The lull before the storm

Consolidation, turning bankrupt institutions into fewer bankrupts, is just another word for nothing left to lose.

Were it not a matter of life and death for the population, the present spectacle of whining and buck-passing among politicians, regulators, and financial institutions would be quite amusing. Especially now, when there aren't nearly enough bucks to pass around.

It is finally beginning to dawn on some that the pyramid scheme known as the "Great Reagan-Bush Recovery" has collapsed. That's the good news. The bad news is that they have neither the morality nor the brains to recognize, much less devise and implement, a solution.

Take the American Bankers Association, for example. One would expect, given the bankruptcy of the banking system, that the ABA would have devoted considerable time at their just-concluded annual conference to discussions of how to save the banks. Not so.

In his address, outgoing ABA president Kelly Holthus warned the group that "The temptation for Congress to take drastic measures in the current political environment is strong. All of us will have to work hard to make sure that commercial banks are not tarnished by the S&Ls' record. Otherwise, we'll surely find ourselves the victim of misguided legislation. . . . It's up to us to make sure that in politicians' zeal to correct a wrong, the banking industry doesn't end up battered instead."

So, in the midst of the catastrophe, the head of the ABA is leading a charge against . . . Congress. Maybe it's not coincidental that the conference was held in Orlando, Florida, the home of Walt Disney World.

"I'm not trying to paint over the problems, because they're out there," Holthus implored the press. "But there's a tremendous difference between our problems and the S&L industry. We're constantly painted with the S&L brush."

True, there is a tremendous difference between the problems of the commercial banks and those of the S&Ls: The banks are even more bankrupt than the thrifts, and the cost to the taxpayers of the banking blowout will easily be an order of magnitude greater than that of the thrift blowout.

After helping fan the flames of persecution of the thrift officials, the bankers fear that the police state apparatus will turn on them next.

Alex Sheshunoff, head of a Texas banking consulting and research firm bearing his name, told the assemblage that the cost of the thrift bailout could exceed $1 trillion. Sheshunoff said his company will release new bailout cost estimates in a few weeks. "I've been reluctant to do it because the numbers are so devastating," he said.

Turning his attention to the commercial banks, Sheshunoff warned that "Confidence in the banking system has been badly shaken and it will be shaken even more, particularly in the northeast. That's where most of the nation's media are located so there will be a lot of bad news." He urged bankers to stress the "safety and soundness" issues with consumers. "Banking is no longer an industry in which earnings should go up every year. If you keep lending money, even in a soft economy, you run the risk of losing the bank."

Rather than change the economic policies which have bankrupted the nation, the money-center titans are preparing for an orgy of consolidation under the theory that combining two insolvent institutions will somehow produce a solvent one.

"The 1990's are going to be an era of consolidation," Chase Manhattan's new chairman Thomas Labrecque recently remarked. Chemical chairman Walter Shipley has called mergers of big banks "a natural development." Both banks are prime candidates for mergers, along with Manufacturers Hanover.

"We may not see some of the big banks move until their condition becomes so unpalatable that they don't have much other choice," Salomon Brothers investment banker Richard Barrett told the *New York Times*. "The lack of capital to make their own acquisitions could force a lot of banks to seek partners as the best last recourse."

By drastically cutting back personnel, equipment, and branches, the story goes, the newly created bank would be able to survive and even expand by buying other troubled banks across the country.

But the productive sector of the economy, which provides the wealth that the banks feed upon, has collapsed. The fleas have killed the dog, and none of the sophisticated management theories in the flea market can change that.

Economics is based in reality. The bubble has burst, and there's nowhere near enough money to cover all the IOUs in the system. Trillions of dollars of paper wealth are evaporating, sending chain reactions of defaults and bankruptcies through the economy. The banks can lie about their third quarter losses, so as to postpone the worst news until after the November elections, but such fraud won't make the problem go away.