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Eye on Washington by Nicholas F. Benton

Volcker: Greenspan's deregulation is disastrous

In perhaps his final appearance before the House Banking Committee July 23, outgoing Federal Reserve chairman Paul Volcker said the nation faces a "critical juncture" because of the "uncommon combination" of international and domestic debt crises.

He said that if the situation is handled properly, no one single factor, even a significant increase in the oil price, will necessarily trigger an explosion of inflation. On the other hand, he warned, if the impression is created that the Fed is not in command of the situation, then even the slightest tremor could trigger such an explosion.

Volcker was emphatic that the nation's banking system needed reform, and urged passage of the "Competitive Equality Banking Act of 1987," which, among other things, closes the "non-bank bank" loophole and provides a secondary market for agricultural loans.

Meanwhile Volcker's replacement, Alan Greenspan, was testifying on the north side of Capitol Hill in the first day of his confirmation hearings before the Senate Banking Committee. While committee chairman Sen. William Proxmire (D-Wisc.) was embarrassing Greenspan by reading documentation proving his economic forecasts have been some of the worst in the last decade, Greenspan took the opposite position from Volcker on the congressional banking bill.

Greenspan said he favored the administration position of wanting to leave the "non-bank bank" loophole open in the name of deregulation and supported President Reagan's stated intent to veto the "Competitive Equality Banking Act."

Thus, all of the administration claims that there was "no difference" between Volcker and Greenspan, were exposed as a fraud.

All this just corroborates *EIR*'s analysis last May—that Volcker refused to accept a third term in the spirit, as it were, of a rat abandoning a sinking ship. In his place, Reagan got someone of his own mind.

The prognosis is for near-term catastrophe. Despite Volcker's own meat-ax approach to the economy on behalf of financier interests, particularly the looting of the Third World, he was able to forestall a global financial collapse largely on the strength of the soothing effect of his personality among nervous central bankers of the industrial powers.

In contrast to the calm and commanding Volcker, Greenspan has the personality of a didactic rodent, driven by cult-like ideological fixation on "theories of the totally free market," which he mistakes for economics. That he is not likely to inspire confidence in the international banking community is an gross understatement.

When asked by this reporter to comment on Volcker's opposition to President Reagan's intent to veto the bank bill, White House spokesman Marlin Fitzwater said, "We simply disagree with the chairman on the deregulation portions. We think it's counterproductive to the President's views." The remark is symptomatic: He did not say "counterproductive to the economy," but "to the President's views"—the ideological fixation on deregulation.

Veto would trigger inflationary take-off

According to Stephen Verdier, the senior legislative counsel for the Independent Bankers Association of America (IBAA), President Reagan's veto of the bank bill could trigger the very inflationary take-off that he fears the most.

This is because, Verdier said, the bill includes a desperately needed $8.5 billion recapitalization of the Federal Savings and Loan Insurance Corporation (FSLIC). Even through President Reagan said he wants more than that for the FSLIC, his veto will delay the designation of any funding to the agency for months, and this could, he said, have the effect of beginning to burn up the economy very rapidly.

The total deregulation of banking will lead to a similar result very fast. Once there are no federal constraints on interstate banking (which keeping the "non-bank bank" loophole open sets the stage for), then the huge money-center megabanks, with massive access to liquidity (including from highly questionable sources, as the Treasury Department documented in alleging billions in drug money-laundering through many of the biggest banks of the country) will drive most of the nation's 14,500 smaller banks out of business.

While this will lead to a lot of "absorptions" of smaller banks by larger ones—resulting in perhaps only a half-dozen megabanks controlling all the credit of the country—it will also lead to thousands of failures, bursting the demands on the Federal Deposit Insurance Corporation (FDIC) at the seams. The bailouts required will be hyperinflationary.

Finally, when the dust settles, our half-dozen remaining megabanks will not be that solid, themselves. On the contrary, as Paul Volcker said, both international and domestic debt crises will loom larger than ever. And the collapse of even just one giant under such conditions will bring down the roof.

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