Mergers in the Rue Morgue

The Federal Reserve is nationalizing the banking system through mergers of insolvent banks.

The collapse of the U.S. banking system entered a new phase in July, with the Federal Reserve moving to prop up bankrupt banks through what are euphemistically called mergers, but are, in fact, elements of a covert nationalization of the bankrupt U.S. banking system.

The merger wave began July 15, with the announcement that Chemical Banking Corp. would acquire Manufacturers Hanover Corp. in a $2.3 billion stock swap. Chemical, with $73 billion in assets, is the sixth largest U.S. bank, while Manny Hanny, with $61.5 billion in assets, is number nine. The resulting bank, which will retain the Chemical name, will have assets of $135 billion, making it the second largest bank in the country, behind the $216 billion Citicorp.

On July 22, NCNB, the $65 billion super-regional bank based in Charlotte, North Carolina, announced that it is buying the $51 billion super-regional C&S/Sovran Corp. The combination of NCNB, the seventh largest bank in the country, with number twelve C&S/Sovran, will form the third largest bank in the U.S., to be known as NationsBank. The $116 billion NationsBank is already being touted as the nation's first "mega-regional" bank.

In the space of one week, then, 4 of the 12 largest banks in the country announced mergers. Poor BankAmerica, which entered July as the second largest U.S. bank with $111 billion in assets, has suddenly been bumped to number four, and rumors abound about more big mergers to come.

Lowell Bryan, the banking director of McKinsey and Co. predicts that the top 125 U.S. banks, which account for two-thirds of the $3.2 trillion in assets in the U.S. banking system, could be reduced to no more than 15 banks by the mid-1990s.

Driving this rush to consolidation is the utter bankruptcy of the U.S. banking system, as the depression wipes out ever-larger chunks of unpayable debt, and entire lattices of speculative paper crumble into dust. The banking system is blowing apart at the seams.

The response of the Anglo-American financial establishment to this collapse is to protect their own wealth and power at all costs, including de facto nationalization of the big banks.

"The Fed is carrying the top 25 banks or so, and will put them through a reorganization," said banking analyst Edward Powers, the director of research at William Witter in New York City. "We're talking about a 7-10 year reorganization process. The banks' top officers won't be running these banks, Fed regulators will.

"There will be 7-10 years in which the banks will be held on a tight leash," Powers said. "They will collect on their loans, and not extend credit, except where the Fed permits."

Paving the way for this nationalization of the banking system is the bank restructuring legislation making its way through Congress. Under the Bush administration's Financial Institutions Safety and Consumer Choice Act, virtually all restrictions against such consolidation would be eliminated. Banks would be allowed to branch nationwide, sell stocks and bonds, underwrite securities, and merge with industrial corporations.

House Banking Committee chairman Henry B. Gonzalez (D-Tex.) took to the pages of the *New York Times* July 21 to warn against "the anti-competitive pressures that will become evident in coming months as consolidations sweep the banking industry nationwide.

"We will certainly see a massive concentration of economic resources, unless the Justice Department, guided by the Bank Merger Act and antitrust laws, act to keep the banking system competitive," Gonzalez said. "Some mergers may be necessary as banks weaken. But temporary economic conditions should not serve as an excuse to destroy competition and concentrate credit and banking to the detriment of consumers and businesses."

To make his case for the application of antitrust laws to banks, Gonzalez cited the ruling by the U.S. Supreme Court in a 1963 bank merger case. Justice William Brennan, writing for the majority, said: "The fact that banking is a highly regulated industry critical to the nation's welfare makes the play of competition not less important but more so. If the businessman is denied credit because his banking alternatives have been eliminated by mergers, the whole edifice of an entrepreneurial system is threatened; if the costs of banking services and credit are allowed to become excessive by the absence of competitive pressures, virtually all costs, in our credit economy, will be affected."

Nevertheless, on June 28, the House Banking Committee approved the administration's bank bill, giving the big banks virtually everything they wanted.