Bailing out the 1992 election

The Bush administration is hoping its bag of tricks can keep the Depression hidden for another year.

In a farcical replay of 1988, the Bush administration is attempting to hide the enormity of the U.S. banking crisis until after the 1992 elections. Particular emphasis is being placed upon New Hampshire, site of the first primary of the season, and upon New England in general.

With eight months to go before the New Hampshire primary, Bush has a lot of tidying up to do. So far this year, 36 banks with combined assets of $29 billion have failed in New England, including the Bank of New England. Many depositors still have not been reimbursed in Rhode Island, where the governor was forced to declare a banking holiday, and Connecticut has the highest level of non-performing loans (10.4% of all loans) of any state in the nation.

On top of that, Thomas Cimeno, senior vice president of the Federal Reserve Bank of Boston, told a meeting of the New England Economic Project June 6, that the troubles at the region's banks were far from over.

"We'll have enough failures [over the next 12 months] to equal in size the failures we've had to date," Cimeno said. The failure of "20 mid-sized institutions isn't out of the question by any means," he said. "That's not unreasonable."

"New Hampshire is an absolute basket case," Cimeno said. "It's pretty well understood that a lot of those companies are insolvent or on the road to insolvencies." Some form of Federal Deposit Insurance Corp. (FDIC) open bank assistance to those banks, he said, is likely "very soon."

"Open bank assistance is an idea whose time has come," Cimeno added. "The FDIC can take them one by one or do something more creative and less expensive to the fund."

Open bank assistance, in which the FDIC injects capital into a troubled bank without closing it, is one part of what Office of Thrift Supervision director Timothy Ryan recently called a "new strategy" being devised by the FDIC and the OTS for dealing with troubled banks.

Other aspects of this alleged new strategy include forbearance, under which federal regulators leave troubled or even insolvent banks and S&Ls open; and placing insolvent institutions or groups of insolvent institutions under new management.

None of this is new. In the late 1980s during the Reagan-Bush administration, regulators left scores of banks and thrifts open, either under their own management or under federal conservatorship. These institutions proceeded to lose billions of dollars more than they would had they been closed, dramatically driving up the cost of the taxpayer-funded bailout.

After then-Vice President Bush was safely elected President, he then launched a massive public relations campaign to blame the crisis on alleged corruption by S&L officials and Democratic congressmen, and directed the Department of Justice—at even greater cost to the taxpayers—to frame up and prosecute these alleged crooks. Never again, the President pompously intoned, would this type of criminal behavior be tolerated.

But now, with the 1992 presidential campaign rapidly approaching, that is precisely what George Bush is doing.

This time around, however, there is significant opposition to the administration's scheme.

"If I had the power," House Banking Committee chairman Henry B. Gonzalez (D-Tex.) told *Rolling Stone* magazine, "I would just go ahead and accept the fact that we've got insolvent institutions and you ought to shut them down—right away. What we're getting instead is regulatory dictums as to who they think they can keep alive. I think we're deceiving ourselves again."

The American Bankers Association, which represents small and large banks, has expressed a similar position.

In the Senate, Banking Committee Chairman Sen. Don Riegle (D-Mich.) is holding up the reconfirmation of Comptroller of the Currency Robert Clarke until the administration provides the committee the "full story" on the administrations's handling of the failure of the Bank of New England—which was in effect dead a year before its closing in January.

In a May 23 letter to Comptroller General Charles Bowsher, Riegle called for Bowsher's General Accounting Office to evaluate the Comptroller of the Currency's handling of the Bank of New England, including why "the Comptroller was so mistaken in its assessment of the health of the Bank of New England . . . in 1988 and early 1989."

"The committee will not proceed to the nomination of Clarke until the inquiry on the Bank of New England is completed," Riegle wrote Bowsher.

Meanwhile, the pre-election situation continues to unravel rapidly. The FDIC recently increased its projections for bank failures, admitting that the agency could lose as much as $23.1 billion during 1991 and 1992.