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## INTERVIEW

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# Senator Garn: Congress must regain control

*The following is an exclusive EIR interview by Kathy Burdman with Senator Edwin "Jake" Garn, Republican of Utah, the incoming head of the Senate Banking Committee. Senator Garn expresses opposition to the Fed's approval last week of offshore International Banking Facilities for the United States.*

**EIR:** You said on Capitol Hill November twenty-first that the Depository Institutions Deregulation Committee [DIDC] and some of the regulatory agencies have been usurping congressional powers with regard to the banking system. What are your plans for dealing with this?

**Sen. Garn:** First of all, I would blame the Congress in general, because in the six years I have been on the banking committee, in too many instances we have simply given the Fed a blank check on a controversial issue that we don't want to face, and then when they fill it out in a manner that we don't approve of, we go around giving speeches condemning the bureaucracy for not following the intent of Congress. My first answer is to be more specific in the way we write legislation, so there is less flexibility on rules and regulations.

Secondly, I feel very strongly that we need a lot more oversight. In the six years I have been on the banking committee, we have taken the approach that the answer to every problem is more laws. I don't feel that way at all. We have, in general, plenty of law on the books; we have neglected to go back and look at what we have from previous years, and have not done the proper amount of oversight on which bills are worth something, which are not, and how we can improve them. I intend to pursue a course of a great deal more oversight and congressional responsibility. . . .

Now, in the area of DIDC, the thing that bothers me there is an example of a little bit the reverse of what I have been talking about. I think the intent of Congress is very clear. That is, we have worked out overall financial

institutions legislation during the six years I have been in the Senate. And when we had the struggle for a period of three months this year on H.R. 4986, [the Depository Institutions Deregulation Act] finally it took the banking committee a long, long session into the night to come up with a compromise that could solve the problem of the NOW account, Fed membership, and so on.

It was very clear that the compromise on interest-rate ceilings, differentials on Reg Q, was one between those who would have liked immediate phaseout and those who wanted ten years. The six-year gradual phaseout was a compromise, and that was discussed at great length, and no one who was in that particular conference committee could have doubted what the intended compromise was. And so the thing that bothers me about DIDC—interestingly, I favored a faster phaseout, and still do, than the six years that was agreed to—but nevertheless, that was the consensus agreement of the Congress and of the banking committee that agreed on this, and DIDC just totally ignored it, and set an extremely more rapid pace than was intended. There is my irritation with DIDC. That was the intent of Congress, that is the legislative process; DIDC should be carrying it out, and not going off on their own.

**EIR:** When you say "looking over legislation," what would you like to do with the deregulation act?

**Sen. Garn:** Senator Morgan and I had introduced a bill in this session that would have provided for a phased deregulation over that six-year period, and obviously that is not going to pass. Senator Morgan has been defeated, and we're going to have such a change in the banking committee that it's hard to predict what will happen. I certainly do intend to hold hearings and consider the actions of DIDC as compared with the legislation, but as far as whether there will be any statutory changes mandating them to do certain things, it's difficult to say. It appears that we will probably have a

seventeen-member committee, increased by two in order to accommodate some of the ratios on the other committees of Democrats and Republicans according to majority status. Along with the four of us carrying over, Senators Tower, myself, Senator Armstrong, and Senator Heinz, there will be five new Republican members of the banking committee, and there will be at least three, possibly four, new Democratic members. You're going to have a tremendously different committee.

**EIR:** What about this question of the regulatory agencies as opposed to the Congress?

**Sen. Garn:** Well, this is a statement I made very strongly on Friday in the banking committee. Reuss and Proxmire put a moratorium on bank holding companies buying S and L's, and my reasoning was, and still is, that although I hate to have Congress do things like that, this so-called homogenization of financial institutions has been occurring, and in my opinion, it ought to be determined by Congress, that major national policy decisions should be made by Congress, and should not be sort of drifted into by the regulatory agencies. Then Congress ends up having to ratify what is already taking place. And that's essentially what happened in the case of the NOW accounts. The regulatory agencies decided that they would allow them, although courts said no, they did not have the authority, that was congressional authority. So we ended up passing H.R. 4986 without a number of options we should have had; things were already in place by the regulatory agencies. My point on the bank holding companies buying S and L's is that it is tied up into a number of issues: the matter of interstate branches, the matter of foreign purchases, or domestic purchases of banks by foreign banks, and there are many things happening that I as chairman don't want to just *happen*, to have us react defensively, to have the regulatory agencies sitting there making decisions involving our whole financial community. We really ought to put a hold at this stage, try to approach things intelligently, and let the Congress make the laws, not the regulatory agencies.

**EIR:** What about this major decision on the International Banking Facilities? Many bankers think that could lead to nationwide banking by fiat, by the Federal Reserve.

**Sen. Garn:** Yes, that's exactly the type of thing that I'm talking about. I hope to get the banking committee willing to make these decisions, take the political heat, whatever it is, rather than finding a scapegoat, passing laws that are very general, and allowing the regulatory agencies a blank check—or, the other thing, as we have just been talking about, is by *not* making decisions, just drifting into them. I hope we will get a fast report out.

**EIR:** What about the specific decision on the International Banking Facilities? Many view that as a preemptive strike by the Fed.

**Sen. Garn:** I do.

**EIR:** But you don't know at this point what could be done?

**Sen. Garn:** No, no, it will be the twentieth of January before I become the chairman.

**EIR:** That's after the comment period, isn't it?

**Sen. Garn:** Yes, it is, it certainly is, so we're in a difficult position.

**EIR:** Many people think this will lead to Electronic Funds Transfer, and as Comptroller Heimann has said many times, to nationwide banking by fiat.

**Sen. Garn:** Well, I agree with that. My personal attitude is, just as one Senator, that I don't want the Fed to take this massive strike, any more than I wanted to allow them to make the decision whether we have bank holding companies buy up a lot of S and L's.

**EIR:** What about the nationwide banking aspects?

**Sen. Garn:** Well, my own attitude, my own bias, as I said the other day in the committee, is that I start off concerned about nationwide branching and nationwide banking and foreign purchases, because I do not want to see our financial institutions absorbed into a few very large ones. And I feel very strongly about the health of smaller banks—and I'm talking about not just the very small bank in a small rural town in Utah. As an example, here in Utah we have what we consider very big banks, but certainly in terms of the biggies they're very tiny ones. I think they perform, and I don't want the big banks operating out of New York and California and so on to be able to absorb them. I think that in the long term that would be to the detriment of the nation's banking system. . . .

**EIR:** We're interested in the effects of the specific IBF proposal, because we think it's going to drastically reorganize the banking system.

**Sen. Garn:** Well, I agree, and that's why I made the statement that I agree with Heimann: this could by fiat lead to national banking, without Congress having made that decision.

**EIR:** Do you intend to make a comment yourself in the comment period?

**Sen. Garn:** My staff is working on my formal comment.

**EIR:** It's been said that you are particularly concerned about the strategic aspect of nonfinancial intermediaries

taking over whole chunks of the bank lending process. Of course, Walter Wriston brings that up all the time, and he says that's why you need to deregulate the banks, let's all go interstate so we can compete with Merrill Lynch. There are, however, other alternatives.

**Sen. Garn:** I am very concerned, there's no doubt the banking institutions have a right to be concerned too—Sears, Merrill Lynch, all sorts of big companies that have no real regulation at all, are taking a large chunk of the business. My answer is not to free up all the banks to do the same thing. That opens a kind of competition which I think is very harmful to a lot of the smaller banks. . . . I'm on the horns of a dilemma on something like this, basically I am for less regulation in general, and here we're talking about how do we regulate people getting into the financial institutions business who are not financial institutions.

**EIR:** Senator, there has been a great deal of discussion within the Reagan administration and the Republican Party around the question: Will Governor Reagan be "Thatcherized"? In particular, given the interest-rate situation, what do you think about Mr. Volcker's monetary policy, and do you think it should be continued? Do you think Mr. Volcker will stay?

**Sen. Garn:** First of all, I don't know whether Mr. Volcker would stay. But the way I look at the Fed—I feel very strongly even when I disagree with the Fed that they ought to maintain their independence. I remember this really started the first year I was in the Senate, when we held hearings with Arthur Burns, and Henry Reuss at that time talked about passing laws mandating the money-supply targets. He and Bill Proxmire were talking about placing a mandated 13 percent rate of increase in the money supply, and Arthur Burns sat there chewing on his pipe, and he said, "Now, Senator Proxmire, don't you know better than that?" He said, "I'm just not going to. . . ."

When I was mayor of Salt Lake City, we didn't let the arsonists in to run the fire department. And I am certainly not going to say, because I disagree with the Fed sometimes, that we're going to let Congress, the number-one arsonist as far as fiscal policy, who've been so totally irresponsible, take over monetary policy. I think you'd be amazed how much better the Fed would perform with exactly the same actions if Congress would take care of fiscal policy, and you were having balanced budgets, decreased taxes, faster depreciation writeoffs, incentives for savings accounts, for example, a thousand dollars in interest-free earnings on savings accounts, and so on.

**EIR:** Mr. Proxmire and Mr. Reuss are no longer with us, and we do have a basic problem of capital formation

in this country—what about what Mr. Volcker's policy is doing to actual capital formation?

**Sen. Garn:** I do think it should be tempered, but I think it can only be successfully tempered if the Congress would enact tax cuts, primarily supply-side tax cuts, stimulate capital formation. Then the Fed could back off. Right now the Fed is simply all by itself trying to cool off the economy, and it does start to work, but it also causes some very serious side effects—for the home-building industry, automobiles, and so on. But if you get capital formation being produced on the fiscal side by Congress, then certainly the Fed can back off, which they should, and help with the capital formation by lowering interest rates.

**EIR:** Does it matter who's at the Fed's helm in that case?

**Sen. Garn:** Sure, it could be done with Volcker there. I know that a number of times I have had this discussion with him and other members of the Fed. Volcker has never disagreed.

**EIR:** Do you have any idea how President-elect Reagan feels about all this?

**Sen. Garn:** Well, I certainly think he would agree in general with what I have said, he certainly is in favor of supply-side tax cuts, savings incentives, and so on.

**EIR:** What would be your prognostication on Thatcherization—do you think that's going to happen?

**Sen. Garn:** No, I don't think it is. I think very honestly that two things are going to happen. Some, the ultraconservatives, are not going to be satisfied with Reagan. Their expectations are too high, and they expect things too rapidly; you don't turn forty-eight years of mismanagement around in a hundred days. But I do think that Ronald Reagan is going to be a far more successful President than most people think; I think his relations with Congress, his ability to turn things around and actually get tax incentives, tax cuts enacted, will surprise a lot of people.

I think the trend will be the important thing, not that we revolutionize the world in a so-called hundred days—but we show the American people that with a Republican President and a Republican Senate, and more conservatives in the House, we really can change the direction the country is going in, get that confidence. I've certainly found over the years something I didn't learn in college, which is how much psychology has to do with this; even though the actual numbers, the economic indicators may not show dramatic changes very rapidly, the fact that they are moving in the right direction means people are willing to invest. I think a lot of people are going to be surprised, the ones who said he's the lesser of two evils.