Runs against insurance and pension funds begin

by Chris White

On April 12, California State Insurance Commissioner John Garamendi took over the insolvent First Executive Corp. and its insurance arm, First Executive Life. The takeover of the insurance and pension giant triggered runs against subsidiaries around the country, as policyholders and others rushed to pull out savings before non-California subsidiaries were shut down too. On April 18, the New York State Insurance Commission moved against the subsidiary ostensibly located in that state, to mitigate the spreading panic.

The failure of First Executive is another watershed in the process of financial and economic collapse which the purblind lunatics in Bush's administration are presiding over. With $49 billion in now unsecured liabilities, obligations greater than the foreign debt of Poland or Argentina, the First Executive failure now sets the stage for a new eruption of financial crisis. Unlike the savings and loan institutions, and unlike the commercial banks, insurance companies, including their pension and annuity obligations, are not backstopped by the federal government through agencies like the Federal Deposit Insurance Corp. (FDIC). These companies, whose activities span the globe in the desperate hunt for earnings to pay policyholders and maintain pension payouts, are regulated and chartered at the state level. Does the state of California, with its mounting budget deficit, have the capability to stand behind the $38 billion in liabilities held by First Executive in the state?

The crash of First Executive ought to send out the warnings everywhere. It also happens that the day New York State acted to stem runs, was the day the managers of the Dow-Jones index succeeded in breaching the 3,000 mark for the first time. There are a lot of people around who still insist that the apparent vitality of the Dow-Jones is the best gauge of economic vitality. Bush's economic adviser Michael Boskin happens to be one of them.

Assets are all stripped

First Executive is a special case in some respects. It was the insurance arm for the asset-stripping operation run out of the bankrupt Drexel Burnham Lambert. Companies taken over by Drexel during the last years' speculative binge—and this could number from dozens to hundreds—were stripped of pension and insurance assets by First Executive and given now-worthless annuities and so-called guaranteed income contracts in exchange. First Executive passed the assets on to Drexel in exchange for junk bonds.

Now everything has turned to dust: pension and annuity holders left with nothing, and the assets looted to nothing. One of the organizers of the Drexel scam, Leon Black, has now stepped forward as the representative of Altus-Finance, the insurance arm of the French bank Crédit Lyonnais, offering to reorganize the company. Crédit Lyonnais was one of the funders of Drexel's asset-stripping investment pools.

First Executive, under California law, did not have the credit rating necessary to make such transactions. Therefore, an offshore company, legally based in Finland, was found to do the dirty work. And no one stopped it until it was too late.

In other respects, First Executive is no special case at all, but a typical consequence of the usury and criminality which has bankrupted and destroyed the U.S. economy, in the name of the neomalthusian, anti-human, post-industrial society, and the bubbled and bankrupt financial system which that destruction produced.

When California's Commissioner Garamendi took over the insolvent firm on April 12, he promised that policy and annuity holders would continue to be paid promptly, and in full. By April 15, he was singing a different tune: Holders may have to wait, and may not get 100% of what they are owed, if and when they do get paid. That's where the First Executive case is typical. The more than $3 trillion of assets locked up in pension funds and insurance reserves are going the way of the banks and S&Ls, looted-out victims of the free market ideology and usury of George Bush and his friends.

During the last year, 60,000 U.S. businesses went the way of First Executive. This was a 20% increase over 1989. The total liabilities of those failed firms jumped 51%, to $64 billion.

A record 25% of all corporate cash flow is now being used to cover interest payments. So many companies are in Chapter 11 bankruptcy reorganization, that near-bankrupt banks—especially Chemical and Bankers Trust—are doing a booming business in lending to bankrupt companies.

Dow flies, economy crashes

April 18, the day the Dow-Jones topped 3,000, was also the day that the American Bankruptcy Institute issued its report on the first two months of the year. Bankruptcy cases around the country leapt 30% compared to the same two-month period of one year before. The ABI is expecting the number of cases to be filed this year to top the 900,000 mark. This yearly forecast ought to be compared with the 4.5 million bankruptcy filings during the decade of the 1980s—it is twice as much—and with the 2 million cases in the 1970s. One of the measures used by the institute shows that the rate of bankruptcies during the decade of the 1980s, "the longest sustained period of economic expansion in U.S. history," we were told, was four times that of the nine years between 1930 and 1939, the highpoint of the Great Depression.

Nearly 13,000 retailers failed in 1990, a 15% increase over 1989, with general merchandisers hit the hardest. Financial firms with liabilities of over $23 billion failed last year, a 40% jump over 1989. Eight thousand building contractors went under, and business service companies failed at a rate of 143 per 10,000 firms, topping all other sectors.

The bankruptcies reflect the same realities seen in the financial system as a whole. Idiotically, one of the so-called reasons touted for the stock exchange's buoyancy, is that banks like Citibank, with earnings more than 80% down, are taking some of their loan losses and writing down assets.

Non-performing loans, those on which interest is not being collected, or which are in default, increased more than 25% during 1990. The District of Columbia led the nation with a 502% increase in non-performing loans during 1990. Non-performing loans increased 279% in the D.C.-Maryland-Virginia area, and 87% in the Southeast. They rose 51% in New England, and 34% in the Northeast, according to the report of Shesunoff Information Services of Austin, Texas.

The non-performing loans, by region, cross-grid with the Bankruptcy Institute report, and with the national surge in unemployment which has been gathering steam since the summer.

The common feature which ties together the increase in the banks' non-performing loans, the increase in bankruptcies, and the increase in unemployment, is the continuing collapse of the over-valued national real estate market, along with the continuing destruction of the living standards of the population. In cities around the country, construction activity has ground to a halt, as the pricing bubble on which the last decade's speculation was based, has burst. The real estate valuations provided the collateral for the loans gone bad, and the assets gone sour.

The 'recession': no end in sight

Is this the profile of an economy about to turn the corner into recovery, as Bush et al. keep insisting? Far from it. Financially, this is the result of the inability of the economy to produce sufficient new wealth to continue to meet the interest charges and earnings claims of more than $13 trillion of debt, and $10 trillion of speculative funds. The whole kit and caboodle is bankrupt, contrary to the claims of the government, and the managers of the funds who underwrote the bubble insist that there is no end of this in sight this year or next. This is the view of the real estate experts at Equitable Life, another insurance company which is not in such different shape than First Executive.

The financial part is the least of it. With the bankruptcies, we are now throwing about half a million people a week onto the unemployment lines, with construction and manufacturing taking the brunt. Now, less than 12% of the U.S. labor force is employed as productive workers in manufacturing, with just another 6% in construction and transportation. The newly unemployed are joining the ranks of the 20 million-plus who have been thrown there over the last years.

Bush and friends say the economy is in a recession, from which it will "pull out" later this year. They are lying. Financially, we are in a bankruptcy crisis. Economically, we are in a breakdown crisis. And, under Bush's policies, there won't be any pullout, this summer, or any time.

Cases like First Executive grab the headlines for a few days, and then disappear into the morass of the court system, or become the subject of congressional show hearings. Now, we can expect another round of hearings, from the Senate Finance Committee and other such locations, to take up the matter of federal regulation of insurance and the pension mess. As if another round of bureaucratic changes in procedure will make any difference!

Nothing like locking the barn door after the horse has bolted. The thrifts went, the banks are going, pensions and insurance are joining the slide, because the whole financial system has been bankrupted in the biggest orgy of usurious asset-stripping the world has ever seen.