

2015

# On Financial Regulation, the Financial Crisis and the End of GE Capital

Jeffrey E. Jarrett

*University of Rhode Island*, [jejarrett@uri.edu](mailto:jejarrett@uri.edu)

Creative Commons License



This work is licensed under a [Creative Commons Attribution 4.0 License](https://creativecommons.org/licenses/by/4.0/).

Follow this and additional works at: [https://digitalcommons.uri.edu/cba\\_facpubs](https://digitalcommons.uri.edu/cba_facpubs)

---

## Citation/Publisher Attribution

Jarrett JE. (2015). "On Financial Regulation, the Financial Crisis and the End of GE Capital." *Journal of Business & Financial Affairs*, 4(e146). Available at: <http://www.omicsgroup.org/journals/on-financial-regulation-the-financial-crisis-and-the-end-of-ge-capital-2167-0234-1000e146.php?aid=52871>

This Article is brought to you for free and open access by the College of Business Administration at DigitalCommons@URI. It has been accepted for inclusion in College of Business Administration Faculty Publications by an authorized administrator of DigitalCommons@URI. For more information, please contact [digitalcommons@etal.uri.edu](mailto:digitalcommons@etal.uri.edu).

## On Financial Regulation, the Financial Crisis and the End of GE Capital

Jarrett JE\*

Department of Management Science, University of Rhode Island, USA

\*Corresponding author: Jeffrey E. Jarrett, Professor, Department of Management Science, University of Rhode Island, USA, Tel: + 1-401-874-4169; E-mail: [jeffrejarrett@gmail.com](mailto:jeffrejarrett@gmail.com)

Rec date: April 13, 2015, Acc date: April 15, 2015, Pub date: April 25, 2015

Copyright: © 2015 Jarrett JE. This is an open-access article distributed under the terms of the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original author and source are credited.

### Introduction

During the financial crisis of 2007-2008, the public observed the great economic crisis with the heavy losses in employment, great decrease the prices of new and existing homes, increases in foreclosures on home and business properties and reduction of businesses to increase their size of business activities through the ability to borrow and later to raise funds through the selling of equity instruments and bonds. As part of the solution, the federal banking system induce lending of major United States Bank by the injection of huge amounts into these banks in the form of creating additional large sums of cash and cash equivalents to increase the size of the major banks resulting in more liquidity in markets for borrowing by firms to raise capital. General Electric, in difficulties and did lobby for huge manufacturing corporation with a significant amount of assets in financial markets found itself Lobbying for Federal Reserve action to liquefy financial markets to borrow funds to keep its extensive manufacturing divisions in operation. Regulations designed to produce better liquidity in financial markets did increase the size of the major banking institutions in the United States.

The public cried out against the policy of “to big to fail” and financial regulation was enacted to prevent another economic failure by attempting to regulate action taken by the major banks. Large parts of this regulatory activity come from the well-known “Dodd-Frank” legislation. Being an extremely long and detailed legislation enacted into law, the purpose here is not to debate the details but to examine its results.

Recently, General Electric (GE), a major manufacturer in a number of industries also containing a significant amount of its capital in financial assets including real estate, insurance, mutual funds and the like announced a reorganization of its assets. The program began with sales of \$26.5 million in real estate assets and a return to its roots in manufacturing of oil drilling equipment, jet engines, and medical devices produced in operational facilities throughout the world. GE Capital is to be reduced greatly in size if not eliminated entirely. All this is a result emanating from financial regulation which makes financial operations more risky for GE to remain heavily invested in operation outside of its main mission in manufacturing. GE is only one, albeit a big one, of financial companies that are changing with the landscape of finance.

How does this changing landscape preview what has happened in financial markets and how do we wish it to look like? By contrast none of this financial failure in markets occurred in Canada. The United States and Canada both have regulations in financial markets. How they operate to provide the same services differs greatly between the two nations even when both are operating well. Both provide the same

basic services service to financial institutions. What are the striking differences?

First, The USA contains more than 7000 chartered banks and a great number of regulators. Banks may be regulated by the Federal Reserve, The Federal Deposit Insurance Corporation, FDIC, the Office of the Comptroller of the Currency and in addition possible fifty state regulating bodies. There are also a number of regulators for non-Bank Financial Institutions. Canada has only about 80 banks and the big six hold 93 percent of the assets. There are only thirteen provinces with only one federal regulator, i.e. the Office of the Superintendent of Financial Institutions (OSFI).

The result is that banks have not been free to establish branches in other states in the USA whereas, in Canada, branch banking is far more common than in the USA. Provincial regulations in Canada are largely in harmony with each other. This is not true for the USA. Small farmers in the USA are against branch banking because the banks may take their capital to another area if the economy in one sector is below the median due to a drought, incidence of Earthquakes, fracking by the local extraction industry, and the effects of climate change. We know that regional shocks to the farming sectors produces bank runs and other destabilizing features. The US had had experience with bank runs but Canada has not.

In addition in the USA, branching restrictions which protect small banks from were coupled with new laws designed to protect small banking institutions were enacted after the “Great Depression” of the 1930’s. The Federal Deposit Insurance Corporation and the Glass-Steagall Act designed to protect depositors also protect the smaller institutions form competition. Steagall support was necessary to gain enough votes from agrarian representatives in the House of Representative for passage. Additional regulations were eventually passed to put limits on what institution could pay depositors, served to keep banks small. These laws also prevented banks from growing resulting in a fragmented regulatory system in the USA with respect to Canada.

In sum, the Canadian system did not have a 2007-2008 financial crisis. Their regulatory control operated much more efficiently and produced a financial healthier result than in the USA. Although GE is not a bank but has a large stake in financial operations, we should observe their recent decisions concerning their withdrawal from financial activities. Banking can be a more stable industry if somehow the USA could reduce the number of regulators and harmonize their regulations across the nation. Using Canada as simply a small nation about one-tenth the economic size of the US is not an excuse for improving the regulatory systems.