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Banking by John Hoefle

Another $130 billion for the banks

Congress turned $70 billion over to the FDIC to dump into the banking rat hole, while the economy dies.

The U.S. Congress voted to give the banks and savings and loans $130 billion of the taxpayers' money on Nov. 27, in two separate bailout bills. These bills do nothing to solve the banking crisis, much less the underlying economic collapse. All they do is throw away money which is desperately needed to rebuild the economy.

Under the bank bailout bill, the Federal Deposit Insurance Corp. will have its line of credit with the Treasury Department increased by $25 billion, from the current $5 billion. On top of that, the FDIC will be given the authority to borrow another $45 billion in so-called working capital, giving the FDIC a total of $70 billion in new funding.

The bill gave the FDIC some badly needed money, but otherwise contained none of the major changes demanded by the administration. Gone were the interstate banking provision, the insurance and securities provisions, and the regulatory restructuring provision, all of which would have sped up the process of looting.

When the Bush administration submitted its 317-page Financial Institutions Safety and Consumer Choice Act of 1991 on March 21, Treasury Secretary Nicholas Brady called the banking measure "an enormously high priority."

"There can be no doubt that fundamental reform is needed," Brady said. "Our banks are hampered by out of date laws. . . . All in all, these changes and reforms are essential to the future."

The "out of date" laws the adminstration wanted revoked include the Glass-Steagall Act of 1933, which prohibits banks from selling securities; the McFadden Act of 1927, which restricts interstate banking; and parts of the Bank Holding Company Act of 1956, which also limits interstate banking and prohibits non-banking companies from owning banks and banks from owning non-banking companies.

What the White House was demanding, in effect, was the complete deregulation of banking. The big money-center banks and their catspaw cousins, the super-regional banks, would be free to branch across state lines, gobble up or bankrupt their competition, and sell insurance and securities. To help finance this power play, big industrial and commercial corporations would be allowed to buy banks. The result would be a Mussolini-style corporatist structure with financial power concentrated in a handful of huge corporations, backed by the government. These corporate giants would be free to strip bare the remaining productive sectors of the economy, with the full legal and financial backing of the U.S. government.

In short, the Bush administration, along with J.P. Morgan, Citicorp, and their ilk, proposed to set up a bankers' dictatorship over the United States, in which the needs of the citizens would be sacrificed at the altar of Wall Street.

Fortunately, Congress refused to cave in to President Bush's demands. House Banking Committee Chairman Henry B. Gonzalez (D-Tex.) and House Energy and Commerce Committee Chairman John Dingell (D-Mich.) so weakened the Bush bank bill that the administration was forced to lobby for its defeat. After two rejections by the House, a watered-down version of the bill was finally passed on Thanksgiving eve, just in time for the holiday recess.

In addition to the FDIC funding, the bank bill requires federal bank regulators to perform annual on-site audits at all U.S. banks, and to take mandatory measures when a bank's capital falls below specified levels. The current flat-rate fees paid by banks for federal deposit insurance would be replaced with a sliding scale of fees based upon the level of risk of the bank's activities.

The bill would restrict the ability of the Federal Reserve to keep "walking dead" banks open with extended discount-window loans, and require that the White House, the Fed, and the FDIC all agree before uninsured depositors could be paid off at a "too big to fail" bank.

None of these changes, which do not take effect for one to three years, will help: The banks are too far gone to be saved, no matter how much money is thrown at them.

The S&L bailout shows where the bank bailout is headed. The Bush administration originally claimed that the entire S&L mess could be resolved for $30 billion. With the $25 billion in appropriations and $35 billion increase in working capital just approved, the S&L bailout will have cost $265 billion since 1989, not counting the hundreds of billions in interest payments that must also be paid. Despite the money, the thrifts are in worse shape than ever.

The bill passed by Congress is significantly less bad than the administration's proposal, but is still bad. Instead of helping solve the problem, it protects the usurers at the public's expense.

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