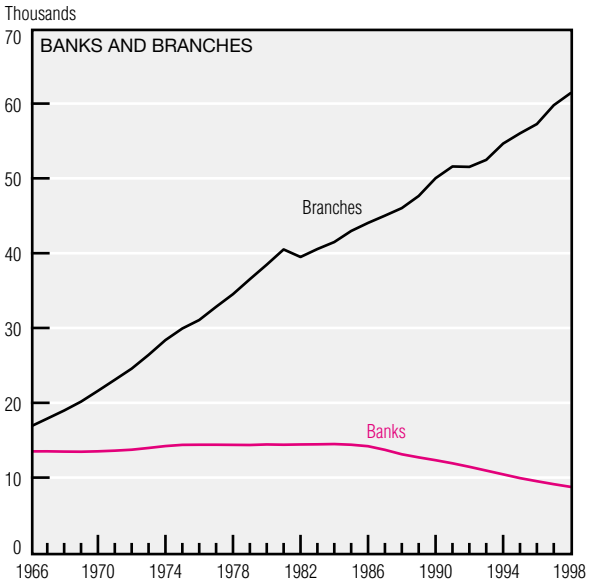
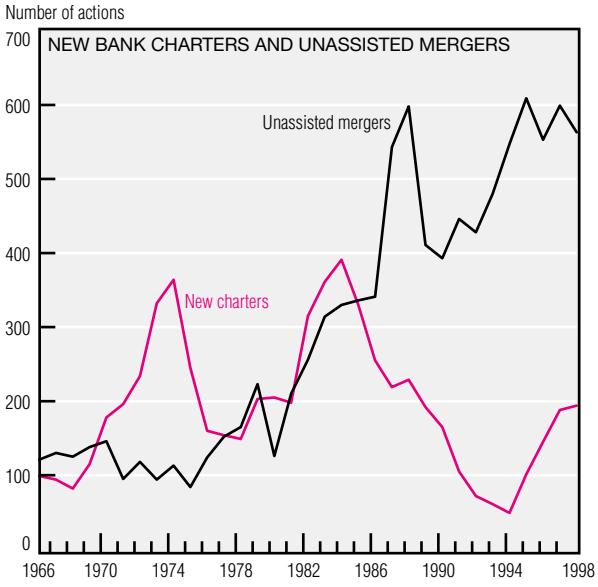
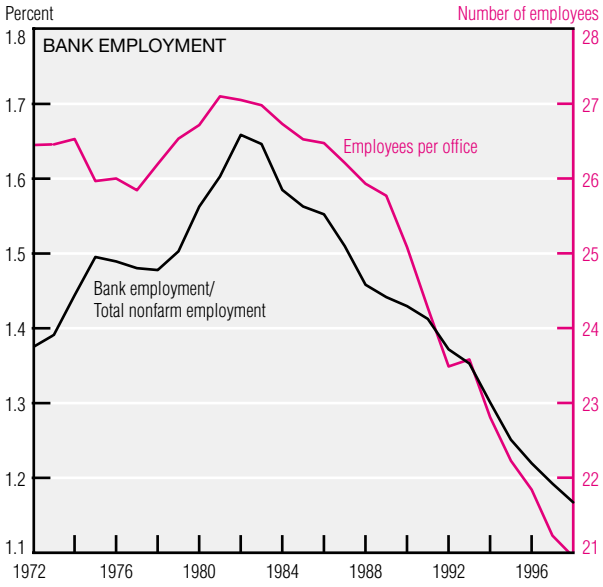
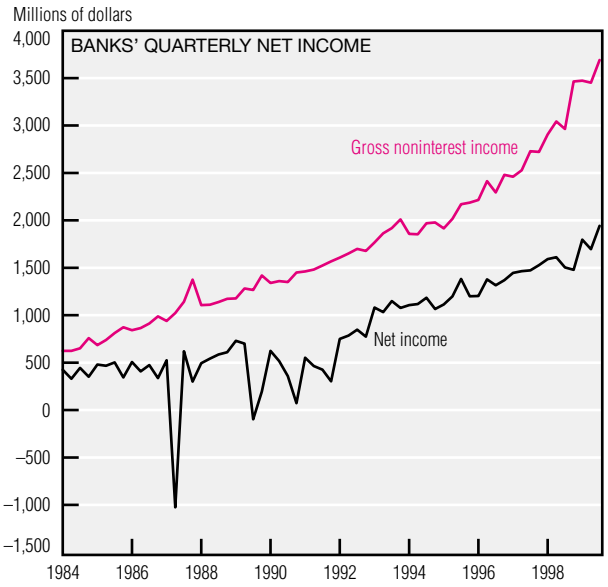
Banking Legislation









SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; and Federal Deposit Insurance Corporation, *Historical Banking Statistics* and *Quarterly Banking Profile,* December 1999.

The wall created by the Glass–Steagall Act to separate commercial banks from securities firms and insurance companies has eroded significantly over time. The recent passage of the Gramm–Leach–Bliley Act removes its last vestiges, leaving the financial services industry braced for another round of innovation.

The new act will allow banks, securities firms, and insurance companies to affiliate as financial holding companies. The Federal Reserve will be the primary regulator of financial holding companies with bank subsidiaries, but the appropriate state and federal agencies will be the functional regulators of these entities' financial activities. For example, the Securities and Exchange Commission will supervise underwriting, while state insurance commissioners will oversee insurance products.

What long-term trends might help us see where the industry is heading? The number of banks has declined fairly steadily since 1984, but the number of branches has risen even more rapidly, despite the growth of alternative service channels such as ATMs and telephone banking. It is still too soon to gauge the impact of Internet banks and branches. While new bank charters show a strong cyclical component, unassisted mergers have generally boomed since 1981 and are likely to remain high or even increase because of the new act.

Banks have been transforming themselves in response to technological change and market pressures for some time. Two indirect measures of productivity gains have shown strong improvement. Banks' share of nonfarm employment has dropped sharply since 1982 as the number of employees per office has fallen. Banks' net income has reached record highs because its sources have shifted from interest intermediation to fee income, a more stable revenue stream.