Banking by Kathy Burdman

Beware the money market funds debate

The savings and loans still don't know their enemy, it appears from their lobbying.

If we allow the continued growth of money market funds, in all probability it will drive the death nail into the coffin of the savings and loan institutions," Rep. James Leach (R-Ia.) of the House Banking Committee said recently.

The U.S. League of Savings and Loan Associations agrees, and has embarked on a major drive to curb the money market funds (MMFs), the short-term, high interest-yielding mutual funds whose shares are sold to the public like savings certificates. MMFs are invested in as speculative money market instruments, yielding an average 15.3 percent with an average maturity of 33 days in March, according to Donoghue's *Money Fund Report*.

In a major resolution at its 26th annual legislative conference in March, the U.S. League demanded: "The Congress should restrain the disintermediation from the financial system into unregulated money market mutual funds by imposing a statutory reserve on money fund balances [and] placing a ceiling on rates of return paid to investors comparable to money market certificates available from regulated depositories [i.e., from S&Ls]."

Well might the U.S. League protest, for some League sources say that MMFs have bled the thrifts of nearly $63 billion in potential deposits since MMFs were authorized by Congress in 1978.

Compared with the previous year, new deposits at U.S. League S&Ls were down 29 percent in 1980, and 47 percent during January and February of 1981.

In 1978, MMFs grew to only $12.8 billion in assets, because they are unregulated by the federal government, uninsured by federal deposit insurance, and not much more attractive than a savings account under conditions of normal interest rates.

When Paul Volcker shot U.S. interest rates into the stratosphere during 1980 MMFs boomed. On average, S&Ls during 1980 paid 8.77 percent, about half of what MMFs paid. By the beginning of 1981, MMF assets stood at $70 billion, and since then they have leapt by 40 percent, running up to $104.9 billion, which is one-sixth the amount of all the deposits of S&Ls in the U.S., at some $630 billion. Henry Kaufman of Salomon Bros., a Volcker mouthpiece, says MMFs will top $135 billion this year.

This was the deliberate policy of Fed Chairman Volcker, and the liberal Fabians in Congress led by Henry Reuss (D-Wisc.), who authorized MMFs. Both Volcker and Reuss sought to "index" the entire U.S. credit market by setting up MMFs, deregulating banking, and raising interest rates, to encourage speculative uses of money. MMF funds go overwhelmingly into short-term commercial paper, and other nonproductive uses.

This was part of a policy of "sunsetting" traditional heavy U.S. industries like homebuilding.

As I reported last week, Volcker, budget director David Stockman, and Treasury Secretary Donald Regan are happy to let S&Ls go under in a crisis planned for April. According to a recent Federal Home Loan Bank poll, more than one-third of the nation's S&Ls are discussing mergers to avoid bankruptcy.

After strenuous U.S. League lobbying, Senate Banking Committee Chairman Jake Garn (R-Utah) is formulating a bill to slap reserve requirements on MMFs which would lower what they could pay, regulate them—if not cap their rates outright. Jim Leach introduced a bill in March imposing reserves on MMFs (H.R. 1916), as did House Banking subcommittee on Domestic Monetary Policy Chairman Walter Fauntroy (D-D.C.) (H.R. 2591). Fauntroy's hearings on curbing MMFs are scheduled for April 8, followed by Garn's.

But the debate is on Volcker's terms. MMFs are hyperinflationary and should be done away with, but this legislation won't do it; Jim Leach is a close collaborator of Henry Reuss, and putting reserves on MMFs will only legitimize and institutionalize them.

The problem is the continued refusal of the U.S. League to fight the Volcker and Stockman's deindustrialization plans for the economy. The League's legislative committee's first conference resolution was: "The U.S. League endorses deep cuts in federal spending at the earliest possible time." Resolution 11 also supported the Volcker Fed's adherence to strict fixed monetary reserve growth rates "in a manner which does not exacerbate rate gyrations."Nothing was said of lowering interest rates.