Click here for Full Issue of EIR Volume 7, Number 45, November 18, 1980

Banking by Kathy Burdman

Heimann's rationalization plan

Led by Comptroller of the Currency John G. Heimann, several planners for the lame duck Carter administration are demanding a sweeping reform of the U.S. bank regulatory agencies including the Federal Reserve System. If implemented, these programs would have the unconstitutional effect of placing the nation's central banking and bank regulation in the hands of the great multinational banks led by New York's Citibank.

Comptroller Heimann's most advanced plan is a "rationalization of the structure" of the nation's seven bank regulatory agencies, as he told the annual meeting of the American Bankers Association in Chicago Oct. 14. In a backgrounder to reporters afterward, Heimann openly called for the consolidation into one large bank regulatory agency of all seven: the Federal Reserve Board, the Comptroller of the Currency, the Federal Home Loan Bank Board, the National Credit Union Administration, the Federal Deposit Insurance Corporation, the Depository Institutions Deregulation Committee, and the Federal Financial Institutions Examination Council.

The result would be a superagency under the control of Heimann and Federal Reserve chairman Paul Volcker, and responsive solely to the pressure of the major U.S. multinational banks. The major purpose of the rationalization is to eliminate the influence of the broad constituencies of the present regulatory agencies.

The nation's 5,000 smaller savings banks and savings and loans, for example, currently have a strong voice in federal policy regarding savings, mortgages, and home building through their regulator, the Federal Home Loan Bank Board. Even the limited moves made to subordinate the FHLBB to the Fed and Comptroller's office under the deregulation bill, however, have already significantly "limited the voice" of the thrifts in their own regulation, Ira L. Tannenbaum, a deputy counsel of the FHLBB, charged last month. The thrifts are disturbed at the extent to which the Depository Institutions Deregulation Committee (DIDC), created under the dereg act and dominated by Heimann and Volcker, has "harmed savings and loans, which are outnumbered and overpowered by the larger commercial banks and other institutions" in dealing through the DIDC, Tannenbaum said.

In his speech, however, Comptroller Heimann lauded just this tendency of the DIDC and its companion Financial Institutions Examination Council to centralize all regulatory power. He called for "moving beyond" them to "a framework which provides for equal regulatory treatment of equal players" including the savings institutions, a "rationalization of the structure" into "either of two basic options which have been proposed, a single agency or separate agencies for federally and state chartered depository institutions."

The new super-regulatory agency, Mr. Heimann added, would conduct significantly *less* regulation of banks overall. That is to say, it would act mostly as a policy center for Citibank and Chase, which seek total deregulation of U.S. banking for their own freedom of movement throughout the country to pick up deposits. He denounced the current regulatory system as "utterly pervasive" and called for regulation overall to be significantly reduced.

Streamlining the Fed

House Banking Committee chairman Henry Reuss (D-Wis.) has meanwhile called for a much more ambitious, if long-term, proposal of "streamlining" the entire Federal Reserve System—to replace it completely with a private-bank-dominated national payments system.

Congressman Reuss last month wrote a letter to the Congressional General Accounting Office requesting a prompt GAO study on "the future of the Federal

© 1980 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

Reserve System. Is the vast Federal Reserve bureaucracy that has developed still needed to serve the essential functions of a central bank?" Reuss asks, baldly.

Reuss specifically makes the unconstitutional suggestion that the government's central bank clearing function be turned over to such private clearing systems as the New York banks' Clearing House International Payments System (CHIPS), thus shutting the nation's smaller banks out from all effective service. "Could its [the Fed's] vast clerical and check-clearing services be carried out better by the private sector, where competition would produce cost saving efficiencies?" Reuss writes.

It is the constitutional obligation of the Federal government to provide the nation's economy with central banking services, including credit creation, backed by the obligations of the U.S. government. Surrender of so large a part of this service to a cartel of private banks, such as the top 12 New York banks who own the private CHIPS system, is clearly against the national interest.

Reuss also echoes Comptroller Heimann's calls for regulatory streamlining, and supports the kind of super-regulatory agency which would be primarily responsible to the larger New York banks. He calls for the flat shutdown of some of the Federal Reserve's bank regulatory functions altogether, on the logic that the regional Federal Reserve banks are "too responsive to local bankers' needs," as a Reuss aid told *EIR*. Reuss asks the GAO to investigate whether the Fed's bank regulatory functions could not be transferred altogether to the Comptroller of the Currency or perhaps the Federal Deposit Insurance Corporation.

RIP

One of the most overlooked but far-reaching rationalizations of the U.S. bank regulatory system is now being conducted by Federal Reserve Board vice-chairman Frederick Schultz, Chairman Volcker's number-two man at the Fed, under the title "Regulatory Improvement Project." RIP, as the acronym implies, has ominous implications for the banking system. Its basic aim is to vastly accelerate banking deregulation by removing as many protective regulations as possible through internal Fed Board review without recourse to congressional authority and without banking constituency influence.

The Fed's "Report to Congress" of Sept. 30, 1980, on RIP defines the program as "a zero-based review of all existing Federal Reserve regulations under criteria embodied in the Regulation Simplification Act," Title VIII of the Deregulation Act, requiring streamlining of Federal financial regulations. Under it, every one of the Federal Reserve act's 25 regulations on monetary policy and banking are being cut to bare essentials.

This columnist is all in favor of cutting the Fed's volumes of red tape and paperwork, but not at the expense of the health of the banking system.

For example, under RIP a major loophole has been cut in the McFadden Act protection against interstate branch banking, through RIP revision of the Fed's Regulation K on International Banking. Reg K, which governs Edge Act branches, those branches authorized to do only international lending and take only international deposits, has been "simplified . . . to eliminate the requirement for separate incorporation of each Edge Act office," the Board reports, "with the result that Edge Act services should be made available in cities that never had them before."

The practical effect is that the multinational banking giants such as Bank of America can now proliferate at little expense their Edge Act branches throughout the country, competing for international business with local banks whom they can drive out of the market. This has strategic significance since the Fed's next planned "revision" of Reg K will be a "liberalization" of the *kinds* of lending done. By the end of the year, the Fed is expected to allow Edge Acts to lend not only for foreign transactions, but to all phases of purchasing, manufacturing, and other loan business of any company involved in foreign trade. This will make large segments of *domestic* banking business of local banks prey to multistate giants like Bank of America.

In addition, in the cited memo the Fed Board requests a sweeping mandate from Congress to remove itself from Fed regulation to allow the Board to change regulations at will without legislative interference. It requests that Congress, for example, "legislate by announcing regulatory goals, rather than by specifying details in the statute; give the Board greater freedom to differentiate between large and small institutions; leave the matter of reports solely to Board discretion wherever possible; [and] allow the Board to extend statutory deadlines for new laws."

In particular, the Fed requests Congress freely "*permit deregulation experiments* . . . to suspend the operation of a regulation for a limited period of time as an experiment." Given Chairman Volcker's commitment to cutting up protective interstate banking regulation, any such Congressional blank check could have enormous implications. Edge Acts, for example, as is already the Fed's clear intention, could be turned "experimentally" into full-fledged interstate branches with the right wording of Regulation K, effectively wiping local banks out of any export-related business in their areas.

Incoming Senate Banking Committee chairman Jake Garn, Republican of Utah, is expected to take a hard look at this.