

provide comparably priced credit to competing developers? Given these troubling possibilities, it is no surprise that the nonpartisan General Accounting Office issued a report demonstrating that there is no compelling economic argument for mixing commerce and banking and a lot of socioeconomic and political jeopardy in doing so.

In this time of crisis in Asian economies, the lessons of the chaebols of Korea, the keiretsus of Japan and cartels of Indonesia should not be lost in the United States. Those who advocate financial modernization legislation which mixes commerce and banking might want to take a hard look at the conflicts of interest endemic to systems that have allowed such mixing.

In East Asia, bank ownership of industrial firms led to crony capitalist relationships with the government. The virtue of America's decentralized, stock-market-oriented financial system is that credit and investment decisions are made based on economic fundamentals, not entangled relationships or corporate favoritism.

America is a country which has traditionally opposed concentrations of power, both political and economic. It is the country of Jeffersonian individualism, Jacksonian bank skepticism and Teddy Roosevelt trust busting. The contemplated mixture of commerce and banking goes beyond the lessons that we have learned and the values that we hold.

Madam Chairman, I reserve the balance of my time.

Mr. VENTO. Madam Chairman, I rise in opposition to the Leach amendment.

The CHAIRMAN. The gentleman from Minnesota (Mr. VENTO) is recognized for 15 minutes.

Mr. VENTO. Madam Chairman, I yield myself 2 minutes.

Madam Chairman, I rise in opposition to this amendment. This amendment, what it actually says, and I respect the chairman and his staunch opposition to commerce and banking; he has been consistent in that particular view. But what this amendment does is it says, they rise in opposition to the Roukema amendment which provides a 10 percent basket even for securities, insurance or banking firms, but this one says, 10 percent is too much, but 15 percent is just about right.

That is what this amendment does. This provides 15 percent commerce ownership within a securities or insurance firm for 15 years.

Here we are in an environment in which economic events within a short period of time, in days, maybe months, certainly years, in 15 years we could see dramatic changes in terms of what happens in the economy. We are saying, we are providing a level playing field, taking the most important financial entities in our country, banks, and treating them in a disparate way. Of course, I mentioned the many, many exceptions.

Now, in order to sell this particular proposal to the Members, we have had

the bloody flag of the S&L crisis waved back and forth. It has been suggested that somehow our culture and free enterprise system and free people are going to accept the type of government and type of control that exists in Asia, in Japan or Korea or Germany. I do not think so.

I think that our free enterprise system is strong enough and mature enough to recognize what actually is taking place. What happens when banks permit the financing for mergers and acquisitions? What happens when banks make these tremendous loans and end up collecting these companies as collateral? They become, in a sense, investors. They end up picking up that collateral and having that control. And there are many, many exceptions. In fact one of the largest corporations in my State, 3M owns a bank. It has not undercut 3M yet. They are still going to the private market.

I oppose this amendment.

Madam Chairman, I reserve the balance of my time.

Mr. LEACH. Madam Chairman, I yield 3 minutes to the gentleman from California (Mr. CAMPBELL).

Mr. CAMPBELL. Madam Chairman, it is a compliment to the side of the argument presented by the chairman of the committee that those opposing his amendment would say that it allows 15 percent commercial investment to continue, as though they realize what danger it is to allow such mixture of commerce and banking.

Let me at the start put to rest this argument. The 15 percent that would be allowed to continue for the bank holding company during the period of a wind-down is in order to allow a reasonable phaseout of the mixture of banking and commerce that is already in existing law.

The fundamental debate here tonight is between those who wish to go to zero mixing of commerce and banking and those who would permit it, those who believe that 5 percent mixture is not enough and, in the Roukema amendment, that it be 10, or as we heard in the debate earlier, that some would even go to 15.

I think the real debate thus is, shall we have a mixture of commerce and banking? Admittedly, the Leach amendment, of which I am proud to be a cosponsor, has a phaseout provision. That is appropriate for now. Eventually, however, under the Leach amendment there will be no mixture of commerce and banking, as there should be no mixture of commerce and banking.

Under the Roukema amendment, it will be 10 percent today, probably 15 percent or 20 in years to come.

What is the objection to the mixture? I think it has been adequately explained by my colleagues in regard to the risk that comes from a commercial investment made by someone that ought to be a neutral provider of capital. I would rather address one point that has not been made, and that is whether the fire walls are adequate, be-

cause we know that in the bill itself and in the amendment from our colleague, the gentlewoman from New Jersey (Mrs. ROUKEMA), there is a set of fire walls to make sure that the bank does not offer a loan to the very commercial enterprise in which it has an equity stake.

But there is no fire wall against providing a loan to the customers of that commercial enterprise or to the suppliers of that commercial enterprise. And so a bank might own some stock in General Motors, and General Motors cannot get its new fleet out on time because Firestone has a little trouble providing the tires, due to cash flow. Will the bank not be tempted to give a little bit of leniency on any loan to Firestone? It would not break any fire wall to do so because the fire wall only applies as to the extension of credit to General Motors, if, by hypothesis, the bank has an equity stake in General Motors.

The point is simple, there is no way that the imagination of humankind can prevent the temptation from arising. If a bank has an equity stake in an enterprise, that enterprise will have a claim on the bank's lending policy.

Lastly, why do we care so much? Because it is not the companies' money. I have no problem with the company retaining earnings and using it for its own intended investment—splendid, but not with the taxpayers' money. What we are dealing with here tonight is Bank Insurance Fund money which, if the Bank Insurance Fund is stressed, will, as in the case of the savings and loan crisis, and will, in this context again, be a tax upon the taxpayers.

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Mr. VENTO. Madam Chairman, I yield 2 minutes to the gentleman from Texas (Mr. PAUL), a member of the committee.

(Mr. PAUL asked and was given permission to revise and extend his remarks.)

Mr. PAUL. Madam Chairman, I rise in opposition to the Chairman's amendment and in strong support of the amendment of the gentlewoman from New Jersey.

There are two positions that one could take on this. We could have zero integration, which this amendment would do; or we could think about the market. The market would just allow it to exist.

Earlier, somebody quoted Hamilton as being opposed to an integration of commerce in banking. Well, of course, at that particular time in history we had the Jeffersonians, and they were strongly in support of the market and even against central banking.

So I think, considering all things, that I cannot get my 100 percent, and we certainly do not want zero. We need to move in a direction, so I would say this very modest request is very justified.

I think this FDIC insurance is something we should be concerned about,

but that is a different issue for the moment. I object to that, but I do not believe this will solve the FDIC problem.

We have to think about how we got here. In the 1920s, the Federal Reserve created a lot of credit. They created a boom and a booming stock market and good times. Then the Federal Reserve raised the interest rates and there was a stock market crash and a depression. And out of the depression came the desire to regulate banking and commerce. That caused the depression, which was erroneous, because the cause of the depression was excessive credit and then a deflated bubble, which should be all laid at the doorstep of the Federal Reserve.

This is the size of the Glass-Steagall Act, a few pages, in order to solve a problem that did not exist. But we have been living with this for all these years. And now, over these several years, we have been trying to solve the problem. Now, this is the size of the solution. This is H.R. 10, this is the version of the Committee on Commerce as well as the version of the Committee on Banking and Financial Services that went to the Committee on Rules.

We need to look at the fundamental cause of our problems and not jump off a cliff and do the wrong thing. I strongly support the Roukema amendment.

Mr. LEACH. Madam Chairman, I yield 3 minutes to the gentleman from Nebraska (Mr. BEREUTER), my distinguished friend and coauthor of the amendment.

(Mr. BEREUTER asked and was given permission to revise and extend his remarks.)

Mr. BEREUTER. Madam Chairman, I thank the gentleman for yielding this time to me.

The gentleman from Texas has just spoken to us about letting the market work. The problem with the mixing of commerce and banking is that market decisions are not made. Credit decisions are made on the basis of equity that a bank has in a business. We are more likely to have the market working properly when we have this division between banking and commerce as we have had since the 1930s, even tracing far back beyond that, as the gentleman from Massachusetts (Mr. MARKEY) earlier said, tracing back in some form to a period even before the founding of the Republic.

I just cannot help but think of what happened in the home State of the gentleman from Texas (Mr. PAUL) when we had under S&L law in Texas, in that State and some other States, an opportunity under their legislation to use federally insured deposits to make investments in their own name instead of loans to residents of their community. And I recall something like 50 percent of the total losses in the S&L debacle were in the gentleman's home State of Texas.

The gentleman from Minnesota (Mr. VENTO) suggests that this 10 percent basket is a modest step. Well, I think we are more likely to pay attention to

what the gentleman from New York (Mr. ENGEL) said. He said this 10 percent basket is a reasonable first step as a basket. And that is the point this gentleman was trying to make some time ago; that there is, in fact, no end to this process for a larger basket all the time once we break the barrier down between commerce and banking. We are going to be back here with such amendments year after year.

Mr. VENTO. Madam Chairman, will the gentleman yield?

Mr. BEREUTER. I yield to the gentleman from Minnesota.

Mr. VENTO. I wanted to suggest that I did not agree with the gentleman from New York (Mr. ENGEL) on the first step.

Mr. BEREUTER. I thank the gentleman for that clarification.

I watch with awe and wonder the gentleman from New York (Mr. LAFALCE), who speaks to us in such a soothing voice, about how the changes that are being made here are actually reducing it from 15 percent basket to 10 percent basket. And, well, that is accurate. But in reality, of course, the status quo is a zero basket. And that is what we are supportive of the Leach amendment think is a crucial and proper level. It is crucial that we maintain this barrier against mixing banking and commerce. I think it provides us a much higher likelihood of the impartial provision of credit by bankers to people and to businesses that deserve to receive credit. It avoids a concentration of economic power.

Earlier, too, we heard references about a bloody flag being waived in the debate on S&Ls. But I think that is appropriate for we have to learn from our experience. And it boggles my mind, it boggles foreign legislators' minds that we in America would be recreating, the kind of unhealthy banking situations that we find in Asian countries.

And as the gentlewoman from New Jersey (Mrs. ROUKEMA) ask earlier, well, what about Europe? Well, in fact, the problems resulting from the mix of commerce and banking exists in Europe, too. And, in fact, in France and Spain the public treasuries were raided to make insolvent large banks more solvent after they made imprudent commercial investments. And that is what we would have to have.

Do not trade the separate American banking and commercial systems for the failures of Asia or Europe.

Mr. VENTO. Madam Chairman, I yield 3 minutes to the gentleman from Texas (Mr. BENTSEN).

Mr. BENTSEN. Madam Chairman, I thank the gentleman for yielding me this time.

This is, no question, a very difficult issue. I can come down almost on either side. But if we do not deal with it tonight, and my bet is we probably are not going to deal with it tonight, we are going to have to deal with it at some point in the future.

Again, I have nothing but the greatest respect for the chairman of the

Committee on Banking and Financial Services, and I think he has thought long and hard about this, but we have to consider a few things.

First of all, the chairman talked really about two types of commercial baskets. I think he talked about what this amendment or the Roukema amendment was about, and then he talked about what he thinks may come in the idea of a reverse basket where McDonald's owns banking entities around the country.

Of course, we already have a system in place where we have the small town banker that owns the bank and the car dealership and the feed store and everything else, and that is allowed under current law. But I think we also have to remember we have a much more dynamic marketplace.

And that leads into my second point. It is not really fair to compare the United States' economy to that of Asia or even Europe. Our market is much more sophisticated. It is much more diversified. Our capital and credit markets are much more diversified, much more efficient, much larger. So, yes, there may well be risk, but I think it is a very unfair comparison to make.

I think that the gentleman uses the example of the German company and Enron, which happens to be based in my home city of Houston, and how efficient the U.S. market, the stock market treats it, and I think that is true with respect to banks.

We could turn this over to Mr. Greenspan and let him write over the entire bill and just rubber stamp it when it gets back over here and let him go on with his business. I think that would be inappropriate. But what I think Mr. Greenspan and the former chairman, Mr. Volcker, said, when they testified before the committee, is getting back to the real crux of the issue, which is, well, we are opening the door a little bit and it is going to get broader.

But herein lies the problem. Because, as the chairman knows, we are going to find, and we are finding it now, that where banks, as they become stronger, are going to get into areas which are not financial in nature, whether it is data processing or others, that have to be part of their function to be competitive. And we are going to have to address this problem. If we do not address it tonight, we will be addressing it down the road very shortly, I believe.

So I think the chairman has thought a lot about his amendment, I appreciate what he has to say about it, but I think we ought to defeat it and support the amendment of the gentlewoman from New Jersey.

Mr. LEACH. Madam Chairman, I yield 1 minute to the distinguished gentleman from California (Mr. CAMPBELL), who is also a coauthor of the amendment.

Mr. CAMPBELL. Madam Chairman, I asked for the additional time just to stand in defense of the free market. Our good friend and colleague the gentleman from Texas (Mr. PAUL) spoke on