Gone Fishing:
E. Gerald Corrigan and the Era of Managed Markets

The Herbert Gold Society

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Financial markets and many foreign governments were taken by surprise in early January when New York Federal Reserve Bank President **E. Gerald Corrigan** suddenly resigned. In the unusual press conference called to announce his decision, Corrigan, who officially leaves the New York Fed in August, made a point of denying that there was any "hidden agenda" in his departure from more than 20 years of public service.

Yet a good part of his career was not public and, indeed, was deliberately concealed, along with much of the logic behind many far-reaching decisions. Whether you agreed with him or not, Corrigan was responsible for making difficult choices during a period of increasing instability in the U.S. financial system and the global economy. During the Volcker era, as the Fed Chairman received the headlines, his intimate friend and latter day fishing buddy Corrigan did "all the heavy lifting behind the scenes," one insider recalls.

Because of his important, albeit behind-the-scenes role, Corrigan's sudden decision to step down is doubly wrapped in mystery. A Democrat politically associated with Establishment Liberal personalities, Corrigan under President Bill Clinton seemed likely to be at the head of the list of prospects to succeed Chairman Greenspan. Thus he sheds the limelight under circumstances and in such a way as will only intensify speculation about numerous pending issues, including his role in the Salomon Brothers scandal, the Iraq-Banco Nazionale del Lavoro affair, the BCCI collapse and widely rumored misconduct in the LDC debt market, to cite only part of a longer list of professional and personal concerns.

One nationally known journalist who has closely followed Corrigan's career says that "there is more to come" on both the Salomon and BNL fronts, and also predicts that several lesser Fed officials close to Corrigan also may be implicated. In fact, it appears that the New York Fed chief decided to resign in the face of several ongoing congressional and grand jury investigations that when completed might, perhaps, embarrass the publicity shy central bank and compel Chairman **Alan Greenspan** and the board of directors of the New York Reserve Bank to force him out.

The press statement from the Board of Governors in Washington, for example, stated that Corrigan had only just made his decision to resign, but why then the lengthy, 8-month period between the resignation and his departure? In fact, the search committee to find his replacement had begun its work days, perhaps weeks earlier. Even as Corrigan met the press, a personal emissary sent by Corrigan was completing a week-long swing through Europe to inform central bankers privately of the impending retirement, a final courtesy from the man who at first carried messages and later the weight of decisions during over twenty years surveying world financial markets.

Many political observers lament the loss of the Fed's most senior crisis manager, yet there is in fact considerable relief inside much of the Federal Reserve System at Corrigan's departure. "Break out the champagne," declared one former colleague. "Stalin is dead." The unflattering nickname refers to Corrigan's often abrasive, dictatorial management style.

But another twenty-plus year Fed veteran, though no less critical of Corrigan's methods, worries that there is no financial official of real international stature at the central bank for the first time since **Paul Volcker** left New York to become Fed Chairman in 1979. "Aside from the rather aloof Greenspan," he frets, "there's no one in Washington or among the regional Reserve Bank presidents who is able to pick up the telephone and know which bankers to call in the event of a crisis. Greenspan knows everyone, but he is no banker."

Who will replace Gerry Corrigan? Candidates range from Fed Vice Chairman **David Mullins**, an Arkansas native, to economists and bankers from around the country. Yet to appreciate the scale of the task to select his replacement, it is first necessary to review Corrigan's long career. He probably will be best remembered in his last incarnations as both head of the Cooke bank supervisory committee and the chief U.S. financial liaison to the shaky government of **Boris Yeltsin** in Moscow, where he and the equally hard-drinking Russian leader often stayed up all night devising schemes to stave off a debt default. The Russian effort is perhaps most interesting to students of the Fed because of the combination of luck and divine providence that brought the New York Fed chief and the Russian leader together in the first place and also because it illustrates many aspects of a two-decade long career that has been largely obscured from public view. But now the age of Corrigan is revealed, indirectly, in the vacuum his departure leaves at the top of the American financial system.

The Russian Business

Early in the summer of 1991, Treasury Secretary **Nicholas Brady**, Fed Chairman Greenspan, Corrigan, and several lesser western functionaries traveled to Russia to meet with then-Soviet President **Mikhail Gorbachev**. The Brady-led economic SWAT team went to Moscow to hear the besieged Soviet leader ask for an assessment of the economic reforms that would be required for eventual International Monetary Fund membership (and the release of billions of dollars in new loans from the IMF a year later).

One evening during the visit, as Brady and Greenspan went off to dine with Gorbachev, an aide to Corrigan, who was not invited along for dinner, suggested that it would not be a bad idea to meet "discreetly" with Yeltsin. The meeting with the Russian leader was quietly arranged. Yeltsin, it should be remembered, had just completed a disastrous tour of the U.S., where he was ignored by the Bush Administration, which saw him as a dangerous, often drunken irresponsible on the fringe of Soviet politics.

"Yeltsin deeply appreciated the courtesy of Corrigan's visit," according to one senior Fed official familiar with the details of the trip. About a month later, when the attempted military coup against Gorbachev thrust Yeltsin to the forefront, the Russian President did not forget his new-found dining companion and billiard partner, Gerald Corrigan. In November 1991, the New York Fed chief began a series of "technical assistance" trips, which usually included time for trips to the country and visits to such places as Stalin's country house or *dacha.* He made many of his Russian trips in the company of a female Fed official that one peer described as the central bank's answer to **James Baker's** Margaret Tutwiller.

In January 1992, Corrigan hosted a dinner for 200 bankers and other close friends in Yeltsin's honor at the New York Fed's beautiful Italian-revival building at 33 Liberty Street in lower Manhattan, in the shadow of Chase Manhattan Bank and a stone's throw from the House of Morgan. The two now-intimate friends reportedly danced and tossed back shots of vodka till the wee hours of the morning in the bank's magnificent dining room.

Through 1991, as the once stalwart communist Yeltsin became deeply committed to "free market reform," Corrigan began to advise Russia's leader on economic matters. This role was formalized in February 1992, after the fact, when the Fed's Board of Governors in Washington effectively appointed Corrigan "czar" to oversee American technical assistance to Moscow. Corrigan assembled a team of high-level financial experts from the New York financial community and led them to Russia at Yeltsin's request, to study and recommend further financial reforms.

In May 1992, this team became part of a formal network called the "Russia-U.S. Forum," of which Corrigan is co-chair and which includes such establishment fixtures as **David Rockefeller** and **Cyrus Vance** as directors. Significantly, Vance is a two-term member of the board of directors of the New York Fed and part of the search committee to find a replacement for Corrigan.

Thus the New York Fed chief, who was already the senior U.S. bank regulator, also assumed the role of financial liaison to the Yeltsin regime. Together with Corrigan's long-time mentor, former Fed Chairman Volcker, who ironically acted as adviser to the Russian government after years of steering the world through the international debt crisis, Corrigan has been perhaps the most influential Western financial expert on the scene in Russia, particularly after James Baker moved to the White House in August 1992 to direct the abortive Bush reelection effort.

Yet were helping Russia move toward a market-based economy really Washington's first priority, the fate that brought Yeltsin and Corrigan together would have to be seen as one of those crazy events in history when the wrong person was in the right place at the wrong time. "The oddest thing that is going on right now is that Gerry Corrigan is taking to Moscow a bunch of people from the big money center banks to tell them how to run a banking system," financial author **Martin Mayer** noted during a seminar on banking at Ohio State University last summer. "The Russians don't need that kind of help."

Perhaps it is just a coincidence, but Corrigan's resignation comes as Mayer is about to publish a new book later this year on the Salomon Brothers scandal that reveals the New York Fed's central role in the debacle. Yet Corrigan's willingness to tolerate Salomon's market shenanigans is not surprising. By his own admission, Corrigan has never entirely or even partially trusted in free markets, and the Fed's conduct in the Salomon affair was an illustration of this viewpoint put into practice. The New York Fed knew that something was afoot in the government bond market but turned a blind eye to Salomon's machinations rather than risk the "stability" of the sales of Treasury paper.

Corrigan is a classic interventionist who sees the seemingly random workings of a truly free market as dangerously unpredictable. The intellectual author and sponsor of such uniquely modernist financial terms such as "too big to fail," which refers to the unwritten government policy to bail out the depositors of big banks, and "systemic risk," which refers to the potential for market disruption arising from inter-bank claims when a major financial institutions fails, Corrigan's career at the Fed was devoted to thwarting the extreme variations of the marketplace in order to "manage" various financial and political crises, a role that he learned and gradually inherited from former Chairman Volcker.

At a July 1, 1991 conference on restructuring financial markets, Corrigan said that relying entirely on market forces actually posed a risk to the world financial system. "There is a tendency to think that market forces must be good," he opined, and said also that the "challenge" for regulators will be how to "balance free market forces" with the "dictates of stability in the financial structure." And as Salomon and a host of other examples illustrate, Corrigan worked very hard to ensure that stability, regardless of the secondary impact on markets or the long-term cost.

A career of almost day-to-day crisis control stretched back to the Hunt Brothers silver debacle in 1980, but especially to the collapse of Drysdale Government Securities in 1982, the Mexican debt crisis (1982-1990) and the October 1987 market crash. Russia was Corrigan's greatest and last test, yet despite claims of fostering private sector activity in Russia or stability in domestic financial markets, in fact his first and most important priority over two decades of service was consistently bureaucratic: to help heavily indebted countries and their creditor banks navigate a financial minefield that was neither of his making nor within his power to remove. Like Volcker before him, Gerald Corrigan cleaned up the messes left behind by the big banks and politicians in Washington, and tried to keep a bad situation from getting any worse.

Volcker's Apprentice

Corrigan's unlikely rise to the top of the American financial system started in 1976 when as corporate secretary of the N.Y. Fed he was befriended by then-President Volcker. At the time, other senior officers of the New York Reserve Bank still were a bit stand-offish toward Volcker because of policy disagreements, most notably after America's abandonment of gold for international settlements at Camp David in August 1971, a move Volcker supported (he actually participated in the drafting of the plan). But Corrigan extended himself for the new president and quickly became his trusted adviser and friend, and the man doing the difficult jobs behind the scenes as Volcker attracted the limelight as the crisis manager.

When Volcker was appointed Fed Chairman late in the summer of 1979, Corrigan followed him to Washington as the chairman's aide and hands-on situation manager (although he remained on the New York Fed's payroll and was subsequently promoted). He was quickly thrown into the crisis control fray when Bunker and Herbert Hunt's attempt to manipulate the silver market blew up into a $1.3 billion disaster the following year. Corrigan managed the unwinding of silver positions, providing the moral suasion necessary to convince reluctant banks to furnish credit to brokers who made bad loans to the Hunts to finance their silver purchases.

In 1982, when Drysdale Government Securities collapsed, Corrigan was again the man on the scene to do the cleanup job, working to avoid the worst effects of one of the ugliest financial debacles in the post war period. Drysdale was the first in a series of shocks that year which included the Mexican debt default and the collapse of Penn Square Bank.

Drysdale threatened not only the workings of the government securities market, but the stability of a major money center bank, Chase Manhattan, which saw its stock plummet when rumors began to fly as to the magnitude of losses. Corrigan fashioned a combination of Fed loans of cash and collateral, and other expedients, to make the crisis slowly disappear, even as Volcker again received public credit for meeting the crisis.

It was about this time that Corrigan, who had never shown any inclination toward outdoor sports (although he is an avid pro-football fan), discovered a love for fly fishing, a favorite pastime of Volcker. He joined a select group of cronies such as current New York Fed foreign adviser and former Morgan Stanley partner **Ed Yeo** and then-IMF managing director **Jacques de Larosiere**, who would go on long fishing trips.

We may never know what was discussed while this select group let their lines dangle into the water, but fishing no doubt took up far less than most of the time. Later in 1982 Volcker, who was by then supervising the unfolding Penn Square situation, pushed for Corrigan to take the open presidency of the Minneapolis Fed. (Volcker later admitted wanting to keep the badly insolvent Penn Square open for fear of wider market effects, but the FDIC closed down the now infamous Oklahoma bank, paying out only on insured deposits.)

Significantly, as Volcker promoted Corrigan's career within the Fed, he took extraordinary measures to prevent the nomination or appointment of respected economists and free market advocates like **W. Lee Hoskins** and **Jerry L. Jordan** to head other Reserve Banks (both Hoskins and later Jordan were appointed to the Cleveland Reserve Bank's presidency after Volcker's departure in 1987). Hoskins in particular was the antithesis of Volcker, an unrepentant exponent of conservative, sound money theory who advocated making zero inflation a national goal. He left the Cleveland Fed last year to become president of the solid Huntington Bank in Columbus (which interestingly was among the last institutions to approve new bank loans for Chrysler in 1992).

Hoskins and other free market exponents believe that ill-managed banks should be allowed to fail and that federal deposit insurance hurts rather than protects the financial system by allowing banks to take excessive risks that are, in effect, subsidized by the American taxpayer. But this free market perspective, which represented mainstream American economic thought before the New Deal, is at odds with the Volcker-Corrigan view of avoiding "systemic risk" via public sops for large banks and other, more generalized types of government intervention in the "private" marketplace.

Volcker moved to protect his bureaucratic flank in 1984 when he nominated Corrigan as a replacement for **Anthony Solomon** as president at the New York Fed, an event that required almost as much lobbying as was latter needed to block the appointment of Hoskins to head the St. Louis Fed in 1986. The cigar chomping Fed chairman got on a plane to call a rare Sunday meeting of the Reserve Bank's board, where he reportedly pounded the table and warned of being outnumbered by Reagan-era free market-zealots. The St. Louis Fed's board caved in to Volcker's demands and Hoskins was passed-over, although he would be appointed President of the Cleveland Fed in late 1987, after Volcker no longer was Federal Reserve Board Chairman.

Significantly, Corrigan's impending selection in 1984 caused several more conservative line officers and research officials to flee the New York Reserve Bank. **Roger Kubarych**, one of the deputy heads of research in New York and a widely respected economist on Wall Street (he's Henry Kaufman's chief economist), actually resigned the day Corrigan's appointment was formally announced, fulfilling an earlier vow not to serve under Volcker's apprentice that symbolized earlier internal Fed disputes.

The Neverending Crisis

From the first day he took over as head of the New York Fed in 1985, Corrigan's chief priority was "managing" the LDC debt crisis and in particular its devastating effects on the New York money center banks. Even in the late 1980s, when most scholars and government officials admitted that loans to countries like Brazil, Argentina and Mexico would have to be written off, as J.P. Morgan did in 1989, Corrigan continued to push for new lending to indebted countries in an effort to bolster the fiction that loans made earlier could still be carried at par or book value, 100 cents on the dollar. Even today, when some analysts declare the debt crisis to be over, the secondary market bid prices for LDC debt range from 65 cents for Mexico to 45 cents for Argentina and 25 cents for Brazil.

"Anything approaching a 'forced' write down of even a part of the debt -- no matter how well dressed up -- seems to me to run the risks of inevitably and fatally crushing the prospects for fresh money financing that is so central to growth prospects of the troubled LDCs and to the ultimate restoration of their credit standing," Corrigan wrote in the New York Fed quarterly review in 1988. "A debt strategy that cannot hold out the hope of renewed debtor access to market sources of external finance is no strategy at all."

And of course, in the case of Mexico, debt relief has been followed by massive new lending and short-term investment, albeit to finance a growing external trade imbalance ($15 billion in deficit during the first nine months of 1992 alone) that is strikingly similar to the import surge which preceded the 1982 debt default. Likewise bankrupt Russia, which is supposedly cut off from new Western credit, has received almost $18 billion in new western loans over the past 12 months -- loans guaranteed by the taxpayers of the G-7 countries.

But in addition to pressing for new loans to LDC countries, Corrigan worked hard at home to manage the debt crisis, bending accounting rules, delaying and even intervening in the closing of bank examinations, resisting regulatory initiatives such as market value accounting for banks' investment securities portfolios and initially promoting the growth of the interbank loans, swaps and other designer "derivative" assets now traded for short-term profit in the growing secondary market. In particular, Corrigan played a leading role in affording regulatory forbearance to a number of large banks with fatal levels of exposure to heavily indebted countries in Latin America. But no member of the New York Clearing House has received more special treatment than Citibank, the lead bank of the $216 billion total asset Citicorp organization.

When former Citicorp chairman **Walter Wriston** said that sovereign nations don't go bankrupt, this in response to questions about his bank's extensive financial risk exposure because of lending in Latin America, his supreme confidence in the eventual outcome of the LDC debt crisis was credible because he and other financiers knew that senior Fed officials like Volcker and Corrigan would do their best to blunt the impact of bad LDC loans on the balance sheets and income statements of major banking institutions. In 1989, for example, as Wriston's successor, **John Reed**, was in Buenos Aires negotiating a debt-for-equity swap to reduce his bank's credit exposure in Argentina, Corrigan pressured bank examiners in New York to keep open the bank's examination for 14 months. This unprecedented intervention in a regularly scheduled audit contradicted the Fed's own policy statements in 1987 to the effect that large banks would be examined <u>every six months</u>, with a full-scope examination every year.

Corrigan's decision (he and other Fed officials refuse to discuss regulatory issues as a matter of standing policy) probably was made in order to avoid charges against earnings by forcing the bank to post higher reserves against its illiquid Third World loan portfolio, an action that would later be taken anyway as Argentina slid further down the slope of inflation and political chaos.

Yet in a recent internal memo, Corrigan declared the debt crisis "resolved," even as LDC debt continues to grow, both in nominally and in real, inflation-adjusted terms. Public sector debt has fallen in Mexico, for example, accumulation of new private loans and short-term investment has driven total foreign debt over $120 billion, not-withstanding the abortive Brady Plan, while real wages in Mexico continue to deteriorate. This is about $30 billion more than Mexico's total debt level following the Brady Plan debt exchange in 1989.

It is significant to note that while Corrigan and other officials pushed the Baker plan after 1985 (essentially a new money lending program) to help "buy time" for commercial banks, as Volcker did before him, there remain literally thousands of unsecured commercial creditors of Mexico, Brazil and other LDCs who have little hope of ever seeing even the meager benefits such as World Bank guarantees on interest payments accorded to commercial banks under the Brady scheme. Indeed, because of its debt reduction aspects there remains doubt as to whether Corrigan even fully endorsed the abortive Brady Plan.

Systemic Risk & Fiat Money

As vice chairman of the Federal Open Market Committee, a position by law held by the New York Fed chief, Corrigan consistently supported the forces pushing for easy money in recent years in order to reflate the domestic economy and eastern real estate markets, and thereby to bolster the sagging balance sheets of insolvent money center behemoths.

In fairness, it must be said that Mr. Corrigan, for the most part, was merely following Chairman Greenspan's lead on those monetary policy votes. Since becoming a Reserve Bank president in 1982, he never dissented in an FOMC vote against the chairman's position under either Volcker or Greenspan. Yet as Bill Clinton seems destined to discover, embracing inflationism today in order to accommodate federal deficits, and bail out badly managed commercial banks and real estate developers, has its price tomorrow in terms of maintaining long-term price and financial market stability.

Several of the nation's largest commercial banks, which are headquartered in Corrigan's second Fed district, are or until recently have been by any rational, market-oriented measure insolvent and should have been closed or merged away years ago. Concern about the threat to the financial markets of "systemic risk" is used to keep big banks alive, and also as a broad justification for all types of market intervention.

The reasoning behind "systemic risk" goes something like this: If Russia defaults on its debts, large banks (mostly in Europe) will fail, causing other banks and companies to lose money and also fail. Therefore, new money must keep flowing to countries like Russia, Mexico, Brazil and Argentina so that they may remain current on private debts to commercial lenders, essentially the old-style pyramid or Ponzi scheme on an international scale, funded by taxpayers in America, Europe and Japan via inflation and public sector debt.

When Corrigan gave a speech earlier this year warning about the risks inherent in derivative, off-balance sheet instruments such as interest rate swaps, many market participants wondered aloud if the New York Fed chief really understands the market he once promoted but now so fears. "Off-balance sheet activities have a role, but they must be managed and controlled carefully," he told a mystified audience at the New York State Bankers Association in February. "And they must be understood by top management as well as traders and rocket scientists."

Swap market mavens were right to wonder about Corrigan's grasp of derivative securities, but they might better ask whether Corrigan appreciates the connection between embracing easy money and inflation to bail out the big banks, and the expansion of derivative markets. In fact, the growth of the swaps market in particular and financial innovation generally, is fueled by paper dollars created by monetary expansion, credit growth that Corrigan has long and repeatedly advocated within the FOMC's closed councils.

From $2 trillion in 1990, the derivatives market grew to $3.8 trillion at the end of last year (Citicorp is one quarter of the total swaps market) and may double again before the end of 1994. And yet in basic, purely financial terms, there is no difference between an interest rate swap with a counterparty incapable of understanding the risk, a loan to Brazil, and the commercial real estate loans that fueled the Olympia & York disaster; all are simply vehicles for marketing credit in a market awash in paper, legal tender greenbacks created by an increasingly politicized Federal Reserve Board.

In addition to the exponential growth in markets such as interest rate swaps, another side effect of expansionary monetary policy has been an increase in market volatility generally. When the great mountain of dollars created by the Fed during the previous decade suddenly moved out of U.S. equities on Black Monday, October 19, 1987, the New York Fed under Corrigan reportedly urged private banks to purchase stock index futures to stabilize cash prices on the New York Stock Exchange. Corrigan bluntly told commercial banks to lend to brokers in order to help prop the market up, and dealers were even allowed to borrow collateral directly from the Fed in order to alleviate a short-squeeze. Orchestrating such a financial rescue is still intervention in the free market, albeit of an indirect nature.

In October 1987, banks in Europe and Japan had refused to lend Treasury paper to counterparties in New York, many of whom had been taken short by customers and other dealers during the frenzied flight to quality that occurred, from stocks into AAA rated U.S. government debt. The Fed saved may dealers from grave losses by lending securities they could not otherwise obtain, but this seemingly legitimate response to a market upheaval still represents government inspired meddling in the workings of a supposedly private market. Traders who sell short a stock or bond that they cannot immediately buy back in the market at a lower price are no better than gamblers who have none to blame save themselves for such stupidity and should seek the counsel of a priest or bartender.

But in an illustration of the broadly corporativist evolution of Fed policy, as manifested in the government bond market, Corrigan sought broader powers to support the dealer community. In fact, in the wake of the bond market collateral squeeze in 1987 (and again during the "mini crash" in October 1989), the New York Fed chief pushed for and late last year obtained authority from Congress to lend directly to broker-dealers in "emergencies," thus allowing the central bank to provide direct liquidity support to the U.S. stock market the next time sellers badly outnumber buyers.

When it came time to explain the 1987 debacle to the Congress and the American people, Corrigan was more than willing to help the private citizen drafted to oversee the task, former New Jersey Senator Nicholas Brady, who after being appointed to the presidential commission created to study the crash, became Treasury Secretary in 1988 when James Baker left the government to run the Bush election campaign.

Yet Corrigan assisted the work of Brady's hand-picked assistants, Harvard professor **Robert Glauber**, who later became under secretary of the Treasury for Finance, and David Mullins, who also joined Brady's Treasury and is now a Bush-appointee as Vice Chairman of the Fed Board of Governors. Mullins and Glauber worked on the Brady report in offices provided by the New York Fed and reportedly dined regularly with Corrigan, who offered them his informed view of how financial markets work.

When the Salomon scandal erupted in the Spring and Summer of 1991, Corrigan was again the key man on the scene to manage the fallout from a debacle that has still been only partially unveiled. Following 1986, when regulatory responsibility for the government bond market had been explicitly given to the SEC, the Fed, at Corrigan's instruction, had largely curtailed its surveillance of the market for Treasury debt, particularly the informal "when-issued" market in Treasury paper before each auction.

And yet when the Salomon scandal broke open, it was apparent that the hands-on "management" of markets prescribed by Corrigan had failed to prevent one of the great financial scandals of the century. "Neither in Washington nor in New York did the Fed seem aware that the dangers of failure to supervise this market had grown exponentially in 1991," Mayer notes in an early draft of his upcoming book on the Salomon debacle. "Like the Federal Home Loan Bank Board in its pursuit of making the S&Ls look solvent in 1981-82, the Fed had adopted tunnel-vision policies to save the nation's banks. And just as excessive kindness to S&Ls in the early 1980s had drawn to the trough people who should not have been in the thrift business, Fed monetary policies in the early 1990s created a carnival in the government bond business."

The Salomon crisis was not the only bogie on the scope in 1991. During December of 1990, the Federal Reserve Bank of New York, working in concert with several private institutions, fashioned a secret rescue package for Chase Manhattan Bank when markets refused to lend money to the troubled banking giant. While Chase officials vociferously deny that any bailout occurred, the pattern of discount window loans during the period and off-the-record statements by officials at the Fed and several private banks suggest very strongly that Corrigan's personal intervention prevented a major banking crisis at the end of 1990.

Rational observers would agree that the collapse of a major banking institution is not a desirable outcome, but the larger, more fundamental issue is whether any private bank, large or small, should be subject to the discipline of the marketplace. In the case of Citibank, Chase and numerous other smaller institutions, Corrigan, like Volcker before him, answered this question with a resounding "no." The corporativist tendencies of this extra-legal arrangement amounts to the privatization of profits and the socialization of losses.

A Question Of Principles

The real issue raised by Corrigan and his supporters within the Fed bureaucracy has been not what they believe, but the fact that they did not seem to have any basic core beliefs with which to guide regulatory actions and policy recommendations during years of difficult domestic and international crises. Other than seeking to avoid a market-based resolution to bank insolvencies and other random events in the marketplace, for example, there is no discernible logic to "too big to fail."

While this attitude may be useful to elected officials, appointed higher ups and the CEOs of large banks, it cannot help confusing an American public that still believes that concepts like free markets and the rule of law matter. There is not, for example, any explicit statutory authority supporting the doctrine of "too big to fail," nor has Congress given the Fed authority to support the market for government bonds or even private equity via surreptitious purchases of stock index futures, as was alleged in 1987 and on several occasions since.

In the case of the conflict between monetary accommodation for big money center banks and complaining about the explosive growth of derivative products, for example, or warning about banking capital levels while allowing regulatory forbearance and financial accommodation for brain dead money center institutions, Corrigan's positions are riven with logical inconsistencies and interventionist prescriptives that, as the Salomon scandal also illustrates, fail to address the underlying problems. But it may be unfair to place all or even part of the blame for this incongruity at his feet alone.

Since beginning his work under Volcker in 1976, Corrigan has met and at least temporarily resolved each foreign and domestic crisis with various types of short-term expedients designed to maintain financial and frequently political stability. The rarefied atmosphere of crisis management leaves small time for recourse to first principles. In this respect, Corrigan must be seen as a pathetic figure, an errand boy doing difficult jobs for politicians and servile Fed Chairmen in Washington who have been unwilling to take the hard decisions needed to truly end the multiple crises that affected the American-centered world financial system since the 1960s abroad and the 1970s at home.

By at once advocating new lending to LDCs while softening regulatory treatment for heavily exposed money center institutions, Corrigan was at the forefront of efforts to forestall the day of financial reckoning for the big banks, whether from Third World loans, domestic crises arising from real estate loans, or highly leveraged transactions. However, if Russia, Mexico or some other financial trouble spot boils over after next summer, Gerry Corrigan will have gone fishing. And he will leave behind a very large pair of much-traveled boots that Alan Greenspan and the Clinton Administration quickly must fill.

Christopher Whalen