Banking by William Engdahl

The Bush-Brady savings swindle

The Bush administration's $300 billion S&L bailout could be the most ambitious taxpayer ripoff in the history of capitalism.

One well-placed City of London financial source remarked to me recently, "It appears more and more that the Bush-Brady S&L bailout plan is a scheme to shift the assets of the savings and loan banks to the big New York money center banks and certain Wall Street firms." His comment came in response to a new report from the Federal Deposit Insurance Corporation which calculated ultimate cost over the coming 30-years to American taxpayers of $300 billion to "rescue" the S&Ls.

What's becoming clear is that there's some remarkable changes going on under the umbrella of "rescuing bankrupt S&Ls," which may well come to haunt President Bush, Treasury Secretary Brady, and Secretary of State Baker far more than Texas book sales have Speaker of the House Jim Wright.

Two weeks ago, one of Wall Street's pre-eminent international financial houses, Salomon Brothers, announced it had formed a new company with Peter Peterson's Blackstone Group. Their new venture, Stone Capital Partners L.P., plans to raise a war chest of some $600 million, which they say will allow them, under the terms of the Brady S&L bailout, to grab S&L bank assets worth as much as $20 billion. Peterson, by the way, doubles as chairman of the elite New York Council on Foreign Relations. But he and Salomon aren't alone.

The same international Wall Street houses that lost a bundle in the October, 1987 crash, are all now lining up big artillery to gun down supposedly bankrupt domestic U.S. S&Ls. Shearson, Lehman Hutton, the big Wall Street firm tied to Henry Kissinger's American Express, is in on the game, as is Merrill Lynch & Co., Don Regan's old firm.

What these Wall Street financial pirhana have in their sights is the huge backlog of S&Ls which are being put under government "conservatorship" until they can be resold to private interests. The Wall Street gang simply plans to profit in grabbing choice U.S. property assets, on the ultra-cheap, backed by government guarantees for the banks.

A few years ago, few of even the greediest Wall Street moguls would have ever dared dream of such a venture. But daily S&L panic headlines and a remarkably well-timed series of "ethics" scandals hitting key Democrats in Congress who happened also to be opposed to the Republican scheme, could make their prospects brighter.

Salomon has an in-house study which calculates that fully $400 billion in U.S. S&L assets will be reorganized in the next several years under the Bush-Brady bailout scheme. Clearly, if they are able to put up 3% of total asset value to grab this in a no-lose game with government (i.e., taxpayer) guarantees on their investment, who could resist?

Edwin Gray, former head of the S&L supervisory Federal Home Loan Bank Board, told *EIR* several months ago that the current S&L catastrophe was the deliberate work of key people in the Reagan administration. Gray suggested turning a spotlight on former Merrill Lynch chairman Don Regan, Reagan's first Treasury Secretary, adding his view that Regan's policy on the S&L cisis was directed with an eye to helping his old Wall Street cronies more than to protecting American housing finance institutions and the savings of millions of citizens.

Here's how it works. The government so far this year alone, has put 220 S&Ls worth $95 billion under "conservatorship." A new government agency, if the Bush-Brady scheme passes an increasingly suspicious Congress, agrees to absorb any big losses from S&L bad loans. And they strike deals with new buyers like MacAndrews & Forbes' Ronald Perelman or Fort Worth's Robert Bass. Salomon or Merrill Lynch then raise the necessary takeover capital from the new funds and make huge killings from charging fees to the new owners, roughly five times what they earn from ordinary corporate bond activity.

Big banks like Citicorp and Chemical Bank are also in the running for this $400 billion booty. Last month the Federal Reserve announced it was considering allowing a petition by Citicorp of New York to lift legal restrictions on banks' owning of S&Ls. Confidential bank studies have shown that grabbing defunct S&L banks in various states is the cheapest way for big New York banks to acquire an interstate banking network.

Is the Bush administration giving the S&Ls over to Wall Street in one of the most outrageous scams in U.S. history? Jim Wright came out of Texas politics when the late Wright Patman was still a strong voice. He knows the background to the Depression-era restrictions which Patman and other congressmen put on Wall Street after the October 1929 crash. You don't suppose this whole issue has anything to do with the recent witchhunt against him and others in Congress?