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Citibank's strategy impasse

South Dakota is only one of the setbacks for the New York giant, Leif Johnson reports

Citibank and Federal Reserve Chairman Paul Volcker have reopened two flanks in their effort to transform the American banking system into a unitary hot-money extension of the offshore Eurodollar markets. Citibank's renewed campaign for a "Banking Free Zone" in New York arouses little support even among other commercial giants. The second flank—Volcker's threat to amend the McFadden Act and permit interstate takeovers, a threat contained in a recent letter to Senate Banking Committee Chairman William Proxmire and Republican committee member John Heinz—is stirring nationwide opposition.

Citibank's push for the free zone was resuscitated in a lead business-page article in the July 5 *New York Times* entitled "Free Trade Zone Idea Gains." Two years ago, Citibank pushed authorization for the plan through the New York State legislature, determined to create a high-profit, high-interest, high-arbitrage operation that would draw capital from both the U.S. itself and from Europe in particular.

A "free zone" would enable commercial banks to accept deposits and make loans without reserve requirements or any sort of Federal Reserve controls, so long as deposits and loans were "offshore" funds rather than domestic funds. The operations now conducted in the ill-famed Cayman Islands and elsewhere would be moved back to the money center banks' head branches.

Despite support from the *Times*, Morgan Guaranty, Bankers Trust and New York Fed chief Anthony Solomon, the idea is unlikely to coast through. A year and a half ago, when the Hongkong and Shanghai Bank, the world's central drug bank, was under attack for its bid to take over New York's Marine Midland Bank, Citibank first openly floated the free zone plan to the Fed. Comments flooded in, almost all emphatically negative. Nor has opinion switched, although the Fed has made it known that it intends to approve the plan some time this year. Citibank has resorted to promising 5,000 additional jobs in New York City if the free zone materializes.

Meanwhile, as played up in the European press, Citibank is in poor shape. What is less well known is that three weeks ago the bank decided to withdraw from its much-touted plan to use South Dakota as its credit card base. Citibank's card operation, through which it hoped to take deposits and conduct services from obtaining a plumber to financing family insurance, met the same reception as its free zone blueprint, only more so.

Citibank's international situation is worsening, too. Purveyors of the "post-industrial society" speculative skimming of resources were badly shaken by last week's news report that West Germany has opened a petrodollar recycling facility to plough oil dollars into German industrial shares to enhance continental Europe's healthy capital growth and export trade. Defeat of the new French-German superpower can only be attempted by mobilizing large hot money resources to buy up and seal off natural resources, and to outbid industrialists for Euro- and petrodollars.

The international trade zone would give the advantage to Citibank and its collaborators, particularly in a period of tight credit, by eliminating costly reserve requirements on a large chunk of their operations. In practice, the "free zone" plan would eliminate any distinctions between the so-called Eurodollar market, where *$1.2 trillion* changes hands on average every two weeks, and the domestic credit markets. The notion that "foreign" operations free of reserves can be kept clear of domestic lending is a hoax; American corporations already borrow heavily on the Eurodollar market, and the choice between foreign or domestic banking is a simple matter of convenience.

Takeover ploy

Fed Chairman Paul Volcker's letter to Senators Proxmire and Heinz demands that Congress not worry about takeovers by foreign banks and concentrate instead on allowing interstate bank takeovers of "failing institutions." Having created the conditions for bank

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failures with his own credit policies, Volcker can argue that abridgement of the McFadden Act which prohibits interstate banking, including buyouts, may be necessary. This too is a non-starter. Last month 24 state bankers' associations tried to force their parent American Bankers Association to call an emergency meeting to defend McFadden. The ABA, heavily controlled at the top by the money center banks, cooled things off by mandating a panel on the subject at the September national convention in Washington; but the magnitude of the revolt is unprecedented. The plan to grind America's 14,000 banks, with their basic committment to local industry, farming, mining and ranching, into a tightly controlled several dozen dominated by the money center giants has drawn other resistance as well.

The U.S. Savings League, which three weeks ago sued Volcker's Deregulatory Committee to stop it from wrecking the S&L's ability to service the housing market, is now considering a suit to overturn the Deregulation Committee section of the 1980 Omnibus Banking Bill as unconstitutional.

Savings and loan bankers thrown the carrot of credit cards, trust accounts, checking and NOW accounts have widely rejected the "service economy" road and confirmed their dedication to financing America's homebuilding.

As one New England savings banker said, "We're committed to housing because the nation needs housing and we can best finance it. We are not going to change our stripes to compete with Citibank and be swallowed up by them."

This will not deter the money center banks and their regulatory allies. Citibank is still pushing its Electronic Funds Transfer operations in Ohio, its data processing services. It also continues to push its integration of services with holding company corresponding banks like Minnesota's First Bank Systems. Citibank's control of Florida's governor has won it loan creation offices in that state, known for its drug money. Word is that Citibank is about to float a new secondary mortgage buy and sell operation to ease the savings banks out of their housing paper.

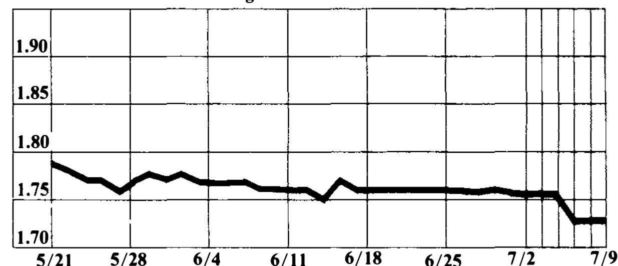
For its part the Fed last month issued rules for defining deposits which would reduce the period money must remain in an institution to receive interest. The cut was from 30 days to 14 days—a necessary "reform" to create hot money potential.

But the truth is that the "one banking system" drive has been temporarily stalled at a critical moment in its promoters' financial war against the European Monetary System. The ball is suspended in midair. Whether U.S. regional banks can find the policy to drive credit back into production and out of the hands of the hot-money banks and their political allies—that is what remains to be seen.

Foreign Exchange

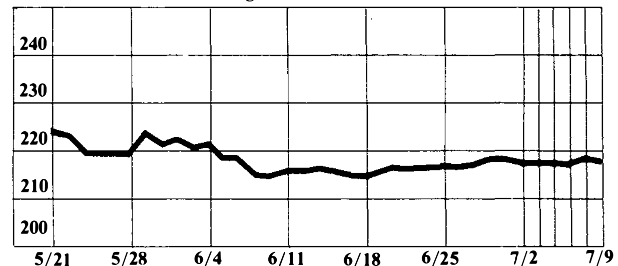
The dollar in deutschemarks

New York late afternoon fixing



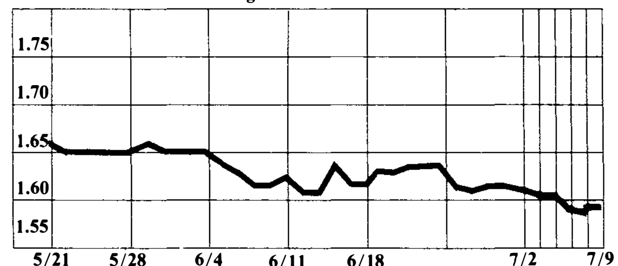
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing