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Bush police-state measures won't solve banking crisis

by Susan Welsh

The Bush administration on June 22 announced a plan to create a vastly expanded financial police and enforcement apparatus within the federal government, to crack down on what President Bush himself called the "cold-blooded snakes"—the savings and loan managers and others now under federal prosecution—who "will pay with years of their lives" for their alleged crimes.

The President proposed a list of amendments to the Omnibus Crime Bill which the administration will introduce immediately. These include:

- expanding the wiretap law to allow court-ordered wiretaps in cases involving financial fraud and related offenses for which this intrusive investigatory power is presently not available;
- giving the primary regulators of the bankrupt thrift industry power to seek court orders to freeze the corporate and personal assets of civil defendants in financial institution fraud cases;
- giving subpoena power to the Federal Deposit Insurance Corp. (FDIC) and Resolution Trust Corp. (RTC), applicable to failed, as well as operating, financial institutions, and including the power to "undo fraudulent conveyances dating back five years";
- allowing federal prosecutors to seek restitution for all "victims of financial institution fraud schemes even where they were not specifically identified as victims in the charges underlying the conviction." That means that the government can punish "crimes" which are not specified in the indictment itself, but are simply alleged to have occurred;
- permitting "the seizure of assets and property in mail fraud and wire fraud prosecutions involving a financial institution."

These "get-tough" measures will do nothing to solve the banking crisis. Economist and political prisoner Lyndon H. LaRouche, Jr. had this to say recently on the matter: "I want to debunk the hoax which is running around Washington, and the Justice Department in particular, suggesting that the cause for the collapse of the thrift institutions, the thrift banks in the United States, is a mass phenomenon of corruption by banking officers.

"Well, it's just not true. That is a fraud.

"The reason for the collapse of the savings and loans is a bipartisan idiocy by both the Republican and Democratic leaders of the Executive Branch and Congress over the period since 1976."

Where is the real fraud?

"The first thing to ruin the savings institutions, and the economy, was the deregulation process, the deregulation of banking and transportation, which occurred during 1978-79 under Carter.

"The second thing to ruin the banking system was the Volcker measures. Whenever the rate of interest goes to double or more the average rate of profit on real estate, or productive investments, what you are doing is sinking the economy and the banking system. And that's exactly what the Carter administration and Volcker did, in 1979 with deregulation, combined with the so-called Volcker high-interest rate measures.

"Then, the Republicans took over. And the Reagan-Bush administration, with Bush playing a very active personal role in this, reinforced and worsened the application of deregulation, in 1982, in the context of ramming the so-called Garn Bill through the Congress.

"The creative financing, set into motion by Walter Wriston and others, by the Garn bill, and by the Bush group within the administration, caused the final process of collapse of not only the savings and loans, but a spillover of that problem into thrift institutions generally, and into the major commercial banks.

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"We're not looking at the collapse of a few banks as a result of the speculations of a few extraordinary directors who have gotten involved in theft. We're not looking to jail Neil Bush. The problem is, Washington has been running on the wrong policy. It is both Republican and Democratic Washington, which has sunk the banking system. And it's about time that Washington, instead of trying to find scapegoats, like Neil Bush, should turn around and say, 'The government was wrong. Volcker was wrong. Carter was wrong. Reagan was wrong. Bush was wrong. Now, let the government take responsibility for the mess it created.' "

Banks hit hard

As *EIR* predicted, the banking crisis is burning out of control, fueled by the collapse of real estate markets—not only in the United States, but throughout the Anglo-American financial world. The afflictions which hit Texas, Arizona, New England, and other "isolated" areas have begun to hit the major U.S. banks, including the titans of Wall Street itself. Moody's Investors Services and Standard and Poor's Corp., the nation's two main credit-rating agencies, have been forced to downgrade the credit ratings of most of the nation's top banks, including Citicorp, Chase Manhattan, Chemical, Security Pacific, Wells Fargo, and dozens of others, because of mounting real estate problems.

Chase has announced a major restructuring, including the resignation of longtime chairman Willard Butcher, who is retiring early to help facilitate "organizational changes." Chase, Butcher told the *Wall Street Journal,* will have to "skinny down" its corporate financing business, and "grapple with the real estate challenge."

Bankers Trust New York announced staff cutbacks, and the *Journal* reports that memos are circulating at Manufacturers Hanover announcing 25% personnel cutbacks in selected departments. The Bank of Boston recently eliminated its takeover unit.

On June 20, the London IBCA downgraded the credit rating of the Hong Kong and Shanghai Banking Corp., saying it took the action "because of Hong Kong bank's general financial performance, combined with the inevitable uncertainty that must be associated with the takeover by the People's Republic of China in 1997." The bank's U.S. subsidiary, Marine Midland Bank, and its London brokerage, James Capel, have also performed poorly. IBCA also cast doubt upon HongShang's proposed merger with Britain's Midland Bank plc, citing Midland's problems and other difficulties. "It is by no means certain it will go ahead," IBCA said.

The following additional crisis areas are brewing as we go to press:

- The bondholders of Bond Corporation—a A$6.7 billion Australian empire carrying A$6.3 billion in debt—meet in London at the end of June to review Bond Corp.'s proposed financial reorganization. If the bondholders are unable to agree, they may move for immediate liquidation of Bond Corp. The Hong Kong and Shanghai Banking Corp. has a large exposure to Bond Corp.
- Another large Australian outfit, Elders IXL Ltd., is expected to be forced to write off hundreds of millions of dollars in rapidly weakening investments, which will wipe out any earnings for the year.
- Campeau Corp. is reported to be considering selling all its holdings of Canadian real estate in a desperate bid for short-term liquidity. A major complication is that these holdings are the collateral on which is based the loans Campeau used to buy Allied and Federated Department Stores.
- The much-touted Rothschild-Goldsmith front, Anglo Holdings, is in the process of dissolving. The *Financial Times* of London writes, "The dissolution of the Goldsmith/Rothschild empire continues apace."

No 'Trump' card

The problems in the banking sector were aggravated by the failure of Donald Trump to meet some $85 million in payments due June 15. Trump's total debt amounts to some $3 billion, of which about $2 billion is owed to Citicorp, Chase, Bankers Trust, and Manufacturers Hanover. Some of the debt is backed by real estate as collateral, but $500,000 of it was loaned to Trump personally. His personal assets are in question.

"His adjusted net worth is minus several hundred million dollars, by my estimate, and he is alive only because his bankers are too red-faced to pull the plug on his life-support system," Martin Sosnoff, chairman of Atlanta-Sosnoff Capital, wrote in the *New York Post*.

By June 26, he must come up with $65 million to mollify his creditors. But on June 22, he was dealt a potentially fatal blow, when the New Jersey Superior Court refused to dismiss an anti-trust suit against him brought by Pratt Hotel Corp., a competing casino operator. The ruling leaves Trump exposed to a potential personal liability of $600 million.

Even if Trump is temporarily rescued by another infusion of cash from his bankers, he will undoubtedly be forced to begin liquidating his empire, which will further undercut the New York City real estate market.

That, in turn, will further undercut other New York City developers, causing further problems for the banks. Indicative of the problem is the situation faced by Toronto's Reichmann family, whose Olympia & York real estate firm is New York City's largest commercial landlord, with some 30 million square feet of office space. O&Y has several large holdings in the city's financial district, where cutbacks at Merrill Lynch and the collapse of Drexel Burnham Lambert have cost the company leases on over one million square feet of space.

This same vicious circle, where collapse begins to feed on itself, is occurring in all the major cities, as the real estate and financial bubbles pop.