BANKING

USLP suit to halt bank takeovers polarizes U.S. banking community

The U.S. Labor Party's challenge to the Federal Reserve Board's approval of the Hongkong and Shanghai and Standard Chartered banks' attempted takeovers of two key U.S. banks has polarized the American banking community, as the strengths of the suit become increasingly apparent. "We have every indication," USLP Director of Financial Intelligence David Goldman said April 25, "that some of the major New York clearing banks, fearful of British reprisals against them if the takeovers are blocked, have acted to influence lawyers and other banks whom we have approached for cooperation in this case against us."

On the other hand, he said, "several state banking associations across the country are reviewing our case with great interest."

On April 16, the USLP filed a Petition for Review in the U.S. District Court of Appeals of the Fed's March 16 approval of Hongkong and Shanghai's application to purchase the $14.3 billion Marine Midland, the nation's 12th largest bank, and Standard Chartered's application to purchase the $5.3 billion Union Bank. The USLP has charged the British banks with funding the $200 billion annual world narcotics trade.

The strengths developing in the USLP's case are underlined by the April 23 agreement of a noted Brooklyn Law School professor, Fabian Palomino, former counsel to the New York State Senate Banking Committee, to become the attorney of record on the case. Professor Palomino will be taking the case on a *pro bono* (feeless) basis because of its strong public interest content.

The court may overturn the Fed's order if it was " 'arbitrary and capricious,' or not supported by 'substantial evidence in the record,' " the USLP legal auxiliary's staff April 20 memorandum on the USLP appeal states. That is exactly what the USLP

INTERNATIONAL CREDIT MARKETS

Buba applies 'controlled disintegration' to Euromarket

Warning that "over-recycling" of funds in the Eurocurrency market poses "a serious potential danger to the international community," the West German central bank proposed this week that a greater share of world credit flows be channeled through the International Monetary Fund (IMF). The Bundesbank's call, which is expressed in unusually strident tones for the normally staid central bank, signals that West German monetary authorities have fallen in step with the New York Council on Foreign Relation's "controlled disintegration" scenario for the world economy.

According to this scenario, world governments will be forced to choose between either 1930s-style trade warfare and competitive interest rate hikes leading to generalized economic chaos and depression, or "controlled disintegration," in which national economies undergo "structural reorganization," (a polite phrase for industrial cartelization a la J.M. Keynes and Hitler's Finance Minister Hjalmar Schacht).

The Bundesbank's statement on the Euromarket, which appeared as a special section of its just-released 1978 annual report, charges that private banks have utilized the Euromarket to provide overly generous funding to countries with balance of payments problems. This has permitted borrowers to postpone the austerity measures which they otherwise would have been forced to undertake if the credits had been tied to IMF conditions. According to the Bundesbank, the delay means that borrowing countries will have to impose more drastic measures later, and this situation increases "not only the danger of a serious financing crisis but also a threat of recourse to drastic protectionist measures when action to deal belatedly with the problem of necessary adjustment can be no longer postponed."

A strategic question

That the Bundesbank can so openly advocate what amounts to an IMF credit dictatorship is illustrative of intends to prove. In the first place, Title 12 Section 1842 of the Banking Holding Company Act states that "the Board shall take into consideration the financial and managerial resources" of the acquiring bank. According to a source at the Federal Reserve Staff, "the Board in prior cases has consistently defined 'managerial resources' to include the *integrity* of the acquiring company's management and their disposition to *comply with U.S. law.*"

The cases on the court record show, the Fed source said, that USLP charges are clearly within the meaning of "integrity" in asserting that HongShang and Standard Chartered are deeply engaged in the world narcotics trade and intend to use their sought U.S. banking base to control credit conditions here contrary to U.S. national interest.

The facts of this lack of integrity and legality have already been documented in the USLP's 300 page October 1978 submission to the Fed.

All the USLP must do now, spokesmen say, is to show that the Federal Reserve Board made its landmark decision in "gross malfeasance"
these issues of integrity and legality. The wording of the Fed's order, to the contrary, clearly shows the entire USLP protest was rejected as "lacking sufficient weight."

As *EIR* reported earlier in an exclusive interview with a high-level executive involved in Citibank's London operations, London is putting an unethical squeeze on the big U.S. banks to lobby within the U.S. in favor of the takeovers—or else. "We depend on the British banks to get funds," this executive said flatly. "No single American bank would want to have its name in the newspapers as opposing the British banks coming into the U.S...."

Reflecting this, the office of First National Bank of Chicago President Richard Thomas told the USLP's Goldman April 25 that "Mr. Thomas cannot meet with you because it would not be appropriate to discuss bank policy on this subject with the USLP."

The positive response the case continues to receive at state banking associations around the nation includes consideration by some of them of filing *amicus curiae* briefs in the USLP case. More broadly, there was a sweeping rejection by regional banks this week of the London-inspired New York clearing banks' proposal to the Fed for a "Free Banking Zone" in New York City.

"So intense is the opposition from the hinterlands that the big New York banks figure it could sway the Fed against the free zone," the *Wall Street Journal* reported April 25.

—***Kathy Burdman***

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the 180-degree turn which has occurred in West German policy toward the IMF during the last two months. Chancellor Helmut Schmidt and his close advisors had until recently planned to build the European Monetary System as a rival institution to the IMF which would finance advanced-sector capital goods exports to the developing world.

Last month, however, the West German government was warned by London and Washington that any effort to undermine the IMF would be regarded as "a war question" and "a threat to NATO." The anti-IMF content of the EMS has since been quietly dropped. West Germany will "never go with an anti-IMF policy," commented a German journalist, "because it's a direct issue of the strategic alliance with the U.S.. ... The BRD will always behave as a very responsible member of the IMF."

Although the Bundesbank's report is short on specifics, it implies that the central bank would prefer an arrangement in which all financing for balance of payments purposes is either funneled directly through IMF or handled by private banks but subject to IMF "conditionality." Ironically, such a policy will result in the strangulation of West Germany's export industries, since developing countries will be forced to institute further cuts in capital goods imports to meet the IMF's requirements.

The Bundesbank also warns—correctly—that the volatile character of the Eurodollar market is aiding foreign exchange speculation and may seriously disrupt domestic capital markets such as that of West Germany. However, the central bank's "solution" is to dry up the "excess" dollar liquidity through tighter U.S. monetary and fiscal policy—a prescription for U.S. economic collapse and spreading world recession. The Bundesbank further calls on all "major countries" to "agree on a set of general rules governing the Euromarket's operations."

Resistance in Germany?

Although the Bundesbank report ostensibly represents a "unanimous" opinion of the Bundesbank board, there are indications of resistance to it among Finance Ministry officials as well as within the central bank itself. Finance Ministry chief Mathoefer's press aide Meerman told this press service that the department is reluctant to comment on the report since "it's only an opinion they have expressed" and "it is very awkward to get into a quarrel with the central bank in Germany." Meerman did take exception to the Bundesbank's advocacy of deflationary measures for the U.S. economy, noting that "many economists in the Finance Ministry think that a further interest rate increase in the U.S. would not be a good thing, because it would increase inflation."

—***Alice Roth***