

Citibank tries to turn the clock back: the attempt to repeal Glass-Steagall

by William Engdahl

Only days after the greatest stock market catastrophe since the October 1929 debacle, the chairman of the Federal Reserve, Dr. Alan Greenspan, joined with the Reagan administration and the New York banking community to demand swift repeal of the 1933 Glass-Steagall Act. More than a few eyebrows were raised at the distasteful timing of the proposal.

In a recent discussion, a staffer in the office of Senate Banking Committee chairman William Proxmire (D-Wisc.) stated that the influential senator was about to announce his abandonment of long-held principle and come out favoring repeal of Glass-Steagall. Citibank and friends in New York have been leading this chorus loudly since their lending practices blew up in the 1982 Ibero-American debt crisis. Paul Volcker was apparently shown the door, albeit politely, last summer, partly because of his refusal to brook repeal of Glass-Steagall. It may be the case that only 1 in 100 Americans today know the significance of Glass-Steagall, as Senator Proxmire's assistant boasted. But now more than ever, it is important to review the original conditions, during the Great Depression, under which the Glass-Steagall Banking Act of 1933 was passed.

Curbing National City Bank

Insider trading is nothing invented by Ivan Boesky, Drexel Burnham, Kidder Peabody, or the Wall Street titans of today. In 1932, Wall Street investment bankers were in low esteem, their profligate lending and stock manipulations widely viewed as causing the Great Crash of the New York Stock Exchange in 1929 and the ensuing industrial depression. A Senate Banking and Currency Committee investigation of Wall Street malpractice was initiated early in 1932. The Senate, in authorizing the investigation, demanded that the committee make a "thorough and complete investigation" of Wall Street stock practices, including "borrowing and lending of listed securities upon the various stock exchanges," and a study of their relation to the operation of national banking and the Federal Reserve System.

On Jan. 24, 1933, the Senate inquiry was put under the direction of a Sicilian-born prosecutor from New York City, Ferdinand Pecora. Then, the fur started to fly, as an earlier attempt to keep the inquiry superficial and cosmetic ended, under public pressure. During Pecora's inquiry, the American people were exposed to some of the shadier practices of

America's financial insiders. They heard of stock "pool" and stock market operators hiring publicity agents (today called counselors) to push worthless or inflated stocks to unsuspecting investors during the "Hoover Bull Market" of the late 1920s. They learned how select newspapermen were paid to recommend certain securities to their readers (today's Winans case at the *Wall Street Journal* is nothing new); and even how radio announcers were paid to hype certain stocks. They learned how such unimpeachable and prominent men of money as Charles M. Schwab, Percy Rockefeller, and Walter Chrysler participated in rigged "stock pools" such as the one organized in March 1929 to trade in RCA stock, which earned pool members a cool \$5 million profit in a week.

They learned of disclosures involving such respected Wall Street houses as Goldman, Sachs when, in May 1932, Walter Sachs was forced to appear before the committee and reveal that the investment bank's stock trading subsidiary, Goldman Sachs Trading Corporation, had earned handsome fees handling investments which were disastrous for some 40,000 of their investors.

But the disclosures which fully shattered any respect remaining for these Wall Street investment bankers were those involving the nation's largest bank, National City Bank of New York (today's Citibank). Pecora was instructed to look into the affairs of City Bank, whose salesmen had peddled billions of dollars of securities across the country. At that time, there was a National City Bank and its wholly owned stock brokerage subsidiary, National City Co. Pecora uncovered what he later termed "amazing" breaches of trust on the part of the company's officers. Subpoenas were issued and bank chairman Charles E. Mitchell was brought before the Senate committee for questioning. Mitchell, being a tireless and energetic executive, revealed that he also served as chairman of his brokerage subsidiary. The laws permitted it, he argued. At that time, he was legally correct, if unethical, in his position.

Insider trading run rampant

Pecora's cross-examination and investigation uncovered breaches of business ethics and disreputable practices, not to say outright fraud, on a scale which made the earlier Insull utility stock abuses appear tame. Over weeks of testimony, abuses came to light in which investors were lured into buy-

ing issues of stock sponsored by the “impeccable” Wall Street brokerage firm, National City Co., Charles Mitchell chairman. The National City Co. didn’t bother to tell the trusting investors many, if any, pertinent facts about the quality of the stocks they were urged to buy.

In the 1920s, City Bank led in the promotion of South American bonds. One, heavily peddled by National City, was a March 1928 issue of \$8.5 million in bonds by National City Co. for the Brazilian State of Minas Geraes. That state’s authorities had been described by National City in an internal evaluation as negligent and ignorant of the “responsibilities” of a long-term borrower. Despite such a negative in-house report, the brokerage affiliate pushed the Brazilian bonds. The very bank official who issued the negative internal evaluation wrote the prospectus for the bonds’ sale, in which he praised the management of the state’s finances. No wonder. The next year, Minas Geraes authorities negotiated a second bond issue, this one for \$8 million, one half to bail out National City Co. which had advanced the state some \$4 million in short-term credits. The prospectus told potential investors in the second bond issue only that the funds were “designed to increase the economic productivity of the state.”

Pecora noted that investors made the purchases of National City securities largely because of their “faith in the integrity and presumed conservatism of the National City Bank.” During the same period, City Bank floated similarly dubious loans for Cuban Dominican Sugar Co., the Lauratro Nitrate Company of Chile, and numerous others.

The Senate then learned that National City Bank, as bankers to the American Anaconda Copper Co., “promptly sold” to its customers the bank’s own sizable holdings in Anaconda stock, through its National City Co. stock affiliate, the moment the bankers learned from confidential insider information of an imminent fall in the price of copper. Disclosures revealed that banker/broker City Bank had been manipulating Anaconda’s stock all along, buying back in as it fell to lows, in order to manipulate a rise, at which point City Bank sold. The sales patterns of National City, not the actual performance of Anaconda, were the largest single factor determining the price of the stock, it was revealed.

Further congressional investigations revealed the nature of the stock exchange speculation and “pool operations” of the nation’s largest investment bank and brokerage, National City Co., affiliate of the world’s second largest bank, National City Bank. By law at the time, the bank was barred from engaging in such business, but not its wholly owned brokerage affiliate. So banker Mitchell closed his eyes and covered his ears while broker Mitchell went to work. Hearings revealed that between December 1928 and March 1929, during the heat of the Wall Street bull market, National City Co. engaged in three stock pools, which Mitchell preferred to name “joint accounts.” In these operations, an insider group of investors would collude to manipulate the price of a given stock. All “pool” players were either executives of the companies whose stocks were being manipulated or individ-

uals with access to inside information not available to the general investor public.

But National City Co. also pushed the stock of National City Bank itself, driving the price up to what Pecora called “dizzying heights.” The stock hit a peak of \$785 a share in January 1928, and its ascent was assisted by the friendly help of National City Co. As the largest single trader in the stock of its own mother bank, it would sometimes buy and sell 30,000 to 40,000 shares a day, an enormous volume in the era before today’s computerized manipulations known as “programmed trading.”

But, as the Senate inquiry learned, it was a two-way street between mother and child institutions. National City Bank referred clients to its National City Co. affiliate. The affiliate’s security salesmen were trained to give special “pep talks” to sell particular stocks.

Mitchell testified to an increasingly skeptical Senate subcommittee that the two companies decided, when they set up the stock affiliate as well as a bank fiduciary affiliate, the City Bank Farmers Trust Co., that the trust company would not buy any securities from the bank’s securities affiliate, “except where in some specific trust it is set forth as the desire of the maker of that trust that they may borrow from the National City Co.” Mitchell piously insisted this was done for “general safety.” Certainly not for the financial safety of the thousands of private investors whose fortunes were wiped out as the market crashed. Mitchell defended the incestuous interlocking network as a matter of providing investors “complete banking service.” This is almost verbatim the argument of today’s Citibank leadership in demanding repeal of Glass-Steagall.

The examples of disguised losses hidden between bank and stock broker affiliate, and subsequent attempts to dump losses onto unsuspecting outside investors through promotion of stocks, were so pervasive that it shocked even seasoned investigators for the subcommittee. Although under corporate law, Mitchell was the employee of a public corporation responsible to its stockholders, he served both bank stockholders and brokerage stockholders, but first, himself. The conflict of interest involved was as complete as it was fraudulent. Mitchell got personal cash bonuses during the greatest frenzy of the Wall Street bubble, 1927-29, from both bank and brokerage jobs, more than \$3.5 million, a staggering sum in that day, comparable to Ivan Boesky’s \$100 million sum of recent years.

When Sen. James Couzens asked Mitchell if it were not improper for an executive to share in such huge earnings without being legally liable for any losses, Mitchell replied that it helped create an *esprit de corps*. Couzens went further, “Does it not also inspire a lack of care in the handling and sale of securities to the public?” To this, Mitchell was forced to admit that the practice may have had “some influence” on the fact that fully one-fifth of all securities issued by National City Co. in the previous 10 years, were in default!

When the Wall Street stock bubble collapsed and the

officers of National City Co. found themselves personally holding huge losses, National City Bank quickly came to the rescue by setting up a special "morale loan fund" from which the officers were allowed to borrow without interest or collateral.

Of course, Mitchell also indulged in such skulduggery as selling stocks he owned "at a book loss" to his wife, which loss he then wrote off his income tax. After the big price collapse, he repurchased the same stocks, but paid the price of the original sale to his wife three years before—he testified—so that she would not suffer any loss. Mitchell was later prosecuted by the government for the criminal offense of tax evasion.

Both Mitchell, and City Bank president Hugh B. Baker were forced to resign as a result of the scandals, leaving Feb. 28, 1933, one day before the conclusion of the Pecora hearings.

New administration comes in

Incoming President Franklin Delano Roosevelt called for the Senate probe to continue, despite the desire by some senators friendly to Wall Street to sidetrack the explosive inquiry. The press was filled with the hearings' revelations, which hit a nation in the depths of the economic depression triggered by the same Wall Street bankers and brokers. Pecora subpoenaed J.P. Morgan and Morgan partner Thomas Lamont. Inquiry concentrated on Morgan's creation of three super holding companies in 1929: Allegheny Corp. to control a vast railroad network; Standard Brands, to merge four large food companies; and United Corp., to cartelize the electric power industry, as Morgan had earlier done with U.S. Steel. Morgan admitted selling the stock issue of these giant holding companies to "preferred lists" of investors, revealed to be disguised forms of payoffs or polite bribery to allow favored individuals and banks to make money with almost no risk. Morgan's "preferred list" included former President Coolidge, John Nutt, Republican national chairman, and John J. Raskob, Democratic national chairman.

Then-aging Sen. Carter Glass of Virginia expressed growing anger as the investigations grew in scope, and drafted legislation to end the abuses. Glass had been an original sponsor of the Federal Reserve Act in 1913 and helped ram that unfortunate bill into law. But the public climate of hostility to the Wall Street con men, as they were seen, was such that the bill which still carries the name Glass-Steagall Act of 1933 was signed by President Roosevelt in June of that year. It outlawed "sweetheart" conflicts of interest by forbidding banks insured by the newly created Federal Deposit Insurance Corporation (also part of Glass-Steagall) to own security trading affiliates. Wall Street pressures since the 1970s have all but destroyed the intent of those restrictions.

To remove Glass-Steagall now, *after* the manifest result of those promiscuous speculative practices which led to the Reagan "John Law Bubble" of 1982-87, is somewhat difficult to justify.

Parts of Argentina close to revolt

by Cynthia R. Rush

It is no exaggeration to say that portions of Argentina, especially in the nation's bankrupt provinces, are close to institutional dissolution, and even insurrection against the central government, thanks to President Raul Alfonsín's slavish adherence to the International Monetary Fund's (IMF) "adjustment" policies.

Over the past two months, five provinces in the interior—Salta, Tucumán, La Rioja, Mendoza, and San Juan—have exploded in social unrest and dislocation, in some cases bordering on anarchy. Two others, Chaco and Jujuy, may shortly face a similar situation.

Thousands of public employees have taken to the streets to protest the fact that their governments cannot meet wage bills, or offer wages that cover the rising cost of living. Strikes are so widespread, that they have disrupted normal activity in every sector of the provincial economies. On April 14, the General Workers Confederation (CGT) will hold its eleventh general strike against the Alfonsín government's socioeconomic policy. The national teachers' federation, CTERA, has been on strike for one month over the demand for higher wages, shutting down primary and secondary schools.

For five years, the Alfonsín regime has obediently followed the IMF's dictates to "restructure" Argentina's economy. It has kept interest rates prohibitively high, now in the range of 18% to 20% monthly, forcing the shutdown of productive industrial and agricultural enterprises around the nation. Given the rising inflation rate, 16% for March, interest rates are expected to go even higher. In the last quarter of 1987 alone, manufacturing production dropped by 8.1% relative to the third quarter. For all of 1987, industrial production grew by only 0.9%.

Since October 1987, the government has continuously raised the cost of all public services and fuel, while wages remained frozen. The 15% increase in the price of gasoline, announced March 31, puts the total price increase for this commodity at 100% in just over three months. According to a recent study by the Fundación Mediterránea, a private think tank, real wages have dropped 30% since January 1984. On