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Banking by Kathy Burdman

The U.S. becomes an 'offshore market'

Volcker's deregulation has turned domestic banking into an imitation of the Eurodollar market.

In order to fake the current consumer-led "recovery," Federal Reserve Chairman Paul Volcker has carried out a combination of money printing and structural deregulation of the U.S. banking system over the past year which has turned the U.S. domestic banking system into a cheap imitation of the lawless offshore Eurodollar markets.

As will be recalled, the raison d'etre for the Euromarkets was the desire of British, Swiss, and New York bankers during the 1970s to build up dollar deposits completely outside U.S. authority. They sought to avoid U.S. reserve requirements—at the time substantial—which forced banks to maintain non-earning reserve cash at the Fed at a level of 5 to 10 percent of their deposits.

Reserve requirements cost banks money. They are also a prime control which central governments keep over the rate at which private banks are allowed to increase credit, properly the privelege of the state. The higher the reserve to deposit ratio, the less credit banks can multiply upon a given deposit base.

In the Euromarkets, where reserves, like regulation, are exactly *zero*, there is absolutely no limit to this "Keynesian multiplier."

This lawless arrogation of the dollar credit-creating powers of the U.S. government by the private banks has been the cause of world inflation and the looming world debt crisis.

The present recovery has been faked, first, by tremendous money printing. The sharp drop in U.S. interest rates during the third and fourth quarters of 1982, and the continued moderate overall level during 1983 was engineered by the Federal Reserve.

On top of this, the series of deregulatory actions taken since Volcker's 1980 Monetary Control Act have in effect turned *political* control over the system in a major way over to a cartel of New York-based private banks.

The major structural effect of deregulation has been to drastically lower the reserve base of the banking system overall. The domestic banking system at this writing in effect already has a "Keynesian multiplier" exactly like that obtaining in the Euromarkets.

First, there was a vast structural reduction in legal reserve requirements on the existing deposit base, under the Monetary Control Act. Since its passage in November 1980, five reductions in reserve laws have cut a full $9 billion in reserves (unadjusted) out of the system. Under this act, the Fed will continue to reduce reserves for some time to come.

To this must be added the creation of the completely new "hot money" accounts. Beginning May 1, 1982, the Depository Institutions Deregulation Committee, under Fed control, created a *new time deposit* for commercial banks and thrifts with a similar minimum maturity of 3½ years, no ceiling on interest rates, and and zero reserve requirements.

These deposits grew to $1 billion during the May-August 1982 period. Begininng May 1, 1982, the Fed created a new 91-day Money Market Certificate for banks and thrifts with rates tied to the 13-week T-bill average. These deposits grew to $5.8 billion during the May-August 1982 period.

On Dec. 15, 1982, the Fed authorized the creation of new Money Market Deposit Accounts (MMDAs) as savings accounts at banks and thrifts. MMDAs bear a reserve requirement of zero. They are insured by the FDIC, and without any interest-rate ceiling under Reg Q.

On Jan. 5, 1983, the Fed also authorized creation of new "Super-NOW" accounts. These have the same features as MMDAs, i.e., no interest ceilings and FDIC insurance, with the added feature that they permit an unlimited number of transfers and are thus classed as "checkable" deposits.

As of June 1983, MMDAs have boomed to $360 billion, and Super-Nows to $30 billion.

This deregulation to date has produced a bloated, still swelling deposit structure upon a tiny, shrinking reserve base. Although the size of deposits has been rising astronomically, the size of unadjusted raw reserves, on balance, due to all the factors above actually *shrank in dollar terms during the period 1979-1983*, from $40.66 billion outstanding to $38.31 billion.

Numbers published by the Federal Reserve, without adjustments which obscure the change in reserve requirements, show a dramatic drop in the ratio of reserves to overall deposits. The ratio of unadjusted reserves to total deposits in U.S. commercial banks as reported by the *Federal Reserve Bulletin* dropped from a 1979 level of 4.13 percent by over 30 percent at the end of June 1983, to 2.84 percent.

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