Statement of
K. A. Randall, Chairman
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before the
Subcommittee on Bank Supervision and Insurance
of the
House Committee on Banking and Currency
on April 29, 1965

I appreciate the privilege you have accorded me to appear before this Subcommittee of the House Banking and Currency Committee. Only a week ago my fellow Directors of the Federal Deposit Insurance Corporation -- Joseph W. Barr and James J. Saxon -- elected me to the office of Chairman following my service on the Board for about one year.

Chairman Barr was my predecessor in this office as well as a former member of your Committee. The opportunity to work under his leadership has been a continuing source of inspiration to me. I shall endeavor to measure up to his standards.

Perhaps it will be necessary for me to seek your forebearance today in responding to questions because the interval since I have assumed the responsibilities of Corporation Chairman is quite brief. Nevertheless, you may count on my best efforts now, and in the future, to reply to your inquiries.

In preparing to appear before the House Banking and Currency Committee that is celebrating its centennial in 1965, I became acutely conscious of the sense of history in banking. Here is an opportunity to participate in shaping the currents of banking developments in the United States for years to come. But along with this opportunity there is an obligation to work hard on the problems under consideration, and to maintain an attitude of intellectual modesty and of respect for the previous endeavors of others.

Over the century since its establishment, many minds have collaborated in the House Banking and Currency Committee on the drafting of legislation with respect to banks. Measured in the time of this Committee's existence, my own years devoted to banking and its problems are indeed few. Even for the members of the Committee who have long and distinguished records of service this is also true. But all of us are part of an historical process, and our best efforts will be dedicated to the task of measuring up to the high standards of our predecessors.

Presently your Subcommittee has for consideration legislative proposals designed to reorganize the Federal agencies concerned with banking. In essence the bills are concerned primarily with the structure of Federal bank supervision; otherwise they would not alter bank law in any substantial respect. These proposals would change the present system by consolidating in one person (H.R. 6885) or in one board (H.R. 107) all of the bank supervisory functions now performed by the three Federal banking agencies.

Fundamental to an understanding of the issues inherent in these legislative proposals is the fact that the banking structure of the United States is a product of evolution. It was not designed out of thin air. Its uniqueness reflects the uniqueness of the country and the diversity of its financial needs. Whether we would reconstruct this same structure, if we could lay all our history and all our institutional development aside, is not a question that you are here called upon to decide. The critical point is that we presently have our form of government, our institutions, and our financial system.

From the very beginning the States have chartered banks and now there are about 9,500 commercial and mutual savings banks operating under charters issued by 50 different States. Since 1863 Federal law also has provided for the chartering of national banks. Now there are about 4,800 national banks situated throughout the United States. Accordingly, both the States and the Federal government are engaged in the chartering and supervision of banks that have welded themselves into an efficient and effective system of banking in a period of 100 odd years.

In 1913, the Federal Reserve was established and it now functions as a central bank primarily concerned with monetary policy for the entire nation. All of the 4,800 national banks and about 1,500 State chartered banks are members of the Federal Reserve System. The Federal Deposit Insurance Corporation was established by Federal law in 1933 to maintain the confidence of depositors in the insured banks and thereby to buttress the nation's money supply. All national banks (4,800), all State chartered banks which are members of the Federal Reserve (1,500), and about 7,600 of the banks chartered by the 50 States but which are not Federal Reserve members, now are insured by the Corporation. In 1964 the Corporation provided deposit insurance for

13,820 of our 14,281 banks. This is our banking structure; it has evolved from our whole national experience which has served us well indeed. It seems to me that it is against this diversity in banking that we ought to weigh most carefully proposals to consolidate supervisory functions.

And here also, I think can be found the key to our basic difficulty. Banking is something more than one of the many industries in the United States. Banks are key elements in carrying out the nation's monetary and related economic policy decisions. The reason that all previous efforts to combine bank supervision into a tidy, centralized organization have not succeeded is simply because our system of government and our financial system are not tidy and monolithic.

Viewed in this context of historical development it seems evident that proposals for the reorganization of Federal agencies concerned with banking are loaded with far-reaching consequences. To make any real progress toward simplifying the banking agencies, I am convinced that first it will be necessary to simplify the financial system itself -- and it is not at all certain that such drastic changes are either possible or desirable. I have always believed, as a matter of fact, that diversity in banking is a good thing.

Again let me stress the fact that the bank supervisory structure is the way it is because the banking system is the way it is, and it is not easy for me to see how we can simplify one without effecting some rather fundamental changes in the other. In short, the issues involved here are much broader and much more basic than they appear to be. The issues go to the fundamental structure of our banking system.

Turning now to H.R. 107 and H.R. 6885, the appraisal of these proposals involves the balancing of the tidiness of a single agency with the workability and success of the present system. Also, it is necessary to weigh the efficiencies of an agency under the direction of a single administrator with the benefits from the collective judgment provided by a five-man board.

In addition, evaluation of these proposals raises the question of how the costs of Federal bank supervision should be distributed. One proposal (H.R. 6885) would substantially continue the cost burdens under existing law. The other (H.R. 107) would pay all such costs out of the FDIC Insurance Fund, which was created from assessments paid by banks. It would reimburse State banks, within prescribed limits, for their costs of State supervision and would relieve national banks of their cost of supervision by the Comptroller of the Currency. Accordingly, the provisions of H.R. 107 would increase costs to the Federal Deposit Insurance Corporation, and bring about a corresponding reduction in assessment refunds to national and State banks.

As I have already suggested, current proposals to overhaul the Federal agencies concerned with banks deserve study within the framework of banking history. Significant to me -- and I am confident to your Subcommittee -- is the fact that a number of proposals to reorganize these agencies have been advanced for general consideration in the course of the past thirty years, and none have been adopted by the Congress. Nor for that matter have any of the plans gained widespread support among bankers or the public generally. Among the more important endeavors of this nature are the following:

1. The Brookings Institution 1937 Study;
2. The "Hoover Commission" proposals in 1949;
3. The 1961 Commission on Money and Credit.

The Brookings Institution Study in 1937 recommended that the Office of the Comptroller of the Currency be abolished and that the Federal Deposit Insurance Corporation be authorized to examine all insured banks. When necessary the Federal Reserve could examine member banks, and banks applying for admission to the System.

The "Hoover Commission" studies in 1949 provide almost a classic illustration of the total absence of any thread of consensus. Altogether there were three different task force recommendations.

The "Hoover Commission" task force on Fiscal, Budgeting, and Accounting Activities suggested that the Comptroller of the Currency more properly belongs under the Federal Reserve than in the Treasury Department, but if that office were to be left in the Treasury then the proper place would be under an Assistant Secretary in charge of Banking and International Finance.

The "Hoover Commission" task force on Lending Agencies recommended that the Federal Deposit Insurance Corporation be transferred to the Federal Reserve System.

The "Hoover Commission" task force on Regulatory Commissions suggested that all bank supervisory authorities be combined, preferably in the Federal Reserve System. But this applied only to what the task force thought of as "supervisory activities", because it felt that the Federal Deposit Insurance Corporation could continue as a separate entity and that the function of liquidating closed banks could either be transferred or retained.

On the basis of these differing task force reports the "Hoover Commission" itself concluded that the Federal Deposit Insurance Corporation, along with the RFC and the Export-Import Bank, properly belonged under the jurisdiction of the Secretary of the Treasury. Strangely enough, none of the three task forces had made <u>this</u> recommendation.

The 1961 Commission on Money and Credit preferred to combine all bank supervision in the Federal Reserve, although five of its members qualified or dissented from these majority views.

The proposals and recommendations that I have outlined reflect only three important studies but there have, of course, been many more. Still, it is hard to imagine how the recommendations could have been more diverse -- even if that were the intent. The lack of consensus with respect to administrative structure proposed by the various responsible study groups is of significance to me, and I am sure it will not go unnoted in your deliberations over these complex matters.

Finally, the expansion of savings and loan associations and credit unions and the growing similarity of their activities and those of banks suggest the relevance of these developments in examining the one-agency concept. Logically, the consolidation of all Federal agencies concerned with financial institutions is consistent with the rationale of the legislative proposals now before this Subcommittee. The problems of the one-agency concept in this broader aspect were discussed by Erle Cocke, Sr., Chairman of the Federal Deposit Insurance Corporation in 1963, when he testified before your Subcommittee as follows (Hearings, May 9, 1963, pp. 222-223):

> "Just as it would be highly undesirable for the supervision of State banks to be brought under the control of the Federal agency responsible for the chartering and supervision of national banks, because the tendency on the part of such a Federally-created agency could open an avenue of favoritism for national banks over State banks and to federalize the State banks, this danger would be even greater if all banks and savings and loan associations were under the same Federal insuring agency. Then there would be not only the possible tendency to favor the Federal institution, the National bank or the Federal savings and loan association over the State-chartered institution, but the possibility of favoring either banks or savings and loan associations over the other."

More important than the 30-year debate over proposals to reorganize the form of the Federal banking agencies has been the story of developments in banking throughout the period as the nation recovered from the misfortunes of the Great Depression of the 1930's. By the time the United States entered World War II in December 1941, a very substantial amount of progress had been achieved in rehabilitating banking institutions and revitalizing the entire financial community. Generally the economy was coming to life, people were finding jobs and improving their standards of living. And the recovery came about without any changes in the administrative structure of the banking agencies.

During the 1940's the banking system measured up to the ever-mounting demands of wartime financing and then to the burdensome requirements of post-war reconstruction. Moreover, the system avoided the economic collapse which had attended the cessation of hostilities following every war since the nation was established in the 18th Century. Banking served the nation well in the 1940's, and it did so under the prevailing Federal and State arrangements for regulation.

The annals of economic progress in the 1950's compare very favorably with virtually any of the earlier periods in our history. Mostly these were prosperous times. And the 1960's have been good years -- thus far free from the minor recessions of business activity that marred the overall favorable record of the previous decade. Again I repeat, this record was established without changing the supervisory organization and functions of the Federal banking agencies -- though proposals were intermittently under consideration.

Taking the long view, the total resources of the banking system have grown from a figure of about $70 billion in 1938 to $400 billion in 1964. About 71 million of our civilian population have jobs today as compared with perhaps 44 million in 1938. The gross national product for this period has increased from $85 billion to $620 billion. Measured by any standard at any time in the history of economic development, this is truly an impressive picture.

Viewed realistically, the record does not bear out the contention that we have an urgent problem, the solution of which demands an overhauling of the Federal agencies concerned with banks. Quite the contrary, American banking is in a healthy condition. It has been able to rehabilitate itself as it emerged from the greatest depression in our history. It has been able to finance the greatest war in the history of man. It has played a vital part in the post-war growth of our economy and in reconstruction abroad. Moreover, it has functioned well in the current era of prosperity.

Recently a few bizarre happenings in the banks have been advanced as an argument for overhauling the Federal banking agencies. In 1964, seven insured banks failed and thus far in 1965, there have been five bank failures. It is a fact that bank failures averaged two or three a year in the previous decade. Yet these events in 1964 and 1965 cannot possibly support the contention of widespread deterioration in the banking system. As compared with a rate of failures averaging about 52 in each of the years 1934-39 inclusive, the current situation is basically deserving of little importance.

There are problems in the field of bank regulation. They have existed in the past. We have them today and in my opinion, they will continue to exist in the future. The problems change in dimension and character: it is necessary to learn to live with them, and it is an idler's dream to believe that they can be resolved once and for all. Putting first things first, all our history suggests that we prefer a diverse banking system. While men supervise such a system, divergent opinions will arise and some conflicts will occur. I do not take these occasional difficulties lightly, but over the years we have found ways to resolve them.

With respect to activities, each of the three Federal banking agencies has a designated sphere and each has been granted the authority which the Congress deemed necessary for the proper performance of its duties. Viewed in this setting, there is no duplication or overlapping among the primary functions of the three Federal banking agencies. As a matter of fact, the activities of each are contained within appropriate limits by means of self-disciplined coordination. Thus, the Federal banking agencies have avoided the duplications often alleged by critics.

Variations in agency rulings stemming from the different views of the existing three agencies are few, usually very technical and may be beneficial in experimentation. Such differences in rulings may be resolved by discussion, practical experience, and certainly by legislation as to fundamental issues. The experience of the agencies should help in developing the legislative solutions. Furthermore, the availability of information among the three agencies has rarely been a problem and is not now.

In concluding, I should like to stress that banking in the 1960's to a very considerable extent has changed for the better since the 1930's. Nevertheless, we should be alert to proposed improvements in the system. But given a banking system with as good a record as ours, it seems to be the better part of wisdom to proceed with utmost caution.

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