focused, and in some cases, the country may be highly dependent on their survival.

For example, corporate giants can have enormous leverage when they focus on America's foreign and trade policy. Defense contractors like Lockheed Martin, itself a result of a merger of two big firms, were able to exert extraordinarily powerful force to influence the Senate to approve the enlargement of NATO, a move that opened up new markets for American weapons sales to Poland and the Czech Republic.

Companies like Boeing, which not long ago acquired McDonnell Douglas, have expanded their already formidable influence on trade policy toward countries like China. Boeing is now the only American commercial aircraft manufacturer.

Corporations like Exxon-Mobil will negotiate with oil-producing countries almost as equals, conducting the most powerful private diplomacy since the 19th century, when the British East India Company wielded near-sovereign influence in Asia.

As long as the economy remains strong, the rise of corporate power with inadequate public oversight will not be high on the national agenda. But sooner or later -- perhaps starting with the next serious economic downturn -- the United States will have to confront one of the great challenges of our times: How does a sovereign nation govern itself effectively when politics are national and business is global? When the answers start coming, they could be as radical and as prolonged as the backlash against unbridled corporate power that took place during the first 40 years of this century.

Drawing (Brian Rea)