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ization of the banking system—both internationally and inside the U.S.

Despite the free enterprise rhetoric of Britain's newly elected Prime Minister Margaret Thatcher and her Mont Pelerin Society advisors, the actual perspective of leading London policymakers is that the U.S. economy and banking system will be governed from the top down by a Federal Reserve System which is merely a wholly owned subsidiary of the IMF. U.S. Treasury Undersecretary Anthony Solomon, who is heavily influenced by London, hinted at this in a May 11 speech to a business conference in Washington, D.C. According to the *Journal of Commerce*, Solomon not only endorsed Euromarket reserve requirements but called for improved international "regulatory techniques" which would "link" the Eurodollar market with domestic credit markets. The immediate implication of this is that the Treasury and Fed plan to use Euromarket controls to halt domestic credit growth and induce a recession in the U.S. economy. (Recently, banks have attempted to circumvent the Fed's tight credit policies by importing billions of Eurodollars from their offshore branches.)

A further consequence of Euromarket controls—the destruction of the U.S. dollar's role as the international reserve currency—was outlined by a top official at the London-controlled New York investment bank Lazard Freres. According to this source, the imposition of reserve requirements on the Eurodollar market could boost the dollar in the short run by creating a severe dollar shortage, especially considering the fact that many nations must now expand their dollar borrowing to pay for the increased cost of imported oil. However, the credit squeeze could eventually become so severe as to kick off a Herstatt-style banking failure. The failure of the West German Herstatt Bank in 1974, also in a period of Euromarket tightness, created such a severe crisis of confidence that interbank lending in the Euromarket temporarily ground to a halt and it was feared that a "domino" pattern of banking failures would occur. With the imposition of reserve requirements, such a banking crisis could be potentially much more severe than the one in 1974, and could trigger a flight from the dollar. At that point, Lazard's says, the IMF would step in and completely phaseout the dollar as the international reserve currency, replacing it with Special Drawing Rights. The U.S. economy would thus be placed in hock to the IMF and the IMF would assume direct control over the creation or contraction of world liquidity—the perfect realization of John Maynard Keynes' world central bank.

—*Alice Roth*

Curb on Third World loans on Tokyo summit agenda

In an interview this week a Carter Administration official involved in preparations for the upcoming Tokyo economic summit revealed that the purpose of placing reserve requirements on the Eurodollar market is to impose curbs on development lending by European and Japanese banks in the developing sector.

Q: *What about the talk at the May 6 Basel BIS meeting that the "non-dollar based" commercial banks, meaning the Japanese and Germans, are the real target of the new push by Miller and Emminger for reserve requirements on the Eurodollar market?*
A: Well, I'm not sure I'd call what they do dumping but we do know European and Japanese banks are lending at extremely small margins over LIBOR, in fact at no margins, at zero profitability. This is not a common banking practice. There is more than just maintaining their borrowers at stake here. These are not commercially viable loans. ...

Q: *But isn't this a problem of the past? The DM is weak and the yen is collapsing, which means the Japanese spent over $6 billion of their reserve supporting it—so how can the Japanese and German commercial banks remain a threat, when their central banks no longer have cheap dollars to deposit in them to allow them to dump?*
A: Aha, but the question is, where does the Bundesbank put the dollars? And the Bank of Japan? They don't give them to American banks when they sell dollars to support their currencies; they give them to Japanese and German banks. I'd say over 80 percent of the Japanese central bank dollar outflow, and close to 75 percent of the Bundesbank outflow, went to their commercial banks. And so in France and Switzerland: that's close to $15 billion total (i.e., 80 percent of $17 billion plus figures from France et al.—ed.). Not only have they not stopped their cheap loans, but we would argue that it is precisely this reflux out of the central banks into the commercial banks which has created this problem of overproduction of loans. It goes mostly to the LDCs—they borrowed $50 billion last year and they'll borrow another $50 billion this year—but the difference is this year the cheap loans are helping them build up their reserves.

Q: *What is to be done?*
A: Put reserve requirements on the Euromarkets.

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Q: *The purpose of which is to contain the Japanese and Germans?*
A: Yes.

Q: *How will this be managed politically? You know Schmidt and previously Fukuda had a plan to make the Tokyo summit a forum for their grand design of globalization of the EMS ... and to hell with the U.S. and the IMF.*
A: Yes, well I keep telling you the EMS has nothing to do with loans to LDCs.

Q: *Of course the EMS currency banks don't, but Schmidt and Fukuda had wanted to use the dollar for the LDCs to take their exports. ...*
A: Well, what the hell else do you expect them to do with their dollars? But this is causing everyone else problems. Look, we'll deal with this at Tokyo. I have the three position papers on monetary affairs by the U.S., France for the EC, and Japan. The U.S. paper deals with all this. It calls for extension of the current efforts of governments to "improve their knowledge of and strengthen the operations of the Eurocurrency markets," which is a euphemism for imposing reserve requirements. The summiteers will endorse this communique. Then the French paper written for the EC by either the French Tesor or Clappier (Banque de France—ed.), entitled "International Monetary Policy," is all on reserve requirements. "The expansion of private liquidity created by the Eurocurrency market ... is causing increasing concern. ... The role in financing the balance of payments of the Eurocurrency market has such an extent that better surveillance appears desirable .... a closer and better organized surveillance of the Euromarkets ... which are growing in their rate of supplying developing countries with supplementary reserve instruments ... of which the monetary authorities do not sufficiently monitor the effects. ... This causes a destabilization of the foreign exchange markets and ... therefore surveillance should be improved by all appropriate means." It calls on the summit to endorse "better national surveillance," which is veiled language for reserve requirements.

Q: *What is the rest of the burden of the U.S. paper?*
A: It focuses heavily on the importance of the IMF.

Financial Times spells out Thatcher strategy for U.S.

In its 12-page survey of "finance and investment in the U.S." May 8, the London Financial Times *spelled out the Thatcher strategy for a British takeover of U.S. banking, leading to a U.S. recession and industrial collapse. Excerpts follow:*

Banks thrust into ferment of change. After four years of rising prosperity, Americans were wallowing in debt by the end of last year as their bankers rejoiced in the biggest profits increase in modern history. Depending on the calculations used, profits of the top 100 U.S. banks increased by between 25 and 30 percent.

But the nation's bankers do not seem to have shaken off their characteristic anxiety about what the future has in store—nor should they. Their worst fears are that the mountain of debt which has been piled up could be transformed by a serious recession into a landslide of defaults on outstanding loans. ...

The issue has potentially far-reaching implications. Some banks want to see reserves virtually eliminated, a move which would have implications for the Eurodollar markets. It is in part the absence of reserve requirements in that market which has facilitated its growth. ...

It is into this uncertain environment that foreign banks which are expanding into the U.S. are venturing. They can be assured of an exciting journey.

The stresses of tight money.... On the banking side, it seems clear that the main causes of distortion are an excess of regulation of the wrong kind. The Fed is not allowed to pay interest on reserves held with it by the banking system. This accounts for the spread between deposit and lending rates in the system which has provoked such an orgy of disintermediation. Banks are not allowed to pay interest on current accounts—which explains the growth of new and more rewarding forms of liquidity. Consumer credit is largely exempt from the Fed's own interest rate policies under state laws limiting interest charges, which explains the continued buoyancy of demand and the threat that the supply may suddenly and disruptively dry up. Congress could cure most of these worrying ills, but is unlikely to move.

...The fact remains that the Fed has a delicate task and skimped means to achieve it; the U.S. economy needs a soft landing not only for humane reasons, but to protect a fragile and rickety credit system.

Bankers Trust officer endorses HongShang grab, credit crackdown

A senior economist at Bankers Trust indicated his approval of the unregulated Eurodollar market and of foreign moves into U.S. banking.

Q: *Tony Solomon and Henry Wallich are explicitly talking about imposing reserve requirements on the Eurodollar market. What would be the effect?*
Bankers Trust: I recently visited the Bank for International Settlements. Several of the European central

bank governors want to do something about regulation. The Dutch governor asked the BIS to initiate a study on Euromarket regulation. On the U.S. side, Tony Solomon seems to like the idea—in view of current Euromarket spreads—but all of the G-10 and Switzerland have to agree or regulation is an impossibility.

Spreads are too low in the Eurodollar market relative to risk. This requires more stringent regulation and a more vigorous regulatory environment. Bank loans to "problem countries" have to be scrutinized.

This is the problem Wallich is addressing. However, he doesn't have the whole international banking community behind him. It's not U.S. banks which are pushing the rates down. He has to persuade the Japanese and West Germans not to push rates down.

Our bank drew the line at three quarter percent spreads—that only leaves around 35-40 basis points net, after taxes and other costs. The whole discussion of Eurodollar market regulation is more preaching to the foreigners than to U.S. banks. ...

Q: *Isn't it unusual that it was the U.S. which presented a proposal to the BIS meeting on May 6 in favor of imposing reserve requirements for the Eurodollar market?*
Bankers Trust: Well, the Fed has done a research paper on the subject—one that's in the public domain—we participated in educating them on what goes on in the Eurodollar market.

Q: *You have been suggesting that the large New York commercial banks wouldn't be opposed to greater regulation of the Eurodollar market, including the imposition of reserve requirements.*
Bankers Trust: The problem we face is that current interest rates don't justify assets employed. Foreign banks are growing rapidly and will accept lower and lower spreads. What will force the market to take a more sober view of risks? If we move to a set of developments which alert everybody to the consequences of taking big risks, or if Japan and Germany decide to become tougher. Regulation or reserve requirements in themselves won't keep banks from taking risks. We sincerely hope that the market will turn around—of course, we've been hoping that for about 1 1/2 years. ...

Reserve requirements will just increase the cost of credit—to have a credit squeeze, we have to stick it to them.

Q: *It appears that Muriel Siebert is going to deny the HongShang bid for Marine Midland. What will the effect be on foreign investment in the U.S.?*
Bankers Trust: It would be very unfortunate indeed. It would inhibit the international flow of capital.

3. Deregulation part of London bank grab

Jerry Jordan, the chief economist of the Pittsburgh National Bank and member of the so-called Shadow Open Market Committee, an offshoot of the Mount Pelerin Society, told a reporter May 16 that "the U.S. banking system is overregulated. This has led credit to

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seek other channels," and in turn, he stated, is whipping up inflation. Jordan then proposed that the Federal Reserve Board drastically slash its supply of reserves to the U.S. banking system, which would greatly cut overall lending.

An aspect of the attempted British banking grab, Jordan's proposals are the "right-wing" expression of an overall City of London plan to *deregulate* the U.S. banking system, precipitating chaos, while shaking out the U.S. economy through *severe credit contraction.* Before one could say "bankruptcy court," the U.S. banking system would be put under British top-down reorganization.

Backing up Jordan, president of the Bank of America, A. W. Clausen in a May 14 speech to the Financial Analysts Federation in San Francisco, fell into the "deregulator" trap. Stating that "anti-competitive (regulatory) barriers" are costing "the public billions of dollars each year," Clausen called for battering down the most significant distinctions in function between commercial banking, investment banking and savings and loan banking. According to the May 15 *Journal of Commerce,* the usually shrewd Clausen asked the FAF, "Why does this country differentiate so minutely among powers of commercial banks, mutual savings banks, savings and loan firms, finance companies, industrial banks and to what end? Why shouldn't each," Clausen continued, "be able to take in all types of deposits and make all types of loans through offices anywhere in the nation?"

Were Clausen's call for cut-throat competition to be implemented, a fullscale buy-up of bankrupted institutions would follow. Indeed, Clausen further advocated the right of large commercial banks to buy not only out-of-state commercial banks, but also investment banks and thrift institutions, all of which they are currently prohibited from doing. For opponents of "dereg," sweeteners are on the table including the lifting of maximum interest rate ceilings, lowered reserve requirements, and repeal of the Glass-Steagle Act.

But the significant question is whether the U.S.