National Cut the Red Tape Week

Deregulating a bankrupt banking system, as the lobbyists are demanding, will only make matters worse.

The propaganda campaign for banking deregulation gathered momentum Feb. 1, with the launching of National Cut the Red Tape Week by a coalition of state and national bank lobbying groups, the U.S. Chamber of Commerce, and the National Association of Home Builders.

According to statements by the American Bankers Association (ABA) and others, you are supposed to believe that individuals and small businesses will enjoy a shower of credit if banking regulations are lifted. That is the cover story. The reality is that the Federal Reserve-dominated banking system is bankrupt, and lifting regulations is a ploy.

The ABA's Feb. 1 press release, on behalf of the "Cut the Red Tape" coalition, said, "All agreed that the unrestrained growth of bank regulations is restricting credit to individuals and hindering economic recovery," and therefore they have initiated "a unified effort to scale back unnecessary regulations."

"There is no magic bullet that will instantaneously get credit flowing again," said ABA Executive Vice President Donald Ogilvie. "And searching for one would be a mistake. Rather than needing one thing to be done 100% better, we need 100 things to be done 1% better."

Over the past five years, Ogilvie said, more than 40 major provisions affecting bank operations have been passed. "This battery of new requirements has had the most harmful impact on small businesses, home buyers, and other individual borrowers," Ogilvie said. "It is indeed possible to protect safety and soundness without choking off credit to customers and the local community. And striking such a balance is the aim of our unified campaign."

The bankers' statisticians have been working overtime to try to prove their ludicrous contention that overzealous bank regulators have imposed unfair burdens on the banks. These burdens, the line goes, have hampered the banks' abilities to make loans to the little guys, upon whom the recovery allegedly depends.

Last June, the ABA released a study which claimed that banks paid $10.7 billion in 1991 to comply with government regulations.

The same month, the Independent Bankers Association of America (IBAA) commissioned the accounting firm Grant Thornton to determine the cost of regulatory compliance at banks with less than $5 million in assets.

The study, released in late January, concludes that the smaller banks spend some $3.2 billion a year—24% of their annual pre-tax profits—to comply with 13 major regulatory areas, including community reinvestment, consumer protection, and real estate appraisal laws. Filling out forms and monitoring compliance at these banks takes an estimated 48 million man-hours a year, the equivalent of 22,800 full-time employees, the study said.

The most costly regulations, the study claimed, were the Community Reinvestment Act and the Truth in Lending law.

The U.S. banking sector as a whole, the study claimed, spends some $11 billion a year to comply with banking regulations.

"Community banks are strapped in a regulatory straitjacket and we need relief," declared Leland Stenehjem, the chairman of the IBAA's regulatory review committee and the president of the First International Bank of Fargo, North Dakota.

The claim that deregulation will lead to economic recovery was pushed during Bill Clinton's economic summit in Little Rock, Arkansas last month. ABA President William Brandon, an Arkansas banker, told the meeting that cutting banking regulations could generate as much as $86 billion in new bank loans, while Citicorp chairman John Reed put the figure at $100 billion.

That was a bit much for Acting Comptroller of the Currency Stephen Steinbrink. "I happen to believe that a reduced regulatory burden could free up some funds for other uses," he told a New York State Bankers Association meeting in Washington on Jan. 28, but "all of us, bankers and regulators alike, must take care of how we discuss the benefits of a reduced regulatory burden."

"In the long run, the banking industry will suffer if the promised benefits do not materialize," Steinbrink warned. Indeed, these benefits will most assuredly not materialize.

Despite the alleged record profits earned by U.S. commercial banks last year—the banks claimed profits of $24.1 billion through the first nine months, and may well top $30 billion for the year, thanks to federal subsidies and friendly examiners—the banking system as a whole, already hopelessly bankrupt, suffered severe losses in 1992.

The Clinton administration has signaled its intention to further deregulate the banks. In doing so, it is signing its own, and the country's, death warrant.