

Evidence from the Survey of Consumer Finances,” appearing in the January 1997 *Federal Reserve Bulletin* (published by the Federal Reserve Board of Governors), reports that in 1989, some 19.6% of all American household financial assets were in either stocks or non-money-market mutual funds (which is primarily stocks). In 1995, this figure had reached 31.2% of all American household financial assets. This represents stock “acquired” either through direct purchase, or through purchase of mutual funds (but does not include stock ‘acquired’ through participation in pension and retirement plans).

There is also a poll conducted by John Zogby International for Reuters, completed Jan. 25-29, which surveyed 1,008 registered voters. Zogby reports that of registered voters in America, 54% own stocks or mutual funds, and 39% of those polled, who claimed an annual income of \$15,000 to \$25,000, were invested in the stock market. (Non-voters in the same income bracket would have a lower investment level in the stock market.) Of all respondents, 58% of whites, 35% of Hispanics, and 28% of blacks were invested in the market.

### **Pension funds also heavily in the market**

In addition to mutual funds, there are other forms of stock ownership through direct purchase (we will discuss this in a future issue), and through participation in a private pension plan or state and local government retirement plans. These latter plans invest a portion of their proceeds into stocks, in addition to other financial instruments.

**Figures 6 and 7** show that the pension and retirement plans are very significantly exposed to the stock market bubble. Both private pension and government retirement plans have grown dramatically in size over the last 15 years. In the second quarter of 1996, state and local government retirement plans held \$789 billion in corporate equities—that is, in stocks—out of their \$1.499 trillion in assets. In the second quarter of 1996, private pension plans held \$1.258 trillion in stocks, out of their \$2.742 trillion in assets. Together, private pension and public retirement plans held more than \$2 trillion in stock market investments. This \$2 trillion represents approximately one-quarter of all the money invested in the stock market.

Some of these retirement and pension plans are also invested into highly dangerous derivatives.

Readers who think that their pension is safe and will come to them automatically when they retire, should think again.

The multiple levels by which Americans are exposed to the stock market indicates a vulnerability that was not there 15 years ago, and that far exceeds that which existed in 1929. When the financial system’s final phase of disintegration comes, the loss of stock value will create an existential crisis for tens of millions of “average” households. The American population, while celebrating the market’s rise today, has set itself up for the slaughter.

# Deregulation: the illness, not the cure

by John Hoefle

According to conventional wisdom, one cure for a hangover is to take another drink, as if imbibing additional alcohol were a solution to a drinking problem. This observation comes to mind, when looking at the renewed push in Congress for further deregulation of the banking system.

On Feb. 11 and 12, the House Banking Committee’s Financial Institutions Subcommittee, held hearings on what subcommittee chairman Marge Roukema (R-N.J.), in her opening statement, called “financial modernization in general, and the Depository Affiliation and Thrift Charter Conversion Act, H.R. 268, in specific.” H.R. 268 is one of several banking bills currently under consideration, all of which will only make a disastrous situation worse.

That “financial modernization” is the latest euphemism for deregulation, was made clear by Roukema’s statement that her intent is to “replace the outdated Glass-Steagall Act of the 1930s.” “Glass-Steagall did its part in its day, but the financial world has changed,” Roukema said, noting that “technology and market forces have broken down the barriers between insurance, securities and banking. Our current statutory framework has remained stuck in the ‘30s.”

“In the absence of congressional action,” Roukema continued, “federal agencies and the industry have been forced to find loopholes and novel interpretations to allow financial institutions to adopt to an ever-changing marketplace.”

Roukema’s admission that banks and their regulators have been “forced” to find ways around U.S. law, is a curious position for a regulator to take, and says volumes about the incestuous relationship between the international financier oligarchy and their supposed overseers. At minimum, it raises the question: What is Glass-Steagall, and why are the bankers so determined to repeal it?

### **The drive to reverse Glass-Steagall**

For years, bankers and regulators, including Federal Reserve Board Chairman Alan Greenspan, Senate Banking Committee Chairman Alfonse D’Amato (R-N.Y.), and House Banking Committee Chairman Jim Leach (R-Iowa), have demanded the repeal of the Banking Act of 1933, commonly known as the Glass-Steagall Act. The Glass-Steagall Act was passed in 1933, during the depths of the Depression, to correct widespread cheating of customers by banks. The National City Bank (known today as Citicorp), for example, had packaged bad Ibero-American loans as bonds, then sold those

bonds to their unsuspecting customers; Chase Manhattan had pulled similar swindles. To correct these abuses, the law mandated that commercial banks divest themselves of their investment banking interests. One particular target of the law was the infamous House of Morgan, the British Empire's main bank in the United States. The new law resulted in the breakup of Morgan into two separate entities, the J.P. Morgan bank, and the Morgan Stanley investment bank.

Numerous attempts have been made in recent years to repeal Glass-Steagall, under the guise of reducing the "regulatory burden" or of "modernizing" banking laws. These bills have failed, due mainly to infighting between the powerful banking, securities, and insurance sectors, over who would get the lion's share of the benefits. What makes H.R. 268 more of a threat, is that it was written by a coalition of banking, securities, and insurance trade associations. Members of this coalition, the Alliance for Financial Modernization, include the American Bankers Association, the Securities Industry Association, the American Council of Life Insurance, and the Investment Company Institute (mutual funds), among others.

H.R. 268 would dramatically restructure the so-called financial services industry. It would create a new regulatory body, the National Financial Services Committee (NFSC), which would consist of the Secretary of the Treasury, the Comptroller of the Currency, the chairmen of the Federal Reserve, the Securities and Exchange Commission, the Federal Deposit Insurance Corp. (FDIC), and a state insurance official selected by the National Association of Insurance Commissioners. The NFSC would supervise newly chartered Financial Services Holding Companies, which would be permitted to engage in banking, securities, and insurance activities—a replay of the situation which existed before the passage of Glass-Steagall.

H.R. 268 would also deliver a mortal blow to those savings and loan institutions which managed to survive the 1982 Garn-St Germain Act (formally, the Depository Institutions Act of 1982), which deregulated the S&Ls and opened wide the doors to a speculative frenzy, which led to the so-called S&L bailout of 1989 (the Financial Institutions Reform, Recovery, and Enforcement Act of 1989), in which the assets of many failed S&Ls were sold at pennies on the dollar to commercial banks and other friends of the Bush administration, at a cost of some \$500 billion to the taxpayer, according to official estimates. H.R. 268 would explicitly eliminate all federal savings and loan institutions, forcing them to either convert to banks, switch to state charters, or liquidate.

Another provision of H.R. 268 would create a class of banks whose deposits were not insured by the FDIC, allowing such banks to engage in riskier activities than permitted under current (and, ignored) laws. Given what banks are allowed to get away with now, this is a truly horrendous prospect.

While the debate over legal deregulation has raged, de facto deregulation has made great strides. "Over a brief period of little more than a decade," said a study published last fall



*Senate Banking Committee Chairman Alfonse D'Amato (R-N.Y.), who is pushing further, disastrous banking deregulation.*

by the FDIC, "the U.S. banking industry has undergone what could be called a structural change of seismic proportions." The study noted that just 5% of U.S. banking organizations hold 75% of all domestic bank deposits, and 13 banking organizations alone hold 25% of the deposits. By comparison, in 1984, the top 42 banking organizations held 25% of deposits.

The 1994 Reigle-Neal Interstate Banking and Branch Efficiency Act explicitly removed most state barriers to interstate banking, and beginning June 1, 1997, banks will be allowed to merge across state lines. By mid-1995, multi-state banking organizations held 67% of the combined assets of commercial banks and thrifts (up from 33% in 1984), and 59% of the nation's domestic deposits, up from 23% in 1984.

For the first time since the late 1800s, the number of commercial banks in the United States has fallen below 10,000, with just 9,586 banks remaining as of Sept. 30, 1996. From the end of 1985 through 1995, more than 6,000 banks and thrifts were absorbed through unassisted mergers, while another 2,400 were closed or merged into other institutions with Federal assistance.

What is driving this rapid consolidation, is the ongoing and escalating global financial blowout. The financial system has become one giant casino, in which suckers are lured in to be fleeced. What the bankers want, is the freedom to do precisely what Glass-Steagall was intended to prevent. But ultimately, absent the global financial reorganization outlined by Lyndon LaRouche, these regulatory moves will have no more effect than rearranging the deck chairs on the *Titanic*. More of the disease which has destroyed us, is no answer. It is time for a solution, beginning with a new Bretton Woods agreement, and a return to production, instead of speculation. It is time to cure the disease.