Gonzalez attacks derivatives dealers as 'malefactors of great wealth'

In two speeches on June 8 and June 10 on the floor of the House of Representatives, Rep. Henry Gonzalez (D-Tex.), chairman of the House Committee on Banking, Finance and Urban Affairs, issued a broadside attack against the stupidity and immorality of the U.S. Federal Reserve, speculation in financial derivatives, and usury by the mega-banks, whose activities have brought the world to a brink of the biggest financial collapse in world history. The congressman's remarks were broadcast by C-Span. Representative Gonzalez also entered into the Congressional Record *a number of news articles, including one from the May 7* EIR, *entitled "They're Not Banks Anymore." Below are selected passages from Representative Gonzalez's two speeches. Subheads have been added.*

From Representative Gonzalez's June 8 speech:

. . . [W]ith the emergence of the European Community and with the European monetary system and its currency known as the ECU . . . the American banks are going to have to more and more do what our principal banks and some of those right underneath the level of principal banks are doing, and that is not banking, but speculating.

They are really gambling. In fact, I would have more confidence in Las Vegas professionals than I would in these, and I will refer to that a little bit later.

But when we see the close to $1 trillion, if not $1 trillion by now, of this kind of foreign money, if you want to call it that, in our country, circulating through the arterial system of our financial, banking, and other systems, and do not have our main regulators, and in the case of international banking it would have to be the Federal Reserve Board, actually knowing exactly what is going on, because we are the only country in the industrialized world that does not have such things as a screening board or regulatory control of the activities of this huge amount of money.

This is why our committee has recently held and resumed hearings, very important ones, on this so-called, to use a popular word, drug money-laundering business.

$1 trillion in money laundering

Just from official gatherings from our law enforcement agencies and other agencies, the official estimate would be that there is more than $300 billion of this drug money-laundering activity. But it is far more than that. I still say and repeat today that it is closer to $1 trillion, because if you take into account the offshore activities that impact back on our domestic activities, then you have to make allowance for another equally huge amount of money that will circulate through this arterial system known as the American banking and financial system. . . .

[A]ny time you have these financial institutions that are headquartered in areas in which there is no accountability, no regulation, like Luxembourg or the Cayman Islands or the Bahamas or over the Indian Ocean or, in the first one, the Island of Man near Ireland, that started back in the late 1960s and 1970s. That was the father of them all, where you have these offshore facilities that all they have is a nameplate on the door. And then through this miracle of electronic instantaneous communication, they become corporations of great wealth, I say, malefactors of great wealth, because they are not interested in the public interest of our own country, where they are supposed to be headquartered.

They got greedy. It is greed at the bottom of all of this. And what happened is that they would use these facilities offshore to launder money, to keep from paying taxes.

I was the only one to report what I called the Latin dollar market when Panama started a more secret banking system than the Swiss famous banking system.

By 1972, I estimated that the Latin dollar market had gone up to over $75 billion just in the Caribbean and the Panamanian areas because these corporations could use those facilities to keep from paying their taxes in America and also to launder money that perhaps, as it is today in Panama, obviously is connected with these huge drug cartels that have so victimized everybody.

But then we also have a domestic problem that is the basic cause. And as long as you have a demand, you are going to have this drug thing. But I do not think that it is right to imperil the safety and soundness of our banking system in order to let these greedy interests, these illegal interests, these modern-day robber barons, these malefactors of great wealth to undo the public interest of this country.

Now, the BCCI [Bank of Commerce and Credit International] is being prosecuted by not the federal government, not our attorney general of the last regime, a Justice Department that I say and repeat has been the most corrupt, unbelievably corrupt justice system that I have seen in the 32 years I have been in the Congress or even read about before I came to the Congress, but it is being prosecuted by the Manhattan district attorney. And we do not know where that will end. . . .

How in the world can we ever stop drug traffic, if it pays so handsomely in enormous profits, and then in our culture, our subculture, in our areas such as in our depressed areas and our ghettos where a 15-year-old kid thinks it is crazy to talk about doing anything but helping the peddler with the drugs because he can make $1,000 a week, where is he going to do that? Going to school, or going to work anywhere, shining shoes? Of course not.

The rot at the top

It is all interlocked. . . . We cannot have these malefactors of great wealth making $5 million in salaries because they have succeeded in banking, without also mandating that we have a rat-infested tenement with these neglected brother Americans, for which we will all have to pay a price sooner or later. That is the lesson of all history, not what I am saying.

When we had such elements as some of the top leaders, the National Security Adviser of the past administration, tied in with Henry Kissinger and Kissinger and Associates, and Henry Kissinger being on the board of advisers of the Italian Bank [of Commerce and Credit International] in Rome, and getting furious because I reported that in a special order, and then getting lawyers to write to me saying, "How dare you mention Henry Kissinger," and all I said was, was he or was he not on that board?

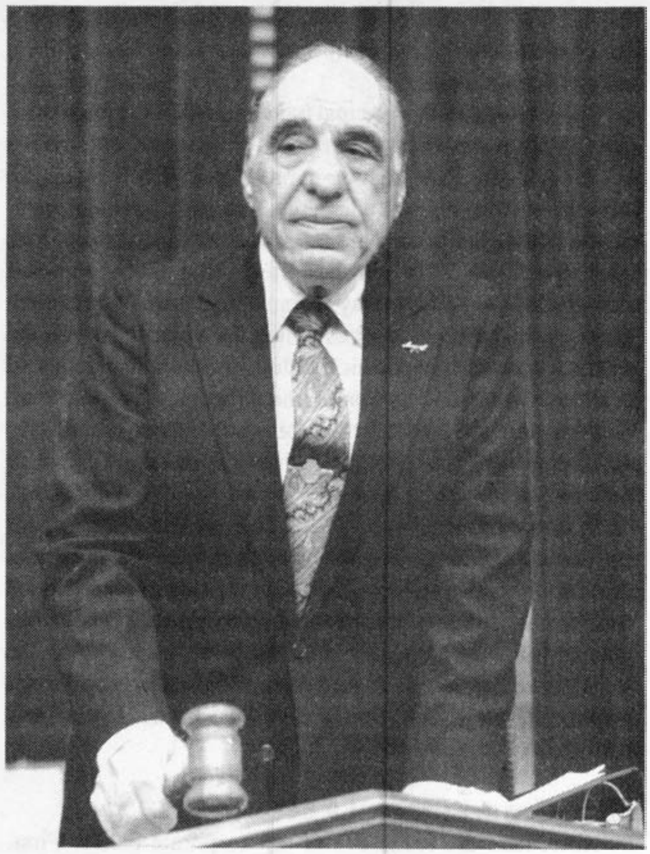
If he was on the board, was he being paid $20,000 every time he sat down for a meeting in Rome just because of his looks or his fame? Was it not Henry Kissinger and Associates executive assistant who organized 80 of the leading corporations in America to go and do business in Baghdad in Iraq? It is all in the *Record,* my colleagues if you ever want to look it up. . . .

We are about to enter into another catastrophe, the so-called North American Free Trade Treaty. One of the most important sections of that so-called agreement is banking and finance, and yet you have not seen any voice but mine ask questions about what does this mean, and what it means has been horrible. I brought it out on Feb. 21 in a special order I made here.

So we have learned nothing. We are like they used to say of the Bourbon kings, "learned nothing and forgot nothing," and here we are a democracy. Well, for how long? . . .

From Representative Gonzalez's remarks on June 10:

. . . In 1929 in the late spring, President Hoover had appointed a commission who reported and said, "We see nothing for the great foreseeable future but continuing and rising prosperity." That was in May of 1929.



Rep. Henry Gonzalez (D-Tex.): "We are like they used to say of the Bourbon kings, 'learned nothing and forgot nothing,' and here we are a democracy. Well, for how long?"

At that point the U.S. banks could borrow money from the Fed at 6% and then turn around and loan it at 12% to the highly speculative market on Wall Street which was floating bonds from the imperial government of Japan, the rising and restoring German government that was trying to raise money by floating these bonds at high interest yields; so that the banks were sending that money that they were borrowing from the Fed and getting a spread of 7% because they were lending it out at 12% to the speculators on Wall Street.

Today the only difference is that the Federal Reserve Board lends to the banks, or the banks can borrow money at 3%. Maybe now and then even under 3%. With that, they buy U.S. government-guaranteed securities, which pay at this point not less than 7% and on average more than that.

Now, that is a subsidy by the taxpayer. They do not want to call it that. . . .

So here we have these banks, subsidized by the taxpayer, born from the Fed, investing in government-guaranteed securities, having this spread, having that money, turning around, and where are they putting it?

Well, that plus other subsidies that they get through the Fed has led to what I consider to be the most dangerous situation confronting us today as far as soundness, stability, and equity in our system.

The United States principal banks and their notional principal holdings, or what are known as derivatives, derivatives is a fancy name for a written contract between two parties; derivatives cover a multitude, a plethora of different arrangements, but basically they are a contract in which two parties agree that they will bet on the future value of some market activity, futures, all the way from some commodity to such things as the currency futures which are volatile, which are highly speculative and which today, in this modern day of electronic instantaneous communication, and even as I am speaking you will have a trillion or more of these speculative clicks chasing from London to New York to Frankfurt to Paris to Tokyo.

Is it money out there in these international markets for the procurement of goods, for firing the engines of manufacturing and production? No. It is paper chasing paper, reduced to highly speculative and instantaneous transactions of billions of dollars in an instant in an electronic blip.

So that the holdings of our principal banks in these derivatives rose from $2.3 trillion in 1986 to $8.3 trillion in 1989 and $15.3 trillion in 1991.

High wire act without a net

Now, here are some of our top corporate banks. First, Citicorp. It has a total of $1,426 billion in derivatives. Now, that is about seven times what it has on its capitalization or its $213 billion in assets. Remember, these are what they call technically off-balance sheet activities for which they do not have to have reserves.

Now, let us take No. 2, Chemical Banking Corp., $1,296 billion in these national derivatives, nine times its $103 billion asset value.

Then Chase Manhattan, $837 billion in these derivatives, in this speculation, in this gambling. It is gambling. It is nothing else. Nine times its $96 billion in assets. . . .

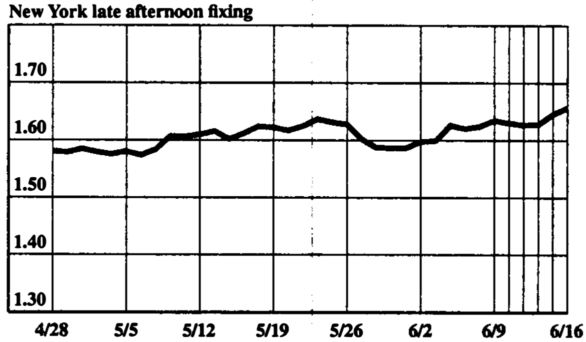
But the truth is that sooner or later, and I believe it will be sooner, but only because of the development of an unwanted crisis, and was all of this necessary? Of course not. This was not an act of God. This was man-made, and it was avoidable, and I have said so since more than 20 years ago.

Are we going to continue without addressing this, for fear of what? Who do we fear? The voter? Well, my experience is that the constituents want truth, that they have enough intestinal fortitude and moral courage to accept, even though at the moment they may not want to because of its unpalatability, a truth that hurts. But they would rather have the truth than a sugar-coated lie that temporarily keeps them lulled until the day of rude awakening, when suddenly they find themselves homeless and refugees in their own homeland. . . .

Currency Rates

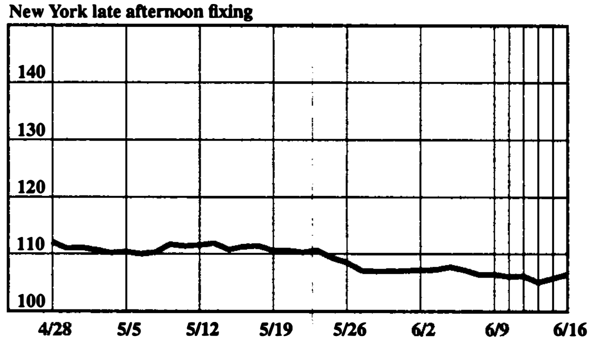
The dollar in deutschemarks

New York late afternoon fixing



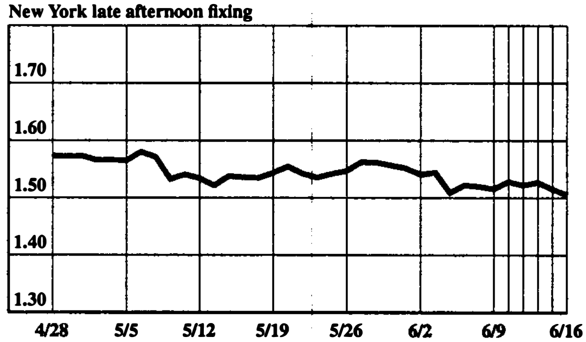
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing