A CALL FOR REGULATORY REFORM IN THE FINANCIAL SERVICES INDUSTRY

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President Clinton was elected to rebuild the American economy so it can grow, create jobs, and improve the standard of living of our citizens. To do that, it takes a well-functioning, efficient economy. It must be nourished by a steady flow of capital and credit—to build businesses and create jobs.

One goal for our administration, then, is to take the steps that ensure our financial system can operate efficiently. There are impediments which we can remove. We have anachronistic, inconsistent, and sometimes excessive legislative and regulatory restrictions on our financial system. This is too critical an element of our economy to have its potential held back.

Our approach to freeing the flow of credit has two clear rules. First, government has a responsibility to involve itself in the marketplace to the extent of protecting the interests of all consumers and communities. Secondly, every action we take must make certain that our financial institutions remain safe and sound.

We have made important progress in beginning to put the American economy back on track. We have begun to curtail the federal deficit. Interest rates and thus the cost of capital are down to the lowest level in twenty years. Business investment is up. We are creating jobs.

A critical way to increase investment by American businesses, small and large, is to increase the flow of credit. We have taken administrative actions to do that, focusing particularly on the regulations that affect lending to our small businesses because of their importance in job creation. The Credit Availability Program initiative

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is largely in place. We are working hard now to implement it at the grass roots level. Credit is again beginning to fuel economic growth.

As we look to what else can be done, the range of issues is broad. It stretches from the future of the thrift industry to fair trade, regulatory consolidation and interstate banking.

In recent years, there have been some well thought-out proposals, from past administrations, from Congress, from academics and from business. But too much energy has been spent spinning too many wheels at the same time.

Rather than spread ourselves too thin, this administration will take a deliberate, disciplined approach that will produce more and better results over time. We will focus on achievable goals and pick our targets carefully. We will build consensus, issue by issue. And we will listen seriously to the concerns of all those with a genuine public policy interest in an issue.

As we work on the issues before us, everyone must exercise self- restraint. This is one of the most complicated aspects of our economy. It is critical to our continued economic growth. Over-reaching, polarization and piling-on can only lead to failure. Our economy needs success, not failure.

Let me mention three areas we are looking at where we can improve the flow of credit and strengthen the competitive position of our financial system. Two are well along in the legislative process. The third, fair trade, can be shortly.

First, nothing highlights the importance of a strong financial industry more than the thrift problem of the 1980s. When you must take time, and huge taxpayer resources, to restore health to an industry, it takes momentum from your economy. It takes resources from other productive uses. The House and Senate have done the right thing and passed a Resolution Trust Corporation funding bill. I urge them to go to conference and pass a final bill. We need to make depositors whole and return these remaining thrifts to the economy so their assets can work again for the American people. We must quickly close this chapter in our history.

Secondly, the Community Development Financial Institutions measure has come out of Senate Banking with an important program for our distressed cities and poor rural areas. It also has a very sensible approach to reducing the regulatory burden on our financial institutions. It does not go overboard. It is a balanced, disciplined approach that has much to commend it. I hope the Senate passes it and the House acts with the same sense of practicality and balance.

There is a third area where we can move with some dispatch. If our institutions are to compete effectively at home, they must be free to compete on an equal basis abroad. Competition in the auto indus

try might look a lot different today if the Big Three had been producing cars in Japan for forty years. Financial institutions, just like manufacturers, need distribution outlets in their major markets.

We have some of the most open financial markets in the world. Foreign firms are treated like they were American businesses. They are doing so well here they hold one-quarter of all the banking assets in the United States. Similarly, our banks, securities firms, insurance businesses and other lenders are major players in many international markets. But too often the global playing field looks like the Rockies. Barriers, both formal and informal, prevent U.S. firms from entering markets on an equal footing with their competitors.

This administration is committed to improving opportunities abroad for U.S. financial institutions. Our companies are world class innovators and competitors. They will succeed anywhere they are allowed to compete fairly. We are working to level the playing field on several fronts.

In the framework negotiations with Japan, the administration has identified financial services as a critical priority. We are focusing our efforts on pension fund management and corporate underwriting, where U.S. firms are far ahead of the domestic competition. We made some progress last summer, but we have a long way to go.

Regionally, we have negotiated a financial services chapter in the North American Free Trade Agreement that may serve as the model for agreements in Latin America and other regions as well. Our highest priority is the Uruguay Round negotiations, which are now entering a critical stage. We are committed to achieving a multilateral agreement that opens financial markets on a non-discriminato- ry basis. But we have made it clear that we will not agree to lock our markets open on a Most Favored Nation basis, unless or until other countries commit to open their markets to U.S. financial institutions.

We have not seen dramatic progress. So, we are making a major push over the next few weeks to encourage the key emerging markets of Asia and Latin America to offer better commitments. Countries that are now closed must do more than simply offer a standstill that locks in existing barriers against U.S. financial institutions.

We are prepared to guarantee national treatment and full access to countries that commit to open their markets. We are prepared to guarantee their existing operations in our market. But we will not assure countries that keep their markets closed the right to expand operations here, or to take advantage of new powers or benefit from future reforms.

This approach is designed to lever additional progress by the end of the Uruguay Round and ensure that we retain incentives that encourage further liberalization in the event these negotiations do not produce enough liberalization.

Therefore, we are prepared to support the objectives of the Fair Trade in Financial Services legislation now on the Hill. It would give the Secretary of the Treasury the authority, consistent with Uruguay Round obligations, to deny new benefits to financial institutions in countries which discriminate against us. This is a reasonable way to ensure that just as we keep our markets open to others, others open their markets to our firms.

Beyond those issues, there are others we are looking at closely, such as regulatory consolidation and interstate banking. Over the long-term, both of those hold the prospect of removing more impediments to the flow of credit.

There is no question in anyone's mind that our regulatory structure is too overlapping and confusing. There are four federal agencies which look at the books of our banks and thrifts. We have all heard the stories. I saw one recently about a bank in California with twen- ty-two employees. One day they had twenty six examiners in there looking them over. The customers could not even get into the parking lot. Surely there are more productive uses of the bank staff's time, and of the government's resources.

We are already addressing the problem of overlapping regulation in the Credit Availability Program. The additional steps we have in mind follow the spirit of Vice President Gore's initiative to reinvent government.

We can further streamline the existing structure and create one that can make more timely decisions. By eliminating duplicative regulatory agencies, we can help reduce inconsistent interpretations of the same laws and rules. Furthermore, inter-agency turf battles would be avoided. Finally, financial institutions could reduce their operating expenses and spend more time making sound loans than filling out papers in quadruplicate.

We are interested in pursuing a rational consolidation of regulatory functions. If we go down that road, any new institution must remain responsive to the electorate with regard to policy. Banking policy is such a vital component of economic policy, that those who direct the policy must be able to affect its implementation.

Insofar as interstate banking is concerned, as our banking system has evolved over the years, impediments to efficiency have crept in. One of our eventual aims is to eliminate these roadblocks and make it less expensive and cumbersome for our banks to operate across state lines.

The Washington area is a perfect case, and it is not unique. Down the street from my office is a branch of a banking organization that

hangs out its shingle in Maryland, Washington, Virginia and a few other states. People who use this branch but have their account at a branch in Maryland or Virginia can walk up and cash a check. They can draw hundreds of dollars out of the automated teller machine, or transfer thousands of dollars between accounts. But they can not make a deposit in that branch and get a deposit slip showing the bank has accepted it. I imagine people in Kansas City, or St. Louis, or Chicago and Gary have exactly the same problems.

In the age of fiber optics, when I can go to a machine on the streets of virtually any capital in the world and get cash with my bank card, not being able to make a deposit at my own bank just because that branch is in another state is like requiring that the space shuttle stay within the school-zone speed limit. We are the only country in the industrialized world with this kind of artificial restriction.

We currently have a *de facto* system of interstate banking. But it is a patchwork system, and it's clumsy. Change will not happen overnight. A number of complex policy issues must be worked through. More importantly, we need to concentrate our legislative efforts on more immediate priorities just now. But we look forward to working with Congress to develop interstate branch consolidation legislation in the future.

Our preference is to build upon what the marketplace has created rather than reinventing the banking business. The basic approach would be to let banking organizations convert existing multi-bank, multi-state operations into a single bank, multi-branch operation.

Customers could deal with the same bank, in every state where it operated. One could make a deposit in one branch while at work or traveling, and have it posted promptly.

But let me emphasize, this would continue to leave it entirely to the states to decide if they do not want out-of-state banks doing business within their borders. It would just end the necessity of having to maintain a separate subsidiary.

As a Texan who grew up with no branch banking whatsoever, I understand the sensitivities of states and localities. I know that no community wants to deposit its money but receive no benefits in return. Bank reform must move forward, but states can still have the power to decide where within their borders institutions can do business.

This approach can take some of the structural inefficiency out of our system. Consumers get better access to services, and banks will have the opportunity to operate more efficiently because of economies of scale, and because of the more efficient regulatory policies we also intend to pursue. States also retain the authority to determine many of the key rules for banks in their markets, including where they can operate.

The dual banking system will continue to have its place in the nation's economy. I believe we can do this with appropriate protections for consumers, and proper implementation of the Community Reinvestment Act and Fair Lending. At the same time, community banks, with their orientation toward servicing local areas, can continue to play important roles in the banking system.

Ultimately, permitting a true interstate banking system can translate into increased lending, a safer and stronger banking system, and more competitive services for all consumers in all communities.

There is no shortage of issues with which to deal. But we have a careful approach calculated to produce the results that will free up the flow of credit and make our system operate efficiently. We will focus on problems in a deliberate manner, and seek achievable goals.

For instance, early next year the regulators will present a new plan to make the Community Reinvestment Act a much more effective tool in actually generating lending services and investment in our communities, for all the people who live there, and for the businesses that provide them with jobs and services. It will also include paperwork reduction steps, keeping in mind the disproportionate burden paperwork requirements have on community banks.

Let me close with this observation. We must change our banking system in a careful, deliberate manner, to get it ready for the next century. We are operating with laws and regulations made for another time in America. We are paying a price for inefficiency. It touches every American who pays a service charge on a checking account, who borrows for a new car or buys a new home. It affects how businesses invest to create jobs, and how our economy grows. The Clinton Administration is committed to the careful steps that will assure an efficient flow of credit, while protecting consumers and communities, and ensuring the safety and security of our financial system.