The planned disintegration of the savings and loan industry

by John Hoefle

The blaring headlines about fraud in the savings and loan industry, centered lately around individuals such as Charles Keating and George Bush's son Neil—both of whom have been under investigation over the failures of their thrifts—would have one believe that corruption inside the industry has brought about the demise of the savings and loan institutions in the United States. Such a belief could not be further from the truth. The collapse of the S&L industry as a whole was planned by the highest levels of Wall Street, and was implemented as a deliberate policy by the federal government, as part of a strategy to consolidate the far-flung U.S. banking system into a tightly controlled cartel dominated by a handful of Wall Street giants.

While some of the thrift operators may not exactly be choir boys, the real fraud is that the nation's political and judicial systems, and its "news" media, have been cynically used by Wall Street to convince the public to accept the cartelization of American finance in the name of reform. The Constitution has been thrown out the window, as once again the financial establishment has chosen greed over morality, honor, and freedom.

Make no mistake about it: The campaign to destroy local banking is the driving force behind the S&L "scandals." That is the real reason the Department of Justice, the FBI, and the courts have been deployed to destroy the thrift industry, and the real reason the attack-dogs of the American press have been unleashed upon the thrifts with such a vengeance. Beneath the facade of "justice" lies a calculated campaign of deceit to mislead the American people into accepting an enormous increase in the control Wall Street financial institutions have over their lives.

It began with Jimmy Carter

The destruction of local banking in the United States began with usurious interest rates of Paul Volcker's Federal Reserve during the Carter administration, and the passage in November 1980 of Carter's Monetary Control Act of 1980, which began the process of deregulating the banking system. The bill began the phasing out of regulatory limits on the interest rates thrifts could offer their depositors—imposed by Regulation Q—and allowed federally chartered thrifts to sell adjustable-rate mortgages for the first time. The nominal purpose of these changes was to increase competition among banks, and it did—but it did so on a playing field that was not level. Deregulation, as the originators and sponsors of the bill understood quite clearly, favored big banks over little ones, since the little local banks could not hope to compete with giants like Citicorp, Chase, and Bank of America.

The second phase of this cartelization process commenced with the passage of the Garn-St Germain Financial Institutions Deregulation Act of 1983, sponsored by Senate Banking Committee chairman Jake Garn (R-Utah) and House Banking Committee chairman Fernand St Germain (D-R.I.), and essentially dictated by Treasury Secretary Donald Regan, the former head of Wall Street giant Merrill Lynch.

In a 1983 *EIR* Special Report entitled "The Coming Reorganization of U.S. Banking: Who Benefits from Deregulation?" this publication warned that the effects of the two deregulation bills would be that: "The banking system will, in short, be reorganized under a system of corporatism, based on the model of the Mussolini state. A cartel of private bank corporations, having arrogated the powers of monetary credit creation from the nation-state, will simultaneously take control of the real economy through a joint planning board of the corporate sector and the government to 'plan' the economy." One has only to recall the recent statements by Wall Street guru Henry Kaufman on the coming corporatism, and compare them to the way in which the government has been organized to do the bidding of Wall Street around the S&L question, to see that *EIR's* forecast was right on the money.

Garn and St Germain knew what they were doing, and for whom they were doing it. On March 15, 1983, Garn told a meeting of the Washington-based International Bankers Association—the lobby for British, Swiss, and other foreign banks in the United States—that "in the real world, boundaries have broken down" between banks and other financial institutions, including geographical barriers. Garn announced that the Senate Banking Committee would hold "Oversight Hearings on the Condition, Structure, and Competition in the Domestic Financial Services Industry" to explore, he said, "all options including total repeal" of the McFadden Act, the Douglas Amendment, the Bank Holding Company Act, and the Glass-Steagall Act.

Over 60 persons testified in 13 days of hearings. Among them was Don Regan, who told the committee: "The administration favors renewed congressional efforts to eliminate

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restrictions on the geographic expansion of depository institution activities. Most such restrictions serve only anti-competitive purposes, to the detriment of consumer service and convenience. We are prepared to work with this committee to further deregulate restrictive geographic barriers . . . and for the passage of such legislation." The models Regan cited were "Citibank and BankAmerica, which operate subsidiaries in almost every state. They include branches of subsidiary finance companies, Edge Act corporations, and mortgage companies. It is rare for a large bank today not to have extensive interstate operations."

Regan's subordinate, Comptroller of the Currency C. Todd Connover, was even more direct. "The fact is that banks per se are not necessary to our economy," he said. "What is necessary are efficient, well-managed, competitive financial intermediaries that provide needed financial services. The public is totally indifferent to the legal form that provides these services. If banks want to continue to occupy their traditional position in commerce, they must shake themselves loose of restrictions. They need new powers to compete. At a bare minimum, those powers should include securities, insurance, and real estate."

Clearly, what Regan and Connover are referring to is the cartelization of American banking. Connover's comments on securities are especially revealing, fitting right in with Garn's statements on Glass-Steagall. The Glass-Steagall Act of 1934 was passed to outlaw precisely the kind of megabank that the Regan crowd was aggressively pushing. Glass-Steagall separated commercial banking from investment banking and stock issuance to prohibit the kinds of abuses practiced in the 1920s and 1930s by J.P. Morgan and the National City Bank, which bailed out their corporate debtors by issuing huge amounts of worthless stock to their unsuspecting customers. This is the system to which Regan and his Wall Street cohorts wish to return.

Naturally, they dare not make such moves openly. As *EIR* identified in its banking report, "The Financial Institutions Deregulation Act is to be sold, as will the rest of the Schachtian, corporatist restructuring package we have reviewed, as a populist measure. Small country banks and savings and loans will be told that it gives them 'more power' to go into new fields of lending. They will be urged to organize mass voter support for the legislation. Nothing could be further from the truth. The new legislation is meant to shut down, permanently, thousands of smaller banks and other financial institutions."

As "The Strategic Plan of the Office of the Comptroller of the Currency"—issued by Connover in October 1981, but actually written by Carter's Comptroller John Heimann—stated, "The national interest requires that there be a financial

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Kemp-Roth real estate bubble

The third major legislative factor in the destruction of the regional U.S. banking and thrift system was the Kemp-Roth tax bill of 1981, which was designed to speed the shift of the economy from an industrial orientation to a service one, a "post-industrial" economy. The Kemp-Roth tax bill changed the tax structure such that it became more lucrative, from the narrowest short-term investment standpoint, for banks and other investors to funnel their money out of industry and into the service sector, especially into real estate. The tax breaks, coupled with the high interest rates of Paul Volcker's Federal Reserve, forced banks and other investors to seek the highest rates of return they could find, which for the most part meant real estate.

From a banking perspective, the bill might be considered the Kemp-Roth real estate bubble law. The effect of the bill is well illustrated by the case of Texas. During the period from 1982 through 1987, one out of every two new dollars lent by major Texas banks went into real estate, a pattern that was followed to a lesser extent nationwide by both banks and thrifts.

Then in 1986, James Baker III decided to close some of the real estate and oil partnership tax loopholes to help raise some tax revenues to deal with the federal budget deficit. This short-sighted policy removed many of the tax incentives which propped the real estate bubble, which was already beginning to collapse under the weight of the growing depression. The result was that throughout 1987 and 1988, the real estate sector began to unravel, and began to take the banking system with it. The S&Ls, which were hit by the decline of their traditional mortgage-lending business as well as the rapid decline of their commercial real estate lending, were caught in a situation where their asset base was eroding, and there was nowhere to turn to make up the difference. The savings and loan industry, as a direct result of government economic and tax policies, was hung out to dry. It had nowhere to go but under, which is exactly what is happening today.

The entire savings and loan fraud scandal is a sham, designed to cover for the biggest asset grab in American history. Men like Charles Keating and Neil Bush are being sacrificed by Wall Street and the government as part of this process. It is indeed ironic that President Bush's own son is being victimized by the Bush administration's capitulation to Wall Street, but that is what happens when morality and law are sacrificed in the name of filthy lucre. The real tragedy is what it means for the nation and its people, who are also being sacrificed on Wall Street's financial altar.

Currency Rates

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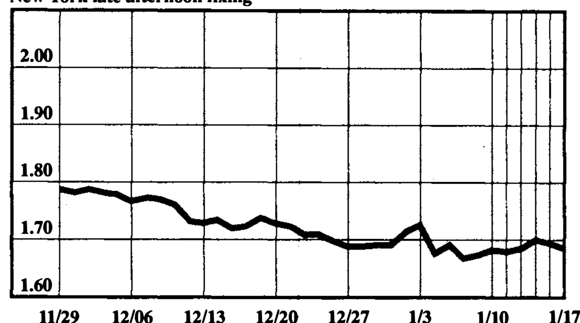

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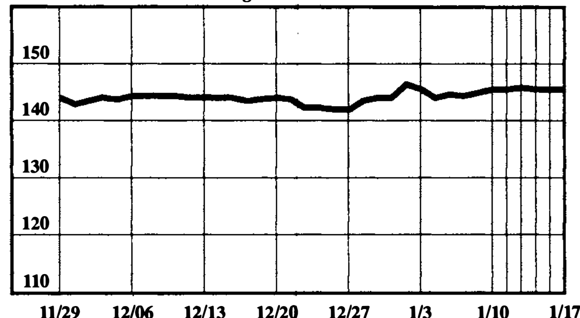

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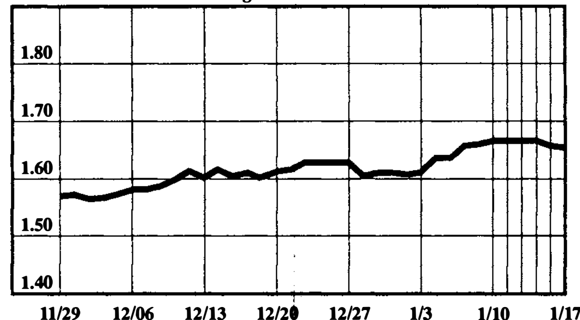

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