Seidman goes global

The FDIC is expanding insurance to cover offshore deposits, but the financial well is drying up.

For months, the Bush administration has been touting the need to reduce the government's deposit insurance exposure. Some officials have gone so far as to blame deposit insurance itself for the savings and loan fiasco, claiming that the government's guarantee created the environment in which risky loans flourished.

William Seidman, the chairman of the Federal Deposit Insurance Corporation (FDIC), in testimony before the Senate Banking Committee on July 31, called for measures "to reduce the potential liability of the government for its safety net particularly as an insurer of deposits. . . . We must consider restricting the amount of deposit insurance liability exposure."

Nevertheless, the FDIC recently announced that it would henceforth guarantee the offshore deposits of all U.S. banks. By doing so, the FDIC agreed to insure the $300 billion in deposits held by foreign branches of U.S. banks, even though U.S. law does not authorize such coverage and the banks do not pay insurance premiums on those deposits.

Why would the FDIC add $300 billion to its obligations at a time when it has, as of June 30, only $11.4 billion in its Bank Insurance Fund—a record low of just 60¢ for every $100 in insured deposits—in a year the FDIC projects the BIF will lose $3 billion, especially when its publicly stated goal is to reduce its insurance exposure?

FDIC Director of Supervision Paul Fritts attributed the move to a fear that not doing so could cause "confusion in the international markets" and have "negative repercussions" on the money center banks.

That's a polite way of saying that the move was made to help bail out the nation's biggest banks, which have substantial portions of their deposits abroad. The nine largest U.S. banks have just over half of their deposits in offshore branches.

A significant portion of the offshore banking system exists solely to handle the enormous volume of funds from the international narcotics business. It is the hundreds of billions of dollars of dope money flowing through the international banking system every year which has kept the Anglo-American banks afloat while their national economies collapse. By extending deposit insurance coverage to these offshore banking havens, the FDIC is protecting the U.S. banks' share of the dope trade.

Ordinarily, such dirty secrets would be kept hidden in the closet, but these are desperate times. The depression is striking the financial system with full force, and the banks are finding it ever harder to raise the massive quantities of cash necessary to even nominally balance their books every day.

The traditional stock and bond offerings no longer work. Bank stock prices are falling through the floor as investors abandon ship, and many banks are forced to pay junk bond-level yields to sell their bonds. Only a fool would buy bank paper these days, and many of the fools have already gone broke.

According to figures from Securities Data Company, banks raised just under $2.4 billion from new stock and bond in the first three quarters of this year, the lowest level since 1982, and less than half the level of the same period last year. Nearly $1 billion of that, the *Wall Street Journal* reported, went into banks involved in mergers, foreign banks, and credit card-related deals. Most of the rest was taken up by a handful of big banks, leaving most of the banks out in the cold.

There's no foreign money to save the banks, since foreign money is fleeing the United States for more secure locations. Hundreds of billions of dollars that in the past would have flowed into the United States are now headed into Germany, where unification is creating tremendous investment opportunities.

Financial problems in Japan, where the Nikkei stock market index has fallen to nearly half of its year-end 1989 value, is keeping a lot of Japanese money at home. Since Japanese banks were allowed to count up to 45% of their unrealized capital gains as equity, the stock market drop has created a capital crunch there. Between the money needed at home and the money flowing into productive economies like Germany's, there's not much left over for Japan to throw down the U.S. financial black hole.

Even Great Britain, whose investments in the United States surpass those of Japan, has had to curtail its spending. Having helped engineer the collapse of the U.S. economy, the Brits are now attempting to distance themselves from its demise.

In the final analysis, there's just not enough capital out there to keep the bankrupt U.S. ship afloat. The S&Ls are gone, the commercial banks are blowing, and the insurance companies are next in line. The entire financial superstructure is disintegrating before our eyes.