

banking as a means to finance their risky enterprises." Insured depositors have little incentive to move their money elsewhere; bankers have little reason to crack down on their colleagues.

All of this has been known for more than a century. In 1829, the state of New York created a Safety Fund for its banks; it collapsed only 13 years later under the weight of accumulated bank failures. Vermont and Michigan established similar systems, which suffered the same fate. Indiana, however, established a private co-insurance scheme in 1834. (Iowa and Ohio later set up successful private systems.) Instead of making limited contributions to a state-run fund, all member banks were liable for the losses of any one bank in the system; the banks set up their own regulatory authority. "Unlimited mutual liability provided bankers the incentive to regulate and enforce properly," Calomiris observes. During the panics of 1854-1857, not a single member bank failed, but 69 of the remaining 126 Indiana banks did.

History repeated itself during the early 20th century, when eight states followed the New York example. Banks in these states were smaller but grew faster than those in other states, and they maintained lower capital ratios—both danger signs. During the farm crisis of the 1920s, all

eight deposit insurance systems collapsed.

Calomiris hopes that the lessons of the past won't be forgotten this time. Self-regulation and co-insurance would work as well for banks today as they did in the past. (In fact, today's futures clearinghouses operate successfully in this way.) Washington would need only to regulate the private insurance groups, not thousands of individual banks. But Calomiris does say that it ought to step in to prevent a systemic collapse if more than a few banks in a group fail. For as the Great Depression shows, no insurance scheme will work if the government itself is reckless.



A cartoon suggests that the cost of the nation's savings and loan disaster has reached outer space. The latest estimate: up to \$500 billion.

## Fortress Europe?

"Europe 1992: Opportunities and Challenges" by Gary Clyde Hufbauer, in *The Brookings Review* (Summer 1990), 1775 Mass. Ave. N.W., Washington, D.C. 20036.

Judging by the headlines, you would think that Japan is this nation's only major trading partner and competitor. It is easy to forget that the 12 nations of the European Community (EC) purchase a quarter of all U.S. exports, more than any single nation. And nearly half of the \$76 billion that the EC spends in the United States buys high technology products.

While fears of a Fortress Europe have subsided, notes Hufbauer, an economist at Georgetown University, new rules formulated by the EC as it moves toward political and economic integration in 1992 and beyond threaten to erode these valuable

markets. And if that integration is successful, Europe soon could pose as great a challenge to U.S. economic leadership as Japan does now.

The short-term threat to U.S. markets is posed by the formulation of EC policy in five areas: reciprocity, national quotas, technical standards, rules of origin and local content, and government procurement. Some EC protectionist measures are aimed at Japan but hurt the United States. For example, the EC recently revised so-called rules of origin so that manufacturers must actually lay semiconductor circuits on the chip in Europe (rather than

### *Kids And Capital*

A surprising remedy for Americans' notoriously low rate of personal savings is perceived by James McNeal, writing in *American Demographics* (Sept. 1990).

*Today, children are viewed by business as independent customers. But just how much clout do children actually have? Almost \$9 billion worth, according to a nationally representative sample of children ages 4 to 12 surveyed in 1989. This figure is up from \$4.7 billion in 1984, an 83 percent gain.*

*Children's income averaged \$4.42 a week, or \$229.84 a year in 1989. . . . Allowances*

*have increased from 49 percent to 53 percent of children's total income . . . .*

*The overall saving rate of 30.5 percent is the highest recorded for children in two decades. Between 1968 and 1984, the saving rate was fairly steady, at around 15 percent, so the doubling of the rate in five years is remarkable. It could be that parents are providing children with more money, and children are spending more and saving more. Or children might be learning the virtue of savings. As more parents work, they may be encouraging their children to become more self-reliant by managing money at an earlier age.*

just assembling them there) to win a precious "made in the EC" label. Japanese products that don't have at least 60 percent European content are subject to anti-dumping duties. The result: Computer makers have stopped buying U.S.-made chips for computers sold in Europe; U.S. and Japanese chip-makers are now building factories in Europe rather than the United States. Thus, concludes Hufbauer, the new technical rules "will very likely shift the balance of the world's trade in semiconductors."

In the new world-trade environment, Hufbauer continues, the flag a corporation flies does not necessarily mean much. Thus, the EC seems likely to impose quotas on imports of Japanese cars. Ford's European division is a strong backer of such a measure; the U.S. plants (and workers) of Honda and Nissan are likely victims.

Indeed, says Hufbauer, one of the larger questions raised by European integration is whether certain U.S. policies are outmoded. Do tough U.S. antitrust laws make sense if they merely hamper U.S. corporations, and if corporations are dividing up markets on a global rather than a national scale? Do Depression-era laws restricting the commercial activities and geographical scope of major U.S. banks still make sense now that European banks are operating freely throughout Europe and are growing larger than their U.S. rivals?

Hufbauer says that the United States has already lost its monopoly on leadership in world economic policy. The largest question now is whether Washington will find the wisdom to share power with Tokyo and Brussels, or whether the United States ultimately will be left with none of the marbles.

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## SOCIETY

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### *Women and Wealth*

"The Changing Fortunes of American Families in the 1980s" by Katharine L. Bradbury, in *New England Economic Review* (July-Aug. 1990), Research Library-D, Federal Reserve Bank of Boston, 600 Atlantic Ave., Boston, Mass. 02106.

The poor got poorer and everybody else got richer. There is no longer much question that that is what happened in America during the 1980s. Now the politically

charged question is, why?

One answer is provided by Bradbury, an economist at the U.S. Federal Reserve Bank of Boston. She begins by making two