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'Take or be taken'

Plans to save the banking system via "megamergers" and consolidation will destroy the banks, and the nation.

As the U.S. banking crisis deepens, federal regulators are embarking on a desperate plan to save the nation's biggest banks by allowing consolidation and cartelization.

In testimony before the Senate Banking Committee on July 31, Federal Deposit Insurance Corp. chairman L. William Seidman laid out "three objectives in reforming the system: First, to reduce the potential liability to the government. . . . Second, to maintain the stability of the financial system. . . . Third, to increase the market orientation of the system, so we have a system that is competitive and consumer-oriented. The foregoing is *all* we need to do to vastly improve the performance of the financial system of the United States, and it's all we need to do to improve the ability of our financial institutions to compete successfully in the world economy."

To achieve the first objective, reducing the government's insurance liability, Seidman proposed reducing the amount of deposit insurance provided per customer and limiting the kinds of investments that can be made with insured deposits. "Most important," he said, "is to evolve a structure that separates insured deposits from risky ventures by using separate legal entities."

To achieve the second objective, stability, Seidman recommended that the "tools" be put in place to allow the government to "always be able to act to meet problems in the financial system."

To secure the third objective, a competitive banking system, Seidman proposed a sweeping revision of U.S. banking laws: "Eliminate unnecessary restrictions on products and services. Glass-Steagall must go. . . . Eliminate the Bank Holding Company Act's regulation of capital requirements. The separation of finance and commerce must go. . . . Eliminate geographic restrictions so that our institutions can compete as truly U.S. institutions."

The Bank Holding Company Act, he said, "generally increases regulatory costs, reduces available capital and creates the most awkward and expensive structure that exists anywhere in the world."

Seidman's call, although remarkably blunt by the standards of Washington "insider" jargon, nevertheless failed to make clear exactly what he planned to do. The bureaucrats generally prefer to let others launch their trial balloons.

Such a trial balloon was launched by the Establishment mouthpiece *Forbes* magazine on Sept. 17, in an article entitled "Megamergers: a solution to the banking crisis?"

"Get ready for a big new wave of bank consolidations—and we mean big," *Forbes* warned. "Outfits like Chase Manhattan and Manufacturers Hanover will take or be taken."

There are "far too many banks with far too much overhead making far too little profit and showing little or no growth," wrote author James R. Norman. "The main remedy must be consolidation."

Norman complained that the U.S. banking system is "fragmented"—with the top 50 banks only controlling about 65% of the assets—and raises the specter of U.S. multinationals being pushed "into the arms of foreign banks" because U.S. banks cannot meet their needs.

Norman floated the line that mergers between giant banks in the same market, such as Chase Manhattan and Manufacturers Hanover in New York, would allow the resulting megabank to dramatically reduce overhead, and thus expenses.

However, given the financial condition of the big money-center banks, loaded down as they are with Third World debt, leveraged buyouts, and real estate loans, it would be difficult for one of them to raise enough money to buy another.

For those tempted to believe that two bankrupt banks can save each other by merging, recall the 1987 merger of RepublicBank Corp. and InterFirst Corp., two of the largest Texas banks. At the time of the merger, both legions of experts proclaimed the merger the salvation of Texas banking. The resulting bank, First RepublicBank Corp., collapsed spectacularly in one of the biggest bank failures in U.S. history—at a cost of billions to taxpayers.

That's where Seidman's ending "the separation between finance and commerce" comes in. By eliminating the Bank Holding Company Act's prohibition of bank ownership by nonbank companies, the government would free the way for a whole new range of buyers. In Norman's words, "That would let big industrial companies with large credit operations—such as Ford, General Motors and General Electric—to step in as consolidators. Not to mention raiders and restructuring artists."

There you have it: the future of American banking, with banks, corporations and corporate raiders gobbling up the banking system in a frenzy of takeovers, all in the name of "stability."

And all backed by a blank check from the Federal Reserve, courtesy of the U.S. taxpayer.

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