Mr. Chairman and Members of the Committee:

I hope no one is misled by the 97 pages of H. R. 5874 into the erroneous notion that this is a complicated bill. By far the greater part comprises necessary transitional provisions and technical changes such as the deletion of complex statutes that this bill would render obsolete, changes in nomenclature, and so on. The significant provisions take up less than 10 pages; in fact, if one reads the statement of policy and pages 4 through 11, he knows what the bill is about.

What is H. R. 5874 about? What would it do? Actually, Mr. Chairman, it is about a situation so obviously and admittedly unsatisfactory, and would provide a solution so obviously sound, reasonable, and effective, that an intelligent visitor from another planet might be puzzled at its being a matter of controversy, to be argued about at length before busy committees of the Congress.
This bill would put an end to the existing hodgepodge in federal supervision of the banking industry. It would do this in a very simple and practical way - by unifying in a single agency, concerned exclusively with the supervision of banking, functions that are now, by unfortunate historical accident, scattered among three authorities: the Bureau of the Comptroller of the Currency, the Federal Reserve System, and the Federal Deposit Insurance Corporation.

I have been involved in federal supervision of banking for over thirty years - ever since the beginning, in 1933 of this Triple Entente (which, regrettably, has not always been an Entente Cordiale). My memory is so crowded with occurrences that demonstrated the defects of the present arrangement that I hardly know where to begin.

Imagine, Mr. Chairman, a city served by three television stations - all regulated by the federal government, as is actually the case. But in my supposititious situation, absurd as it may seem, each station is supervised by a different agency: one by the Federal Communications Commission, one by a Federal Television Board, and one by a Federal TV Authority. One of these agencies issues its
own regulations and interprets the laws as they apply to the stations within its jurisdiction. Consequently, one station is permitted to broadcast commercials at twice normal volume; the second is required to maintain uniform volume at all times; the third must reduce volume by 50 per cent during commercials. One is permitted to use 50,000 watts, even though this interferes with reception of its competitors down the block. One is required to provide "equal time" for political candidates, while its rivals may grant or refuse time as they see fit.

Perhaps air transport would provide a better illustration. Imagine two competing lines on the Philadelphia-Chicago route. One is permitted to provide coach service for $30, including a steak dinner; the other, with similar equipment, is required to charge $32 and is restricted to an American cheese sandwich.

Of course, these imaginary situations are ludicrous. Any such situation would be unthinkable and intolerable, one would say; and yet, Mr. Chairman, this is essentially the way federal supervision of banking is set up today. The illustrations I could provide from banking are more involved and less dramatic - that is the nature of banking - but that is the only difference.
Suppose, in the imaginary instances I have mentioned, a bill was introduced to correct the obvious difficulties by combining the three agencies into one. And suppose further that the bill was opposed on the ground that perhaps the three might be able to work out an endurable modus vivendi by constant consultation, solicitation of each other's views, and study of each other's rules and decisions. I sincerely hope that the Congressional Committee would ask: "Why should we continue to muddle along with such an awkward, inefficient, expensive arrangement, rather than adopt a simple and obvious solution that is better in every respect?"

I shall not weary the Committee with a long catalogue of the built-in deficiencies of the present structure of federal bank supervision. A handful of instances should suffice. Some of us can recall, for example, the prolonged controversy over absorption of exchange charges. Bank "A" may solicit an important account by offering to absorb all such charges for a prospective customer, but its competitor across the street, Bank "B", also subject to federal supervision - but by a different supervisor! - is forbidden to do so. This particular struggle "culminated" twenty years ago in extensive hearings before this Committee and its Senate
counterpart, but no solution was developed. I should guess that banks and supervisors have seriously tried a half dozen suggested compromises, but the problem is as troublesome today as it was twenty years ago. And this is a situation that would not exist if there were one federal bank supervisory authority rather than three.

There is hardly a sector of bank supervision of which a similar sad tale could not be told. In the same town, and subject to the same federal laws and regulations - but different supervisors - one bank may acquire stock of corporations (even the controlling stock of another bank), but its competitor may not; one is denied the privilege of establishing a drive-in branch, but the other may do so on the ground that the facility is not a branch at all; one must apprise the public of its condition four times a year, but the other (although subject to the same law regarding the number of reports) only twice a year. Bank "A" regretfully but truthfully informs a valued customer, such as a hospitalization cooperative, that it is forbidden by its federal supervisor to extend to it the privileges of an interest-bearing savings account. Bank "A" thereupon loses the account to Bank "B", whose supervisor, interpreting the same law and regulation, rules to the contrary.
In 1960 the Congress passed the Bank Merger Act, which "in the interests of uniform standards" required the three banking agencies to "report" to each other on every proposed merger. Ever since, streams of documents have been flowing between us. Every single merger must be studied by all three agencies. In the past three years the members and staffs of the three agencies have spent on this task innumerable hours that were urgently needed for something more constructive than this duplication of effort. The worst of it is that the duplication has been fruitless; nothing resembling "uniform standards" has evolved.

Particular instances like these are easy to pinpoint. However, the most detrimental results of our divided responsibility are not the direct conflicts and inconsistencies, but rather the delay it causes in the performance of our functions and - most fundamental of all - the seemingly insurmountable obstacles to adequate and correct performance. No federal bank supervisory agency has readily available all the basic information that is needed for sound decisions as to bank charters, branch permits, mergers, and all the rest. Much of the essential information must be obtained second-hand from other agencies.
It may reasonably be asked whether the federal bank supervisory structure can be as indefensible, its operations as clumsy and inequitable, and the solution to all this as simple and obvious, as I maintain. We have had three bank supervisory authorities for almost thirty years. If this arrangement is so irrational and productive of so much friction, waste, and unfairness, why has it been so long endured? The answers to these questions not only may be illuminating historically, but may explain and dissipate some of the opposition to H. R. 5874.

Federal bank supervision began just a century ago, with the establishment of the National Banking System. The Federal Reserve Act of 1913 added a second supervisory body, and twenty years later the Federal Deposit Insurance Act created the third. Both of these additions stemmed from economic crises - the Federal Reserve System from the panic of 1907 and the Federal Deposit Insurance Corporation from the great depression. The need for each was urgent and its benefits patent; for this reason "details" of structure and administration were matters of little concern, and perhaps that was warranted. However, after these fundamental improvements were achieved, and the structural deficiencies
revealed themselves, no correction was made, notwithstanding the introduction in Congress of several specific bills and some strong calls for action by the Brookings Institution, the Hoover Commission, the C.E.D.'s Commission on Money and Credit, and even - at one stage - the Board of Governors of the Federal Reserve System.

How can this inaction be accounted for, if a satisfactory solution is so readily available? I should like to answer in the words of the Declaration of Independence:
"... all experience hath shown, that mankind are more disposed to suffer, while evils are sufferable, than to right themselves by abolishing the forms to which they are accustomed." And I might add, as did Thomas Jefferson, "To prove this, let Facts be submitted to a candid world."

The American banking system - and its supervisors - has "suffered" a long time. It is painful to recall how much effort - unproductive effort - has gone into "consultation, coordination, and cooperation" (to use the standard euphemisms) necessitated by the diffusion of supervisory responsibility. If these efforts had succeeded, we probably would try to make do with the present arrangement, despite its defects, for another decade or two. But as the
President's Committee on Financial Institutions pointed out in last month's Report, our "cooperation and coordination" have not been successful; the Report notes that exchange of full information and joint efforts recently have broken down. It is no accident that numerous officials, committees, and commissions, in and out of government, have suggested all manner of expedients during the past two years.

May I repeat, Mr. Chairman: The bill before your Committee is designed to do, and would do, just one thing - it would unify federal supervision of banking. But simply by doing this, it would accomplish much more. It would end much friction and conflict among banks and bank supervisors. It would eliminate wasteful duplication and overlapping among agencies. It would abolish the existing "triple standard" and enable the banking industry to operate under a single, consistent set of rules, as far as federal supervision is concerned. It would do away with a dangerous tendency toward a "race of laxity" in bank supervision that will lead, at an accelerating rate, to deterioration of the standards of sound banking which it is a function of bank supervision to maintain. And it would enable the Federal Reserve Board, of which I am a member, to
devote its time and attention exclusively to its most vital -
and increasingly difficult - function: the formulation and
execution of monetary policy for the leading industrial na-
tion of the world.

I do not wish to give the impression that, by escap­ing from the chamber of horrors in which we find ourselves,
we shall automatically emerge into a Brave New World when
the pending bill is enacted. If one were to say that, of
course it would be a misleading oversimplification. H. R.
5874 would not solve all questions of banking, its laws and
regulations and its supervision. The bill does not purport
to do anything of the sort. It would not change the sub-
stantive laws and regulations under which the American bank-
ing system operates. It would not - it could not - solve
the complex problems of accommodation that are inherent in
a dual banking system. It would simply 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.

In view of the foregoing, how are we to account for
the absence of universal enthusiasm for this bill? For
lukewarm acceptance in some quarters, and downright oppo-
sition in others?
In my opinion, it is due principally to lack of complete understanding of the bill and its effects. Everyone has more jobs to do than he can get done - immediate jobs, more exigent than reading and analyzing a document that looks as formidable as H. R. 5874. And unless a proposal is comprehended, there is an understandable fear of the unknown, and an inclination to support the status quo. But since last week, when the excellent analysis prepared by the Staff of this Committee became available, there is no longer any excuse for such lack of understanding and fear of the unknown.

I hope it is realistic, rather than unduly cynical, to say also that it is easier, especially for one who has not read this bill, to take a negative stand. When one supports a measure, he may be asked to explain its provisions, but that burden is seldom imposed on the "disinterested observer" or the opponent. This is particularly true, it seems, if opposition is based on one of the accepted clichés. I should like to mention a few of these, and to comment on them: (1) "The bill would create a Federal super agency in the banking field." (2) "H. R. 5874 would jeopardize the dual banking system." (3) "This proposal would result in a
dangerous concentration of power over banking', or swing-
ing around 180 degrees, (4) "A unified federal agency would
soon become the spokesman for the banking industry rather
than its supervisor." And finally, (5) "If there is one
thing we don't need it's another federal commission!"

As applied to H. R. 5874, all of these clichés are
superficial and erroneous. Some, I regret to say, seem to
be red herrings drawn across the trail by persons who are
opposed to improvement in federal bank supervision for rea-
sons that are not in the public interest. Neither this
problem nor any other will be solved if we defer to well-
worn catch phrases. Charges of the kind I have described
must be examined in the light of the facts, the realities,
and when so examined they prove to be without substance.

The pending bill simply does not "create a federal
super agency". The proposed Commission would have no new
powers over the banking industry, but only those that are
now exercised by one or more of the three agencies. This
is not quite true; it would have one new and important
power - the power to administer the federal banking laws
in a consistent, equitable, and efficient manner, to estab-
lish uniform ground rules that would aid, rather than impede
the progress of the entire banking industry and equalize competitive opportunities within it.

What of the charge that H. R. 5874 would jeopardize the dual banking system? Again, it is difficult to say more than "It simply isn't so." If the charge was made that, by holding these hearings, this Committee was threatening freedom of the press or of religion, you would find it difficult to formulate a "refutation", other than by asking, "How on earth are we doing that?" Equally groundless is the charge that the pending bill would jeopardize the dual banking system; it sounds less absurd only because we have grown accustomed to hearing that charge leveled at many proposals. On the contrary, enactment of this bill would tend to strengthen the dual banking system. State bank supervisors and their Association would find it possible, for the first time, to solve problems common to state and national banks, member banks of the Federal Reserve System and nonmembers, by working with a single federal agency. Again and again such problems have failed of solution because federal authority was divided among three organizations, each with its own views.
Furthermore, H. R. 5874 provides that the costs of supervision of all insured banks - state and national - shall be met out of deposit insurance assessments. In a number of states, because of insufficient funds, bank supervisors have been unable to maintain a staff adequate to carry on the work of their departments, and have had to rely on assistance from federal examiners. The arrangement provided by the pending bill, by relieving this situation, would enable those states to raise the quality of their own supervision to a satisfactory level. As this is accomplished, it is contemplated, federal examination of banks in those states would become less necessary and gradually would be terminated. If this plan succeeds, within a relatively few years we would have a dual banking system in which state banks ordinarily would be examined only by the state authorities, and national banks by the federal.

As I said before, it is not easy to grapple with the statements of those who oppose the pending bill. For example, how does one deal with the charge that the proposed Commission would have too much power - or too little power? Is it unreasonable to place the burden on those who make these claims - to ask them to show, by chapter and verse,
by facts and reasoning rather than unsupported conclusions, how the plan embodied in this bill would produce any of the evils they describe?

The last of the clichés I mentioned is that rarity - a fallacious argument that can be refuted by arithmetic. The objection that the bill would create "another" federal agency simply has the facts backward; the bill actually would result in one less.

No doubt the members of this Committee have read the recent Report of the President's Committee on Financial Institutions. I read the chapter on "Supervision and Examination" with particular interest. That chapter took up some of the adverse arguments I have mentioned, and - it seemed to me - demonstrated their unsoundness in polite but pointed words. Regrettably, however, but perhaps understandably in view of its composition, the President's Committee, when it reached the time for conclusion, backed most of the way down the hill it had so successfully mounted. Although recognizing the defects of the present federal supervisory arrangement and that these defects could be corrected along the lines of the bill now before you, the Report temporized by recommending that "Existing agencies should strive to
achieve greater cooperation and coordination" and that only after the present unsatisfactory system is tried for a while longer should "consideration . . . be given" to "consolidation of bank supervision". I feel sure that this Committee and the Congress are in a position to act more decisively.

If we were now setting up, for the first time, a system of federal bank supervision, no one would be so foolish, or dare to be so disingenuous, as to suggest dividing the authority among multiple agencies. By historical accident, however, we find ourselves saddled with such a system, with defects that no witness before your Committee can successfully deny. Before you is a measure which can end the present confusion, duplication, inconsistencies, inequities, and waste by creating a unified system of federal bank supervision that could not fail to be more efficient, economical, fair, and constructive.

The objections that have been advanced are found to be lacking in substance, when they are scrutinized and analyzed realistically. Quite apart from opposition due to plain lack of understanding of the proposal, there may be some who oppose it for reasons other than concern for the
public welfare - for example, fear of loss of jobs, power or prestige, or of opportunities to play off one supervisor against another by shifting (or threatening to shift) from the jurisdiction of one federal agency to another that may be more lenient. Aside from these, we find that most of the alternatives that have been offered, in lieu of action along the lines embodied in this bill, are to struggle along with the present set-up, admittedly unsatisfactory, for a while longer, or to adopt some half-way measure that is only another patch, or a palliative. But there is no valid reason for delaying the needed change; the sooner the structure of bank supervision is strengthened, the sooner will the benefits be realized. This Committee and the Congress have an immediate opportunity, by enacting the pending bill, to make a fundamental improvement - long overdue - in the supervision of the American banking system and, thereby, to aid in promoting our country's economic welfare.

I feel compelled to make one further comment. Of course, unification of the supervisory functions is more important than the administrative locus of the combined functions. Instead of a separate Commission such as is provided in this bill, the consolidated functions could be
vested, for example, in the Federal Reserve System, as was suggested by the Commission on Money and Credit of the Committee for Economic Development. In my judgment, however, this would be a decidedly inferior solution.

In the first place, the Board of Governors of the Federal Reserve System is fully burdened with functions relating to domestic and international monetary matters. It hardly has enough time, over and above that which is needed to deal effectively with this principal responsibility, to carry on supervisory activities with respect to the 1600 state member banks alone. How it would find time to discharge, effectively, supervisory functions covering over 13,000 insured banks is beyond my imagination.

Some witnesses may tell you that bank supervision is a necessary adjunct to the Federal Reserve's responsibilities in the field of money and credit. In response, I would say that bank supervision is too important in the public interest to be treated as an adjunct to any other function. But, even more important, the basic contention is fallacious. The Federal Reserve could function as a central bank at least equally well - in my judgment, better - if it were to devote its full time to the formulation and
execution of monetary policy and were not engaged in bank supervision at all. It could get better statistical data concerning banks from the unified Federal Banking Commission than it can now get from the existing supervisory agencies, because the reporting system would be uniform for all insured banks and the long and wearisome debates on whether to call for this or that item of information would be ended. If it needed to supplement that material, it would have power to make a direct call upon member banks. And, of course, it would be obliged, as it is now, to get pertinent information concerning their operations from all banks that borrow from the Federal Reserve.

In my judgment, the views of those men who engage in the formulation of monetary policy are not affected in the slightest by the fact that the man who examines a given bank happens to be on the pay roll of the Federal Reserve rather than some other agency.

Finally, the argument may be advanced that if unification takes place, the agency might become the captive of the industry. All I can say in rebuttal is that I have too much faith in responsible government officials to think that risk should be given much weight; if the argument were
sound, it would follow that the Interstate Commerce Commission, the Securities and Exchange Commission, the Federal Communications Commission, and so on, should each be split into two or three agencies. But if the risk does exist, its eventuation would be far more calamitous to the general welfare of the nation if the captive agency also was responsible for the formulation of monetary policy, one of the most vital functions in a free enterprise economy such as ours. Hence, in my view, the plan of unification set forth in H. R. 5874 is markedly preferable.

I wish to assure the Committee that as protagonist of the idea upon which this bill is based, I would welcome a return engagement, if you should so desire, for the purpose of responding to any arguments which may be advanced in opposition or to answer, as well as I can, questions that may occur later to members of the Committee.