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know or care who else is in Congress—*it's a question of what the population wants.* Jake Garn is doing this plain and simple because he knows what the population wants, and he has to do what his constituency wants, they're wrong, but they have said loud and clear what they want, and unless Garn and the rest of Congress want to be ridden out of town, like Jimmy Carter, they'll do what the voters want. Look at the savings and loan issue which has people all excited. There's no law that says there have to be five thousand S&Ls and fifteen thousand commercial banks; it's inefficient, expensive, and uneconomic. A lot of these thrifts have no idea either how to make money or how to make mortgages, and some of them should be allowed to fail; the S&L industry should be consolidated, the bigger ones should soak up a lot of the smaller. These rich little S&L executives sit in their nice small-town oak-paneled offices and enjoy terribly being president of the First Federal S&L of East Podunk—they don't know how to run a bank and they know it; they're afraid. They should all be branch managers. These CEOs should all be out of a job, if the market were rational, or should be taken over and turned into the branch manager of the Podunk branch of a major S&L.

Colorado—there was a ballot proposition for statewide branch banking and they voted it down two to one, because people were afraid that the big banks would come into their towns and kick the shit out of the little ones, and take over, and stop making loans to them. The Independent Bankers put out advertising saying just that everywhere and they did their job, they scared people.

Arkansas—Arkansas has a 10 percent usury ceiling on consumer loans made in Arkansas for over six thousand years. There was a proposition put up to deregulate usury ceilings on consumer loans, and they voted it down overwhelmingly, because high interest rates are bad, right? Okay, so now you can have the privilege of applying for all the consumer loans you want in Arkansas at 10 percent, and they can't afford to make them. This is supposed to be better than at least letting some people have the choice, if they wish, of applying for a loan at 20 percent and actually getting one for a change. . . .

The Depository Institutions Deregulation Act is under attack because the population doesn't understand that the savings banks are simply inefficient. . . .

This is wrong, of course, but these people have political power, these congressmen. They are the worst offenders, these congressmen who continue to have the misconception that we should continue to have the Reg Q differential to protect the thrifts—one, because they think Reg Q will protect the thrifts, which it won't; two, because they think we should protect the thrifts, because the thrifts finance housing, which is not true; and three, because they think we need more housing in the first place, which is wrong—we already have much too much housing.

First of all, Reg Q does not protect the thrifts because the reality is that money-market funds pay higher rates to depositors and take all their deposits. Then the S&Ls won't be able to make any loans. Period.

Second, we shouldn't protect the thrifts, because they don't promote housing finance in any rational way. I expect a lot of thrifts to be failing, and that's good. If anything, having thrifts too specialized, doing almost only housing as they are, hurts housing in the first place; because the government has caused them to be so specialized, they depend tremendously on housing, and when rates are high, they can't make loans, because people can't afford them, and they start going under. They can't afford to make mortgages at fixed rates, because their costs of funds go up, and they can't make them at variable rates, because people can't afford those. So, in order to stabilize any flow of funds into housing, these institutions have to be diversified, able to earn

The obstacles to interstate banking

The McFadden Act of 1927 establishes state lines as the boundary within which banks may expand *branches.* It allows both state and nationally chartered banks to expand locally to encourage the financing of industry and agriculture. However, it forbids banks, notably the large nationally chartered banks such as Citibank and Chase Manhattan, from branching across state lines and taking over the business of local smaller banks through cutthroat competition. It thus protects local banking.

The Douglas Amendment to the 1956 Bank Holding Company Act establishes similar rules to McFadden for the purposes of bank *subsidiaries,* and has the effect of prohibiting large banks from buying up smaller banks as wholly owned subsidiaries across state lines.

Regulation Q of the Federal Reserve Board is the power vested in the Fed Governors by the Federal Reserve Act of 1913 to maintain or remove interest rate usury ceilings. It also, prior to the repeal of this provision by the Depository Institutions Deregulation Act of 1980, gave savings institutions a legal percent "differential," allowing them to pay depositors an extra percent more than commercial banks could pay, to attract savings for housing finance.

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