

## Banking by Kathy Burdman

### The Proxmire-Reuss years are over

*Senate Banking Committee Chairman Jake Garn plans a halt to the liberals' banking deregulation.*

Senator Edwin "Jake" Garn (R-Utah) assumes control over the key Senate Committee on Banking, Housing and Urban Affairs in January. Garn brings with him the promise of a clean-sweep reversal of a five-year undermining of the U.S. banking system by the liberal Wisconsin Democrats Sen. William Proxmire and Rep. Henry Reuss.

Proxmire lost his Senate Banking chairmanship in the Republican sweep, while Reuss is retiring as House Banking chief, believing the sweep will render him "totally ineffective," *EIR* has learned.

Garn, the 58-year-old conservative former mayor of Salt Lake City, plans to "scrap completely" the Report on the McFadden Act and the Douglas Amendment prepared by Carter's Domestic Policy chief Stuart Eizenstat, which Proxmire and Reuss were expected to write into law in January, aides told *EIR*. That legislation would have abrogated important sections of those two regulations protecting the nation's regional banks.

Proxmire and Reuss, who were respectively chairmen of the Senate Banking and House Banking Committees since 1975 and 1974, have spent years forcing through the Depository Institutions Deregulation and Monetary Control Act signed in March 1980, aimed at reducing the size of the U.S. banking system and cutting back net credit to the U.S. economy.

As an immediate reversing ac-

tion, Senator Garn will advise Reagan to scrap the Eizenstat report on the McFadden and Douglas laws because "he's against interstate banking, period," his aides said. "Garn doesn't want the McFadden Act touched, not for metropolitan areas as Eizenstat planned, or at all. He doesn't want to touch the Douglas Amendment, at all."

In addition, Garn plans a quick series of oversight hearings on the Proxmire/Reuss deregulation act which will question the deleterious effects of the act on U.S. banking and the economy. How is it affecting the survival of the Savings and Loans? How is it affecting mortgage lending? How does this affect the economy? will be some of the probing questions, aides say.

In addition, particular hearings will be scheduled on the "performance of the DIDC," the Depository Institutions Deregulation Committee set up by the act and headed by Paul Volcker. The hearings will question whether the DIDC has acted "competently" in its speed of the deregulation "given what Volcker has been meanwhile doing to interest rates," one aide said. "I did not expect the DIDC to do what it is doing," Garn told the *Washington Post*. "They are not following our intent of gradual change, a subject of considerable dismay."

Most important, Garn intends to address the strategic question of "the challenge posed to U.S. banks by the non-bank financial interme-

diaries" which have sprung up over the past 10 years, aides said.

Out of \$1.8 trillion in U.S. consumer loans outstanding, fully one-third are made by non-banks such as General Motors Credit Corporation, Sears, the major credit-card companies, and brokerages like Merrill Lynch. Commercial paper, brokered by the investment banks, accounts for a quarter of the \$400 billion in industrial loans.

Deregulation proponents like Citibank Chairman Walter Wriston say that if U.S. banks were fully deregulated, that is, if Citibank could expand nationally, they could compete.

"Garn doesn't want to go the Wriston route, but he is very concerned about the future of bank lending," aides say. "For now, we're standing pat. But if we continue to stand pat, the banks lose ground," and a new banking policy is needed.

In fact, banks have been driven out of the banking business, not due to protective regulations, but due to the stagnation of the U.S. economy, in which the net new demands for productive credit, which banks exist to create, has stagnated. Nonfinancial intermediaries such as the commercial paper dealers and stock brokerages have gained through recycling of "excess credit" in the economy, excess because the economy is so weak that the demand is not there.

The Garn Banking Committee will have to find a way to expand the entire banking pie by expanding the economy. The first step, in my opinion, is to call for an immediate halt to Federal Reserve Chairman Volcker's interest-rate squeeze, and to look into proposals for reform of the Fed system.