Banking

Lesson of the Chase takeover of Maryland

by D.S. Pepper

On November 1, a new corporation opened for business in Maryland, the Chase Bank of Maryland, with 13 branches offering commercial banking services. This was, of course, a subsidiary of Chase Manhattan of New York, and its succesful buyout of three Maryland thrifts, which permitted it to open its subsidiary, has the most serious implications for the United States and for the world economy.

What could be wrong with the Chase decision? After all, the state legislature wrangled over the deal for five days to ensure it was the best possible one before approving it in the small hours of Wednesday, Oct. 23. It relieved the state of Maryland of $1.5 billion in liabilities the state had guaranteed when the savings-and-loan crisis first hit. Depositors were happy because Chase freed up their frozen assets. And the *Washington Post* hailed the decision on its editorial page as a great precedent.

Well, there is a lot wrong with it. The first and most important reason is that Chase is not really a bank; it is a money-laundering machine, and one of the principal financial institutions of Dope, Inc. Chase was named by the U.S. Attorney-General as one of the financial institutions involved in laundering billions of dollars by the simple expedient of not recording cash deposits, and then sending the unrecorded funds to correspondent Swiss banks. Hearings are now under way in the House Banking Committee to change the money-laundering laws of this county, which at present make it a civil, but not a criminal offense.

Worse still is that, while Chase is part of the most diseased portion of the credit system, the Maryland S&Ls were among the most healthy! That is not to deny that several of the Maryland thrifts were run into the ground by unscrupulous freebooters. They, however, were not the cause of the problems, but rather the result. The cause was the murderous high interest rate policy imposed by Paul Volcker, the chairman of the Federal Reserve. It was Volcker who then helped to smooth the way for the Chase takeover, meeting with Gov. Harry Hughes in August, and later approving the plan in his capacity as Fed chairman. We have therefore the ugly spectre of Chase devouring previously sound financial institutions as they fell prey either to liquidity problems or to financial small fry doing exactly what Chase and other money-center banks are doing on an international scale—looting.

The cited *Post* editorial alerts us to the danger inherent in the Maryland decision. The *Post* points out that the state of Maryland had guaranteed the deposits, and yet, it wasn't paying. "This was hardly a reassuring sight for other depositors in other institutions." In the same editorial, the *Post* quoted Edwin Gray, chairman of the Home Loan Bank Board, stating that some 300 federally insured S&Ls—1 out of every 10—are insolvent, and that their total deposits are $90 billion compared with an insurance fund of $3.2 billion. The *Post* concludes that public confidence depends on keeping one's promises and that the legislature voted to do just that—by turning over their fiduciary responsibilities to Chase. The *Post* imples that Chase acted as some kind of insurance fund to insure the depositors' money.

That is the broader implication of the Maryland banking crisis. The domestic credit system is bankrupt. One observor has suggested that, over the next five years, a fourth of the nation's banks will disappear, either through mergers, acquisitions, or closings. This is not because there is not a need for these banks. The delivery of credit at the local and regional level is critical if the farm sector and smaller industry is to survive. It is not because these banks were incompetently run, although that is the theory most aggressively advanced. They are bankrupt because the Volcker policy has bankrupted the industries they serve: agriculture, farm machinery, machine tools, energy, housing, basic industry such as steel, etc.

Bank failures are running at their highest leve since 1933, and at present, up to 270 banks could fail this year. If they go under, what will happen to the depositors? Deposits up to $100,000 are guaranteed by the Federal Deposit Insurance Corp. (FDIC) for federally insured banks. But the FDIC has $12 billion in deployable funds to insure $1.24 trillion in insured deposits, less than a penny on the dollar. Under these circumstances, it is perfectly clear that the FDIC will increase its effort to bring about mergers and acquisitions rather than spend insurance funds. And that's where the image of Chase (or Chemical, in the Ohio situation) comes in, wearing a white hat and playing the role of angel.

Chase and the other money-center banks of Manhattan, London, Zurich, etc. exist to finance the dope trade, the most lucrative world-wide business today. They are engaged in usury in the Third World. Their profits have been protected by record interest levels established by Volcker and the Federal reserve. Their existence has been paid for in millions of deaths, jobs lost, industries and farms closed, and the collapse of the banks lending to this necessary activity. Now we have the ultimate perversity, the very victims—depositors, local legislators, workers, and businessmen—cheering these pirates as their saviors.

That is at present the lesson to be learned from the Great Maryland Banking Crisis of 1985.