Banking by Kathy Burdman

IBFs are coming!

Free banking zones, a long step for deregulation, threaten the future of the savings and loans.

Federal Reserve Chairman Paul Volcker this week turned over the U.S. banking system to the supranational control of the foreign bankers of the Eurodollar market. Volcker and the Fed Board of Governors voted unanimously June 9 to allow the establishment of international banking facilities (IBFs) in major U.S. cities. These "free banking zones" would allow hot money of the offshore Eurodollar market to be deposited in banks across the United States, playing havoc with money markets, and sending inflation through the roof.

The move was hailed by the major New York commercial banks, who first proposed IBFs, as "an extremely important development on the path of deregulation," Richard Aspenwall, vice-president of Chase Manhattan, told the press.

The Volcker Fed claims that IBFs, supposedly restricted to financing of foreign transactions, will have no impact on the domestic thrift industry, now undergoing a major financial crisis just as IBFs come on line. I don't buy that.

The IBFs were first proposed to the Fed by the New York Clearing House Association, the front group of the top 12 New York banks led by Citibank and Chase, in a June 1978 memorandum. Volcker forced through the plan after three years of opposition from regional banks. As of Dec. 3, commercial majors may set up IBFs with these features:

- No reserve requirements. While U.S. banks must now set aside reserve funds against loan defaults for normal banking safety, IBFs will need none. Any large bankruptcy in the international markets could threaten U.S. banks.
- No federal, state, or city taxes in New York and elsewhere.
- Little or no federal deposit insurance.
- No interest-rate ceilings.

On one level, what is openly afoot is "bringing the Eurodollar market back home," as a Chase spokesman put it, which means that the billions in illegal drug, mafia, and other lawless money now flooding the $1.2 trillion gross Euromarket will soon flow into major U.S. cities.

Part of the raison d'être of the offshore Euromarkets in the first place was that much of the money is *illegal*. As *EIR* has documented in a series of banking reports (*EIR*, Oct. 21, 1980 and *EIR*, Dec. 16, 1980), the lack of regulations on the Euromarket means money can be laundered freely.

Without reserve requirements, the offshore banks can create unlimited credit against their $200 billion in net deposits. In return for depositing $100 million in Citibank Ltd., London, for example, an Iranian heroin shipper would get a legitimate loan of $300 million to buy Florida condominiums.

Bringing these operations to the United States would dramatically encourage not only the drug trade but inflationary activities generally. As it is now, Citibank Ltd. must launder the purchase of U.S. real estate through an offshore shell holding company to avoid U.S. taxes and investigation. But more ominously, the Eurodollar flow works both ways.

On Oct. 1 the New York banks' CHIPS computer will go onto simultaneous hourly electronic funds transfer (EFT), linking them with the offshore market on a two-hour basis. Big banks in Chicago, Boston, and California are wiring into CHIPS.

Since interest rates will soon be higher in these unregulated EFT networks due to IBFs' lack of reserves, local S&Ls and small commercial banks will soon begin using the subterfuges of the Fortune 500 corporations and begin booking their surplus funds, disguised as "foreign transactions," into IBFs in their region. Such a "foreign booking subterfuge," while nominally illegal, is quite simple and, frankly, expected by Fed officials.

Meanwhile, the Fed and Treasury Secretary Donald Regan are still pushing their plan to have commercial banks take over S&Ls in the red. This will mean increasing hookups of S&Ls into CHIPS and other commercial-bank EFT systems, I believe, and is meant to wire the deposits of local citizens directly into the Eurodollar whirlpool.

Suppose that under these circumstances Brazil or Zaire defaults on the offshore markets. With every small bank in the nation hooked into the defaulting bank through EFT, Citibank's problems become everyone's problems. Either Congress would have to bail out Citibank, creating hyperinflation, or let Americans take it on the chin.