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Wriston and friends press for banking reorganization

by Chris White

Walter Wriston's old schemes for the reorganization of the U.S banking system are being surfaced again at ongoing conference committee hearings of the House and Senate Banking Committees on this year's banking bill.

Walter Wriston is the former chairman of Citibank, who, working with then Treasury Secretary Donald Regan, during the course of 1982, secured the implementation of the policies on banking deregulation and Third World debt which actually resulted in the bankruptcy of the U.S. banking system. He is most closely associated with the revival of "free enterprise" lunacies, inside and outside of government, during recent years.

At the time, it was the counsels of Wriston and Donald Regan which prevailed within the administration over alternative banking and economic reorganization plans put forward by the economist and Democratic presidential candidate Lyndon H. LaRouche, Jr. Wriston and Regan bought time for their financial system by redirecting world credit flows such that prevailing patterns of trade between the United States and especially the nations of Ibero-America were reversed almost overnight. The U.S. banking system became dependent on inflows of foreign funds, originating in either the genocidal looting of Third World economies, or from the international drug trade, and running at between $150 to $180 billion per year.

At the time, LaRouche had proposed that the U.S. government adopt the international banking and credit reorganization plan which subsequently became known as "Operation Juárez." Debt would be reorganized over the long term, for repayment based on wealth generation from large-scale infrastructure and technology-intensive, capital-intensive development programs.

Export expansion, from within the United States and other advanced-sector nations, would be the necessary correlative of such activity, which would not only put the banking system on a sounder footing than at any time in the last 100 years, but would also foster economic revival in depressed advanced-sector countries themselves.

Now the idea is to treat the U.S. economy, that is the savings, pensions, mortgages of U.S. households, in much the same way as the economies of the developing sector were treated in the period from 1982 onward. A select group of larger banks would arrogate to themselves the right to suck up the diminishing wealth produced and saved nationwide to preserve their own political power.

Blue ribbon solutions

These matters, like the current reorganization discussion, are not actually addressed directly in the banking bill presently before Congress. Instead that bill proposes the creation of a special "blue ribbon" type commission to examine the current problems of the banking system, and come up with solutions. Not suprisingly, the solutions, like the problems, are of Wriston's making, and will be much worse in their effect, if ever adopted, than the so-called solutions he and Donald Regan worked on during the period 1982-83.

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The blue ribbon commission has been argued for by the present Chairman of the Federal Deposit Insurance Corporation (FDIC), William Seidman, on the op-ed page of the *New York Times*. Seidman considers that present accumulated stresses and strains in the banking system are not so much the result of failures in economic policy, but rather the result of constricting, outdated regulatory mechanisms left over from the banking reorganization of the 1930s.

Seidman recommended that if the commission is established, then proposals put forward by the Association of Bank Holding Companies, Gerald Corrigan of the New York Federal Reserve, and the late Walter Heller from the Federal Reserve Board, should serve as the basis for the commission's investigations.

Not surprisingly the cited drafts are not only coherent with Walter Wriston's old plans, but also with trial balloons that have been floated out of the James Baker-led Treasury Department in recent weeks.

The proposals are couched in the language of the deregulators, that is the restrictions of the Glass-Steagall Act would be removed to permit bank holding companies to own subsidiaries in insurance, securities trading, real estate dealing, and so on. In fact, the proposals would result in a cartelization of U.S. banking, leaving a handful of large holding companies operating a branch banking system on the model of Canada or the British Isles, while local banks, servicing the needs of the local community, are either assimilated into the system, or are allowed to disappear.

In the Canadian, or British branching system, the big event of the week, as far as the branch in a small locality is concerned, is the deposit of the community's weekly paychecks. Decisions about what to do with those checks after deposit is determined centrally rather than locally.

This time, unlike 1982, the proposals are not necessarily designed to buy time for the system against a looming crash, but as the outline for a reorganization plan to go into effect after a crash, when the little fish, so to speak, would have been shaken out, and the sharks scavenge for the juicy leftovers.

The Association of Bank Holding Companies is proposing for passage in 1988, or perhaps sooner, what it calls, "The Financial Services Holding Company Act." This would "permit bank holding companies and their competitors to engage in activities financial in nature on an equal footing. The banking industry has been thwarted for a number of years in its attempt to secure amendments to the Bank Holding Company Act to authorize a full range of financial products and services for bank holding companies. . . . In exchange for authorizing the ownership of a full-service bank by financial competitors, the FSHCA would authorize full entry by the banking industry into the insurance, real estate, and securities fields."

Corrigan's views from the New York Fed were presented in a document entitled, "Financial Market Structure: A Longer View," first published in January 1987. In Chapter 3, "What Are the Alternatives," Corrigan argues against what he calls "re-regulation," "muddling through," and "wholesale deregulation" to advocate "a better alternative." This is represented in the words of none other than Walter Wriston: "If the National Bank Act was amended to say that everything a bank holding company can do, the national bank can do, I'd be extremely happy. It would simplify administration and would make it perfectly clear to the customers that our $7 billion of capital is behind everything we do." Corrigan himself argues that whether to maintain or not, the distinction between banking and commercial businesses, is the critical decision that has to be made, and in testimony before Congress, he has said that if the lines are to be blurred, then the federal government should not have to pick up the tab.

In short, the fix is coming down on one of the biggest ripoffs in history. The agenda has been defined. The protagonists have been lined up. The trial balloons have been floated. The institutional mechanisms have been put into place.

If the present banking committee conference, which is primarily dealing with a short-term rescue package for the collapsing thrift institutions, fails to establish the Blue Ribbon Commission, the Association of Bank Holding Companies legislation is on the table. And, Alan Greenspan, a public proponent of those kinds of ideas, is moving into the Federal Reserve in August, from which position he would be able to implement the same kind of package, by regulatory rather than legislative methods.

The trouble is. . .

The trouble is that these present schemings, like the Wriston-Regan efforts of 1982, ignore the reality of economic collapse, and assume that by reorganizing the deck chairs, one more time, one can also save the Titanic from foundering.

There is no banking reorganization that can, or will ever work, if that banking reorganization is not predicated on changing the economic policies on which the banking system rests. The banking system is not in effective bankruptcy because of out-dated regulations, but because economic policy has depressed wealth generation, and fostered the growth of usury, speculation, and indebtedness. To restore the health of the banking system, it would only be necessary to do what LaRouche proposed, against Wriston and Regan, back in 1982. Make monetary policy subordinate to the imperatives of economic policy. Direct credit into wealth-generating, employment-creating investment in technology-intensive modes to create the real wealth which will ensure the soundness of the banking system. Measures which will increase the stranglehold of the usurers over the economy will only increase the vulnerability of the banking system, and accelerate the moment at which the final reckoning for Walter Wriston's system comes.