Click here for Full Issue of EIR Volume 4, Number 1, January 4, 1977

General Accounting Office Report Sets Stage for Bank Agency Reorganization

BANKING

The official investigating arm of the U.S. Congress, the General Accounting Office (GAO) has drafted a report which admits that "For the first time since the massive bank failures of the 1930s there has been public concern over a possible recurrence." Informed sources have known for some time that this is true, particularly during the recent period of increased discussions among Third World leaders on debt moratorium and the rapidly escalating "nested" trade agreements between the Europeans, OPEC nations, and Comecon, preparatory to the creation of a new intermediary monetary system alternative to the post-Bretton Woods dollar based arrangement.

The release of the report at this late date sets the stage for a reorganization of the federal bank regulatory agencies immediately after Carter's inauguration. Had the GAO admitted earlier that the $800 billion outstanding debt was uncollectable, it would have touched off a self-fulfilling prophecy, immediately collapsing the lower Manhattan banks to which most of the debt is owed, without a sympathetic federal bailout mechanism in force.

The GAO specifically blamed the danger of bank failure on the Federal Reserve Board, Federal Deposit Insurance Corporation, and the Department of the Treasury's Office of the Comptroller of the Currency for a lack of rigorous supervision over the banks' irresponsible policies and untenable position. According to the *Washington Post*, to whom the draft was leaked, "The GAO report is certain to strengthen an expected move in Congress next year to consolidate the supervisory functions of the three agencies..."

The "expected" move in Congress is being organized by Congressman Rosenthal (D-NY) who ordered the GAO study in the first place. The intent is to reorganize the agencies into a completely subservient structure through which subsequent bank bailouts and programs for labor-intensive programs can be established. The reorganization process wil provide an opportunity to remove from the agencies pro-development factions which would prefer a controlled Wall Street bankruptcy to a hyperinflationary bailout scheme.

Essentially the Rosenthal proposal is identical to the so-called FINE bill sponsored by Rep. Reuss (D-Wis) to create a new central agency — which was killed in the House Banking Committee last year after it passed the Senate Banking Committee. Opposition within the Banking Committee has led Wall Street strategists to attempt to sneak the proposal into the more receptive Rosenthal subcommittee of the House Government Operations Committee. Under House rules new agency creation proposals would go to Banking while "reorganization" proposals would go to Government Operations. Rosenthal proposes to "reorganize" the Federal Reserve into a monetary policy part and a supervision part. The Comptroller's office and the FDIC will then be merged into the supervision part.

This has been coordinated with a key provision in the Humphrey-Hawkins bill which requires the Federal Reserve to adopt policies that cohere with those of the President. The net effect of these plans will be to give Wall Street complete control through the President of the domestic monetary policies, circumventing Congress and effective obstruction from unhappy Midwest banking interests.

In order to drum up added support for the reorganization, Rosenthal will begin a series of hearings on the failure of the banking agencies to supervise the "Truth in Lending" laws. A Rosenthal staffer has stated that the issue was picked only because it has alleged consumer appeal and that they hope Ralph Nader will assist them in getting sufficient publicity so that Wall Street's program will get passed this time around, backed by loud demands for "reform" and "accountability."

The first sign of resistance to this plan surfaced at the Nov. 16 meeting of the FOMC, the groups within the Federal Reserve which sets monetary policy, where Midwest and export-oriented industrialist factions clashed with the New York factions over "whether the recession would continue," and on "the proper course of monetary policy." But a growing suspicion of what Rosenthal has planned is developing among top layers within the opposition. One president of a Midwest Federal Reserve district stated, "Reuss (Chairman of the House Banking Committee — ed.) and Rosenthal are out to get us. It's a personal vendetta."

In anticipation of the bank failures which are expected for early in 1977, Rosenthal staff members have already issued, in September, a study of the Franklin Bank collapse. One of the Congressman's aides frankly explained that it is really a "how to" manual for the future.

Parallel to these actions, Reuss has filed a law suit, with House Banking Committee Counsel Crews as attorney of record, alleging that the five Federal Reserve District Presidents who sit with the seven Federal Reserve Governors on the FOMC hold office illegally. Reuss bases his suit on the Federal Elections Commission decision by the Supreme Court during the fall which held that members of the FEC held office illegally since they had not been appointed with the "advice and consent" of the Senate. The five named defendant District Presidents are Paul Volker (NY), John Balles (San Francisco), Robert Black (Richmond),

© 1977 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

Monroe Kimball (Atlanta), and Willis J. Winn (Cleveland). Mr. Crews has stated that the suit explores questions "relevant to the FINE bill. We want to determine the parameters of the Constitutional questions." Crews directly states he wants to remove the regional presidents (the anti-Rockefeller faction). The suit has been thrown out of court on grounds that the Congressman has no standing, i.e. he is not able to prove that he has suffered sufficient personal damages from the status quo to show he has a personal controversy against the defendants. Reuss plans to appeal to the U.S. Court of Appeals.

Additionally, there are indictations that the Washington-based Center for Law and Social Policy is mounting another Nader-type campaign to push through this consolidation, under the cover of "consumer protection."

Steel Decline Continues

STEEL

The steel situation in Europe is best summed up by Henri Simonet, steel commissioner of the European Economic Community (EEC), who put it this way: "Orders since last summer are persistently below the lowest levels of 1975; monthly deliveries are well below production rates giving rise to serious overstocking; industrial demand remains feeble; exports have continuously dropped since 1974; prices are not sufficient to cover production costs mainly because of the flood of low cost imports; and employment in the industry continues to fall, especially at mills producing long products."

Simonet's plan, which becomes effective Jan. 1, sets country-by-country production quotas for steel to be consumed within the EEC and combines this with strict import restrictions. Since there are no limitations placed on steel produced for export it can be expected that the mills will continue the cutthroat practice of selling steel overseas at below cost to maintain their already poor levels of production, ranging from 50-60 per cent of capacity. Although the program is on a voluntary basis for the first four months, Simonet has advised the steelmakers that if it fails to achieve the desired results the EEC will apply the full measures of the Treaty of Rome, which would institute production and price controls and call for mandatory compliance with treaty provisions.

U.S. steelmakers are upset about these arrangements. They will not only force EEC steelmakers to market more low cost steel here but will also cause other steel producers, such as the Japanese, to divert steel originally destined for Europe to the U.S. What is the U.S. steel community's response to this protectionism? None other than protectionism.

In the U.S. many of the same problems exist, albeit not on the same depressed level, due to a stronger home market and lower production costs. In recent months large shipments to the auto industry have helped keep the U.S. industry healthier than its European counterpart. These shipments have been accounting for about 40 per cent of all steel shipments recently, compared to about 21 per centi n past years. This trend is apparently over as the auto companies have announced that almost 39,000 auto workers will be laid off during January due to the continued weakness of small car sales. It did not take long for this news to reach the steel industry.

U.S. Steel Corporation's Central Division in Chicago, which is currently operating at below 70 per cent capacity, has announced that additional layoffs will take place over the holiday period. 1,200 workers presently unemployed from the Gary, Indiana sheet and strip finishing mill will be joined by approximately 5,400 additional laid off workers from the Southworks, Joliet, and Waukegan facilities. About 2,300 workers will be using up their vacation time, This information has been made available by L. Keith Smith, vice-president of the 13 state Central Division who further stated that, "Southworks has been at a horribly low level this year" and that plate and structural products have suffered from a "very poor market" for the entire industry. Smith went on with the popular position among steel leaders today both here and in Europe that the cause of all, or most of their woes anyway, is the Japanese.

In fact, Japanese steel producers are having the same problems as everyone else with capacity utilization of around 50 per cent in an industry whose high technology demands high levels of utilization. Figures recently released by both the American Iron and Steel Institute (AISI) and the International Iron and Steel Institute (IISI) reveal that the U.S. makers should be complaining about something (although not the Janpanese). AISI figures show that October shipments of all grades were only 6,996,000 net tons or 8.5 per cent below the September level of 7,646,000 net tons. While figures reveal that shipments in all categories were down, they show that 47.3 per cent of all shipments were of flat rolled goods, most of which go to the auto industry. The IISI figures indicate that total ingot production totalled only 8.6 million metric tons in November, down from the 10.1 million metric tons produced as recently as August.

The Japanese response to all these attacks against its steel industry and the wave of protectionist measures in place or threatening to be implemented against it, is simply to further reduce production, an act which is sure to put some of the heavily indebted industry into bankruptcy. The Japanese Ministry of International Trade and Industry (MITI) has announced a new official production guide of 26.4 million metric tons of crude steel for the Jan.-March 1977 period. This is a cutback of 2.28 million MT from the already low output of 28.68 million