

## Banking by Kathy Burdman

### Interstate banking on little cat's feet

*Congress is being set up to defend McFadden but accept free banking zones.*

Protective regulations against interstate banking by the large New York and other money-center banks are headed for a period of "quiet but intensive subversion," if Carter leftovers in the Federal Reserve and House Banking Committee have their way, House Banking sources told *EIR*.

The Nov. 19 Federal Reserve Board approval of the New York Clearing House "top twelve" banks' International Banking Facility free banking zone plan "will shift the entire framework for banking among the states, and show that the McFadden Act is in reality inoperative," aides to Rep. William Stanton (R-Ohio) said. The act prohibits banks, especially the big New York variety, from branching across state lines to eat up local banks' lending business.

The opening volley in the new Congress on behalf of banking deregulation will be fired by Carter Domestic Policy adviser Stuart Eizenstat, who intends to release his long-delayed Report on the McFadden Act and Douglas Amendment in January. Eizenstat and his deputy Orin Kramer make the outrageous proposal that both McFadden and Douglas be abrogated to allow "contiguous" interstate banking.

Under the contiguous state plan, first proposed by Security Pacific Bank of Los Angeles, major money-center banks would be able to establish a "limited free-fire zone" within a region of states con-

tiguous to their home state, within which they could take over local banks and their business.

Under the new Eizenstat/Kramer plan, Security Pacific, say, would be allowed the extensive power to not only buy up smaller banks in Oregon, Arizona, Nevada, Utah, and other states, but to establish major full-scale branching operations, too.

While the contiguous state plan would require legislation, Carter's men will also propose that the Fed immediately allow, by regulatory fiat, the establishment of automated teller machines in "adjacent economic areas," allowing New York giants to invade New Jersey and Connecticut.

The sweeping Carter plan per se "doesn't have a snowball's chance," Treasury's Mingot admits. It's not meant to. It is meant to convince the public that deregulation is inevitable and to make the changes coming up under the Fed's IBF program look mild by comparison.

Mild it isn't. The leading New York banks behind the IBF plan intend to use electronic funds transfer to establish a national banking cartel, which only the privileged Top 100 money-center banks may join. In return for supporting the New York IBF plan, First Boston, First Chicago, Bank of America and other money-center banks have demanded membership in the New York banks' Clearing House International Payments System

(CHIPS) computer. A "U.S. CHIPS" member would be free to transfer funds, make loans, and otherwise bank around the country, regardless of federal law.

The Fed's Oct. 31 staff memo approving the IBF plan points out that the big banks will take domestic business away from regional banks through the technicality of using the books of their foreign subsidiaries. "U.S. corporations might be able to indirectly use IBF deposits placed by their foreign subsidiaries and thereby reduce their own demand for deposits in the U.S.," the memo admits.

The Eizenstat report will set the public tone. Present federal banking regulations "are artificial in economic terms and deprive the public of the benefits of competition, impede efficient allocation of resources, and application of new technologies," it states.

Then a group of pro-deregulation staff members left over from Wisconsin Rep. Henry Reuss's tenure at the House Banking Committee intend to create a ruckus on the Hill. Incoming Senate Banking Committee Chairman Jake Garn (R-Utah) strongly opposes interstate banking and plans tough oversight hearings to stop the Fed and Treasury from "legislating [it] by default," he told *EIR* last month. But aides to ranking House Banking Committee Republican Stanton say that they and House Banking Chairman-designate Rep. Fernand St. Germain (D-R.I.) "can take over House oversight hearings and turn them into a forum for showing that interstate banking is not only good economic sense, but is already reality. Even Senator Garn will be forced to conclude that McFadden is obsolete," they say.