Who is responsible for America's banking crisis?

by EIR's Economics Staff

Since the end of 1985, seven hundred and ninety-one U.S. banks have either failed or gone out of existence through mergers with larger institutions. As of the end of 1989, according to the Federal Deposit Insurance Corp. (FDIC), another 540 banks, in 33 states, had bad assets in excess of their paid-in capital plus loan loss reserves. They are bankrupt. About 1,500 of the nation's approximately 14,000 banks are classified as problems. Banks in all states lost money last year. Overall, the officially classified bad assets of the banking system as a whole come to 30% of the paid-in capital and loan loss reserves of the system.

What was once the thrift system is bankrupt. The bill for its reorganization, over 30 years, with interest charges added in, is going to come to at least $500 billion, and could still double in size before the end is reached.

Federal prosecutors in the November-December 1988 frameup trial of Lyndon LaRouche and his associates in Alexandria, Virginia attempted to ridicule the defense: "Didn't they tell you that your money would be safer with them than in the banks?" they asked their witnesses. Rochelle Ascher was given the same treatment during her trial in 1989 for alleged violations of Virginia's securities laws.

How ridiculous, the prosecutors implied, to say the banks aren't safe. Everyone knows the banks are safe, don't they?

Well, are they, or are they not?

Between 1934, when the FDIC was created, and 1974, the largest volume of deposits affected by banking failures was registered in 1939 when the federal government had to back up $160.2 million. In 1974, there were only four bank failures, but those four banks had combined deposits of $1.575 billion. In 1982, forty-two banks failed, and those 42 banks had combined deposits of $9.908 billion. The year 1982 ushered in a new era of bank failures. The 1,038 commercial banks which have failed since 1982 account for 74.5% of all bank failures since the beginning of federal deposit insurance in 1934. The $111.091 billion in deposits held by those 1,038 banks account for 94.5% of the deposits of all banks that

Who was right, EIR *and its founding editor, Lyndon LaRouche, or the "wizards" of the financial Establishment who said they had no use for him and his American System economic policies?*

have failed since 1934 (**Table 1**).

Prosecutors of LaRouche and his associates in Alexandria argued that such assertions by the defendants, and therefore also the necessary remedies they proposed, were part of the defendants' conspiracy to defraud contributors. So, do we have a banking crisis, or not? Are your deposits safe, or not?

Who was right?

On May 6, 1990, fifteen months after LaRouche was sentenced to 15 years in prison as a result of the Alexandria frameup, administration and congressional leaders met to discuss the federal government's budget crisis. The subject, according to Budget Director Richard Darman May 14, was the government's "contingent liabilities." These are implicit obligations, assumed to be backed with the "full faith and credit of the U.S. government." Some $5.6 trillion of such obligations are outstanding. Approximately half of the total is made up of deposit insurance; another portion is made up of government-underwritten mortgage obligations; another is government-secured pension obligations. They were the subject of the "budget summit" discussion, because none are safe, and because, with present policies, the government has no way to back them up. This was the meeting at which, according to the *New York Times* of May 7, the President refused a request from Rep. Richard Gephardt (D-Mo.) that he take to the national TV networks to tell the country how bad the crisis is, for fear of triggering financial panic.

What Bush wants to do is something very different. He and his friends still insist there isn't a banking crisis. There is only a problem of corrupt bankers, they say. Bush and company want to throw them all in jail.

On June 22, President Bush unleashed a posse of federal prosecutors, to be organized into "rapid response" task forces, "teams of razor-sharp prosecutors and auditors" to speed up investigation and prosecution of fraud in the savings and loans. "These cheats have cost us billions and they will pay us back with their dollars and they will pay us back with years of their lives," is what he told his audience in the Great Hall of the Justice Department.

Gephardt's friends among the congressional Democrats want more, faster. "Too little, too late," said Rep. Charles Shumer from Brooklyn, New York, and Sen. Timothy Wirth from Colorado declared, "The President had a photo opportunity today."

So who was right, and who was wrong, on the question of the banking system? If LaRouche was right, then what conclusion ought to be drawn about the patrons of the prosecutors who attempted to ridicule his forecasts of banking collapse? What conclusion ought to be drawn about a President and administration who still insist, "There is no banking crisis, only a problem of corrupt and swindling bankers"?

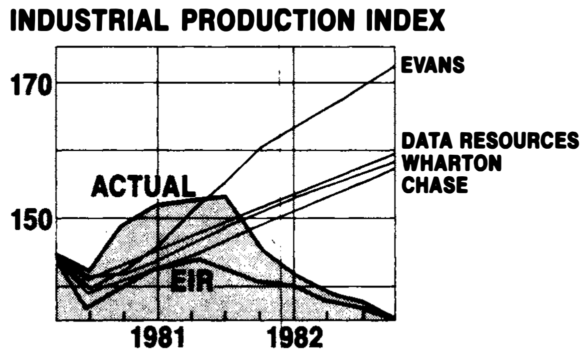
Who was it who warned on May 26, 1987, five months before the Oct. 19 "Black Monday" 500-point crash of the New York stock market: "Whether the great financial crash of 1987 erupts by October or later, will depend upon what leading governments do at the international monetary 'summit' held in Venice on June 12. Those bankers who are expecting a crash by October, make that forecast on the basis

TABLE 1
Banking failures since the 'recovery'

Year	Commercial banks Number*	Commercial banks Deposits	Savings and loans Number	Savings and loans Deposits
(a) Closures since 1982, with volume of deposits affected (deposits in million $)				
1982	42	9,908	NA	NA
1983	48	5,441	52	18,600
1984	79	2,883	27	6,000
1985	120	8,059	34	12,100
1986	138	6,471	49	13,000
1987	184	6,282	48	10,700
1988	221	37,215	232	100,700
1989	206	31,005	318**	107,000**
(b) Total bank and thrift failures, 1934-89 (deposits in million $)				
1934-89	1,393	117,500	N.A.	N.A.
1982-89	1,038	111,091	760	268,100
1982-89 as a % of 1934-89	74.5%	94.5%		

*Insured commercial banks.
**In 1989, ten S&Ls, with deposits of $667 million, failed outright. The other 308 failing S&Ls, with deposits of over $106 billion, were placed in conservatorship, administered by the Resolution Trust Corp., which was created in August 1989.
Sources: FDIC, FSLIC, Office of Thrift Supervision, Resolution Trust Corp.

FIGURE 1
SEPT. '80 FORECASTS FOR 1981 AND 1982



EIR was right and the competition was wrong: a graphic used on one of LaRouche's 1984 TV broadcasts.

of assuming that the U.S. government's role at Venice will be a continuation of the foolish international monetary policy which the Reagan administration has followed over the past five years. . . . This would turn the Venice 'summit' into a disaster, destroying the last bit of confidence in the U.S. dollar in international financial markets. Under those conditions, an October crash would be very probable"?

Who was it who wrote on July 4, 1989, three months before the stock market tumbled 190 points on Oct. 13, the second worst one-day fall in its history: "In this situation, we must expect it nearly, if not absolutely, certain that the July 14th Group of Seven meeting will be the watershed for an ensuing slide into new financial collapse. Unless some very radical change in policy occurs by approximately July 14th, a coming crash should be visibly in progress during August, and will erupt, most probably, during September or October"?

The author of those lines wasn't anybody attending Bush's "summit" meeting on the budget, that's for sure. Lyndon LaRouche warned of the prospects for the Black Monday blowout as a candidate for the 1988 Democratic presidential nomination. He predicted the Sept. 15, 1989 deflationary turn on the markets in the preface to his congressional campaign platform, "The Great Crisis of 1989-1992."

And who said on Nov. 7, 1989, nearly a month after the Oct. 13 stock market slide, and nearly two months after the Sept. 15 default of junk financier Robert Campeau, that the longest period of economic growth in the nation's history was continuing under his administration? It was George Bush, who is now letting it be known that he won't tell people the truth, because it might cause a financial panic.

Who said, on Oct. 22, 1987, "This is purely a stock market thing, and there are no indications of a recession or hard times at all"? And, on Oct. 20, 1987, "The economic fundamentals in this country remain sound, and our citizens should not panic. And I have great confidence in the future." That was Ronald Reagan, then President.

Who said, on Oct. 20, 1987, "Depositors should not be concerned about their deposits in the banks"? That was Robert L. Clarke, Comptroller of the Currency, responsible for regulating a portion of the nation's banking system.

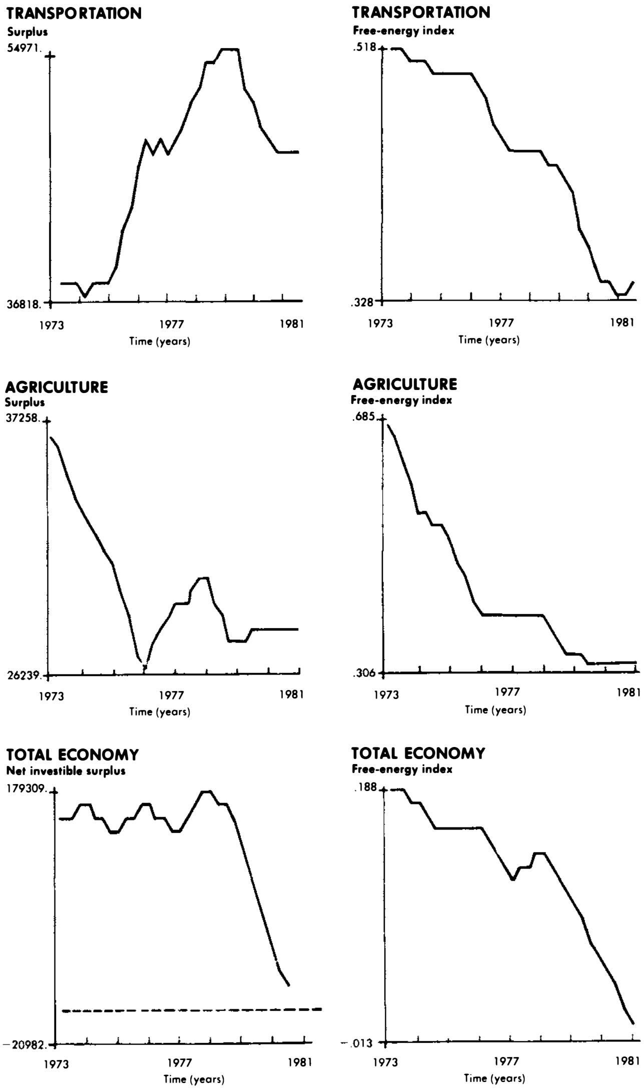
On those two occasions, LaRouche was right on the mark. It wasn't the first time.

The Volcker depression

Between October 1979 and 1983, LaRouche had sponsored the publication, in *EIR*, of the results of an econometric model, the LaRouche-Riemann model. Between October 1979 and the end of 1982, the LaRouche-Riemann model forecasts were consistently the only accurate forecasts by any agency (**Figure 1**). *EIR* published its first analysis of then Federal Reserve chairman Paul Volcker's high interest policies, in its issue dated Oct. 23-29, 1979 under the headline, "Volcker's depression." Between October 1979 and the middle of 1981, Volcker jacked up U.S. interest rates to a high of 22%. The result was to reduce the economy and banking system to a shambles (**Figures 2-3**).

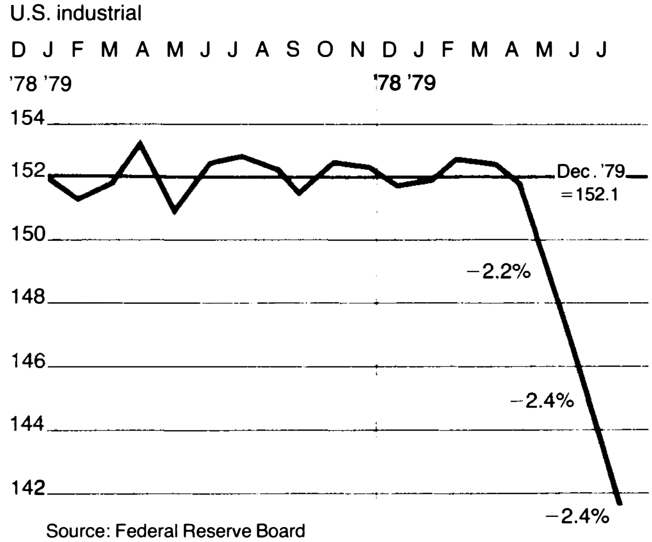
On Oct. 16, 1979, from the New Hampshire headquarters of his presidential campaign, LaRouche had issued a call for Congress to impeach the Federal Reserve chief. LaRouche accused Volcker of either lying to Congress, or being incompetent for the job, when he had told Maryland Sen. Paul

FIGURE 2
The effects of Volcker's credit policy



These graphs are printouts from the computerized LaRouche-Riemann econometric model, published in EIR*'s issue of Nov. 6-12, 1979. While most economists were hailing the credit-tightening measures of Federal Reserve chairman Paul Volcker, the LaRouche-Riemann model projected a devastating impact: an aggregate 15% loss in real output over an eight-quarter continuous downturn through the end of 1981.*

FIGURE 3
What actually happened



Source: Federal Reserve Board

Sarbanes on Oct. 15 that the Federal Reserve had no means to channel credit to ensure that businesses stayed open.

LaRouche's statement read in part:

"As one of the world's leading economists, I have caused my staff to conduct a computer-based analysis of the near-term consequences of Volcker's measures. Those results, coinciding with the estimates of other analysts reporting independently, indicate that the measures already enacted by Volcker will cause a 15% recession in the U. S. economy, probably putting the United States into a recession twice as severe as that of 1974. . . .

"The argument that Volcker's 'fiscal austerity' will hinder inflation is a hoax. Although there might be some temporary levelling off of inflation-rates during the weeks just ahead, by about January 1980, Volcker's measure would begin to send inflation-rates spiraling upward again. . . .

"There are two immediate measures which would ameliorate the present crisis. First, the U. S. gold reserves must be valued at an adjusted current world market value, a value to be negotiated with both the European Monetary System member-nations and the OPEC 'petrodollar' holders. This would stabilize the value of the dollar and take the worst pressures off dollar liquidity. Second, the Federal Reserve must immediately implement the kind of selective credit-flow controls which Senator Sarbanes proposed. This would not solve our nation's problems, but would give us breathing-room for developing a comprehensive, long-term set of monetary and investment-incentive measures."

On Nov. 5, 1979 in a speech before the National Economists' Club in Washington, D.C., LaRouche elaborated on the theme. The speech was reported in *EIR*'s issue of Nov. 13-19, 1979:

"I'm opposed to Volcker's measures, not only because they're going to cause these awful things to happen to the economy, but because such measure are totally unnecessary. It represents an act of suicide, an economic suicide taken purely for ideological reasons, the ideological reasons being the refusal to accept the kind of alternatives I propose, that the government of France proposes, that the leading forces of the European Monetary System have proposed.

"Two things are central. The ideologues in Volcker's group refuse to accept the return to a gold-based monetary system, that is, the remonetization of gold. This would not occur on the old Versailles-Bretton Woods basis, but would be a monetization of gold on the basis of its competitive market value as a monetary commodity, about $375 an ounce, which is a fair market value for monetary gold right now—not to the credit of Adam Smith, but it just happens to work out that way.

"The second measure that has to be taken is what is called the 'dirigist' approach nowadays, of what some of the British call a 'neo-mercantilist' approach to organizing the world market and to shaping policies within nations."

Where did the others line up on the Volcker measures? Here's a selection of quotations from those who were then, like LaRouche, presidential candidates:

Jimmy Carter: "The number one threat to our national economy is inflation. Whatever it takes to control inflation, that's what I will do" (to the *New York Times,* Oct. 10, 1979).

Ronald Reagan refused comment until his candidacy was announced.

George Bush: "The action by Federal Reserve Chairman Volcker is a necessary stop to curb the staggering growth in the rate of inflation."

And from among the economists:

Alan Greenspan, an adviser to Presidents Ford and Nixon, and now Volcker's successor as chairman of the Federal Reserve Board: "The Fed has no alternative."

How things went wrong

The point is this: Who has any right to talk about jailing corrupt bankers now, if they aren't willing to go back and say that everything that has been done since Volcker implemented his interest rate policy has been a national disaster?

Was there an enduring significance to the Volcker policy? The answer is, yes, of course. If interest rates are increased to levels approximately double the average rate of profit of industrial corporations, farms, small businesses, public utilities, then, within not too long a time frame, those businesses are forced out of business. That is what the Volcker policy, and the policy of those who agreed to support Volcker, accomplished.

Volcker forced the United States into economic bankruptcy. That doesn't mean the problem started with Volcker. For that, go back to the "Great Society" program, adopted after the assassination of President John F. Kennedy, when the destruction of U.S. economic power began in the name of the "consumerism." Then, the taking down of the NASA space program in the period following the monetary shocks of 1967. That was the beginning of the so-called "post-industrial society." And the decision to take the dollar off the gold standard on Aug. 15, 1971, which ended currency stability, wrecked world trade, and destroyed U.S. export markets. Add the oil shocks of 1973 and 1978, and then the Volcker measures, which pushed economic activity below the break-even point.

If you wreck the economy, and turn down policies, such as those designed by LaRouche for recovery, what happens? Since financial obligations and debt service are ultimately supported by physical production of new wealth, in the form of production, capital improvements, and technological innovation, a bankrupt economy, left unreversed, leads to a bankrupt financial system. And out of a bankrupt financial system, comes financial panic and collapse.

Was LaRouche right in October and November 1979, or not? Did Volcker's high interest rate policy lead into an economic depression which bottomed out in 1982, or not? Was there ever any recovery from that economic depression, or not?

The forecasts issued from the fall of 1979 projected a slide into depression bottoming out in 1982. By the summer of 1982, Volcker's policies had indeed wrecked the economies of U.S. trading partners, reduced the U.S. economy to bankruptcy, and created the basis for financial catastrophe.

On July 20, 1982, *EIR* published an article by LaRouche, "U.S. not responsible for Eurodollars," in which he wrote:

"I hold an alternative out to these would-be, lecherous looters of the people of the United States. It is time to scrap the Rambouillet and subsequent foolish agreements, and to institute quickly those measures of sweeping monetary reform I have been consistently proposing since the spring of 1975. . . . The point of monetary collapse has been reached at which the bankruptcy of the Third World debtors has become the bankruptcy of the Third World's creditors. . . . The time has come to shut down the International Monetary Fund and to end the grip of the Bank for International Settlements. Only a new, gold-reserve-based New World Economic Order can salvage a trillion dollars or so of presently unpayable debt. You gentlemen are behaving like pick-pockets plying their profession among the passengers and staterooms of the sinking ocean liner Titanic, who seem to prefer lying rich at the bottom of the Atlantic to surviving the catastrophe you have brought largely upon yourselves."

The debt bomb: bankers vs. LaRouche

LaRouche's alternative was a plan for the reorganization of Ibero-America's debt, published in the United States in August 1982 as *Operation Juárez.* Circulated to the governments of Ibero-America and the United States during July and August of that year, the plan proposed a way to reorganize debt to permit a hemispheric economic recovery which would have transformed the world. Operation Juárez was the alternative to banking collapse and the imposition of genocidal looting on debtor nations. Then, as later, LaRouche was told by bankers and others, that technically, his plan would work; but politically, it was not acceptable.

Beginning July 9 of that year, following the July 5 bankruptcy of the Oklahoma oil patch bank, Penn Square, the

June 15, 1982

January 10, 1983

EIR *was right about the Ibero-American "debt bomb," months before the liberal Establishment's media caught up with what was really going on.*

Federal Reserve had begun pumping in reserves to prevent the bankruptcy of the U.S. banking system. This was reported in *EIR*'s Aug. 3, 1982 issue. By the end of the month of August, Mexico had taken the first steps to implement LaRouche's Operation Juárez proposal, when President José López Portillo telephoned the Presidents of Argentina and Brazil to ask their support in declaring debt moratoria. The financial system was on the edge.

On Aug. 24, 1982, *EIR* published a LaRouche-drafted script, an outline of how Ronald Reagan could have addressed the nation that night: "At the close of Sabbath, just after midnight tonight, I shall have used my Executive powers to put into immediate effect a number of emergency measures which are the first step in stopping this depression." By the first week in September, *EIR* was reporting that large U.S. banks—Chase Manhattan, Citibank, Bank of America—were unable to market their certificates of deposit. There were no buyers for U.S. bank paper.

During this same period, Henry Kissinger, then a member of the President's Foreign Intelligence Advisory Board (PFIAB), initiated the correspondence with then-FBI Director William Webster which led to the July 2, 1987 Boston indictment of LaRouche, and the December 1988 Alexandria railroad trial during which the prosecution team attempted to ridicule LaRouche's banking crisis forecasts.

On Oct. 5, 1982, LaRouche wrote, in an "Open Letter to Walter Wriston," then chairman of Citicorp: "I appeal to you and others of the banking community to come to your senses before irreparable damage occurs."

"The crucial problem is political, not economic," he wrote. "It is the ideological commitment to what is called 'free market economics' which has caused the present depression and imminent financial crash."

On Oct. 19, 1982, *EIR* published Citibank's reply. Senior Vice-President Robert Rice said, "We don't need LaRouche, we can solve the debt problem ourselves."

We shall return to how Citibank proposed to do that. A week earlier, on Oct. 11, 1982, David Rockefeller, then chairman of Chase Manhattan Bank and head of the North American section of the Trilateral Commission, had told *U.S. News and World Report:*

"The U.S. banking system is very sound. Obviously, in times of recessions there are more business failures, and business failures have their impact on the banking system. There have been a few failures, but my own view is that the system itself is well managed and strong, and that regulatory authorities are working wisely and cooperatively with the banking system to deal with these problems."

It was not until Jan. 10, 1983, when *Time* magazine ran a cover story titled "The debt bomb," by Rimmer de Vries of Morgan Guaranty, that the media caught up with what had really been going on behind the scenes six months earlier, during the summer and fall of 1982.

Repeal Gramm-Rudman!

On Jan. 29, 1986, LaRouche delivered his State of the Union Address, in Arlington, Virginia. The speech was reprinted in the weekly newspaper *New Solidarity* in two parts, on Feb. 7 and Feb. 14. In it, he demonstrated the idiocy of the Gramm-Rudman budget-cutting amendment and President

Reagan's tax reform, showing how these would adversely affect the banking system:

"Unless we repeal the Gramm-Rudman legislation, unless we repeal this horrible tax reform, which is as destructive as Gramm-Rudman, it will shut the economy down! Real estate will be shut down; municipal utilities will be shut down; state and local spending for capital expenditures will be shut down—and so forth—unless that tax reform is repealed.

"Our banking system is collapsing. . . . At present, the current liabilities of U.S. commercial banks are about two and one-half times the size of these banks' current assets. In other words, the entire U.S. private banking system as a whole, is presently bankrupt.

"What's going to be hit? Federal revenue sharing? . . . That means, not only programs of the type for which federal revenue sharing was originally created, at least in words. . . . What that means is shutting down sections of state and local government. The areas most hard hit, will be the older, major cities of the United States, the ones with the big pockets of poverty.

"Another area that's going to be very hard hit is the state of Texas and the adjoining states of Oklahoma, Louisiana, and so forth, and southern California. . . . Mortgages will collapse. Entire banking systems will collapse. Fanny Mae will collapse. Ginny Mae will collapse."

And that is just what the combination of Gramm-Rudman and tax reform did during the course of 1986. During the first quarter of 1986, the net worth of the S&Ls became negative. Output of critical physical goods fell by around 15% in the first and second quarters of the year. The oil price collapsed, dooming the real estate and banking sectors of the Southwestern states. In that same State of the Union address, LaRouche called for the imposition of an emergency trigger tariff on oil imports, to protect the industry and the banking system.

They didn't want to hear. In an April 2 press conference, Vice President Bush said: "When it gets to damage your national security interest or gets to throw a number of financial institutions into turmoil, that cuts the other way. . . . So I think the only answer is market, but also the stability of the marketplace." As if it already hadn't happened.

LaRouche insisted, in 1979, in the cited proposals of 1982, in his 1985 published *Program for America*—his campaign platform for the 1988 presidential elections—in proposals circulated before and after the Oct. 19, 1987 market crash, such as "Keep the local banks functioning" of March 18, 1987, and "Summary of federal loan measures to stabilize state and local tax revenues" of Dec. 16, 1987, that what was first required was the recognition and admission that a crisis does indeed exist.

Such a recognition would take the form of either a presidential declaration of financial and economic emergency, or emergency action by Congress, to mobilize support for what would have to be done.

Banking and credit systems could be reorganized, reasserting the Constitution's provisions on creation of money, through a new issue of gold-backed Treasury notes, and ending the Federal Reserve's usurpation of the power of credit issuance, through the so-called Keynesian multiplier. Such gold-backed new credit would be issued through the banking system, at administrative 1-2% interest charge only, to prioritized borrowers in industry, farming, and in provision of basic infrastructure. Such credits would be intended to shift employment back toward production, and to permit the production of useful wealth, through high-technology, energy- and capital-intensive job-creation programs. Productive employment would be doubled in a five-year period, thereby also—providing transportation, energy, and water management bottlenecks were addressed—doubling output.

What's the objective? First, to end the economic depression by organizing a real recovery in employment, and production of useful goods and services, such as education and health. That way, the financial system can be rebuilt, deposits don't have to be wiped out, pensions can be protected, government revenues expanded. Anything else won't work. And it hasn't.

Deregulation made the crisis worse

What did those who opposed LaRouche in 1979, in 1982, in 1986 do instead? They insisted that the crisis could be solved by deregulating the financial system, deregulating the economy, and, as the crisis has deepened since 1979, they have insisted that more deregulation was what was required.

They took a banking system which was bankrupt by 1978, bankrupted the whole economy by 1981-82, and built up the biggest bubble of usury and speculation that has ever been seen in human history.

That's right. It started under Carter. It continued under Reagan. Reagan, the President of the "magic of the marketplace" and "free enterprise," the opponent of big government, had exactly the same policy as Jimmy Carter on these questions. It has continued down to the present day.

Benchmarks include the April 1, 1980 passage into law of the Reuss-Proxmire Omnibus Banking Act. Among other features, the bill empowered Volcker's Federal Reserve to change bank reserve requirements as it saw fit, waived state anti-usury laws, repealed Regulation Q, which protected the borrowing and lending of S&Ls, and preempted state usury laws as they applied to mortgage finance.

Who supported this? Here's what David Rockefeller had to say in a speech to the June 1980 conference of the New York State Bankers' Association:

"In recent months, I have detected a new, more constructive attitude among a number of government officials. On the one hand, I see a new awakening to the value of letting the marketplace dictate the services we offer and the prices we charge. On the other hand, I see a new realization of the pitfalls of applying excessive controls and artificial ceilings on banking markets. . . . I would like to point to several encouraging signs. One was the decision of the Congress two months ago to phase out Regulation Q over a six-year period. In 1933, Regulation Q ceilings were imposed on bankers to ensure the safety and soundness of the financial system during the difficult days of the Depression. Today, these ceilings have outlived their usefulness and only serve to deprive consumers of what they could and should rightfully earn on thrift and savings deposits. Another positive sign, part of the same 1980 legislation, was the federal preemption of state usury ceilings on residential mortgage loans."

And what happened? Within a year the chairman of the Federal Home Loan Bank Board, one of the agencies which regulated S&Ls, was before the House Banking Committee, reporting that 80% of the 4,700 S&Ls were operating at a loss, and that one-third were bankrupt. *EIR* reported in its issue of July 28, 1981 that the FHLBB chairman had told Congress, in order to avoid the costs of a bailout, "Wipe out unnecessary bank regulation." He was testifying on behalf of the Thrift Institution Restructuring Act of 1981. A spokesman for the Treasury Department told *EIR*, "The whole purpose of this act is to allow the S&Ls to get out of the unprofitable business of home lending."

On Sept. 5, 1980, Comptroller of the Currency John Heiman testified before the House Banking Committee's subcommittee on financial institutions. He called for an end to interstate banking regulation, and "relief from the legal constraints that artificially confine the expansion of U.S. institutions' full service banking operations to a single state. . . . Congress should begin lifting the barriers to interstate expansion of domestic institutions."

The same month, the Carter administration leaked a preview of a report on the nation's banks prepared by Domestic Policy Adviser Stu Eizenstadt. It called for the modification of the standing Douglas Amendment to the McFadden Act to permit interstate banking. Carter's Treasury Department representatives spoke candidly about how this would be achieved: "We'll chip away at it. Little by little it will become irrelevant, and one day someone will say, 'Hey, by the way, we still have McFadden here,' and we'll take the corpse and sweep it under the rug. The way McFadden and Douglas are written, there are too many ways to get round them. They are all loopholes and no cheese."

That day came on June 27, 1983, when Walter Wriston, chairman of Citicorp, testifed before the Senate Banking Committee. There is "a certain irony," he said, "with respect to a moratorium on so-called non-banks acquiring or becoming banks. That horse is long since out of the barn. . . . The combination of interstate banks and S&Ls offers a crystal clear picture of the effectiveness of our present ban on interstate banking. . . . The dam has already broken and it is too late to hold back the waters."

October and November of 1980, just before and after the presidential election, the Federal Reserve, acting through its Depository Institutions Deregulation Committee, phased out anti-usury regulations, permitted commercial banks to operate reserve-free International Banking Facilities, and began to phase out restrictions on interstate bank lending. Never mind the damage that had been done, and was yet to be done by Congress. This was Volcker's Fed by fiat.

Policies wiped out the S&Ls

Under the free enterprise President, the Garn-St Germain bank bills were rammed through the House and Senate in September 1982, becoming law on Oct. 12. They permitted any institution to buy any failing institution, and permitted S&Ls to undertake money-market operations. They were supported by Treasury Secretary Donald Regan, one-time chairman of Merrill Lynch, in pretty much the same terms that Carter administration officials had employed during the years before. He told Congress on April 28, 1981:

"The administration and Congress share the responsibility to resist the parochial interests of some institutions [S&Ls—ed.]. We must place greater reliance on market forces to determine the character and structure of our financial system. It is a desirable objective to all institutions on an equal competitive basis. At some point all institutions must have the same powers to perform the same types of business."

Walter Wriston was quite frank about why he found these objectives "desirable." He told the September 1982 issue of *Fortune* magazine, "Willie Sutton said he robbed banks because that was where the money was. I see that $1.2 trillion out there, and I don't see any number that looks like that anywhere else."

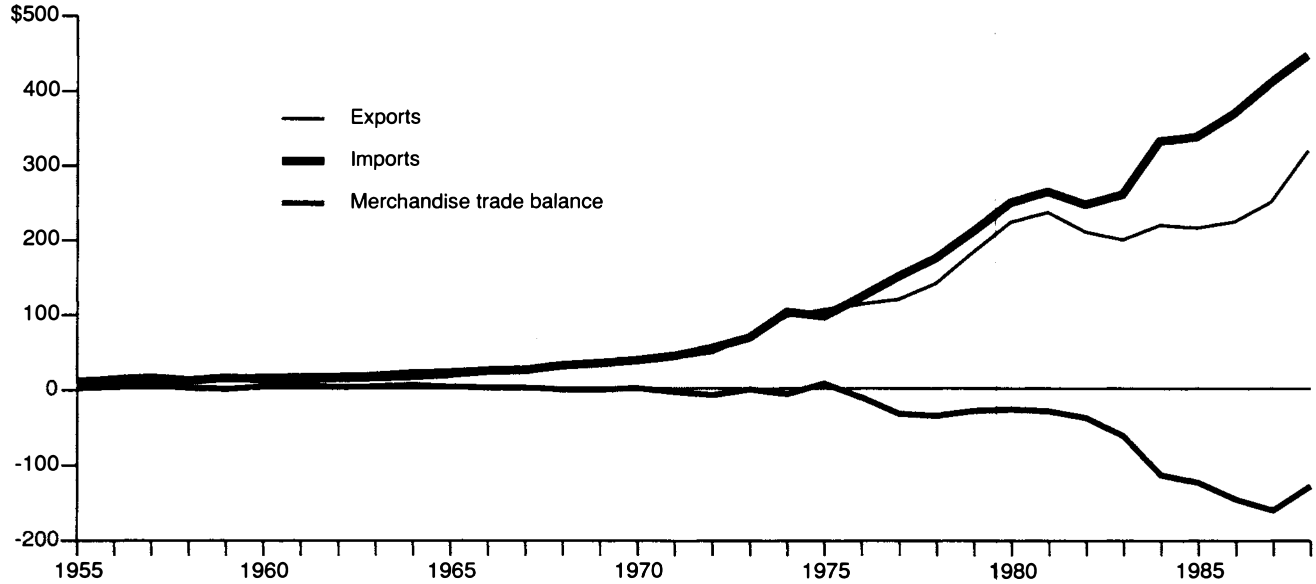
The $1.2 trillion was the deposit base of the S&Ls. Deregulation was designed precisely so that Walter Wriston and company could stave off the bankruptcy of the commercial banks that they had wrecked by employing the methods of Willie Sutton.

On July 19, 1983, Donald Regan told the *New York Times*, "I think a lot of these worries are overblown that the crash of 1929 could come back. We have to go on with deregulation." Without further deregulation by Congress, he said, "banks will go to the states" to establish non-bank subsidiaries "that allow the most advantages to them."

There were two institutional arrangements, apart from the treasury secretary, within the Reagan administration, which maintained continuity with the deregulation policy established under Carter.

The first of these was the Presidential Task Force on Regulation of Financial Services, established in December 1982 under the chairmanship of then Vice President George Bush. This committee produced a report, published July 2, 1984, entitled "Blueprint for Reform." The group was reconstituted in Reagan's second administration on Dec. 15, 1986. Among the recommendations of the first task force were ones returning now in the "throw them all in jail" campaign: "The FDIC would also have new authority to take enforcement

FIGURE 4
U.S. merchandise exports, imports, and trade balance, 1955-1989
(billions $)



Source: International Monetary Fund

action against violations of federal law concerning unsafe bank practices in any bank examined by it where the primary regulator failed to take such action upon prior request of the FDIC." Paul Volcker served on this commission, along with other officials from the so-called regulatory agencies.

The second arrangement for implementing deregulation was the Administrative Conference of the United States. This obscure body, brought into existence in 1964, oversees procedural matters arising from the activities of Executive Branch agencies. It is the bureaucratic overseer of the bureaucracy, and is staffed mainly by lawyers from the private sector as well as the government, who decide how regulatory procedures should be interpreted. In 1986, this body established a Special Committee on Financial Services Regulation. The chairman of the committee was Kenneth Bialkin of the Anti-Defamation League of B'nai B'rith; among its members was C. Boyden Gray, then counsel to the vice president and formerly of the law firm Wilmer, Cutler, and Pickering, whose partner Lloyd Cutler was Jimmy Carter's White House counsel. James C. Miller III, director of the Office of Management of the Budget under Carter, involved in an earlier phase of deregulation planning, joined the commission in 1981, as part of its Committee on Regulation.

The deregulators started with a bankrupt U.S. banking system, and by 1989 had bankrupted the country perhaps three more times (**Figures 4-7**).

LaRouche was right, and was framed up and jailed. Many Americans will suffer as a result of his incarceration. Why? Because his incarceration reflects the rejection of, among other things, the policies for which he stands, and has stood for. The Bush administration, nearly all the Establishment in Washington, is obsessed with the delusion that the Bush combination will continue to function: "Oh, we're going to control this terrible financial crisis, LaRouche is wrong, we can ignore him." The whole American population is going to hell because of the Bush administration's attitude toward LaRouche and his proposals.

The ideological problem

LaRouche said in November 1979 that Volcker's staggering interest rates were implemented for ideological reasons. In his October 1982 letter to Citibank's Walter Wriston, he repeated the same, insisting that the problems were not economic, but political, ideological.

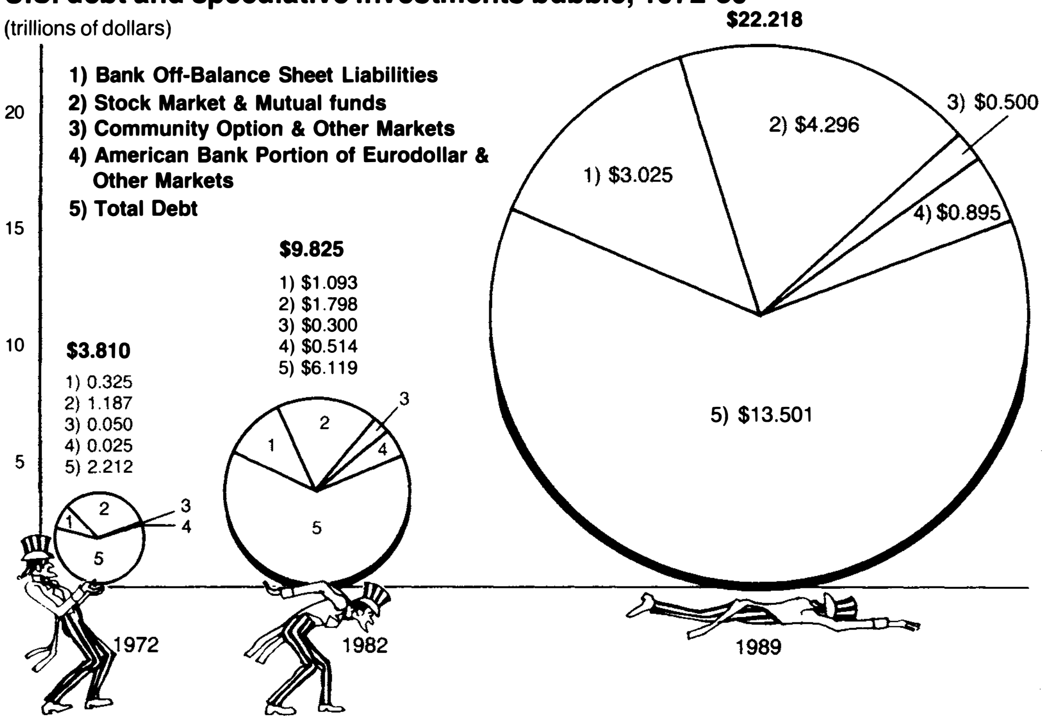
What is the issue here? The slogan form of it is the old saw "free market," "magic of the marketplace." The elaborated form of the matter was presented in a set of studies prepared by the New York Council on Foreign Relations (CFR) during 1975-76. The studies, the result of 10 working groups, involving 300 people, were published in an initial 30 volumes. Work was directed by the Committee of Studies of the Board of Directors of the Council on Foreign Relations, working through a 1980s Project Coordinating Group.

EIR presented a summary of the project in its issue of May 15-21, 1979 under the title "A conspiracy of morons: the CFR's Project 1980s."

FIGURE 5

U.S. debt and speculative investments bubble, 1972-89

(trillions of dollars)



In 1972, the total of all debt and speculative investments stood at $3.810 trillion; by 1982, this was inflated to $9.825 trillion, and then to $22.218 trillion by the third quarter of 1989. This growth of the bubble by $12.393 trillion in the last seven years has been misnamed the Reagan-Bush "recovery."

Source: Federal Reserve Board *Flow of Funds Account;* New York Stock Exchange *Fact Books;* Chicago Board of Trade published reports; Salomon Brothers, *The Status of Global Risk-Based Bank Capital Adequacy,* June 1988 report and updated reports; Morgan Guaranty Trust, *World Financial Markets* newsletter

Leading individuals associated with the project left the CFR in 1977 to become the Carter administration. Among these: Carter's Secretary of State Cyrus Vance, National Security Adviser Zbigniew Brzezinski, Treasury Secretary W. Michael Blumenthal, and a host of junior officals like Leslie Gelb, Richard N. Cooper, and Joseph S. Nye. There was a significant overlap with the membership of David Rockefeller's Trilateral Commission. Rockefeller is among the funders of the CFR.

The project became the adopted policy of the Carter administration; it continued to be, through the two Reagan administrations, down to the present day.

The CFR's 'magic of the marketplace'

The late Fred Hirsch, formerly editor of the London *Economist,* authored one of the project's benchmark contributions, "Alternatives to monetary disorder." Hirsch identified what he called "the most urgent problem of the next decade" this way:

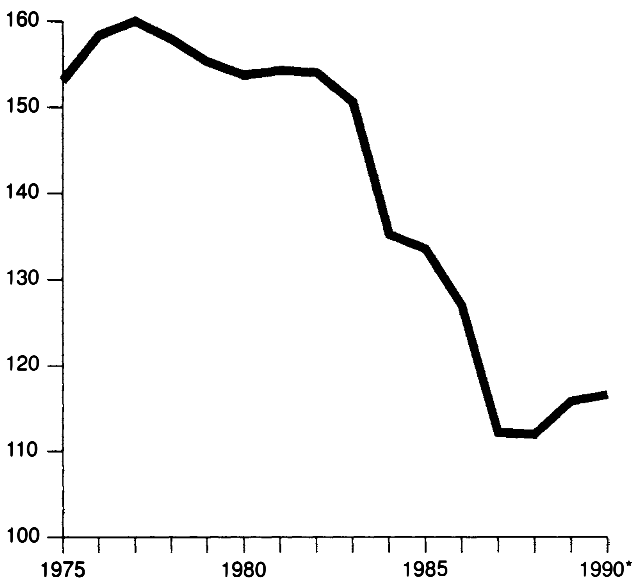
"An almost continuous series of conferences has brought together representatives of the developed countries, the less-developed countries, the oil-exporting countries to discuss the problems of energy supply, raw materials, economic development, and international finance. These matters hitherto have been dealt with independently and in low key. It is now the overt aim of the developing world to link these issues. Beyond this, by elevating decisions to the highest political level, developing nations hope to substitute politicization for what they see as tacit acceptance of the *status quo* as it manifests itself through the operation of market forces and technical management.

"The developing world, as challenger of today's balance and structure of political and economic power, sees increasingly the explicit politicization of the international economy as an opportunity to forge a new international economic order more favorable to its interests. By contrast, in the view that dominates both governmental attitudes and the main thrust of analytical discussion in the developed world, the focus is on the dangers of increased political friction and economic disruption that would result from the substitution of political decisions for market or technical influences. Western governments see politicization as a threat to both economic prosperity and political harmony. In their opinion, the containment and reversal of the trend toward increasing politicization are among the most urgent international problems of the next decade."

The backdrop to Hirsch's invective was the global process that had been unleashed by the issuance in 1967 of Pope Paul VI's encyclical *Populorum Progressio.* The Pope had sparked a movement among developing nations for a just, new world economic order, freed of the looting arrangements of the old colonialism and imperialism. In Pope Paul's view, "The new name for peace is development." Leading exponents of the movement included Mexico's Luis Echeverría,

FIGURE 6

U.S. steel production capacity

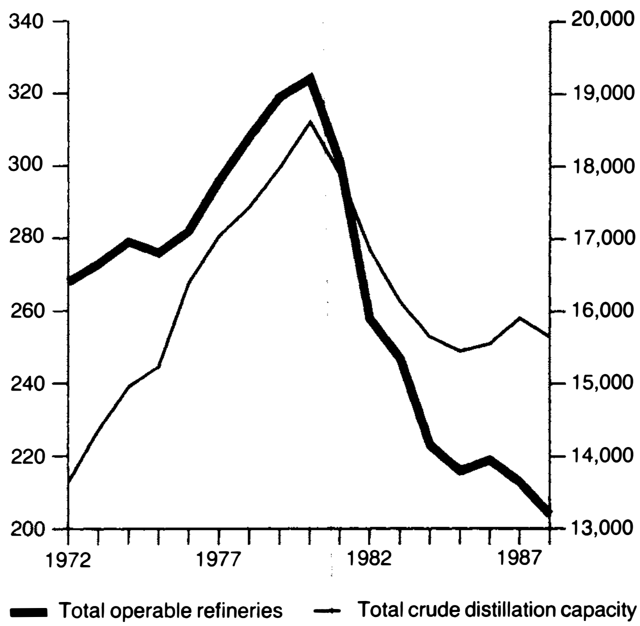


*preliminary

Source: American Iron and Steel Institute

FIGURE 7

U.S. oil refining capacity



Source: Energy Information Administration

India's Indira Gandhi, Algeria's Houari Boumedienne, Pakistan's Zulfikar Ali Bhutto, among others.

In an April 1975 press conference in Bonn, West Germany, following a visit to Iraq, LaRouche had put forward a proposal to form an International Development Bank, to be formed by treaty arrangement among agreeing states, to organize monetary reform to the end of fostering three-way trade among the nations of the OECD, Comecon, and developing sector, securing the advance of the first two through the economic uplifting of the latter. LaRouche's proposal was voted up in 1978 at the Colombo, Sri Lanka conference of the Non-Aligned Movement—one of the principal targets of Hirsch's invectives against "politicization."

CFR rejects Hamilton and List

Hirsch identified two conflicting traditions in economic theory. One he called "mainstream liberal thought"—the free market theory of Adam Smith, David Ricardo, John Stuart Mill, et al.—the other "the neo-mercantilist." The neo-mercantilists were typified by Alexander Hamilton, George Washington's secretary of the Treasury, and by the German-American economist Friedrich List. Slyly, he lumped the Marxists in with what he called the neo-mercantilists, the better to lie in his scholastic language, that the movement launched by the Pope was a pro-communist movement. Ironically, another volume of the series posited Mao Zedong's China, barely then emerging out of the genocide of the Cultural Revolution, as the model for what the Third World should aspire to—Mao's China, and what was euphemistically called "a country in Southeast Asia." This was Cambodia, where, while the study was being drafted, Pol Pot murdered approximately one-quarter of the population.

The "nationalist concerns" of the developing sector, Hirsch wrote, "are far from new. They were eloquently addressed by Hamilton in his *Report on Manufactures* of 1790, in which he expressed the opposition of American nationalists to their country's assuming the rôle of a raw materials exporter to Britain. Nationalists feared and opposed two aspects of this role: the tying of American economic development to the British economy and the growing dependence on Britain for goods vital to national defense. Friedrich List, inspired by Hamilton's observations of American trade policy, outlined in *American Political-Economy* what he saw as the proper object for a developing country's commercial policy:

" 'This object is not to gain matter, in exchanging matter for matter, as it is in individual and liberal economy, and particularly in the trade of the merchant. But it is to gain productive and political power by means of exchange with other nations; or to prevent the depression of productive and political power, by restricting that exchange.' "

A program of 'controlled disintegration'

The way Hirsch proposed to deal with what he called "the most urgent international problems of the next decade" was thus:

"A degree of controlled disintegration in the world economy is a legitimate objective for the 1980s and may be the most realistic one for a moderate international economic order. A central normative problem for the international economic order in the years ahead is how to ensure that the disintegration indeed occurs in a controlled way and does not rather spiral into damaging restrictionism. The problem therefore is not to minimize politicization in the process sense of political intervention in market outcomes; it is rather to create a framework capable of containing the increased level of such politicization that emerges naturally from the changed balance of forces in both domestic economies and the international system. The function of the loosened international economic order would be to provide such a framework by setting bounds to arbitrary national action and thereby containing the tendencies toward piecemeal unilateral action and bilateral bargaining that may ultimately be detrimental to the interests of all parties concerned."

Less than one year before he became chairman of the Federal Reserve Board, on Nov. 9, 1978, Paul Volcker delivered the Fred Hirsch Memorial Lecture at Warwick University in England. Volcker's speech was excerpted in *EIR* Oct. 16-22, 1979. It had originally been published in the London monthly *The Banker* in January 1979:

"I was tempted to take as my text today one of Fred Hirsch's last dicta: 'A controlled disintegration in the world economy is a legitimate object for the 1980s. . . .' The phrase captures what seems to me the prevailing attitudes and practices of most governments in this decade, as they struggle with two central issues that bedevil so much of our negotiations and our actions, not just with respect to money, but over the full range of international economics. . . .

"Let us be aware of the difficulty of controlling disintegration, once fairly started. . . .

"I do not suggest that we stand on a knife's edge forced to choose between integration and autarky. But I would much rather take as my rallying cry, as a focus for necessary negotiations, as an ideal from which to measure progress, the challenge of 'managing integration' rather than disintegration."

LaRouche and the 'American System'

What was the ideological issue then, and now, between LaRouche and the sponsors of the careers of such as Hirsch and Volcker?

On Nov. 6, 1987, LaRouche issued a presidential campaign statement, "The world economic depression in progress: why it happened and how recovery must be organized." He summarized the matter thus: "The time has come, to look at my record of performance as an economist. My qualifications as an expert are three. First, I am one of the very few living economists who represent the economic policy on which our republic and its past economic successes were based: the policy which U.S. Treasury Secretary Alexander Hamilton was first to name 'The American System of Political Economy.' Second, the economic forecasts which my associates and I have produced, are the only accurate forecasts published by either governmental or private agencies during the past seven years. Third, my recommended policies are policies of the type which have been proven, repeatedly, in past experience, as the only effective way to organize a general economic recovery from a depression."

Add up the tally. LaRouche says he is an advocate of the methods of Alexander Hamilton. Hirsch, and the crowd who became the Carter administration, say that Hamilton, List, and the "American System" tradition are the enemy, "the most urgent problem of the decade." They insist on the counterposed tradition of liberalism, associated with Smith and Ricardo and company, against which the American Revolution was fought. LaRouche and associates produced a record of forecasts over the 11-year period since 1979 which is unparalleled in its accuracy, and against which every other agency, governmental or not, is reduced to absurdity. And LaRouche's proposed solutions would work, whereas those of his opponents have led to disaster.

What can be concluded from this? Ask yourself another question. Whom did you vote for in the presidential elections of 1980? Whom did you vote for in 1984? Whom did you vote for in 1988? Chances are you didn't vote for LaRouche in any of those elections. Chances are you did what most of the electorate does, and didn't vote at all, or you did what most voters do, and voted for what seemed to be the least offensive choice of those put before you. So you, like your neighbors and friends, share some of the responsibility, both for what has happened, and for what is yet to occur, don't you?

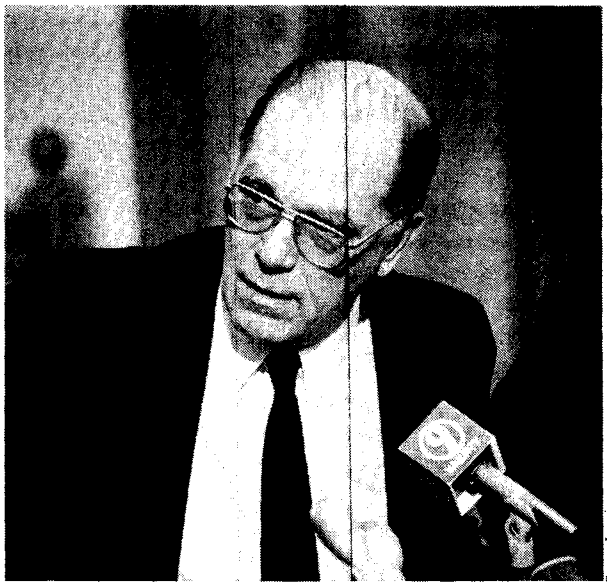
You did have a choice. Like millions of other Americans, you probably saw one or more of LaRouche's 21 half-hour televised addresses to the nation, broadcast during the 1984 and 1988 election campaigns (see box). Each of those broadcasts was devoted to a single theme, treating each issue in greater depth than any other candidate did. If printed policy studies and books are added, LaRouche probably supplied more than half of the political input of both election campaigns.

Hirsch, writing for the Council on Foreign Relations before he died, objected to what he called "the politicization" of matters which he preferred be handled in a "low-key" way, by "market forces" and "technical management," otherwise known as "bureaucratic methods." LaRouche's final campaign broadcasts of 1984 were disrupted, when the FBI illegally seized bank accounts held by First Fidelity Bank of New Jersey, preventing a second showing of the broadcast "Why the Soviet Government Supports Walter Mondale and Fears Lyndon LaRouche." The Alexandria judicial railroad

LaRouche's TV broadcasts

During his presidential campaigns of 1984 and 1988, LaRouche addressed the nation through numerous half-hour TV broadcasts, on issues ranging from the banking collapse to the transformations ongoing in the Soviet empire.

Jan. 21, 1984, "LaRouche Calls for National Defense Emergency Mobilization"
Feb. 4, 1984, "Stopping the Worldwide Economic Collapse"
March 17, 1984, "Re-open America's Steel Plants Now!"
March 26, 1984, "Henry A. Kissinger: Soviet Agent of Influence"
April 27, 1984, "While Washington's Politicians Are Sleeping"
May 10, 1984, "The U.S. Under President Reagan's 'Herbert Hoover' Recovery"
May 31, 1984, "The Ominous Crisis in U.S. Defense Policy"
June 1, 1984, "Stopping the Present Spiral of Worldwide Financial Collapse"
June 2, 1984, "Ending the Catastrophe in U.S. Foreign Policy"
Sept. 3, 1984, "Food Shock in 1984"
Sept. 30, 1984, "What Is the Soviet Union?"
Oct. 23, 1984, "Walter Mondale and the Neo-Nazi Green Party"


Stuart Lewis

LaRouche on the campaign trail in Rochester, New Hampshire, June 1987.

Nov. 5, 1984, "Why the Soviet Government Supports Walter Mondale and Fears LaRouche"
Nov. 5, 1984, "Operation Juárez"
Feb. 4, 1988, "Who Is Lyndon LaRouche?"
March 3, 1988, "The Woman on Mars"
April 12, 1988, "The Test of Fire"
June 4, 1988, "Nothing Short of Victory: War Against AIDS"
Oct. 1, 1988, "The Great Food Crisis of 1989-90"
Oct. 31, 1988, "The Winter of Our Discontent"
Nov. 4, 1988, "The Trial of Socrates"

against LaRouche proceeded even during the final weeks of the 1988 election campaign.

Is there a relation between opposition to "politicization" in favor of "market forces" and "technical management" and the defense of the liberal tradition against Alexander Hamilton and Friedrich List? The answer is emphatically yes, and it has everything to do with the most profound differences between LaRouche and his opponents. It has to do with the matter of what is a human being, and with the purpose of human existence.

Economics, and a conception of man

In LaRouche's view, and this emphatically was also the view of the drafters of the U.S. Constitution, Alexander Hamilton among them, there is an absolute distinction between mankind and the lower beasts. Mankind is distinguished by what Western Christian tradition refers to as "the divine spark of creative reason." Creative reason is the universal power of the individual human being to develop and impart conceptions which are efficient in respect to the species' ability to transform the universe. Lower species can't.

LaRouche proves the efficacy of creative reason from human history, from mankind's progress from the mode of existence called by anthropologists "hunting and gathering," to the present day. Hunting and gathering society could only support maximally under 10 million persons, given the land area required to support each hunter and gatherer. Modern society supports, more or less well, 5 billion people, with the potential, if currently available technologies were universally applied, to support 50 billion. Mankind has created a three-order-of-magnitude increase in the Earth's population potential in the course of its historical existence. No other species has done so.

The increase is the work of creative reason. Scientific discovery, improving man's mastery of the lawfulness of universal creation, through technological development, proves that man is indeed in the image of the living God, and not one among a delicatessen of forms of wildlife randomly deposited on the face of the Earth. This conception is the core of what has permitted Western Christian civilization to develop the way it has.

Alexander Hamilton's "American System of Political-Economy" is an outgrowth of that tradition, as is emphasized by the idea, developed in his *Report on Manufactures,* of "artificial labor"—technology replacing human labor to cheapen and improve production methods. The same conception is reflected in the Constitution's Preamble, "for ourselves and our posterity." There is a higher purpose to the brief life of the individual, assured only of the certainty that he or she will leave this world with no more than he or she brought into it. To discover, and improve, those knowable principles of natural law, which will leave the world a better place for those who come after us, and thereby also confirm the contributions of all those previous generations who came before.

Physical economy, the transmission belt by means of which developed ideas are transmitted to the future, is, for LaRouche, the means by which the adequacy of man's efforts to improve his mastery of natural law is vindicated.

Oppose that, and what is left? If man is no different than the lower beasts, what value does human life have? If it has no value, of what value are laws to safeguard human existence? What is more important than power and the maintenance of the power to dispose of human affairs in mockery of the Creator's laws? "Low-key" market forces and technical management, not politicization. Genocide and destruction, not fostering of mankind's uniqueness in the image of the living God.

Fascism, American-style

Hirsch's opposition to "politicization" thus reflects the same underlying outlook as his collaborator in the 1980s Project, Samuel P. Huntington, the author of the Trilateral Commission's report "The end to democracy." In modern political terms, the outlook reflected in the Council on Foreign Relations program for the 1980s, is called fascism.

The CFR's outline was translated into U.S. policy in the following way. While the CFR task forces were meeting, the American Bar Association (ABA) organized a Commission on Law and the Economy. This was founded in 1975, and issued its report at the end of 1979. The commission was chaired by John J. McCloy, then one of the leaders of the Council on Foreign Relations, and a leading member of the liberal Establishment. The commission's report recommended, "In lieu of governmental intervention in the economy, reliance should be placed when feasible upon the competitive market as regulator supported by anti-trust laws. Where governmental intervention is required, consideration should be given to disclosure-or incentive-based modes of regulation before turning to the classical command and control modes."

This is the same approach that Hirsch recommended. The ABA's commission was funded by the Ford Foundation, ARCO Foundation, Exxon, Gulf, Mobil, and other oil companies. Commission members included Lloyd Cutler, Lawrence Walsh, Charles Kirbo, Daniel Yankelovich, Sol Linowitz, and Stanley Morris. Lloyd Cutler, from the law firm Wilmer, Cutler, and Pickering went on to become White House counsel for President Jimmy Carter; his partner, C. Boyden Gray, to become counsel to the Business Roundtable, and then to Vice President George Bush. Charles Kirbo was from the Atlanta law firm which produced Carter's Attorney General, Griffin Bell. Sol Linowitz of Xerox Corp. became the negotiator of the Panama Canal treaties. Lawrence Walsh is the Iran-Contra special prosecutor. Stanley Morris was regulatory affairs head at the Office of Management of the Budget under Carter, before becoming an aide to Edward Schmultz, a top official in the first Reagan Justice Department.

The commission's mandate was what was known in the Carter days as "deregulation" and in the Reagan days as "the magic of the market place." The names and labels changed; the policies remained the same. The policies spawned were implemented by regulatory fiat, or *fait accompli,* without reference to existing law—constitutional or otherwise.

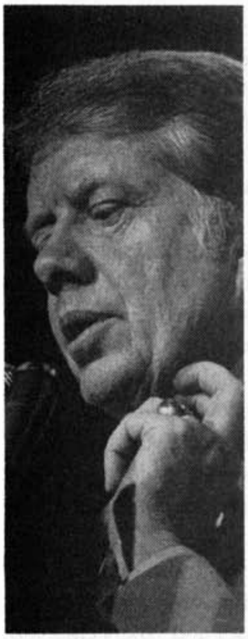
A test case: the HongShang takeover

The banking system was the model for transformation of America as a whole. The first test case was the Hongkong and Shanghai Banking Corp.'s application to take over Marine Midland in New York State. The application was registered with the authorities on Sept. 1, 1978.

By 1978, the U.S. banking system was bankrupt, after the combined effects of the collapse of the Bretton Woods system between 1967 and 1971, Nixon's Aug. 15, 1971 decision to remove the dollar from the gold standard, and the adoption of the insanity of floating exchange rates. Nixon's Phase I, II, and III austerity packages, modeled after those of British Labour Party Prime Minister Harold Wilson in the 1960s, and the oil shock of 1973-74 had done the rest. U.S. exports collapsed, and internal debt began to pyramid.

Outside the Unitd States, a pool of about half a trillion dollars had accumulated in what were then known as the Eurodollar markets. The proposal was adopted inside the United States to solve the U.S. liquidity crisis by bringing offshore hot dollars, including drug trade dollars, back onshore. Back then, U.S. banks were forced to maintain reserves of up to 15% of their liabilities. There were no reserve requirements for banking activity in the offshore markets, however. To pull the funds into the United States, banking had to be deregulated. The HongShang takeover of Marine Midland was the first major test of the commitment.

Architects of the banking collapse



Philip Ulanowsky

The ruinous policies of "controlled disintegration" and banking deregulation, begun by the Trilateral Commission's President Jimmy Carter, were continued under Ronald "Free Market" Reagan.

Philip Ulanowsky

George Bush: He wants to arrest the S&L managers for implementing the policies that he and his Establishment friends demanded.

Stuart Lewis

Paul Volcker: It was his "anti-inflation" program that shut down American industry and drove capital into wild speculation.

Stuart Lewis

David Rockefeller: Under the slogan of "the magic of the marketplace," he promoted banking deregulation, wrecking the S&Ls.

During 1978, HongShang banker Y.K. Pao was brought onto the international advisory board of David Rockefeller's Chase Manhattan Bank. Chase and Citicorp shifted their international investment pattern, with Chase deploying one-third of its international funds out of Hong Kong, and Citicorp moving onto the island, to become by 1981 the fourth largest banking network there. Chase and First Chicago were appointed agents for the Bank of China in the United States. The First Chicago liaison official, Barry Sullivan, was deployed there from Chase, where he wrote Chase's proposal to transform U.S. banks, freed of reserve requirements, into what were called International Banking Facilities. Volcker, then at Chase, became the Fed chairman who implemented those changes.

The HongShang takeover, as was documented in the 1979 bestseller *Dope, Inc.*, was the centerpiece, because HongShang was the central bank for the international drug trade, whose proceeds were then estimated at $100-200 billion per year. The drug funds were the core of the offshore monies known as Eurodollars.

LaRouche, and the U.S. Labor Party with which he was then associated, opposed the takeover. It was argued, in hearings before the Federal Reserve Board, and committees of the New York State legislature, that HongShang did not meet the accounting standards demanded of U.S. banks, and did not do so because it was disguising its dependence on funds derived from the financing of the opium trade. The Labor Party case against HongShang bank was the basis for the later publication of *Dope, Inc*.

The case against the takeover was irrefutable under standing U.S. federal law, and under the state law of New York. Further, on Aug. 29, 1978, before the filing of the takeover request, HongShang's accountants had refused to certify the bank's position, because of undisclosed secret internal reserves. Income accruing from the sale of fixed assets, foreign exchange activities, and investments was added to or deducted from the internal reserves of the bank. The internal reserves themselves were kept secret. The bank, therefore, was maintaining two sets of books on its financial condition—one for the public, and one for itself. The accounting firms of Peat Marwick, Mitchell and Price Waterhouse noted that the Hong Kong government had intervened to ensure that the information not be released.

This disqualified the takeover under New York law, and was the basis for opposition from New York Banking Superintendent Muriel Siebert. Opposition to the HongShang takeover led by March 1, 1979 to a demand from Siebert that Congress open an investigation into all foreign bank takeovers.

On March 16, 1979, chairman of the Federal Reserve G. W. Miller ordered all investigations into the takeover closed, and by fiat declared the acquisition accomplished.

What had happened? *EIR* reported in its issue of May 22-28, 1979, that the Bank of England had threatened to cut off U.S. banks' clearing rights in the City of London, if the takeover did not go through. The takeover, rammed through in violation of all law, by regulatory means, was the beginning of the deregulation of the U.S. banking system, and thus the beginning of everything that has followed from that deregulation.

The policy which Hirsch had sketched out for the CFR, and which the McCloy ABA commission had recommended, was elaborated by the *Financial Times* of London on May 8, 1979. Compare what the *Financial Times* recommended with what later occurred:

Banks' fears "are that the mountain of debt which has been piled up could be transformed by a serious recession into a landslide of defaults. . . . The issue has potentially far-reaching implications. Some banks want to see reserves virtually eliminated, a move which could have implications for the Eurodollar markets. . . . It is into this exciting environment that foreign banks which are expanding into the U.S. are venturing. They can be assured of an exciting journey. . . . On the banking side, it seems clear that the main causes of distortion are an excess of regulation of the wrong kind. The Federal Reserve is not allowed to pay interest on reserves. . . . Banks are not allowed to pay interest on current accounts. . . . Consumer credit is largely exempt from the Fed's own interest rate policies under state laws limiting interest charges. Congress could cure most of these worrying ills, but is unlikely to move."

The same deregulation perspective was organized for inside the United States. On May 14, 1979, A.W. Clausen, then chairman of the Bank of America, spoke to the Financial Analysts' Federation in San Francisco:

"Why does this country differentiate so minutely among the powers of commercial banks, mutual savings banks, savings and loan firms, finance companies, industrial banks, and to what end? . . . Why should not each be able to take in all types of deposits and make all types of loans through offices anywhere in the nation?"

By the end of 1979, it was estimated that 20% of all new bank lending in the U.S. originated from foreign banks. In New York, the figure was as high as 45%, and in Los Angeles 35%. By 1981, more than 20% of the equity of all U.S. corporations, after Volcker's interest rate war, was in foreign hands. And the takeover wave did not start until 1984. To keep their banks afloat, they let in the drug money, and destroyed the country.

Could it happen here? It did!

Who should go to jail? S&L execs, sleazy or not, who did what the regulators demanded they do, after the elimination of Regulation Q, and the ending of usury laws? Political proponents of the U.S. Constitution.

A policy structure was put in place in the mid-1970s, with the task of eliminating the vestiges of what it called "neo-mercantilism," in favor of bureaucratic rule by an elite based on the power of international finance.

That policy structure identified its enemy as the political system of representative government based on providing for the future in fulfillment of the work of those who had gone before. It was predisposed to rip up the Constitution, and it has. The means adopted included bureaucratic *faits accomplis* and political orchestration of crises.

It has jailed its number-one enemy, Lyndon LaRouche, the most competent spokesman for the outlook and policies that the financial power structure opposes.

And now the world stands on the edge of the catastrophic crises that the policies adopted were designed to bring about. Where does that leave you and yours? Are you going to continue to sit this one out, as many sat them out in 1984 and 1988? Because if you are, you can kiss goodbye everything you hold dear.