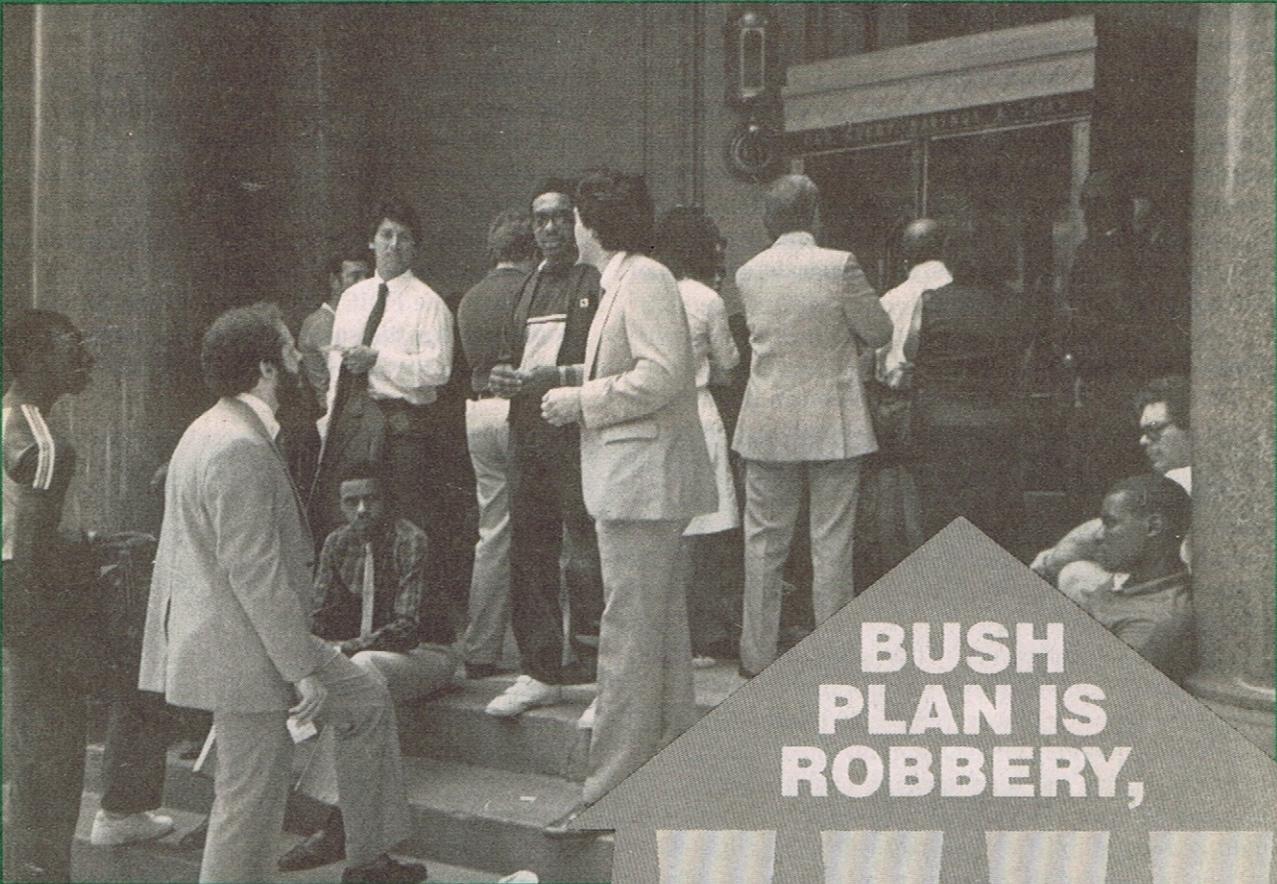


How To *REALLY* Solve the Savings Bank Crisis



**BUSH
PLAN IS
ROBBERY,**

NOT BAIL-OUT

**ND
PC**

National
Democratic
Policy
Committee

SUGGESTED CONTRIBUTION: \$1

S&L Plan Is Robbery, Not Bail-Out

Bush Team to Hand Savings Institutions Over to Commercial Banks

by Chris White

President George Bush, flanked by leading cabinet and regulatory agency officials having oversight of financial matters, on Feb. 6 laid out his plan for dealing with the so-called insolvency crisis in the nation's thrift system, the savings and loans.

Developed in great secrecy since October by U.S. Treasury Secretary Nicholas Brady, along with his top aides, Glauber and Mullins, the plan was given final approval by Alan Greenspan of the Federal Reserve in weekend meetings at Camp David and the White House, the weekend prior to the announcement. It proposes the elimination of the thrifts, as a separate element of the national financial system.

Free To Steal

The holders of the almost \$1 trillion in deposits in the system are to be stampeded into handing their funds and savings over to the Bush administration's cronies in corruption in the big commercial banks—Walter Wriston's Citibank and David Rockefeller's Chase Manhattan, to name two. The Bush thrift plan must count as the biggest daylight robbery ever perpetrated within the United States.

The principal elements of the plan are as follows. The enumeration includes elements announced Feb. 6, and some features that were revealed subsequently.

First, the Federal Home Loan Bank Board, the agency which regulates the thrift system, has been collapsed into the Treasury Department. From that new nest, a team of regulators, drawn from the FSLIC, FDIC, Office of Comptroller of the Currency, and Federal Reserve, will move over the next 30 days to seize, for liquidation and sale, as many as 350 allegedly insolvent thrifts.

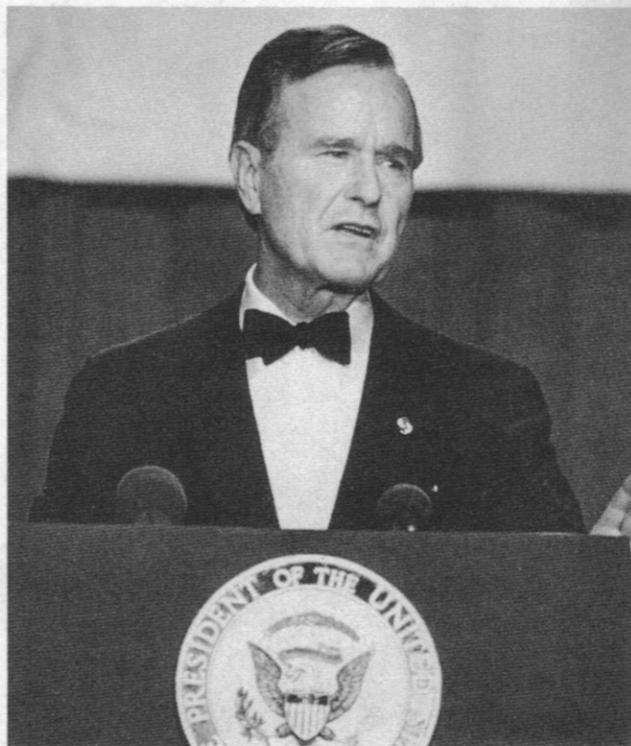
Second, the thrift deposit insurance agency, the FSLIC (Federal Savings and Loan Insurance Corp.), has been put under the agency which insures commercial bank deposits, the FDIC (Federal Deposit Insurance Corp.).

ON THE COVER: Marylanders thronged Old Court Savings & Loan, seeking their money when the thrift went bust in 1985.

It is said that the two funds will remain separate. However, as part of the package, thrifts must double their paid-in capital, to meet commercial bank standards, by 1991, and legislation has been drafted to permit bank holding companies to take over thrifts.

Third, a Resolution Trust Corporation is to be established to liquidate or sell insolvent thrifts. The Resolution Trust Corporation will be funded by bonds sold by a Resolution Finance Corporation. Fifty billion dollars worth of such bonds will be issued, with the principal to be repaid by the solvent thrifts, and the interest by the taxpayers.

Fourth, the FDIC has suspended all in-progress negotiations for the sale of S&Ls. The measure, said not to apply to the \$20 billion or so in such transactions



George Bush on the campaign trail last fall.

concluded in the month of December, may nonetheless be applied to such transactions where the FDIC considers that they are not "legally binding." The litmus test for that criterion is whether Congress has appropriated the funding. By that standard, the stampede to finalize such deals in the closing weeks and days of last year, has been rendered meaningless—none has approved financing.

Fifth, \$50 million is to be appropriated to fund a beefed-up Justice Department anti-fraud unit to prosecute officials responsible for what U.S. Attorney General Richard Thornburgh estimated to be the 25% of insolvent thrifts whose insolvency is said to be caused by one or another crime.

National Emergency Rule?

In his budget address to a joint session of Congress Feb. 9, Bush gave Congress 45 days to come up with the legislative instruments that will make the package law.

However, the day after the package was announced, it was already in effect! The FHLBB was moved into the Treasury. The FSLIC was moved into the FDIC. The FDIC began to seize foreclosed real estate assets of insolvent Texas thrifts, \$18 billion worth. And, the Treasury unit began to seize what it says are insolvent S&Ls, starting with four in Maryland, Ohio, Florida, and California.

The legal basis for ramming the package through in this way is utterly unclear. Administration background

briefers claim the actions are within executive branch regulatory prerogatives. Since acts of Congress were required to establish the institutions that are now being busted up, that may well be specious. The actions have fostered the belief in some quarters that the new administration is already operating on the basis of a covert declaration of national emergency, to ram its program through.

No Protection

Though it is strenuously asserted that thrift depositors will be protected to the full value of their deposits, according to the insurance corporation's policies, this is a lie. The program ensures that within the next two years, and perhaps much earlier, the thrift system will no longer exist. If one were to subtract from the earnings of that part of the system said to be healthy, the repayment of the principal of the bonds to be issued, the increase in paid-in capital, and the doubling of their insurance premiums mandated by the program, the healthy thrifts are financially wiped out in no time.

Since, at the same time, it is also proposed that commercial bank holding companies take over thrifts, the program is designed to drive the system into bankruptcy, and force its depositors into the big commercial banks. The same government officials who attack fraud as the main cause of the insolvency of the thrifts, are themselves perpetrating a far larger fraud, against the depositors, and asset-holders, with their program.

The program now announced has made the big money-



The New York Stock Exchange. Wall Street plans to shore its bankrupt institutions up by ripping off the S&L asset base.

center banks drool, since 1981-82 when they encouraged Donald Regan, then Reagan's Treasury Secretary, to deregulate the thrift system, by repealing the famous regulation "Q."

Under former Federal Reserve chairman Paul Volcker's usurious high-interest rate policies, the thrifts had seen their cost of borrowing funds rise above the income received from mortgages. The lifting of regulation "Q" permitted them to offer interest rates competitive with other parts of the market, and began the process of dissolution of the Home Loan side of the financial system.

Those, like Walter Wriston from Citibank, who backed Regan's deregulation, did so because they wanted to grab the thrifts' deposits to shore up their own bankrupt outfits. This question was at the heart of the 1985 insolvency of the state-insured savings institutions in Maryland and Ohio. Chase, Citibank, and others moved in to grab the deposits, as the local insurance funds collapsed. Now they are being offered the whole shebang.

It's not hard to understand why the commercial banks want those deposits. After all, they are, each one of them, bankrupt, four, five, six times over, if their so-called "assets" like non-payable Third World debt are written off, and if their so-called "off-balance sheet liabilities" are included in the count. Unlike the cancerous big commercial banks, which feed on commission income from trading in each others' securities and other paper, the thrifts are a functioning part of the blood-pumping circulatory system of the economy. Rip that out, and the body dies.

In embarking on the program to rip off the thrifts, Bush and company may well have helped push the entire rotten bankrupt financial system over the edge. For they are stampeding depositors into runs, at the very moment the international creditors of the United States are beginning to express their "displeasure" over the financing requirements implicit in the new budget outline. This Bush team, as they are now beginning to prove, aren't qualified to deal with anything they are unleashing.

U.S. News & World Report: 'Abolish the Savings and Loan Industry'

A week before the inauguration of President George Bush, in its Jan. 23 issue, the weekly magazine U.S. News and World Report published the bluntest exposition of the "free market" policy through which the savings and loan institutions have been destroyed. Under the headline "When You're in a Hole, Stop Digging," U.S. News exhorted the President and Congress:

The time has come to abolish the savings and loan industry and the regulatory structure that has grown up to support it. . . .

The trouble lies in the nature of the beast. Conceived in an earlier era as home mortgage lenders, S&Ls are dinosaurs, ill-equipped for survival in today's changed financial climate. But instead of dismantling the industry, regulatory agencies merely papered over the problems. One-sixth of the nation's 3,000 S&Ls are bankrupt. . . . Bert Ely, an Alexandria, Va. S&L consultant, sums up the dilemma best: "Attempting to preserve a separate savings industry will only add to the cost of the clean-up and lead to future problems."

As financial institutions, thrifts are inherently un-

stable. They take in money for short periods as savings deposits, then lend it out as long-term mortgages. That makes sound financial sense as long as interest rates remain stable and short-term rates are consistently lower than long-term rates. But the post-World War II stability that made thrifts viable in the first place began to erode in the 1960s and is unlikely to return.

To really resolve the crisis, the government must take three bold steps. First, it needs to dismantle the industry and its regulatory apparatus. Some of that has already been accomplished. Commercial banks and others have moved into the mortgage market. In 1970, the thrift industry held 46% of U.S. mortgages; today its share hovers at 28%. . . . The process should be prodded along faster.

The federal regulators ought to be merged as well. Commercial bank overseers boast a much better track record of keeping businesses on a firm footing. . . .

Once the chain of command has been settled, Congress needs to approve enough funds to finish the job. . . . The money would have to come from higher taxes and lower spending elsewhere in the budget. Both the administration and Congress seem sure to insist that the S&L industry pay part of the cost.



Save the U.S. Savings and Loans; Edwin Gray's Advice Should Be Adopted

by Lyndon H. LaRouche, Jr.

The following article first appeared in Executive Intelligence Review magazine, Feb. 3, 1989.

The 1983-87 chairman of the Federal Home Loan Bank Board and head of FSLIC, Edwin Gray, has some useful proposals for emergency action to save the United States Savings and Loan institutions from a catastrophe as bad as or worse than that of the 1931-34 period.

As I expected, and warned during my campaign for the Democratic presidential nomination, the next U.S. financial crash to follow the October 1987 crisis, was being merely postponed until after the November 1988 election. Immediately following President Bush's inauguration, the new crisis has begun to erupt, with an open fight between President Bush and Federal Reserve chairman Alan Greenspan, and an imminent collapse and looting of a major chunk of the U.S. savings institutions, the Savings and Loan associations.

As quoted in the Washington, D.C. leak-sheet, Regardies, former FSLIC chief Edwin Gray charges that former Treasury Secretary Donald Regan deliberately bankrupted the S&Ls. This is the same charge I made during the 1988 Democratic nomination campaign. Mr. Gray adds information on Treasury Secretary Regan's expressed views, which I did not have at that time.

In an EIR interview, Mr. Gray reports that Mr. Regan acted deliberately to "destroy the FSLIC, the Home Loan Bank Board, and the S&Ls for five years" because "he thought there is too much housing in America," and because "he wanted to give the [deposit] business to his friends on Wall Street."

I endorse adoption of Mr. Gray's recommendations:

1) Immediately reinstitute all S&L regulations, such as Regulation Q and other protective legislation.

2) Strengthen FSLIC by taxing speculative income.

Mr. Gray's proposals are useful, and urgent, but they

are not sufficient. The other measures which I outlined during my campaign must be adopted, or the savings of many ordinary Americans will simply be wiped out, or nearly so.

The LaRouche Measures

What I proposed, and should be done immediately, are the following:

1) Federal Reserve reform establishing a two-tier credit system.

My 1981 Federal Reserve Reform Act proposed: a) Prohibit the Federal Reserve from creation of fiat money (money supply) to the Wall Street banks through its current open market operations. b) Provide the banking system and S&Ls instead with large amounts of new credit through the Fed's discount window. S&L mortgages as well as other productive bank loans earmarked for agriculture, new capital investment, production, transportation, etc., would be freely discounted for cash up to 50% of their face value. This would allow banks and S&Ls to make further such loans at a low tier of 2-4% interest rates. c) Speculative paper would be discounted only at high rates, forcing the banks to charge a higher tier of rate to borrowers seeking credit for speculative ends. d) Raise reserve requirements on banks and S&Ls whose assets show an inadequate proportion of productive lending, that is, fall below a new Federal Reserve "productive loan standard," where loans for production are at least 80% of assets. This gives market advantage to traditional S&L mortgage lenders and industrial and agricultural bankers.

2) **Tax reform**, directly opposite to the tactic recently proposed by Nicholas Brady. Brady's proposals, although premised on some valid observations, do not address the underlying issues, and would, in fact, play into the hands of Bush-wrecker Greenspan. All pro-



Helmut Schmidt breezing into Washington.



Current Federal Reserve Chairman and Bush-wrecker Alan Greenspan.

posals to replenish the FSLIC or otherwise solve the S&L crisis by taxing productive S&Ls or their depositors are suicidal.

a) The American family, the basic depositor in the S&Ls, is already being prohibited from family formation by the tax structure, and needs a huge tax cut. My 1981 proposal, "Taxation for Capital Formation," pointed out that while 80% of households had an income of \$20,000 or less, only 17% of those families had two or more children, the minimum necessary to reproduce the population. Today it is worse. I propose to remove all tax liability up to annual incomes of \$30,000. Under this proposal a great many savers would pay no tax on S&L deposit income, encouraging deposits.

b) For depositors with higher income, provide savings

incentives with exemption of 50%, or \$1,000, whichever is higher, on interest income on deposits in S&Ls and banks whose asset base meets the new Federal Reserve "productive mortgages loan standard." This would make interest income on large deposits competitive with tax-free bonds.

3) Tax financial institutions with a certain level of business in the Eurodollar market at a much higher relative rate. Revenue to replenish the FSLIC and make up for the family-formation tax cut by increasing tax schedules on income and capital gains on nonproductive investment, especially commercial real estate. This would include financial institutions with a significant proportion of assets and deposits in the Eurodollar market (See my statement "U.S. Not Responsible for Eurodollars," Executive Intelligence Review magazine, July 20, 1982).

4) Reinforce and strengthen the Glass-Steagall Act, directly opposite to Bush-wrecker Greenspan's proposal to eliminate that Act. This was the 1934 Act which separated Morgan Guaranty commercial bank from the Morgan, Stanley stock brokerage so that the banks could not use depositors' money to speculate on the stock market instead of making productive loans.

The Enemy Game-Plan

The current effort to wipe out most of the S&Ls, by turning their looted carcasses over to the Wall Street vultures, is the first of a series of steps being taken in support of a plan by a cabal around former West German Chancellor Helmut Schmidt's globalist think-tank, the Inter-Action Council, and by a new globalist agency soon to be launched and headed nominally by Schmidt. Greenspan's actions have identified him as a supporter of that cabal.

The intent is to sink the U.S. dollar through a new international financial crisis orchestrated by a consortium of powerful European financier interests. The object is to put the U.S. under IMF "conditionalities," and to proceed to loot the U.S. in a way similar to that already being done to Mexico and other developing-sector indebted nations. This action is scheduled to be unleashed in full force by no later than this coming summer.

The object is to place the world under the iron-fisted control of a handful of international financier cartels, who enrich themselves by looting the industries, farms, infrastructure, and populations of North America and Western Europe in the same way they are looting the nations of Africa and Central and South America.

In the course of this, they intend to break the Bush administration politically, by aid of an orchestrated holocaust of "reversed financial leverage" against the bloated U.S. financial structures. Greenspan's actions, including his efforts to push up interest-rates, are setting the stage for the planned new financial crash.

The alignments in this are as follows:

The enemies of the Bush administration are centered in its professed "best friends" in London and Zurich, and in the London-allied Mitsui financial factional minority in Japan. Allied with the Bush administration, are the so-called Mitsubishi interests of Japan, including the Dai Ichi bank, the Mitsubishi bank, and others. The attempted "watergating" of the Japanese government of Prime Minister Takeshita is part of the London-Zurich-Mitsui operation against Mr. Bush's strategic flanks.

The Japan forces behind Prime Minister Takeshita are supporting the U.S. most energetically, and massively, because Japan's patriots believe that Mr. Bush represents a stable institutional force inside a U.S.A. upon which the survival of Japan as a free nation depends.

Helmut Schmidt and the Inter-Action Council represent well-known international connections centered in the London, Zurich, and Mitsui Liberal Establishment factions. The fact that Herr Schmidt is a former German chancellor is secondary in importance to the fact that his career in postwar Germany was launched by London, and that he has close ties to the London Chatham House faction of London and the U.S.A.

The factional alignment behind these moves, is principally as follows:

In the U.S.A., the center of the scheme against President Bush and the United States, is those circles centered around Gerard Smith and Lloyd Cutler who are leading supporters of the "Europe 1992" world-federalist project in the United States. This is the liberal faction centered around the New York City Anglican diocese of Bishop Paul Moore, and together with Bishop Moore, the Satan-worshipping Lucis Trust and the assortment sponsoring the Lucis Trust's United Nations Association and Temple of Understanding.

The enemy of the U.S. in Western Europe, is centered in that part of the Anglo-American Liberal Establishment to which Bishop Paul Moore's diocese is most closely tied.

The general plan is as follows:

1) To continue the 1985-88 pattern of appeasement of Moscow, the "pro-*glasnost*" policy of "I Like Gorbby"

centered in such figures as London's powerful Victor Rothschild and the darker, more powerful figures he represents as a front-man. Use globalist "understandings" with Moscow, as an aid to crushing all independent opposition to the Anglo-American Liberal Establishment within the United States and other nations.

The recent legal frame-up patterns against me and my friends are but an aspect of that pattern of crushing and elimination of all independent forces of determined opposition to both Soviet appeasement and the neo-feudalist sort of globalist fascism sought by the relevant elements of the Anglo-American Liberal Establishment.

2) Split the United States from Western Europe strategically, as rapidly as possible, while establishing London-centered cartels as the dictatorially dominant forces within a "federalized" Europe.

3) Eliminate the sovereignty of the United States by approximately the summer of 1989, through a crushing financial crisis which places the U.S. under IMF "conditionalities."

In the meantime, London elements of this cabal are going to great lengths to paint themselves as admirers and friends of the Bush administration, to lull that administration into a state of overconfidence in suggested understandings reached with London forces.

The efforts by Greenspan to increase interest rates, to dissolve the anti-Depression Glass-Steagall Act, and to assist in the looting raid on the S&Ls, are preparatory steps being taken to prepare the way for the scheduled financial crash later during this year.

The battle to save the S&Ls and ordinary Americans' savings from the looting-operations of Wall Street and London financier cartels should be mounted as a first countermeasure against the plot of the U.S.A.'s deadly Liberal Establishment adversaries.

Mr. Edwin Gray has presented valuable warnings and suggestions. Those should be supplemented promptly by the measures which I proposed during my 1988 presidential-nomination campaign. Those actions, by themselves, are only defensive actions, which will not solve the problem by such measures, alone. They are defensive measures, which buy the U.S. government time for putting more fundamental actions into place.

In 1985, EIR Warned of Regional Bank Collapse

by Kathy Wolfe

The article we excerpt here was first published way back on Feb. 19, 1985, in Executive Intelligence Review magazine, which accurately predicted the course of the collapse of commodity prices and U.S. regional banks.

The British and Soviets are driving down world commodity prices and bankrupting clients of U.S. regional banks.

The severe deflation of world commodity prices touched off by British and Soviet dumping of oil and gold last summer [1984—ed.] and fall now threatens the entire U.S. regional banking system. As U.S. farmers, oil producers, mines, metal smelters, and real estate companies go under, their bankers, the backbone of the United States, are in mortal danger.

It was the Queen's British Petroleum and the Soviet state oil companies—and London, Swiss, and Russian banks—who brought down the prices of oil and gold, their own commodities. By taking some losses, they have caused far greater, perhaps terminal, losses among U.S. and Third World producers of not only oil and metals, but all basic raw materials and commodities. . . .

By March or April [1985], EIR expects a rash of small- and medium-sized bank failures due to collapse of the more than \$215 billion in U.S. farm debt, as well as the U.S. oil and real estate sectors—as in the Continental Illinois model. While the New York mega-banks used accounting fiction to cover both their own and Conti's bad foreign debts, Continental was brought down by the weight of its U.S. farm and oil producer debt alone.

This same massive price deflation has given a fat cash infusion to the Big 10 New York banks because it allowed Federal Reserve chairman Volcker to lower his interest charges to them. While large banks' cost of funds fell by 3-4% in the fourth quarter [of 1984] they kept their own loan prices high, and pocketed the dif-

ference.

As a result, the large banks . . . are now in a cash-rich position to buy up the thousands of regional banks about to go under.

If a debt crisis also erupts in Mexico, Venezuela, and other Third World oil producers, then the entire banking system is in jeopardy.

According to emergency farm credit hearings convened by Sen. John Melcher (D-Mont) Jan. 30 in Washington, the severe drop in farm commodity prices has caused banks to simply stop lending to farmers. "Without credit now, they [farmers] are out of business," he said.

Several of the witnesses suggested that at least 20% of farmers and ranchers will not be able to get credit. That means 450,000 farmers and ranchers will be out of work and faced with the loss of homes and land.

As a result, bankruptcies are "escalating" among America's 4,100 farm banks, Independent Bankers Association President John King told the hearings. "There were 79 bank failures in 1984, 40 of them since June 15. Four which failed prior to June 15 were agricultural banks; 22 since June 15 were agricultural banks."

Two more farm banks were declared insolvent Feb. 7 by the Comptroller of the Currency, bringing the 1985 total to five farm banks and nine banks as a whole.

The only way to deal with U.S. farm debt is a debt moratorium, coupled with a \$200 billion extension of gold-backed U.S. notes by the Treasury, bypassing the usurious Federal Reserve. A moratorium by itself—pushed by leftist-populist groups close to the Soviet agents in the U.S. "Green Party"—would bankrupt local banks, letting Swiss, British, and New York giants buy them up cheap. The big banks would have farmers cornered. But the Treasury could loan gold-backed credit via local banks to farmers at 2-4%, keeping banks and farmers afloat.



An NDPC rally in 1986, outside Don Regan's Wall Street home base of Merrill Lynch, declares that Regan, then White House Chief of Staff, belongs behind bars.

An Interview with Edwin Gray

Don Regan's Plot To Wreck America's Thrift Industry

Edwin Gray, the head of the Federal Home Loan Bank Board during part of the Reagan administration, was interviewed on Jan. 20 by Executive Intelligence Review analyst Kathy Wolfe. Excerpts are printed below.

EIR Let me ask you for a little bit more detail on how we got into the mess that we're in, and if you had some proposals for how we can get out of it.

Gray I will send you the testimony that I did before the Senate, in August, and before the House Banking Committee on Jan. 13. I'm, of course, very concerned that the taxpayers have to pay a \$100 billion bill, which was unnecessary. And much of my testimony expresses that frustration, and gives a lot of the reasons for why this has happened. . . .

The person whose role you really ought to be focusing on is Don Regan. That's the guy. . . . He tried to smear me and get me out many times of the administration, which is no secret to anybody. . . .

I don't know whether you read the interview that I did with *Regardies* magazine. Dave Stockman and the

people at the Office of Management and Budget were just—awful. And OMB is in the Executive Office of the President. They are largely responsible for this; they share a great amount of culpability in this. Don Regan, of course, had a position of great power, both in the Treasury and over at the White House. And as a guy who's worked for the President for a long time, I just think he ill-served the President. . . .

EIR I want to ask you about motivations. Do you really think that's all it was?

Gray He wanted to see the demise of the thrift system, that is very clear. I can tell you that this was no secret. I mean, from early on, that's what he wanted, and of course, he got it in the end. Look, Don Regan was in a position where, because he was the chief economic spokesman for the President, he knew exactly what the problem was, and in his position as the chairman of the Cabinet Council on Economic Affairs. First of all, he would *never* return my calls. Secondly, he blocked my efforts—and for that matter every effort before me—to go over and brief the Council on Economic Affairs



Don Regan, in his days as Treasury Secretary.

EIR Revealed Don Regan Policy in 1981

In its March 24, 1981 issue, Executive Intelligence Review magazine reported:

"Treasury Secretary Donald Regan and Budget Director David Stockman are planning a 'controlled crisis' of bankruptcies among U.S. Savings and Loans. . . . Stockman and Regan . . . agree with the big institutions that the U.S. economy needs to be restructured, by shutting down some S&Ls, and the homebuilding markets they support."

EIR quoted a Treasury source: "Don Regan is a free trader who wants to give no government bailouts to those old industries. Letting the S&Ls go, furthermore, will not only rationalize the S&L and banking industry. Mr. Regan, of course, is for restructuring the financial system—that's what he did in his own industry, the brokerage industry. He's the great liberalizer of Wall Street. . . ."

The source continued: "Fewer S&Ls means less lending to housing—we need to cut down the homebuilding industry. We have too much housing, we need less housing. . . . Don Regan wants newer industries to be able to compete for that capital."

He elaborated: "The typical American college graduate wants to live in a three-bedroom house. That's asinine. He'll have to take a smaller, energy-efficient apartment. Fewer homes mean Americans will have fewer children."

regularly about the deteriorating situation at the Federal Savings and Loan Insurance Corporation.

EIR Never giving a reason?

Gray Oh yeah! He gave a reason! It was a ridiculous reason. He said, "Well, we can't have people from the independent agencies coming over to the White House, because they're independent agencies, and they can't be a part of the Executive Branch decision-making process." Well, that's just *patently* absurd. We didn't want to become part of the Cabinet Council, or Executive Branch decision-making process. We were very proud of our independence. I certainly was.

. . . I remember back in 1981 and 1982, he was saying—when I was at the White House—things that were very punitive toward the thrift system. This is at a time when he ought to have been indicating some kind of concern, and he didn't. *Many* thrifts, in 1981 and 1982, were in trouble, not because they wanted to be, but because they had been doing what the government presumably had wanted them to do, and that was to make long-term fixed-rate mortgages. Don Regan was contemptuous of the principal reason why they were there. And I believe—these are only my beliefs—that he was contemptuous for many reasons, among them that the thrifts were protected by Congress in their housing-finance role, which apparently he felt other parts of the financial system—well, he felt that nobody should be protected, in other words. And the real reason was that they were protected because they *were* making home finance available to American families.

So afterwards, the spread problem became a bad asset problem, and the OMB didn't provide us the examiners we needed, and the Congress sat on its hands for all this time, and the U.S. League of Savings Institutions said we were exaggerating about the problems of the FSLIC, and so forth.

EIR In 1980, I did an interview with this fellow from Merrill Lynch, and another fellow at the Federal Reserve; the one referred me to the other. They both said, "Yes, we don't want the dedicated lenders to exist, because we think there are too many houses in America, and people are having too many babies." This was overt. **Gray** Oh, absolutely! When I was in the White House, we had a lot of people in the administration who believed that, too.

EIR Who?

Gray I think probably Donald Regan to start with. This is my belief. To a lesser or greater extent, the idea was pervasive in the White House and at OMB, that housing was getting a special preference in America's investment.

EIR And shouldn't?

Gray Well, not so much. This was pervasive. I didn't agree with that. Frankly, I don't think the President agreed with it, but I didn't think the President was paying really the kind of attention that—look, if we could have had another kind of person in Don Regan's position, somebody with a more balanced view of the needs of America and the financial system, we wouldn't have had a lot of these problems. But it wasn't to be. That isn't to say that some of the things still wouldn't have happened, because there was a mind-set back in 1983 that deregulation of the financial system was going to be a panacea, and most particularly a panacea for the thrift system. Of course, it wasn't, because, well, first of all, thrift institutions are not free market players. Public policy has placed them in a unique position, where in return for using government-guaranteed deposits, they would have the resources to finance housing. But deregulation, particularly in some of the states like California, Texas, Florida, and across the Sunbelt, provided through the state charters almost unlimited powers in *any* area—not just housing—and of course, many in the thrift industry were saying, "Gosh, finally we don't have to be locked into housing. Now we can do other things." They sure did other things, and look

what happened.

...I sometimes believe that Don Regan wanted to see the thrift system fall on its face and he got his wish, of course. Actually, the U.S. League helped him quite a bit. I believed that he and others felt that way because they really wanted to see the demise of housing finance institutions.

EIR Why?

Gray Because, I believe they felt that housing finance could be provided through other mechanisms, such as we're now seeing in fact—secondary market for mortgages, and the involvement of Wall Street—outside of the "protected" savings and loan system.

...I think there was a mixed bag on Wall Street. I think there were a lot of people who were making money off of thrifts, and are still doing that. I'm sure that some big money center commercial banks had those kinds of feelings. The extent to which they did, I don't know, but a lot of people have considered the thrift system to be a nuisance. To the extent that some of the things that have developed, they're probably right. It's rather a nuisance now for the taxpayer, and when I say a nuisance, I mean a *tragedy*.



Walter Wriston of Citibank—going 'where the money is.'

Citibank Chief Wriston Announced 'Willie Sutton' Policy

From the moment it became clear during 1981-82 that the Third World debt held by major U.S. commercial banks was unpayable, Wall Street bankers began to eye the Savings and Loan banks, and their huge consumer deposit base, as a way to stave off their own bankruptcy. Citibank chairman Walter Wriston announced his intention to swallow up local and regional banks, S&Ls, and anything else Citibank could corral in its drive to become a national megabank, in a September 1982 interview with *Fortune* magazine. Noting the \$1.2 trillion in consumers' deposits in the United States, Wriston quipped:

"Willie Sutton said he robbed banks because that's where the money is. I see that \$1.2 trillion out there, and I don't see any number that looks like that anywhere else."

How Volcker and His Buddies Wrecked the S&Ls

by Richard Freeman

In October 1979, then-Federal Reserve Board chairman Paul Volcker, acting for the London-Venice-Geneva financier axis, destroyed the basis of the banking system by destroying the basis of the economy. Volcker twisted policy until banks' prime lending rate reached 21.5%. This was the death knell for industry, farms, and export trade. Then—especially with the Oct. 15, 1982 passage of the Garn-St Germain Depository Institutions Act—the banking system was deregulated. Some of the features of this Act, and other measures which ruined the S&L industry, are indicated below.

- The usury ceiling on what banks could charge on loans, set in most states at 10%, was repealed.
- Regulation Q was repealed. Regulation Q allowed



Paul Volcker, the man who wrecked the U.S. banking system.

S&Ls to pay, by law, one-quarter percent higher interest on deposits than commercial banks could offer, thus guaranteeing the S&Ls a steady stream of deposits. Regulation Q compensated S&Ls for the other regulation that, by law, S&Ls must make 85-90% of their loans to the housing industry. But under deregulation, S&Ls were now not only permitted to lend to any markets, but instructed to do so, to earn high rates of returns to pay for the unlimited level of interest rates they had to pay to attract depositors. In sum: deregulation, backed by Wall Street, the high interest rates imposed by the Federal Reserve to attract new depositors, plus destruction of the normal housing market by high interest rates (because people couldn't afford new homes), forced S&Ls into "quick buck" ventures.

- The lending limits for unsecured loans to one borrower were increased, thus increasing the amount of unsecured loans in the banking system.

- Commercial banks were allowed (mostly because the Federal Reserve and other regulatory agencies turned their heads), to buy banks out of state, thus taking major steps to creating super-banks—even though this is forbidden by the Glass-Steagall Act, which is still on the books.

- Commercial banks were also permitted, again by default of the regulatory powers, to create a category of loans and investments called "off-balance sheet liabilities," which allowed them to earn up-front, on-the-books-fees, for all sorts of activities that were conducted off the books.

This series of policies brought on the bankruptcy of the banking system. What Wall Street and its controllers overseas have tried to conceal by their hypocritical "moralizing" attack on "sleazy S&Ls," is 1) that the behavior of U.S. commercial banks has been even sleazier and they are more fundamentally bankrupt; 2) that the real criminal behavior is that of Paul Volcker, Alan Greenspan, James Baker III, Donald Regan, and the Morgan-run pro-Soviet banking elites who wrecked the economy, wrecked the banking system, wrecked the S&Ls, and now want to foreclose S&Ls, farms, military bases, and the remaining industrial base of the United



In Washington State's capital Olympia, citizens expressed their outrage at Volcker's policies, back in 1981.

States. In place of production and prosperity, they mean to hurl the world into a new dark age, through new measures of austerity, and fascist economics.

Southwest Banks Hit Skids

Starting 1979-81, Third World, energy, and agricultural loans started to go bad, especially for banks in the Southwest, including Texas, Oklahoma, Louisiana, and a little farther west, Colorado. Instead of fighting the insane Volcker policy, the Texas boys decided to shift into real estate. Between 1981-82 and 1986-87, the Texas banks invested in every piece of real estate that could be found, from monstrous art nouveau office buildings, to shopping centers, from high-rise condos to million-dollar residential pleasure palaces. Consider the following: First Republic Bank Corporation of Dallas, Texas' largest bank with \$33 billion in assets, and America's 13th largest, had a total of \$8.47 billion in loans in 1981; this rose to \$14.48 billion in loans in 1986, an increment of \$6.01 billion. Of this increment, \$3.49 billion, or 58.2%, went to real estate. This is stunning. Usually, a bank makes 20-25% of its loans to real estate. But, in 1981-86, First Republic Bank Corporation lent 58.2 cents of each new dollar loaned to real estate. In

this period, the other members of the Texas Big Four banks, in order of rank, did likewise: MCorp (\$22 billion in assets) lent 48.6 cents of every new dollar loaned to real estate; the \$15-billion Texas Commerce Bancshares lent 57.1 cents of every new dollar loaned to real estate; and the \$11-billion First City Bancorporation of Texas lent 51.7 cents of every new dollar loaned to real estate. The Big Four Texas banks and others, lent to real estate as if there were no tomorrow. On real estate development deals, they took upfront finder's and development fees sometimes equal to 2-5% of the multimillion-dollar deal they were concluding.

Then, the market became overbuilt, as the oil and gas companies that were supposed to move into the newly built buildings, went bankrupt and could not take occupancy. The rent could not be paid on the new buildings, and therefore the loans that the banks made to the real estate companies went bad. By 1987, Dallas-Fort Worth, Houston, and San Antonio had over 100 million square feet of office building space unoccupied, enough space to house the entire white-collar workforce of Atlanta. One by one the Big Four Texas banks went bankrupt. First City Bancorporation of Texas went bankrupt in 1986; Texas Commerce Bancshares would

have gone bankrupt, but to prevent its bankruptcy filing, Chemical Bank of New York, the nation's fifth largest bank, was allowed to bend the laws forbidding interstate banking, and buy them out; First RepublicBank Corporation went bankrupt in May 1988, in the biggest bankruptcy in U.S. history—and the FDIC rushed in with \$4 billion emergency money; MCorp failed in October 1988.

The S&Ls in Texas, merely mimicked their bigger brothers, the commercial banks. While the media scream about the "S&L sleaze factor," the commercial banks

are far more implicated in losing depositors' money in wild and woolly real estate deals. Why aren't the commercial banks censured? Powerful protectors. During the past decade, gracing the boards or owning shares of the Big Four Texas commercial banks are or have been: George Strake, Jr., current chairman of the Republican Party of Texas; Robert Mosbacher, Bush's Secretary of Commerce; James Baker III, Bush's Secretary of State; Theodore Strauss, husband of the mayor of Dallas and brother of Democratic powerbroker, Robert Strauss; and Jess Hays, Democratic Party moneybags.

The Great Savings & Loan Robbery of 1983-89

by Claude Jones

The following statement was issued Feb. 21 by Claude Jones, formerly chairman of the Harris County (Tex.) Democratic Party. Jones was elected to the position March 6, 1988 in the "Super-Tuesday" party primary, and was illegally ousted from the post in February 1989 by Texas Democratic Party chairman Bob Slagle. Jones, who was thrown out of the Harris County chairmanship because he supports the programs of Lyndon LaRouche, is intensely concerned with the S&L crisis, which has hit Texas and other oil-patch states especially hard.

The near-meltdown in the local media which accompanied my victory last year in the election for chairman of the Harris County Democratic Party, the second largest county Democratic Party in the nation, is not unrelated to certain events now unfolding as part of the ongoing S&L drama. Screaming headlines and inflammatory TV news coverage accompanied each move of the local party "leaders" to contain me and the "damage" I'd caused by having the effrontery to win. One of their first steps was to create a new party post, a sort of super-secretary position, in which they invested the powers traditionally associated with the chairman. The man selected to carry out this usurpation role was one Jack Carter, a lawyer with the prominent firm of Hutcheson & Grundy. As I made attempts in those early days to establish some sort of working relationship with Jack, I frequently had a difficult time reaching him on weekends. I subsequently discovered that Jack's law firm was one of three in this region handling the shut-downs of S&Ls; Jack was spending his weekends doing



Claude Jones meets the press, three days after he was elected Harris County Democratic chairman.

the legal legwork to shut down these banks, and probably making a lot of money doing so.

In the early weeks of 1988, as I campaigned for office, I spoke out again and again on the question of the phony economic recovery and the imminence of a resurgence of the financial crisis that had begun with the stock market crash of October 1987. I repeatedly struck a responsive chord. When asked what could be done, my response unequivocally, was always to stress Lyndon

LaRouche's efforts to rebuild the Democratic Party. The pro-technology and tax relief policies of John Kennedy, and the Roosevelt war economy of the early 1940s, were the yardsticks for what had to be done.

The chord I'd struck in my campaign was directly related to the real reasons for the S&L crisis: the collapse of the oil industry and agriculture, the mainstays of the Southwest economy. As incomes and employment plummeted, business bankruptcies soared; the next shoe dropped in real estate, as wave upon wave of home foreclosures hit, over 40,000 in 1987 in Houston, and vacancy rates in downtown commercial areas soared above 30%. These phenomena affected the entire country, as the case of the Penn Square Bank failure in Oklahoma City demonstrated; the orgy of real estate speculation in the Southwest, fed by the oil boom, drew bank investors in from around the country—and when the crunch came, it was felt far and wide. The Penn Square failure led to the FDIC takeover of Continental Bank of Illinois, which at that time (1984) represented the largest bank failure since the depression.

There was plenty of sleazy dealing exposed as the collapse intensified. During the 1988 campaign, one local scam involved the trading back and forth of a piece of land that was a toxic waste dump. The price was bid up through insider deals, and then the property was dumped on the market. This operation involved the number two man in the Democratic Victory Fund, Bill Wright, a former mayoral candidate in Houston, and Larry Veselka, the man I'd defeated for Democratic Chairman of Harris County. Story upon story filled the press about the insider deals, and gross mismanagement

at the S&Ls. No doubt there was some truth to the press stories, but the business about mismanagement at the S&Ls fundamentally created a smokescreen behind which the real culprits were to be hidden.

Lyndon LaRouche warned repeatedly throughout 1988 that the next financial crash to follow the October '87 crisis, was being merely postponed until after the November 1988 election. He warned that the next phase of crisis would lead towards measures to manage a collapse of the S&Ls, and the looting of their deposits to prop up the money-center mega-banks. He had hit the nail on the head. As the November 1988 elections drew near, LaRouche was indicted along with six of his closest associates; he was brought to trial in record time, and convicted and jailed, within days after the Bush administration took office. In the same period, actions were taken by the Democratic Party to remove me as Democratic Party Chairman in Houston, the center of the financial storm. Throughout the country new prosecutorial actions are being initiated to harass LaRouche's associates. Make no mistake about this, every one of these actions is designed to politically silence the LaRouche movement, and to smother discussion of the solutions he has proposed.

George Bush may cleverly believe he has decisively dealt with the S&L crisis. What he has actually done is set into motion processes which could collapse his administration by summer. He has not solved the underlying structural problem in the economy, he has ensured it will get worse. Use this pamphlet as the necessary ammunition to understand the problem, and its solution.

Never Again
To Bankers'
Genocide!

DUMP
THE IMF!



The course of the nation is in your hands . . .

Join the citizen-candidates movement.

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The National Democratic Policy

Committee (NDPC) is a registered multi-candidate political action committee. It was founded in 1980 by Democrats who opposed the renomination of the Carter-Mondale ticket, in large part because of that ticket's commitment to the austerity and economy-wrecking policies of then Federal Reserve Chairman Paul Volcker. Among the founders of the NDPC were "LaRouche Democrats," "FDR Democrats," 'civil rights leaders, trade union leaders, businessmen, farmers, and scientists. In 1984 the NDPC opposed the Mondale-Ferraro ticket's appeasement policies, and in 1988 the NDPC opposed the Mussolini-style economic program and pro-Soviet policy postures of the Michael Dukakis ticket.

Between 1984 and 1988, the NDPC has helped mobilize a movement of over 3,000 candidates, who received more than 3 million votes.

In March 1986, the NDPC became internationally famous when two candidates it supported, Mark Fairchild and Janice Hart, were elected in the statewide Democratic primaries in Illinois, to become the Democratic Party's candidates for Lt. Governor and Secretary of State. The two LaRouche Democrats received more than 1 million votes and increased their vote in the general elections.

On March 6, 1988, in the "Super-Tuesday" Democratic primaries, a candidate supported by the NDPC—Claude Jones—scored a stunning upset victory against an incumbent to win the chairmanship of the Harris County, Texas Democratic Party—the second largest Democratic county organization in the country.

NDPC-backed candidates have campaigned for these major policy conceptions:

1. **A real economic recovery**, returning to the American System economic policies on which the United States was founded, as the touchstone for organizing a new international monetary system that will direct credit to productive agriculture, industry, and technological advance.
2. **A Food for Peace program**, to keep American family farmers on their farms, by applying policies of moratoria on farm foreclosures; a parity pricing structure for farmers; and long-term, cheap credit to enable farmers to technologically upgrade their capacity to produce food. The world is going hungry; American farmers are going bankrupt—but these programs can solve those crises.
3. **A 'Manhattan Project' approach to halting the spread of AIDS**, including traditional public health measures embodied in the California AIDS initiative referenda of 1986 (Proposition 64) and 1988 (Proposition 69).
4. **Full speed ahead to build the Strategic Defense Initiative**, to protect the United States and all our allies from nuclear missile attack, and to apply the scientific breakthroughs to a real economic recovery.
5. **A return to the traditional American foreign policy** of seeking to foster economic development, republican institutions, and a community of principle among sovereign nations.
6. **A no-holds-barred War on Drugs, on terrorism, on pornography and Satanism**. Not merely slogans, but the methods and weapons of war must be used against the international networks of Dope, Inc., their protectors in the international financial and political oligarchy, and their collaborators in the Soviet KGB.
7. **A national commitment and first steps to colonize the Moon and Mars** in the 21st century.