"Winners and Losers: The Results of Black Monday"

Remarks By
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It gives me great pleasure to talk once again with the members of the National Press Club.

While my talk is entitled "Winners and Losers, the Results of Black Monday," perhaps it should be subtitled, "It's An Ill Wind That Blows No Good."---or "Every Dark Cloud Has A Silver Lining."---or "It's Always Darkest Before the Dawn."---or maybe just "If You're Not In A Panic, You Don't Understand the Problem."

Because the FDIC plays a dual role in both regulating the safety and soundness of banks, as well as insuring deposits, we are concerned about possible fallout carried by that ill wind of October 19.

Over the last two years, the FDIC has seen in the Southwestern United States what near-depression conditions can do to the banking system and to our deposit insurance costs. Three quarters of all of the record 200 bank failures expected this year will be in the Southwest.

Many people have been working on determining causes of the so-called "Crash of '87." We at the FDIC have been focusing on the probable effects of the event on the banking system and its economy.

This week we talked to bankers in 215 banks across the country. We wanted to know how "Black Monday" had affected their banks and local economies. We asked them for the facts on what was happening now in their areas, and to their banks. We sought a real time report on the real economy. We wanted to see how circumstances had changed for them in the three weeks since "Black Monday." The banks that were called varied in size from small rural institutions, to several in the multi-billion dollar range. They were located in 199 cities, in all 50 states. We did not seek out money center banks because much has already been reported about them, and we were interested in banks in the unreported heartland.

We're pleased to report that, at this time, banks are not experiencing anything that resembles a recession. Major new problems for banking were not evident. In fact, in many cases, we are hearing that banks are doing better.

Almost a third (31.2%) of the banks reported deposits coming in at a rate that was noticeably higher, while only one percent reported deposit flows that were noticeably lower. Nearly two-thirds reported that their deposit flows were "about the same" as before "Black Monday." So there is no evidence of a "run" on our banks, in fact its more like people and businesses running to put money IN!

About 82 percent of the banks reported that loan demand, both from consumers AND businesses, was about the same. The stock market turmoil has had a minor, not a major, effect on bank activity. This can be read as meaning that the substantial loss of consumer and business confidence in the economy that could have happened, hasn't happened.We also found that expectations of increased loan losses tended to increase with bank size. For example, 11% of our banks with over $1 billion in assets expected noticeably higher loan losses while only 1% of those under $100 million expected an increase.

Ninety-four percent of the banks polled said that they expect to see no change in the amount of losses on loans. Eighty-six percent saw about the same earnings performance, while eight percent expected bank earnings to be noticeably higher.

With regard to the question of business and consumer confidence in the banking system, almost a third (30.2%) of the banks rated this as noticeably higher, while nearly two-thirds (63.7%) expected it to remain about the same. Regional differences appeared to reflect the conditions in the area before October 19.

So if people are looking for a "domino" effect to take place in our economy following "Black Monday," there just is little evidence in the banking system at this point that the dominos have begun to fall.

In fact, at this time a number of banks appear to be ahead, rather than behind. Now this doesn't apply to all banks: As shareholders of Continental Illinois, with its losses in option market financing, the FDIC is aware that there have been losers among individual banks--but they are in the minority.

Now, our survey was intended just to take the pulse and temperature of what bankers are seeing now. A complete physical exam on the effects of "Black Monday" won't be possible for some time. So far, So good.

Our survey did reinforce a number of positive developments observed since the "ill wind" blew through Wall Street.

A recent interview with a Swiss banker discussed various aspects of "Black Monday's" aftermath. He referred to the Wall Street events as "A Salutary Shock" to the markets and economy...an interesting and uncommon observation.

We wouldn't go that far. The crash hurt. Many innocent people lost money, and the markets were disrupted. Ill effects are easily observed in many places. Fortunately, so far, the most troubling one, the start of a serious recession, is not evident...at least in the banking system.

A number of positive things have happened to the economy since the market's decline. In fact, some of the many candidates for President might consider a campaign which would promise some similar beneficial results:

The candidate's platform could have real political appeal. The candidate could promise that, if elected, he would accomplish the following results for the benefit of the electorate. He would pledge:

- First, to simply lower interest rates. Thus, he would be able to help increase capital spending by industry--and even help the LDC nations to pay back their debts.

- His second platform plank, would vow to slay the dragon of inflation by reducing inflationary expectations.

- A third platform promise would guarantee that the politicans in Washington would come to grips with the Federal deficit, no matter what it takes--taxes, spending cuts--or both.

- Fourth, the platform would promise a stronger banking system with new inflows of deposits and renewed confidence in the system.

- Fifth, the platform would call for a reduction in speculation in the markets. The level of the stock market would be returned to historical norms, reducing risks in the system.

- Sixth, he would bring economic reality to the effort to stabilize foreign-dollar exchange rates without having an integrated world economic policy.

- Finally, the candidate would promise that an increased number of our young leaders of tomorrow, particularly those now enrolled in business schools, would switch their majors from finance to marketing and production.

Now, I think it would be reasonable to assume that such a platform would make any candidate's heart beat faster. But his audience would be skeptical that he could deliver all those goodies.

What would the price be? What would it take to bring all this about? As in the famous speech writer tale, the candidate would have promised much and now would need to explain how to produce--and his disgruntled speech drafter would have left him a blank page.

Well, it wouldn't take a new crop of glass and marble buildings along Pennsylvania Avenue, or thousands more Federal workers. The answer to the accomplishment of the platform would be difficult for a politician to explain. Like President Nixon's secret plan to get the country out of the Vietnam war, revealing the plan might destroy it. The plan would require a return of the markets from lofty to more normal levels. In other words, a major adjustment in the markets. Or, in other words, a jolt, a crash of the high flying marketplace just like Black Monday.

I'm certainly not advocating another meltdown. But we should not fail to observe some of the favorable effects of the problems on Wall Street. All of the platform planks have been put into place by the conditions in the marketplace.

So, while we seek to limit the bad things that result from the Dow's big drop, we can identify a large number of very positive things that have been happening.

I repeat: "It's an ill wind that blows no good." Like someone who has a mild heart attack and decides to stop smoking, watch his diet and get regular exercise, we could end up healthier than before, and a better quality of life.

Some of the most important behavior changes resulting from the "shock" could mean better economic health.

We appear to have survived the market turmoil so far without starting a major recession. We have a window of opportunity to work on some of the fundamental economic challenges: government deficits, productivity and savings rates, and international competition.

Despite what has happened, our U.S. economy still appears remarkably sound. Besides our look at banking, consumer confidence as reflected in the Harris Poll recent retail and automobile sales figures appear to support that statement.

So let's not make a stock market adjustment into a self-fulfilling prophecy of economic disaster.

As I've tried to show, there really isn't any reason for confidence in our economy to falter. Instead, there are reasons to assume that our economic vigor can continue, and in some ways, on a more solid basis.

Yes, we need to learn from this experience about markets, margin, options and credit--and I believe that we will.

But, perhaps to our surprise, we can say, after the worst day in the history of the New York Stock Exchange, that the fallout is not nearly as bad as we all could have expected. There appear to be a good many winners as well as losers from "Black Monday."