Wide World of Banks

A. R.

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Underneath the center of the international menagerie, whereupon governments totter for power, politicians tumble for fame, generals squawk for security, and clergy rant and rave, skitter the well-fed rodents of the financial world, endlessly greasing the vital parts of all those acrobats center-stage.

Also, underneath the stage, in the labyrinth of ponderous vaults, glass-enclosed teller cages, steel-plated' armored transports, and programmed executive pronouncements rests the "grease supreme," the wealth of the world, the wealth of states, the wealth of cities, the wealth of a few men, and the debts of everyone else.

Any examination of the financial industry and its current state of affairs almost defies comprehension.

Banking and related fields, especially bank holding companies, can now include almost anything:

> "In addition to owning one or more banks, holding companies can conduct the following types of operations: mortgage lending and servicing, commercial finance, consumer finance, credit cards, leasing personal property and equipment, factoring, trust functions, investment or financial advisor, data processing services, community welfare investments, and credit life, health, and accident insurance." (*Detroit and Its Banks*, A.M. Woodford, 1974, p. 236)

This expansion has now burgeoned into a monster whose machinations are barely understood even by the leading bankers of the world:

> "The inexorable growth in bank earning is neither a matter of luck nor a consequence of superior management. It stems instead from the operations of a basic economic mechanism that imparts stability to the banking industry, much as a balance wheel stabilizes the workings of a watch. This mechanism is little understood even by bankers." (*Fortune*, June 1976, p. 174)

> "Following the tendency of all businesses under capital (expansion and centralization), the banking institutions of today represent a conglomerate of mergers of smaller unit banks (those wholly contained in a single building without branch offices). Detroit Bank and Trust alone has since 1845 taken no less than 27 other banks under its gilded wing. In fact, it is ever more difficult for unit banks to operate in competition with the big banks, and the present trend toward merger and amalgamation is likely to continue:

> "A liberalization of banking regulations is being accompanied also by a slow breakdown in the restraints on branch banking in state legislatures. Part of this breakdown is being caused by a feeling that the *economy of the state* can be better served by larger banking units." (P.S. Nadler, *Commercial Banking in the Economy*, 1973, p. 176).

At the heart of this merger trend is that old, ever-faithful friend of capital—competition. And in the world of finance, the competition is merciless. Commercial banks must compete not only with other commercial banks for

funds, but also against savings banks, savings and loan associations, insurance companies, pension funds, and government institutions. Inevitably, all financial institutions rely on profits from returns on long-term investments, which require huge amounts of money, which in turn must be obtained on the open market.

Depression-Style Bank Holiday

Just how vicious competition gets can be seen in the recent Mississippi Savings and Loan debacle. In this case, Bankers Trust, the largest S&L Association in Mississippi, after losing a million dollars in 1975, suddenly went into receivership and caused a run on all the other S&L Banks in Mississippi. "Governor Cliff Finch last weekend declared a bank holiday beginning last Monday for all 35 such institutions—the biggest bank holiday since the Depression." (*Wall Street Journal*, June 24, 1976).

In the same article a comment is made that "the state's banking interests may even welcome the trouble the S&Ls are having and that the board may have let the situation develop because the failure of some S&Ls would reduce competition for the banks."

The Mississippi S&L problem is but one case in point. In the last three years there occurred the four largest bank failures in U.S. history. "U.S. National Bank of San Diego collapsed in October 1973, Franklin National Bank of New York two years later became the largest bank to fail in U.S. history, Security National Bank of Long Island was merged out of existence in January 1975 and Hamilton Bank of Chattanooga went under last February." (*WSJ*, June 22, 1976)

Bank expansion and centralization, sustained by an unquenchable thirst for funds, has led to an octopus-like extension into localities far removed from home base. In 1969 for example, Detroit Bank and Trust established its first foreign office with a branch opening up in London, England.

Competition coupled with a constantly increasing velocity of money (the rate at which money is turned over in its cycle through production and consumption) has also led to what R.S. Nadler aptly calls a condition of "scrambled finance" wherein "each type of institution becomes more like its competitors," (*Commercial Banking in the Economy*, p. 178) in that "each financial institution takes on more of the services of its competitors in an attempt to avoid the earnings squeeze through diversification."

The problem is that these tactics do not necessarily guarantee banks a profit; what is guaranteed is only a feeling of competitive strength among big banks, engendered by the elimination of small banks and the acquisition of broader opportunities for acquiring the needed investment funds.

Banks by nature are able to generate profits in two ways. "In good times banks make money on volume; in bad times they make it on spread." (*Fortune*, June 1976, p. 177).

Volume here refers to the loan volume which "tends" to increase during a period of economic recovery; spread refers to the difference in interest rates between short-term loans (used by banks to acquire funds) vs. interest rates on long-term investments (which comprise the stock portfolios of the banking industry).

Economic Recovery?

Today, "the yield curve is still sloping upward. but short rates will soon begin rising in relation to long rates, once again squeezing the basic banking spread." This would seem to indicate that an economic recovery is in the making, except that a rising volume of business loans has not occurred in 1976. As a matter of fact, business loans have been steadily decreasing. (See June F.E., "A Big Fat Lie")

Long-term investments, as already mentioned, represent a fundamental source of profits for numerous other financial institutions besides banks. Pension funds, insurance corporations, mortgage companies, and most corporations depend on long term investments either for raising capital for production or for turning a non-profitable industry into a profitable one.

The insurance industry, for example, has "as a whole over the years lost money on its underwriting and made it instead on the other part of their business, investing the premium dollar it has to work with." (*Fortune*, "An Accident Report on Geico," June 1976, p. 128).

The Federal Social Security System, another institution dependent on investment capital for payment of benefits, is now practically broke, since "accrued liabilities for those retired or who will be retiring in future years run to a colossal $2 trillion, whereas its reserve fund at the end of this year will be down to about $40 billion." (*Fortune*, "The Welfare State vs. The Welfare Public," July, 1976, p. 135).

For years now the working population has supported economic growth, corporate expansion, big government, welfare, the military—all with relatively passive indulgence. But now with the beginning of a period of non-growth and non-expansion, with the appearance of investment issues increasingly ear-marked for debt-payment, with social welfare programs getting cut everywhere, and labor unions coercing workers to accept reduced benefits, with taxes rising, and interest rates rising, and inflation continuing up, it is obvious that the working population will quite suddenly find itself in a squeeze of proportions perfectly characteristic with the gigantism of Detroit's mammoth Renaissance Center, the new home of Detroit money.

— A.R.

Moon Bank

Jumping right into the adventure world of high finance, Rev. Sun Myung Moon, spiritual head of the Unification Church, has recently gained control of the Diplomat National, a newly chartered national bank in Washington. Interestingly enough, among the bank founders and directors are investigative columnist Jack Anderson, and former Treasury Secretary Joseph W. Bar, who has now resigned from the Bank's board.

Binding together the mystifications of religion and capital, Moon and his associates now lord over a multi-million dollar empire that stretches from South Korea to across the U.S. with the ultimate intention of global dominion.

Asked for a comment on the situation, a distinguished non-associate of the Moon organization said: "I'm a specialist in exotic religions and finance, and Reverend Moon is only a dildo holding the two temporarily together."

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