

Congressional Closeup by William Jones

Fate of banking reform depends on House

The Senate vote in favor of the Proxmire Modernization Bill on March 31 was the first major step in destroying the protective "firewall" which had been built up between the banking and the securities industries since the passing of the Glass-Steagall Act in 1933. The bill gives banks and securities firms broad authority to venture into each other's realms.

The second phase of the deregulation of banking will be decided in a committee jurisdiction battle now going on between the House Banking Committee, headed by Rep. Fernand St Germain (D-R.I.) and the House Energy and Commerce Committee, headed by Rep. John Dingell (D-Mich.).

Dingell chairs one of the most powerful committees in Congress, with 150 staffers. He has long been an opponent of deregulation. His father, also a congressman and a New Deal Democrat, strongly endorsed the initial Glass-Steagall legislation.

Rep. St Germain, chairman of the Banking Committee, has also been an opponent of banking deregulation, although he is under much pressure from committee members who want deregulation.

St Germain had crafted a bill which would grant banks a few new powers in the securities and insurance arenas, but would keep legislation under the jurisdiction of the Banking Committee. The proponents of deregulation in the Banking Committee then put forward an alternative proposal which goes further toward deregulation, but would give Dingell undisputed say over the bill—perhaps hoping that they could thereby win him to their cause.

The political in-fighting may play

an important role in undermining what has been a bastion against opening the floodgates of the volatile and insecure securities markets on our local and regional banking system. If there was ever a time to protect our banks from a possible collapse of the securities markets, that time is now.

House begins debating defense appropriations

Initial reports indicate that the U.S. armed services will have fewer weapons and fewer personnel to meet the demands of the 1990s. After adjustment for inflation, there will be an equivalent of \$285 billion disposable for the Pentagon during the fiscal year which begins on Oct. 1. The U.S. military forces have shrunk considerably in the course of several defense budgets. Even though the entire \$285 billion is authorized by the Congress, the U.S. Army will be half the size it was during the height of the Vietnam War.

The "600-ship Navy" still remains only 580—as compared to 890 in 1981 when President Reagan took office—with House Armed Services Committee chairman Les Aspin (D-Wisc.) threatening to cut two of the proposed new Navy aircraft carriers. If Aspin has his way, he will also trim the SDI program and keep only a portion of the active-duty forces in a high state of readiness.

Almost simultaneous with the beginning of the defense debate, the Pentagon provided the Senate Armed Services Committee some key chapters of its annual report, *Soviet Military Power*. The report describes how the Soviets have taken the lead in the development of battlefield lasers, radar jammers, anti-ballistic missile de-

fenses, and high-energy particle beams capable of destroying weapon sensors. Soviet war labs, according to the report, employ 10,000 scientists and are reaching parity with U.S. developments in submarine hunting techniques and sub quieting engineering.

"The Soviets realize," states the report, "that technology is transforming the nature of warfare and that the destructiveness, speed, and precision of new weapons systems could change the balance of power."

Perhaps the Pentagon report will make our budget-slashers less impetuous in their endeavors. Although the real root of the problem lies in the fact that budget austerity—the code word of the day for our legislators—will not only aggravate our economic woes, but would create a shift in the global balance of forces which may be difficult, if not impossible to redress.

House panel probes junk bond operations

The oversight panel of the House Energy and Commerce Committee is investigating whether trading in junk bonds by Drexel Burnham Lambert, Inc. employees might have led to manipulation of bond issues underwritten by the firm. Michael Milken, head of Drexel's junk bond operations, was subpoenaed to appear before the subcommittee on March 21. According to a committee staff member, Mr. Milken was subpoenaed because he declined to appear voluntarily.

The subpoena was issued after weeks of negotiations between congressional investigators and Mr. Milken's lawyers, who wanted to prevent Milken's appearance in court.

When Milken finally did appear

with his lawyer, Edward Bennet Williams, he took the Fifth Amendment, declining to answer questions about his role in directing hundreds of millions of dollars of bond investments for himself and certain other Drexel employees. Rep. John Dingell (D-Mich.), chairman of the Energy and Commerce Committee, adjourned the hearing when it became apparent that Milken was not going to testify.

At a press conference afterward, Dingell raised questions as to whether Milken may have violated numerous securities laws in connection with bond investments. He said the highly profitable short-term trading in accounts controlled by Milken, around the time the bonds were first marketed or underwritten by the firm, raised questions ranging from possible market manipulation to illegal insider trading. Drexel issued a statement that Milken has their full support. "His position," says the statement, "is one we totally respect."

NNDPC'S Tarpley testifies before committees

In testimony before the House Defense Appropriations Subcommittee, a representative of the National Democratic Policy Committee, Webster Tarpley, attacked the theorists of the "Decline of America," like Harvard guru Paul Kennedy, who are proposing the dismantling of the U.S. military presence in Western Europe, because American "imperial decline" is "inevitable." Tarpley called for full funding for an SDI crash program and for radio frequency weapons.

Earlier in the week, Tarpley had given testimony to the Appropriations Subcommittee for Housing and Urban

Development, where he demanded funding for a 40-year Moon-Mars program.

Senate passes trade bill 63-36

The controversial trade bill, passed on April 28 by the Senate by a vote of 63-36, has reached the point that it will face an almost inevitable veto by President Reagan. The bill, brimming with protectionist measures and punitive actions against our better trading partners, will have to go back to square one, when it is rejected by the President.

There is hardly any chance that a new bill, more acceptable to the President, could be worked out in the context of this Congress, even if the will were there to do it. The trade issue will then go from a congressional to an election issue and Hill Democrats will be playing the issue to the hilt. The trade issue thus grinds to a halt like so much else that has been undertaken by the Reagan administration.

Nunn threatens to amend INF treaty

Only the White House and the more fervent supporters of the INF treaty in the Senate seem to be in any rush to ratify the treaty in time for the upcoming summit. The Democratic leadership in the Senate has made it clear that they don't want to be pushed on the INF.

Sen. Sam Nunn (D-Ga.), chairman of the Armed Services Committee, warned in the floor debate on April 22 that he may be forced to attach a

Category 3 amendment to the treaty, which would make approval of the treaty contingent on the President's obtaining an explicit confirmation from the Soviets that they agree with the administration's definition of "weapons delivery system."

The basic issue involves whether missiles armed with lasers or other futuristic technology are a "weapons delivery system," that is, are capable of damaging or destroying a target, or are only measuring, probing, or reconnaissance lasers. Even if the Soviets agreed to some such definition, there would still be a problem as to whether the United States could verify whether the lasers were "weapons delivery systems" or not.

If the Senate makes its way through that labyrinth before May 27, the date of the summit, they will then have to tackle the Biden Amendment, or the so-called "authoritative interpretation amendment," which would essentially be a fight over whether the administration or the Senate maintain the right of ultimate interpreters of the treaty.

The Senate Democratic leadership is in a stall for some as yet not clearly defined reason, having undoubtedly less to do with the treaty as such than with the upcoming presidential elections.

If President Reagan does not have the treaty with him when he goes to Moscow, Moscow will undoubtedly continue to sharpen its tone, as it has done since the public reappearance of Yegor Ligachov, after 48 hours' silence, in a position of honor at the Lenin Day celebrations in Moscow. If President Reagan cannot deliver in the time-frame Moscow has set, then all deals may be called off—sooner rather than later.