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Introduction (George Benston)

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Introduction

By Allan H. Meltzer

George Benston and I were friends for most of our lives. He was a master of economics, finance, and accounting. No one surpassed him at this combination of disciplines. The two volumes of papers make much of his work available. They are a valuable edition to our libraries and personal collections.

George made many contributions. As we consider the use of mark-to market accounting in the 2008 crisis, we recognize how rare were his skills and how valuable his analysis of that issue would be.

George was a skeptic, a very good skeptic. He did not accept popular arguments; he always wanted to evaluate the evidence to see whether it supported popular claims. Often he showed that the facts did not support popular beliefs.

I first met George about 1962 when he was a graduate student at Chicago. I think he came to give a job interview at the University of Pittsburgh. He came over to Carnegie to meet, visit and talk. We ended by having dinner. That was the start of our long friendship.

At the time, George was working on two landmark papers. One was his study of the antecedents of the Glass-Steagall Act. He showed that most of the case for the act was based on repeated reference to an unsupported allegation. There was no evidence that the combination of investment and commercial banking contributed to the Great Depression, as the proponents claimed. The second paper was an analysis of the case for banning payment of interest on demand deposits. Again, the proponents supported their charges with unsupported claims that his examination dismissed as incorrect and unfounded.

George's research covered a very large range of issues. Much of it remains highly relevant today. He did careful and valuable work on banking structure, economies of scale, discrimination in lending, deposit insurance, risk, safety and soundness, and much more. Much of this work stands the test of time. The papers reward rereading.

George summarized what happened to safety and soundness succinctly. In the 1920s, he said, a bank's front window listed paid-in capital and surplus. By the 1950s, the window said instead, "member FDIC."

At one point, he was named to the Home Loan Bank Board. His research record frightened key members of Congress who had to approve his appointment. They did not want a skeptical George Benston looking closely at the regulation of savings and loans or their relation with members of Congress.

One of George's major successes is FDICIA, the Federal Deposit Insurance Association Improvement Act. At an AEI conference on banking problems, George Benston and George Kaufman in "Regulating Bond Safety and Performance" proposed a way to reduce or possibly eliminate the cost to the public of financial failures. They called it "early intervention" and proposed steps that regulators should take to reorganize failing financial firms. The paper was timely. Lenient Federal Reserve policies allowed banks to function long past the point at which their capital was exhausted. The result was higher claims and payments by the FDIC. To avoid the need for a possible bailout of FDIC, Congress adopted a weaker version of "early intervention."

I believe that FDICIA should be extended to all financial institutions. That would improve managements' incentives to take on excessive risk.

George's life had three centers of interest: work, art, and family. He was great at each of them. The papers in these volumes cover the academic part of his career. With his wife, Alice, he built a first-rate, museum quality art collection and a wonderful family of two boys, their wives and grandchildren.