For release 11:00 a.m.
Pacific Standard Time
March 17, 1965

Remarks of J. L. Robertson

Member of the Board of Governors
of the
Federal Reserve System

before the

Independent Bankers Association
of the
Twelfth Federal Reserve District

San Francisco, California

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In addition to the pleasure of meeting with you, visiting San Francisco always gives me a lift, for I am numbered among the millions who regard it as one of the three or four most enchanting cities of the world. It epitomizes the rapid change that has taken place in the last century. The gold miners of a bygone day would smile in amazement if they could look down on the jewel-box gleam of San Francisco from the window of a jet plane, as I did last night. Even the changes that have taken place in my own lifetime are overwhelming. Many years ago I explored some of the seamy side of this city as an agent of the Federal Bureau of Investigation - at least it seemed seamy, indeed, to a boy fresh out of Broken Bow, Nebraska. I am sure that seamy side is now long gone. But the physical changes that have taken place in this fast-moving, evolving State have been accompanied by changing social and economic patterns, and even bankers have had to adjust to them.

Think of what has happened in banking in just the past few years. Bankers no longer passively accept the deposits of the public and allocate them to borrowers; they are no longer reluctant to introduce new instruments and new methods of operation; they are no longer disinclined to take advantage of the latitude afforded by regulatory agencies for their competitive endeavors. Even bank offices no longer look the same!

Today banks are vigorously merchandising savings accounts. They have persuaded corporations to buy negotiable time certificates of deposit. They engage in long-term capital borrowing. More and more banks have become participants in the Federal funds market and have even utilized repurchase agreements for borrowing purposes. All this they have done to capture business that for years has been going elsewhere in search of higher returns and to thus place themselves in a position to better serve the public.

As I have said elsewhere recently, there has been a new awakening of banking - a new aggressiveness that has changed the nature of the business. The walls of tradition have been collapsing. Although no one would suggest that change is always equivalent to progress, it is encouraging to know that the profession has been running fast to keep pace with the fast-moving events of the modern world. But we must always bear in mind that the faster the pace, the harder it is to steer a proper course and the more calamitous can be the consequences of a mistake.

In order for banking to meet its responsibilities in this period of change, we need to employ all the ingenuity, intelligence and common sense in our ranks. We must not be fearful of change or slow to meet the consequent problems, but we must be wise enough to direct the course of change so as to reap the benefits and avoid the pitfalls. This cannot be done if we content ourselves with traditional forms and formulas, methods and procedures, which may have been adequate in gold-rush times but are wholly inappropriate in 1965.

Let me emphasize one area in which we have permitted time and change to pass us by. Federal supervision of banking has not kept pace with the changes that have occurred recently. In fact, just when a well-coordinated, progressive reform of bank regulation is needed, our federal supervisory structure is enmeshed in a tangle of overlapping responsibilities, conflicting philosophies, and procedural cross-purposes that makes prompt and effective action impossible.

I am sure that you are all aware of the many areas in which the present tripartite system of federal bank supervision has produced disorder, if not chaos, and I need not detail them. It should suffice to exemplify all of them by a reference to only one. Last year - following the long-established pattern of fragmentation - Congress vested in three different federal agencies the task of applying to banks the public-disclosure provisions of the Securities Exchange Act of 1934. The purpose, of course, is to have banks with numerous stockholders make available to the investing public the facts they need in order to exercise intelligent investment judgment with respect to bank stocks. Unless investors have ready access to comparable information about stocks of national and state banks, they are not in a position to judge their relative investment merits.

I wish you would undertake the task, difficult though it would be, to compare the regulations applicable to state member banks with those applicable to national banks. Both, of course, were promulgated pursuant to the same federal law but by different federal supervisors. Such diverse treatment of financial institutions by different agencies of the federal government defeats the salutory purposes of our country's laws, and it cannot be tolerated much longer.

Plans for reforming and streamlining federal bank supervision have been advanced through the years, but for thirty years we have been rocking along, trying to make do with creaking, outdated supervisory machinery which threatens to break down completely at any moment. One plan is presently pending before a Congressional committee. I must confess to some affection for this plan, since it is of my own creation. It is based on the assumption that there is no more justification for three different federal bank supervisory agencies than there would be for more than one United States Supreme Court.

Although many of you are familiar with the outlines of my proposal to consolidate the federal supervisory agencies, I would like to review them briefly. The Federal Banking Commission would be a new agency, headed by a board of five commissioners appointed by the President, with the approval of the Senate, on a staggered-term basis. The Commission would assume all the bank and bank holding company supervisory powers presently vested in the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency. The last two would be completely absorbed into the new Commission, except that the currency functions of the Comptroller's Office would be transferred to the Treasury Department, where they belong operationally.

The Commission would acquire all the jurisdiction presently exercised by the existing federal agencies over charters, branches, mergers, holding companies, fiduciary and foreign banking activities, as well as disciplinary actions. The Commission would promulgate all of the supervisory regulations which are now within the province of the three existing agencies and it - and only it - would administer the federal banking laws. Those regulations which are more closely related to monetary policy than to bank supervision would remain in the Federal Reserve, where they belong.

Operations of the Commission would be carried on by two distinct units, under a Director of Insurance and a Director of Examinations. The first would handle the deposit insurance and related functions now performed by the Federal Deposit Insurance Corporation. The staff of the Director of Examinations would consist initially of the examiners currently employed by the three existing agencies. He would be obliged to see that every national bank was effectively examined, that the laws of the land were obeyed, and that the regulations of the Commission were complied with. He would be authorized to examine state member and nonmember insured banks when necessary in the judgment of the Commission, its Director of Insurance, or the Federal Reserve Board, all of whom would have free access to copies of his examination reports. In serving the Commission, he would submit to it a report and recommendation on every application relating to a charter, branch, merger, or holding company; he would be expected to represent the public interest at quasi-judicial proceedings of the Commission; he would report to it unsound banking practices and violations of law; and he would submit to it questions calling for interpretations of law.

In the interest of expeditious discharge of the agency's work, the plan contemplates delegation of authority. At the same time, a safeguard against arbitrary action is supplied by provisions for full Commission review in all appropriate cases.

The obvious merit of this plan, or any plan to achieve the same end, is that it would add consistency to decisions and efficiency to operations. It would eliminate overlapping jurisdictions in the interpretation, administration, and enforcement of federal banking laws and regulations. It would bring all bank supervisory and examination personnel of the federal government together, under unified control, so that they could combine their abilities and resources to keep abreast of, and contribute to, a growing and healthy dual banking system. Perhaps most important, it would help restore respect for law and for government in this area.

This plan for a Federal Banking Commission would not solve all questions of banking, its laws and regulations, and its supervision. The plan does not purport to do anything of the sort. It would not change the substantive laws and regulations under which the American banking system operates. It would not and could not solve complex problems of accommodation that are inherent in a dual banking system. What it would do would simply be to set in order the house of federal bank supervision, so that more fundamental problems could thereafter be dealt with in an effective and constructive way. It would go a long way towards bringing order out of the chaos which currently exists due to the splintering of federal bank supervision.

This proposal, if adopted, would not vest in the Federal Banking Commission any new powers over the banking industry, but only those that are now exercised by one or more of the three existing federal agencies.

It would strengthen - not weaken - the dual banking system.

It would facilitate coordination of efforts between state and federal bank supervision. (Again and again problems have failed of solution because federal authority was divided among three organizations.)

It would enable all commercial banks to compete more effectively, because the rules of the game - in so far as the federal government is concerned - would be uniform and could be equitably applied. It would eliminate, once and for all, the disparity in competitive opportunities resulting from conflicting interpretations of law and diverse rulings.

It would end a race of laxity among federal supervisory agencies, a race which seemingly stems from the desire to quiet the complaints or curry favor among certain segments of the banking industry.

Three years have gone by since I first proposed this reform. Why do I continue to urge its adoption? Simply because while people have looked the other way in the hope that the problem would disappear, it has grown worse. Few informed people today doubt the seriousness of the problem or the urgent need for a solution. Unfortunately, some still cherish the illusion that it can be corrected by changing faces or by knocking heads together. Such wishful thinking is wholly unrealistic; it overlooks the fact that the defect is in the structure.

Failure to keep pace with the times, to adopt reforms when needed, and to devise structural means of coping with developing problems can be disastrous - not only for the banking fraternity, but for the entire nation. For many years events have called for a reform of the federal bank supervisory structure, but never more urgently than now.