Statement of
Abbot L. Mills, Jr., Member
Board of Governors of the Federal Reserve System
before the
House Committee on Banking and Currency
on
H. R. 5874

May 8, 1963

I am Abbot L. Mills, Jr., a member of the Board of Governors of the Federal Reserve System, on which I have served since February 18, 1952; first, under appointment by President Truman to complete the unexpired term of office of the Honorable Marriner S. Eccles, and since February 21, 1958, under reappointment by President Eisenhower to a full term of office. Prior to service on the Board of Governors, I was engaged in commercial banking in Portland, Oregon, for thirty-two years. At the time of my appointment to the Board of Governors, I was First Vice President and a director of The United States National Bank of Portland. My experience in the field of banking has afforded me the opportunity to observe the workings of commercial bank supervision and regulation, both from the point of view of the supervised and of the supervisor. In the light of my experience, I have come to the conclusion that enactment of H. R. 5874 would not be in the public interest.

The purpose of this bill is to create a single Federal banking commission that would absorb many of the powers now vested in three existing agencies; namely, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency. The logic of the bill as regards unification and simplification of the activities of these three Federal bank supervisory and regulatory agencies has merit. In practice, however, it is

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open to serious criticism and objections. Objections to the proposed legislation center on fundamental principles which should be maintained inviolate.

Under the present scheme of Federal bank supervision and examination, the Board of Governors is primarily responsible for the supervision and examination of State member banks of the Federal Reserve System. The Federal Deposit Insurance Corporation is primarily responsible for the supervision and examination of all State-chartered insured banks with regard to their qualifications for insurance coverage; and the Comptroller of the Currency is primarily responsible for the supervision and examination of all national banks.

It is agreed universally that commercial banks are vested with a public interest. Therefore, the basic function of the three Federal bank supervisory agencies is to determine that the operations of the individual banks subject to their authority are such as will protect the public interest and, more particularly, their depositors through the medium of solvent loans and investments and sound banking practices.

Although the functions of the three Federal bank supervisory agencies are allocated to different areas of commercial banking, their mutual responsibilities demand, and have generally produced, a close coordination in the performance of their duties. The identification of the Federal Government with these agencies is the link in their coordinate responsibilities that brings about an informal and desirable unification of their operations. This scheme of Federal commercial bank supervision and regulation has evolved satisfactorily over the years

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with distinct advantages, the most important of which is that States' rights in the field of commercial banking have been shielded against the trend toward greater centralization of banking authority in the Federal Government. The principle of autonomous spheres of Federal and State commercial bank supervision must be safeguarded along lines implicit in the Federal Constitution, where separations of power and checks and balances were deliberately embedded by its framers so that no branch of the Federal Government might assume an overwhelming authority.

Enactment of H. R. 5874 would do violence to this principle because a single unified Federal commercial bank supervisory and regulatory agency would be empowered to consolidate the functions now vested in the three existing agencies. The record of centralizing power in the Federal Government has been adverse to the preservation of autonomous administrative authority at the lower levels of government. The possible danger inherent in the subject bill is that a single Federal commercial bank supervisory and regulatory agency, having nationwide authority, would sooner or later develop an incontestable power against which resistance at the State level would tend to become futile. In the light of history, this pattern of development would occur in spite of the fact that the proposed Federal Banking Commission would be administered and staffed by devoted and capable public servants. It is probable, however, that the very dedication of the agency to the performance of its duties would ultimately result in a gravitation toward arbitrary administrative policies and a well-intentioned bureaucratic

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paternalism harmful to the existing broad-gauged and loosely joined arrangements for commercial bank supervision and examination that have proven to be an entirely feasible mechanism for attaining the same objectives sought for in H. R. 5874. In my opinion, enactment of this bill into law would disrupt time-tested and generally satisfactory commercial bank supervisory and examination procedures without producing any marked compensating advantages.

Unquestionably, there have been differences of opinion and varying approaches to the discharge of their duties on the part of the three Federal commercial bank supervisory agencies that have occurred from time to time, but never of such magnitude as could not be surmounted by frank and openminded interchanges of opinions, ending in agreements reached through a consensus of judgments and without compromise or sacrifice of principle by any agency of its own concept of public duty. For that matter, recognition of the importance of commercial bank supervision and consequent devotion to the cause of fostering sound banking practices are factors that have inevitably forced and bound their policies into a loose but coherent uniformity.

The authority of the Board of Governors of the Federal Reserve System to examine national banks as well as State member banks, and the authority of the Federal Deposit Insurance Corporation to examine all insured banks, which includes State member banks of the Federal Reserve System, are available means to prevent any laxness or abuse of the examining power by any one of the three Federal bank supervisory agencies. Similarly, the responsibilities shared between

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Federal and State commercial bank supervisory authorities also serve to maintain a balance of power that is essential to the preservation of the dual banking system, and respect for the legislative positions of the various States as to branch banking and bank holding companies. A single, unified Federal bank supervisory agency could become a wedge that would open up divergent Federal and State concepts of commercial bank supervision to a degree that would throw the existing separations of power off balance and, in so doing, encourage Federal aggrandizement of this function.

In relating the purposes of H. R. 5874 to the Federal Reserve System, it must be borne in mind that the member banks are the vehicle through which monetary and credit policy is conducted. As that is the case, any legislative action taken to divorce member banks from supervision and examination by the Federal Reserve System would be inimical to the effective handling of monetary and credit policy because arm's-length mechanical contact with the member banks is not a substitute for the kind of personal and intimate banking relationships that are inherent in existing examination procedures. Under the proposed legislation, mere right of access to examination reports prepared by the so-called Federal Banking Commission and elimination of direct examination by the Federal Reserve Banks, would reduce the relationship between the member banks and the Federal Reserve System to a shadowy posture, stripped of the opportunities for personal official contacts and exchanges of opinions that play an important part in the formulation of monetary and credit policy by affording an insight into the status of

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individual banks and the impact of their operations on the entire commercial banking system. Divorce of the examination function from the Federal Reserve System would also tend to draw the interest of member bank officials away from their Federal Reserve Banks and toward the new Federal Banking Commission, with a further loss of the contributions that their present contacts make in the development of System policies. Furthermore, the attraction of service on the boards of directors of the Federal Reserve Banks would be weakened and advantages lost that have been gained over the years through the structural organization of the Federal Reserve System with its judicious blend of public and private personages mutually engaged in advancing the public interest.

It is possible that Federal banking laws could be improved in some areas; for example, as regards the divisions of authority contained in the Bank Merger Act of 1960. Similarly, many of the States of the Union might do well to scrutinize their respective banking laws and to decide whether their updating to permit some form of branch banking could be undertaken and still be consistent with the preservation of existing concepts of the place of independent banking in their banking structures.

If the Congress in its wisdom should decide that Federal supervision and regulation over commercial banking should be unified and centralized in a single agency, the Federal Reserve System suggests itself as the one most appropriate, in that its responsibilities in the field of monetary and credit policy already demand a close relationship

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with the nation's commercial banks. Moreover, concentration of supervisory and examination authority over Federally regulated commercial banks within the Federal Reserve System would serve to maintain the present fruitful combination of public and private relationships at the administrative level that is characteristic of its official organizational structure. However, such a concentration of responsibilities in the Federal Reserve System is not recommended because, as has been stated, the present three-agency scheme of decentralized Federal bank supervision and examination is workable and well adapted to the thesis that checks and balances and separation of power among these agencies of the Federal Government are decidedly in the public interest.

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