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'Let them die'

The Regan Treasury plans major S&L bankruptcies to restructure the economy—and the population.

Treasury Secretary Donald Regan and Budget director David Stockman are planning a "controlled crisis" of bankruptcies among U.S. savings and loans this spring, report some of my Treasury sources. The major institutional investors led by Prudential Insurance plan to pull out over $50 billion in deposits and loans from the S&Ls in early April, said the source.

Stockman and Regan do not want to stem the tide, because they agree with the big institutions that the U.S. economy needs to be restructured, by shutting down some S&Ls, and the homebuilding market they support. "Don Regan and Dave Stockman don't believe in bailouts," said my source. "They intend to force the Federal Home Loan Bank to let these S&Ls die if they are destined to fail. One by one."

Some at Treasury specifically want to cut back U.S. homebuilding to force the U.S. further into *sub-zero population growth.* "We've allocated too much capital to housing," said a source. "Now we have scarce resources.

"The typical American college graduate wants to live in a three-bedroom house. That's asinine. He'll have to take a smaller, energy-efficient apartment."

This will reduce U.S. population growth, he said. "Fewer homes mean Americans will have fewer children. Less space in apartments means smaller families. And that's a good policy."

Washington regulators estimate that some 200 S&Ls will "disappear" in mergers and liquidations, on top of 35 S&Ls bailed out and merged by the Federal S&L Insurance Corporation (FSLIC) last year. Some 400 S&Ls are technically bankrupt under the FSLIC's net worth requirements, since their equity is less than 4 percent of deposits.

Profits plummeted 75 percent in 1980 to $900 million, and the nation's 4,700 S&Ls are expected to lose a cool $4 billion in 1981.

Last year the FSLIC spent a record $1.5 billion in bailing out and merging a total of 35 S&Ls. Now the regulators are afraid they won't have the money to halt a wave of bankruptcies.

Stockman is already acting to cause depositors to panic and pull out of S&Ls, said my usually reliable source. "You have major institutions near insolvency," Stockman told the Washington press corps in an unusual "backgrounder" on March 7.

"Any honest evaluation of the S&Ls would show their equity has been wiped out." Bank runs "like the 1930s" may result, he said.

"That was pretty inflammatory stuff," laughed my source, "and it's caused tremors all over the place, which was what it was designed to do. It's advanced our timetable."

The crisis atmosphere, he said, will help plans by the major institutional investors such as Prudential Insurance to pull their money out of $50 billion in "jumbo" S&Ls savings certificates coming due in early April, which would knock out about 8 percent of the S&Ls' assets. "Then we could also see the major commercial banks start to pull in their loans to the weaker S&Ls, just as they did to Chrysler," he said.

"Secretary Regan feels this will all be very useful in helping to modernize and restructure the entire U.S. economy," said my source. Donald Regan, he insisted, believes in the "postindustrial" thesis under which the U.S. should phase out basic heavy industry like auto and homebuilding and move into computers and other "information age" services. "Don Regan is a free-trader who wants to give no government bailouts to these old industries. Chrysler shows it doesn't work, and now Regan wants to scale down the auto industry. No more bailouts for them.

"Letting the S&Ls go, furthermore, will not only rationalize the S&L and banking industry. Mr. Regan, of course, is for restructuring the financial system—that's what he did in his own industry, the brokerage industry. He's the great liberalizer of Wall Street.

"He's reshaped Wall Street, and now he wants to reshape the economy. Fewer S&Ls means less lending to housing—we need to cut down the homebuilding industry. We have too much housing, we need less housing, we've allocated too much capital to homebuilding and Don Regan wants newer industries to be able to compete for that capital."

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