

many of the Democratic members of the committee; they are shared by the administration; and I think it's likely that we will see some amendments to ensure that consumers are not gouged by monopolies until a competitive alternative is available.

But despite my reservations about this provision, I expect that we will be able to resolve our differences here in a manner comparable to the way we have developed a consensus on the other provisions of this bill. In that regard, I would like to commend both Chairman BLILEY and Chairman FIELDS for the manner in which they have treated the Democrats during the drafting process. This has been a truly bipartisan process, and the legislative text that was introduced today reflects the many compromises and changes that were made by both sides.

Telecommunications issues have never been partisan, and have never been ideological. The manner in which the majority has treated the minority in this case is exemplary, and it is my hope that it will serve as a model for the many legislative initiatives we have before us. I would like to thank both of these fine legislators, and look forward to continuing this bipartisan approach as H.R. 1555 moves through the House.

Mr. Speaker, H.R. 1555 is a good bill, and before it is sent to the President for his signature, it will be a better bill. I urge my colleagues to join with us in support of this legislation, and enact a statute that will enable the telecommunications industries to bring to the American people the benefits that the twenty-first century has to offer.

Ms. ESHOO. Mr. Speaker, I rise to inform Members about the introduction of the Commerce Committee's historic legislation to reshape our Nation's telecommunications laws.

I'm proud to be an original cosponsor of this legislation and commend Commerce Committee Chairman BLILEY, Telecommunications and Finance Subcommittee Chairman FIELDS, and ranking members JOHN DINGELL and ED MARKEY for their efforts to produce a bipartisan bill.

The Nation cannot wait another year for telecommunications reform. The current law of the land for telecommunications is based on a law written in the 1800's to govern railroads in America. Now, after several decades of extraordinary advances in information technology, most of our Nation's telephone system consists of a pair of copper wires.

As the Representative from Silicon Valley in California, I know the importance of deregulation to computer and software technology. Information technologies are the business of Silicon Valley.

I believe we can look to the computer and software industries as examples of good things to come for the communications industry if competition can be established.

Consider the first digital computer made in 1943 which was 8 feet high, 50 feet long, contained 500 miles of wire, and could perform about three additions per second. Today, consumers can purchase a computer with wafer-thin microprocessors which are capable of hundreds of millions of additions per second and fit on your lap.

Yet today's twisted copper wire telephone network is unsuitable for modern computers and software applications which can incorporate voice, video, graphic, and data trans-

missions and send them simultaneously in real-time exchanges.

A technology gap exists between the information technology and communications industries and this hurts our international competitiveness. This bill can help close the gap, encourage competition, and foster increases in high technology exports and jobs.

A successful telecommunications bill should pass two critical tests. First, it should establish a process which brings the greatest competition to bear, and second, it should promote technology innovation and production in a way that can make a difference in peoples' lives.

This bill is a step forward in meeting these important goals and I'm proud to cosponsor it.

GENERAL LEAVE

Mr. DUNCAN. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days in which to revise and extend their remarks and to include extraneous material on the subject of the special order today by the gentleman from Texas [Mr. FIELDS].

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Tennessee?

There was no objection.

FINANCIAL SERVICES REFORM

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from New York [Mr. LAFALCE] is recognized for 5 minutes.

Mr. LAFALCE. Mr. Speaker, the House has a unique opportunity during this Congress to take important and long-overdue steps to modernize the U.S. financial services system and prepare it for the competitive challenges of the 21st century.

In 1991, I served as chair of the Banking Committee's Task Force on the International Competitiveness of U.S. Financial Institutions. That task force concluded that our financial services policy had failed to keep pace with new market developments, including changes in corporate and individual consumer needs, new technology and product innovation. The result was a financial services system that was potentially uncompetitive, inefficient, unduly expensive, and slow to respond to changing customer demands.

The task force report concluded that it was incumbent upon policymakers to undertake a fundamental and comprehensive reassessment of the major laws and the regulatory structure which underpin the U.S. financial system. There have been several abortive efforts since that time to do so. But I believe we have now finally achieved substantial consensus that change is necessary, the circumstances are now ripe for meaningful action, and the goal is within our reach.

The chairmen of both the House and Senate Banking Committees have put forward comprehensive reform proposals. While these proposals differ in important regards, they share many key

elements. The Treasury Department has put forward a proposal of its own that is substantively comparable in many critical respects. In addition, the affected industries are engaged in meaningful and substantive discussions on the key issues in an effort to achieve some consensus.

While differences in perspective certainly exist, what is most noteworthy is the widely shared assumption that our financial services system requires substantial reinvention. If we can keep our eye on this shared goal, we should be able to build upon the many points on which we all agree and effect reasonable compromise where we do not in the days ahead.

To that end, while I have very definite ideas of my own as to the best course of action on key issues, I do not plan to introduce legislation at this point. A Banking Committee markup is imminent, and we will be working from the chairman's mark—which is still in preparation—as is appropriate. I believe our best prospect of success lies in working cooperatively and in a spirit of compromise to further refine that mark in a way that builds consensus on these important issues. Past experience should certainly have taught us that legislation which does not reflect a reasonably broad consensus is doomed to failure.

I. PRINCIPLES TO GUIDE DELIBERATIONS

I would, however, like to set forth some principles which I believe should guide our deliberations.

(A) Congress should attempt to achieve the broadest reform possible;

(B) Elimination of the barrier between commercial and investment banking should be accomplished so as to maximize efficiencies and take advantage of possible synergies between lines of business, while safeguarding safety and soundness;

(C) Reform should create a true two-way street between banks and securities firms, level the competitive playing field, and provide such firms equal opportunity to enter each other's businesses;

(D) Nothing we do should turn the clock back or impose new restrictions where none are warranted;

(E) Safeguarding consumer rights and interests should be an integral part of any reform package;

(F) Proper regulatory oversight should emphasize functional regulation, ensure necessary political accountability, and take advantage of the benefits provided by a creative tension between regulators; and

(G) Reform should ensure that foreign banks have a fair opportunity to compete on equal terms, and are not competitively disadvantaged.

II. THE MAJOR ISSUES

A. The need for broad reform:

It is imperative that we strive for the broadest financial services reform on which it is possible to achieve consensus. This is not a time to be timid.

The current structure of our financial services system fails to reflect substantial changes in products, technology, customer demand, and service delivery that have occurred over many years. It is increasingly difficult to discern meaningful differences between the products offered by banks, securities firms, and insurance companies, or to place into neatly segregated compartments the customer needs each provider is attempting to serve.

Past ad hoc attempts to adjust to market changes without comprehensive reform have created a system replete with inconsistencies, and regulatory and legal anomalies. Our goal should be to correct this unduly complex and conceptually inconsistent structure, not perpetuate it. But we should not achieve purity by the elimination or undue restriction of legitimate businesses that pose no harm and contribute positively to the competitiveness and efficiency of our financial services system.

We must also focus on achieving progressive change. If financial services reform is justified, it is presumably because the premise behind our action is that we are constructing a safer and sounder financial services system, offering opportunities for diversification and better risk management. I believe that is the case. In my view, it is the very limited nature of the existing bank charter that has created many of the industry's past problems. The reform we craft should reflect that understanding.

B. Removing barriers between commercial and investment banking:

The Leach bill takes a major step forward in finally removing the barriers between the banking and securities businesses, businesses which simply offer alternative means of meeting similar customer needs. Such a step is long overdue.

Substantial changes have occurred in recent decades in the way traditional bank customers have attempted to meet their financial needs. Major corporations have moved increasingly to the capital markets to obtain needed financing. At the same time, individual consumers and small businesses have increasingly sought alternatives to traditional checking and savings accounts for transactional, savings, and investment purposes. Yet, while the market has changed substantially, the Nation's banks have been precluded from following their customers and effectively responding to changing demand.

Bank holding companies do have limited authority to enter the securities business through the section 20 subsidiaries authorized by the Federal Reserve. The successful operation of such subsidiaries has established clearly that commercial and investment banking activities can be combined within a holding company structure to the benefit of consumers, and without risk to safety and soundness, if proper controls are put in place.

I believe there is substantial consensus that the barriers between these two banking businesses should be eliminated, with proper prudential controls, and that should be a top priority of any reform package. Moreover, this reform should be effected in such a way as to maximize possible efficiencies and synergies.

1. Wholesale bank holding companies:

For those institutions that wish to engage solely in a wholesale business, the provision in the Leach bill for creation of a wholesale bank holding company, subject to more limited regulatory strictures, makes eminent sense. Many prudential controls are designed primarily to protect against an inappropriate use of depositor funds. For those institutions not engaged in retail activity and not seeking deposit insurance protection, less onerous controls are appropriate. While it is true that wholesale institutions will maintain access to the discount window, appropriate controls on such access are already in place.

2. Appropriate firewalls:

In the course of the debate on financial services reform in the past, great emphasis has been placed on firewalls between holding company affiliates as the primary mechanism for guarding against misuse of depositor funds. While I believe firewalls are important, they are only one element of an overall structure of prudential controls. A single-minded focus on firewalls as a source of protection may only ensure that they are so restrictive as to render inoperative useful synergies that can otherwise be achieved within the holding company structure.

Much has changed since earlier debates on these issues. The changes in bank capital requirements, coupled with provision in FDICIA for prompt corrective action and enhanced supervisory authority, have given bank regulators ample authority to intervene well before depositors are placed at any risk.

Firewalls certainly offer additional protection, but are no substitute for the prudential controls otherwise already in place.

I believe experience with the new authorities granted banking institutions will help us determine what firewalls are more or less meaningful and appropriate. Therefore, I believe it appropriate that the relevant regulatory authority be granted some marginal discretion to adjust those firewalls as experience dictates.

3. Exercise of authority through operating subsidiaries:

The Leach bill relies heavily on the holding company structure as protection against newly authorized activities placing the depository institution at risk. I believe this is largely appropriate. However, we should not insist on the expense and potential inefficiency of creating a holding company structure where one might not be necessary.

Where activities have been performed in the bank or bank subsidiaries with presenting any undue risk, such an alternative structure might continue to be appropriate. We should review closely what activities can reasonably continue to be conducted by the bank directly without undue risk.

C. The need to establish a true two-way street:

This reform effort should not be a debate simply about giving banks or any particular type of financial institution more powers, at the competitive expense of other financial services providers. Our goal should be to remove barriers between financial industries which we have come to see as artificial, level the competitive playing field and increase opportunities for all financial services providers.

In removing the barriers between commercial and investment banking, our goal should be to create a full two-way street through which commercial and investment banks can enter each other's businesses on equal terms. Yet, while this is our appropriate goal, it is not easily achieved if a reform bill is too narrowly structured. The structure of many existing securities firms and their existing affiliations with insurance companies may well preclude their taking full advantage of the removal of existing barriers between commercial and investment banking.

While the Leach bill provides some accommodation, I do not believe it goes far enough. Correcting this potential inequity must be a major matter of concern as we debate these issues.

D. Avoiding retrenchment:

There are legitimate and substantial differences of opinion regarding how far we should go in breaking down the walls between banking and commerce or, indeed, the barriers between various financial services providers. We may not ultimately be able to produce as broad reform as some, including myself, might like. However, in no case should this reform proposal become a vehicle for turning the clock back and eliminating or taking authority away from financial institutions whose activities have posed no risk while providing much benefit to consumers.

In my view, many of the existing anomalies in our financial services system represent marginal progress toward a more integrated financial services system. In fact, some of these anomalies simply reflect our financial services system as it once existed before new restrictions were imposed in various bank and thrift holding company legislation, CEBA and other legislation imposing what were new restrictions and limitations. The proper response is not to remove these anomalies or restrict them further, but to move, incrementally if need be, toward a comprehensive reform of the financial services system which will ultimately embrace them.

The original Leach bill would have eliminated the charter of unitary thrift holding companies. A subsequent draft

would grandfather existing institutions. In my view, if we are not to address the banking and commerce issue fully, the proper approach is for the bill to remain silent on this issue. Existing unitaries have served as instructive examples of how financial and commercial activities can in some cases be appropriately mixed. They have posed no risk to safety and soundness, are subject to appropriate regulatory and oversight authority, and serve customers well.

There is no compelling reason to circumscribe their operations at this point. Grandfathering is an unworkable alternative in my view. To artificially circumscribe the ability of functioning businesses to expand and compete on equal terms is to effectively sound their death knell. I believe that any changes in the unitary structure should await a subsequent day when we are willing and able to address banking and commerce issues in some comprehensive fashion.

In the same fashion, I believe it is time to eliminate the restrictions imposed on limited purpose banks. I always believed these restrictions were anticompetitive and should never have been imposed. But in any case they were intended as a temporary measure awaiting comprehensive financial services reform. We are still awaiting such reform, and I believe even this Congress' effort will fall short of what is desirable.

In the meantime, changes in the restrictions imposed on these financial institutions can no longer wait. This is virtually the only financial services arena in which time is standing still. There have otherwise been substantial changes in the laws and regulations that have enhanced opportunities for other financial services providers and made full-service banks more efficient, strong, and competitive. In this context, the arbitrary restrictions imposed on limited-purpose banks are untenable and unreasonable.

E. Safeguarding consumers:

Safeguarding the consumer's interests must be a central element of this reform effort. If banking institutions are to be permitted to offer an array of products, some of which are insured, and others not, it is imperative that the consumer be clearly informed of any risk he is assuming and that safeguards be put in place to eliminate any potential confusion. Clear disclosure requirements which will ensure that the consumer understands what protections are afforded with any particular products must be a part of this bill.

But disclosure alone is not enough. Institutional structures can inadvertently or purposefully suggest protections that do not apply. For example, the marketing of mutual funds under a name or logo that may suggest that the product is somehow insured or guaranteed by a banking institution could place the consumer at undue risk, and prohibitions or restrictions on the use of a common name and logo may be appropriate.

We must also find a proper balance between the consumer's right to privacy and the synergies available from cross-marketing. Both financial services providers and consumers can benefit from marketing efforts that bring the full array of products available from a particular financial services provider to the consumer's attention. Yet consumers also have a right to have confidential information maintained as such, and to be protected from being inundated with sales pitches and marketing information they neither seek nor wish to have. We must strive for a proper balance between these competing interests.

F. Providing for proper regulatory oversight:

The regulatory controls put in place in FDICIA—most notably, tougher capital requirements and provision for prompt corrective action—have contributed substantially to the safety and soundness of our banking system. These and other prudential controls are essential to the proper implementation of financial services reform.

I believe any effort at complete regulatory reorganization should follow rather than precede or accompany modernization legislation—it is difficult to determine what authority appropriately lies with what regulator when the distinctions between types of financial services providers and their products remain unclear. Nevertheless, clarification and, where appropriate, enhancement of regulatory authority should be central elements of the Banking Committee's product.

In my own view, the proper regulatory oversight structure would rely heavily on a scheme of functional regulation, while providing some limited oversight authority to the Federal Reserve at the holding company level to protect against systemic risk. I have great confidence in the Federal Reserve as an institution and in its skill as a regulator. However, I believe there are inherent risks in placing plenary authority in any independent regulatory institution, and I believe the authority granted the Federal Reserve in the Leach bill is too encompassing. The scheme we ultimately construct should ensure the necessary degree of political accountability and take advantage of the creative tension between regulatory authorities that has proved a useful source of adaptation and innovation in the past.

G. Equal treatment of foreign banks:

The presence of foreign financial institutions in our market has served our economy and our communities well. In addition, U.S. financial institutions benefit when they are able to enter foreign markets under regulatory regimes that permit them to compete fairly with domestic service providers.

Any financial services reform should provide for the equal treatment of foreign banks so long a hallmark of U.S. law. Most international banks in the United States operate uninsured, wholesale branches and agency offices rather than bank subsidiaries. The re-

form legislation should ensure that foreign banks that seek U.S. securities affiliates can continue to be able to operate branches and agency offices in the United States and not be required to "roll up" their U.S. banking operations into subsidiary banks.

Most countries permit nondomestic banks to compete through branches, because the entire world-wide capital of the bank stands behind the branch's operations. Such rules applied in foreign markets substantially benefit U.S. banking institutions operating abroad. Any change in that requirement would disadvantage them severely.

Applying these same rules in our own market benefits not only foreign banks but the U.S. customers they serve. The ability of a branch to draw on the resources of the entire bank directly benefits U.S. corporate customers by enhancing the availability of credit, increasing the availability and size of loans from international banks, and reducing the cost of financing for customers.

III. CONCLUSION

This Congress provides a singular opportunity to take major steps toward financial services reform which will make our financial services system safer, more efficient, and more competitive and provide consumers better and more varied services. I look forward to working with Chairman LEACH, Ranking Minority Member GONZALEZ, and my colleagues in both sides of the aisle to achieve this long-sought goal.

SOME COLLEGES AND UNIVERSITIES PERFORM A DISSERVICE TO AMERICA'S YOUNG

The SPEAKER pro tempore (Mr. INGLIS of South Carolina). Under a previous order of the House, the gentleman from Tennessee [Mr. DUNCAN] is recognized for 5 minutes.

Mr. DUNCAN. Mr. Speaker, some of the colleges and universities in this Nation are performing a real disservice to our young people.

They are encouraging them to get—or at least not discouraging them from getting—degrees in fields in which there is almost no hope for a good job.

This is particularly true concerning many graduate programs—especially in the field of law.

My wife recently had her groceries carried out by a young man who had received a law degree but who could not find a job.

Many law schools are perpetrating a fraud. They tell their students "Yes, there are too many lawyers, but there will always be room for a few more good ones."

Well, everyone thinks they will be the good one.

Only after spending a small fortune and devoting several years of hard work to the task, do they receive a very rude awakening.