

A MODEST PROPOSAL *by Lindy Davies*

Congress tends to pass a great deal of legislation in the last-minute scramble before a Break; one of the biggest bones of contention prior to the year-end congressional hiatus of 1991 was, of course, the Banking Crisis. But it is a complicated issue, and no deal was struck on any new initiatives for enhancing the competitiveness (?) of commercial banks. In the absence of any groundbreaking or even newsworthy new law, Congress just appropriated another ho-hum sum for the S & L bailout and promised to deal with the commercial banking thing later. The figure of \$150 billion was mentioned.

Granted, the Savings & Loan scandal lacks the skullduggery of Iran-Contra (which we've pretty much forgotten about anyway) or the weirdness of Michael Jackson's plastic surgery; It is not that flashy a story. It's all about numbers. But what numbers! We have become accustomed, in a very short time, to flushing vast amounts of money down the drain: \$150 billion is roughly equivalent to the gross national product of Mexico.

Add to that the \$70 billion being proposed to shore up the FDIC insurance fund, and pretty soon you're talking real money.

In the early 80s, the Savings & Loan industry was on the ropes, because of inflation and high interest rates in the late 70s made other investments, such as money market funds, so much more attractive than S & L's with their fixed rates. The moves that were made to "deregulate" and "enhance the competitiveness" of the S & L's were in response to a genuine need, but they were the wrong response. The Savings & Loan industry had served an important function, in a quiet way, for many years: enabling millions of Americans to buy homes. Its interest rates were low, and its risks were low; a steady, stodgy rate of profit was almost guaranteed.

The S & L industry was not simply reformed in the 80s, it was changed, changed utterly - and a terrible profitability was born. Insured deposits were raised from \$40,000 to \$100,000; interest caps were removed; rules prohibiting direct investment by S & L's were rescinded, and rules requiring local control and management of S & L assets were removed. The result was a risk-free orgy of questionable - often downright silly - investment, and a bonanza for land speculators. In moments of calm reflection - apparently such moments were few in the 80s - everyone knew that this bubble had to burst eventually. The S & L's, however, and their friends in Congress, didn't worry about that, because their depositors were insured.

Unfortunately for everyone, the average depositor in a Savings & Loan was no longer a regular working American. In a time of brokered deposits and Pyramid schemes, institutional and speculative investors made up the majority of S & L assets (a term which, in this context, takes on a certain postmodern haziness). And more assets could always be found, simply by offering ever-higher interest rates, and loaning money to ever-riskier speculative ventures.

Enter the Resolution Trust Corporation, the final act of a grand tragic song & dance. The RTC's mission is to liquidate the assets of seized S & L's. However, unloading billions of dollars worth of overvalued real estate onto a recession-softened market is no way to make money. "Revision of Deals in S & L Bailout Drawing

Criticism," headlined the *New York Times* on October 7th, "Terms Called Generous." Indeed; they would almost have to be. In this instance, a concern called Patriot American Investors was offered a package "that would

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let the investors buy a \$500 million package of buildings - sometimes for as little as 60 percent of appraised value - with \$400 million in government financing and no interest for seven years." The deal has gone through; the only revision is to entitle the government to a fraction of any profit Patriot realizes. Only fair, really, because the deal also allows Patriot to abandon any properties that go sour. And remember, no interest is being charged for seven years! This deal, which the Bush Administration has called a "model" for the disposing of S & L properties, was characterized by a Jan. 2 Congressional Report as "wasteful, uncompetitive, and plagued with financial uncertainties."

The entire S & L debacle was a boon to land speculators; the "resolution" (here comes the postmodern haze again) is its culmination. The amount of wealth being transferred is staggering. Writes Curtis J. Lang in the *Village Voice* (Aug. 7, 1990), "George Bush's home state of Texas will benefit from a massive transfer of wealth...in which some \$80.2 billion will be infused into the Lone Star State - a gain of \$4775 per

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(continued)

person - while New Yorkers will lose over \$17 billion in the process." No wonder poor Cuomo and Dinkins can't balance their budgets.

My modest proposal is this. Let's not pay off every single S & L depositor. Everyone knows that most of the bailout amounts to a huge transfer of wealth from working taxpayers to high-flying venture capitalists. This evil seems necessary, for how can we distinguish the parasites from the deserving, small-time depositors? Well, to do that, I suggest we ask the people who worked in S & L's prior to 1980. Community people, who know who is who, can go case-by-case through the portfolios. You'd hear things like, "Oh, this is Max & Maxie Schmoo, they've been with us for years, we'd better pay 'em..." It would be more fair than the

current scheme, and far less expensive. And as for the approximately \$175 billion in real estate the RTC still owns, I suggest not selling it. Selling that much real estate in this market is simply not sensible. I suggest the RTC lease out the land instead, at its current annual rental value, and then sell the improvements. This would have two tremendous advantages: 1) It would make the properties so inexpensive that they would stand a good chance of being put to productive use; 2) It would be a laboratory test, a regular photo-opportunity for Georgist reform.

Do we expect this to happen? No. It would make too much sense. The rent-collectors will, most likely, continue to make out like bandits. Everyone should be hopping mad, livid, fit-to-be-tied about this, but Georgists particularly.

