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Javits-sponsored Pension Reform Act was to give the Labor Department and I.R.S. "finger-tip control" over some $150 billion in total corporate (company-managed) and union pension funds. For years Wall Street money managers had complained that there were no adequate figures on the number and assets of union pensions. The 1976 edition of *Money Market Directory*, the most comprehensive listing of U.S. financial institutions and their assets, noted that union pension fund assets were largely undisclosed. ERISA was designed to give Labor and IRS full purview of the monies and where they are invested. Under the provisions of ERISA, the Department of Labor was to begin compiling data on pension fund assets by mid-1977.

Among the specific regulations enforced by ERISA, all dealings between pension funds and "parties of interest"—employers, unionists, who are beneficiaries — were prohibited. ERISA prohibited loans by pension funds to such "parties of interest" and all types of financial dealings with them. But from an investment standpoint, there is no reason to issue a blanket prohibition against, for example, investment of pension funds in an employers' stock. The ERISA regulation was intended to prohibit investment in companies or areas where Wall Street did not want it.

A look at the personnel involved in pension "reform" clears up any doubt as to what its intent is. ERISA itself evolved out of legislation sponsored by Sen. Jacob Javits (R-NY), who is on record as supporting a direct bail out of the New York commercial banks by the Federal Reserve in the event of a wave of Third World defaults. Roy Schotland, the director of the Twentieth Century Fund report, has been involved in researching the "concentration of assets" in large money managers (bank trust departments, insurance companies, etc.) and its effect on the stock market for six to seven years. He was a consultant to the congressional staff which drafted the Financial Institutions and the National Economy (FINE) legislation and is an ardent supporter of banking reorganization proposals made in that legislation — consolidation of the bank regulatory agencies, top down control over monetary policy, etc. Schotland testified recently before Sen. Lloyd Bentsen's Senate finance subcommittee in favor of a bill which would purportedly limit present "concentration of assets." Under the bill no large money manager would be able to hold more than 5 percent of the stock of any corporation with its pension assets. Since 5 percent is often controlling interest in a corporation, the bill is primarily populist grist. Schotland also testified last week before the House administration committee on abuses in campaign funding.

The Twentieth Century Fund is heavily tied to the Administration — perhaps one reason it would like to see the government take over the management of union pension funds — through its directors Patricia Harris (Secretary of HUD), John Paul Austin (Chairman of Coca Cola, down-home supporter of Jimmy Carter), Hodding Carter III (State Department spokesman), Jonathan Bingham (Rep. from New York who supports Carter's "no-energy" program), Federal Reserve Chairman Arthur Burns, and others. Patricia Harris comes from the same law firm as Robert Preiskel who made possible the investment of the New York municipal pension funds in MAC bonds.

New York Commercial Banks Plan To Bankrupt Savings Institutions

BANKING

The largest New York commercial banks have begun the process of a rate war in order to attract more deposits, a war which will leave so-called thrift institutions — savings and loan associations and mutual savings banks — in a shambles of major bankruptcies, decreased profitability, and less funds to lend to the nation's vital residential housing market.

The attack takes the form of the Carter Administration's introduction to Congress two weeks ago of a series of bills, S. 1664-1669, that would allow commercial banks and savings institutions to offer Negotiable Order of Withdrawal (NOW) accounts. If passed, this would end the 44-year prohibition on interest-bearing demand deposits. One set of bills, endorsed by Federal Reserve Board Chairman Arthur Burns, also proposes the elimination of Regulation Q, the one-fourth percent interest rate differential that savings institutions may pay above the prevailing rate that commercial banks pay on savings accounts.

The actual content of the bills is of far greater longer-term significance than simply improving immediate bank-earnings, as the bills are represented as attempting to accomplish. In fact, the real intent of the legislation is to advantage the commercial banks over the savings institutions in competition for profits and deposit base to such an extent that a large chunk of the $400 billion savings institutions industry may be forced into liquidation.

"The spread of NOW accounts could eventually eliminate 13,000 of the country's 14,000 banks," said one New York analyst. The reasoning behind this judgment is essentially sound.

The failure of the rest of the world to agree to the New York banks' bailout has left them with increasing debt refinancing needs, and an inadequately growing deposit base to cover the financing, especially in deposits derived from the United States. As a last resort, they have chosen rate-war to get their hands on a fresh supply of consumer deposits.

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NOW Accounts and the Elimination of Regulation Q

It is simple enough to show that the initiation of NOW and the elimination of Regulation Q will lead a majority of small and medium sized thrift institutions to fold.

In its first three year period the introduction of NOW accounts will dramatically lower all bank earnings. A Keefe, Bruyette and Wood survey of the effects of the introduction of NOW accounts predicted what would happen if 50 percent of all existing personal demand deposits were immediately converted to NOW accounts paying 5 percent interest. In the Keefe scenario, the impact on earnings was not offset by the Federal Reserve's proposed payment of interest on reserve requirements held by the Fed, nor by the charging of higher fees for services previously performed by the banks for free. Keefe found that the drop on earnings at New York City banks would only total 4 percent, while at Chicago banks it would come in at 2.7 percent.

But, for the banks *outside* the money centers, the average impact would be greater, rising to 18.7 percent in California and 19.6 percent in South Carolina. Scenarios imputing less extensive conversion of demand deposit into NOW accounts showed smaller earnings drain, with some banks showing either no losses or small positive gains.

But as shocking as the Keefe study conclusions are, they may even understate the case. The study is premised largely on prevailing market relationships and omits perhaps the most significant new element to enter the equation — fierce competition. In fact, Arthur Burns takes important note of this point in his June 20 testimony before the Subcommittee on Financial Institutions of the Senate Committee on Banking, Housing and Urban Affairs. Following his prediction that, "the pre-tax earnings of commercial banks are likely to be running, on average, 5 to 6 percent below the level that would prevail in the absence of NOW accounts for individuals," Burns reveals that, "I must also note that the indicated average profit short-falls of 5 to 6 percent could be *appreciably exceeded* by individual institutions — those, for example, whose present deposits happen to be weighted heavily toward consumer demand deposits, or those that happen to be situated in communities in which competition becomes especially intense." This last category, of course, includes every large urban center in the U.S.

These ominous predictions are confirmed by the experience of New England, where NOW accounts were introduced on a wide trial basis in 1972, first in savings institutions and then in commercial banks. Commercial banks' average return on total assets before taxes and securities transactions declined a staggering 32 percent, from 0.94 percent in 1972 to 0.64 in 1976.

A War Between Unequal Forces

As the tremendous decline in bank earnings operating under NOW accounts would suggest, there is a set of fundamental reasons why commercial banks are much better structured to operate under a NOW account regime than are thrift institutions.

Once NOW accounts take effect, all banks will shift to charging through a fee system for current gratuitous services — including checking and check-clearing services — in order to accrue the earnings to pay interest on checking accounts. Here the commercial banks' muscle takes over.

The commercial banks offer a much broader range of services and have much greater access to funds than savings banks, who must depend almost exclusively on consumer deposits for their deposit base. Thus, the commercial banks have a much greater range of services on which they can charge fees, meaning that they can charge very important marginally lower fees on such critical services as checking, which is a vital instrument in a war to keep demand accounts. Second, because of their much greater access to money, the commercial banks can withstand rate-war conditions under a tight-money situation, something that Fed chairman Burns, who is acting overtly as a hatchet man to bail out the New York banks, can arrange by raising the effective federal funds rate, which raises all money market instrument rates.

In addition, the savings institutions will end up paying interest on a much greater amount of demand deposits taken as a percentage of total "free" funds, that is funds that a bank takes in as liabilities without having to pay interest charges. The commercial banks have a much broader range of free funds not allowed to the savings banks under law. "How you're structured determines how NOW accounts affect you," says William M. Crozier Jr., chairman of BayBanks Inc. in Boston. "Smaller banks tend to take it on the chin."

Moreover, the Federal Reserve Board, under proposals advanced by Arthur Burns, will offer its member commercial banks between 4 to 5 percent interest on their reserve deposits held at the Fed, something for which the savings institutions have nothing of offsetting value.

Now if on top of all this, the savings institutions are forced to give up the one-fourth percent interest rate differential payment on savings accounts — Regulation Q — they now enjoy, the commercial banks who can offer, because of their connections and size, all sorts of service conveniences and attractive locations, will accelerate the attraction of customer deposits.

The joint institution of NOW accounts and elimination of Regulation Q spells disaster for the savings institutions. Lloyd Bowles, the chairman of the Legislative Committee of the U.S League of Savings Associations and also chairman and president of the Dallas Federal Savings and Loan Association told Congress June 21, "Frankly, we fear that without the Regulation Q program, the big banks will 'gobble up' the smaller banks and thrift institutions and we will end up in this country with a dozen or so super banks with financial decision as to who gets what kind of credit being made in offices at the tops of skyscraper buildings in New York, Chicago and San Francisco. (There is no assurance either that — once financial institutions are consolidated to a smaller number — the ordinary saver would be treated to premium rates in a 'free market' environment; the big banks might bid for the big, 'smart' money, instead)."

What There is to Lose

It is most ironic that the commercial banks, who are

going bankrupt drowning in Euro-dollar debt, are attacking the savings institutions, who have not one cent invested in the Euro-dollar market or any of its derivative outlets for lending.

Perhaps this signifies what this nation will lose if the commercial banks scheme to dismantle the thrift institutions succeeds.

As much as the Wall Street crowd of commercial banks are committed to speculative excesses, the savings institutions are committed in the opposite direction.

Seventy-five to 80 percent of savings institution lending — the rate depending on the region of the country — is invested in financing one-to-four-family residential construction. Currently, there is a limitation of $55,000 on savings institutions single-family home loans, with strict stipulations for each small increment lent above that limit. Otherwise, the rest of savings institution lending is to the consumer market.

Likewise, the deposit pattern of the savings institutions is financially sound. The savings and loan associations and mutual savings banks have a much larger percentage of their consumer deposit base in long-term certificates of deposit than the commercial banks. For example, commercial banks only have 16 percent of their consumers savings base in certificates of deposits of four or more years maturity, while the savings and loan associations have 36 percent of their consumer deposit base in certificates of deposit of four years or more maturity. Long-term certificates of deposit are inherently more stable, because they represent a commitment by the saver to keep his money in the bank, and it cuts down on the gambling-type risks the bank must take to attract deposit funds which will be lent long-term

A Footnote: the Redlining Issue

It is surprising, given that the savings institutions understand the fact of the large New York commercial banks attack on them, that the savings institutions have not figured out the immediately obvious — and dangerous — redlining issue.

Stripped to its essentials, the redlining issue is best understood by a consideration of the New York City apartment dwelling mortgage market. During the last 20 years, the New York commercial banks have built the dollar-volume of the New York City apartment mortgage market through successive speculative orgies, subsidized in part by welfare payments. Now, the market has gone bad, with some mortgage defaults reported, and a tremendous number of mortgage defaults imminent. The New York commercial banks, whose up-to-the-minute history of non-accruing Euro-market lending is discussed above, cannot afford to use their own funds to prop up their apartment mortgage market values. The obvious ruse then, has been for these banks, through their political stooges, and "community organization" Ford Foundation-initiated front groups, to demand that the savings institutions pour their money into propping the commercial banks inner city holdings. First, however, the savings institutions are labeled "racist," the better to make them a target for attack.

Once the savings institutions see through redlining, and the root-cause of the commercial banks all-out attack on them, they should proceed to join with their natural "American Whig" allies, the building trades unions and the construction industry, in a battle in their own defense. A publicity campaign focused on the long-overdue need of financial re-organization of the bankrupt large commercial banks is a good starting point.

Will Managed Dollar Depreciation Slide Out Of Control?

FOREIGN EXCHANGE

On June 24, the Organization for Economic Cooperation and Development (OECD) announced that the "strong" balance of payments countries, West Germany and Japan, would allow their currency exchange rates to freely appreciate against the dollar, in order to make their exports more costly and thus erode their trade surpluses. The dollar indeed proceeded to drop — but it dropped across the board, against weaker *and* stronger currencies. Intervention by the West Germany central bank and the U.S. Federal Reserve were required to stabilize the decline at a three-quarter percent level on June 29. At his OECD press conference on June 24, U.S. Treasury Secretary Blumenthal had already warned against the dollar being "oversold," whereupon Western European central bankers moved to prevent a panic at the dollar's expense. .

Blumenthal, who last week had to swallow his Pollyanna commendation of the U.S. trade deficit as a boon to the rest of the world economy, has made it clear that the Carter Administration, expecting the dollar to lose ground as a consequence of that deficit and the economic weakness it reflects, seeks a selective dollar devaluation on the most favorable terms possible. Carter advisor Lawrence Krause of the Brookings Institution demanded in an interview in the *Asahi Shimbun* English-language Tokyo newspaper two weeks ago that the U.S. hold yen and deutschemarks in its reserves, and dollars which Japan and West Germany would presumably have to absorb, producing the reflationary impetus their governments have thus far averted. Krause called the dollar "overvalued" and mooted a return to fixed exchange rates, a proposal which, for whatever motives, has surfaced here and there lately in the U.S. Commenting on Krause's remarks, a Morgan Guaranty banker mulled, "You can't have a real dollar devaluation without a return to gold backing. Anyway, the trouble is that there isn't any international monetary system...."