Bush group boosts the Fed's power play

by Renée Sigerson

A big question on Capitol Hill these days is which of several suggested bills Congress will move to attach to the administration legislation calling for increased U.S. quota payments to the International Monetary Fund. It has just come to light that one of the policy bodies shaping congressional action on this front is the low-profile Working Group on Regulation of Financial Institutions, pulled together in January under the chairmanship of Vice-President Bush. The bill the Bush committee favors for passage alongside the IMF allocation would pave the way for the Federal Reserve to exert exclusive regulatory authority over the U.S. banking system.

The bill, S.502, was drafted for the Senate Banking Committee in mid-February by Senators Proxmire and Heinz. According to various sources, Bush's working group helped them to design the bill to make it palatable to a President who otherwise is strongly opposed, on ideological grounds, to toughening the powers of governmental regulatory bodies.

The way the IMF quota legislation is being played in Washington is that Congress will balk on giving the banks which have made international loans a bailout, unless it can also "punish" them with increased government control. Of numerous bank regulatory bills proposed, the Heinz-Proxmire bill is the most likely to get through because of the "authority" of its supporters.

The Bush team was formed as a subgroup of the Task Force on Regulatory Relief, created in February 1981, with the assignment to make recommendations for "lessening the regulatory burden on the American public," according to a press release. Nominally, Bush's group is seeking to design its own bill, targeted for mid-October, which will provide recommendations for "simplifying" the regulatory process for the financial sector.

From current readings, the Bush committee is aiming to further integrate the banking and insurance industries under one regulatory system, partly by drawing the insurance companies into providing private guarantees for bank deposits. In combination with S.502, this would give the Federal Reserve complete say over nearly all financial resources.

The working group, formed in January, is composed of the heads of all the regulatory agencies which oversee financial institutions: the Federal Deposit Insurance Corporation, the Federal Reserve, the Comptroller of the Currency, and the Securities and Exchange Commission.

Rumors persist in the private banking community and among the regulators themselves of fights and disagreements between the Federal Reserve and the Comptroller of the Currency's office over how to handle the increasing number of crisis cases. The root of these disagreements appears to be a concern at the U.S. Treasury, where the Comptroller's office is based, that if the authority of the Fed is expanded at the expense of the authority of the other regulatory agencies—which is what the Heinz-Proxmire bill provides for—the Treasury will be shut out of any control over U.S. banking.

The Heinz-Proxmire bill calls for the Federal Reserve Bank to have exclusive authority in:

- Imposing country lending limits: currently banks have limits on how much they can lend to any single entity abroad. The new limits would restrict the volume of lending to every entity in a foreign country, taken as one lump sum;
- Imposing penalty

exclusive right to tell a bank when it would have to put aside loss reserves for a loan declared sub-standard;

- Estimating rescheduling fees: banks are now receiving fees for rescheduling loans which foreign countries cannot immediately replay. The regulators would forbid the banks from counting those fees, in aggregate, as income toward earnings and profits.

While the Bush team claims that the work they are doing on their own bill is occurring independently of the debate in Congress on bank regulation, Peter Breeden, the Bush team's chief spokesman, said in an interview: "Watch Proxmire. He, in contrast to many other senators, has the authority to get a bank regulatory bill attached to the IMF legislation."

Proxmire's office, meanwhile, claims they wrote their bill with help from Bush's office.

Breeden views other bills that have been proposed in Congress as "too draconian" to ever have a chance of convincing Mr. Reagan to sign them into law. Chief among such proposals is the bill suggested by Senator Bradley and Congressman Schumer to force the banks, en masse, to reschedule a large portion of back loans on a 10 to 20 year basis, under the management of some international regulatory agency which would monitor the banks' activities. While Bradley's proposal—which is modeled on a blueprint circulated internationally by Felix Rohatyn of Lazard Frères—has received ample coverage in the *New York Times* and *Washington Post,* the White House-based Bush team gives the plan no chance of passage. "If Teddy Kennedy were President," the spokesman said, "what Mr. Rohatyn had to say might have more

Rohatyn's bill is only "more draconian" in its immediate effects. Giving exclusive power to the Federal Reserve in monitoring the soundness of the entire U.S. banking systen opens the gateway for top-down cartelization of all U.S. bank lending anyway. The Fed bears no responsibility to any elected government office. Further, the Fed's actions on these questions are heavily swayed by pressures from the Bank for International Settlements, the secretive central bankers' club which meets monthly in Switzerland to deliberate on world monetary affairs.