

REMARKS BY STEPHEN S. GARDNER

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BEFORE THE

TENNESSEE BANKERS ASSOCIATION

86TH ANNUAL CONVENTION

NASHVILLE, TENNESSEE

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GOOD MORNING:

I AM VERY HAPPY TO BE HERE FOR A PERSONAL REASON AND FOR A SOMEWHAT DOCTRINAIRE REASON. THIRTY FOUR YEARS AGO CONNIE AND I WERE MARRIED IN CHRIST CHURCH HERE IN NASHVILLE, WE MOVED INTO AN APARTMENT IN DONALDSON AND HELPED THE 12TH ARMORED DIVISION ON MANEUVERS RUIN SOME OF YOUR BEST FARMLAND AROUND MURFREESBORO. I HAVE NOT HAD A CHANCE TO APOLOGIZE UNTIL TODAY. THE SECOND REASON IS JUST MY CURIOUS INTEREST IN A GREAT PRESIDENT, ANDREW JACKSON. HISTORY GIVES HIM SOME HIGH MARKS WITH WHICH I MUST AGREE. ON THE OTHER HAND, WHEN HE REFUSED TO RENEW THE CHARTER OF THE SECOND BANK OF THE UNITED STATES IN PHILADELPHIA A LOT OF EASTERN ESTABLISHMENT TYPES THINK THAT HE WAS AWFULLY WRONG. AT LEAST THE GOOD CITIZENS OF PHILADELPHIA DID AT THE TIME. SERIOUSLY, YOUR PRESIDENT CORRECTLY PERCEIVED THAT THERE WAS AN IMPORTANT PROBLEM AND ADDRESSED IT IN HIS TYPICAL COLORFUL AND DYNAMIC WAY. UNFORTUNATELY, HIS IDEAS PREVAILED AND AS I SAID HE WAS WRONG ON THE ISSUE. IT IS EVEN POSSIBLE TO CONCLUDE, THROUGH A TORTUROUS ANALYSIS, THAT THESE EVENTS ARE AT LEAST IN PART THE GENESIS OF MANY OF THE PROBLEMS THAT PEOPLE SEE IN OUR BANKING SYSTEM

TODAY. I DON'T REALLY SUBSCRIBE TO THAT VIEW BUT IT IS FUN TO THINK THAT WHAT MIGHT HAVE HAPPENED IF WE HAD HAD FEDERAL CHARTERING OF BANKS AND AN INDEPENDENT MONETARY AUTHORITY LIKE THE FEDERAL RESERVE FROM 1830 ON. IF THAT HAD HAPPENED I SUSPECT BANKERS WOULD HAVE A BETTER REPUTATION.

ONE THING WE CAN SAY, HOWEVER, IS THAT AMERICA WAS AN ISSUES-ORIENTED SOCIETY THEN AND STILL IS IN 1976. AND BANKING ISSUES SEEM TO BE JUST AS SENSITIVE AND JUST AS CONTROVERSIAL AS THEY WERE IN JACKSON'S TIME. I THINK THAT'S WHY IN THE LAST THREE YEARS CONGRESS HAS MADE MANY SERIOUS EFFORTS TO ADDRESS BANKING ISSUES. I NEED NOT REPEAT THEM DEFINITELY FOR YOU BUT I WOULD LIKE TO ALLUDE TO THEM GENERALLY. STRUCTURAL REFORM IS PROBABLY NEEDED AND PROBABLY WILL COME, ALTHOUGH THE FIA OF 1975 AND THE FINANCIAL REFORM ACT OF 1976 ARE STILL, FOR THE TIME BEING, STALLED IN THE LEGISLATURE. I EXPRESSED THIS THOUGHT IN A DIFFERENT FORUM RECENTLY. THERE IS JUST TOO MUCH DISSATISFACTION WITH THE STATUS QUO TO NOT EXPECT IMPORTANT CHANGES IN THE RULES GOVERNING THE STRUCTURE AND POWERS OF DEPOSITORY INSTITUTIONS.

UNDERLYING THIS DISSATISFACTION, IT IS CLEAR, IS THE FACT THAT IN A GROWING AND CHANGING INDUSTRIAL SOCIETY IT IS THAT SOCIETY THAT IS THE REAL ARBITRATOR OF THE KIND OF FINANCIAL STRUCTURE AND SERVICES THAT THE NATION WILL HAVE. WHEN ONE CONSIDERS THE FINANCIAL SERVICES TYPICALLY AVAILABLE TO INDIVIDUALS AND BUSINESSES AT THE END OF WORLD WAR II AND COMPARES THEM WITH THE VARIETY AND TYPES OF

SERVICES AVAILABLE TODAY, I THINK MY ARGUMENT IS SECURE. THIS TREND HAS ONLY MODESTLY BEEN AIDED BY FEDERAL LEGISLATIVE CHANGE. IT HAS BEEN ENCOURAGED MORE DYNAMICALLY IN THE REGIONAL ACTIVITIES OF STATE LEGISLATURES AND STATE BANKING COMMISSIONS. IT IS STILL GOING ON. ONE GROUP OF STATES HAS PETITIONED THE FEDERAL REGULATORS REQUESTING RELIEF FROM THE INTEREST RATE DIFFERENTIAL FOR COMMERCIAL BANKS AND CITING THE UNIQUE COMPETITIVE POWERS OF THRIFTS WITHIN THEIR BORDERS. THE DIVERSITY OF STRUCTURE AND TYPE OF PERMISSIBLE ACTIVITIES ALLOWED FINANCIAL INSTITUTIONS IN OUR 50 STATES IS NOT EASY TO RATIONALIZE. WE OBVIOUSLY DO NOT HAVE A SINGLE FORM OF NATIONAL FINANCIAL STRUCTURE. I HOPE THESE TRENDS WILL CONTINUE AND THAT IS BASED ON MY BELIEF THAT ONLY THROUGH INNOVATION AND CHANGE WILL FINANCIAL INSTITUTIONS BE ABLE TO KEEP UP WITH SOCIETY'S DEMANDS. I THINK THE PARTISAN FIGHTS IN THE HALLS OF CONGRESS OVER STRUCTURAL REFORM OFTEN OVERLOOK THE KEY LESSON OF HISTORY. ONE CAN NEVER LEGISLATE THE STATUS QUO, AND AT THE PRESENT TIME, THERE IS GREAT DISSATISFACTION WITH THE STATUS QUO.

I HAVE BEEN TALKING BASICALLY ABOUT STRUCTURAL REFORM. I THINK THAT IS FIRST IN A PROPER ORDER OF PRIORITIES BECAUSE OF MY CONVICTION THAT REGULATORY AGENCY REFORM SHOULD BEGIN WITH A CONSENSUS VIEW, NOT ONLY OF WHAT KIND OF A SYSTEM OF FINANCIAL INSTITUTIONS WE SHOULD HAVE, BUT ALSO, AND MOST IMPORTANTLY, WHAT WE PERCEIVE TO BE THE WEAKNESSES

AND STRENGTHS OF THE PRESENT SYSTEM. OBVIOUSLY WE HAVE A UNIQUE FINANCIAL SYSTEM IN THE UNITED STATES. IT IS MY BELIEF THAT WE HAVE A VERY COMPETITIVE SYSTEM. IT IS ALSO MY BELIEF THAT CONCENTRATION HAS NOT PROCEEDED A PACE IN THE FINANCIAL INDUSTRY AS IT MAY HAVE IN OTHER CORPORATE FORMS. THE SHEER NUMBER OF OUR BANKS AND THRIFT INSTITUTIONS AND CREDIT UNIONS -- DON'T FORGET CREDIT UNIONS, THERE ARE 23,000 OF THEM -- AND THEY PROVIDE AN EFFECTIVE AND GROWING TYPE OF FINANCIAL INTERMEDIARY SERVICE TO THEIR MEMBERS, IS DIFFERENT THAN MOST OTHER INDUSTRIES. THE CAPABILITIES OF BANKS IN THE FIRST TIER, SAY THE 200 LARGEST REGIONAL BANKS, IT SEEMS TO ME, ARE MORE EQUAL TODAY THAN THEY WERE 30 YEARS AGO. THIS HAS COME NOT ONLY FROM ELECTRONICS AND OTHER MECHANICAL CHANGE BUT ALSO FROM THE GREAT INTER-REGIONAL MIGRATION OF POPULATION, MANUFACTURE, AND COMMERCE. THE HUNT COMMISSION REPORT COMMENTED ON THE UNIQUENESS OF AMERICA'S SYSTEM SIX YEARS AGO. THAT WAS NOT ENOUGH APPARENTLY. THUS IT IS STILL NECESSARY TO FIND A PUBLIC CONSENSUS UNDERSTANDING TO GUIDE THE LAWMAKERS. I SUGGEST WE CAN BEST DO THIS BY COMPARING OUR BANKING SYSTEM BOTH WITH THE PAST AND WITH THE SYSTEMS IN THE OTHER INDUSTRIALIZED DEMOCRACIES.

REGULATORY REFORM WHICH COINCIDES WITH STRUCTURAL REFORM AND IS BASED ON A RESPONSIBLE MAJORITY VIEW OF THE ECONOMIC AND SOCIAL EFFECTIVENESS OF OUR SYSTEM WILL PROBABLY BE A LOT BETTER REGULATORY REFORM THAN OTHERWISE MIGHT

EMERGE. THIS IS THE REASON I TESTIFIED YESTERDAY ON A SERIES OF REGULATORY REFORM MEASURES BEFORE THE SENATE THAT WOULD SUBJECT ALL FEDERAL GOVERNMENT REGULATORS TO A SCHEDULED FOUR- OR FIVE- YEAR REVIEW. THE STATED PURPOSE OF THE EFFORT IS TO REDUCE THE BURDEN OF REGULATION ON THE ECONOMY AND TO ASSURE THAT COMPETITIVENESS EXISTS IN OUR INDUSTRY AND TRADE AND THAT THE CONSUMER, WHO IS ALL OF US, IS PROTECTED FROM MONOPOLISTIC AND CARTEL-LIKE COMPETITION THAT MAINTAINS HIGHER PRICES AND COSTS THAN WOULD OTHERWISE OBTAIN. AS AN ISSUES-ORIENTED SOCIETY THAT TYPICALLY HAS ADDRESSED PROBLEMS INDIVIDUALLY AND APPLIED REGULATION NARROWLY TO CORRECT A PERCEIVED INEQUITY WE HAVE NOT ALWAYS FOCUSED ON THE INTER-RELATIONSHIP OF ECONOMIC PROBLEMS. "THERE OUGHT TO BE A LAW" IS AN AMERICAN IDIOM, EXPRESSING OUR NATIONAL PREOCCUPATION WITH THE IDEA THAT WE CAN CORRECT EVERY PROBLEM BY AN ORDINANCE. ACTUALLY WE CAN ALSO CREATE A COMPLEXITY OF FEDERAL AND STATE REGULATIONS SUCH THAT THE SHEER VOLUME OF CONTROLS MAY BE OR WILL BECOME UNMANAGEABLE. A FREE SOCIETY INCURS SOME RISKS AND PARTICULARLY A SOCIETY AS SENSITIVE AND AS SOCIALLY AWARE AS AMERICANS. WE MUST STRIVE TO REDUCE THOSE RISKS TO A MINIMUM. BUT THERE SEEMS TO BE A GROWING UNDERSTANDING AND AGREEMENT THAT MAYBE WE OUGHT TO LOOK AT ALL OF THE REGULATIONS THAT WE HAVE VISITED ON THE NATION AND THE UNINTENDED EFFECTS OF THESE REGULATIONS ON OTHER VALUABLE SOCIAL GOALS.

I AM IMPRESSED WITH THE BI-PARTISAN SPONSORSHIP OF THE PERCY-BYRD BILL AND ADMINISTRATION PROPOSAL AND THE COMPANION BILLS. THIS IS THE KIND OF EFFORT THAT BUILDS ALLIANCES IN THE BEGINNING BEHIND A CONCEPT THAT WILL BE TESTED SEVERELY WHEN SPECIFIC MEASURES ARE DEBATED. WITHOUT SUCH "GOING IN" JOINING OF HANDS THERE WOULD BE LITTLE OPPORTUNITY TO REPEL ORGANIZED ATTACKS ON SPECIFIC PLANS. AND I HOPE THIS IS NOT ONLY AGENCY REFORM BUT INTERAGENCY INTERACTION REFORM. THUS OSHA AND EPA REGULATIONS, FOR EXAMPLE, WILL BE REVIEWED NOT ONLY IN THE CONTEXT OF THEIR SPECIFIC GOALS AND ALSO IN THE CONTEXT OF HOW THEY EFFECT JOBS AND SMALL BUSINESS AND THE ECONOMY AND OUR OTHER SOCIAL GOALS.

YOU KNOW ALL ABOUT THE STRUCTURAL REFORM MEASURES WHICH I HAVE MENTIONED AND REGULATORY AGENCY REFORM PROPOSALS TO CHANGE THE ORGANIZATION OF FEDERAL REGULATORS OF FINANCIAL INSTITUTIONS. AND THE PROPOSALS THAT AFFECT ANOTHER OF OUR BASIC RESPONSIBILITIES, THE CONSUMER PROTECTION LEGISLATION IN THE FINANCIAL AREA THAT HAS RECENTLY BEEN EXPANDED. IF YOU COUPLE THIS THRUST FOR CHANGE WITH A PERCY-BYRD OR ADMINISTRATION BILL WHICH WILL SUBJECT EVERY FEDERAL REGULATOR AND HIS REGULATION TO A FOUR- OR FIVE- YEAR COMPREHENSIVE PROGRAM FOR INTENSIVE REVIEW AND ANALYSIS YOU HAVE A POWERFUL INITIATIVE FOR CHANGE. I DO NOT DOUBT THAT THERE WILL BE SOME DRAMATIC AND INTERESTING NEW DEVELOPMENTS FOR FINANCIAL INSTITUTIONS. AND I HOPE THAT AS THIS EFFORT PROCEEDS THE BANKING INSTITUTIONS AND THE THRIFT INSTITUTIONS WILL NOT CONTINUE TO MARCH UP TO THE HILL AND ADDRESS ONLY NARROW PARTISAN INTEREST.

I UNDERSTAND THAT THEY MUST ADDRESS THEIR OWN INTEREST, AND I EXPECT THEM TO, THAT IS PART OF THE SYSTEM, BUT I WOULD LIKE TO SEE THEM ALSO EXPAND THEIR VIEWS AND ADDRESS THE BROADER ISSUES. I KNOW THIS IS DIFFICULT. YOU HAVE A MEMBERSHIP THAT DOES NOT EXPECT AGREEMENTS ON SOMETHING THAT CANNOT BE PRECISELY AND DIRECTLY RELATED TO THE INTEREST OF THE TRADE ASSOCIATION CONCERNED. BUT I THINK THAT THAT IS A WEAKNESS. CONGRESS IS RESPONSIVE TO ITS CONSTITUENTS -- THEY NEED TO HEAR FROM EXPERT WITNESSES NOT ONLY ON ISSUES AS NARROW AS INTERSTATE TAXATION OF DEPOSITORIES, BUT ALSO ON THE SUBJECTS AS BROAD AS ALL REGULATORY REFORM.

THE ECONOMY MAY BE GROWING BETTER THAN EVEN THE MOST OPTIMISTIC ANALYSES IN THE SHORT RUN. THE LONGER RANGE PROBLEMS; UNEMPLOYMENT, PRODUCTIVITY, CAPITAL FORMATION, ENERGY CONVERSION, LARGE GOVERNMENT DEFICITS, AND INFLATION ARE STILL TO BE RESOLVED. I SUGGEST THAT A COMPREHENSIVE REGULATORY REFORM REVIEW CAN BE USEFUL TO THE RESOLUTION OF THESE ISSUES. IN THE MOST UTOPIAN VIEW WE CAN GET RID OF UNINTENDED AND DEBILITATING SIDE EFFECTS FROM PRESENT LAW AND REGULATION. WE MAY EVEN GET RID OF BAD LAW PERHAPS, ALTHOUGH I'M NOT TOO OPTIMISTIC ABOUT THAT. BUT SURELY THIS IS ALSO A PROCESS OF NATIONAL EDUCATION THAT WILL HELP IDENTIFY PRIORITIES AND BALANCE THEM IN FULL VIEW OF THE ELECTORATE. ALL OF THIS WILL BE A VERY POLITICALLY DIFFICULT PROGRAM BUT JUST AS IMPORTANT TO THE TENNESSEE BANKER'S ASSOCIATION AS REGULATION Q OR THE FTC DECISION ON THE LIABILITIES OF A HOLDER IN DUE COURSE.

I AM SURE YOU WILL HAVE A GOOD CONVENTION AND I AM DELIGHTED TO HAVE BEEN ABLE TO JOIN YOU. I THINK I WILL GO BY THE HERMITAGE THIS AFTERNOON ON MY WAY OUT OF TOWN. FROM WHAT ANDREW JACKSON SAID WHEN HE OPPOSED GRANTING CONTROL OF THE CURRENCY TO THE GENERAL GOVERNMENT, I THINK HE WOULD BE PLEASED THAT MONETARY POLICY IS IN THE HANDS OF THE FEDERAL RESERVE.

THANK YOU.