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What Sandy Weill Said, and Why He's Wrong

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Headlines are overflowing with the news that former Citi Chairman Sandy Weill – architect of a large global bank – now believes we should break up big banks and reinstate Glass Steagall. While the news that Weill now believes we should now break up banks is surprising, it's important to look past the headlines at the very real issues Weill raises – it's not the Occupy Wall Street doctrine some would like to believe.

What Sandy Weill Said

Sandy Weill believes that commercial and investment banks should be broken up, arguing that the current political environment is too toxic for big banks to be successful. The hatred for big banks makes recruiting top talent more difficult. Any mistake a bank makes today results in a costly political backlash, even when it costs the taxpayer nothing – and potential for further regulatory handcuffs at worst, uncertainty at best. Ultimately, this environment makes it difficult for big banks to serve their clients and help the economy. Weill believes this political environment is not changing any time soon. It's a good point.

To solve this political – not economic – problem, Weill seeks to appease populist fervor by reinstating Glass Steagall in the hopes that in a better political environment, banks will be in a better position to recruit the best and the brightest, continue to innovate, and help grow the economy. Essentially, he would rather have discreetly structured banks operating in a benign political environment rather than larger, comprehensive banks operating in a toxic political environment. In this way, banks can be banks.

Weill also highlighted the importance of regulations to make banks safer, focusing on higher and better capital, lower leverage, increasing transparency, and keeping everything on the balance sheet.

Why His Conclusion Is Wrong

If banks aren't taking risks – and sometimes making mistakes that lose money – they're not banks. They're warehouses. So Weill's conclusion that the political and regulatory environment make it difficult for a big, regulated bank to also be a good, risk-taking, innovating, bank is a fair point. But the benefits of big banks to the U.S.

economy are significant, and grossly overlooked by populist big bank critics. Distress over the political reaction to banking challenges today isn't sufficient for the U.S. to abandon these benefits – benefits Weill spent a career advocating for.

Moreover, Weill confuses simpler with safer. As the financial crisis showed, simplifying banking by splitting up commercial and investment banks does not increase safety, as it was the pure investment and commercial banks that were hit the hardest. Large institutions are more diversified across businesses and geographies, which reduces volatility, spreads risk and lessens the effects of cyclicality.

Political weariness simply isn't a good enough reason for America to unilaterally hobble our global banks.

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