# The Impact Of 1980's Reforms On The U.S. Banking Industry

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**Introduction:**

Accelerated financial innovation and product development, technological progress in computers and communications, and a high rate of inflation during 1960's and 1970's all contributed to bringing about a crisis in the financial system, particularly in the banking industry. The old financial structure had become incompatible with the new economic environment and the existing inflexibility was adversely affecting the banking industry's competitiveness and, in some cases, threatening its survival.[1] To provide the banking industry with the necessary freedom and flexibility to become more compatible with the new economic environment, there was a series of financial reforms during the late 1970's and the early 1980's.

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1- Here "banks" include all the depository institutions.

For financial reforms to be successful they must, first, change the structure of the financial system so that it would allow the banks freedom and flexibility to adjust and become more compatible with the new economic environment. Second, the new structure of the financial system must, in turn, promote a greater competitiveness and profitability but not excessive risk.

Neither the process of financial reform itself nor the adjustment of the banking industry to these financial reforms are by any means completed. But, sufficient time has now psssed to make a preliminary assessment of the effects of these reforms on the banking industry. The purpose of this study is to determine, first, the extent to which the recent financial reforms have changed the structure of the financial system in the U.S. system to becom more compatible with the new economic environment and, second, examine their effect on promoting the competitiveness and profitability vis-a-vis higher risk in the banking industry.

**Background:**

The first major series of financial reforms took place in reaction to the collapse of the stock, bond and real estate market in the 1930's which had created severe liquidity problems for depository institutions (Cooper and Fraseer 1984, Cargill and Garcia, 1982 and 1985). Generally, the reforms of the 1930's included governmental constraints of interest payments on deposits, protfolio constraints, constraints on competition, and

deposit insurance.

This structure of the financial system continued until the late 1960's. During the 1970's, the persistently high rate of inflation, high interest rates, new product development, new technology and communications brought a period of instability into the banking industry, as a part of the financial system in the U.S., and demonstrated their incompatibility with the new economic environment. This led to the formation of the Hunt Commission whose task was to reexamine the regulatory structure and eventually to the passage of the following acts: the Federal Reserve operating strategy in 1979, the Depository Institutions Deregulation and Monetary Control Act of 1980, and the Gran-St Germain Depository Institution Act of 1982.

## I. Structural Changes In 1980's

The major financial reforms of the 1970's and the 1980's can be categorized as the modification of: constraints on the payment of interest on deposits, constraints on competition, and constraints on portfolios.

### A. Modification of the Interest Constraints on Deposits

Prior to the recent financial reforms, regulation which imposed a ceiling on the rate of interest payments by the banks and the Federal Reserve's greater regulatory power limited freedom and flexibility of the banks.

The financial reforms of the late 1970's and the early 1980's consisted of the gradual removal of interest rate ceilings. This allowed banks to pay market determined interest rates on their time and savings deposits, to pay interest on their demand deposits, and authorized them to offer money market accounts such as NOW accounts.[1] Furthermore, the banks reserve requirements were lowered. This led to a major shift of funds within the depository institutions.

Prior to these reforms, the share of savings deposits continued to decline from 57.1% to 23.4% during the 1970-1981 period. The share of small time deposits increased from 33.0% to 56.8% and the share of large time deposits rose from 9.8% to 21.% during the same period. During this period, the largest growth took place in money market funds where its share increased from less than 0% to 11.4%. Clearly, there was a significant disintermediation occurring prior to financial reform.[2] In order to enjoy higher

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1- Modification of the interest on deposits included: lifting of the ceilings of $100.000 or more in 1973, the authorization of 26 week and $10.000 minimum denomination money market certificates in 1978, authorization of banks and savings and loans to issue no minimum balance small savers certificates at market rates in 1979, authorization of NOW accounts nationwide, ordering the eventual elimination of deposit rate ceiling and increases of FDIC and FSLIC insurance from $ 40.000 to $100.000 all were achieved in 1980.

2- Disintermediation is when funds move out of banks and into other financial institutions like mutual funds.

rates, depositors were shifting their funds out of savings and into others accounts predominated by money market mutual funds. This supports the banks' claim that they were losing their business to other financial institutions. (See Table No.1)

One of the major reforms was to allow banks to become more competitive by offering money market accounts. This helped banks to bring to a halt the rate of growth of disintermediation during the post-reform period and reversed the past trend significantly. The share of the mutual funds remained at about 11% and the share of the savings which had dropped to its lowest of about 14% in 1984 began to climb to 17.7% by 1987. (See Table No.1) Compared with the pre-reform period, funds continued to move into relatively higher rate and more interest-sensitive accounts which increased interest costs/liabilities of the banks. With the modification of the constraints on the interest payments, the banking industry gained more autonomy from the Federal Reserve. As Cooper points out "In past years, When regulation was fully operative, the Federal Reserve could constrain the economy through a combination of availability and interest rate effects; that is, the Fed was able, partially, though not completely, to curtail the availability of credit from depository institutions by making it difficult or impossible for these institutions to acquire funds. With the elimination of regulation however, the Fed must rely entirely on the interest rate to restrain the demand for credit". (Cooper)

Table No. 1. COMPOSITE OF DEPOSITS: 1970-89
(in billions of dollars)

| ITEMS | 1970 | 1975 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total deposits | 457 | 860 | 1466 | 1659 | 1814 | 1977 | 2235 | 2378 | 2528 | 2654 | 2823 |
| Bank deposits | 475 | 857 | 1389 | 1470 | 1570 | 1578 | 1796 | 2005 | 2136 | 2236 | 2496 |
| % of total deposits | 100 | 97.7 | 94.7 | 88.6 | 87.0 | 90.8 | 89.7 | 89.8 | 88.4 | 99.7 | 87.7 |
| Money market deposits | z | z | z | z | 43 | 379 | 417 | 514 | 572 | 526 | 503 |
| % of bank deposits | 0 | 0 | 0 | 0 | 2.7 | 21.1 | 20.8 | 24.1 | 25.6 | 22.4 | 20.4 |
| Saving deposits | 261 | 389 | 400 | 344 | 357 | 306 | 285 | 302 | 371 | 416 | 431 |
| % of bank deposits | 57.1 | 45.4 | 28.8 | 23.4 | 22.6 | 17.0 | 14.2 | 14.1 | 16.6 | 17.7 | 17.3 |
| Small time deposits | 151 | 338 | 729 | 823 | 851 | 784 | 886 | 883 | 854 | 914 | 1025 |
| % of bank deposits | 33 | 39.4 | 52.5 | 56.8 | 54.2 | 44.0 | 44.2 | 41.3 | 38.2 | 39.2 | 41.1 |
| Large time deposits | 45 | 130 | 260 | 303 | 327 | 327 | 417 | 437 | 439 | 487 | 538 |
| % of bank deposits | 9.8 | 15.2 | 18.7 | 21.0 | 20.7 | 18.2 | 20.8 | 20.5 | 19.6 | 20.8 | 21.6 |
| Money market funds | z | 3 | 77 | 189 | 236 | 181 | 230 | 242 | 292 | 311 | 327 |
| % of total deposits | 0 | 0.3 | 5.3 | 11.4 | 13.0 | 9.2 | 10.3 | 10.2 | 11.6 | 11.7 | 12.3 |

Source: Statistical Abstract of the U.S., The U.S. Chamber of Commerce, 1990.

Note: (z) is for less than one billion dollars.

The less effective monetary policy is supported by the break in the linkage between M1 and GNP.[1] Apparently, changes in the composition of deposits and the demand for money had adversely affected the velocity. Contrary to the 1970's where velocity steadily increased (from 4.17 in 1970 to almost 6.38 in 1980) at least temporarily, it declined (From 6.38 in 1980 to less than 5.07 in 1986) in the 1980's.[2] (see Figure No.1)

Therefore, because of the financial reforms, banks played a greater role in determining the rate of interest and were less subject to the Federal Reserve's constrains.

## B. Modification of Constraints on Competition

Before the recent financial reforms, competition among financial institutions was restricted to improve the safety of

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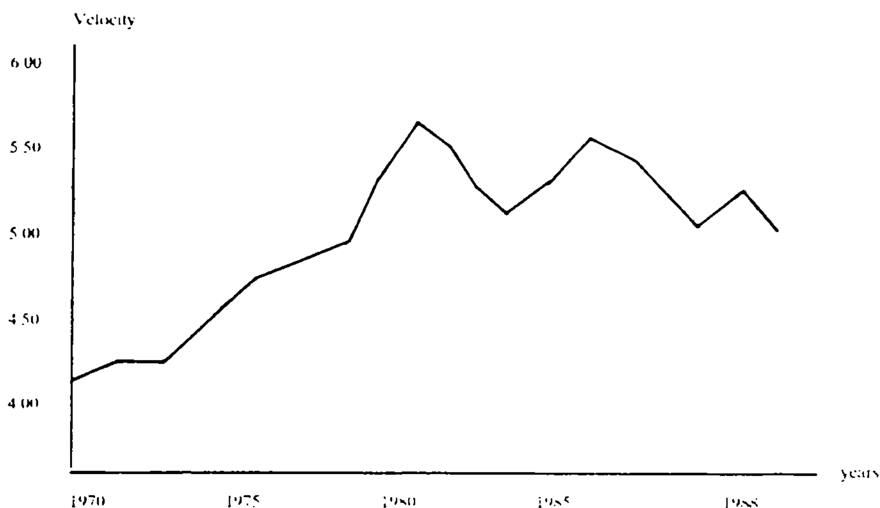
1- As the equation of exchange: P . T = M . V shows, there is a relationship between money (M)and national income (GNP)which here is defined as prices (P) times transactions (T). Assuming that velocity (V) to be constant or at least predictable, there is a direct and strong relationship between M1 and the GNP as long as there is an excess capacity in the economy. For years Monetarists have contended that as the money supply increases,meaning spending increases, and the capacity for real growth is exhausted, prices will rise. Here by "money" they mean M1 (which is basic money stock consisting of currency, demand deposits, other check-type, deposits such as Now and Super Now accounts and traveler's checks; money as a medium of exchange.

2- This suggests that any increases in M1 might have been off-set by a fall in velocity instead of a rise in the GNP.

financial institutions, particularly banks. The financial reforms led to the removal of competitive constraints - providing the banks with a greater freedom to compete with one another and other financial institutions.

Figure No. 1. a break in velocity




Source: Based on the data published by the U.S. Chamber of Commerce, 1990.

Note: v = GNP/M1

By 1980, the freedom of thrifts was expanded so that they could compete with commercial banks. By 1982, the thrifts were able to compete with banks in the areas of commercial checking and consumer and commercial lending. The clear distinction gradually blurred between commercial banks; primarily serving business, and the Savings and Loans; Serving the needs of consumers, primarily through mortgage loans. This process later spread to other parts of hte financial system causing a gradual

blur between depository and non-depository institutions. The modification of the restriction on competition allowed the established banks to purchase other ailing banks. For example, commercial banks could purchase failing savings and loans, bypassing regulations that prohibited the crossing-of-state lines. These developments contributed to record bank failures and mergers and acquisitions. These two events combined changed the landscaping of the banking industry.

Compared with a total of 79 FDIC-insured bank failures during 1971-80, there were about eleven times more or 879 bank failures during 1981-88. While 217 banks were in financial difficulties in 1980, this number was almost seven times(1406) higher in 1988, including some large banks. (see Table No.2) This, in turn altered the composition of the banking industry, both in terms of numbers and asset sizes.

Table No. 2. FDIC-INSURED BANKS CLOSED AND PROBLEM BANKS: 1971-1988.

(due to financial difficulties)

| BANKS | 1971/80 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Closed (numbers) | 4 | 10 | 11 | 10 | 42 | 48 | 80 | 120 | 145 | 203 | 221 |
| Problem (numbers) | (x) | 287 | 217 | 223 | 369 | 642 | 848 | 1140 | 1484 | 1575 | 1406 |

**Source: Statistical Abstract of the U. S., The U. S. Chamber of Commerce.**

In terms of numbers, FDIC-insured commercial banks which peaked to 14,496in 1984 began to decline to 13,139 in 1988. The

number of FSLIC-insured savings and loans and credit unions fell steadily throughout the same period from 4.078 to 2.949 and 22,678 to 13.878 respectively during the 1975-1988 period. In general, the number of banks within the U.S. financial system fell steadily from 41,617 to 30.458 during the 1975-1988 period which demonstrates a greater degree of concentration of the banks. (See Table No. 3).

Measured by their asset size, the share of smaller commercial banks in the market (with less than $100 million is assets)continuously fell from 15.1% in 1980 to 12.1% in 1988 while the share of the largest commercial banks, with more than $500 million in assets, steadily increased from 66.8% to 73.8% during the same period of time. This concentration process is more profound in the case of savings and loans. Here, the share of smaller insured saving and loans, with less than $100 dollars, continuously dropped from 17% of the total market in 1980 to about 5.1% in 1988. While the share of the larger ones, with more than $500 million, rose from 63% in 1980 to 77.8% in 1988. (see Table No.4) Clearly, funds were shifting from smaller to larger banks and therefore competition favored the larger banks to expand at the expense of smaller ones during the 1980's. Greater competition resulted in a.record number of bank failures and a record number of mergers and acquisitions which, in turn, led to a greatser degree of concentration of banks within the financial system.

Table No. 3. NUMBER OF DEPOSITORY INSTITUTIONS: 1975-1985

(by their numbers)

| Years | FDIC-Insured Commercial Banks | Fslic-Insured S & Ls and Saving Banks | Saving FDIC | Banks Insured by State | All Credit Unions | Total |
|---|---|---|---|---|---|---|
| 1975 | 14385 | 4078 | 329 | 147 | 22678 | 41617 |
| 1976 | 14411 | 4044 | 329 | 144 | 22582 | 41510 |
| 1977 | 14418 | 4065 | 323 | 144 | 22383 | 41333 |
| 1978 | 14391 | 4053 | 325 | 140 | 22204 | 41113 |
| 1979 | 14364 | 4039 | 324 | 139 | 21983 | 40849 |
| 1980 | 14435 | 4002 | 323 | 137 | 21467 | 40364 |
| 1981 | 14415 | 3779 | 331 | 111 | 20786 | 39422 |
| 1982 | 14451 | 3343 | 315 | 103 | 19897 | 38109 |
| 1983 | 14469 | 3183 | 294 | 99 | 19095 | 37140 |
| 1984 | 14496 | 3136 | 291 | N/A | 18375 | 36298 |
| 1985 | 14416 | 3246 | 392 | N/A | 17672 | 35726 |
| 1988 | 13139 | 2949 | 492 | N/A | 13878 | 30458 |

Source: Statistical Abstract of the U.S., The U.S. Chamber of Commerce, 1990 and Statistical Information on the Financial Services Industry, American Bankers Association, 1987.

Table No. 4. Composition of Depository Institutions: 1980-1988
(by their Asset Size)

| | Insured Commercial Bank | | | Insured S.L. Saving Banks | | |
|---|---|---|---|---|---|---|
| Asset Size | 1980 | 1985 | 1988 | 1980 | 1985 | 1988 |
| Less than $ 25m | 91.8<br>2.0 | 76.0<br>2.8 | 62.5<br>2.0 | 14.0<br>2.0 | 7.1<br>0.7 | 14.0<br>0.3 |
| $25m - $50m | 125.8<br>6.8 | 134.5<br>4.9 | 122.1<br>3.9 | 29.7<br>4.8 | 20.3<br>1.9 | 18.1<br>1.3 |
| $50 - $100m | 135.5<br>7.3 | 194.6<br>7.1 | 194.1<br>6.2 | 63.1<br>10.3 | 50.7<br>4.7 | 47.7<br>3.5 |
| $100m - $500m | 183.1<br>9.9 | 400.6<br>14.7 | 440.2<br>14.1 | 120.7<br>19.6 | 241.2<br>22.6 | 231.6<br>17.1 |
| $500 - more | 1240.3<br>66.3 | 1924.9<br>70.5 | 2311.6<br>73.8 | 387.9<br>63.0 | 750.2<br>70.1 | 1049.5<br>77.8 |
| Total | 1855.7<br>100.0 | 2730.8<br>100.0 | 3130.7<br>100.0 | 615.3<br>100.0 | 1069.5<br>100.0 | 1351.5<br>100.0 |

Source. Statistical Abstract of the U.S., The U.S. Chamber of Commerce, 1990 and Statistical Information on the Financial Services Industry, American Bankers Association, 1987.

**C. Modification of Constraint on portfolio:**

Banks had already begun their push into other financial products and services through their holding companies. Concerned with safety of the banking industry and fearing that bank holding companies might indeed jeopardize by going too far afield, the Federal Reserve modified the constraints on the portfolios and limited to those "closely related to banking". The liberalization of product line restrictions provided banks with new sources of liquidity, enabled them to provide a broader range of financial services and a more convenient access to money market funds which were the fastest growing segment in the financial system. It also provided the banks with a greater flexibility either to increase the degree of specialization or to diversify their portfolios.

The evidence indicates that the trend was more towards diversification into many services rather than specialization in one or a few services. Banks were convinced that they could regain their loss of the credit market share by offering more products and services which meant a greater portfolio diversification. Diversification emphasized the offering of more services which involved an intensive infringement of traditional commercial banking functions by non-bank institutions and vice versa. For example, some commercial banks entered into a variety of investment banking functions, such as underwriting and trading the complete spectrum of corporate securities, including stocks,

and the purchase of equities. Thus, under the new financial structure banks enjoyed a greater freedom and flexibility which enabled them to expand and diversity their portfolio.

**II. Profitability and Risk**

Because of reforms, banks were given more freedom to become more competitive on their interest payments by offering high rates on their money market accounts. In spite of reforms, the share of the banks in the total assets of financial system, particularly commercial banks, continued to fall from 54.6% in 1980 to less than 50% in 1988. During the same period, the share of the investment companies rose from 1.6% to 5.6% and the share of the mutual funds remained almost unchanged. (see Table No.5) This trend indicates that disintermediation process continued even after the financial reforms and the investment companies replaced the mutual funds as the fastest growing financial institutions.

Within the banking industry, financial reforms also brought about changes in the comopsition of deposits since a significantly larger share of deposits was now in relatively higher rate and more interest-sensitive accounts which increased interest costs/ liabilities and the level of risk for the banks. Banks made up some of the increased costs of higher interest payments by charging fees for their services or in the form of implicit payments. To deal with the greater exposure, banks sought to reduce it by more closely

Table No. 5. ASSETS OF FINANCIAL INSTITUTIONS: 1970-1988

(In billions of dollars)

| Institutions | 1970 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|---|---|---|---|
| Commercial banks | 490 | 1266 | 1365 | 1472 | 1603 | 1801 | 1994 | 2172 | 2262 | 2390 |
| Shares (%) | 37.3 | 33.1 | 32.1 | 31.5 | 30.7 | 30.4 | 29.6 | 28.3 | 27.5 | 28.0 |
| Thrifts | 270 | 863 | 905 | 965 | 1122 | 1308 | 1414 | 1546 | 1692 | 1821 |
| Shares (%) | 20.5 | 22.6 | 21.5 | 21.0 | 21.5 | 22.1 | 21.0 | 20.1 | 20.5 | 21.3 |
| Insur/pen/retirement | 423 | 1306 | 1405 | 1610 | 1852 | 2005 | 2330 | 2655 | 2904 | 2858 |
| Shares (%) | 32.2 | 34.1 | 33.3 | 34.5 | 35.4 | 34.0 | 34.6 | 34.5 | 35.2 | 33.4 |
| Finance Companies | 64 | 203 | 226 | 237 | 264 | 302 | 354 | 410 | 450 | 489 |
| Shares (%) | 4.8 | 5.3 | 5.3 | 5.1 | 5.0 | 5.1 | 5.2 | 5.3 | 5.5 | 5.7 |
| Money Market Funds | --- | 76 | 186 | 220 | 179 | 234 | 244 | 292 | 316 | 338 |
| Shares (%) | | 2.0 | 4.4 | 4.7 | 3.4 | 3.9 | 3.6 | 3.8 | 3.8 | 4.0 |
| Investment Companies | 47 | 62 | 60 | 77 | 112 | 137 | 240 | 414 | 460 | 478 |
| Shares (%) | 3.6 | 1.6 | 1.4 | 1.6 | 2.1 | 2.3 | 3.6 | 5.4 | 5.6 | 5.6 |
| Sec. Brokers/Dealers | 16 | 46 | 61 | 85 | 92 | 121 | 159 | 188 | 142 | 160 |
| Shares (%) | 1.2 | 1.2 | 1.4 | 1.8 | 1.7 | 2.0 | 2.6 | 2.5 | 1.7 | 1.9 |
| Real Estate Investors | 4 | 3 | 3 | 4 | 4 | 6 | 8 | 9 | 11 | 12 |
| Shares (%) | 0.3 | 0.1 | .08 | .08 | .07 | .10 | .10 | .12 | .13 | .10 |
| Total Assets | 1314 | 3824 | 4211 | 4670 | 5228 | 5914 | 6743 | 7686 | 8237 | 8546 |

Source: Statistical Abstract of the U.S., The U.S. Chamber of Commerce, 1990.

matching the maturities of their assets and liabilities through by the predominant use of floating rates. This meant that banks were passing hte higher cost and risk on to customers.

Banks were also involved with a record number of mergers and acquisitions which occurred outside the financial system. The number of mergers and acquisitions rose from 1500 in 1980 to more than 4300 in 1986 and continued to remain high.[1] The dollar values of these activities increased from less than $30 billion dollars in 1980 to more than $220 billion in 1988. (see Figures No. 2 & 3) During the first half of the 1980s the fee associated with these activities provided the banks with an unusual source of profits, thus, improving their profitability. This, in turn, encouraged some banks to getmore involved with these types of activities through providing higher leveraged financing. During the second half of the 1980s, as the economy slowed down and the interest rate rose, banks began to experience some severe difficulties with their involvements in mergers and acquisitions.

Decreasing interest-spread income and higher level of interest exposure, as mentioned above , plus declining fees and the high

1- The number of mergers and acquisitions rose by three fold during 1980-1986, from 1500 to almost 4500 and then declined to 3500. The magnitude of mergers and acquisitions are even greater when it is considered in terms of the dollars values involved. Here the increase is steadily and more than seven fold, from 30 billions of dollars in 1980 to about 225 billions of dollars by 1988.

Figure No. 2. Numbers of Mergers and Acquisions: 1980-1988

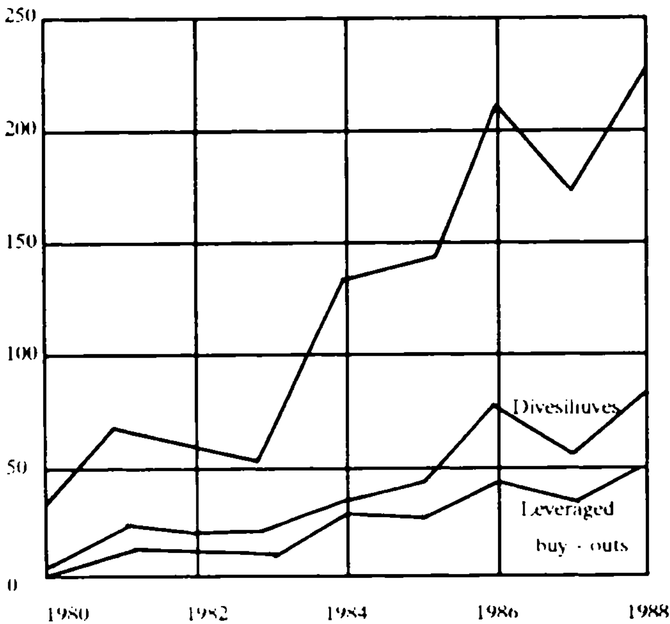
(Number are in thousands)

Source: Statistical Absract of the U.S.. The U.S. Chamber of Commerce, 1990.

Note: Chart was originally prepared by U.S. Bureau of the Consus.

leverage buyouts associated with mergers and acquisitions all adversely affected the profitability and the soundness of the banking industry. The banking industry was faced with even a greater risk when some leveraged financial institutions, particularly commercial banks, were unable to bail themselves out.

Figure No. 3. The Doller Value of Mergers and Acquisitions (Nillions of dollars)




Source: Statistical Abstract of the U.S., The U.S. Chamber of Commerce, 1990.

Note: Chart was originally prepared by U.S. Bureau of the Consus.

The modification or removal of the constraints of competition among banks and banks and other financial institutions changed the composition of the financial system. It led to fewer and larger banks. This should have had a favorable effect on the larger banks which survived.

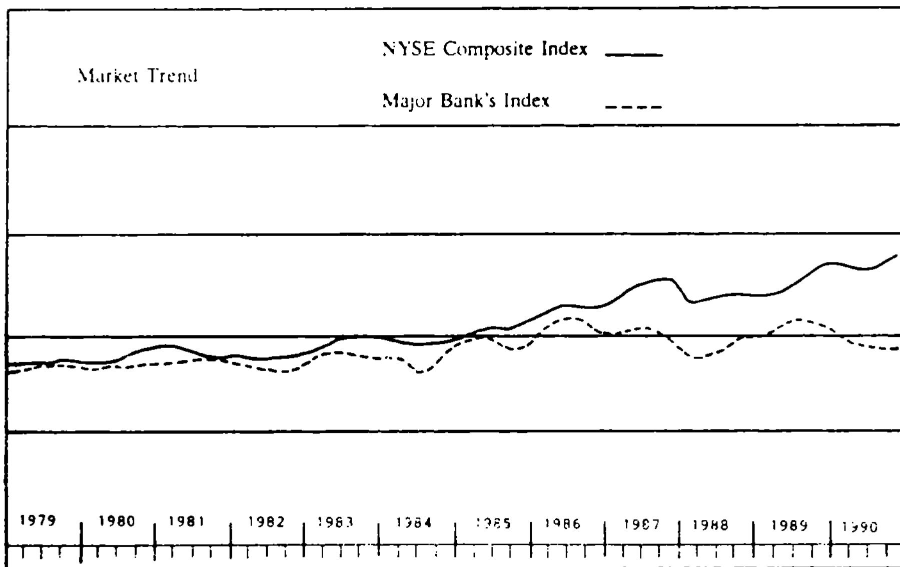
The modification or removal of the constraints of competition on portfolio, banks were given more freedom to either specialize or diversify their portfolio. Most banks seemed to choose to diversify their portfolio. Some, like savings and loans, rushed into products and services previously unknown to them and with insufficient managerial skills to manage them. Others, like commercial banks, moved heavily into leverage-buyout financing. Thus, in reality, diversification led the banks into higher risk without necessarily improving their profitability. Problems with energy Loans, loans to developing countries, with agriculture and real estate loans further unfavorably affected the bank's profitability and exposure.

Thus, financial reforms have led to a new financial structure with more freedom and flexibility to deal with the new economic realities. But they have not transformed the banking industry to a more profitable one. Instead, they have led to a higher level of risk within the financial system including the banking industry.

These conclusions are supported by the analyses of the banks' stock price behaviors. The changes in the banks' profitability are reflected in the rate of return on equity and the stock prices of

major banks. The rate of return on equity continued to fall from 13.6% in 1980 to 1.74% in 1988. (see Figure No. 6) As the market trend indicates, price index of the major banks' stocks performed increasingly below composite index throughout the post-reform period. (see Figure No. 4) The risk level in the banking industry is reflected in the variances of the stock prices of major banks. Here, the increasing variances of the banks' stock prices indicate a higher level of the risk during the same period. (see Figure No. 5)

Figure No. 4. Major Bank's Stok Price Movement

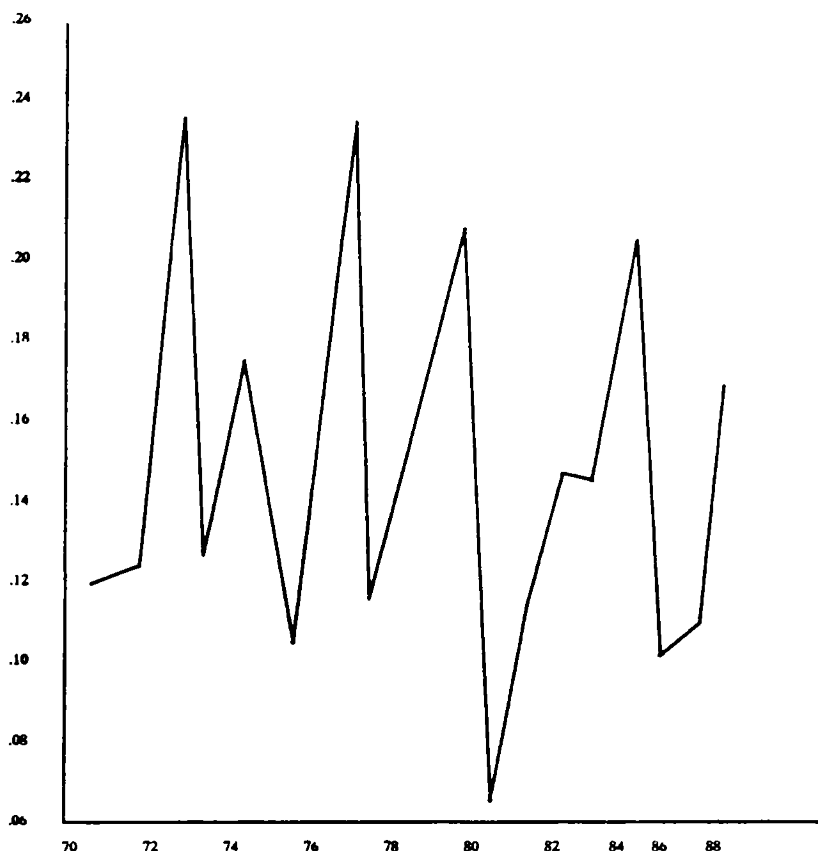



Source: Moody's Industrial Review. 1990.

## Conclusion

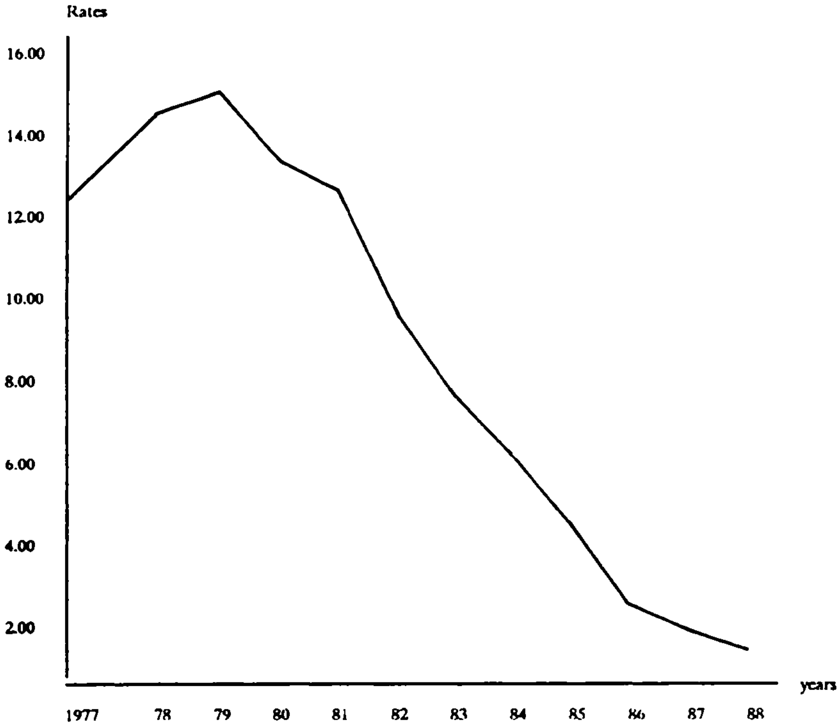
The financial reforms of late 1970's and early 1980's brought about the removal or reduction of restrictions on the interest rate, competition, and portfolios which have changed the structure of the financial system. The new strucutre has provided financial institutions, particularly banks, with much greater freedom and flexibility to adjust themselves to the new economic environment.

Figure No. 5. Stock Price Variance/S & P 500 Variance




Source: Prepared based on the data published by Moody's Stock report.

Figure No. 6. Rates of return on equity (for major regional banks)




Source: Standard and Poors Analyst's Handbook, 1990.

This has led to fewer and larger banks with more diversified portfolios. The new structure of the financial system has been more competitive but it has failed to significantly alter the disintermediation process or to be more conducive to the profitability of the banking industry, but it has proven to be riskier and unstable.

The recent financial reforms have led to a shift in the financial system from government-regulated and supervised to a market-regulated and supervised. This represents a return to a financial

structures that was well established during the pre-1930's period; a trend that was interrupted by the 1929 market crash, the Great Depression of the 1930's and World War II. The present environment is far different from that period, i. e., the new technology allows the generation of an enormous amount of information and an almost instant exchange on a daily basis, which is far different from the low technological environment of the pre- 1930's. Nevertheless, the differences in environments can not replace the need for caution.

We now know that a government-regulated financial system can be stable and sound, but can become unprofitable and inefficient. What remains to be seen is if there could be a new market-regulated financial system that is profitable, efficient, stable, and sound to survive in the 1990's and beyond. The market crash of October 1987, along with the following mini-crashes have certainly signified the degree of the difficulties associated with such a task.

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