Banking by John Hoefle

Fed moves to take control

The Federal Reserve is in the process of establishing top-down control over the U.S. banking system.

The probable early departure of L. William Seidman as chairman of the Federal Deposit Insurance Corp. (FDIC), and his likely replacement by Federal Reserve official William Taylor, signal a move by the Fed to take full, top-down control of the nation's banking system.

Seidman has been a constant source of irritation to the team-player mentality of the Bush league, because of his propensity for public disagreement with the administration over the cost of the so-called thrift bailout and the methods by which such a bailout should be implemented. He was reportedly offered a post as an ambassador-at-large if he would resign early.

At a May 3 press conference, President Bush implied (but of course would not say) that he would be happy to see Seidman go, and stopped just short of nominating William Taylor, the Fed's top banking regulator, to take Seidman's place. People at the White House are "high on Bill Taylor," said the President.

Taylor, widely regarded as a troubleshooter for the Fed, was the first person chosen by the administration to oversee the thrift clean-up, becoming the acting head of the Resolution Trust Corp. Oversight Board when the new thrift law took effect last August. He held that position until the selection of Daniel Kearney as Oversight Board president, and returned to it when Kearney resigned some months later.

Taylor can be expected to represent the Fed at the FDIC, even more so than did Seidman. In a recent magazine interview, Taylor was asked if the nation needed three agencies to regulate banks. "There should be one," he responded. "It should be the Federal Reserve. Many people don't agree with that, but that's my opinion."

Currently, the Fed, the FDIC, and the Comptroller of the Currency regulate aspects of the nation's banking system, but there have been persistent leaks that the administration plans to streamline the entire regulatory structure, virtually abolishing the savings and loan system and its regulator, the Office of Thrift Supervision. The plan, which will reportedly be revealed after the November elections, will merge the healthiest of the thrifts into the commercial banking system, and close the rest. It also calls for jettisoning much of the Glass-Steagall Act of 1933, which created the Federal Deposit Insurance Corp. and prohibited the nation's commercial banks from dealing in securities. Deposit insurance will reportedly be cut in half, from the current $100,000 per account, to $50,000, in what is likely the first step toward abolishing government bank deposit insurance entirely, in favor of private insurance.

The Federal Reserve's position was further elaborated by E. Gerald Corrigan, the president of the Federal Reserve Bank of New York, in testimony before the Senate Banking Committee May 3. Corrigan warned that the "fragmented" nature of the U.S. financial system put it at a competitive disadvantage compared to other nations. Corrigan said that the U.S. economy would be better served by having fewer institutions with broader powers, free to operate nationwide. There should be no barriers prohibiting financial services companies from acting as combination banks, securities dealers, and insurance companies, he said.

"The U.S. banking system is simply out of step with the rest of the world, and more importantly, it is out of step with the realities of the marketplace," Corrigan stated. "Even more importantly, the system as now configured may be risk- and accident-prone. . . . We have so many financial institutions and so many classes of financial institutions that compete with each other, we now have, in my view, excess capacity in large segments of banking and finance. . . . The symptoms of this condition abound . . . perhaps especially in the troublesome manner in which we see vast amounts of very short-term churning and trading in so many segments of the financial markets."

Boil out the self-serving rhetoric and camouflage, and what Taylor, Corrigan, and the Bush administration are saying is simple: They plan to keep the financial system together by imposing top-down control through the Federal Reserve, through massive consolidation of the banking, securities, and insurance industries. The giants created by these consolidations will then be kept afloat with virtual blank checks from the Fed.

This policy of Mussolini-style corporatism, in which the administrative and repressive powers of the state are used to crush all dissent and competition, is doomed to fail. Police-state fascism, in addition to being profoundly evil, is a totally incompetent approach to economics.