

KNOCKING DOWN THE WALLS OF THE FINANCIAL PILLARS

PROGRAMMED CAPITALISM: A COMPUTER-MEDIATED GLOBAL SOCIETY

BY MAURICE ESTABROOKS

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REVIEWED BY PATRICK GRADY*

The computer and communications revolution is transforming the global economy. The financial services sector, the economy's brains and nervous system under capitalism, is the focus of much of the new technology - smart cards, automated teller machines (ATMs), computerized trading, round-the-clock global financial markets. Trading rooms in austere marble-columned financial institutions have taken on the air of the NASA Command Center in Houston.

Maurice Estabrooks, from an unlikely perch as a federal government economist in Ottawa, far from the world financial centres, has observed and insightfully chronicled these developments. Not being an active participant in the ongoing turmoil, Mr. Estabrooks has the detachment and objectivity necessary to put the emerging trends in the financial services sector in a broader perspective, seeing the forest as well as the trees. This book is the remarkable fruit of his efforts.

He is at his best in describing the ways that computer and communications technology have Joshua-at-Jericho style knocked down the walls separating the four traditional financial sectors - banking, thrifts, securities and insurance.

To cite some of his examples, the ATM enabled Citicorp to build a nationwide deposit base circumventing the McFadden Act that prevents national banks from operating branches where state law prohibits state-chartered banks. The Cash Management Account (CMA) made possible by computer technology and

introduced by Merrill Lynch siphoned billions out of low-paying savings accounts in commercial banks and led to the demise of the 5.5- per-cent Regulation Q ceiling on bank deposits.

Challenging the Glass-Steagall Act that separated commercial and investment banking, some banks retaliated by acquiring discount brokerage houses and by packaging their loans as securities and selling them to investors. Big and little "bangs" shook world stock markets as deregulation was launched in response to the competitive challenge of computerized and global trading.

The process of change is epitomized in four fascinating case histories of emerging "financial supermarkets." Each jumped into the marketplace for financial services from a different direction - Citicorp from commercial banking, American Express from credit cards and travellers' checks, Sears, Roebuck from retailing, and Merrill Lynch from stockbroking - but all were successful in turning the new technology into a competitive advantage.

For the more nationalistic readers, this book even has the necessary minimum degree of Canadian content. The successes of the Toronto Stock Exchange in pioneering computerized trading and marketing internationally its Computer Assisted Trading System (CATS) are duly recorded. The 1986 Canadian financial market "bang" is also featured.

While the book is solidly based in its treatment of the computer-driven revolution of the financial services sector, Mr. Eastabrooks is obviously on less firm ground in the last two chapters of the book when he speculates on the implications of the computer and communications technology for the global economy and society. Computers are seen as a source of volatility in financial markets based on his reading of the events of October 19, 1987. They are also viewed as eroding the control that national governments have over their

economies.

Mr. Estabrooks believes that the world needs "a new set of rules, regulations and institutions" to cope. His final clarion call is that "It is up to all the citizens of this global human society to ensure that programmed capitalism expands and evolves into the dimensions of a programmed democratic society." To learn exactly what this means, we will have to wait for his next book, which will no doubt be available "on line."

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