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Remarks of J. L. Robertson

**Member of the Board of Governors
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Too Many Cooks

Recently the New York Times carried an editorial titled "Too Many Banking Cooks". Naturally, the editorial impressed me as being unusually good, even for the Times, because it reported favorably on my suggestion for streamlining federal bank supervision. I made the suggestion initially with some trepidation. It was not that I had any doubts about the merits of the case, but there are always those who think they have a vested interest in the status quo, and I had no way of knowing how many people would be deeply offended by a suggestion for a radical change. I have been surprised and gratified to find that the response to the proposal has been overwhelmingly favorable.

In supporting the proposal, the New York Times brought to its readers' attention a fact of banking life which is only too well known to all of us here. That fact is that delays, conflict and confusion are inescapable so long as jurisdiction over the nation's banking system is divided among so many cooks in Washington. Unfortunately, recent examples are easy to find of cases in which the federal bank supervisory agencies have contradicted and overruled each other, made recommendations to other agencies obviously inconsistent with decisions rendered by them in their own cases and, in these and other ways, confounded and exasperated members of the banking community.

Bankers may be consoled by the knowledge that in some instances they are no more surprised by agency actions and decisions than are the heads of other agencies. You may remember a few weeks ago when the head of one regulatory body was reported to have expressed "amazement" at a decision arrived at by a sister agency. That is a pretty good reason in itself for getting the whole family together - under one roof!

Although many of you are familiar with the outlines of my suggestion to accomplish this, I would like to review briefly the form of the proposal for a Federal Banking Commission, then comment on a few of the questions which people have raised regarding it, and finally (I mention this now so you will be prepared) try to answer any questions that

you may have. After that, I am leaving for South America! You have read in the newspapers recently about this or that person fleeing from the United States, under pressure, to safety in South America, so let me quickly assure you that this trip was planned long before I received the invitation to appear here.

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 FBC - if I may use that shorthand for the proposed Federal Banking 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 Federal Reserve, where they belong operationally.

The FBC 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 regulations which are now within the province of the three existing agencies, and it would also interpret and administer the federal banking laws.

There would be a Director of Insurance and a Director of Examinations, responsible to the new Commission, and appointed by it. Both Directors would be career appointees with indefinite terms of office.

The Director of Insurance would handle the deposit insurance and related functions now performed by the FDIC.

The Director of Examinations would be in charge of all examiners. His staff would consist initially of individuals currently employed by the three existing federal 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 FBC, its Insurance Director, 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 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 refer to it questions calling for interpretation of law.

Exactly four months have passed since I first voiced this proposal. During the interim many people have enthusiastically discussed with me the merits of the plan. They have agreed 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 in a single place, where they would combine their abilities and resources to keep abreast of and contribute to a growing and healthy dual banking system. Banks, for their part, would be able to concentrate their fire, or their requests, as the case might be, on that one spot. In addition, the FBC would facilitate the gathering and processing of banking statistics. Its existence would free the Federal Reserve to devote all of its time to the System's primary responsibility - monetary policy - which, I can assure you, is a full time job.

As a matter of mechanics, in case there is need for clarification, it is contemplated that all members of the staff of the FDIC and of the Comptroller of the Currency, as well as those employees of the Federal Reserve System who are engaged in bank supervisory work, would be automatically transferred to the new agency. From among them the Commission would select its top staff and proceed to weld together the three units into an efficient and effective

force, thus eliminating duplication of work, cross-travel, and all the excessive costs that result therefrom. This would permit uniformity of federal policy in bank supervisory work. It would eliminate, for example, the necessity for three different federal agencies to consider the competitive aspects of each bank merger, although only one makes the final decision. It would eliminate a situation in which one agency condones the absorption of exchange charges and another condemns it. It would provide the efficiency and effectiveness of one-man administration in both the examining and insurance functions, and yet assure to State Bank Supervisors and members of the regulated industry the right of an appeal to the full Commission in the case of determinations they deemed unwise, unfair, or capricious. It would assure that the important functions of formulating policy, promulgating regulations, and rendering decisions on merger, holding company, charter, and branch applications, would be exercised by a group of specialists sitting in a quasi-judicial capacity.

These specialists would be the members of the new Commission. They should be men who know the business of banking, men of integrity, impartiality, and competence, who will create for the Commission a prestige comparable to that of the Supreme Court. They will constitute a body which is above politics - not bipartisan, but nonpartisan - even as the Federal Reserve Board and the federal courts are today. The Commissioners should be men who have the courage of their convictions; they should be strong, bold, and unvacillating.

At the time I first spoke on this proposal, I suggested that the plan be made the subject of debate, in the hope that it could be perfected or be supplanted by a better plan. Thus far, no one has come forth to accept the challenge, and I am left with no alternative than to debate with myself. This is very unsatisfactory, because I may not fully understand or state the arguments of those who object to the plan.

The few objections that have been brought to my attention are not the kind into which one can get his teeth. For

example, there are those who prefer the "divide and conquer" or, as they call it, the "country store" approach to bank supervision; those who have indicated preference for a system that has worked well enough in the past - the "horse and buggy" approach; those who say they see in it a threat to the dual banking system through federalization or an "obvious threat of federal controls" over all banks; and those who refer to the proposal as "novel and interesting but impractical".

There is no way to deal with emotional arguments for preserving the old because it is old, except to appeal to reason. It is my hope that the plan for a single federal bank supervisory agency will be adopted or rejected on its merits. But I might comment that when I was a boy on a ranch near Broken Bow, Nebraska, we went to town twice each summer - once to see the Custer County Fair, and another time to attend the Chautauqua. On those occasions we would hitch up to the spring-wagon the two fastest, longest-winded animals on the ranch - a spicy mule named Balaam and a saddle horse named John. After the chores were completed early in the morning, all the ranch hands would pile into the spring-wagon and head for Broken Bow at high speed, stay in town long enough to visit the Fair, or the Chautauqua, and go back to the ranch in time to do the evening chores. The trip took more than two hours over twisting, hilly roads that were so rough one had to hold tight to the wagon to keep from being bounced out. Today, on the new highway, the smooth trip to town takes fifteen minutes.

I may feel nostalgia when I remember those times and the old-fashioned ways, but there is no use bemoaning their passing. Similarly, today's federal bank supervisory set-up is still in the horse-and-buggy stage. Perhaps we are nostalgic toward it because that was the pattern that existed when we were young, but it is outmoded - as outmoded as Balaam, the mule. Why preserve it? Some may cling for a while to the "country store" approach if they wish. The most convincing arguments may not shake them - but time will; even the most obstinate among us cannot hold up progress forever.

I have heard it said that although the proposed unification of agencies has great merit and is admittedly superior to the current arrangement, why disturb a system that is still working pretty well? Let sleeping dogs lie! The attitude revealed by such an argument can raise one's hackles, but the argument must be answered rationally, not emotionally. The simple, honest answer is that a large and vital area of our national economic well-being is affected. It always takes effort, sometimes great effort, to overcome the inertia of an established method. But human experience proves that the effort is fully repaid by the immediate and future gains. The moment a society stops trying to improve itself, it begins to wither. If man does not work to make his established institutions better, they become worse; they never remain the same; the direction is either forward or backward.

Certainly I do not see the FBC as representing any kind of threat to the dual banking system. That worry is very farfetched. The FBC would introduce no additional tier of federal authority. It would simply amalgamate in one agency the powers which the federal government now exercises over banking through multiple agencies - functions which have been scattered among three different agencies, almost by unplanned accident, as our nation developed and adapted.

Some state supervisors who have considered this proposal have wondered whether a new Federal Banking Commission such as I have proposed would be apt to display favoritism toward the national banking system to the detriment of the state banking systems. As a matter of fact, the state banking systems would then be in a better position in this respect than they are today, because a federal agency which has responsibilities with regard to both systems of banks would be less likely to show favoritism than one which exercises supervisory functions over a single system and may seek to advance the interests of that system alone. By way of homely analogy, everyone knows that a father is so careful not to favor one son over another that he will bend over backward to make sure that each receives fair and equal treatment. If one were to seek an

example in the realm of government, he need only look at the Federal Reserve System, which possesses supervisory powers over both state and national banks. No informed person has ever challenged the impartiality of the System. It has not shown favoritism toward one group of banks over another.

The FBC would make every attempt to remove itself from state bank supervision as expeditiously as possible. During an initial period of three years, the FBC would make its advice and assistance available to the states as they worked to perfect their own supervisory staffs and procedures. After that, the FBC would examine state banks only upon state request, or for occasional spot checks, or where state examinations were inadequate for federal supervisory purposes. Thus, under the plan I have proposed, there could be a gradual move toward much more complete supervision of state banks by state authorities, depending upon whether they develop staffs that can perform their functions satisfactorily without the aid of a federal agency. One might think - and certainly hope - that the adoption of this proposal would spur more of the states to provide the amount of funds necessary for adequate state bank supervision and for adequate compensation of examiners.

In this connection, I was told the other day by a friend that a state banker said his bank paid no attention to the examinations by state authorities, but relied exclusively on Federal Reserve examinations. This should never be the case. Each state must see to it that it has a competent bank supervisory staff which is sufficiently manned and financed to do the job. Under my plan, each state would continue to have federal assistance with the expectation that in three years it could develop an adequate staff and be able to establish to the satisfaction of the Commission that it could carry on the supervision of its state banks in a manner that will satisfy also the needs of federal insurance and reserve programs and the requirements of federal law.

Although the proposal for an agency such as the FBC is untried, the idea is not novel. For more than forty years

various groups and individuals have proposed similar reorganizations. Still the fundamental concept remains modern and up-to-date. It is designed to meet today's and tomorrow's increasingly rapid pace and complex nature of business and economic activity, which place expanding demands and stresses on the dual banking system as we know it, threatening its breakdown under pressure. When any system vital to the well-being of our people begins to suffer from harmful deficiencies, something drastic is likely to happen - sooner or later. We have the opportunity now to shore up or rebuild the system before its weaknesses become critical. It would be foolhardy to fail to take advantage of the opportunity.

Assuming, however, as some seem to have done, that the proposal for a single federal bank supervisory agency is novel and interesting, is it, as they assert, impractical? Just the opposite is true! The plan would reduce costs and increase efficiency. Bankers would be in a position to know precisely what the ground rules are, in order to better plan and regulate their own activities. The banking industry is entitled to know the "rules of the game". Once known, bankers will abide by them; but they must be known, not buried in the midst of numerous press releases of multiple agencies, not confused by conflicting positions or decisions, and not be the product of a race of laxity between "competing" federal agencies. They must be devoid of political overtones and of interpretations designed to favor one group of banks over another. Under my proposal bankers will be able to look to one federal supervisory institution instead of three. Responsibility and authority at the national level will be centered in one brightly illuminated goldfish bowl. No longer will it be appropriate for editorials to point out that there are too many cooks in federal bank supervision or to look with distaste at the kind of broth they have brewed.

As I indicated earlier, I have been heartened by editorials in leading newspapers and periodicals and by numerous letters from financial, economic, and governmental leaders, expressing approval of the proposal that federal activities in this field be consolidated in one agency; so

heartened that sometimes I think I can hear the bells tolling the demise of multiple federal bank supervision. But bells have tolled before for events that have never come to pass. Much depends on the soundness of the plan, and much depends on the attitude of your organization towards it. Consequently, I hope each of you will study it, take steps to perfect it, and then espouse it in whatever ways you deem appropriate.

The need for coordination, efficiency, and uniformity of federal bank supervisory policy is such that we must not follow those whose views are based on the "divide and conquer" theory. The need is great and the time is ripe. Continued bickering and inconsistent supervisory actions among federal authorities can soon lead to a situation which will call for legislation of a much more drastic type than that which I am advocating, and this might really jeopardize the continuance of a dual banking system.

Now, since I am here today not so much to sell or defend an idea as to improve it, I will welcome your questions as well as any comments or suggestions.