Banking by Kathy Burdman

The All-Savers Certificate: it won't

Termed a 'free-market' rescue, it fails to liberate S&L capital formation from Paul Volcker's high-interest vise.

The Reagan administration's tax bill, as expected, contained the celebrated All-Savers Certificate, granting tax incentives to depositors in savings and loan (S&L) institutions, among others. The S&L lobby, led by the U.S. League of Savings Associations, expended tremendous—and single-minded—political capital to yank this legislation through Congress, in the belief that such incentives will provide the S&Ls with desperately needed deposits.

Now that that's over with, I'd like to reiterate a point I've been making for quite a while. Neither the All-Savers, nor any other federal plan now on tap, can possibly save the nation's S&Ls from bankruptcy and 1930s-style top-down reorganization in the current high interest-rate environment.

Make no mistake; as *EIR* has warned, against all the econometricians and wizards of Wall Street, Volcker has no intention of lowering interest rates—not this year, and *not in the foreseeable future.* Since even the most optimistic of S&L planners acknowledge that the very concept of a savings and loan entity stands in contradiction to a permanent high interest-rate regime, it's time to wake up.

Take the All-Savers Certificate.

It provides that S&Ls, savings banks, and commercial banks may offer these certificates with a one-year maturity, yielding interest rates no greater than 70 percent of the rate of U.S. Treasury bills, which, amounting to roughly 10 percent, is almost twice as high as the going rate for one-year savings accounts. The interest earned on these certificates will, furthermore, be exempt from taxation up to $1,000 on a single-person tax return and $2,000 on a joint return.

The U.S. League of Savings Associations, which conspicuously dropped its earlier efforts to press the administration for an end to the Volcker interest rates in return for tacit White House support for this measure, calculates that All-Savers will bring back billions in deposits into the S&Ls.

They need it: as a result of Volcker's high interest rates, more than $10 billion net in deposits has been sucked out of the S&Ls this year by money-market funds and other speculative instruments.

Yet officials at the U.S. Treasury, who, as I have reported, told *EIR* point-blank that their policy for S&Ls is "let them die," are laughing up their watchbands at All-Savers. The way they add it up, most of the new money will go to commercial banks, who will be better able to deploy the funds than the less sophisticated S&Ls, who could *lose* money on All-Savers.

To make money on such high-rate, short-term deposits, S&Ls will have to move the money out of their traditional areas of long-term home mortgage lending, and into new shoals of commercial and real-estate loans.

The Depository Institutions Deregulation Act passed last year is gradually allowing them to do just that; but the commercial banks are likely to beat them to that business.

Then take the report by Fed Governor Charles Partee that the Federal Reserve has agreed to open its discount window, heretofore reserved for commercial banks, to S&Ls in need of emergency cash. That would be helpful in short-term emergencies, if interest rates headed down soon and pressures lessened on the S&Ls. But it doesn't work that way.

Even the extreme measure of selling off S&Ls to commercial banks and to bigger S&Ls across state lines, first proposed by Volcker himself as a way to forestall bankruptcies, will not work in the current interest-rate environment. This "cross-industries mergers" clause has been inserted in the Third Institutions Restructuring Act of 1981 by Federal Home Loan Bank Board Chairman Dick Pratt.

As *EIR* has reported, even Citicorp, let alone most big commercial banks and S&Ls, cannot now *afford* to buy a failing S&L. Most banks now seem to find their own profits so weak under Volcker's regime that they simply cannot absorb any more bad paper from a weak S&L, including Citicorp.

The New York *Journal of Commerce* last month related the story of the chairman of Washington Savings & Loan in Miami Beach, who has been unable to sell his $1.2 billion institution at any price. "After visiting two New York banks, he was turned down, and reportedly said, 'We've got a Rolls Royce and we're dealing with a bunch of tire-kickers.' "