

Banking by John Hoefle

'Culling' the banks

The heavyweights are demanding fascist consolidation and bailout of the banking system.

Treasury Secretary Nicholas Brady fired the U.S. administration's opening salvo in the post-election push to eliminate local banking and replace it with a British-style national banking system, in a speech to the Arthritis Foundation in New York City on Nov. 20.

"There is an underlying structural problem" in "the legal and regulatory structure of our financial system," Brady said. "It is outmoded, burdensome and inefficient. And its flaws are an unseen contributor to the negative headlines we are seeing. We need fundamental structural reform, and, as secretary of the Treasury, I am committed to this goal."

Brady's proposals for streamlining and cartelizing the banking system are a reflection of the effort by the Anglo-American Establishment to salvage its collapsing rentier-financier power base, by looting what's left of the American banking system and the population.

In the wake of the 1930s Depression, Brady said, "We left in place a system of laws that effectively prohibited interstate banking. . . . These laws that protected and segmented the industry reflect the reality of a half-century ago. . . . But the last 20 years have simply revolutionized the financial services market." To meet the new reality, he stated, "It's time to overhaul the system, to address these underlying structural flaws. There is now a developing consensus in Washington and in the markets—in fact, all over the world—that the time has come. The Treasury understands the need for change, and, as some of you

are aware, will come forward with a comprehensive proposal in less than two months.

"Our objective is clear: It is to modernize our financial system, through reforms to the deposit insurance safety net and, just as importantly, to these structural impediments to profitability that have overstayed their welcome."

"We have it in our power to solve the problem," Brady exclaimed. "We put these laws on the books; we can, and with Congress's help, we will change them."

Brady's comments echoed an editorial in the Nov. 20 *Financial Times*, the mouthpiece of the City of London, Britain's equivalent of Wall Street. The paper called for "new structures in banking," complaining that there are "too many banks."

"The case for culling banks needs to be carefully argued," the *Financial Times* counseled, "since any reduction in competition would act against the interests of the consumer of banking services. And mergers of banks are not popular because people do not like to see banks becoming bigger and more powerful. But there is a wider public interest at work here. Very few large banks earn an acceptable return on their capital, and some of them are worryingly weak, as the large number of credit downgradings this year testifies. Unless the banking market is brought into better balance there could be disasters which impose a heavy cost on society at large.

"Since the problem is more one of too many banks than too much capacity, the most practical solution must lie

in mergers.

"Given the public interest dimension, it may also be necessary for the banking authorities to encourage consolidation, though they would have the task of persuading governments that such changes were both necessary and desirable. The important point is that the restructuring of the banking industry should happen in an orderly fashion and not be forced on the market by pressures which have gotten out of control."

A similar call was made by Felix Rohatyn of the investment bank Lazard Frères. Quoted in the U.S. nationally syndicated column of Hobart Rowen, Rohatyn said: "As we enter what could be our most dangerous recession since World War II, our banking system is in urgent need of new capital. The greatest danger to our economy, today, is the inability of our financial institutions to provide the credit needs of a stagnant economy. The S&L industry is moribund; insurance companies are under significant pressure; the banking system is woefully undercapitalized and is compounding our economic downturn by drastically shrinking the availability of credit."

Rohatyn proposed an injection of \$25-50 billion in new capital into the banks, through the purchase by the Federal Reserve of a new type of non-voting bank securities.

Rohatyn was one of the key figures in Big MAC, the Municipal Assistance Corp., which savaged public services and looted the people of New York City for the benefit of Wall Street. In Rohatyn's circles, austerity is fine for the people, but not for the banks.

Rowen also cited Wall Street corporatist Henry Kaufman on the need for "centralization in regulation and supervision" of the entire system of government financial regulation.