A Revised Regulatory Framework

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The men who put together *The Report of the President's Commission on Financial Structure and Regulation* are men of good will and intelligence. I am also aware of the bitter in-fighting that inevitably erupts in any discussion of competing financial institutions. Having said this, however, I can only state my conclusion that the Report is dangerous from the viewpoint of public policy, inaccurate and misleading in its technical aspects (e.g. taxation), and unrealistic in terms of political viability.

Let me speak first from the viewpoint of public policy. I spent 10 years of my life in the Federal government as a member of the Banking and Currency Committee, as a Chairman of the Federal Deposit Insurance Corporation, and as a Treasury official. Over this span of time I was forced to ponder many of the issues faced by the Commission. I arrived at certain conclusions which may be wrong, but which I hold to with great tenacity. Now why do I contend that the thrust of the Report is dangerous and its implementation would be damaging to the financial well-being of the United States. I have two reasons.

I. The Report makes the following statement:

> The Commission believes that the widest feasible options among chartering and supervisory agencies should be created and maintained. When a particular type of financial institution can be chartered by only one agency – whether state or federal – a twofold danger emerges. First, the agency may become over-zealous in protecting existing firms, with the result that entry by new firms is effectively foreclosed. Second, the agency may not be as innovative and imaginative as it should be in exercising its authority. Opportunities for dual chartering and supervision mitigate these dangers and improve service to the public. . .

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[1] *The Report of the President's Commission on Financial Structure and Regulation,* p. 60.

As I read history I can find *no* precedents to support the above argument, I can find plenty which argue in the opposite direction – *that diffused power over financial institutions has caused this nation untold grief and anguish since the days of the Continental Congress.* Let me refresh your memories with some samples of history.

1. The chaotic money conditions that existed in the various states under the Articles of Confederation gave a powerful thrust to the federal concept and the provision in the Constitution that reads "*the Congress* shall have the power to coin money and regulate the value thereof." Clearly these realistic gentlemen were dictating a federal control over our financial matters and institutions.
2. When the First Bank of the United States was allowed to lapse, the country found it did not possess the financial muscle to fight the War of 1812.
3. When the Second Bank was killed it ushered in an era of monetary madness and "wildcat banks."
4. The Civil War drove home again the need for federal control, and we took another step in that direction with the National Banking Act.
5. This Act did not, of course, solve the problem and because of the financial upheavals of the early 1900s the Federal Reserve System was created.
6. Still a diffuse chartering and regulatory authority persisted and was a contributing factor in the failure of thousands of financial institutions in the 1920s and 30s.
7. The Acts of 1934 and 1935 moved much closer to federal control but the dangers inherent in a diverse regulatory system still exist. . .witness the bizarre events in Texas in the last year.

If the Commission had stated that it was probably impossible to change our current diffused regulatory and chartering systems, if they had gone ahead to warn that end runs such as the Texas legislature attempted were a real and present danger, then, if they had added that we could live with our present system, barring further dilution, I could have agreed. But to flatly *support* a system of competing and conflicting regulatory authorities is too much for me. It flies in the face of too much dismal history.

In fairness I must admit that the Report *does* back into a position of greater federal control by establishing a federal Administrator of

State Banks, and by requiring that all banks and some thrift institutions become members of the Federal Reserve System. But in doing so they seem to end up arguing with their original thesis that we need competing regulatory authorities.

II. My second argument against the public policy thrust of the Report is its casual disposal of institutions that have served the country well. Credit unions, savings and loans, mutual savings banks, and the Farm Credit Banks have served a useful social purpose in this country. If we permit this galaxy of specialized institutions to evolve into full service banks, I can only conclude that it will divert many millions of dollars from home and consumer loans – especially in times of tight money. This is clearly *not* the result which public policy seeks to achieve. Mr. Frank Wille in a recent speech to the savings banks came to the same conclusion.

I would think that public policy would be better served by making these institutions more effective. We *have* moved in that direction with the increased activity of the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Home Loan Bank, and now the Federal Home Loan Mortgage Corporation. I *applaud* the Report's findings urging the abolition of state usury laws, their discussion of variable mortgage rates, and the possibility of some sort of federal insurance for long term mortgage rates. I *deplore* their support for *tax credit* for those holding mortgages. Our poor old income tax is now so riddled with preferences that it is no longer an acceptable means for raising our needed revenues.

I can only conclude that these recommendations are, on balance, reckless and, by the way, just what in Hell is a *mutual commercial bank?*

Taxation

A major theme of the Report seems to center on the uneveness of taxation between financial institutions with the clear implication that commercial banks pay much higher rates. In many cases this is simply wrong. Some commercial banks *may* pay higher effective rates than the thrift institutions because of the differing treatment of bad debt reserves. But the *largest* commercial banks are heading pell mell towards or have reached a zero U.S. income tax rate because of the use of accelerated depreciation and the investment credit in their leasing companies and the application of the foreign tax credit to

their foreign income. I have a strong suspicion that most savings and loans and savings banks are paying a considerably higher effective U.S. income tax rate than the 50 or so largest U.S. commercial banks. . .perhaps the top 100.

Frankly, I have concluded that we might as well forget about patching up the income tax as it applies to business and start thinking about some new system of taxation which will fairly raise from *all* business as well as individuals the additional revenues that this country will need in the years immediately ahead.

Politics

The Congress of the United States has been demonstrably reluctant to legislate in the areas of financial institutions unless forced to. We have had only three significant pieces of banking legislation in this century, the Federal Reserve Act, the Banking Acts of the early 30s and recent amendments to the Bank Holding Company Act. I can now see no real ground swell to change the rules. As a matter of fact, the old money machine seems to be working fairly well. Housing, consumers, small business, and the farmers fared *much* better in the *very* tight money conditions of 1969 and 1970 than in the much milder period of 1966.

I am afraid that this Report is doomed to the same fate as most Commission documents, but its demise should not seriously undermine the health of the Republic.

DISCUSSION

WILLIAM T. DENTZER, JR.*

I would like to offer some thoughts of my own on the revised regulatory framework suggested by the Hunt Commission before commenting on Joe Barr's remarks.

My experience as a bank regulator tells me that the public policy goals served by bank regulation are to sustain a safe and sound banking system and to achieve a much more competitive system than the present one. We have slowly started to move from the experience of the 1930s toward bank regulation that emphasizes more competition, but I would like to see that movement become more rapid.

I think the recommendations of the Hunt Commission with respect to regulatory framework do not reach the major issues of bank regulation today, though I do not think any sweeping regulatory change is in order.

Some have divided the field of bank regulation into four different categories:

Safety – the solvency of banks;

Structure – whether competition between banks is encouraged, thereby offering the consumer the best possible product at the lowest possible price;

Scope – what kinds of banking services should be offered by banks, especially "bank-related" or "nonbank" services; and

Monetary policy – which we don't have to worry about here today.

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Let us consider the major current issues in the dimensions of scope, structure, and safety.

Scope

Aside from the question of increased powers for thrift institutions, the major issue in this area is what "nonbank" services banks should be permitted to offer in the future. We talked about this yesterday at some length, and I want to associate myself very much with those who disagree with the Hunt Commission's recommendations on this subject. I would require a bank wishing to offer "nonbank" services to form a holding company and perform such services through holding company subsidiaries. This would insulate the bank as much as possible from the financial ramifications of "nonbank" activity. It also would free the bank holding company from certain restraints of cautious bank regulators. A bank regulator, no matter how pro-competitive he is – and I considered myself rather pro-competitive – in the last analysis has an overriding concern for bank safety. I wonder whether I and other bank regulators willingly would see a bank go down the pipe if it got into trouble on the "nonbank" side. The desire to bail out the bank management in order to save the bank would be strong when crises arose and, equally unfortunate, overly cautious restraints would be likely in order to prevent crises.

I think it important also to insulate the bank in the public mind from other, "nonbank" activities. Separate corporations with different names serve this purpose. Public confidence in bank safety is the important consideration here.

My final argument for separation is to make possible *uniform* Federal regulation of "nonbank" activities. I do not want to see a competition in leniency and differing interpretation of permissible "nonbank" activities among the three Federal bank regulatory agencies. There should be a single regulator for all such activities. The Federal Reserve is now that regulator because of its holding company responsibilities. Let us keep it that way.

Such a scheme still leaves room for debate about some "nonbank" activities that might be permitted within the bank, but this is a manageable sphere. The essential question is, as banks expand their services, where should these "nonbank" activities be placed? It is important, I think, that they be placed in the holding company and that decisions on their nature and extent be in the hands of a single regulatory agency – the Fed.

So much for scope. On to structure.

Structure

I would guess that the greatest influence on the banking structure of this country is going to be the bank holding company movement. Acquisition of banks by such holding companies are subject to approval by the Fed, but bank mergers are not. The very same reasons of uniformity of standards, equity as between applicants, and quality of decision-making which apply to regulation of "nonbank" activities and holding company acquisitions, argue that authority at the national level for all bank mergers ought to be lodged in the Fed and not divided among three federal regulatory agencies. We do not need two or three bank merger policies at the federal level. I believe the Federal Reserve has demonstrated more concern with competitive factors over a greater period of time than any other bank regulatory agency, and I would therefore propose that along with its holding company acquisition responsibilities, decisions on all bank mergers ought also to be moved there.

I would leave with the Justice Department the authority it now has with respect to intervening in bank mergers. The problems of weighing concentrations of economic power are sufficiently great to require another watchdog in the act.

Safety

On the issue of safety in bank regulation, I think there is little that can be done by legislative means though much can be done administratively. I personally am for giving managements more discretion on how they run their banks. I believe there is room for substantial deregulation on minor points so long as the essentials are carefully monitored. There is much streamlining to accomplish in the bank examination process in particular, but legislation is not the vehicle of improvement.

How does this analysis apply to the specific recommendations of the Hunt Commission with respect to regulatory agency restructuring? You recall that the Commission recommended the consolidation of the Federal examining and supervisory functions of commercial banks and mutual savings banks into two agencies, the Office of the Administrator of State Banks and the Office of the National Bank Administrator (now the Comptroller of the Currency). These two offices would also examine and supervise savings and loan associations with deposits subject to third party payment orders in excess of 10 percent of total deposit liabilities.

The Office of the Administrator of State Banks would assume the examining and supervisory functions currently performed by the F.D.I.C. and the Federal Reserve.

Consolidating two examing staffs into one is something, but not much, to cheer about. Hunt Commission members I have talked with seem to share my feeling. More importantly, I think that inertia, the essential viability of the present system for at least a while longer, and the elusiveness of the ideal regulatory structure to replace what we have now will combine to frustrate any major revision in the regulatory structure or the fruition of the Hunt Commission's recommendation. I personally would consider such a result no loss.

Let me turn to Joe Barr's remarks.

Joe strongly criticizes the Commission's general approach, which calls for the widest feasible options among chartering and supervisory agencies in order to guard against unimaginative regulation and agency tendencies to limit entry of banks into new markets out of over-zealous concern to protect existing banks there. I think his criticism that "defused power over financial institutions has caused this nation untold grief and anguish since the days of the Continental Congress" is not supported by evidence in modern times, however accurate it might have been earlier. That flabby regulatory activity or competition in leniency was the proximate cause of financial disaster in the twentieth century gets harder to sustain with the passage of each decade.

Need for Imaginative Regulation

Nevertheless, the dilemma of the options in our dual banking system remains with us. Unified bank regulation poses the problem of how to keep the regulatory agency from becoming either stultified, or captive, or both. Decentralized bank regulation on the other hand has offered few examples of imaginative regulation, but its chartering capability has provided avenues for bank entry into markets where entrenched banking interests may have been successful in convincing their regulators that the interest of the entrenched banks was identical with the public interest. Decentralization, however, fosters competition in leniency among regulatory agencies as they supervise what some of them regard as their constituencies, and this flexibility is seldom the desirable kind that permits imaginative bankers to respond to emerging needs of society. You are damned if you go one way, it seems to me, yet also damned the other way.

The Thrift Institutions' Need for Diversification

Joe also makes a major point of criticizing the Commission's recommendation that mutual thrift institutions be permitted to diversify. Here I speak as a supervisor who had among the institutions he supervised a very large number of savings banks and savings banks assets. Because of this, I speak out of great concern.

I have seen the condition those institutions came close to facing in the latest monetary crunch. This prompts me to worry about the turn of the next monetary screw, if we have to go down that road again soon. This is the same concern that very largely motivated the Hunt Commission to make its recommendations for broader powers for mutuals. As the Commission stated, and I firmly agree with it, "In future periods of monetary restraint . . . deposit rate maximums will surely be less effective in maintaining a supply of mortgage funds and protecting financial institutions from disintermediation." That has been belabored here earlier and I will not belabor it further. I will say simply that on the basis of my own regulatory experience, I strongly back the Commission's thrust for diversification of mutuals' powers. Otherwise I am afraid some of those institutions that Joe likes so much are going to blown sky high the next time monetary heat sends interest rates rising.

You have heard at this conference about the studies that have been done on the effect of such diversification on the housing market – the Anderson-Eisenmenger study and the Jaffee-Fair study. I would mention a related study which will be coming out soon, the author of which is among you.

Concerned about the problem confronted by savings banks and its proper resolution, I asked the Federal Reserve Bank of New York, particularly Al Hayes and Bill Treiber, to free up Leonard Lapidus and economists under him to look at this subject without prejudice, analyze available data, and conclude whether diversification of thrift powers made sense in the State of New York.

Len's conclusions in a study which will be published later this summer are that savings banks in New York ought to be allowed to convert to serving a range of household needs, including needs for loans and checking accounts for individuals. He would restrict them to household-type accounts in order to guard against the diversion of monetary flows away from the the home mortgage market, to make the consumer loan market more competitive, and to "play fair" with commercial banks.

Impact on the Housing Market

The impression is growing that the placing of barriers around the sources of housing finance is not an efficient means to feed the housing kitty. I do not know who decided that home buyers as a class were more worthy than lower- and middle-class savers. It is those small, lower- and middle-class savers whom we are penalizing by continuing the current structure. The present system just is no longer viable. Savings and loan assocations certainly were financial intermediaries in the late 1960s; they were intermediaries, as one wit put it, between the Federal Home Loan Bank Board, which provided them massive credits for mortgages, and Fanny Mae, which bought the mortgages they made.

As a former Secretary of the Treasury, Joe is understandably concerned about adding to the erosion of the income tax. I, too, was concerned when the Tax Reform Act of 1969 became the Revenue Loss Act of 1969. But the question really isn't whether further erosion of income tax revenues should be permitted by subsidizing mortgage lenders one way or another in the federal budget if that appears necessary in later years, but whether that is a more efficient way of addressing the housing finance problem.

I would agree with Joe that it is going to be impossible to convince Congress to expand thrift powers if it believes housing is going to be hurt in the process. My own experience with a state legislature is that if legislators think housing may suffer from changes in the system, it is impossible to get such changes adopted. This would be especially true if the pressures of the federal budget – which are likely to require a tax increase next year – are added to by provisions for a budget outlay or tax deduction to insure an adequate supply of mortgage money.

However, my own experience as a bank regulator indicates that if thrifts are allowed to diversify into household type accounts, without getting into commercial lending, the slowness with which this will occur will mean this diversification would have very little impact on housing for quite some time. Someone said yesterday, and quite properly, that the capacity of thrift institutions to move rapidly into consumer lending is quite limited and that the process of gearing up is going to take time. In addition, institutions which are specialized in housing finance, as thrifts are, even if no longer restrained by legislation are going to retain that specialization out of management choice. That is their expertise – what they are good at doing – and I think they are going to continue to do it as their primary function.

My major concern in this area, however, is about what will happen to a number of thrift institutions if we have to go through another bout of tight money soon. Another factor deserves mention as well, as I see it from the vantage point of my present post – the prospect of electronic transfers of funds. If we do not begin now to start dealing with present weaknesses in our financial structure, our task of adapting to future technology will be all the more difficult. As for the effect of diversification on the home mortgage market, we have heard two conclusions here – one that diversification would have no effect and one that it would have little effect. If Congress can be approached on that basis, I think the Hunt Commission proposals have a chance for success.

I think Pat Patterson and his colleagues on the Hunt Commission have done a great service in calling this problem of our banking structure to our attention now, while there is still time to act. I think they performed another service in saying that it should be addressed by a package approach and in a context of competitive equality between commercial banks and thrift institutions. And finally, I think it is unwise, as some have, to criticize the Commission for not having recommended nationwide branching. Even if all of us here favored it and were willing to accept the consequences to the dual banking system, that kind of recommendation simply would not pass the U.S. Congress and it would tend to drag down to defeat other important recommendations of the Commission. If that sounds to you like pragmatic incrementalism, I confess it. I was the executive secretary of a Presidential commission nine years ago, and I saw how reports of such commissions can be characterized and then scrapped by the Congress.

DISCUSSION

GEORGE J. BENSTON*

It was refreshing to read a paper from a successful former regulator and experienced banker and to see what he had to say on a subject about which many of us have attempted to write and think. Having read it carefully, I will try to address my comments to Mr. Barr's paper. To put the paper in perspective, I first discuss how, in general, one might examine the work of the Hunt Commission.

In considering the *Report* of the Hunt Commission, we should ask: Why is such a commission desirable? Which questions did they consider important and what problems were they trying to solve? Then we can evaluate their proposals. For this consideration, I suggest that we analyze individually the concerns of the public, the industry, and the regulators to which the *Report* is or should have been directed.

Concerns of the Public

The possiblility of bank failure is one concern of the general public, as Bill Dentzer points out in his *Comment.* Another concern is the availability of credit for housing, consumer loans, business loans, and, perhaps, for socially desirable projects or groups. The availability of services to consumers and businesses also is important: are financial institutions providing the public with a full range of services and are they developing new services to anticipate future demands? The availability of funds in general economic downturns also is listed as a concern of the public. They ask if the financial system is flexible enough to meet peoples' needs over varying financial situations. Finally, some ask if the financial system serves the public without discrimination or if it is biased in favor of one group as opposed to another.

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Concerns of the Industry

Issues that concern the industry revolve around questions of competition. Are financial markets organized and regulated so that institutions find survival difficult, managements feel threatened, and stockholders earn a lower return than expected? Are financial markets monopolized? Does the present set of regulations and taxes result in an inequitable advantage of one group of institutions over their competitors? Do regulations and/or the present structure of the industry and institutions allow them to meet the public's demands? Can financial institutions survive future credit crunches, inflations, and depressions?

Concerns of the Regulators

The regulators, who stand somewhere between the public, the industry, the lawmakers and their own self-interest, are concerned with improving and (certainly) with continuing their regulations. Structure for them means the structure of the regulatory agencies as much as the financial industry. Because failures were an important rationale for regulating the banking industry, prevention of failures through chartering, approval of mergers with banking, and examination occupies a large part of their energies. With the recent emphasis on consumerism, the scope of their concern may have widened somewhat.

The Commission's Philosophy

Perhaps to provide a means of balancing the sometimes conflicting demands of the public, industry and regulators, the Commission asserted a basic philosophy:

> The Commission's objective, then, is to move as far as possible toward freedom of financial markets and equip all institutions with the powers necessary to compete in such markets. Once these powers and services have been authorized, and a suitable time allowed for implementation, each institution will be free to determine its own course. The public will be better served by such competition. Markets will work more efficiently in the allocation of funds and total savings will expand to meet private and public needs. (p. 9)

In large measure, the *Report* answers most of the questions posed above by reference to this belief in the workings of the free market.

The public's concerns for service and loans will be answered by allowing thrift institutions and credit unions to compete with commercial banks for checking accounts and consumer loans. The Commission further believes that allowing thrift institutions to diversify their portfolios also will provide them with the flexibility necessary to withstand economic fluctuations. If funds available for mortgages are reduced, the Commission recommends direct subsidies to home buyers or, through tax incentives, to lenders rather than regulation of lenders' portfolios.

The free market also is seen as a solution to the industries' concern with monopoly and special privilege. In effect, the Commission recommends that most special regulations (particularly Regulation Q and restrictions on the powers of thrift institutions) be removed and, perhaps more important for a Commission, that new regulations not be imposed.

The regulators would not lose much, if any, of their domain, if the Commission's recommendations were adopted. The Fed would lose its bank examinations powers (but retain its control over holding companies), and a new regulator, "The Administrator of State Banks," would be formed. Regulation of thrift institutions would be combined more with commercial bank regulation, consistent with the increase in banking powers by thrift institutions.

In some important regards, the Commission does not follow its basic, free market, philosophy. They recommend retaining the prohibition of interest payments on demand deposits (despite a preamble which seems to argue for the opposite conclusion); tax credits are suggested for mortgages (which, admittedly, is more in accordance with free market decisions than is portfolio regulation); thrift institutions would not be permitted to make business loans; restrictions on entry into banking, particularly by state instituted restrictions on branching, would not be removed by federal law; and detailed supervision of financial institutions would be continued (on which, more later).

No Evidence Presented

I subscribe to the Commission's basic free market philosophy. But while those of us who agree are likely to say, "That's right – of course," those who don't will say " I disagree – that's not the way it is." My major criticism of the Commission's *Report* is that they asserted their position (and their recommendations) without referring to any supporting evidence. This omission is lamentable

because the evidence that supports most of the assertions and recommendations does exist. While I know a lot of reading, research and thought preceded and informed the inevitable bargaining, this is not reflected in the *Report* itself.

The disregard of evidence is particularly disturbing in an area of my concern, an area about which the public, the industry, the regulators and Mr. Barr also are concerned – the need for supervision to maintain "orderly" financial markets and prevent bank failures. Analysis would show that many of the original reasons for supervision no longer are meaningful (whether or not they ever were). Since the advent of Federal deposit insurance, the only people who are concerned about the failure of a bank and its mismanagement are the FDIC and FSLIC because they are the insurers, depositors with over $20,000 on account, and bank employees and stockholders. Even most depositors could be insured if the FDIC and FSLIC's coverage were raised to, say, $100,000. Considering that the FDIC assesses banks on their total deposits (whether insured or not), such an extension would be equitable. Consequently, controlled entry, exit and bank supervision is required only to protect the FDIC's insurance fund. There is no present need for the Federal Reserve, the states or even the Comptroller of the Currency to examine banks. More importantly, aside from the necessity of protecting the FDIC and FSLIC insurance funds, almost all regulations with respect to bank supervision should be scrapped. There is no basis for them any more. Bank failures are not a meaningful problem. While regulators are criticized if a bank fails, the public rarely is even inconvenienced since the FDIC comes in and pays off customers very quickly. Bank assets are among the easiest to transfer, and, if entry and branching were free, customers and employees would find new homes quickly.

Goals of Bank Examination

Bank examination, which is required, should be directed more towards preventing fraud and gross mismanagement. Examination today still is conducted as if the problems of the 1920s were the problems of the 1970s. I was disappointed that the Hunt Commission was not much concerned with bank examination since my interviews with bankers, in the course of my study, indicated that they really are "bugged" by examiners telling them what to do. Worse yet, the only time that the examiners really have power over a bank is when it wants to do anything new or wants to expand or

branch. At that time they may step in and say to a banker who is "troublesome," "Your application is not approved or is delayed." Consequently, only the innovative and the aggressive banks tend to be criticized. The banks who do nothing except avoid trouble are not bothered much. This seems a poor way to serve the public.

Diminishing Restrictions on Entry in Banking

These considerations lead directly to a criticism that Mr. Barr makes of the dual banking system. I think that most economists would agree that free entry is the key to a competitive market structure. One important aspect of the dual banking system, as I think history has shown, is its role in diminishing restrictions on entry via new charters and branching. Unfortunately the McFadden Act restricted branching of national banks. But at least states still could allow banks to branch. And, prior to Mr. Saxon's term as Comptroller of the Currency, the states often were the best source of new bank charters. But, what about Mr. Barr's fear of competition among the agencies that might result in lax regulation and consequent failure of financial institutions? As I discussed above, only the FDIC should be concerned about this. They have examiners and cease and desist orders. If they think those aren't powerful enough, they ought to request additional powers. While Mr. Barr presents some "examples from history" to support his opposition to the dual banking system, I confess that my recollection of banking history differs from his. I am sure that Mr. Barr can provide us with references to studies or data that support his assertions. To my knowledge, though, the evidence is to the contrary.

With respect to Mr. Barr's statements in section II of his paper, he makes a point that confuses me. Perhaps it was a typographical error or simply a problem of phrasing, but I cannot understand how allowing mutual savings banks and savings and loan associations to make consumer loans would divert money *from* consumer loans, even in times of tight money.

Perhaps because I just finished a study of mutual savings banking, I find it difficult to resist answering Mr. Barr's question, "just what in Hell is a mutual commercial bank?" I would like to rephrase his question, somewhat, to "what would mutual savings banks be like if they were given all the powers allowed commercial banks?" As part of my study I examined the "mutual" savings banks of Germany, Belgium, Sweden and Norway. Since these banks can offer any service offered by commercial banks, they can be called "mutual

commercial banks." Nevertheless, their balance sheets look much more like those of our thrift institutions than of our commercial banks. The reason is simple. They tend to do the things that they know best, which is to serve consumers. While they provide some loans and checking services to businesses and offer important competition to commercial banks in some markets, they basically accept savings and make mortgages. Consider, for example, the case of Sweden. In 1966 the Swedish savings banks were given all the powers of commercial banks. An examination of their balance sheets and income statements (and those of the Swedish commercial banks) for 1966 and 1970 shows virtually no change.

But even if thrift institutions do change, why should we object? As the Hunt Commission recognized, our objective should be a financial structure that results in assurance to the public of a wide range of services at the best possible prices. I think the *Report's* recommendations, if adopted, will move us strongly in this direction. I hope that Mr. Barr's assessment of its political life is overly pessimistic. In any event, although I and others may object to some parts, I think it deserves our support and our thanks.