

and maintain their position of leadership in the world-wide financial arena.

The confinement of U.S. banking organizations' full-service banking to a single state is not only anomalous and unfair relative to foreign banks' acquisition opportunities, but also outmoded. . . . Rather than setting up barriers to foreign acquisitions, Congress should begin lifting the barriers to interstate expansion of domestic institutions.

We have consistently supported gradual eliminations of restrictions on bank expansion, in the interest of increasing competitive opportunities and maximum reliance on the discipline of the marketplace. . . .

At this juncture we must begin to formulate new rules to govern acquisitions of healthy banks, including large bank combinations, not merely extraordinary measures to provide for the rescue of failing institutions. We fully support H.R. 7080 [The Emergency Bank Acquisitions Act—ed.], of course, but in the context under discussion here, that proposal must be regarded as the minimum required legislative adjustment to the realities of the financial marketplace today. Looking beyond emergency acquisitions . . . at a minimum the Congress should devise a practical plan for phasing out the Douglas Amendment restrictions on interstate bank holding company acquisitions. . . .

The Conference of State Bank Supervisors, the organization of the nation's 50 state bank commissioners, challenged the administration's Eizenstat report in a Sept. 16 press release. CSBS President Angelo Bianchi, New Jersey Commissioner of Banks, also hit the Fed's interest rate policy. Excerpts from the release:

CSBS President Bianchi challenged Mr. Eizenstat's false contention that state statutory limitations on geographic expansion of individual banks have been the primary causes of the banking industry's loss of market share. Commissioner Bianchi's view was widely shared by bankers present; and Mr. Eizenstat could not offer a reply of substance to the challenge.

Factors other than McFadden/Douglas provisions have stifled the growth of the industry as a whole. Loss of market share has been caused primarily by unrealistic inflexibilities in Regulation Q, state usury ceilings made counterproductive by monetary/fiscal excesses, extremely high interest rates, and by an uncontrolled tidal wave of other federal regulatory red tape. . . .

Attacks on McFadden and Douglas are unduly negative. The U.S. banking system is the greatest in the world. It is decentralized; decisions generally are made close to the point of need . . . to accommodate widely diverse needs of thousands of trade areas. Some banks serve primarily large businesses nationwide; some serve primarily agriculture and households locally. . . .

The proposal for 'free banking zones'

Without the approval of Congress or notification of the American public, the Carter Federal Reserve is planning to bring the \$1.2 trillion Eurodollar market into the United States, reorienting the U.S. banking system as a whole toward international debt refinancing.

This month, Federal Reserve Chairman Volcker intends to have the Fed Board of Governors pass a proposal by the New York Clearing House Association, the organization of New York's top 12 banks, for "free banking zones" in major U.S. cities. U.S. banks would be authorized to set up new branches called International Banking Facilities (IBFs) which would be allowed to operate in the U.S. itself, free of federal reserve requirements, federal interest rate regulations, federal and state taxes, and other government regulation.

Volcker's Staff Director for Monetary Policy, Stephen H. Axilrod, and his Washington staff are now wrapping up a new classified study for the Fed of the New York banks' IBF proposal. The Federal Reserve Board, under Regulation D on reserve requirements of the Federal Reserve Act, claims to have the power to implement the entire IBF program without Congressional action. All it need do is lift the reserve requirements. With the passage of the March 1980 Monetary Control Act, the Fed Board of Governors announced in an Aug. 15, 1980 revision of Regulation D, "the Board's authority to establish a reserve requirement necessary for the implementation of monetary policy on Eurocurrency transactions is extended to cover all domestic depository institutions." The language in the Monetary Control Act specifies that this includes all "foreign branches, subsidiaries, and *international banking facilities*" of non-member and Fed member institutions [emphasis added].

What is the Eurodollar market?

The \$1.2 trillion Eurodollar market, located primarily in the City of London, was first set up there as an "outlaw" market where international bankers could move funds for speculative purposes outside the U.S. precisely because of the relatively sound American bank law tradition which mandates federal supervision of



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banks. In particular, American banks have been required to set aside reserves in case of bad loans, so that banks whose borrowers cannot pay will not themselves collapse. The British government in the early 1960s, however, began the practice of allowing U.S., British, and other banks to put "Eurodollars" into London banks with no reserve requirements or regulation.

Since then, bankers have deposited what is today \$1.2 trillion in Euromarket banks, multiplying world inflation. The Euromarket is basically a giant crap game where banks create dollar credits and loan them to each other and to bankrupt Third World nations, without holding reserves or accounting to any authority for how sound the loan is, or whether it can ever be

repaid. "It's a chain-letter that runs as long as nobody calls 'foul,'" one banker described it. "Citibank London lends Brazil \$1 billion of which Brazil is required to redeposit \$500 million, based on which Citibank loans another \$1 billion to Mexico. It works until someone can't pay."

What's the hurry?

This money center bank attack on the McFadden Act is behind the sudden rush for IBFs.

The International Banking Facility proposal, of course, is not new. The New York Clearing House Association, the umbrella group for the big 12 New York banks, proposed the free zones in July 1978 (see box), but were rebuffed by regional banks throughout that year and last.

Although IBF proponents argue that the free zones will only bring back to the U.S. business already done abroad, even on the face of the proposal IBFs would be extremely inflationary. First, a significant amount of the dollars now in London and other offshore centers will flood into the U.S., and with reserve requirements relaxed, the money center bankers will create more such deposits here as they do now abroad. The kind of debt refinancing that now goes on in the Euromarkets will then proceed apace in the U.S., while new lending for productive purposes is totally deemphasized.

This operation alone will create a two-tier U.S.

The originators of the free zone plan

The proposal for free banking zones was put forward by the New York Clearing House Association, the organization of the top twelve New York banks, in a submission to the Federal Reserve entitled "International Banking Facilities in the United States." Excerpts from the July 14, 1978 proposal follow.

This paper urges amendments of Federal Reserve regulations in order to improve the ability of U.S. banks to conduct international banking activities in the United States. Changes are requested in Regulations D and Q to permit the taking of non-resident deposits by foreign-branch type "international banking facilities" to be regulated as if conducted offshore—free of reserve requirements and interest rate limitations.

The member banks of the New York Clearing House Association have developed specific amend-

ments to Federal Reserve Regulations D and Q which would . . . accomplish the following:

1. Permit deposits to be taken by the facilities only from foreign customers . . . exempt from reserve requirements.
2. Permit extensions of credit by the facilities only to foreign customers and to other international banking facilities. . . .
3. Authorize international banking facilities to accept call money—i.e., interest-bearing funds payable on or after a specified [usually same-day—ed.] notice. . . .

A principal benefit of the establishment of international banking facilities will be the creation of new employment opportunities in U.S. urban centers. Meaningful job gains will probably be realized as some of the activities now conducted abroad are switched to the new facilities. Even more important, U.S. centers should participate to a much more substantial extent in the future growth of worldwide employment in international banking than they have in such growth thus far.

banking system, with the money center banks like Citibank and Continental Illinois who could afford to operate such facilities becoming enormously more profitable in the short term than the "bottom tier" smaller regional banks. The first-tier banks can, with the ongoing moves to interstate banking, channel these profits into subsidizing their regular domestic lending operations, taking large amounts of domestic business away from the regional banks.

Moreover, the Carter administration and the big money center banks have plans to use the IBF program to destroy the McFadden Act and Douglas Amendment themselves, and create an interstate banking system through Electronic Funds Transfer.

Why the sudden change? The Fed thinks it can get sufficient national political support for the proposal now because the Association of Reserve City Bankers, the private club of the chairmen of the country's largest 134 money center banks, has moved in back of the IBF program.

Last December, the association, under the guidance

of its president, Mellon Bank Chairman James H. Higgins, set up an International Banking Facilities Committee at whose meetings "Volcker and the New York Clearing House banks have made a deal with the larger regional money center banks," Capitol Hill sources told *EIR*.

The deal is to cut the large non-New York money center banks, led by Mellon, the Philadelphia National Bank, Bank of America, First Chicago, Continental Illinois, and First National Bank of Boston, in on the IBFs in return for support. The rest of the nation's 14,600 regional banks would be cut out.

The content is that the top 134 bank members of the association will set up a national Electronic Funds Transfer payments system, referred to as the "U.S. CHIPS," which will grant them interstate branch banking in violation of the McFadden Act, greatly harming regional banks.

On Feb. 27, the Reserve City Bankers' IBF Committee endorsed the New York Clearing House IBF plan pending New York's acceptance of two minor amend-

Reserve banks and Fed versus McFadden Act

The Association of Reserve City Bankers, the national organization of chief executive officers of the top 134 U.S. money center banks, established an International Banking Facilities Committee in December 1979 which was the principal form in which the New York big banks and the non-New York money center giants hammered out their compromise to set up IBF free zones. The Association's IBF Committee endorsed the IBF plan Feb. 27, 1980. Excerpts from the IBF Committee's June 1980 final report follow.

The IBFs concept offers to the U.S. banking system important benefits which can be summarized as follows:

1. The competitive position of U.S. banks would be enhanced through the operation of an "offshore" facility based in the U.S. Such a facility could be operated at a reduced cost considering the administrative and operational benefits, better communications with the head office of the parent bank, and reduction

of overseas staff.

2. A reduced cost of funds may well be realized due to a preference for U.S. country risk of depositors. U.S. banks could reduce their cross border funding.

New York presence for non-New York banks: From an operational standpoint, it is clear that a non-New York bank could operate an IBF from its head office location in exactly the same manner in which a *Caymans or Nassau branch is now operated*. . . . It is equally clear that several major non-New York banks with a broad scope of international activities foresee a significant competitive inequality absent the authority to establish an appropriate New York presence. . . . Those banks argue that *IBFs should not be permitted unless non-New York banks are allowed to establish a proper presence in New York through some type of special purpose branch capability*. This presents a McFadden Act question. . . ."

Proposals for resolving Clearing and Settlement Problems: . . . There is a unique opportunity now . . . to improve the U.S. payments system.

1. Direct CHIPS Settlement: We should seek CHIPS and Fedwire rule changes to allow non-New York banks which clear Eurodollar transactions through their New York Edge Act to settle net CHIPS debits or credit directly through the Fed account of their parent bank. This would allow free movement of

ments governing minimum deposits and time-frame for opening the IBFs. On May 28 the New York Clearing House accepted the amendments and wrote a letter to the Fed proposing them and urging a speedy move of the IBF plan back to the front burner.

Things began moving quickly. By June 2, New York Fed chief Anthony Solomon in a New York speech publicly endorsed the "revised" New York IBF plans as "consistent with the national interests of the U.S." On June 24, the 14,000 bank-member American Bankers Association, which earlier had set up a Task Force on IBFs chaired by John R. Cummings, Jr. of the Industrial National Bank of Rhode Island, switched its position wholesale on IBFs. The ABA wrote a letter to the Fed endorsing the New York Clearing House plan based on the two "new" amendments. By July, Volcker was urging a "speedy review" of the program before the House Banking Committee.

Now the Chicago, Boston, and San Francisco bankers say that the Fed could rule to set up free banking zones at any time.

reserve balances of member banks between Reserve Districts. This proposal would end discrimination between New York clearing banks and others by giving all *equal access to CHIPS and Fed settlement across district lines* [all emphasis added].

Anthony Solomon, president of the Federal Reserve Bank of New York, in a June 2 speech before the New York State Bankers Association endorsed the New York banks' proposal for a banking free trade zone. Solomon stated that he wishes to use IBFs to enact an international credit cutback by bringing sections of the international Eurodollar market back within the United States in these terms:

I believe offshore banking is likely to continue to grow. I would prefer to see a return of the Eurodollar business to the U.S. and foreign-based deposit and loan business serviced from U.S. shores. The proposal to create an International Banking Free Trade Zone in the U.S. would enable U.S. banks to handle foreign business onshore, free of the Fed's reserve requirements, state taxes, and interest rate ceilings. International banking facilities could be set up in any state that adopts appropriate enabling legislation, just as this state has done. The proposed international banking facility is consistent with the national interests of the U.S. and could strengthen our hand in international discussions of how offshore markets should be treated.

U.S. CHIPS move: electronic warfare

The Association of Reserve City Bankers, the elite club of the chief executive officers of the top 134 banks in the United States, has devised a plan to implement a nationwide interstate banking system using the medium of Electronic Funds Transfer. Dubbed "the U.S. CHIPS" by insiders, the system would be a national version of the New York Clearing House banks' Clearing House International Payments System (CHIPS) computer. N.Y. CHIPS currently clears each day over \$120 billion in international and domestic bank settlement payments between the top 12 New York banks, their London Eurodollar market offices, and their foreign bank clients.

The non-New York members of the Reserve City Bankers among the leading Philadelphia, San Francisco, Boston, and Chicago money center banks have made the establishment of such a national CHIPS clearing system the condition of their political support for the New York banks' proposal for free banking zones. "We seek the creation of a U.S. CHIPS," Continental Illinois executive vice-president Alfred F. Miossi told *EIR* recently. "We must have equal access by all major banks through national membership in CHIPS to clear directly with London. We can support the New York proposal for International Banking Facilities if we have such equal treatment."

The explicit aim of such a U.S. CHIPS, both New York and non-New York money center banks agree, is to set up a de facto interstate banking system in the U.S. to totally undermine the McFadden Act and Douglas Amendment which now restrain the big money center banks from crossing state lines to drive the rest of the nation's 14,600 banks out of business. The U.S. CHIPS system "would constitute a large breach of the McFadden Act, in fact a rather large hole in the dike," Industrial National Bank of Rhode Island chairman John B. Cummings, Jr. told *EIR* about the proposal, which he helped author.

The New York CHIPS computer, a Burroughs large-scale dual processor B 6700 located at the New York Clearing House in lower Manhattan, is owned jointly by