

Banking by Kathy Burdman

S&Ls put the gloves back on

The U.S. League of Savings Associations has called off its attack on the Volcker Fed for interesting reasons.

William O'Connell, executive director of the U.S. League of Savings Associations, was one of the first American business leaders to open the attack against Federal Reserve Chairman Paul Volcker's high interest-rate credit squeeze.

As early as last Sept. 22, in a hard-hitting speech to the California S&Ls, O'Connell denounced the Fed's interest-rate policy, saying "inflation psychology is just as deep as it was a year ago, if not deeper." Mr. O'Connell went further, to the core issue. He questioned the constitutionality of the so-called independence of the Federal Reserve, and stated that the "fourth branch" of government needed to be put under congressional and presidential supervision.

"I think it is a legitimate question to ask whether the Federal Reserve does not have too much power," Mr. O'Connell stated. "It not only has responsibility for monetary policy but effective life-and-death power over all financial institutions. This is an extraordinary, unwarranted, and dangerous grant of power to a few nonelected public officials who are not accountable to the electorate."

But now, top League sources say, the League has called off its attack on Volcker because of a "disagreement on the executive board" over whether to "rock the boat" and demand Paul Volcker's ouster.

Why? "I can't imagine anyone in the U.S. League supporting

Volcker," the head of one state organization told *EIR* this week. "Everyone here thinks we should put out a contract on him."

"Personally, I think his time is up," said another source. "And if the League were to call for Volcker's resignation, the entire national membership would applaud the effort."

Indeed, my discussions with the U.S. League members and *EIR* subscribers at thrift institutions around the country indicate overwhelming popular sentiment both for Volcker's ouster and for an immediate lowering of interest rates.

The fact is, as the League publicly admits, Volcker's policy is destroying the League's 5,000 members. A League press release this week said that as a result of high interest rates, member banks had closed only \$4.4 billion in mortgage loans in January, down a full 33 percent from \$6.5 billion in mortgages made in December. Most League member institutions expect mortgage rates to stay at an all-time high over 13 to 14 percent throughout this year, and many said rates might be forced over 14 percent.

Cui bono? Someone on the League executive board apparently is happy with the results of Volcker's policy, one of which is that dozens of smaller S&Ls are in danger of going under. The Federal Savings & Loan Insurance Corporation, which saved over 35 S&Ls across the country from bankruptcy through bailouts during 1980, is

now telling many small S&L officers that their banks may have to be shut in 1981.

It's no secret that some of the larger S&Ls, like the \$8 billion Great Western Savings & Loan in Los Angeles, have recently grown by absorbing the smaller and weaker S&Ls in their area. Some of these giant S&Ls would also like to purchase weaker S&L across state lines, a policy that the Volcker Fed has backed.

Capitol Hill sources also say that some of the U.S. League's Washington representatives have made a deal with Volcker's supporters in Congress to call off the attack on the hated Fed chairman.

"Of course the U.S. League and the [National Association of] Homebuilders have to answer to their constituencies who are screaming for Volcker's head," said my source, who supports an even tighter policy at the Fed credit spigot, this week. "What are [the associations] supposed to do, endorse him? They have no choice.

"Privately, however," the Hill aide continued, "the Washington people acknowledge that the Fed is doing its best. Their officers will come in and say, 'This is the position of the group,' but then agree with us. 'I am a businessman who understands the independence of the Fed,' they say. They're talking out of both sides of their faces."

As a result, the aide laughed, "none of this complaining about Volcker will have any effect."

If an effective campaign against Volcker is to be waged, U.S. League members would do best to ensure that their own house is in order, and the executive board and Washington office are faithfully representing members' interests.