Banking by John Hoefle

Bush bank plan dead on arrival

Chances for passage of the Bush administration's banking bill are collapsing as fast as the banking system itself.

'There is much to worry about in the banking world," Treasury Secretary Nicholas Brady admitted to the "Association Insiders Breakfast" in Washington, D.C., March 27. "The state of banking in the U.S. leaves the taxpayers overexposed. . . . Our banks hold $2.8 trillion in deposits. That means that there is simply no bank insurance fund large enough to protect the taxpayer, unless and until we address the underlying problems. We need to have deposit insurance reform, supervisory reform, and a recapitalized Bank Insurance Fund. But we also need interstate branching and broader financial activities so that our banks can finance economic growth."

Certainly one would agree with Brady that there is much to worry about in the banking world today, and that the Federal Deposit Insurance Corp. (FDIC) is utterly incapable of protecting the taxpayer against having to bail out the banking system. After all, the banks are insolvent and a massive taxpayer bailout is looming on the horizon.

The Bush administration's banking restructuring bill, the misnamed Financial Institutions Safety and Consumer Choice Act of 1991 (FISCCA), would do nothing to solve the problem. FISCCA would instead cause a massive consolidation of the banking system, sucking capital badly needed for economic development into the black holes of the money center banks' balance sheets. FISCCA would accelerate the depression, were it to be passed into law.

Not surprisingly, this incompetent proposal is coming under fire from a variety of sources.

Comptroller General Charles Bowsher, the head of the General Accounting Office, has issued a stinging criticism of the Bush plan. "The solution to current issues facing depository institutions is not accounting gimmicks," he said in a letter to federal bank regulators April 4, criticizing their decision to allow banks to play games with their books. "The purpose of accounting is to provide even-handed, neutral, and unbiased information. . . . At this time, the implied loosening up on valuation of real estate loans will only serve to temporarily gloss over existing problems. We believe stronger, not weaker, guidelines need to be provided by the regulators."

Rep. Henry Gonzalez (D-Tex.), chairman of the House Banking Committee, attacked what he termed the "Alice in Wonderland" flavor of the Bush proposal, and accused Brady and FDIC chairman William Seidman of resorting to "a rerun of the shifting numbers, the gimmickry, and outright deceit that marked so much of the savings and loan crisis in the 1980s." Gonzalez said he intends to separate the urgent question of recapitalizing the FDIC's Bank Insurance Fund from the rest of the Bush measures, which would then move to the back burners.

The Independent Bankers Association of America is also mobilizing to stop the bill. In a letter to Congress, IBAA president Jack Dickey termed the Bush proposal "a blueprint for the massive consolidation of economic and financial power." The package has "a Wall Street bias," he charged, warning that "when loan-making authority is taken away from local bank officials, community needs aren't given the same consideration as bottom-line corporate earnings." The IBAA has joined with other parties in forming the Main Street Coalition, to fight the bill.

Perhaps the most significant opposition to the plan comes from within the Federal Reserve, where the presidents of the regional Federal Reserve Banks have moved to curb the power of Fed chairman Alan Greenspan. Some of the Fed officials are apparently not as anxious as Greenspan to hyperinflate the economy to save President Bush's political hide. Several of the Fed presidents are also said to be angry over the administration's attempt to have the FDIC borrow $25 billion from the Fed instead of the Treasury, in a silly attempt to pretend that the money will not come out of taxpayers' pockets. The Fed is also opposed to the administration's clumsy attempt to shift some of the Fed's regulatory authority over the big banks to the more political Treasury Department.

At this point, it seems that the Bush banking proposal, the supposed centerpiece of the President's domestic agenda, is unlikely to survive in its current form.

Meanwhile, the economy continues its depressionary spiral. The latest Federal Reserve lending survey shows that despite Greenspan's lowering of interest rates, banks are continuing to cut back on lending. During a six-week period from early February to mid-March, 25% of the banks surveyed by the Fed tightened their standards for commercial and industrial loans and lines of credit, and none loosened them. Junk bond defaults hit a record $8.2 billion in the first quarter alone, and a record 25% of all corporate cash flow is being used to cover interest payments.