

Regional

Professor: Bank rules still not tough enough

Understanding how wealth is distributed within and between states and nations can tell more about our societies and cultures than one might think, as well as providing guidance to fix serious economic problems. For example, compare the wealth distribution systems of Illinois to those of New York.

"Both states have one big city, New York City and Chicago. Both cities have "money center" banks, so in both states this one city controls a huge amount of money," explained Bin Zhou, a professor in the department of geography at Southern Illinois University Edwardsville. "Both cities also contain banks that control a lot of money for the country. More than 70 percent of the money in Illinois is controlled by Chicago banks. The same is true for New York City." But that, he said, is where similarities end.

"In terms of differences, since the Civil War, many states in the North have what are called "unity banks," where one bank has only one main office rather than many offices. Illinois used to be an agricultural state, with a lot of local communities," Zhou said, "so they wanted their financial wealth in their local communities."

Born in Beijing, China, Zhou obtained his bachelor's and master's degrees in geography from Beijing Normal University and his doctorate in geography from the University of Georgia. His research has centered lately on banking wealth as an indicator of the distribution of finances in the United States, as well as in China.

There have been discussions on whether we should have fewer, but bigger banks, or many smaller ones.

"I think there ought to be a balance," said Zhou. "The general trend since the early 20th century has been consolidation. Many banks are declining, while others are getting bigger and top-tier banks are controlling more of the resources. Whether or not we will become like Canada and have three or four banks controlling the resources, I don't think will ever happen. This has been a tradition in countries with a more de-centralized system, like the European countries." It may



Dr. Zhou (second from the left standing) and his students visiting Beijing, China.

be surprising that after New York City and Chicago, one of the major money centers in the United States is Charlotte, N.C.

"It is rising as a large banking center," said Zhou. "It started happening in the 1970s and 1980s. There used to be a de-centralized system, and in the 1980s there were a lot of consolidations even across state lines. Big banks began looking for new centers that

were best for them. Bank of America used to be in San Francisco, but when it consolidated and grew bigger, it looked for a new place. San Francisco was expensive. Charlotte was much cheaper.

The question becomes what is best for the average consumer, a large bank or a smaller one? For Zhou it all depends on the purpose.

"For regular consumers and everyday businesses, a local banking system would be enough for them," he said. "If they have wealth to put into investments and stocks, a bigger bank will better be able to help them." Deregulation of the banking industry – which made the mega-banks possible – has been pointed to as the major factor behind the financial crisis of 2008.

Aldemaro Romero College Talk

"I think that deregulation has a big part of the blame, and in some areas has gone too far," Zhou said. "It combined the investment with the commercial banking. Prior to that, banks would not have been allowed to do them at the same time, but after deregulation those functions were combined. That became part of the problem. Investment banking is very risky, and commercial banking is very conservative. In order to make more profit, the banks got into the riskier part of banking. When the two parts combined, that's what caused the problem." For a rather small community like the Edwardsville area, one wonders if the local banks provide the kind of services needed.

"Yes, after deregulation one of the benefits we got is that it used to be only local banks in small communities, but now we have banks from everywhere, including banks like Bank of America, as well as credit unions. And the competition that allows lots of banks to be here has been good for the consumer," he said. Still, Zhou said that he is worried that the current regulations are not tough enough to prevent another financial catastrophe like the one of 2008.

"No, I don't think the regulations we have are enough to prevent another crisis," he said. "There still needs to be some sort of barrier set up between investment and commercial banking, and that is still the issue." He said that he also thinks that bankers, for the most part, have not learned their lesson. "They always take risks to make money any way they can," he said. "It is their responsibility to ensure the safety and soundness of the financial system."

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