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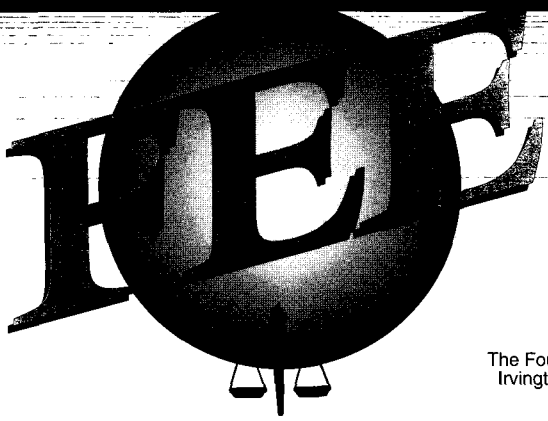

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May 1995

Woeful Bankers

An old Christian saying warns us not to make money our god, for it will plague us like the devil. Based on this maxim, a few economists admonish us not to place politicians in charge of our money, for they will plague us worse than the devil.

Most Americans take heed of the first warning, but few pay attention to the latter. Unaware of the dire consequences of political control over money, they appointed "monetary authorities" and authorized them to issue and regulate their money. The Federal Reserve Act of 1913 established a central bank with seven governors who in time were to become the regulators and overseers of the monetary system. In 1933, the federal government expropriated the people's gold coins and replaced them with Federal Reserve notes. In the same year it organized the Federal Deposit Insurance Corporation (FDIC) which was followed by the Federal Savings and Loan Insurance Corporation (FSLIC). The directors of both government agencies assumed responsibility for and control over the people's bank deposits,

Since then a myriad of special laws has tightened the political grip on the banking industry. There are the laws regulating Truth in Lending, Truth in Savings, Fair Housing, the Community Reinvestment Act, the Real Estate Settlement Procedures Act, the Expedited Funds Availability Act, the Electronic Funds Transfer Act, the Financial Institution Reform, Recovery, and Enforcement Acts, the Equal Credit Opportunity Act, the Flood Disaster Protection Act, the Home Mortgage Disclosure Act, and various environmental acts.

The "war on drugs" gave occasion to the Bank Secrecy Act which forces bankers to reveal all major deposits and withdrawals to the banking authorities and call their attention to suspicious transactions. Failure to comply is called "structuring" and is punishable with fines and imprisonment. In other words, failure to snitch on their depositors is a serious crime. A number of bank tellers and supervisors are lingering in federal penitentiaries paying for their crimes. **There is no bank secrecy in the sense of customer privacy; bank secrecy now means the very opposite: secret reporting to the authorities.**

The authorities scrutinize every aspect of the lending process. Bankers are forced to observe the prescribed procedures in all details. Phone calls from customers about home loans must be logged, the marital status recorded; loan limits and waiting periods must be observed. What used to be a half–page application form has grown to a

multi–page form designed to meet government edicts.

Banking regulations are crushing the banking industry. Last year (1994) a small–town banker received 2,945 pages of new regulations, amendments, and proposed regulations. For six long weeks five regulators conducted "compliance examinations," busily comparing books and records with more than ten thousand pages of regulations and searching for violations. The "compliance examinations" followed the major annual "safety–and–soundness" examinations.

The Community Reinvestment Act forces bankers to give special consideration to individuals who belong to minority groups. It compels bankers to grant loans on the basis of race, gender, and national origin rather than credit worthiness. The U.S. Department of Justice always stands ready to lend support to the regulators who may mete out stupendous fines. Their threat alone is enough to make all bankers quite subservient.

Bankers live in constant fear of criminal prosecution for violations of banking regulations. Minor infractions such as overdrafts on an executive's checking account call for draconian penalties. Minor deviations from a regulator's interpretation of a regulation may be penalized severely. Facing their regulators, most bankers stand at attention, stammering "Yes, Sir," or "No, Sir," "I am truly sorry, Sir," "We will follow your instructions immediately, Sir."

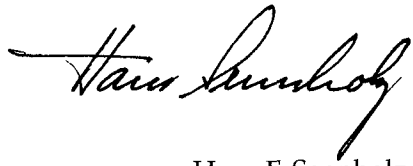
Under such conditions it is not difficult to reflect on the future of American banking. In the coming years, the number of banks (now about 11,000) is likely to shrink through mergers, syndications, cartelization, and other combinations. It takes large law and regulation departments to specialize in the intricacies of banking law and engage with the regulators and their prosecutors. Million–dollar fines per day are likely to crush most banks except for the giants such as Citicorp with $213 billion in assets or Bank of America with $180 billion. The regulators themselves undoubtedly will applaud the concentration movement as it simplifies and reinforces their control over the industry.

The trait and type of banking personnel is likely to change. Men of character, integrity, and independent judgment will give way to two types which thrive in all kinds of command systems: the servants and bondsmen who obey all orders and the villains who corrupt all orders. The number of banking scandals is bound to multiply in the coming years.

While banking itself is bound to linger and wane, related industries offering deposit and loan services will grow and fill the void — provided they escape the banking regiment. The "money market" offering treasury bills, commercial paper, certificates of deposit, and other instruments beckons for deposits; mutual funds and brokerage funds offer special checking account advantages. Yet, all this banking ersatz will not take the place of old–fashioned banks; the regulators who sit in judgment of what every sector of the capital market may do will not allow it. Political control over money tends to be comprehensive.

Harassed by regulators and prosecutors, some bank customers may seek refuge abroad. Since the disintegration of the Soviet system emerging markets all over the world are begging for funds, offering many attractions and high returns for capital fleeing from U.S. regulators.

The greatest difference between rich countries and poor countries is not so much the quality and effort of labor nor the abundance of natural resources, but the size and vitality of the capital market in which private banks play a pivotal role. U.S. banking laws and regulations are straining to create the very conditions so characteristic of poor countries.



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