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Real Money: What meaningful reform would look like

By Rob Rikoon |

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Now that most folks are comfortable again with the stock market, it would be wise to listen to the words of the head of the Bank of England, Mr. Mervyn King. In a rare service to the investing public he stated, "The belief that appropriate regulation can ensure that speculative activities by banks will not result in failures is a delusion."

In short, the current proposals to "reform and regulate" are doomed to fail.

Real reform means breaking up the banking cartels. The recent rise in the profits of investment banks has brought back a resurgence in compensation paid to the big players on Wall Street. Protected against reprisals for their last round of risk taking, they continue to operate legalized gambling franchises with federally insured deposits.

King's solution is to separate the function of trading stocks and bonds from traditional banking, which involves making loans and taking deposits. The financial bubbles of 1984-1987, 1997-1999, and 2005-2007 were enabled by the dismantling of basic safeguards put into effect after the manic investment era of the 1920s. In response to that period of protracted contraction, people who created and sold securities were compelled to split off from institutions that handled savings accounts and who lent to businesses, consumers and homebuyers.

The skills and risks inherent in brokering investment deals are far removed from what is involved in making good loans. The Glass-Steagall Act, enacted in 1933 and repealed in 1999, used to provide protection for Main Street against the persuasive and innovative schemes perennially put forth by Wall Street. Until something like the Glass-Steagall Act is reinstated, we the people will foot the bills for the past excesses and current privileges of financiers who are now portrayed as essential to our country's well being.

Arthur Burns, formerly head of the SEC, recently berated investment banks for bilking tens of billions of dollars from the public through their lobbying of public officials. Somehow, bankers convinced bureaucrats to give them free rein in how the sale of local municipal bonds takes place. This ensures that the banks make large profits through fees which taxpayers never see. To prevent this travesty from continuing, we need to have open bidding and public access to electronic posting of all bond trades, just as we do with stocks.

Entrenched interests will forever oppose real reform because they make so much money from the current system. They will prevail as long as they are allowed to spend gobs of money on lobbyists and make political contributions. Have we learned anything from the last two years? Let's put back into the law a strict separation of the stock and bond business from the business of running our economy. The cost of continuing on as we operate now means a further depletion of the public's well being.

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