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Justice Dept. runs cover for Wall Street power grab

by John Hoefle

The financial elites of Wall Street have launched a new phase in their drive to establish top-down control over the United States financial system, and to have the taxpayers bail them out of their self-induced bankruptcy.

The first step in implementing such a plan is to remove from the scene any independent political forces capable of resisting the plan. That job has been assigned to the Department of Justice, which has already jailed Lyndon LaRouche and several of his associates, and is now working on framing up thousands of former savings and loan officials.

Attorney General Richard Thornburgh, just back from exchanging police-state tips with the KGB in Moscow, held a press conference at FBI headquarters in Washington Dec. 7, to announce a "major escalation" against so-called savings and loan "kingpins," as part of a "27-city attack against savings and loan fraud." Thornburgh played his role of outraged bureaucrat to the hilt, wildly asserting that "wrongdoing in the savings and loan industry may turn out to be the biggest white-collar swindle in the history of our nation. . . . But because of President Bush's leadership in winning passage of his savings and loan bill and the financial support provided by Congress, we are now ready to implement a plan to crack down on those responsible."

Thornburgh said that the Department of Justice and FBI would launch "a vigorous prosecutive effort" to deal with "this uniquely sinister exercise in fraud and dishonesty."

"There are about 8,000 pending bank fraud cases now," Thornburgh said. "Prosecutions of those who are accused of violating the law will come—perhaps not as quickly as we would like—but they will come." Thornburgh's plan targets 27 cities for department task force investigations, with substantial resources going to the priority areas of Dallas, Houston, Kansas City, Los Angeles, New Orleans, New York, and San Antonio.

Thornburgh's mad-dog theatrics are crafted to build a public climate in which any political force not directly controlled by the establishment can be smashed, and in which the public can be induced to swallow a massive consolidation of the nation's financial system in the name of "reform." Thornburgh is *not* out to stop "the biggest white-collar swindle in the history of our nation"—he's a *part* of that swindle, running the police-state enforcement aspect on behalf of the real swindlers.

The real swindle

The real swindle is not being run by a bunch of low-level thrift operators, but by the titans of Wall Street, who have decided that it is better to throw out the Constitution and install a police state to protect their power, than it is for them to suffer the consequences of their own insane, incompetent economic policies.

Henry Kaufman, whom some have called the Henry Kissinger of Wall Street, gave the overview of the process in an opinion column in the Nov. 21 *Journal of Commerce* (see *Documentation*). Kaufman called for "a slow process of change" in the United States, into a "social" democracy that is "corporatist in character." This corporatism is the "inevitable consequence" of deregulation, he admits.

Those who remember Il Duce, the Fascist dictator of Italy Benito Mussolini, have an idea of the nasty reality behind Kaufman's academic facade. In Mussolini-style corporatism, Wall Street and big government work hand in hand to control the country top-down, with no dissent allowed. This is precisely what Lyndon LaRouche has been warning about for 20 years.

Kaufman brags that in his fascist state, "large financial institutions and business organizations dominate. . . . In the field of finance, corporatism is readily evident in the close

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interconnections that have long existed between government and the large banks. The universal bank, essentially a European institution, will be fully in place by the end of the 1990s in the United States. It already exists here de facto to a degree."

Federal bailouts

While the major banks have de facto federal guarantees under the "Too Big To Fail" concept, or "TBTF" in banking jargon, the big investment houses and insurance companies have no such protection—so far. Over the Dec. 2-3 weekend, however, the Securities Industry Association board passed a proposal under which it would drop its opposition to commercial banks entering the securities business. This proposal, engineered by Morgan Stanley, Goldman Sachs, and CS First Boston, drops the investment banking community's decades-long support for the Glass-Steagall Act of 1933, which was written specifically to prevent commercial banks from engaging in such activities. Naturally, there's a catch.

What the SIA wants in return is the right to borrow money from the Federal Reserve discount window, just like the banks. The SIA proposal boils down to this: We'll let the banks sell securities if the Federal Reserve will agree to bail us out, and put us in the "TBTF" category. The proposal also paves the way for the big commercial banks to buy up the investment houses—which are rapidly going broke—in the consolidation process Kaufman touts. That the banks are already broke and can't afford to buy the investment houses is irrelevant, they think, as long as the Federal Reserve is willing to bankroll the deals.

The insurance companies are also scheming to get a piece of the federal pie, or "rock," if you will. The insurance companies have floated a plan to have a mandatory national earthquake insurance plan. All homeowners who are buying their homes under any federally financed plan, or from any federally insured financial institution, would be required to purchase earthquake insurance. The premiums, minus the insurance companies' fees, would be paid into a federally run earthquake insurance fund, which would pay for all losses caused directly by the earthquake tremors themselves.

Proposals have also been circulating to let the Federal Reserve step in to buy securities, to keep the market stabilized, as a buyer of last resort. The idea behind these proposals is simple: Use the taxpayers' money to prop up the financial corpse of Wall Street, no matter what the cost.

The crisis deepens

The financial crowd is desperate to ram these changes through quickly, because of the speed at which the economy is deteriorating, and the increasing frequency of financial shock waves pounding the system. The third quarter was a disaster for the banks, which lost a combined $744 million, due in large part to uncollectable Third World loans and domestic real estate losses. The real estate market is collapsing, with Texas-style problems already evident in Arizona, New England and New Jersey, and spreading elsewhere. New York, Arizona and Texas banks were especially hard hit during the third quarter. Real estate loans make up 35% of commercial bank loans in the country, and delinquent real estate loans account for about half of all the non-performing bank loans in the nation. This year, 192 banks have already failed, and FDIC chairman William Seidman says the total is likely to exceed 200 for the second straight year.

The savings and loans are losing deposits and assets at record rates, in a desperate attempt to "downsize" to meet the new, stricter regulatory capital standards that went into effect Dec. 7. The nation's 2,903 remaining thrifts shed $15.2 billion in assets in September, and cut their deposits by a net $8.9 billion. A large percentage of the assets sold by the thrifts were mortgage-backed securities, putting further pressure on real estate.

The system is ready to blow, and when it does, not even Il Duce's corporatism will save it.

Documentation

'The new age of corporatism'

Excerpts from Henry Kaufman's Journal of Commerce *commentary, Nov. 21, 1989:*

A slow process of change in the 1990s will transform our country from an economic democracy to more of a social one. I would define this new setting as corporatist in character—that is, one in which large financial institutions and business organizations dominate and, because of their size, become quasi-public organizations over which the government progressively will exert a direct influence. . . .

The Exon-Florio amendment empowers the government to review potential mergers or acquisitions on national security grounds. Even if management of a business organization can convince a government agency to block a takeover on such grounds, it may find later on that there is a *quid pro quo* in the form of greater government intrusion in its business. . . .

In banking, a vast consolidation is under way to create giant institutions that will dominate both wholesale and retail markets.

The next time this economic and financial concentration comes into full bloom with all its international linkages, it is unlikely that we will return to the trustbusting that marked the early part of the century. Instead, the government will bless the arrangements—and then become more intimately involved in business decisions.