Now, the post-election agendas come to surface

by Chris White

The annual conference of the U.S. League of Savings Institutions, held in Honolulu, Hawaii during the first week of November, marked a turning point, of sorts, in the public discussion, within the United States, of both financial crisis, and what to do about it. Given that the ongoing crisis in the thrift system will surely be one of the first agenda items the new President has to take up, and that it is also among the chief detonators of the rapidly surfacing crisis in the banking sector as a whole, the proposals put on the table out in Honolulu are of more than usual significance.

The outline of what the League has put forward has been made available by an especially disgruntled press. The *Washington Post* devoted its lead editorial to an attack on the League's *chutzpah,* compared, unusually for the *Post,* to the parricide seeking leniency from his judges, on the grounds that he is an orphan. The *New York Times* and *Wall Street Journal* reported that what the League put forward would be sure to find stiff opposition from within the government and its regulatory agencies.

What the League has done is cut through the standard garbage about whether there will, or even should be, a federal bailout for the system, to assert that there needs to be an overall reorganization of the banking system, including the commercial banks under the Federal Deposit Insurance Corporation, the thrifts under the Federal Savings and Loans Insurance Corporation, and the Farm Credit System.

Their reorganization outline goes under the battle-cry, the "re-regulation of banking." This was identified by outgoing League chairman Theo Pitt, and by his incoming successor Mr. Beeksman. In this view, the thrifts cannot be held responsible for the crisis that was imposed on banking as a whole, with, first, the deregulation of banking and financial services in 1981-82, and then, the 1986 tax reform.

What is at issue here is what came to be known, thanks to Donald Regan, Treasury Secretary during the earlier period, and Walter Wriston, then chief honcho of Citibank, as "creative financing." Specifically, the thrift league is demanding: the elimination of "junk-bond financing" for the sector, reconstruction of barriers between the thrifts and lending for commercial real estate projects, reimposition of restrictions on how much of a thrift's assets can be put into commercial real estate ventures—now at 100%—changes in tax laws, such that thrifts, and presumably anybody else, can disengage from bloated book-value real estate holdings without wiping out deposit and equity holders in the system; and separation from dependence on deposits of so-called "jumbo" certificates of deposit, by which means, commercial banks and investment houses, park their liabilities under the FSLIC insurance umbrella, to take advantage of higher interest rates, and unload the risk of loss.

The intention is to return the thrift system to its original design, namely, deposit-taking receptors of a portion of the nation's savings, primarily derived from household and individual wages and salaries, which are then used as the collateral for the extension of housing loans, for the construction of housing. *EIR* has argued repeatedly over the last year and more, that it is precisely this function of the thrifts, and the extent to which this function has been protected or preserved in vestigial form, since especially 1982, which makes the thrifts, from the standpoint of economic reality, not financial paper, the soundest part of the national credit system.

Paper that should not be supported

Equally, it is precisely for this reason that the League's reorganization proposals are opposed by the *Washington Post,* which, after all, does represent the financial interests associated with the Meyer family's Lazard Frères, and by the commercial banks. It has been the commitment of especially the commercial banks, led by Citibank and Chase, since 1982, that the thrift system be dissolved into a unitary banking system, along with securities functions of investment banks, and insurance dealing. The purpose of this, behind all the nonsense about improving competition and increasing efficiency in the provision of financial services, has been to grab especially the deposit income stream of the thrifts, to thereby underwrite the unsecured paper which has bankrupted the commercial sector as a whole. This effort was seen in Maryland and Ohio during 1985, and it is at the heart of present proposals to combine the FDIC and the FSLIC and abrogate standing Glass-Steagal Act separation of the banking sector by function.

Of more interest, though, is the underlying assumption that the financial paper, under which the thrifts, like the economy as a whole, are suffocating, cannot be supported, and indeed, should not be supported. In this respect, opposite to their opponents, the thrifts do indeed have reality on their side. Without the recognition that there has to be a Chapter 11-modeled bankruptcy reorganization of the credit and monetary system as a whole, nothing can be accomplished to reverse the presently accelerating slide into the most catastrophic financial disaster in human history. Behind the "reregulation" battle cry, then, it must be the presumption that, at last, someone is beginning to wake up to at least this aspect of what is at stake.

The thrift league's proposals also put into much sharper perspective the abstract terms of the debate which has been wracking the panjundrums of the financial community since the latest round of leveraged buy-outs began. Is the U.S. financial system creating too much debt or not? If so, what are the dangers that will arise? Some say it is, and it is dangerous, others that it isn't.

Those questions were actually settled back in 1982, when Donald Regan and Walter Wriston won out over presidential candidate and economist Lyndon LaRouche's contrary proposals for a reorganization of credit and economic systems around an equitable solution of the then erupting so-called debt crisis. LaRouche proposed, in the report called *Operation Juárez,* that the sovereign power of government be employed to reorganize credit and banking to make possible the resumption of wealth production through the promotion of technology-vectored capital investment in industry, agriculture, and infrastructure, to promote revival and expansion of international trade and output. Wriston and Regan insisted that output and infrastructure be collapsed to provide loot for the already-collapsing debt structure. LaRouche warned then that their approach would buy perhaps five years, at the expense of a compounded economic crisis, and a far worse financial disaster, when it could no longer be sustained.

Thanks to Regan and Wriston, between \$8-10 trillion of new debt has been created in the intervening period in the form of what the "innovators" in the banking system call "off-balance-sheet liabilities," and the banks have been transformed into coupon-clipping takers of commissions on each others' securitized paper, rather than financiers of economic activity.

Because of the decisions of 1982, those who are discussing whether there is too much debt or not are wasting their breath. To maintain the appearance of surviving, the banking system has to keep on increasing the rate of increase in the total volume of debt that is being passed through the system, including by shortening the maturity of the debt, and increasing the service charges on the newly shorter-maturity debt. Meanwhile, generations of investment in improved physical capital assets and increased powers of labor, are stripped out on behalf of servicing the continuous expansion of the claims of debt. The policy converges on limits, both with respect to the economy's capacity to sustain the looting without breakdown, and the financial system's capacity to sustain the expansion of indebtedness without precipitating a general devaluation of all paper, and a rush to liquidate what has become worthless.

Last year's October crash was the limit. Yes, through political deals, of one sort or another, the system's administrators have convinced themselves that they kept things going. They did nothing of the sort.

The intention of the October-launched wave of leveraged buy-outs this year has been to buy another three to four months for the dollar and banking system, by organizing another expansion of the debt on which the banking system feeds. The financing charges of the loans extended for LBO equity purchases create a new pool of around \$400 billion, by means of the usual banking magic of extending all at once as credit some multiple of the debt service which compounds over time. Not surprisingly, the banks which are engaged right now in trying to create this new credit pool from LBO debt, are the ones which oppose the thrifts reregulation call—Citibank, Banker's Trust, Shearson Lehman, Lazard Frères, Dillon Reade.

The magnitude of the proposed expansion of credit, in pursuit of a little more time, has already collapsed the markets for U.S. corporate bonds in Europe and the United States, precisely because the threshold was reached where the expansion began to devalue the so-called "value" of the paper as a whole.

That collapse actually vindicates the approach taken by the League, and those like LaRouche, who say, forget about supporting the unsupportable, reorganize the system as a whole. Behind the to-be-expected discussion about whether to cut the budget, and by how much from where, and how to reduce the trade deficit, which is sure to be the grist of the post-election agenda mill, a much more important question has been put on the table by events themselves, which is reflected in what the League wants done. Since the "system" cannot be sustained as it, how will it then be reorganized, to ensure human survival or not? That is what the onrush of events will force to the top of the post-election agenda.