Banking by John Hoefle

Bankers getting hysterical

As the collapse escalates, the statements keep getting wilder, and the Fed doesn't seem to want to regulate.

Everybody knows that the government and the bankers are lying about the state of the banking system today, but the lies they tell—and the manner in which they tell them—are often quite revealing.

In the early stages of the banking crisis, the lies were told very calmly, in an understated manner. As the crisis escalated, a tinge of nervousness crept in. Now, as the magnitude of the disaster sinks in to even the thickest of skulls, that nervousness has turned to outright hysteria.

The banking system—not just a few banks, but the entire system—is bankrupt. The banks are awash with worthless paper, litter left over from the collapse of the Reagan-Bush speculative frenzy. They're gone, pure and simple. The only thing left is to notify the next of kin.

Naturally, it is considered bad form in political and financial circles to say such things—it's considered quite irresponsible and rude. It can also get you in a lot of trouble.

R. Dan Brumbaugh, a former deputy chief economist with the now-defunct Federal Home Loan Bank Board, was given a demonstration of that principle recently. Brumbaugh, who next to *EIR* has been one of the leading advocates of truth in banking, was recently fired from his job at the Stanford University Center for Economic Policy Research.

Brumbaugh, appearing on the July 31 television broadcast of ABC News "Nightline," warned that almost all of the largest commercial banks in the U.S. were already insolvent or nearly so, specifically naming Citicorp, Chase Manhattan, Chemical, Bank of America, Manufacturers Hanover, and Bankers Trust as examples. Brumbaugh said that the Federal Deposit Insurance Corp.'s Bank Insurance Fund was also insolvent. Furthermore, he characterized the operation to hide this from the American public as the "biggest coverup" in American history.

Brumbaugh repeated those statements on Cable News Network's "Money Line" program Sept. 21, adding that 400 U.S. banks have shown a net loss since 1986 and that no one in the government seems to know what's going on. He warned that unless regulators take prompt action, the commercial banking system will require a savings and loan-style bailout.

These weren't the first times Brumbaugh had said such things, but no public action had been taken against him in the past. Better we should ignore him, the bankers thought. But no more. On Sept. 11, in a classic case of "shooting the messenger," the Center for Economic Policy Research informed Brumbaugh that his affiliation with the center was over.

When Brumbaugh accused the university of caving in to pressure from the administration, center director John Shoven laughably accused him of "dreaming up conspiracies."

Hysteria is breaking out in other places, too. FDIC chairman William Seidman recently revealed that federal regulators plan to increase the number of full-time, on-site bank examiners at the nation's largest banks. Currently, the Office of the Comptroller of the Currency has resident examiners at the 17 largest banks and nearly full-time examiners in the 43 next largest. The plan, Seidman said, is to place resident examiners in each of the 400 banks with more than $1 billion in deposits. The Comptroller's office has already decided to increase the number of full-time examiners in the 10 largest banks from the current one to as many as ten.

Not surprisingly, the bankers are upset by this proposal. The last thing they want is someone to take a close look at their books.

The American Bankers Association is leery of the proposal, according to spokesman Virginia Dean. "Banks want to be in compliance," Dean told the *Wall Street Journal* Oct. 2. She complained that the examiners were often inexperienced and obstinate. Regulators, she insisted, "need to put real strong emphasis on the training of examiners and basic interpersonal communications skills. There are some rough edges that need to be smoothed over." Typical public relations idiocy.

More interesting was the response of Federal Reserve System governor John LaWare, who told the *Journal*, "I'm not certain whether $1 billion is the proper cutoff or whether you should just do that with banks where an examination has shown some problems."

What's that, John? Only examine the banks where examinations have revealed problems? Ever hear of Catch-22?

LaWare continued, "I'd hate to think we had a situation where Big Brother has to be there all the time."

Now, the Federal Reserve is one of the key components of the U.S. police state. When the Fed starts raving about Big Brother, you know they're hysterical.