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Reform and Integration of World Financial Markets

Remarks at the Presidential Leadership Summit

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The question before the panel is whether the U.S. financial system is ready to face the global competition of the nineties?

My answer can be stated succinctly:

While American banks have the financial and market know-how to compete in the global arena, our existing legal framework presents a serious competitive handicap for them.

To make matters worse, unless we liberalize our own financial system, other countries - and in particular the European Community - may well threaten to restrict the activities of our financial institutions on their territory, thereby further handicapping our institutions.

Thus, my advice to the next President is simple and straightforward: Reform and liberalize the U.S. banking system, so that it will be able to compete at home and abroad against the foreign giants of finance.

Let me just mention two points that illustrate dramatically the need for immediate action:

For one, our domestic financial system - which naturally serves as the home base for our banks' global activities - is beset with many problems. One measure of these problems is that there may well be 200 bank failures this year. This is more banks than exist in Germany and Japan together!

Two, American banks are dropping so rapidly in the global league tables that it is questionable whether they will have the financial muscle to compete head-on against their increasingly powerful foreign competitors for much longer. American banks, which once were the largest and best capitalized institutions in the world, are dropping rapidly in relative - and some even in absolute - importance. Nowadays the top American bank ranks number 28 in deposits, and only 2 U.S. banks are in the top 50! American industrialists are questioning whether our banks can supply their future financial needs and do so competitively around the world.

What needs to be done? Let me emphasize two points:

One, the Glass-Steagall barrier separating commercial and investment banking must fall. We are operating in a marketplace where this artificial distinction introduced half a century ago has outlived its usefulness. The Glass-Steagall barrier has become less

meaningful at home and the Federal Reserve has already granted limited security powers to banks under the "principally engaged" clause of the Act. But unnecessary strictures remain and should be abolished through Congressional action. The Senate bill already passed will do just that. Similar action by the House is urgently needed.

Equally important, many of our foreign competitors do have broad ranging rights to provide universal banking services. In some instances, they are even able to do so right here in the United States because their activities were grandfathered. Thus, they possess a significant competitive advantage over our own banks right here in the U.S.A. It is time that we stop handicapping our own institutions and grant them the same powers.

Let me make it perfectly clear that we should not resolve this competitive injustice by taking existing rights away from foreign banks. Such an action would only drive these highly competitive activities abroad and would provide welcome arguments to those foreign bureaucrats and politicians who are calling for a reciprocal approach to international banking. Such a policy can only set us back and will not strengthen the banking system and its ability to serve its customers.

The second reform that needs to be implemented is interstate banking. This action is needed for domestic as well as international reasons.

Domestically, we need to build a strong and diversified banking system that can withstand regional or sectoral downturns. We do not need another problem of Texas-sized dimensions to argue the case for interstate banking powers.

Internationally, it will be difficult for us to argue that we should be granted unhampered access of the unified European banking market in 1992, when foreign banks right here are prevented from opening a branch in another state.

Instead of a patchwork quilt of state and regional rules and regulations, we need a national banking charter to serve as the basis of a strong American banking system.

Let's apply the interstate commerce clause of the Constitution, which has served us so well, also to banking!

These two reforms, encompassing functional and geographic deregulation will go a long way towards

strengthening the home base of our financial institutions and enable them to meet the global challenge.

But we should act swiftly, before our own institutions are left further behind and will have to play an increasingly difficult catch-up game.