REMARKS OF THE HONORABLE EDWARD J. MARKEY
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Good morning. It is a pleasure to address the annual SIA convention.

Capitol Hill watchers all say that I seem happier as Chairman of the Subcommittee on Telecommunications and Finance than I was when I chaired my old energy subcommittee. It's not hard to figure out why. As chairman of the energy subcommittee, I got invited to Three Mile Island and Chernobyl. I had to pack lead shielding. Now I get to come here to beautiful Boca Raton where I am welcomed, at least so far, by one of the industries falling within my Subcommittee's jurisdiction.

Beyond that, Wall Street is one of the great centers of humor in the United States -- especially political humor. Rumor has it that whenever a presidential candidate confesses to a faux pas that takes him out of the race, at least half of the resulting jokes originate on the trading floor at Salomon Brothers.

Of course, Wall Street is pretty good at poking fun at itself. Arbitrageurs in particular have been regular targets. It reminds me of what Carl Icahn once told his wife: "If I ever need a transplant, get me the heart of an arb because I'll know it's never been used."

And of course the competitive nature of Wall Street market participants hasn't escaped the attention of critics. It reminds me of the story about the two brokers who went camping recently to escape from the pressures of Black Monday. During the middle of the night, the two brokers discovered that there was a grizzly bear on the loose. But rather than immediately taking off, one broker sat down and put on his track shoes. The other broker asked him: "Why are you wasting time putting on track shoes? You'll never outrun a grizzly bear!" And the other broker responded: "I don't need to outrun the grizzly bear. I only need to outrun you!"

But what happened on Wall Street and on the rest of the world's financial markets on October 19th and 20th was no laughing matter. Never in my eleven years in Congress have I seen Members so preoccupied with the Dow Jones Industrial Average or with Wall Street's reaction to what we in Washington are doing. CNN and MacNeil-Lehrer are out; FNN and Money-Line are in. Members watch the time left on the voting clock with one eye and the broad tape with the other.

The seismic quake that rocked Wall Street has spawned a series of aftershocks in our Nation's capital, some of which are likely to be felt for many months to come. There is new resolve in Washington as evidenced by the recently concluded agreement to cut $76 billion from the Federal deficit in the next two years. This agreement may not leave our markets euphoric, but it does represent progress in America's coming to grips with economic reality.

Nevertheless, I detect continuing dissatisfaction and even disdain on Wall Street with the way in which Washington is responding to the market crash. Segments of the financial community seem resentful, and, frankly, nervous about the scrutiny they will unquestionably receive from the Brady Commission, the Congress, and the regulators. Many on the Street are quick to claim that Washington is simply looking for a scapegoat and that Washington-based problems were the root causes of the market crash. As alleged proof, the Street has pointed variously to the trade and budget deficits, Secretary Baker's pre-crash comments on the strengh of the dollar, the Federal Reserve's attitude toward interest rates, and the House Ways and Means Committee's proposal to limit the deductability of takeover and LBO-related debt.

For our part, few elected officials have resisted the urge to counterpunch. Politicians as a breed, no matter what their party, typically follow Mayor Ed Koch's prescription: "You hit me, I hit you back. Self-respect is good for the soul." Therefore, railing against greed on Wall Street has become a staple of almost every Presidential candidate's stump speech, regardless of party.

Now we could go on like this for some time, revelling in recrimination and finger pointing. The financial community would let off steam, and politicians would compete fiercely with each other for the most scathing 15-second bite on the evening news. But this will not get us anywhere. Moreover, it is incredibly counterproductive because while a small group of politicians in Washington is pointing their finger at you, and you are pointing your finger at us, there are 240 million Americans out there pointing their fingers at both of us.

The American people believe that both of us are to blame for the shape of our economy, and they will hold both of us accountable. From us, they will withhold their political endorsement. From you, and from our economy, they will withhold their investment dollars. Neither one of us will win, and our nation will be the ultimate loser.

Our alternative is to begin the healing process. We might start by using the metaphor of a heart attack to describe Black Monday. Although it is still too early to tell whether the stock market simply experienced arhythmia on October 19 and 20, or whether it actually came perilously close to stopping, preliminary indications are that the economy as a whole emerged with only

limited damage for the time being. While the last 5 years have produced substantial returns for some of our citizens, the question we must now ask is whether we, as a nation, have been walking around like a classic candidate for a coronary. Has our economy been smoking two packs a day, getting no exercise and living on a high cholestrol-low protein diet? If so, for that kind of a patient, there is no quick fix. We can recover completely, but is will require a great deal of patience, discipline, cooperation and hard work. It will also require us to break some very bad habits and base our future on a more healthy and sound regime.

The first step on the road to recovery is to find out precisely what happened and what caused it. As you know, the Subcommittee on Telecommunications and Finance, which I chair, is conducting a full-scale investigation into these questions. There are other concurrent Congressional investigations and studies by the Brady Commission and the SEC. For my part, I am working closely with my friend, Matt Rinaldo, the Ranking Republican on the Subcommittee, in a bipartisan effort. I am also discussing these issues and coordinating with my friend, John Dingell, the Chairman of the Energy and Commerce Committee. Although I have designated particular priority issues for consideration -- for example, the role of debt as a macroeconomic factor and the role of stock index-related trading strategies as a technical factor -- I have not prejudged either the causes or the cures.

The process of piecing together what happened and then coping with it will not be an easy one. It will demand intense self-examination on both our parts. To do the job right, the cooperation of your industry is essential. And by that I mean the cooperation of your entire industry.

I know that there are differences among your various groups represented here today. There are large firm biases and small firm biases. There are Glass-Steagall hawks and Glass-Steagall doves. There are retail firms and institutional dealers. There are firms who swear by program trading and index arbitrage, and others who swear at them. Your differences are less public than ours in Congress, but they surely exist. I am asking you to set aside those parochial differences for purposes of these investigations. Give us your views on the causes of the turmoil in our markets, and guide us to whatever solutions will return stability to our capital formation process.

If we put such remedial measures as may be necessary and wise into effect, we will then be in a position to get on with the next critical part of our get-well program: developing new, healthier economic habits. This is not just a task for Washington. It is a cooperative endeavor in which Wall Street's views and vision are indispensable. Your industry possesses a genius for innovation and an appreciation for complexity. Washington policy makers need both qualities, and you can provide them.

I am not talking about tinkering with budget figures or resorting to gimmicks to mask serious economic flaws. Rather, we must work together to create a stable economic order which will enable us to enter the 21st century as a nation that is confident, strong and generous. Our economic order must be driven by new programs, not propelled by untested and counterintuitive economic theories. It must be an economic order guided by pragmatism, not blinded by ideology, and one that establishes long-term goals and priorities based upon a national consensus. To achieve these objectives, we in Congress must proceed with exquisite care. As many of you know, prior to the market crash, Congress was considering several major legislative intitiatives in the securities area, and our Subcommittee was at the heart of every one of them.

TENDER OFFERS

The first involves tender offer reform legislation. Earlier this year, Congressman Dingell and I introduced the "Tender Offer Reform Act of 1987." Our proposed legislation is neither pro-takeover nor anti-takeover. Rather, it is designed to cure the abuses that have crept into the takeover process since the passage of the Williams Act in 1968. It assures shareholders a reasonable and meaningful opportunity to assess the contents of a tender offer, and to distinguish between competing offers. To those ends, we have sought to (1) restrict the availability of greenmail, golden parachutes and poison pills; (2) close the ten-day window; (3) define the term "group" so as to prevent teams of market participants and raiders from tying up some of America's most productive companies and putting them "into play"; (4) assure greater access to corporate proxy machinery; and (5) affect other reforms that will permit productive potential takeovers to succeed, and at the same time stop the hit-and-run market manipulator in his tracks.

This spring another takeover bill was introduced by my colleagues, Congressmen Lent and Rinaldo, and in my judgment, that bill contains some excellent provisions. I hope that together we can develop a single piece of legislation to achieve lasting and sound reform in this area.

Earlier this year, I remarked that takeovers were intrinsically neither good nor bad, but rather must be examined in terms of the value they add to our economy. Since the time of those remarks, I have held six hearings on takeover reform. Those hearings brought before us the most prominent experts of the takeover world. What we learned from those hearings has caused us to refine and refocus portions of our inquiry to deal with the question of debt in America.

Our economy is awash with debt. In recent weeks, we have heard a lot about our $2 trillion-plus budget deficit. Indeed, many analysts consider this debt to be the key to the market's collapse. But in addition to this public debt, we have $1

trillion of consumer debt and more than $4 trillion of corporate debt. Over $7 trillion in debt throughout our economy.

Moreover, although all debt is not bad, much of our existing corporate debt is of questionable economic utility. It is not plant and equipment debt, or research and development debt. As a nation we still spend far less on these components than, for example, Japan or West Germany. Rather much of it is LBO debt and defensive recapitalization debt. As John Shad, Former Chairman of the SEC, said, "The more leveraged takeovers and buyouts today, the more bankruptcies tomorrow." And what will happen to this debt as the Fed constricts M-1 and interest rates rise?

Alfred Malabre, of the Wall Street Journal, has just written a book entitled, Beyond Our Means. In it, he makes the interesting observation that as a country we underinvest in new plants and technologies while we overinvest in quick gratification. He points out that Americans live in the most wonderful houses in all the world, but have some of the most rusted and out-dated factories.

President Reagan was right in his first inaugural address when he assailed the problem of debt in our society. In 1981, the President said:

> "We have piled deficit upon deficit, mortgaging our future and our children's future for the temporary convenience of the present... You and I as individuals, can, by borrowing, live beyond our means, but only for a limited period of time. Why, then, should we think that collectively, as a nation, we're not bound by the same limitation."

The President's rhetoric in 1981 was right on the money; unfortunately, he never followed his own advice. After October 19, the issue of potentially destructive debt -- corporate and consumer debt, as well as federal debt -- is very much on our minds. We will be examining debt-related issues as we proceed toward a markup of our tender offer reform legislation.

Although I had intended to mark up the tender offer reform bill during this first session of Congress, the startling events of October 19 and 20 led me to conclude that it would be prudent to postpone the markup until the markets show less volatility. I also think our legislation would benefit from lessons learned from Black Monday -- particularly the role takeovers may have played in the run-up of the bull market and the role they may have played in leading the plunge down. Therefore, my intention is to defer the markup until early February.

GLASS-STEAGALL

Another item on the Subcommittee's agenda consists of a reexamination of the vitality of the Glass-Steagall Act. Here

too, the Subcommittee will proceed with caution. Indeed, no matter what your thinking as to the merits of Glass-Steagall, in light of the events of October 19, wisdom dictates proceeding at a very deliberate pace. We have an unfortunate opportunity to reflect upon the implications of the market crash with regard to Glass-Steagall, and we would be derelict not to do so.

In early October, the Subcommittee commenced a series of hearings on this issue. So far, we have heard from Alan Greenspan, Chairman of the Federal Reserve Board; David Ruder, Chairman of the Securities and Exchange Commission; William Seidman, Chairman of the Federal Deposit Insurance Corporation; and Robert Clarke, the Comptroller of the Currency. We also heard from representatives of the commercial banking and securities industries.

One of the problems with any discussion of Glass-Steagall is that it elicits strong emotions from all sides and this sometimes inhibits progress in the debate. The questions typically posed are emotionally charged and predictive of dire consequences if the wrong turn is taken. For example: by preserving the Glass-Steagall barriers, are we really presiding over the demise of the banking industry, and ceding America's position of prominence in the world' capital markets? Conversely, by acting to lift restrictions on securities activities by banks, will we really be inviting a second Great Depression?

To help learn these answers, I have set out a very precise list of questions regarding the current roles and practices of, and interrelationships between, the banking and securities industries. The questions I have posed leave no room for fluff or posturing. I have requested the Chairmen of the Fed, the SEC, and the FDIC, along with Comptroller Clarke and Treasury Secretary Baker to respond to a lengthy series of questions and to provide their blueprint for reform of our financial services industry. These reponses will give us a basis for determining whether change is required and if so, what form that change should take.

Some of the tough questions we have posed include: How can we insulate insured bank deposits from securities activities? Second, how can we ensure the continued safety and soundness of, and public confidence in, the banking system -- and in our financial markets as a whole? How can we ensure that banks' privileges do not endow them with improper competitive advantages? We cannot allow the special privileges of deposit insurance and access to the Fed window to place banks in a superior competitive position than is enjoyed by banks' competitors. Finally, how could we prevent conflicts of interest that would seem to arises naturally out of the relationships contemplated by many banks, such as transactions made at the expense of the bank to heal an ailing securities affiliate?

I note parenthetically that the Subcommittee has launched an investigation of Continental Illinois' funding of its First

Options subsidiary in the wake of the crash. The results of this investigation will be factored into our Glass-Steagall analysis.

Also, to keep you totally up to date, you should know that yesterday, Senators D'Amato and Cranston introduced a bill that would give banks significantly enhanced power in several areas, including securities, insurance and real estate. It would also permit commercial firms to enter the banking business. But Alan Greenspan testified yesterday that the Fed could not support such a broad bill at this time.

INSIDER TRADING

For several months, the Subcommittee, along with the Minority and the Full Committee, have been working towards developing comprehensive insider trading legislation. The failure of the Supreme Court in the Winans case to provide guidance with regard to insider trading should now cause us to intensify our efforts.

You and I must join together to restore the individual investor's confidence in our securities markets. Working together we can demonstrate the market' fundamental integrity. I urge you to support legislation that provides stiff penalties for those who would wilfully manipulate our markets, as well as for those who turn the other way and permit or encourage employees to engage in illegal market activity. Not to do so is, I submit, terribly short-sighted.

The individual investor is still the lifeblood of the American market. He is the force behind the institutions, the pension funds, the mutual funds. And he is daily becoming more sophisticated. If the individual investor believes that the playing field is no longer level, that the market does not provide the same opportunity it once did, he will redirect his investment funds to non-market opportunities, to the detriment of your industry and the capital formation process.

CRASH INVESTIGATION

Talk of market fairness and market stability leads me to the bipartisan investigation of the market crash instituted by our Subcommittee. We hope to learn the macro-economic causes of the market's decline, identify individual contributing factors, and assess the efficacy of our current regulatory environment. One of the principal focuses of our investigation will be program trading.

Let me set the record straight here and now about program trading. No one is blaming program trading for the market's decline. There were fundamental factors at work which probably contributed significantly to the Dow's drop. Rather, the issue with regard to program trading is, did these new trading strategies accelerate the decline so as to cause investor panic, which in turn sent the Dow down faster, and possibly farther, than

it would otherwise have gone. Put another way: Can volatility level "A", plus the addition of unprecedented velocity as a result of program trading, yield volatility level "B"? If so, is this what happened on October 19?

The decade of the 80's has witnesses a much-heralded drive for increased market efficiency. More transactions, larger block trades, executed instantly, in global markets.

Now it may surprise some of you to know that a liberal Democrat can be in favor of market efficiency. In general terms, efficiency is preferable to inefficiency. However, we must bear in mind that we are not trying to create a perpetual motion machine. We are trying to develop markets that are conducive to large-scale capital formation and to design market mechanisms that facilitate investment flow. Efficiency is not the end in itself that some perceive it to be. It is a means to an end. That end is capital formation. Broad-based capital formation retreats from markets whose trading charts look like the outline of a roller coaster.

Simply put, market efficiency at the expense of market stability is counterproductive and contrary to our nation's interest. From a time/motion point of view, it might be more "efficient" to drive your car at 125 MPH to the store and back. You would get there twice as fast. But we made a decision that society as a whole functions better without that kind of efficiency. Now we need to make certain that the kind of "efficiency" our markets are capable of achieving works in the interest of those markets and their investors, and not against them.

Finally, let me try to put your mind at ease on another front. I am aware of the law of unintended consequences. I believe in it, and I will be on the lookout for it in connection with all of the work undertaken by our Subcommittee. I was mindful of it before October 19th, and my vigilance is now redoubled.

Our Subcommittee will examine meticulously how each of our legislative initiatives will interact with each other, and with any additional legislation that might be required to cure systemic problems that may surface as a result of our investigation into the causes of the crash.

In his inaugural address, John F. Kennedy challenged fortunate Americans to public service: "To those who much is given, much is expected." His words speak to us today. Each of us represented here, industry professionals, the exchanges, government regulators and the Congress, as well as the Administration, have a lot of work to do to put our economic house and our capital markets in order. All of us should start by putting our own conduct under blazing hot self-scrutiny. We should all be prepared to utter the four most difficult words in

the English language: "I made a mistake."

The industry should take the lead in achieving consensus on the critical problems it faces and on developing the wisest solutions to them. The more vigorously the industry moves to rectify abuses or systemic flaws, the more reluctant those who are charged with regulating the industry will be to intervene. Conversely, if the industry insists on business as usual, it will face progressively more intrusive regulation and legislation.

And we in Government must, at last, summon up the courage to look economic reality in the eye and deal with it. If President Reagan discredited a tax and spend mentality, then October 19th discredited a borrow and spend mentality. Historically, Americans have responded magnificently to crisis. Our national strength has proudly emerged when we have had to sacrifice. Politicians, Democrats and Republicans, must have the guts to ask for sacrifice again if that is what it is going to take to build a long-term economy with a solid foundation instead of a short-term economy built on the sands of debt. We cannot have sacred cows immune from scrutiny. And we cannot let dogma and ideology blind us to the need for pragmatic action.

In particular, defense spending must be analyzed in cold, hard terms. President Reagan speaks of Star Wars as an insurance policy. He fails to tell you that the premiums are likely to exceed $1 trillion dollars. Let there be no mistake about it, a decision to proceed with full-scale development and deployment of Star Wars is the death knell of a balanced budget. During this decade, the Pentagon has been shopping for new weapons much like a parent shopping for toys at F.A.O. Schwartz. Our generals have to be reminded that there is nothing wrong with Sears.

And we have to exploit economic opportunities presented by arms control agreements with the Soviet Union. The INF Treaty to be signed next week coupled with the first tangible signs of Soviet willingness to negotiate reductions in the size and strength of their conventional forces in Europe, creates hope for significant savings in the defense sector. One of the great prods pushing the Soviet Union toward greater flexibility in arms control negotiations is General Secretary Gorbachev's desire for "perestroika" - economic restructuring. We have some similar needs, and we should keep them in mind in making key foreign policy and national defense decisions.

This new fiscal restraint need not mean an end to all new programs. America also needs new ideas to galvinize its energy and stir its spirit. Major economic initiatives in the areas of superconductivity, genetic engineering to contain the AIDS epidemic and other diseases, reconstruction of our energy and manufacturing infrastructures and, yes, even a manned mission to Mars, should all be considered by Wall Street and Washington. But we must set priorities and we must have a clear formula for paying for such heroic endeavors before we proceed.

Ultimately, the best guarantee of a vibrant securities industry is a solid, expanding economy, and financial markets that instill investor confidence because they are fair, efficient and honest. Working together we can achieve all of these goals in the best interests of our people, your industry and our nation.

Thank you.