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Volcker funds asset seizure by the big dope banks

by Chris White

Paul Volcker lowered the Federal Reserve's discount rate the week of May 20 to 7.5%, a level not seen since the era that ended with the inauguration of Jimmy Carter as President of the United States. It may be that there are still some around who think this latest action by the chairman of the Board of Governors of the Federal Reserve System is, "good news." That shows the danger of watching television to get the news.

Volcker's action is confirmation that he is coordinating the attempt by the drug money-dependent money-center banks, such as David Rockefeller's Chase Manhattan, and Walter Wriston's Citibank, to grab the assets of the nation's collapsing Savings and Loan institutions, and thereby shore up their own tottering financial position.

The discount rate is the rate at which the money-center banks can borrow from the Federal Reserve System. It used to be that such banks had to put up collateral against their borrowings on this account. That healthier practice was abandoned several years ago. Now, all the banks have to do is go to the Fed and borrow what they want.

Volcker's lowering of the discount rate therefore means more cheap paper credit for the money center banks. The *Wall Street Journal*'s immediate reaction was to moot that Volcker may be worrying about the collapse of the Savings and Loans. As usual, that's only partly true. Volcker is not worried about the collapse of the Savings and Loans as such. Those institutions have been on his triage list for a number of years. He is, however, concerned to protect the money-center banks from themselves collapsing, by enabling those institutions to steal the honest assets and the deposits of the S&Ls with plentiful subsidies from the public purse.

Meanwhile the money-center banks, led by Citibank and Chase, lowered their prime rate—i.e., the rate at which they relend the funds borrowed from the Federal Reserve—to 10%. Volcker's move on the discount rate ensures that those money-center banks will be able to keep on lending their freshly printed credit from the Fed with a hefty 2.55 margin in their favor. By contrast, the last time the Fed's discount rate was in the range of 7.5% in the mid 1970s, the banks' own lending rate fluctuated within a range not much more than 1% above it.

Bankrupt dope banks

The dope money-dependent money-center banks have themselves been technically bankrupt since the fourth quarter of 1983. At that point Volcker, and his friend C. Todd Conover, who was then Comptroller of the Currency, changed the regulations governing banks' so-called non-performing assets, to protect those banks from the non-payment of interest and principal on especially their Ibero-American outstanding loans. Subsequently, the regulations were changed, almost every three months during 1984, in order to maintain the illusion that the money-center banks were sound.

Meanwhile, as lawful revenue from foreign lending collapsed, because of International Monetary Fund conditionalities policies, the money-center banks, already involved in the laundering of the criminal proceeds of the international drug trade, became increasingly dependent for their operating liquidity, on flows of criminally associated money. It is estimated by well-informed sources that of the approximately $3 trillion flowing through the American banking system, $1 trillion is contaminated by laundered money proceeds of the international drug trade and related criminal practices.

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But, the drug money evidently is not enough. Now the bankrupt, crime-dependent commercial banks are faced with a new round of crises over their so-called "performing assets" in Ibero-America. Argentina is wracked by crisis, freezing officially transactions in dollars, while its leading financial institutions collapse. Brazil is being pushed to the point of financial collapse in renewed negotiations with the IMF designed to put that country under a 15-year financial conditionalities dictatorship. Peru, in crisis is accumulating arrears on its non-paid foreign debt. Colombia, like Brazil, is being pushed to the wall again. Mexico has been hit by a new round of capital flight, reported in the region of $6 billion. From one end of the continent to the other, the crisis that Volcker and the commercial banks had claimed was under control, has exploded again.

The bottom of the barrel

But this time, as leading economist Lyndon LaRouche warned in his introduction to *EIR*'s latest *Quarterly Economic Report,* "the bottom of the barrel has been scraped clean," there is nothing left to scrape any more. The commercial banks, whose own insolvency has been papered over by Volcker's pretenses, are once again threatened with sudden collapse, as the reality of non-payment of the foreign debts hit.

That's why these criminalized, and bankrupt institutions want to take over the deposit base of the Savings & Loans, and why Volcker, and his stooge at the Federal Deposit Insurance Corporation, William Isaac, are bending over backward to help them. Walter Wriston, and the people who do the thinking for David Rockefeller and Willard Butcher over at Chase Manhattan bank, figure that the robbery of the nation's savings deposits will offset their own losses on account, to enable them to maintain the pretense of solvency for one more round.

Therefore, any public official or depositor, who thinks he can obtain safety for either Savings & Loan institutions, or his deposits, by turning to the big money center banks, ought to have his or her head examined.

Number one, any public official who is backing the handing over of local savings institutions to the big money-center banks, is in fact proposing to hand over his state's deposit base to organized crime. Number two, the money-center banks, no matter what Volcker, and his cronies like Isaac may say to the contrary, are in much worse financial shape than the S&Ls they purport to want to save. Assets and deposits transferred to the money-center banks are being thrown down the drain.

Look at the gangland tactics employed by the big banks to get hold of the pick of the local assets. These banks are desperate for the loot.

In Ohio, where the privately insured S&Ls collapsed in March, Chemical Bank was demanding that the state fund its purchase of the failed institutions, by putting up $125 billion to supposedly offset the bad assets of the institutions it wanted to take over. Chemical succeeded in extracting $93 million from the taxpayers of Ohio, as a subsidy for its asset grab.

In the state of Maryland, Citibank, and Chase are attempting to dictate similar terms. These banks have announced that they will refuse to take over the collapsed S&Ls unless the state either gives them sweeping commercial banking powers, and/or substantial financial compensation for the S&Ls' so-called bad assets. Citibank was gloating about this protection-racket-style offer.
to come back to the big out-of-state banks, unless the state is willing to swallow huge losses to compensate depositors in the state-insured institutions. We are not willing to pay exorbitant premiums to do business in the state of Maryland," said one official of the bank. As with the Ohio precedent, the commercial banks want their deposit grab to be subsidized out of the public purse.

The Ohio crisis, and now the Maryland followup, have set a national pattern, as the big sharks move in to gobble up the assets. But meanwhile, the vulnerabilities in the national banking system highlighted by the headline-grabbing Ohio and Maryland situations, are showing up nationwide, as banks keel over at an annual rate not seen since the last Depression. Latest is the Energy Bank National Association of Dallas, Texas, declared insolvent by the Comptroller of the Currency. The ripple effects of this bankruptcy were felt in Florida where the Sun Rise Savings and Loan went under in the third week of May.

Isaac at the FDIC is doing his best to increase the panic collapse of the S&Ls. His next scheduled victim appears to be the privately insured S&L system of Massachusetts. "Massachusetts is feared by some to be next in line," he told reporters, "probably the biggest state-backed system out there is Massachusetts, and I don't believe depositors have anything to be concerned about." Isaac has been changing the regulations concerning reporting of S&L problem loans, to ensure those banks go under, while Volcker and Connover were changing regulations pertaining to the commercial banks to keep up the pretense of solvency.

With this kind of corruption at the top of the banking system, it's no wonder that the system as a whole has been brought to the edge of collapse. The crisis is not just a banking crisis. The United States credit and financial system is bankrupt. The banks collapsing around the country, the commercial banks' desperate grab for assets to shore up their game a little longer, reflect the reality that the financial and credit system as a whole are doomed.

Such a doom would come in either of two ways, if the present Volcker policy is not changed. Either through deflationary collapse, or through a hyperinflationary blowout of the credit system. Volcker's lowering of interest rates in late May is a step in the direction of the hyperinflationary blowout that will come, if he is permitted to avoid the deflationary collapse of paper values, his way. Reorganize the commercial banks, and the nation and its credit can be saved, even now.

Documentation

Volcker delivers IMF blackmail

The following are excerpts from a speech Paul Adolph Volcker, chairman of the Board of Governors of the Federal Reserve System, delivered to the Focus International Conference on the World Economy and Peace in Seattle, Washington, on May 16. Volcker's argument amounts to a series of threats against any debtor country, including the U.S.A., that might be considering breaking with International Monetary Fund's policing actions, which the Fed chairman credits with having "saved" the world monetary system from collapse.

As you know, a number of developing countries—basically those expanding the most rapidly—became large borrowers in international markets during the 1970s and early 1980s. Major commercial banks around the world were eager lenders in a context of rapid growth, relatively low interest rates, and accelerating inflation. But when conditions changed—in terms of better control over inflation, higher interest rates, and more sluggish growth—both borrowers and lenders found themselves vulnerable. The international financial system and the trade it supports were in jeopardy.

. . . A number of major borrowing countries undertook strong measures to adjust their external accounts, including measures to deal forcibly with *their* budget deficits and to curtail monetary growth. They cut back on swollen imports, and because the crisis centered in Latin America where we have particularly close trading relationships, the effect on our own exports for awhile was disproportionate. Banks, recognizing their self-interest in an orderly resolution of the problem, joined cooperatively in providing limited amounts of new money when needed as part of the adjustment effort and in restructuring old loans so they could be serviced.

At the center of the entire process stood the International Monetary Fund. It has worked with the indebted countries to develop the needed adjustment programs. It has helped coordinate the banks in developing their lending programs. It has provided an essential margin of the needed new funds.

The Fund could pay that role for one reason—as an international organization with membership of nearly all countries, it could be accepted as a neutral arbiter. It also has professional competence. And it had funds at its disposal to help carry out its purposes.

The challenge remains. The debt problem is still with us. . . . Success [in solving it] will require continuing self-discipline by the borrowing countries. More than that, they will have to make their economies more competitive, efficient, and flexible. In many cases, that will require steps to liberalize, in the old fashioned sense of the word, their own economies, making them more attractive for investment by their own citizens as well as by firms from abroad.

And, the borrowing countries, as they do produce at competitive prices, will need open and growing markets abroad.

That need be no threat to the industrialized world. The indebted countries have, and will continue to have, large import needs. Those needs that can be satisfied only by countries like the United States. . . .

I would submit to you that we have had in the past few years a vivid demonstration of the central importance of strong international institutions in managing the world economy. The IMF was there, fortunately for all of us, to help deal with crisis. The World Bank, the InterAmerican Development Bank, and the Asian Development Bank—institutions whose business is long-term development—have also contributed constructively. Their role will be even more important as the borrowing countries begin to deal with the need for more fundamental restructuring of their economies.

No doubt, as with any human (sic) institution, the international financial organizations will need to adapt and change in response to shifting circumstances. But . . . It's hard to visualize an effective trading system—a system in which all can participate and grow—without organizations like these to help protect the financial structure and support development. They provide a forum for developing—and enforcing—the rules of the game. They provide needed financial lubricants, even if the driving engine of the world economy must be found in the performance of individual countries. They are a force for cohesion and consensus.

And they will not be able to operate effectively without the support and encouragement of their leading stockholder, the United States. . . .

All countries that participate in the system will need to deal with imbalances in their own national policies. We can't expect to pass our internal problems off on others. In the process, the success of one country will help its trading partners. And the responsibilities of the United States today, as the largest and strongest country, are especially great.

If we are to be less dependent on foreign capital, this country will have to face up to the need to deal with its budget deficit. That measure—thought of as a purely domestic economic and political matter—has great implications for our trade, for financial markets, and for other countries as well.

All countries have a strong interest in nurturing and supporting the international institutions—the GATT, the IMF, and the development banks.