

Chronological: American Bankers Association, Honolulu, 1983-10-10

Senator Daniel K. Inouye Papers
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United States Senate

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HONOLULU, HI 96850
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David C. Louie
U. S. S.

TAPE:

OCTOBER 10, 1983
ABA CONVENTION
Neal Blaisdell Center

AMERICAN BANKERS ASSOCIATION
MONDAY, October 10, 1983

More than one hundred (108) years have passed since the American Bankers Association was formed. You have had many momentous annual meetings. This conference in Honolulu must certainly rank as one of the most important, and may be second in importance only to the annual meeting held in Chicago in 1933, the year of President Roosevelt's bank holiday.

Today, bankers and banking, indeed the whole of the financial industry, seems to be under fire, both within and outside of Congress. The future of American banking is in doubt, because the future of international banking is in peril. The principal international financial institutions -- the World Bank, the International Development Association, and the International Monetary Fund -- are now confronted by an unprecedented attack on their stability, liquidity, and financial integrity. While there are some hopeful signs on the horizon, many experts are unshakeable in their predictions of high interest rates, high unemployment, and a world tottering on the brink of bankruptcy far into the future.

These problems, and the way we deal with them as a nation, will, in large part, be determined by the three members of your panel. Walter Wriston, Paul Volcker, and Bill Kennedy are, without doubt, the three most influential men in America on the subject of banking. And, because of the role American banking plays on the international stage, they may well be among the most influential men in the world of banking. I know you will join me when I say we are very fortunate to have such wise and honorable men as leaders in this critical time.

Walter Wriston is the driving force behind what is often called the biggest and most aggressive of U.S. banks -- Citicorp. His name and that of his bank have become synonymous with the most dynamic, energetic, and it has been suggested, risky approach to banking this country has ever seen. While others were making a modest and cautious response to suggestions from our Government that U.S. banks lend to the Third World (we must not forget that it was our Government which encouraged such lending for foreign policy purposes), Citicorp fairly leapt at the opportunity to expand its market share. And who is to fault them? I'm told that there is not a bank that has adjusted to the crisis-ridden world of international banking more quickly, nor is any bank reaping greater profits from overseas operations, than Citicorp.

There is no questions that Citicorp has done very well in its overseas activities. Yet, there is the fear that it, as well as other American banks, large and small, may be overextended.

There is the fear that global economic conditions will enter a downward spiral, where one default leads inexorably to another, and ultimately to systemic collapse. Hanging over the prodigious efforts to reschedule loans, the extraordinary endeavors to provide necessary liquidity is the threat of a debtor cartel, which would attempt to force a moratorium on debt service payments. If that were to happen, the system which has served the international financial community -- both borrower and lender -- so well for so many years would be changed beyond recognition and, perhaps, beyond repair.

If we are to avoid this catastrophe -- for that is what it would be -- we must act to strengthen the institutions that have served us so well. I believe this very firmly. I have studied the situation: and I believe we are at the point of decision. We are, by our actions, deciding now whether the international financial system can survive. That is why I have become so distressed when thousands and thousands of letters pour into Senate mailboxes, letters from the more conservative elements of our society, threatening election reprisals against those who "bail out the banks." I am astonished by the numbers who have written to oppose an increase in the IMF quota. I am ashamed of the conduct of some who seek election advantage at the expense of economic stability. Let me be specific.

On August 3, the House passed by a narrow vote of 217 Ayes to 211 Noes, legislation authorizing U.S. participation in the quota increase of the International Monetary Fund. Democrats who voted in favor of the Reagan Administration's position on an amendment which would have politicized the IMF were subjected to a letter released August 4th by the Republican Congressional Campaign Committee which said, "Congressman _____", "voted yesterday to loan U.S. taxpayer's money to Communist nations."

Democratic colleagues in the House who voted with the Reagan Administration were accused by the Republican Campaign Committee to have shown "total disrespect for freedom" and to have voted to "support Communism rather than the people of this country." I would suggest that President Reagan should write to each of these Congressmen and publicly disavow and repudiate the letter of the Republican Congressional Campaign Committee. Anything less, I fear, will delay appropriations of funds necessary for U.S. participation in the IMF quota increase.

I must be honest with you. As I have listened to the debate on whether or not the increase in liquidity in the IMF is a bank bail-out, and as I have read letters from every State in the Union which suggest that the United States need not be

concerned with economic failure in Brazil, Mexico or Argentina, I have thought of those in the story books of my childhood who "whistled in the dark" to find comfort from real or imagined horrors.

I would suggest to you, as I have to my colleagues, that whistling in the dark won't work now. If one wants to understand the possible consequences of a failure to support the quota increase in the IMF, one need look no further than to the history of the second quarter of this century. In that dark year -- when many whistled in fear of the dark -- global economic depression gave way, in rapid succession, to global war. Economic deprivation and desperation, as much as any lust for power, sparked World War II and brought cataclysmic change.

Today, unprecedented demands are being placed on the international monetary system. In their efforts to compete with the legacy of rapid price increases in energy supplies, major U.S. trading partners and other nations with whom we share vital security concerns are seeking to follow the tortuous course of economic adjustment. The IMF is the primary international instrument for easing this adjustment, for avoiding economic collapse, as these nations attempt to restructure their economies.

The choice before us is graduated, controlled change in the international economic system or chaos. If the IMF quota increase occurs, there is the possibility that the system will recover; without the IMF quota increase, there is the probability of restrictive trade policies, competitive exchange rate depreciations, and economic retaliation -- the very measures which brought about the collapse of the world economy in the 1930s, and which brought about the collapse of American banking.

The Federal Reserve System was created in 1913 to serve as the Nation's central bank. The authors of the measure which created the FED clearly wanted an independent, autonomous government agency -- an agency not subject to the whims and pressures of the Congress or the President.

Paul Volcker has taken more than his share of the blame, with little credit going his way because, when the situation improves, others want to take the glory.

I wish to say at this time:

"Thank God we have Paul Volcker at the Federal Reserve".

This does not mean that I agree with everything he has said or decided, but he has been tough when the FED had to be tough and easy when it should relax.

Many of the decisions he has had to make have been painful, to many, but someone had to make them. After having served in the Congress for 24 years, let me be the first to suggest that our predecessors were extremely wise when they took Congress out of the business of setting monetary policy and put it in the hands of the FED. Imagine arriving at a monetary policy for the U.S. through the auspices of the Moral Majority, NCPAC, ADA, Common Cause or other ideologically-inclined groups.

I would also like to salute his outstanding achievement in devising the debt refinancing plan when the international liquidity crisis hit last year. I remember the sense of urgency, even crisis, which gripped Washington last year when first Mexico, then Brazil, and Argentina were unable to pay their debts as scheduled. Alone, of the major financial policymakers in Washington, he had both the experience and the imagination to conceive of the bridging plan that gave us breathing room to devise a more permanent solution to the international debt problem.

I would also like to welcome to Hawaii the distinguished President of the American Bankers Association, William H. Kennedy. He has compiled a distinguished record in his two and a half decades in the banking industry and in his current capacity as chairman of the National Bank of Commerce in Pine Bluff, Arkansas.

Mr. Kennedy has presided over one of the most tumultuous years in the history of the banking industry. Deregulation has become the "in" word in Congress. But since the recurring headlines on Braniff, Eastern, Continental, Western and others -- the word "deregulation" seems to have lost some of its charm.

But noting the many non-banking businesses moving into your sacred grounds -- I can understand Bill Kennedy's "fair is fair", I wish to make the following observation: if there are further bank failures on the order of the Penn Square or the United American Bank and if banks persist in getting into unrelated lines of business such as dealing in insurance, then further banking deregulation may be difficult to achieve.

Having said this, I should like to inform you that I have been a director of a bank for over 20 years. But I am a politician first.

SPEECH BY SENATOR DANIEL K. INOUE
American Bankers Association
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You have a full agenda this week. Your problems are many, but the future is bright. The outcome of this convention may have a decisive effect on the future of the banking industry and the entire economy for many years to come. I wish you Godspeed and good luck in your weighty deliberations. We welcome you to our State and hope that you enjoy our hospitality and return again.

AMERICAN BANKERS ASSOCIATION

MONDAY, OCTOBER 10, 1983

MORE THAN ONE HUNDRED (108) YEARS HAVE PASSED
SINCE THE AMERICAN BANKERS ASSOCIATION WAS FORMED. YOU
HAVE HAD MANY MOMENTOUS ANNUAL MEETINGS. THIS CONFERENCE
IN HONOLULU MUST CERTAINLY RANK AS ONE OF THE MOST
IMPORTANT, AND MAY BE SECOND IN IMPORTANCE ONLY TO THE
ANNUAL MEETING HELD IN CHICAGO IN 1933, THE YEAR OF
PRESIDENT ROOSEVELT'S BANK HOLIDAY.

TODAY, BANKERS AND BANKING, INDEED THE WHOLE OF THE FINANCIAL INDUSTRY, SEEMS TO BE UNDER FIRE, BOTH WITHIN AND OUTSIDE OF CONGRESS. ~~AND IT IS NOT ONLY DOMESTIC BANKING WHICH IS CHALLENGED,~~ THE FUTURE OF AMERICAN BANKING IS IN DOUBT, BECAUSE THE FUTURE OF INTERNATIONAL BANKING IS IN PERIL. THE PRINCIPAL INTERNATIONAL FINANCIAL INSTITUTIONS -- THE WORLD BANK, THE INTERNATIONAL DEVELOPMENT ASSOCIATION, AND THE INTERNATIONAL MONETARY FUND -- ARE NOW CONFRONTED BY AN UNPRECEDENTED ATTACK ON THEIR STABILITY, LIQUIDITY, AND FINANCIAL INTEGRITY. WHILE THERE ARE SOME HOPEFUL SIGNS ON THE HORIZON, MANY EXPERTS ARE UNSHAKEABLE IN THEIR PREDICTIONS OF HIGH INTEREST RATES, HIGH UNEMPLOYMENT, AND A WORLD TOTTERING ON THE BRINK OF BANKRUPTCY FAR INTO THE FUTURE.

THESE PROBLEMS, AND THE WAY WE DEAL WITH THEM AS A NATION,

WILL, IN LARGE PART, BE DETERMINED BY THE THREE MEMBERS OF YOUR PANEL. WALTER WRISTON, PAUL VOLCKER, AND BILL KENNEDY ARE, WITHOUT DOUBT, THE THREE MOST INFLUENTIAL MEN IN AMERICA ON THE SUBJECT OF BANKING. AND, BECAUSE OF THE ROLE AMERICAN BANKING PLAYS ON THE INTERNATIONAL STAGE, THEY MAY WELL BE AMONG THE MOST INFLUENTIAL MEN IN THE WORLD OF BANKING. I KNOW YOU WILL JOIN ME WHEN I SAY WE ARE VERY FORTUNATE TO HAVE SUCH WISE AND HONORABLE MEN AS LEADERS IN THIS CRITICAL TIME.

WALTER WRISTON IS THE DRIVING FORCE BEHIND WHAT IS OFTEN CALLED THE BIGGEST AND MOST AGGRESSIVE OF U.S. BANKS -- CITICORP. HIS NAME AND THAT OF HIS BANK HAVE BECOME SYNONYMOUS WITH THE MOST DYNAMIC, ENERGETIC, AND IT HAS BEEN SUGGESTED, RISKY APPROACH TO BANKING THIS COUNTRY HAS EVER SEEN.

WHILE OTHERS WERE MAKING A MODEST AND CAUTIOUS RESPONSE TO SUGGESTIONS FROM OUR GOVERNMENT THAT U.S. BANKS LEND TO THE THIRD WORLD (WE MUST NOT FORGET THAT IT WAS OUR GOVERNMENT WHICH ENCOURAGED SUCH LENDING FOR FOREIGN POLICY PURPOSES), CITICORP FAIRLY LEAPT AT THE OPPORTUNITY TO EXPAND ITS MARKET SHARE. AND WHO IS TO FAULT THEM? I'M TOLD THAT THERE IS NOT A BANK THAT HAS ADJUSTED TO THE CRISIS-RIDDEN WORLD OF INTERNATIONAL BANKING MORE QUICKLY, NOR IS ANY BANK REAPING GREATER PROFITS FROM OVERSEAS OPERATIONS, THAN CITI.

THERE IS NO QUESTION THAT CITICORP HAS DONE VERY WELL IN ITS OVERSEAS ACTIVITIES. YET, THERE IS THE FEAR THAT IT, AS WELL AS OTHER AMERICAN BANKS, LARGE AND SMALL, MAY BE OVEREXTENDED.

THERE IS THE FEAR THAT GLOBAL ECONOMIC CONDITIONS WILL ENTER A DOWNWARD SPIRAL, WHERE ONE DEFAULT LEADS INEXORABLY TO ANOTHER, AND ULTIMATELY TO SYSTEMIC COLLAPSE. HANGING OVER THE PRODIGIOUS EFFORTS TO RESCHEDULE LOANS, THE EXTRAORDINARY ENDEAVORS TO PROVIDE NECESSARY LIQUIDITY IS THE THREAT OF A DEBTOR CARTEL, WHICH WOULD ATTEMPT TO FORCE A MORATORIUM ON DEBT SERVICE PAYMENTS. IF THAT WERE TO HAPPEN, THE SYSTEM WHICH HAS SERVED THE INTERNATIONAL FINANCIAL COMMUNITY -- BOTH BORROWER AND LENDER -- SO WELL FOR SO MANY YEARS WOULD BE CHANGED BEYOND RECOGNITION AND, PERHAPS, BEYOND REPAIR.

IF WE ARE TO AVOID THIS CATASTROPHE -- FOR THAT IS
WHAT IT WOULD BE -- WE MUST ACT TO STRENGTHEN THE
INSTITUTIONS THAT HAVE SERVED US SO WELL. I BELIEVE THIS
VERY FIRMLY. I HAVE STUDIED THE SITUATION: AND I BELIEVE
WE ARE AT THE POINT OF DECISION. WE ARE, BY OUR ACTIONS,
DECIDING NOW WHETHER THE INTERNATIONAL FINANCIAL SYSTEM CAN
SURVIVE. THAT IS WHY I HAVE BECOME SO DISTRESSED WHEN
THOUSANDS AND THOUSANDS OF LETTERS POUR INTO SENATE
MAILBOXES, LETTERS FROM THE MORE CONSERVATIVE ELEMENTS OF
OUR SOCIETY, THREATENING **ELECTION** REPRISALS AGAINST THOSE
WHO "BAIL OUT THE BANKS." I AM ASTONISHED BY THE NUMBERS
WHO HAVE WRITTEN TO OPPOSE AN INCREASE IN THE IMF QUOTA.

Electoral
ELECTORAL

I AM ASHAMED OF THE CONDUCT OF SOME WHO SEEK
ADVANTAGE AT THE EXPENSE OF ECONOMIC STABILITY. LET ME BE
SPECIFIC. ON AUGUST 3, THE HOUSE PASSED BY A NARROW VOTE
OF 217 AYES TO 211 NOES LEGISLATION AUTHORIZING U.S.
PARTICIPATION IN THE QUOTA INCREASE OF THE INTERNATIONAL
MONETARY FUND. DEMOCRATS WHO VOTED IN FAVOR OF THE REAGAN
ADMINISTRATION'S POSITION ON AN AMENDMENT WHICH WOULD HAVE
POLITICIZED THE IMF WERE SUBJECTED TO A LETTER RELEASED
AUGUST 4 BY THE REPUBLICAN CONGRESSIONAL CAMPAIGN COMMITTEE
WHICH SAID, "CONGRESSMAN _____", "VOTED YESTERDAY TO
LOAN U.S. TAXPAYER'S MONEY TO COMMUNIST NATIONS."

MY DEMOCRATIC COLLEAGUES IN THE HOUSE WHO VOTED WITH THE REAGAN ADMINISTRATION WERE ACCUSED BY THE REPUBLICAN CAMPAIGN COMMITTEE TO HAVE SHOWN "TOTAL DISRESPECT FOR FREEDOM" AND TO HAVE VOTED TO "SUPPORT COMMUNISM RATHER THAN THE PEOPLE OF THIS COUNTRY." I WOULD SUGGEST THAT PRESIDENT REAGAN SHOULD WRITE TO EACH OF THESE CONGRESSMEN AND PUBLICLY DISAVOW AND REPUDIATE THE LETTER OF THE REPUBLICAN CONGRESSIONAL CAMPAIGN COMMITTEE. ANYTHING LESS, I FEAR, WILL DELAY APPROPRIATION OF FUNDS NECESSARY FOR U.S. PARTICIPATION IN THE IMF QUOTA INCREASE.

I MUST BE HONEST WITH YOU. AS I HAVE LISTENED TO THE DEBATE ON WHETHER OR NOT THE INCREASE IN LIQUIDITY IN THE IMF IS A BANK BAIL-OUT, AND

AS I HAVE READ LETTERS FROM EVERY STATE IN THE UNION WHICH
SUGGEST THAT THE UNITED STATES NEED NOT BE CONCERNED WITH
ECONOMIC FAILURE IN BRAZIL, ^{MEXICO} OR ARGENTINA, I HAVE THOUGHT
OF THOSE IN THE STORY BOOKS OF MY CHILDHOOD WHO "WHISTLED
IN THE DARK" TO FIND COMFORT FROM REAL OR IMAGINED HORRORS.

I WOULD SUGGEST TO YOU, AS I HAVE TO MY COLLEAGUES, THAT
WHISTLING IN THE DARK WON'T WORK NOW. IF ONE WANTS TO
UNDERSTAND THE POSSIBLE CONSEQUENCES OF A FAILURE TO SUPPORT
THE QUOTA INCREASE IN THE IMF, ONE NEED LOOK NO FURTHER THAN
TO THE HISTORY OF THE SECOND QUARTER OF THIS CENTURY. IN
THAT DARK ERA -- WHEN MANY WHISTLED IN FEAR OF THE
DARK -- GLOBAL ECONOMIC DEPRESSION GAVE WAY, IN RAPID
SUCCESSION, TO GLOBAL WAR.

ECONOMIC DEPRIVATION AND DESPERATION, AS MUCH AS ANY LUST FOR POWER, SPARKED WORLD WAR II AND BROUGHT CATAclySMIC CHANGE.

TODAY, UNPRECEDENTED DEMANDS ARE BEING PLACED ON THE INTERNATIONAL MONETARY SYSTEM. IN THEIR EFFORTS TO COMPETE WITH THE LEGACY OF RAPID PRICE INCREASES IN ENERGY SUPPLIES, MAJOR U.S. TRADING PARTNERS AND OTHER NATIONS WITH WHOM WE SHARE VITAL SECURITY CONCERNS ARE SEEKING TO FOLLOW THE TORTUOUS COURSE OF ECONOMIC ADJUSTMENT. THE IMF IS THE PRIMARY INTERNATIONAL INSTRUMENT FOR EASING THIS ADJUSTMENT, FOR AVOIDING ECONOMIC COLLAPSE, AS THESE NATIONS ATTEMPT TO RESTRUCTURE THEIR ECONOMIES.

THE CHOICE BEFORE US IS GRADUATED, CONTROLLED CHANGE IN THE INTERNATIONAL ECONOMIC SYSTEM OR CHAOS.

IF THE IMF QUOTA INCREASE OCCURS, THERE IS THE POSSIBILITY THAT THE SYSTEM WILL RECOVER; WITHOUT THE IMF QUOTA INCREASE, THERE IS THE PROBABILITY OF RESTRICTIVE TRADE POLICIES, COMPETITIVE EXCHANGE RATE DEPRECIATIONS, AND ECONOMIC RETALIATION -- THE VERY MEASURES WHICH BROUGHT ABOUT THE COLLAPSE OF THE WORLD ECONOMY IN THE 1930s, AND WHICH BROUGHT ABOUT THE COLLAPSE OF AMERICAN BANKING.

THE FEDERAL RESERVE SYSTEM WAS CREATED IN 1913 TO SERVE AS THE NATION'S CENTRAL BANK. THE AUTHORS OF THE MEASURE WHICH CREATED THE FED CLEARLY WANTED AN INDEPENDENT, AUTONOMOUS GOVERNMENT AGENCY - AN AGENCY NOT SUBJECT TO THE WHIMS AND PRESSURES OF THE CONGRESS OR THE PRESIDENT.

PAUL VOLCKER HAS TAKEN MORE THAN HIS SHARE OF THE BLAME,

WITH LITTLE CREDIT GOING HIS WAY BECAUSE, WHEN THE SITUATION IMPROVES, OTHERS WANT TO TAKE THE GLORY.

I WISH TO SAY AT THIS TIME:

"THANK GOD WE HAVE PAUL VOLCKER AT THE FEDERAL RESERVE".

THIS DOES NOT MEAN THAT I AGREE WITH EVERYTHING HE HAS SAID OR DECIDED, BUT HE HAS BEEN TOUGH WHEN THE FED HAD TO BE TOUGH AND EASY WHEN IT SHOULD RELAX.

MANY OF THE DECISIONS HE HAS HAD TO MAKE HAVE BEEN PAINFUL TO MANY, BUT SOMEONE HAD TO MAKE THEM. AFTER HAVING SERVED IN THE CONGRESS FOR 24 YEARS,

LET ME BE THE FIRST TO SUGGEST THAT OUR PREDECESSORS WERE EXTREMELY WISE WHEN THEY TOOK CONGRESS OUT OF THE BUSINESS OF SETTING MONETARY POLICY AND PUT IT IN THE HANDS OF THE FED. IMAGINE ARRIVING AT A MONETARY POLICY FOR THE U.S. THROUGH THE AUSPICES OF THE MORAL MAJORITY, NCPAC, ADA, COMMON CAUSE OR OTHER IDEOLOGICALLY-INCLINED GROUPS.

I WOULD ALSO LIKE TO SALUTE HIS OUTSTANDING ACHIEVEMENT IN DEVISING THE DEBT REFINANCING PLAN WHEN THE INTERNATIONAL LIQUIDITY CRISIS HIT LAST YEAR. I REMEMBER THE SENSE OF URGENCY, EVEN CRISIS, WHICH GRIPPED WASHINGTON LAST YEAR WHEN FIRST MEXICO, THEN BRAZIL, AND ARGENTINA WERE UNABLE TO PAY THEIR DEBTS AS SCHEDULED. ALONE,

OF THE MAJOR FINANCIAL POLICYMAKERS IN WASHINGTON, HE HAD BOTH THE EXPERIENCE AND THE IMAGINATION TO CONCEIVE OF THE BRIDGING PLAN THAT GAVE US BREATHING ROOM TO DEVISE A MORE PERMANENT SOLUTION TO THE INTERNATIONAL DEBT PROBLEM.

I WOULD ALSO LIKE TO WELCOME TO HAWAII THE DISTINGUISHED PRESIDENT OF THE AMERICAN BANKERS ASSOCIATION, WILLIAM H. KENNEDY. HE HAS COMPILED A DISTINGUISHED RECORD IN HIS TWO AND A HALF DECADES IN THE BANKING INDUSTRY AND IN HIS CURRENT CAPACITY AS CHAIRMAN OF THE NATIONAL BANK OF COMMERCE IN PINE BLUFF, ARKANSAS.

MR. KENNEDY HAS PRESIDED OVER ONE OF THE MOST TUMULTUOUS YEARS IN THE HISTORY OF THE BANKING INDUSTRY.

DEREGULATION HAS BECOME THE "IN" WORD IN CONGRESS.

*Some of the
Chairman*
But
*since the re-occurring headlines on Brantiff
Estimate Contradict History & others - they
word "deregulation" seems to have lost*

SINCE 1978, THERE HAS BEEN DEREGULATION IN AIRLINES,
TRUCKING, RAILROADS, AND TELECOMMUNICATIONS.

I WAS ONE OF THE FEW WHO VOTED AGAINST AIRLINE
DEREGULATION. WE HAD THE FINEST AIRLINE SYSTEM IN THE
WORLD IN 1978. ALTHOUGH ONE CANNOT BLAME DEREGULATION
ALONE, IT PLAYED SOME ROLE IN THE PROBLEMS NOW AFFLICTING
CONTINENTAL, BRANIFF, WESTERN, REPUBLIC, AND OTHER CARRIERS.

THE TRUCKING INDUSTRY USED TO BE A MODEL FOR THE WORLD,
AND INTERNATIONAL EXPERTS CAME TO STUDY AND LEARN FROM IT.
TODAY THAT SYSTEM IS IN CHAOS AS THIN ROUTES ARE DROPPED,
COMPANIES APPEAR AND DISAPPEAR, AND RATES FLUCTUATE DAILY.

But using the many non banking businesses
money with your sacred grounds - I can understand
AS FAR AS BANKING DEREGULATION IS CONCERNED, I WISH
But

TO MAKE THE FOLLOWING OBSERVATION: IF THERE ARE FURTHER
BANK FAILURES ON THE ORDER OF THE PENN SQUARE OR THE
UNITED AMERICAN BANK AND IF BANKS PERSIST IN GETTING INTO
UNRELATED LINES OF BUSINESS SUCH AS DEALING IN INSURANCE,
THEN FURTHER BANKING DEREGULATION MAY BE ~~BUT A DREAM~~.

On Kennedy's
"fair is fair"

difficult to achieve

HAVING SAID THIS, I SHOULD LIKE TO INFORM YOU THAT

I HAVE BEEN A DIRECTOR OF A BANK OF OVER 20 YEARS. BUT
I AM A POLITICIAN FIRST.

→ Listen to John Law

YOU HAVE A FULL AGENDA THIS WEEK. YOUR PROBLEMS ARE
MANY, BUT THE FUTURE IS BRIGHT. THE OUTCOME OF THIS
CONVENTION MAY HAVE A DECISIVE EFFECT ON THE FUTURE OF THE
BANKING INDUSTRY AND THE ENTIRE ECONOMY FOR MANY YEARS TO COME.

I WISH YOU GODSPEED AND GOOD LUCK IN YOUR WEIGHTY
DELIBERATIONS. WE WELCOME YOU TO OUR STATE AND HOPE THAT
YOU ENJOY OUR HOSPITALITY AND RETURN AGAIN.

MEMORANDUM
October 7, 1983

TO: SENATOR
FROM: Eric
Subj: Bank Deregulation

In the event that bank deregulation is brought up at the ABA convention, I have drafted this brief memorandum on current developments in deregulation and legislative prospects for the issue.

BACKGROUND TO DEREGULATION

In 1983 pressures for further deregulation are resulting from increasing competition between depository and non-depository institutions to provide consumer financial services. Federal and State laws and regulations governing entry, permissible activities, and geographic arrangements for various forms of institutions are being tested. On the Federal level, such laws include the Bank Holding Company Act, which provides for Federal regulation of bank holding companies; the Glass-Steagall Act, which separates investment activities and commercial banking; and the McFadden Act and the Douglas Amendment to the Bank Holding Company Act, which deal with interstate banking.

Marketplace innovations in these areas are resulting primarily from two factors. First, the increasing sophistication of individuals in money management is increasing the demand for "packaged services." Second, loopholes in law governing different types of institutions, as well as differences in regulation on the Federal and State level for depository institutions, are allowing for numerous experiments with expanded services by individual firms.

The most highly-publicized development is that of the "non-bank" bank. Non-banking institutions have argued that by divesting a bank of either its deposits payable on demand or its business loan portfolio, an institution is created which no longer falls under the definition of a bank for purposes of the Bank Holding Company Act; therefore, the resulting institution can be part of a conglomerate organization. The Comptroller of the Currency, a vociferous advocate of deregulation, the chartering authority for National banks, has approved some applications for "non-bank" banks.

With the expansion of powers of savings banks and savings and loan associations to include banking functions, firms have also found the possibility of purchasing a savings institution an increasingly attractive option for acquiring deposit-based services or commercial lending powers. The Federal Home Loan Bank Board, which regulates savings and loan holding companies, has not approved any such combinations recently, although applications are pending.

The Federal Reserve, the primary regulator for bank holding companies, has expressed its concern about the development of "non-bank" banks through two types of actions, and it has urged caution in deregulation. It has broadened the definition of "commercial lending" in an attempt to close legal loopholes in the Bank Holding Company Act. It has also proposed that Congress consider a temporary moratorium on combinations of "non-bank" banks

(and savings institutions) with non-depository institutions.

In another attempt to broaden services, banking organizations and savings institutions are testing the limits of the Glass-Steagall Act through the purchase and establishment of securities' brokers services.

Banks are also **aggressively** seeking changes on the state level to allow them to expand the geographical and functional range of their services. A recent example of a state changing its laws to allow a broader range of services for financial institutions has occurred in South Dakota. New England is in the forefront of devising a regional experiment with regard to interstate banking.

Recent developments in the financial system raise important policy issues, which are not easily resolved, concerning (1) regulatory control; (2) the safety and soundness of the financial system; (3) competitive relationships; (4) concentration of financial resources; and (5) possible conflicts of interest. Many of the specific questions resulting from the current attempts to broaden the services available within a single firm are similar to those debated in connection with deposit deregulation.

LEGISLATIVE DEVELOPMENTS

The rapid changes under way in the financial system have resulted in oversight by the 98th Congress of these developments, especially as they affect deposit and credit flows, and the financial condition of depository institutions. Congress is

also examining whether more deregulation is desirable. The deregulation of financial services which is occurring both among depository and non-depository institutions has resulted in several legislative proposals.

S. 1609, legislation proposed by the Administration, is under consideration in the Senate Banking Committee; it has been introduced in the House as H.R. 3537. It would allow depository institution holding companies to engage in a combination of financial services -- including depository, insurance, real estate, and certain securities activities. Other companies would not be permitted to offer federally insured deposit services.

GOVERNMENT REORGANIZATION

As depository institutions have become more alike, renewed interest has been expressed in proposals to restructure the Federal financial regulatory agencies either through consolidating them or realigning functions among agencies. Questions of this kind are being examined by the Administration's Task Group on Regulation of Financial Services, headed by the Vice President. This task group was formed in December 1982 and expects to submit recommendations concerning the financial regulatory structure by fall 1983.