Grand larceny drives Bush's S&L scheme

by Chris White

On Monday, Feb. 6, George Bush announced before the world's press what has been deceptively called his administration's plan "to rescue" or "bail out" the wreckage of the savings and loan system.

If this had been drama on the stage, one would have had to compliment those responsible for the production. A well organized script for the main character, discreetly organized setting, beautiful gold-leaf tinted furniture for the secondary characters. And, to be sure, they were all there in an elegantly understated show of force. Bush himself, as the messenger, surrounded by Alan Greenspan from the Federal Reserve, Nicholas Brady from the Treasury, Richard Darman from the Office of Management and the Budget, Seidman and Wall from the Federal Deposit Insurance Corporation and Federal Savings and Loan Insurance Corporation, and Richard Thornburgh, Attorney General. It was indeed a major production.

How long it will be before people start to realize what was being swung by them during this beautifully scripted and staged affair is a different matter altogether. What has been described as a "rescue" or "bail-out" package was nothing of the sort. Rather, what was being announced was the outline of a program to eliminate the thrift system as such, and hand over the approximately $1 trillion in deposits within the system to the administration's cronies in the commercial banks.

Those among us who have picked up on the buzz words about "fraud" and "corruption" within the system being responsible for all its problems, ought really to stop and think again. What was laid out Monday afternoon may well qualify as the biggest robbery ever seen. Its presentation would then qualify as one of the purest examples of the con-man's arts—just plain fraud.

The salient features of the package announced Monday, and what was not announced then, but leaked out subsequently, are as follows.

Agencies disappear, new ones appear

The Federal Home Loan Bank Board is collapsed into the Treasury Department, from where, over the next month it will take over an estimated 250 insolvent S&Ls. The FHLBB is the outfit mandated to oversee the thrift system. It has now effectively disappeared.

The Federal Savings and Loans Insurance Corporation has been put under the wing of the Federal Deposit Insurance Corporation. Not to be commingled, the separate funds are now on their way to amalgamation.

A Resolution Trust Company has been established to liquidate, or sell insolvent thrifts. A Resolution Finance Company is established to raise the $50 billion, via the issue of bonds, which it is estimated the Trust Company will need to shut down or sell the insolvent S&Ls. The principal of the money borrowed under the bond issuance will be repaid by the *solvent* S&Ls. Taxpayers will pay for the interest accumulated during the life of the zero-coupon bonds. The split is estimated to work out 50-50, half from the S&Ls, half from the taxpayer. The solvent S&Ls must double their paid-in capital by 1992, so that they make the same standards of accounting adequacy now applied to the commercial banks. The insurance premiums charged the healthy S&Ls will be doubled. Legislation will be presented to permit bank holding companies to take over and own savings and loans institutions. $50 million was demanded to fund a special Justice Department task force to root out and prosecute fraud and corruption within the savings and loan system.

Take the profitable earnings of the non-insolvent part of the thrifts over their last accounting year. Set that profit against the charge of the principal on the bonds, the increased capital, and the insurance surcharge. *The solvent thrifts have just been put out of business.*

The Monday press conference did not feature the proposal to permit bank holding companies to takeover thrifts. That was released subsequently. The Monday press confer-

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ence did not feature the guidelines laid down by Treasury Secretary Nicholas Brady for the package, that, according to the *New York Times,* no public money be spent until "the resources of the system are exhausted," and not then, until the system has been "restructured."

The next day, Tuesday, the shell of the Federal Home Loan Bank Board was moved into the Treasury Department, from where thrifts in Maryland, Ohio, Florida, and California were seized, for sale or liquidation, as the first installment on the 250 or so which will be so treated in the next month.

The FSLIC was subsumed under the operations of the FDIC. The FDIC seized $18 billion of foreclosed real estate holdings in Texas from the FSLIC. The FDIC announced that it was suspending all S&L purchases now being worked on, pending review to determine if the agreements being negotiated were "legally binding." It was said that the $20 billion of such agreements concluded during the month of December were not subject to the suspension. However, the FDIC reserved the right to suspend those agreements should they not be "legally binding."

Since the law governing each of the cited agencies originated in Congress, the legal basis for such action is either dubious or non-existent. Yet, such actions have been rammed through. The administration contends, raising the question whether or not emergency powers have been invoked, that such actions fall within the regulatory purview of the executive branch. Only the request for authority to issue the $50 billion in bonds needs congressional approval, it is contended. Whatever the legal rights and wrongs turn out to be, the deed has been done.

The plum is the deposit base of the thrift system. For several years, the approximately $1 trillion in real money saved by wage and salary earners, and others, deposited in the thrift system, has made the bankrupts at Citibank and Chase drool. They have argued, as they did in the spring of 1985 when the state-insured thrift systems of Maryland and Ohio collapsed, that the answer to all the thrift system's problems can be found by handing all the real money over to them. Now, it seems they have an administration which is prepared to do that, and, with the beefing up of the Justice Department's fraud prosecutions, is also prepared to jail anyone who stands in the way. It seems that they have also found an administration which is prepared to create a stampede of deposits out of the thrift system, the better to accomplish that objective.

This surely will be the effect once the reality that the solvent thrifts are to pay for the closure of the system as a whole, finds its way into circulation.

Competent bureaucrats: catastrophe

In early December, Lyndon LaRouche, now jailed on trumped up charges at the insistence of his petty-minded and vindictive enemies, told a conference of the Food for Peace organization in Chicago that what he feared most about the then-incoming Bush administration was its very "efficiency." LaRouche described Bush as a competent bureaucrat, who may well go on doing the things competent bureaucrats do, without respect to reality, and by so doing push the whole shebang right over the edge.

It may well turn out that this is indeed what Bush and company have done. They "seized the bull by the horns," "bit the bullet," made "the tough decisions," and went right ahead. It is more than doubtful that they know what they are doing.

Economically, the elimination of the thrift system is suicidal. To organize an actual economic recovery in the United States, the thrifts are necessary, and not simply because, from the standpoint of economic reality, they happen to be in much better shape than the commercial banks, which now intend to take over their deposits. The thrifts are to the economy as blood vessels to the human body. They take—or used to—actual earnings and savings, and package those earnings and savings into loans which put people to work improve the capital stock of the country, through home construction, for example. Unlike the mega-banks, they are tied to the regional and local communities, not interested solely in what can be sucked out, in the form of tribute and loot, but also, more importantly, in what can be put back, in the form of investment and capital improvement.

Without the thrifts that won't happen. Cut off the blood supply and the communities will die, the industries and support chain that feeds those industries will disappear. Hook up the blood flow again at some future point, and it won't matter; if the circulatory system has gone, there is no way the blood can find its way to where you want it to go. Economically, the ending of the thrifts is the death sentence for thousands of communities around the country. And it will make the job of organizing a real recovery that much more difficult.

Financially, the commercial mega-banks are indeed in worse shape than the thrifts. They no longer have the same kind of deposit base as the thrifts. They do have, unlike the thrifts, off-balance-sheet liabilities four and five times, on average, the size of their paid-in capital; they do have, on their books, unpayable Third World debt, sufficient to wipe out their paid-in capital one more time at least, and, since 1982 they have made themselves dependant on so-called earnings that are really fees charged for taking in each other's dirty laundry. Handing the thrifts' deposits to those sharks is simply throwing good money after bad.

And, thanks to Donald Regan and Paul Volcker, there is another problem. The thrifts also now receive so-called brokered funds, money borrowed abroad at one rate of interest and re-lent here, short-term, at another. Upward of $100 billion are tied up in such funds. Stampede the thrifts' deposits, change the earnings structure, and that little bomb goes off, and when it does, there's no telling what it's going to take with it. The professionally staged announcement of the execution of the thrifts may also have lit the fuse on that little bomb.