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Banking by John Hoefle

Crocodile tears over mutual funds

Now the banks want you to throw your life savings into keeping the speculative bubble from popping.

Much has been said over the past few months about the flight of depositors out of bank and thrift certificates of deposits and into mutual funds. To what extent these reports are accurate remains unclear, but the whole affair has the distinctive aroma of another disinformation campaign.

Over the last 18 months, from the beginning of 1992 through June 1993, the amount of money in mutual fund equity and bonds has risen $456 billion, from $824 billion to $1,280 billion. That's a rise of nearly 60%. Some $10 billion a month has been flowing into these funds, according to the Investment Company Institute.

During the same period, according to the Federal Reserve, the level of under-$100,000 bank and thrift certificates of deposit has dropped $200 billion, from $1,020 billion to $820 billion. But the Federal Deposit Insurance Corp. figures show that total bank deposits dropped only $7 billion over that period.

Total mutual fund assets have surged to $1.7 trillion from $300 billion a decade ago. During the past ten years, the share of the combined bank, thrift, and mutual fund asset base held by banks and thrifts has declined from 84% to 54%, while the share held by mutual funds has risen from 16% to 46%.

The theory, according to the usual gang of "experts," is that much of this money has fled the banks and thrifts, which are paying only 2-3% interest on their CDs, into the mutual funds, in search of higher yields.

Undoubtedly, some of this is going on, but even if the entire $200 billion which has supposedly disappeared from the bank and thrift CDs over the last 18 months went into mutual funds—a most unlikely occurrence—it would account for less than half of the increase in mutual fund assets over the period.

It is certainly the case that many CD holders are receiving much lower interest rates on their savings than in the past. That's not such a bad thing, either, since usury is usury, whether it benefits the depositor or the banker. But that's a whole different discussion.

One must, however, suspect the banks are crying crocodile tears when they complain about the loss of depositors to the mutual funds, since the artificially high margins between the interest rates the banks pay their depositors and the interest rates they charge their borrowers, is a key component of the massive covert bailout of the bankrupt U.S. banking system.

Whenever the bankers whine about a situation that was custom-designed to put taxpayers' money into their own pockets, one must take a close look at what the bankers advance as a "solution" to this "problem."

In this case, the bankers are blaming their alleged inability to compete on the Glass-Steagall Act of 1933 and other federal regulations which limit the authority of banks to function as stock brokers and underwriters, and to branch across state lines.

"The need for comprehensive reform of banking regulations is greater than ever," said Timothy Hartman, chairman of NationsBank West, in testimony before the Senate Securities subcommittee in May. "The issue is whether the United States' banking system will become globally competitive or fade into irrelevance."

Non-banks and foreign banks have "far greater financial muscle" than U.S. banks, Hartman testified, "because they offer commercial and corporate lending and a full array of investment banking services—including debt and equity underwriting—without facing the provisions of Glass-Steagall."

That Glass-Steagall was passed to prevent exactly the sorts of abuses which the banks are so eager to commit, and which contributed significantly to the depression and the banking crisis of the 1930s, is never mentioned by these idiots.

Neither has their propaganda campaign—nor the law—stopped the banks from rushing headlong into mutual funds themselves. A mid-year survey by the Investment Company Institute found that banks accounted for about 30% of all mutual funds sold in the first half of 1992, and that mutual funds got more money from bank customers in the first six months of 1992 than in all of 1991.

Another critical aspect of this shift into mutual funds, is that money put into mutual funds—even through banks and thrifts—is not federally insured. Thus the saver, whose bank deposits were insured by the FDIC, becomes an investor, whose investments rise and fall with the speculative casino known as the financial markets.

"Knowing how to invest is no longer a luxury, it's a necessity," Securities and Exchange Commission commissioner Carter Beese recently pontificated. "Given today's interest rate levels, people simply are not getting the returns they once did. They need to speculate."

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