Citibank changes mean cartelization of the U.S. banking system

by Kathy Burdman

The announcement June 19 that computer whiz-kid John Reed succeeds Walter Wriston as chairman of Citicorp in August signals a sharp step-up in the cartelization of the U.S. banking system. The Swiss and London-based European banking elite apparently intend Citibank to be one of the sole survivors of the coming U.S. banking crash, absorbing hundreds of other "losers."

Reed's principal qualification is that he is the only one among Citibank's current top management who knows nothing whatever about banking. The implication is that Citibank intends to cease to be a bank, but will become a vulture feeding on the remains of American banking.

Another hint of planned protection for Citibank, Washington sources say, is that retired Citicorp chairman Wriston may well be "kicked upstairs" to become the next U.S. Secretary of the Treasury. Secretary Donald Regan, as *EIR* has been predicting, has so identified himself with the idiot line of "there is no debt crisis" that he will be first to be sacrificed when a banking crash hits. Wriston, the man Washington insiders identify as Regan's puppeteer, will assume the position.

It is not that Citibank is better placed to survive a crash of developing-sector debt values than its colleagues. On the contrary: Citibank's loans to Argentina top $1.3 billion, and the bank will likely take a $20 million or more second quarter loss there alone. Citi's loans—all rotten—to Brazil, Mexico, and Venezuela total $4.6 billion, $3 billion, and $1.5 billion officially reported. Including so-called short-term credits which Citibank does not report publicly, its Brazil exposure is equal to 2.6 times its entire shareholders' capital.

It will be, as Mr. Reed told the National Association of Urban Bankers June 21, because everybody else goes, and Citibank is bailed out by the Federal Reserve. As Reed put it, "many banks will disappear" in the near future as "radical technological changes transform banking into a new industry."

The recently proposed solutions for Continental Illinois—victim of a $15 billion run by the same European banking circles during May which brought down the bank—are illustrative of what is eventually planned for the U.S. banking system as a whole. In a solution first proposed by the Belgian investment banker Baron Lambert, owner of the Drexel, Burnham, Lambert investment bank in New York, Continental would be separated into a "bad bank" and a "good bank." The "bad bank" would take all Conti's bad loans, and be auctioned off at huge losses on the dollar. The "good" would survive.

Federal Deposit Insurance Corporation chief William Isaac showed to what extent Washington accepts this logic, in June 22 testimony before the Senate Banking Committee. Since banks' cost of funds has ratcheted upward, they require more deregulation to offer different financial services and compete with the "financial supermarkets."

In essence, under the Swiss-based Bank for International Settlements (BIS) plan, the U.S. banking system is to be transformed into a colonial-style investment banking system, strictly domestic, to curtail credit. Instead of thousands of commercial banks, which create credit—including international credit to the Third World and to expand U.S. trade—it will be dominated by "non-banks," the financial supermarkets such as Shearson Lehman American Express which have agglomerated recently.

These non-banks, including a streamlined Citibank, will enjoy a two-tier credit system. On the one hand, to bail them out, they will receive cheap credit backing from the U.S. Federal Reserve. But interest rates to the U.S. economy will remain high, as the non-banks keep their prime rate to U.S. industry, and service charges to U.S. consumers, much higher and more profitable.

End of American System

Only those commercial banks which can rapidly shed their international banking functions, and become more like "non-banks," led by Citibank, will survive, absorbing others as they fail. Like Citibank, their primary function will be to electronically "process" credit for the U.S. domestic market, on a nationally cartelized scale. As Reed put it in his speech, "banks must jump on the technological bandwagon or they will be swept aside. . . the banking industry isn't moving fast enough. We must become a paperless processing business."

This will destroy the vestiges of America's postwar world economic dominance. U.S. banks, slated to take heavy losses on their entire international lending portfolios (see page 4), will be forced to massively withdraw from international markets. The FDIC and the Federal Reserve will become the dumping ground for their international portfolios.

The announcement that U.S. banks would have to take major losses came on June 18, days after Swiss-linked House Banking Committee chairman Fernand St Germain (D-R.I.) roasted the Comptroller of the Currency over its handling of the Conti Illinois crash. St Germain, whose office works closely with the BIS, had raked Comptroller C. Todd Conover over the coals the first week in June for "bailing out" Continental Illinois Bank and not forcing the bank to admit its losses in bad loans sooner. "There has got to be a re-regulation of the big commercial banks, they have gotten out of hand with their bad assets," St Germain's office complained to a journalist.

Following the hearings, the Comptroller issued stiff new guidelines requiring banks to report past-due loans rigorously, on an up-to-the-minute basis, for the second quarter, and write the interest income down in the third quarter.

Under the BIS scenario, those U.S. banks led apparently by Citibank which survive the coming crash will do so by similarly hiving off most of their rotten international loans into a "bad bank," which will be auctioned at fabulous losses. As Swiss National Bank executive Markus Lusser told a journalist, "U.S. banks should begin to sell off their non-performing international portfolios at whatever discount the world markets will bear." West German central bank chief Karl Otto Pöhl similarly elaborated on June 21 that he wants to foster "a secondary market for bank claims against debtor countries," into which market U.S. banks would have to liquify their bad international paper.

Following such an experience, it would not be likely that any U.S. bank would do significant international lending again—exactly the Europeans' desired result. Survivors would be the "good"—i.e., U.S. domestic—portfolios of whichever banks are favored by the Europeans as a vehicle for establishing a new domestic U.S. banking system.

Looting the consumer

Hypothetically, Citibank's domestic operations would be such a surviving "good" bank, becoming in effect through deregulation, an investment bank.

The U.S. banks are to be kicked out of the international markets and relegated to the area which John Reed has made the most important profit center at Citibank—colonial looting of the U.S. consumer market. In effect, U.S. consumers, who will pay double digit rates for declining services and scarcer mortgages, will become the new "Third World" banking profit center for the megabanks and non-banks.

Citibank has already expanded massively into every imaginable non-bank, investment-banking function. On June 19, the day Reed was elevated, Citibank also announced it has formed an investment banking group to actually buy up Conrail, the nation's largest commuter railroad. Citibank organized a group of investors which made a $1 billion bid for the railroad, up for sale by the U.S. Department of Transportation, and also offered to forego $1.2 billion in tax credits Conrail has acquired, a total offer of $2.2 billion to the government.

John Reed's career has been devoted to setting up a nation-wide electronic banking system whose major profit comes out of overcharging the American consumer. Reed was the office boy for Wriston's plan, architected at the New York Council on Foreign Relations, to dump international lending and go for the pockets of American consumers. As Wriston told *Fortune* magazine in September 1982, there are over $1.2 trillion in consumers deposits in the United States, mostly in other banks and in savings and loans.

"Willie Sutton said he robbed banks because that's where the money is," Wriston noted. "I see that $1.2 trillion out there, and I don't see any number that looks like that anywhere else."

Reed spent the years since 1977 establishing a vast electronic banking network in New York and 20 other states for Citibank to carry out Willie Sutton's advice. In 1977, Reed mailed 20 million Visa, Mastercharge, and other credit cards across the country and Citicorp, out of its runaway South Dakota headquarters, overnight became the nation's No. 2 bank credit-card company.

During 1979-80, Reed's domestic consumer division lost Citibank over $300 million, due to a massive infrastructure expenditure and advertising efforts to capture the consumer. The losses were papered over by looting profits from Latin American debtors, then paying double-digit interest rates. Now that the Latin debts have gone sour, the idea is to reverse the situation.

So Citicorp and other "non-banks" that follow the model will be pulling out of world lending for good. "The future of Citicorp obviously lies in the U.S. consumer business," said Dean Witter analyst Lawrence W. Cohn of Reed's appointment. "The appointment of John Reed embodied the technological and retail thrust of the bank," said Keefe, Bruyette & Woods' James J. McDermott Jr.

Reed is more than Wriston's errand-boy, however. He is also a top European oligarchical representative, the only U.S. banker on the corporate board of Britain's Prince Philip's World Wildlife Fund, the central planning body for the European elite's Bilderberger group. The World Wildlife Fund has done the premier studies on how to use cheap technology to control and reduce population growth around the world.

Control over a credit system such as that of the United States via an electronic banking network such as Citibank's will go a long way toward ensuring much more expensive and scarcer credit for American industry, farmers, and home building.