Senator Byron Dorgan (D-ND) gave an amazingly prescient speech on the eve of the passage of the Gramm Leach Bliley Act on November 4th, 1999.

No senator who was in the chamber that day can claim they were not warned of the financial crisis that is upon us today, because Dorgan laid out what would happen in stark language and near-eerie detail.

Please keep in mind as you read or watch this speech that it was given to a Senate that was engaged in a euphoric frenzy of deregulation induced by a booming economy and a financial industry that was spending hundreds of millions of dollars around Washington. Many Senators had some concerns, and eight senators would vote against Gramm Leach Bliley that day, but of those, it was Dorgan who demonstrated a full and lucid understanding of the dangerous consequences of the legislation that would be passed so overwhelmingly that day.

Below is the text of the speech, but I highly recommend watching it if you can spare 15 minutes.

Mr. President, we are debating a piece of legislation in the Senate that is called the Financial Services Modernization Act of 1999.

I come today with the confession I am probably hopelessly old fashioned on this issue. For those who have a vision of re-landscaping the financial system in this country with different parts operating with each other in different ways and saying that represents modernization, then I am just hopelessly old fashioned, and there is probably nothing that can be said or done that will march me towards the future.

I want to sound a warning call today about this legislation. I think this legislation is just fundamentally terrible. I hear all these words about the industry remaking itself--banks, security firms and insurance companies, and that we'd better catch up and put a fence around where they are or at least build a pasture in the vicinity of where they are grazing. What a terrible idea.

What is it that sparks this need to modernize our financial system? And what does modernization mean? This chart shows bank mergers in 1998, in just 1 year, last year, the top 10 bank mergers. We have discovered all these corporations have fallen in love and decided to get married. Citicorp, with an insurance company--that is a big one--$698 billion in combined assets; NationsBank--BankAmerica, $570 million; and the list goes on. This is a massive concentration through mergers.

Is it good for the consumers? I don't think so. Better service, lower prices, lower fees? I don't think so. Bigger profits? You bet.

What about the banking industry concentration? The chart shows the number of banks with 25 percent of the domestic deposits. In 1984, 42 of the biggest banks had 25 percent of the biggest deposits. Now only six banks have the biggest deposits. That is a massive concentration.

I didn't bring the chart out about profits, but it will show --this is an industry that says it needs to be modernized--banks have record-breaking profits, security firms have very healthy profits, and most insurance companies are doing just fine. Why is there a need to modernize them?

So we must ask the question, what about the customer? What impact on the economy will all of this so-called modernization have?

It is interesting to me that the bill brought to the floor that says, ``Let's modernize this,'' is a piece of legislation that doesn't do anything about a couple of areas which I think pose very serious problems. I want to mention a couple of these problems because I want to offer a couple of amendments on them.

I begin by reading an article that appeared in the Wall Street Journal, November 16, 1998. This is a harbinger of things to come, just as something I will read that happened in 1994 is a harbinger of things to come, especially as we move in this direction of modernization.

It was Aug. 21, a sultry Friday, and nearly half the partners at Long-Term Capital Management LP [that's LTCM, a company] were out of the office. Outside the fund's glass-and-granite headquarters, a fountain languidly streamed over a copper osprey clawing its prey.

Inside, the associates logged on to their computers and saw something deeply disturbing: U.S. Treasurys were skyrocketing, throwing their relationship to other securities out of whack. The Dow Jones Industrial Average was swooning--by noon, down 283 points. The European bond market was in shambles. LTCM's biggest bets were blowing up, and no one could do anything about it.

This was a private hedge funding.

By 11 a.m., the [hedge] fund had lost $150 million in a wager on the prices of two telecommunications stocks involved in a takeover. Then, a single bet tied to the U.S. bond market lost $100 million [by the same company]. Another $100 million evaporated in a similar trade in Britain. By day's end, LTCM [this hedge fund in New York] had hemorrhaged half a billion dollars. Its equity had sunk to $3.1 billion--down a third for the year.

This company had made bets over $1 trillion.

Now, what happened? They lost their silk shirts. But of course, they were saved because a Federal Reserve Board official decided we can't lose a hedge fund like this; it would be catastrophic to the marketplace. So on Sunday night they convened a meeting with an official of the Federal Reserve Board, and a group of banks came in as a result of that meeting and used bank funds to shore up a private hedge fund that was capitalized in the Caymen Islands for the purpose, I assume, of avoiding taxes. Bets of over $1 trillion in hedges--they could have set up a casino in their lobby, in my judgment, the way they were doing business. But they got bailed out.

This was massive exposure. The exposure on the hedge fund was such that the failure of the hedge fund would have had a significant impact on the market.

And so we modernize our banking system. This is unregulated. This isn't a bank; it is an unregulated hedge fund, except the banks have massive quantities of money in the hedge fund now in order to bail it out.

What does modernization say about this? Nothing, nothing. It says let's pretend this doesn't exist, this isn't a problem, let's not deal with it.

So we will modernize our financial institutions and we will say about this problem--nothing? Don't worry about it?

I find it fascinating that about 70 years ago in this country we had examples of institutions the futures of which rested on not just safety and soundness of the institutions themselves but the perception of safety and soundness, that is, banks. Those institutions, the future success and stability of which is only guaranteed by the perception that they are safe and sound, were allowed, 70 years ago, to combine with other kinds of risk enterprises--notably securities underwriting and some other activities--and that was going to be all right. That was back in the Roaring Twenties when we had this go-go economy and the stock market was shooting up like a Roman candle and banks got involved in securities and all of a sudden everybody was doing well and everybody was making massive amounts of money and the country was delirious about it.

Then the house of cards started to fall . As investigations began and bank failures occurred and bank holidays were declared, from that rubble came a description of a future that would separate banking institutions from inherently risky enterprises. A piece of legislation called the Glass-Steagall Act was written, saying maybe we should learn from this, that we should not fuse inherently risky enterprises with institutions whose perception of safety and soundness is the only thing that can guarantee their future success. So we created circumstances that prevented certain institutions like banks from being involved in other activities such as securities underwriting.

Over the years that has all changed. Banks have said, because everybody else has decided they want to intrude into our business--and that is right, a whole lot of folks now set themselves up in a lobby someplace and say we are appearing to be like a bank or want to behave like a bank--the banks say if that is the case, we want to get into their business. So now we have the kind of initiative here in the Congress that says: Let's forget the lessons of the past; let's believe the 1920s did not happen; let's not worry about Glass-Steagall. In fact, let's repeal Glass-Steagall; let's decide we can merge once again or fuse together banking enterprises and more risky enterprises, and we can go down the road just as happy as clams and everything will be just great. And of course it will not.

I mentioned hedge funds--talk about risk. How about derivatives? Incidentally, those who vote for this bill will remember this at some point in the future when we have the next catastrophic event that goes with the risks in derivatives. Fortune magazine wrote an article, ``The Risk That Won't Go Away; Financial Derivatives Are Tightening Their Grip on the World Economy and No One Knows How to Control Them.'' Somewhere around $70- to $80 trillion in derivatives.

I wrote an article in 1994 for the Washington Monthly magazine and derivatives at that point were $35 trillion. You know something, today in this country banks are trading derivatives on their own proprietary accounts. They could just as well put a roulette wheel in the lobby. They could just as well call it a casino. Banks ought not be trading derivatives on their proprietary accounts. I have an amendment to prohibit that. I don't suppose it would get more than a handful of votes, but I intend to offer it.

Is it part of financial modernization to say this sort of nonsense ought to stop; that banks ought not be able to trade derivatives on their own proprietary accounts because that is inherently gambling? It does not fit with what we know to be the fundamental nature of banking and the requirement of the perception of safety and soundness of these institutions. Does anybody here think this makes any sense, that we have banks involved in derivatives, trading on their own proprietary accounts? Does anybody think it makes any sense to have hedge funds out there with trillions of dollars of derivatives, losing billions of dollars and then being bailed out by a Federal Reserve-led bailout because their failure would be so catastrophic to the rest of the market that we cannot allow them to fail?

And as banks get bigger, of course, we also have another doctrine. The doctrine in banking at the Federal Reserve Board is called, ``too big to fail.'' Remember that term, ``too big to fail.'' It means at a certain level, banks get too big to fail. They cannot be allowed to fail because the consequence on the economy is catastrophic and therefore these banks are too big to fail. Virtually every single merger you read about in the newspapers these days means we simply have more banks that are too big to fail. That is no-fault capitalism; too big to fail. Does anybody care about that? Does the Fed? Apparently not.

Of course the Fed has an inherent conflict of interest. I think, if the Congress were thinking very clearly about the Federal

Reserve Board, they would decide immediately that the Federal Reserve Board is not the locus of supervision of banks. The Federal Reserve Board is in charge of monetary policy. It is fundamentally a conflict of interest to be listening to the Fed about what is good for banks when they are involved in running the monetary policy of this country. If the Federal Reserve Board were, in my judgment, doing what it ought to be doing, it would be leading the charge, saying we need to regulate risky hedge funds because banks are involved in substantial risk on these hedge funds. Apparently hedge funds have become too big to fail. Then there needs to be some regulation.

The Fed, if it were thinking, would say we need to deal with derivatives, and that bank trading on proprietary accounts in derivatives is absurd and ought not happen. Some will remember in 1994 the collapse in the derivative area. You might remember the stories. ``Piper's Managers' Losses May Total $700 Million.'' ``Corporation After Corporation Had to Write Off Huge Losses Because They Were Involved in the Casino Game on Derivatives.'' ``Bankers Trust Thrives on Pitching Derivatives But Climate Is Shifting.'' ``Losses By P&G May Clinch Plan to Change.''

The point is, we have massive amounts of risk in all of these areas. The bill brought to the floor today does nothing to address these risks, nothing at all, but goes ahead and creates new risks by saying we will fuse and merge the opportunities for inherently risky economic activity to be combined with banking which requires the perception of safety and soundness.

We have all these folks here who know a lot more about this than I do, I must admit, who say: Except we are creating firewalls. We have subsidiaries, we have affiliates, we have firewalls. They have everything except common sense; everything, apparently, except a primer on history. I just wish, before people would vote for this bill, they would be forced to read just a bit of the financial history of this country to understand how consequential this decision is going to be.

I, obviously, am in a minority here. We have people who dressed in their best suits and they just think this is the greatest piece of legislation that has ever been given to Congress. We have choruses of folks standing outside this Chamber who spent their lifetimes working to get this done, to say: Would you just forget all that nonsense back in the 1930s about bank failures and Glass-Steagall and the requirement to separate risk from banking enterprises; just forget all that. Time has moved on. Let's understand that. Change with the times.

We have folks outside who have worked on this very hard and who very much want this to happen. We have a lot of folks in here who are very compliant to say: Absolutely, let me be the lead singer. And here we are. We have this bill, which I will bet, in 5, 10, 15 years from now, we will be back thinking of this bill like we thought of the bill passed in the late 1970s and early 1980s, in which this Congress unhitched the savings and loans so some sleepy little Texas institution could gather brokered deposits from all around America and, like a giant rocket, become a huge enterprise. And guess what. With all the speculation in the S&Ls and brokered deposits and all the things that went with it that this Congress allowed, what did it cost the American taxpayer to bail out that bunch of failures? What did it cost? Hundreds of billions of dollars. I will bet one day somebody is going to look back at this and they are going to say: How on Earth could we have thought it made sense to allow the banking industry to concentrate, through merger and acquisition, to become bigger and bigger and bigger; far more firms in the category of too big to fail? How did we think that was going to help this country? Then to decide we shall fuse it with inherently risky enterprises, how did we think that was going to avoid the lessons of the past?

Then the one question that bothers me, I guess, is--I understand what is in this for banks. I understand what is in it for the security firms. I understand what is in it for all the enterprises. What is in this for the American people? What is in it for the American people? Higher charges, higher fees? Do you know that some banks these days are charging people to see their money? We know that because we pay fees, obviously, to access our money at bank machines. But credit card companies, most of them through banks, are charging people who pay their bills on time because you cannot make money off somebody who wants to pay their bill every month.

If you have a credit card balance--incidentally, you need a credit card these days, because it is pretty hard to do business in cash in some places. You know with all the bills, everybody wants to use credit cards . Many businesses want you to use credit cards . So you use credit cards , then you pay off the entire balance at the end of every month because you don't want to pay the interest. Some companies have decided you should be penalized for paying off your whole balance. Isn't that interesting? You talk about turning logic on its head, suggesting we don't make money on people who pay off their credit card balance every month, so let us decide that our approach to banking is to say those who pay their credit card bill off every month shall be penalized.

Turning logic on its head? I think so. As I said when I started , I am likely to be branded as hopelessly old fashioned on these issues, and I accept that. I suspect that some day in some way others will scratch their heads and say, ``I wish we had been a bit more old fashioned in the way we assessed risk and the way we read history and the way we evaluated what would have made sense going forward in modernizing our financial institutions.''

Oh, there is a way to modernize them all right, but it is not to be a parrot and say because the industry has moved in this direction, we must now move in this direction and catch them and circle them to say it is fine that you are here now. That is not the appropriate way to address the fundamental challenges we have in the financial services industry.

I am not anti-bank, anti-security or anti-insurance. All of them play a constructive role and important role in this country. But this country will be better served with aggressive antitrust enforcement, with, in my judgment, fewer mergers, with fewer companies moving in to the ``too big to fail'' category of the Federal Reserve Board, with less concentration.

This country will be better served if we have tighter controls, not firewalls that allow these companies to come together and do inherently risky things adjacent to banking enterprises, but to decide the lessons of the 1930s are indelible transcendental lessons we ought to learn and ought to remember.

Mr. President, I have more to say, but I understand my time is about to expire.