Click here for Full Issue of EIR Volume 7, Number 50, December 23, 1980

Banking by Kathy Burdman

Treasury: Too many thrifts, too much housing, too little dereg

A fear is sweeping the top levels of the Washington regulatory agency bureaucracy who are responsible for the deregulation of the U.S. banking system. The American population, they say, has rejected banking deregulation because it means the planned shrinkage of the U.S. economy and living standards.

EIR *obtained an interview this week with John Mingot, Deputy Secretary for Financial Institutions to Assistant Treasury Secretary Roger Altman.*

Q: What are the prospects for banking deregulation in the Reagan administration?

A: I believe there will simply be no new major banking deregulation legislation during the next six months to a year, at least, if then. We're going to be dead in the water for a good, long time. What should, of course, happen is that we've had the deregulation act and gotten rid of Regulation Q limiting interest rates, we should go on and deal with the other two major banking areas. Get rid of the McFadden Act, Douglas Amendment, and other regulations prohibiting interstate banking, and break down the Glass-Steagal Act and all barriers to banks' doing brokerage business and vice versa. This should all be done, but it can't be, there will be too much to clean up. Instead of moving ahead, we're going to be bogged down fighting what I see as a tremendous move toward backsliding against deregulation. Not only are we not going to be able to introduce any new bills, but we will be forced to spend most of our energy fending off attacks on what has already been accomplished and fighting the dinosaurs.

First, we're not home free on even the deregulation act and its effect on savings and loans, which is the one area, Reg Q and so on, where people imagine deregulation is well under way. Jake Garn is taking over the Senate Banking Committee and he's against it, period. We won't have new legislation, but there will be a series of bills instead going the wrong way. Garn will introduce the bill [S
and Garn to repeal the Depository Institutions Deregulation Committee [DID
no more DIDC, a real blow to the deregulation act. Then Garn will be pushing his bill prohibiting commercial banks from taking over S&Ls [H
regressive bill. I even expect a series of bills or hearings against floating mortgages; the hearings held by Comptroller of the Currency John Heimann yesterday on alternative mortgage instruments were a disaster, a circus. Congressman Rosenthal [D
ble-rate mortgages as a rip-off. Let me give you another horror story. Garn says he's going to "look into money-market funds." I expect him or someone to propose that we have ceilings on MMFs instead. This would be completely regressive. Money-market funds have been a great force for reality, they've attracted 54 percent of U.S. consumer savings, from zero percent in 1978, out of the S&Ls and the banks where the deposit rates were regulated by a stupid 8 percent ceiling, and into the free market. Slap Reg Q on MMFs and it will cause a massive reversal of savings funds right back out of MMFs and into the S&Ls, a massive reversal of funds out from the large banks back into the small banks. When people realize they can't make more interest in MMFs, they'll put their money right back in the savings bank where it's slightly safer, and we'll be right back where we were twenty years ago, where these stupid S&L executives are able to charge less for deposits, a lousy 5 percent, so that they can price their mortgage loans lower.

Q: Garn has been accusing the regulatory agencies of usurping Congress.

A: My God, somebody's got to usurp Congress, they're totally regressive on this. Somebody's got to do the work of reforming the banking system, they're holding everything up.

Q: You mean the administration, even if weighted in favor of deregulation, won't get this past Congress at all? Who else besides Garn is there?

A: It's not a question of who is in Congress, I don't

© 1980 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

know or care who else is in Congress—*it's a question of what the population wants.* Jake Garn is doing this plain and simple because he knows what the population wants, and he has to do what his constituency wants, they're wrong, but they have said loud and clear what they want, and unless Garn and the rest of Congress want to be ridden out of town, like Jimmy Carter, they'll do what the voters want. Look at the savings and loan issue which has people all excited. There's no law that says there have to be five thousand S&Ls and fifteen thousand commercial banks; it's inefficient, expensive, and uneconomic. A lot of these thrifts have no idea either how to make money or how to make mortgages, and some of them should be allowed to fail; the S&L industry should be consolidated, the bigger ones should soak up a lot of the smaller. These rich little S&L executives sit in their nice small-town oak-paneled offices and enjoy terribly being president of the First Federal S&L of East Podunk—they don't know how to run a bank and they know it; they're afraid. They should all be branch managers. These CEOs should all be out of a job, if the market were rational, or should be taken over and turned into the branch manager of the Podunk branch of a major S&L.

Colorado—there was a ballot proposition for statewide branch banking and they voted it down two to one, because people were afraid that the big banks would come into their towns and kick the shit out of the little ones, and take over, and stop making loans to them. The Independent Bankers put out advertising saying just that everywhere and they did their job, they scared people.

Arkansas—Arkansas has a 10 percent usury ceiling on consumer loans made in Arkansas for over six thousand years. There was a proposition put up to deregulate usury ceilings on consumer loans, and they voted it down overwhelmingly, because high interest rates are bad, right? Okay, so now you can have the privilege of applying for all the consumer loans you want in Arkansas at 10 percent, and they can't afford to make them. This is supposed to be better than at least letting some people have the choice, if they wish, of applying for a loan at 20 percent and actually getting one for a change. . . .

The Depository Institutions Deregulation Act is under attack because the population doesn't understand that the savings banks are simply inefficient. . . .

This is wrong, of course, but these people have political power, these congressmen. They are the worst offenders, these congressmen who continue to have the misconception that we should continue to have the Reg Q differential to protect the thrifts—one, because they think Reg Q will protect the thrifts, which it won't; two, because they think we should protect the thrifts, because the thrifts finance housing, which is not true; and three, because they think we need more housing in the first place, which is wrong—we already have much too much housing.

First of all, Reg Q does not protect the thrifts because the reality is that money-market funds pay higher rates to depositors and take all their deposits. Then the S&Ls won't be able to make any loans. Period.

Second, we shouldn't protect the thrifts, because they don't promote housing finance in any rational way. I expect a lot of thrifts to be failing, and that's good. If anything, having thrifts too specialized, doing almost only housing as they are, hurts housing in the first place; because the government has caused them to be so specialized, they depend tremendously on housing, and when rates are high, they can't make loans, because people can't afford them, and they start going under. They can't afford to make mortgages at fixed rates, because their costs of funds go up, and they can't make them at variable rates, because people can't afford those. So, in order to stabilize any flow of funds into housing, these institutions have to be diversified, able to earn

The obstacles to interstate banking

The McFadden Act of 1927 establishes state lines as the boundary within which banks may expand *branches.* It allows both state and nationally chartered banks to expand locally to encourage the financing of industry and agriculture. However, it forbids banks, notably the large nationally chartered banks such as Citibank and Chase Manhattan, from branching across state lines and taking over the business of local smaller banks through cutthroat competition. It thus protects local banking.

The Douglas Amendment to the 1956 Bank Holding Company Act establishes similar rules to McFadden for the purposes of bank *subsidiaries,* and has the effect of prohibiting large banks from buying up smaller banks as wholly owned subsidiaries across state lines.

Regulation Q of the Federal Reserve Board is the power vested in the Fed Governors by the Federal Reserve Act of 1913 to maintain or remove interest rate usury ceilings. It also, prior to the repeal of this provision by the Depository Institutions Deregulation Act of 1980, gave savings institutions a legal percent "differential," allowing them to pay depositors an extra percent more than commercial banks could pay, to attract savings for housing finance.

income in other areas, so when housing slumps, they can survive. Congressmen object that this means they will do less net financing for housing. That's true, so what? There will have to be fewer, and more expensive mortgages. . . .

So Reg Q doesn't protect the thrifts, and the thrifts are not efficient for financing housing. But in any case—might we not have *too much housing?*. . .

We got into this idea of building a lot of housing because mortgages were too cheap, and were financed by an indirect tax on the savings depositors. Ten years ago, when depositors were very, very dumb, and were willing to get a lousy 5 percent on their deposits, they in effect subsidized the mortgage market. The great unwashed masses of depositors got 5 percent, and so the S&Ls could afford to make mortgage loans at 5 or 7 percent tax on the poor to subsidize housing for the rich.

Mortgages were underpriced, period. These small-town, fat S&L executives believed they had some kind of religious duty to keep making home mortgages at affordable rates, beyond all economic reason. They made them at fairy-tale prices.

But then the money-market funds and other floating-rate instruments came in, and the dumb depositors wised up, took their money, and went elsewhere. The game is over, and the S&Ls can't get away with it anymore, and they've got all those mortgages on the books at fixed rates, which are losing them money. So, we had to pass the deregulation act to raise mortgage prices. Mortgage rates have been raised, and they should be even higher than they are. Thrifts should be forced to price them, not on their actual 8 percent costs of deposit, but on the interest rates they are foregoing by not investing in Treasury bonds at 12 percent, and investing in mortgages.

This is good, because the fact is, *we have too much housing in this country.* Ten years ago, we went on a home-building spree. We built houses all over the country, contractors were humming, the building trades were working, everyone had a grand time. Gee, wasn't that fun, Ma? But now, we have too many houses, and scarce resources, especially scarce capital. We can't afford capital for housing.

I think it's outrageous that the typical college graduate today expects automatically to be able to live in a three-bedroom house with one and a half baths. He thinks it's the American dream—who says he's right? If he wants it, he's going to have to pay more, a lot more, and then he'll see that he's going to have to be satisfied with a smaller, more efficient apartment. Variable-rate mortgages, renegotiable-rate mortgages, these are a godsend to us. They make housing simply too expensive, and unplannable to boot.

But, it's too bad, now we won't be able to get any more legislation anytime soon.

West German Steel

The Ruhr decides to fight the recession

by George Gregory

A week and a half after a two-hour demonstration by the entire city of Dortmund, including 15,000 steelworkers from the Hoesch steel plant, the Hoesch board of directors announced that it will reverse its previous cancellation of modernization plans.

A new state-of-the-art oxygen blast furnace will be built as originally scheduled. The new 550 million DM plant will replace a number of obsolete Siemens-Martin facilities in the Westphalian foundry complex.

The Hoesch management had previously argued that the output ceilings established by the European Commission of the European Community (EC) under Count Etienne Davignon precluded not only expansion of present Ruhr capacities, but also modernization investments, because modernization would not be profitable under the new regimen of reduced output.

An export crunch

Hoesch's decision could be the first in a chain reaction at the European-wide and regional levels—a concerted fight to reverse the "American-style" recession, as it is known here, predicted for Europe through next year and beyond.

The Davignon plan imposes on all European producers 18 percent cuts in the last quarter of 1980 and 25 percent cuts in the first quarter of 1981, relative to Oct. 1, 1980 production levels. The plan had compounded the frustration among German steel producers.

With unusual frankness concerning the political dimensions of their predicament, a spokesman for the Iron and Steel Association conceded to *EIR* that "Carter ruined Iran for us—we were shipping nearly a million tons of steel there, not to mention plant, equipment, and machinery, before Khomeini took over. Then Carter ruined Turkey, which used to be a significant customer of ours. It is difficult to calculate whether we lost more to the [U.S.] super-interest rates, which killed the market for us, though of course it killed the market for American producers too. We lost 58 percent of our U.S. exports, in any case."

While the industry and its associations are not willing to provide detailed figures at this time, they say