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Bank reform proposals set up bankers' dictatorship

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It is usually the case with the Bush crowd that measures which would be politically unacceptable, or even intolerable, don't get presented as political or policy matters at all. Their practice is to talk about "procedures" and "administrative reform," not the substance of what they are doing. So it is, again, with the banking reform proposal presented to Congress Feb. 6 by Treasury Secretary Nicholas Brady.

In a kinder, gentler world, it might, perhaps, be possible to sympathize with a Treasury Secretary whose tennis has been disrupted by an arthritic hip, whose reading is impeded by dyslexia, and whose department has produced a series of political and legislative lemons including the misnamed Brady Plan for Third World debt, the Robert Glauber-authored reform of the savings and loans, and now the Glauber-authored banking reorganization. After all, the secretary might not be able to read what is put in front of him. That, however, is not the only reason why everything keeps on coming out backwards, and the work of destruction proceeds in the name of "reform," "reorganization," "procedural improvements," and whatever other label is chosen as prefix to the substantive.

Components of the latest 'reform'

So it is with the banking proposals now before Congress. Here we have two matters: one, the beginning of a campaign for a "national socialist"-modeled nationalization of core components of the banking system, as part of a fascist reorganization of the economy; and two, a prescription and invitation to depositors to pull out their funds. Both follow because, dyslexic or not, Brady, his staff, the Bush crowd, and their backers are out of the real world when it comes to the point. They cannot read the signs. The banking system as a whole is bankrupt, because the economy is bankrupt, and in a depression.

Key features of the package include:

1) Scrapping currently existing obstacles that prevent industrial, insurance, and other companies from becoming banks, selling insurance, or selling securities, which restrictions date from the period of the last great banking crash in 1933. This is exactly what was done to the S&Ls back in 1980-83, when, Brady's predecessors insisted, deregulation was the answer to the problems of the S&Ls. This will have the same effect, and it will not take five years to show up. Mindful of the S&L disaster, Brady and company claim, according to Glauber, the author, does, procedural "firewalls" will be erected to prevent deposits in these new companies from being used speculatively. What non-speculative form of financial activity exists these days, they don't say.

2) Removing geographic delimitations so that banks can move across state lines, and more easily take over out-of-state banks.

3) Consolidating bank regulation under two agencies from the present four. The Treasury's proposed "Federal Banking Agency" would oversee nationally-chartered banks; the Federal Reserve would oversee state-chartered banks.

4) Severely reducing deposit insurance, which is to be limited to two accounts per bank per person, one of $100,000 and the other a retirement account of $100,000.

5) Standing by the "too big to fail" policy, under which all deposits are protected at banks Brady and company decide are too big to be allowed to go belly up.

Brady presented the package arguing that it would help restore the international competitive position of U.S. banks, and bemoaning the fact that U.S. banks, which used to dominate world banking, now barely rank among the top 30 banks.

He was supported by Richard Kirk, president of the American Bankers Association, who also praised the administration's recommendations to modernize the banking sys-

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tem as a way to help banks keep pace with technology and foreign competitors.

"We all know what happened to passenger rail service as air travel became popular," he said. "We don't want banks to become the railroads of the financial industry."

The biggest transfer of financial power

Again, this is to put the policy in the guise of procedures. The package, in fact, is a long-planned outline, designed to secure the consolidation of banking in the United States in the hands of a select few institutions, by some accounts 40-50 of the 12,000 or more banks which presently exist. The select few will be protected as "too big too fail," the others are slated to disappear, either through merger and re-organization, or through bankruptcy. The Treasury and Federal Reserve are supposed to provide the funding to ensure that transformation goes smoothly, hence the resources of the government, and its tax-base, are to be deployed to underwrite what would be, in effect, if it ever worked, the biggest transfer of financial power in U.S. history.

As was the case previously with the S&Ls, it is the smaller banks, closer to economic activity as conducted in counties and communities across the nation, which hold the bulk of assets which could still, under depression conditions, be considered viable. These are assets which are tied in to real economic activity. The larger the bank, the worse the shape it is in, with an "asset" base made up of eroded financial paper accumulated from years of speculative activity in real estate, takeovers and leveraged debt buyouts, and their blood-tainted holdings of Third World debt.

Brady and company are proposing another round of cannibalism, force-feeding the relatively healthier extremities into the cancerous belly at the center.

There are some who support this, among them the chairman of J.P. Morgan, Dennis Weatherstone. The plan, he said, "serves the national interest by making banking and finance sounder and more efficient so financial institutions can better serve customers in the U.S. and abroad."

Douglas Kidd, the director for government relations at Bankers Trust, said, "It moves consistently in the direction of a market-regulated financial services industry, removing the artificial barriers which have long restrained the banking industry in this country."

And, the vice chairman at Continental Bank Corp., Dick Huber: "It's just a giant step forward . . . a very sound, sensible proposal."

These are all banks which will be put under the wing of the Federal Reserve as state-chartered banks, rather than joining the crowd at the Treasury's equivalent of Filene's bargain basement.

Mergers or bank runs?

The consolidation of U.S. banking is supposed to come about in one of two ways. Either smaller banks merge into larger entities, as a form of self-defense against the predators, who will be soon unloosed—or bank runs.

Dissidents from within the Brady team point to the deposit reform proposals to substantiate this. They argue that the administration's heavies are misreading the public's mood and awareness of the banking crisis, and insist that the plan will cause "incredible volatility" of deposits, even at the proposed level of restricted coverage. For example, with insured funds now divided between two banks, one less sound than the other, the weaker of the two banks, as was seen in the earlier days of the S&L crisis, will offer higher interest rates to attract depositors' funds. With the Brady reform proposals, the dissidents say, depositors are being encouraged to run out of the relatively healthier banks, and they insist the effect will be to start runs at the healthier banks. The proposal also encourages depositors to move their funds into the "too big to fail" banks.

That is the least of it, however, for the effects around the country will be the financial equivalent of the 1970's deregulation of airline and trucking industries. Just as towns and counties across the country were then cut off from air service and bus service, so the banking proposals will cut communities and counties off from access to credit, because the local bank will no longer serve them. The proposals envisage re-modeling the U.S. banking system along the lines of those of Canada and Britain. Four or five banks will dominate; deposits from wages and salaries put into the local bank will be sucked out immediately to underwrite the global usury and speculation of the mother bank in the financial center.

The proposal has already met opposition in Congress. House Banking Committee chairman Rep. Henry B. Gonzalez (D-Tex.) said: "The administration makes a mistake in proposing new and risky activities for banks before the supervisory and [deposit] insurance reforms are in place and working. This is the same cart-before-the-horse mentality which plagued the deregulation of the savings and loan industry. Let's set the speed limits and train the policemen before we open a new super-expressway for financial institutions."

Diane Casey, of the Independent Bankers' Association of America, opposed it, saying, "We feel that the whole proposal is leading to massive consolidation of economic and financial power."

Michelle Meier of the Consumers' Union commented, "Now—when we face the worst banking crisis since the banking holiday of 1933—isn't the time to erode depositor confidence by restricting current coverage amounts. [Coverage limits] would seriously threaten the financial security of elderly consumers who live on the interest income from deposits in excess of $100,000."

There will be a lot more opposition. But if Brady's latest plan isn't quashed at inception, there isn't going to be much left of the country.