Banking by John Hoefle

Citicorp-Travelers merger is illegal

The banks are acting as if they are above the law, and regulators like the Fed's Alan Greenspan agree.

On April 6, Citicorp Chairman John Reed and Travelers Group Chairman Sanford Weill held a press conference in New York, to announce their intent to violate Federal law by merging their two institutions into a new company, to be known as Citigroup.

Citicorp is the nation's second-largest commercial bank, with assets of $311 billion, while Travelers has assets of $387 billion. In addition to its insurance business, Travelers owns Salomon Smith Barney, the giant investment bank and securities firm (Travelers bought Salomon, the parent of Salomon Brothers, in 1997). The combined firm would be the largest financial firm in the world, with assets of nearly $700 billion.

Under the Banking Act of 1933 (commonly known as Glass-Steagall) and the Bank Holding Company Act of 1956, it is illegal for a single institution to operate a commercial bank, a securities firm, and an insurance company. The new Citigroup would unquestionably violate both the spirit and the letter of these laws, and the announcement of the intent to violate these laws would, by itself, qualify as a criminal conspiracy under Federal conspiracy laws.

Even the *New York Times,* which favors the merger, was forced to admit that Glass-Steagall and the Bank Holding Company Act "were put in place precisely to prevent the creation of the type of company Travelers and Citicorp now aim to put together."

But don't hold your breath waiting for the law to be enforced. The regulators are not interested in enforcing the law—in fact, they are actively helping the banks break it.

Take Federal Reserve Chairman Alan Greenspan, for example. Greenspan has been telling anyone who would listen over the recent period, that the Glass-Steagall and related restrictions on banking are "outmoded," and should be replaced. In a recent letter to House Banking Committee Chairman Jim Leach (R-Iowa), Greenspan endorsed the repeal of what he termed "the increasingly antiquated laws that constrain the development and competitiveness of our financial system."

Greenspan and the Fed have been doing more than just talking; over the last decade, the Fed, which regulates bank holding companies, has been systematically undercutting Glass-Steagall, by allowing banks to deal in ever-increasing amounts of securities. The Fed claims that "loopholes" in the law enable them to do this legally, but it is clear that the real "loophole," in the view of the Fed, is that the Fed and the banks it regulates are above the law, and that the rules are whatever the Fed and the banks say they are.

The attitude is much the same in Congress, where the current leaders of the House and Senate banking committees fall all over themselves to give the financiers what they want, whether prohibited by law or not.

Responding to the Travelers-Citicorp announcement, Senate Banking Committee Chairman Alfonse D'Amato (R-N.Y.) said that "financial regulation reform" is "absolutely essential. This merger demonstrates that the marketplace will do what it has to."

"This merger underscores the need for prompt Congressional action on financial services legislation to assure that America's competitive position abroad is enhanced," said the House Banking Committee's Leach.

The Congress has repeatedly attempted to repeal the laws prohibiting mergers between commercial banks, securities firms, and insurers, but all the attempts have failed due to turf wars—meaning who gets to eat whom—among the three sectors. The latest attempt, Leach's H.R. 10, was pulled from the House floor on March 31, due to heavy opposition by the American Bankers Association, which felt that the bill didn't provide the commercial banks with sufficient advantage over the insurance companies.

None of this has anything to do with "financial modernization" or "easing regulatory burdens," or any of the other arguments most often advanced for letting the banks do whatever they want to do. The big banks, which are the ones pushing hardest for deregulation, haven't been banks for a long time; they are gamblers, who are demanding that governments capitulate to the demands of the giant global casino, putting the welfare of the gamblers ahead of the welfare of the nations and their people.

The complete capitulation of the regulators to the Travelers-Citicorp merger, is a warning shot across the bow of U.S. national sovereignty. The issue is not over whether the laws of the 1930s should still apply—that fight was lost long ago—but whether nations should rule the markets, or the markets should dictate to nations, and whether the welfare of the population is more important than the welfare of the financial oligarchy. Banks are a necessary part of an economy, but only when they serve the interests of the nation.