

Are U.S. bankers committing hara-kiri?

It might be tasteless to make the obvious comment about the recent behavior of American bankers, but the reactions of leading U.S. financiers to Japan's program to stabilize the Eurodollar market belong to the realm of last week's shock headlines on mass suicide. Interviews with senior officials of New York's Citibank, San Francisco's Bank of America, and First National Bank of Chicago, indicate that these financiers are not responding clear headedly, but to a combination of British psychological warfare and blackmail, designed to keep the United States out of the European Monetary System.

These bankers object that the Japanese program (soon to be joined by the Europeans), with its provision for development loans at roughly half the rates prevailing on the Eurodollar market, will wipe out their competitiveness. Even though the Japanese have offered Americans places in the banking consortia making the new loans, and with them the opportunity to use some of the \$30 billion held by the Japanese central bank at interest rates equal to Japanese *internal* rates of 6 to 7 percent, the American banks are terrified that their decade-long spree in the Eurodollar market will come to an end.

Considering that the Japanese plan could bring down the entire level of interest in the dollar sector, save the American economy, and expand international trade, the bankers' attitude is perverse. But there is, of course, a reason for every perversion. The American banks have been so completely integrated into the London-centered Eurodollar market, the \$700 billion whirlpool of short-term money, that the prospect of a healthy reorganization of this mess creates a crisis at New York headquarters.

Citibank's Asian specialists noted that the bank makes its profits in international lending on the difference between the cost of the money it borrows in London and the interest rate it can charge on the money it lends. No matter that the upward spiral of interest rates — which has already brought the prime rate up to a near-record 11.5 percent — is squeezing this "margin" to death. Citibank will cling to it for dear life. Citibank says that the rest of the New York banks will go along with them; First Chicago says that it will follow New York; and Bank of America's Tokyo chief is attacking the Japanese in print. Some of the more forward-looking officers at these institutions are privately enthusiastic about the Japanese initiative, e.g. Third World specialists at Citibank's planning division. But the management of these institutions says that it wants to march right off the cliff.

One it becomes clear that the British are finished as a force on the financial markets, this idiocy will change. In the meantime — during the critical weeks ahead

when the United States will choose its course with respect to the new monetary system — the banks are being told by the British that they have been in the London market so long and so completely that they cannot pull out. If the London market goes, the City of London is threatening, the U.S. banks will go with it.

—David Goldman

Citibank: 'we want a bigger spread'

A high-ranking Citibank official involved in the bank's Asian operations had the following to say about the Tokyo Capital Market:

Q: What's your reaction to the new international loans the Japanese banks are making in dollars at concessionary interest rates?

A: The Japanese are establishing their credibility as major lenders in the international market. The Bank of Japan is laying off its excess liquidity to the commercial banks, which are funneling it back into project loans. This is part of an overall national strategy. The Japanese economy needs raw material resources. The concessionary loans to Third World countries make them captive to Japan, Inc.

Could this Japanese strategy affect the nature of the Eurodollar market as a whole?

A: Unfortunately, the low interest rate project loans that the Japanese are making have been depressing rates throughout the market and are hurting our spreads. Japan's current account surplus is small compared with the market place as a whole, however—so even if they pull all that money out, they can't drive rates down too far.

Q: Would this really be so bad? Wouldn't the U.S. banks get in on loans which, even if they carried low interest rates, would be more profitable in the long-run than standard Eurodollar fluff?

A: We are not changing our pricing strategy in the bank. Our strategy is to seek out the biggest spreads. Some European banks are joining syndications led by the Japanese, and maybe some small U.S. regional banks out in the Midwest. But no New York bank would touch such loans—the spreads are too narrow.

We have different capital requirements than the Japanese banks. If we can't get a reasonable rate of return on our investment, we don't invest. Besides, Japanese commercial banks are getting the Bank of Japan's excess liquidity at very low rates. American banks have different hurdle rates. We have to go to London for funds, where the cost is very high.