

U.S. bank 'reform' is as bad as 1982 deregulation

by Richard Freeman

A U.S. Senate Banking Committee staffer reported on March 11 that the Senate Banking Committee and its chairman, Sen. Don Riegle (D-Mich.), will advance three interconnected pieces of banking reform legislation as the top priority this session.

The legislative package will have the most far-reaching and destructive consequences since the Depository Institutions Act of 1982 deregulated the American banking system. That latter act, which was sponsored by Jake Garn, Fernand St Germain, and George Bush, turned the decades of the 1980s and 1990s over to unbridled speculation, through junk bonds, leveraged buyouts, and real estate deals, destroying the physical economy and living standards.

The three pieces of legislation, which are sold under the rubric of "streamlining" the banking system, are: the Interstate Banking and Branching Act of 1993-94, the Fair Trade in Financial Services Act of 1993-94, and the Bank Regulatory Reform Act of 1993-94.

Though Senator Riegle is a Democrat, the proposed banking "reforms" originate with Wall Street and the City of London, and in particular, with George Bush. It was Bush who, as vice president in 1982, headed a task force on financial reform which drew up most of the current proposals. When Bush served as President from 1989-93, he had Treasury Secretary Nicholas Brady head a commission on "Modernizing the Financial System," which brought the original Bush task force proposals up to date. *Those proposals are the heart of the Riegle Senate banking reform package.*

Senator Riegle is also putting forward two important measures: the first, a tacit agreement to allow banks to sell insurance; the second, an idea to allow commercial banks to count their huge Treasury bill holdings as part of bank capital. If passed, this plan would totally gut bank capital standards.

Some "mickeys" will be fooled by antics in the Senate Banking Committee, respecting particular pieces of legislation. But those who are knowledgeable will recognize in the current "reforms" a long-standing City of London war plan to create a globalized banking system, dominated by a handful of mega-banks. That war dates back at least as far as the 1875-79 Specie Resumption Act and the 1913 creation of the Federal Reserve Board.

Mega-banks and trade war

Highlights of the current pieces of legislation are:

- *The Interstate Banking and Branching Act of 1994.* The McFadden Act was passed in 1927. Many states, especially in agricultural and industrial areas, were fearful of "monopoly banks," and because of this enacted strict limits which prohibited banks from any one state to branch into a neighboring state. The current legislation shreds the McFadden Act, and opens the way to interstate banking. Although this has already been going on for a few years, the bill will accelerate the pace.

Under this bill, a state is assumed to be in favor of interstate banking, and the only way it can get out of the arrangement is if the state legislature votes not to be in the system. The bill states that a bank holding company "may not by acquisition gain control over 25% of a state's insured deposits (without a waiver) or 10% of the nation's insured deposits (without a waiver)." That means, under the bill, that four banks could own 100% of the banking system of a state, and 10 banks could own 100% of the American banking system. Under the bill, the United States will be dominated by a handful of banks, similar to the British banking system. In 1984, the United States had 14,946 banks; in 1993, it had only 11,081, a loss of 26% in less than a decade.

The March 11 *Wall Street Journal* reported that the toppling of the McFadden Act is likely, and "many small and medium-sized banks probably will be swallowed up." Goldman Sachs partner Christopher Flowers gloated, "A lot of clients on both sides of the Mason-Dixon line are examining their new opportunities."

● *The Fair Trade in Financial Services Act of 1994*. This act, according to a summary of the bill provided by the Senate Banking Committee, "is designed to give U.S. trade negotiators new leverage to open foreign financial markets." The bill is an extension of the secret financial accords surrounding the North American Free Trade Agreement, which *EIR* exposed in our Oct. 8, 1993 issue. Trade Representative Mickey Kantor, a key player in NAFTA, had a role in drafting the current bill. If a country refuses to open its market to American "financial products," then reprisals of varying intensity can be applied. American "financial products" include derivatives, junk bonds, and other speculative investments. The bill might better be called the Financial Trade War Act.

The January tour by Treasury Secretary Lloyd Bentsen, a prime sponsor and drafter of the bill, shows that it is part and parcel of the International Monetary Fund's destructive thrust to globalize world markets, especially using the dollar. Bentsen travelled to Russia, Japan, Taiwan, Thailand, and other Asian nations, attempting to get each country to open up financial markets to speculative U.S. financial services and dollarization.

More power to the Fed

● *The Bank Regulatory Reform Act of 1993-94*. This will create a single regulatory authority, called the Federal Banking Commission. The FBC will assume the regulatory and examination responsibilities now spread over four federal agencies: the Office of Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS), both of which are housed in the Treasury, and which together have primary responsibility for supervising banks and thrifts, with 62% of the nation's banking assets; the Federal Deposit Insurance Corp. (FDIC), which has primary responsibility for supervising banks with 23% of the nation's banking assets; and the Federal Reserve Board, which has primary responsibility for the remaining 15% of the nation's banking assets.

Many money-center banks have championed the call for bank regulatory reform, complaining that they are being over-regulated. But many small banks, associated with the Independent Bankers Association of America, have denounced the new proposal. They are terrified that the newly proposed FBC will diminish their influence with regulators and lead to their being swallowed up.

The regulatory bill, unlike the other bank reform bills, has seemed to generate disagreement. In a commentary in the Dec. 15, 1993 issue of the *Wall Street Journal*, Fed Chairman Alan Greenspan complained that the current regulatory reform plan, which is also sponsored by Bentsen,

would reduce the Fed's role in regulation, and make it harder for the Fed to exert "hands-on" control of banking policy. This is widely interpreted to mean that it would reduce the Fed's ability to carry out behind-the-scenes bank bailouts. A bank regulatory source told *EIR* that though there is some real friction, Greenspan's statements are largely atmospheric, and part of bargaining to get the Fed the best deal under the plan.

In March 1 testimony to the Senate Banking Committee, Secretary Bentsen gave the game away. *He stated that the Fed's share of regulation will double under the new plan.* Bentsen explained that the bill will allow the Fed to be the lead co-regulator of 10 of the largest 20 national banks, of the Fed's choosing, provided their assets do not exceed 25% of the nation's banking assets. Currently, the Fed has primary regulatory authority only over state-chartered banks that are members of the Federal Reserve System. These banks have only 15% of the nation's banking assets. The Fed does regulate bank holding companies, but it is the Office of Comptroller of the Currency that has primary responsibility for regulating the banks that are part of the bank holding companies. For example, in the case of Citicorp, the parent of Citibank, the OCC regulates Citibank, including its credit card division. That accounts for 90% of Citicorp's assets. Effectively, the Fed regulates what is left over.

During the 1991-93 Citibank/Citicorp bailout, the Fed had free rein to bail out the banks. An anonymous OCC source confirmed that the OCC had primary responsibility for monitoring Citibank's books, "and did not object to, and would not block or prevent anything the Fed was doing." This source stated, "No regulator wants to see a bank go under." When it was pointed out that the Fed leaned on the Federal National Mortgage Association (Fannie Mae) to buy \$943 million in Citibank mortgage paper, on a non-recourse basis, when no one else would touch the paper, this source said, "No one would object to the Fed leaning on agencies, if it is done quietly." *The source said that the new FBC would act according to the exact same principles as the OCC.* In fact, the Fed will have one of the five seats on the FBC board.

On March 1, Secretary Bentsen stated that by allowing the Fed to regulate some other banks as well, under the new plan the Fed would regulate banks with 30% of the nation's banking assets, which "would double the amount under [the Fed's] supervision."

The first enunciation of this bank regulatory reform came from the Bush task force study of 1984, "Report of the Task Force on Regulation of Financial Services." It was repeated and expanded on in the Brady task force report, "Modernizing the Financial System: Recommendations for Safer, More Competitive Banks," issued in 1991. The current Riegle/Bentsen proposal, with a few modifications, comes from this.

In reality, the danger posed by the package of bank reform bills is not to the Federal Reserve or Wall Street, but to the American people.