Banking by John Hoefle

The consolidation begins

The post-election restructuring of the U.S. financial system has begun with three major policy changes.

Having successfully propped up the tattered hulk of the U.S. financial system through the elections, the Bush administration is now moving rapidly to try to control the blowout which is in progress.

The administration's strategy, if one may call it that, is to launch a rapid consolidation of U.S. manufacturing companies, banks, savings and loans, and securities firms into huge multi-faceted financial conglomerates, which can then be kept afloat by looting the taxpayers. It is a British Empire-style approach, in which the primary aim is to protect the economic and political power of the Establishment elite, no matter what the cost to the citizens—or more properly, subjects.

One of the first steps in this consolidation is the elimination of the savings and loan system, transferring its nearly $1 trillion in deposits into the hands of the commercial banks. That was the real intent of last year's Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA), which was presented as a "bailout" of the thrifts.

The government recently made its intention quite clear, when Timothy Ryan, the director of the Office of Thrift Supervision, addressing the 98th annual convention of the U.S. League of Savings Institutions on Nov. 12 in San Francisco, told the thrift executives that the OTS has decided to make it much easier for allegedly healthy thrifts to convert to commercial bank charters. Prior to the election, the conversion process was quite lengthy and complicated, but a new reading of FIRREA has revealed that direct conversion is possible, the OTS announced.

Thus far, the OTS said, 22 thrifts have converted to commercial bank charters, and 22 additional applications have been filed. The procedural changes announced by the OTS will dramatically speed up this process. Once a significant number of large thrifts have made the conversion, the bankers and their press mouthpieces will begin beating the drums to eliminate the thrift system altogether, with the banks taking the deposits and valuable assets, leaving the losses to the Resolution Trust Corp. and the taxpayers.

In another post-election move favoring the large banks, the Federal Reserve has lifted restrictions which prevent bank holding companies from offering holders of their credit cards reduced fees and interest rates—provided they open accounts or take out loans at the holding companies' banks. Previously, holding companies which issued credit cards from separate credit card banks were able to offer such discounts only to customers of those particular banks.

This change greatly benefits the big money-center banks, particularly Citicorp and Chase Manhattan, the biggest credit card issuers of the lot. Not only does it make it easier for them to persuade their millions of credit card holders to abandon their current banks and open up accounts and take out loans with them, but it also makes it even more lucrative for them to buy the credit card portfolios of their smaller competitors.

A third major post-election change concerns the ability of commercial banks to deal in securities. Ever since the Great Depression, when banks unloaded worthless securities on their unsuspecting customers, banks have been prohibited from securities trading. These restrictions have been steadily eroding, evidenced by the recent decision to allow J.P. Morgan and Co. to resume such activities.

This process was advanced Nov. 9 when the Federal Reserve gave permission for CS Holding, the holding company of Crédit Suisse, Switzerland's third-largest bank, to buy a majority of CS First Boston, a major United States securities firm. This marks the first time since the 1930s depression that a commercial bank has been allowed to own majority control of a securities firm, opening up a wide breach in the Glass-Steagall Act and the International Bank Act of 1978. Where Crédit Suisse goes today, American banks will go tomorrow.

Driving this move is the bankruptcy of the securities industry, where firms have been forced to initiate severe operations and personnel cutbacks, and where some of the biggest names in the business, such as Prudential-Bache, Shearson Lehman, and Kidder Peabody, have been forced to seek massive cash infusions from their corporate owners.

While each of these moves is presented as an unrelated event, taken together they form a clear pattern. These individual acts are part of a coordinated strategy to completely transform the U.S. economy into a Mussolini-style corporatist structure, wherein financial power is consolidated in the hands of a few institutions, which are in turn protected by the full power of the U.S. government, which means, ultimately, the hides of U.S. taxpayers.