Banking by John Hoefle

Bush defeats his own bill

The President's domestic agenda is collapsing, just like the big banks he's trying to save.

The Bush administration's so-called banking reform bill, once touted as a centerpiece of President Bush's domestic agenda, was soundly defeated by the House of Representatives on Nov. 4. Ironically, the 324-89 vote represents a victory—of sorts—for the hapless Bush men and the bankrupt big banks, which had gone from lobbying for the bill to lobbying against it.

The deceptively named Financial Institutions Safety and Consumer Choice Act of 1991, submitted by Treasury Secretary Nicholas Brady on March 20, was designed to overturn the safeguards created by Congress after the 1930s depression, and allow the big banks to further loot the devastated U.S. economy.

The prime target of the Bush "reform" is the Glass-Steagall Act of 1933, which prohibited commercial banks from directly or indirectly issuing, underwriting, selling or distributing securities. Glass-Steagall was enacted after widespread abuses by banks like J.P. Morgan, when banks conned customers into buying worthless securities from the banks' own portfolios, thereby sticking the customers with the losses.

Not surprisingly, the big banks, including J.P. Morgan, enthusiastically supported the Bush administration's plan.

The administration's proposal would also eliminate the restrictions on interstate banking of the McFadden Act of 1927, and the 1956 Bank Holding Company Act restrictions on non-banking activities by commercial banks.

The effect of the administration's bill would be to eliminate the barriers between commercial and investment banks, eliminate the barriers between banks and industrial/commercial corporations like General Motors and American Express, and eliminate the barriers which prevent the giant banks from branching nationwide.

It would, in short, eliminate the safeguards put in place after the last depression to prevent a replay speculative frenzy which destroyed the U.S. banking system in the 1920s and early 1930s. This, at a time when the U.S. banking system is even more bankrupt than it was during the depths of the Great Depression.

This bill, which President Bush called "a comprehensive solution to fuel economic growth," would instead destroy the tattered remnants of the U.S. economy by allowing the bankrupt big banks to remain open by looting the rest of the economy.

Despite heavy pressure by the administration and the banking lobby, the House of Representatives has resisted the administration's efforts to throw out all restrictions on the activities of the big banks.

Under a compromise reached between House Banking Committee Chairman Henry B. Gonzalez (D-Tex.) and House Energy and Commerce Committee Chairman John Dingell (D-Mich.), the Bush bill has been significantly amended.

The bill, as modified by the House, would have upheld the prohibition against industrial companies owning commercial banks, and would have prevented capital-starved banks—Citicorp, for one—from expanding across state lines or entering new businesses. The bill would also have even further restricted the abilities of banks to sell insurance and securities.

As a result of these changes, the administration and the big banks launched an all-out effort to stop the bank bill from passing.

Secretary Brady took to the stump to stop the bill, whining that the bill "turns back the clock, restricts competition and protects special interests." The White House threatened to veto the bill were it to pass.

Stopping the bill, of course, does nothing to stop the escalating collapse of the U.S. banking system.

A case in point is Citicorp, the living-dead $217 billion giant. Citicorp is hopelessly bankrupt, being kept semi-alive by massive infusions of government funds and a wide range of accounting tricks. The bank has $4.5 billion in admitted bad real estate loans—nearly double what it admitted just 15 months ago—and has been able to sell only four properties for a total of $38 million since the end of June.

That's a mixed blessing, however, since the bank would have to write off its losses on properties it sells, something it cannot afford to do.

Unable to sell the properties and unable to take the losses sales would bring, Citicorp has adopted the "strategy" of holding on to the properties and pretending they still have some value.

"The real estate portfolio has turned out to be an immense problem," Citicorp Chairman John Reed said recently. "We would like to get some recovery of the value for our stockholders . . . but we are not in a fire-sale mood. We'd rather hold it. We think it is better for the stockholders to hold it."

Sure, John. When you're hopelessly insolvent, it's pretty dangerous to tell the truth.