Banking by Kathy Burdman

Volcker says 'no life after death'

The Fed Chairman is more interested in bank shutdowns than in gradual banking deregulation.

Although *EIR* has been warning for months that Federal Reserve Chairman Paul Volcker's high interest rates would bankrupt the savings industry, the *New York Times* and the Federal Deposit Insurance Corporation suddenly began a strange campaign this week to terrify the American public with the imminence of a massive banking collapse.

Acting on an obvious leak from the FDIC, the *Times* Oct. 29 announced the bankruptcy of the $2 billion Greenwich Bank for Savings as a major front-page news event. The Greenwich, the *Times* said, is only the first of dozens of savings banks and S&Ls about to go under across the country.

By Nov. 2, the *Times* was reporting the imminent bankruptcy of three more savings banks, while urging its readers "not to panic." The three additional banks on the edge according to the *Times* are: the New York Bank for Savings (deposits $3 billion); the Union Dime ($1.3 billion), and the Central Savings Bank ($734 million).

Nowhere, however, did the *Times* note that most savings institutions would be revived immediately if Volcker's rates were brought down by simple congressional action. It is Volcker's charge of an average 15 to 16 percent on deposits, compared to their average 8 percent earnings on mortgages, that are killing thrifts.

Why is the *Times* crying "panic"?

The answer was provided in remarkable testimony by Volcker himself on the day of the *Times*'s first story, Oct. 29, before the Senate Banking Committee. There, Mr. Volcker demanded of Congress the immediate passage of the so-called "Emergency Regulators Bill," which grants the Fed and other regulators fiat power to sell off, merge, and shut down failing savings and loans, thrifts, and other banking institutions.

The Volcker emergency bill is very simple in intent: it will *shut down, period,* a lot of thrifts and banks, without bothering to kill them slowly through deregulation or high interest rates.

Volcker was explicit: he wants his bill given "immediate action," *now,* not later, and wants to begin merging banks and S&Ls out of existence immediately. "The *Times* articles on thrift failures created an atmosphere quite convenient to the Fed's purposes," said my usual Treasury source. "Congress will have to listen to his request for emergency powers, if the public believes there is an emergency."

Indeed, Volcker did not scruple to threaten the Congress that "without this legislation, the Federal Reserve, faced with an emergency, may well find it necessary to act to allow a bank holding company to acquire a thrift."

Volcker simply announced that there will be no "life after death" for the failing savings industry. The U.S. League of Savings & Loan Associations, which has refused to demand Volcker's head, will now be led as lambs to the slaughter.

Instead of fighting Volcker and his interest rates, the U.S. League late last year proposed a sweeping program of deregulation of S&Ls, under which they would be encouraged to move out of their traditional home lending, and into commercial real-estate speculation, retail loans, money-market funds, and other speculative activities. S&Ls in effect would become commercial banks, and compete against them, all within Volcker's high-rate shark pool.

This policy of transfiguration of the S&Ls was called "Life After Death" by Norman Strunk, the British-trained Senior Counselor to the sheep at the U.S. League. Senate Banking Committee Chairman Jake Garn (R-Utah) has proposed a "Thrifts Institution Restructuring Act," S. 1720, now before the Senate, that would completely deregulate S&Ls into "life after death."

But Volcker, who testified on S. 1720 before the Garn Committee, made it clear the S&Ls won't even have that. Volcker called upon the Senate to "immediately" pass his own "Emergency Regulators" bill, which had just been rammed through the House the day before, and which also constitutes Title I of Garn's bill. But he also demanded the Senate postpone indefinitely the deregulation features of Garn's bill. He denounced the idea of having S&Ls act like commercial banks, and make commercial loans, run investment companies, and money-market funds. He complained that any broadening of the thrifts' powers would mean competition for the Fed's favorites among the big New York commercial banks.