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Ayatollah Greenspan maps holy war on U.S. banking

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There are no atheists in the foxholes; nor are there "pragmatists" in moments of great crisis. To discover how leaders will act under great stress, it necessary to know their underlying beliefs. Ayatollah Alan Greenspan, the admirer of Ayn Rand, has already proven the point. The Reagan administration's proposal to consolidate America's financial system into 10 "mega-banks," prominently associated with Greenspan's nomination to the chairmanship of the Federal Reserve Board, takes Ayn Rand's Darwinian egotism past the frontiers of fantasy. At the banking system's moment of crisis, Greenspan proposes to lead a charge into total deregulation, making sure that the banking collapse already in progress will run out of all possible control.

Rand espoused a more explicitly pagan version of Adam Smith's Calvinism. Where Smith argues that man cannot rise above his bestial instincts, and that the actions of individual hedonists is directed toward society's ends by an "invisible hand," Ayn Rand wants the egoist to pride in succumbing to greed, envy, and lust—as she herself did, to the scandal of her biographers. The White House may well have chosen Alan Greenspan as a malleable political hack, as Evans and Novak, among numerous commentators, suggest. But Rand's "best disciple," in her own words, proposes to guide the American financial system into a Darwinian orgy.

President Reagan and Treasury Secretary James Baker, during and after the Venice summit, maintained that the United States has experienced an extraordinary period of 53 months of economic growth, and that complete deregulation of U.S. banks will facilitate the rational consolidation of the banking system. Said Baker, "What we need to do now is to deregulate our financial services," citing the diminishing ability of U.S. banks to compete internationally. He denied that this amounted to a plan to create 5-10 "super banks"; but on June 7, just as Baker spoke, the *New York Times* reported that Treasury Undersecretary George Gould has concocted a package of revolutionary changes, including repeal of the Depression-era Glass-Steagall Act, to allow concentration of U.S. banking into "5-10 mega-banks," over the next several years. The London *Times* added that Greenspan will "increase the pressure for deregulation."

The Gould-Greenspan policy is backed also by Federal Deposit Insurance Corporation chairman William Seidman, Greenspan's former colleague at President Gerald Ford's White House, and Comptroller of the Currency Robert Clarke. A signed article by Seidman in the June 10 *Washington Post* calls for changing "the post-depression laws under which banks and other financial institutions operate," laws "that create an inflexible regulatory system and impose artificial geographic and product boundaries on the markets in which [banks] can operate."

Presidential contender Lyndon H. LaRouche, Jr., a founder of this publication, warns that consolidation into mega-banks through deregulation will destabilize the entire banking system, and increase the potential for a collapse geometrically. In several European capitals, bankers are warning that if the United States repeals the Glass-Steagall Act, which separated stock-brokerage and commercial-banking functions in 1934, complete chaos will prevail.

The less giddy heads in the central banking fraternity began steps to *re-regulate the banking system* late in 1986, when the Federal Reserve and the Bank of England proposed that banks put up capital against "off-balance-sheet liabili-

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ties." That was too little, too late to deal with the magnitude of problem, which the major banks had created for themselves. Nonetheless, the free-market delirium of the Reagan White House has made the central bankers' caution a moot point. Twice this year, Volcker was out-voted in the Board of Governors, by Reagan appointees, in regard to decisions giving banks limited securities powers. Where Volcker liked to say that the job of a central banker is to take away the punch bowl just when the party is becoming good, Greenspan will pour in undiluted alcohol.

The disease called 'securitization'

Since 1982, when Mexico's de facto bankruptcy threatened bankruptcy for its creditor-banks, the commercial banks have kept their doors open by:

1) Lending themselves the money to pay their debtors' interest, while eschewing new loans;

2) Earning fee income on guarantees of various sorts ("off-balance-sheet liabilities"), which now range from 6 to 12 times the total shareholders' capital of America's top six banks, and one-and-a-half times their total deposits; and

3) Playing the securities markets offshore, where their London or Hong Kong offices face no legal restrictions on securities business.

These scams, collectively known as "securitization," brought the financial system to the present disaster. The Federal Reserve and Bank of England proposed to place modest restrictions on such scams, but despaired of doing so without destroying the banks' remaining sources of income. Greenspan and the Reagan Treasury argue that if the cancer patient appears ill after an overdose of laetrile, the solution is to drastically increase the dosage, i.e., to sponsor a vastly increased flotation of bad debt.

Dance of the lemmings

The chain-reaction consequences of Citibank's May addition of $3 billion to its loan-loss reserves, may put the "mega-bank" decision into effect by force. Bank of America announced June 9 a $1.1 billion addition to its loan-loss reserves, after reviewing its loans to 45 developing nations. This will bring its loan-loss reserves to 25% of the $10 billion owed by developing nations. The bank will show a $1 billion loss for the second quarter, and a loss for the entire year in consequence. The other big hold-out, Manufacturers Hanover, is considering adding $1.75 billion to its loan-loss reserve.

In Britain, a Lloyds Bank spokesman said that Lloyds may follow Citibank within the month, and take provisions against significant Ibero-American loan losses. Bank stock fell sharply June 9, on reports that Lloyds chairman Jeremy Morse is considering a £650 million bad-debt provision set aside on some £3 billion of Ibero-American debt.

The scramble to add loan-loss reserves out of vanishing primary capital, is nothing compared to developments among America's weakest institutions, the thrifts. Greenspan's imminent swearing-in has provoked events that resemble a remake of the ocean-crossing scenes from "Night at the Opera," but set aboard the *Titanic*. The Ayatollah is on record (in a 1985 speech) demanding the elimination of all federal deposit insurance for commercial banks and savings and loans. It happens that the Federal Savings and Loan Insurance Corporation (FSLIC) went bankrupt at the beginning of 1987, and the various proposals before Congress to add money to it do not come close to the estimated $50 billion bailout requirement already on the FSLIC's table. Understandably, industry executives are shaken. Kenneth Guenther of the Independent Bankers Association said, "Regardless of how brilliant the guy is on monetary policy, those of us in the regulated depository institutions should be very concerned."

Larger and still-profitable savings and loans, which dominate the U.S. League of Savings Institutions, have drawn the conclusion that they will be left to their own devices. Senior analysts at the Federal Home Loan Bank Board, which regulates the thrifts, believe that larger S&Ls are "inciting to riot" against their weaker brethren, helping to provoke a deposit-run.

Unless the Treasury (or Federal Reserve) steps in to bail out the dying S&Ls with money borrowed, taxed, or printed, the stronger institutions will be left to foot a gigantic bill, through higher deposit-insurance premiums. They prefer to have an old-fashioned panic right away, and force the government to come in.

Meanwhile, 15 S&Ls have already applied to leave the FSLIC, and join the commercial banks' Federal Deposit Insurance Corporation (FDIC) instead. One hundred more recently requested information on what they would have to do to effect the change. The Federal Home Loan Bank Board, which oversees the FSLIC, wants to force any thrift going over to the FDIC to pay a heavy exit fee, several times the annual premium they currently pay to FSLIC, warning that if all the healthy thrifts leave, FSLIC will have no revenues to meet its $50 billion requirement.

The problem is that the run against Texas S&Ls, which were flattened by the oilbelt real-estate market collapse, is nearly out of control. The Dallas Federal Home Loan Bank needs $4 billion up front. "The situation has all the makings of a liquidity crisis," warned the *Wall Street Journal* on June 10, "as S&Ls desperate for cash bid up interest rates they pay for large, 'hot money' deposits."

FHLBB analysts warn that a liquidity crisis would confront the Federal Home Loan Banks with a cash demand they cannot meet, forcing one of two resolutions: a direct bailout by Congress, which would add tens of billions of dollars to the budget deficit; or direct intervention by the Federal Reserve, which might make emergency loans to collapsing thrifts against no particular collateral. The U.S. dollar would crash uncontrollably on foreign markets at the prospect of either development.