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Banking by John Hoefle

The rubber-stamp bank bailout of 1999

The laws separating commercial banking, securities firms, and insurance, are being shredded.

When the chairmen of Travelers Group and Citicorp announced, in April 1998, that they intended to merge their institutions, they violated Federal law. Such a merger, combining an insurance company, a securities firm (Travelers' subsidiary Salomon Smith Barney), and a commercial bank, was illegal under the provisions of the Glass-Steagall Act of 1933 and the Bank Holding Company Act of 1956. The very act of announcing such a merger, was a violation of Federal conspiracy statutes.

Faced with this violation of the law, Congress acted immediately, by promising to change the law to suit the bankers! Now, Congress appears to be on the verge of doing just that. On Oct. 22, Congressional leaders and Clinton administration officials reached an apparent agreement to "modernize" the law by further deregulating what is termed the "financial services industry."

The Gramm-Leach Financial Modernization Act, as the bill is called, is a disaster. Named after Senate Banking Committee Chairman Phil Gramm (R-Tex.) and House Banking Committee Chairman Jim Leach (R-Iowa), the bill would eliminate the barriers between commercial banking, securities firms, and insurance, paving the way for further consolidation among the three sectors, and increasing the financial oligarchy's stranglehold over the American economy.

Lest anyone think we are exaggerating Congress's abject cowardice on the issue, look at what the heads of the banking committees had to say last year in response to the Travelers-Citicorp announcement:

Alfonse D'Amato (R-N.Y.), who chaired the Senate Banking Committee, declared that "financial regulation reform" is "absolutely essential. This merger demonstrates that the marketplace will do what it has to."

"This merger underscores the need for prompt Congressional action on financial services legislation to assure that America's competitive position abroad is enhanced," said Leach.

The message was clear: If the law interferes with the banks' desires, the law must change. Far be it from the government of the United States to interfere with the demands of the markets.

That the financiers believed themselves to be above the law, has been clear in their actions and their statements. Take Maurice "Hank" Greenberg, head of American International Group, a powerful force in the insurance sector and a major player in the derivatives market. "Most financial companies have been doing what they wanted to in any event," he told the *Wall Street Journal* recently.

The *Journal* also quoted Goldman Sachs securities analyst Richard Strauss as claiming that, with each passing year, financial deregulation legislation is becoming "less relevant, because financial services has been moving so rapidly in recent years that market forces have already blurred the distinctions" between banks, securities firms, and insurers.

In a statement issued after the agreement with the White House was reached, Gramm called the bill "the most important banking legislation in 60 years. The people it will benefit most are working families. . . . The hallmark of the bill is that it will make an array of financial services available to every American consumer that will provide lower prices and one-stop shopping at financial supermarkets in every city and town in the country."

Gramm, about whom it is said that the most dangerous place to stand in Washington is between Gramm and a camera, is a fervent advocate of "free markets," that is, markets in which the oligarchs are free to do whatever they want, free of government restrictions. He considers himself an expert economist—and by most standards he is, but that's hardly a compliment. His last major foray into economic policy, the Gramm-Rudman spending restriction bill, nearly sank the U.S. government, and this one is worse.

The widely exclaimed need for "financial services modernization" is based on the premise that today's financial institutions operate under unfair restrictions and "regulatory burdens" imposed by our nasty old government. These restrictions, it is said, make it impossible for financial institutions—which everyone who knows anything knows is the heart of our economy—to compete with foreign competition. The result is that the "little people" are deprived of the wide variety of financial services that they so desperately need. There are, believe it or not, people today who can't walk into their local bank and buy a derivative instrument, who are being deprived of the opportunity to speculate on the rise or fall of the lira against the peso, and so on.

However, Congress did uphold the restriction against commercial firms owning banks, to prevent, as Marge Roukema (R-N.J.) put it, "Wal-Mart or Microsoft" from buying a bank. The moral—or lack thereof—is clear: The law should allow the banks to eat you, but prohibit you from eating the banks. How's that for a level playing field?

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