

Banking by Leif Johnson

'The Transcendent Financial Reform'

House hearings this week are likely to support administration plans to phase out the regional banks . . .

The Carter administration's program to "reindustrialize America" by phasing out what Carter refers to as the "sunset" industries, aging sectors such as steel and auto, appear to include the U.S. regional banking system.

White House domestic policy adviser Stuart Eizenstat has prepared as part of Carter's Aug. 28 "reindustrialization" campaign program, a report on the deregulation of the U.S. banking system. Eizenstat, in a recent background briefing to the American Bankers Association (ABA), referred to the program as "the transcendent financial reform of the 1980s." The report, which is the White House response to congressional requests for a review of the International Banking Act of 1978 and its implications for the future of the U.S. banking system, has been embargoed by Eizenstat as "too politically sensitive" until after the November elections.

No wonder. Sources at the House Banking Committee Subcommittee on Financial Institutions, which will be holding oversight hearings on the same subject Sept. 24-25, say that the hearings will air the following reforms of the White House program:

- Revocation of the McFadden Act, which prohibits large New York and other money center banks from branching into other states and, failing that, revocation or loosening of the act's Douglas amendment, which prohibits the

big banks from buying subsidiaries in other states. If the top ten New York banks are allowed to branch or even set up slightly more cumbersome subsidiaries nationwide, the country's 14,500 regional banks will suffer unbearable competition. "Many of them will not be around in 1990," the London *Economist* noted Sept. 13.

- The total elimination by October 1981 of Federal Reserve "float," or cash being processed through a Fed-centered national Electronic Funds Transfer (EFT) system. The Fed float, which is credit banks in effect lend to each other because checks take time to clear across the country, is estimated at \$10 to \$15 billion per day, and constitutes a major source of credit liquidity for regional banks.

This will be effected, Fed sources say, by forcing more and more regional banks to clear their checks and other payments through the Fed's EFT system, Automated Clearing House. "The more dollars that pass through the Fed automatically, the less float," the source said. The less credit, the more bankruptcies among regional banks.

- The establishment of "free banking zones" in U.S. cities. Federal Reserve Chairman Paul Volcker is currently pushing through the Fed Board of Governors a 1978 proposal for the establishment of "International Banking Facilities," as they are called in New York and other cities, House Banking Committee sources said. Free zones

would allow banks who could afford to run them—meaning effectively only the large banks—to take reserve-free deposits like those in the Eurodollar markets. This would drain funds from the smaller banks.

Volcker, who is being aided by New York Fed chief Anthony Solomon, claims to have gotten the regional banks, who for two years bitterly opposed the free zones, to "cut a deal" with the big banks.

Soon after Eizenstat's closed door briefing to the ABA, the U.S. League of Savings Institutions met in Atlanta Sept. 16 and announced it is going on the political offensive against the administration's bank deregulation policies. League chairman Edwin Brooks said the League will begin a massive national ad campaign against banking dereg. "When the new law was passed," said Brooks, "we thought we saw the light at the end of the tunnel. What we actually saw was the headlight of a freight train coming from the other direction."

The entire format for the Congressional oversight hearings is a backdoor approach which leads observers to believe the administration is weak on Capitol Hill, too. The House Banking Committee's financial institutions subcommittee hearings are on the recently published U.S. General Accounting Office Report on the International Banking Act of 1978.

The GAO report calls for total U.S. banking dereg by claiming that U.S. banks will not be "competitive" with foreign banks until they are deregulated. GAO chief Helmer Stats will tell the hearings that Congress should refuse to allow foreign banks in until U.S. banks are fully deregulated, sources said.