

# Speaker Wright Was Right, Then and Now

by Harley Schlanger

With the ongoing collapse of the deregulated U.S. banking and financial system gaining momentum, a strong case can be made that one of those bearing primary responsibility for this collapse is former Speaker of the U.S. House of Representatives, and preeminent smear artist, Newt Gingrich.

It was Gingrich who, in 1988-89, acted as a hit man for Wall Street, in his unscrupulous attacks on then-Speaker Jim Wright, the Texas Democrat. In his zealous pursuit of the campaign which led eventually to Wright's resignation in June 1989, Gingrich rose from being a pugnacious backbencher with a huge ego, to leadership in the Jacobin uprising which made him Speaker.

In this, Gingrich served as the front man for Wall Street's financial cartel. His assignment was to eliminate every vestige of Franklin Delano Roosevelt's New Deal, which had revived the American System of economics. In the 1980s, that meant sweeping away FDR's banking reforms, which had not only saved the banking system, but enabled the United States to move from the depths of the Great Depression to become the world's leading productive power.

Standing in the way of Gingrich's Wall Street controllers was Jim Wright, an FDR Democrat with a deep appreciation of the American System of economics.

## 'Controlled Disintegration'

The full-scale assault on regulated banking was launched with the 1979 ascension to chairman of the Federal Reserve Board by Paul Volcker, who publicly announced his commitment to the "controlled disintegration" of the U.S. economy. Volcker's argument was that the successful transformation of the U.S.A. to a "post-industrial society" was inhibited by FDR's banking reforms, which were designed to maximize investment into areas of production which increased physical productivity. The revitalization of industry and agriculture under FDR was facilitated further by massive investment in infrastructure.

The subsequent improvements in the standard of living were protected by measures to improve education, offer job training, provide for senior citizens (Social Security), and aid Americans in achieving home ownership.

To Volcker and his co-thinkers, who dominated key positions in the Carter and Reagan administrations (Volcker was appointed by President Carter), such measures were associated with national economic sovereignty to promote the Gen-

eral Welfare, a concept which stood in the way of their plans for "globalization." Volcker combined record high interest rates—which rose above 20% during his tenure at the Fed—with an accelerated process of deregulation, to achieve the desired "controlled disintegration" of the banking system.

High interest rates drove up the cost of borrowing to the Savings and Loans (S&Ls). At the same time, the Depositor Institutions Deregulation and Monetary Control Act of 1980, and the Garn-St Germain Depository Institution Act of 1982 were pushed through, "deregulating" the S&Ls. Volcker argued that this "freed" the S&Ls from regulatory policies which restricted them to writing mortgages to expand home ownership. It actually required them to engage in speculative activity to survive. In the carnage which followed, the S&Ls were wiped out; many were swallowed up by the commercial banks, which needed to grab the cash flow to and assets from the S&Ls, as many commercial banks, which had also been "freed" by deregulation to engage in real estate speculation, were hemorrhaging from their own bad debts.

This "competition" initiated by Volcker, in conjunction with deregulators in Congress led by Gingrich, created a speculative bubble, similar to the real estate bubble which preceded the 1929 Crash. Volcker's bubble began popping in 1985-86. While in 1980, only 10 banks and 11 S&Ls failed, the numbers jumped to 138 banks and 46 S&Ls in 1986, followed by 184 bank failures in 1987, and 47 S&L bankruptcies.

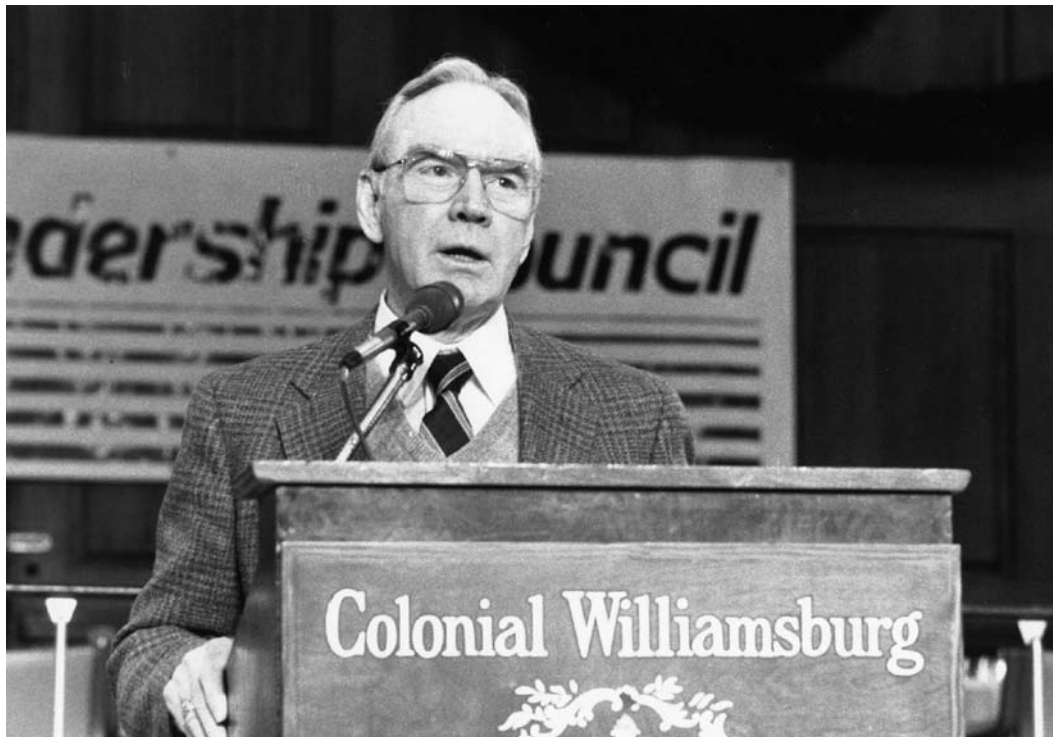
The bank and S&L failures resulted from increased pressure from Federal regulators, who demanded that lending institutions put the squeeze on borrowers who fell behind in their mortgage payments. Then—as now—a principal cause of the increase in delinquencies was not merely predatory lending practices, though this was, and is today, a significant factor. However, one must ask the question why so many people entered into loan arrangements they could not fulfill. As Presidential candidate Bill Clinton said during his 1992 election campaign, "It's the economy, stupid!"

The real, physical economy of goods production was shrunk by Volcker's high interest rates. Profits could be made by corporations more quickly by shutting down plants and jobs, than by investing in new plants and equipment; through mergers and acquisitions; and through the kinds of "financial innovations" which had been opened up by the deregulation of banking and trading. This contraction of the real economy decreased the numbers of people employed at the level of wages required to pay the mortgages with high interest rates.

This contraction did not hit only homeowners. In October 1987, the stock market crashed, just as Volcker was replaced by Alan Greenspan at the Fed.

## FDR Dems Fight Back

While Greenspan tried to help the stock market recover by lowering interest rates—his now infamous, and oft-repeated "Wall of Money" policy—it was too late to aid banks which had been caught in Volcker's pincers. In 1988, another 221



*Former Speaker of the House Jim Wright (Tex.). An FDR Democrat, he fought against banking deregulation and initiated a campaign to defend homeowners, during the crisis that hit the savings and loan institutions in the 1980s.*

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banks and 223 S&Ls failed; in 1989, 207 more banks failed, while 328 S&Ls went under.

The economic contraction unleashed by Volcker and Greenspan had disastrous consequences for homeowners. Between 1986-88, more than 40,000 households a year went into foreclosure in Texas alone, while tens of thousands of additional delinquent mortgage holders sold their homes at huge losses, to avoid foreclosure. The drop in the value of real estate merely added to the crisis, as the banks could not sell the homes they foreclosed to recoup even a portion of what they were owed.

This was the context in which Speaker Jim Wright fought for a return to FDR's policies. Wright, along with fellow Texan and FDR Democrat Rep. Henry B. Gonzalez, had opposed banking deregulation, and the Volcker high interest rate policies. Gonzalez had even attempted to introduce a bill of impeachment against Volcker.

Wright initiated a campaign to defend homeowners, of which he said, in January 1988, "It's a natural instinct to want to salvage something rather than see it torn down and destroyed, to protect citizens from unreasonable exercise of power by appointed agents of government," referring to the Federal agents squeezing the banks to foreclose. He warned, echoing FDR, "I believe I can see a conscious government policy to concentrate wealth in fewer and fewer hands."

The next month, in Houston, he spoke out again against the wave of foreclosures and preemptive closing of banks. "What we are seeking is some understanding and forbearance

from regulators. Don't be so premeditated that you encourage lending institutions to adopt arbitrary policies that force homeowners to vacate their homes. People who want to earn their way should not be forced into bankruptcy."

### **LaRouche: 'Wright Was Right'**

In response to Wright's efforts, Newt Gingrich went berserk. He accused Wright of acting to protect corrupt S&L owners who he said were "cronies" of Wright, going so far as to accuse Wright of doing so for personal gain. By focussing on the handful of S&L directors who were crooks, who used the dismantling of FDR's regulated banking system to "game the system" (remember Enron?), Gingrich took attention away from the real problem: By deregulating banking, the whole economy was turned into a speculative free-for-all, which favored the banks with the resources to go global, at the expense of financial institutions which invested in local industry, agriculture, and communities.

This problem was addressed by Wright in a speech on May 5, 1989, shortly before he resigned, due to Gingrich's slanderous onslaught. Wright said, "We need to rebuild America and rehabilitate its basic public infrastructure. We need to invest in the modernization of American industry and the education of the skilled American workforce. We need to push forward and stay ahead of the curve in the application of new research and new technology to our nation's commercial advantage."

To this, Lyndon LaRouche said, "Wright was right then, and he is right now.