BANKING

Proxmire hearings a sideshow

Last week's hearing before the Senate Banking Committee on three of the major issues facing the domestic banking system are not expected to alter the stalemate between the government and money-center banks on one side and regional banks on the other. One official
Dillon caustically characterized the hearings as a "sideshow that will resolve nothing," as everyone waits for some sort of coherent line to emerge from the shakeups in the Treasury and Federal Reserve following the firing of W. Michael Blumenthal.

The three issues go to the heart of the future of U.S. banking. They are: (1) the extensions of Edge Act interstate banking privileges, including taking of deposits by Edge Act corporations; (2) foreign acquisitions of U.S. banks; and (3) the creation of tax-free and regulation-free international banking facilities, such as the one proposed for New York City.

All three have been stalled throughout the tenure of the Carter Administration, primarily by a wall of opposition by the vast majority of U.S. banks. If implemented, the three measures would wreck the U.S. banking system as we know it, and usher in a wave of banking acquisitions by the British.

Senator William Proxmire, chairman of the Senate 8anking Committee, has piously taken a hard line against any attempt by the Federal Reserve Board to unilaterally enact the IBFs and alter current Edge Act or takeover regulations. While undoubtedly seeking to portray himself as evenhanded and against the Fed's insistence on its right to "rule by decree" on these matters, there are indications that Proxmire is attemtping to engineer a trade-off. Wall Street is buzzing that Proxmire may be trying to get the regional banks to accept the creation of the New York City free-trade zone (which would be followed by others), in exchange for the big banks dropping their attempts to directly encroach on regionals' home turfs through Edge Act changes. This coincides with 22 international banks funding a sizeable portion of a $600 million note issue by the nearly bankrupt New York City, in order to curry favorf or both the IBFs and permissive takeovers.

Although the deal is by no means consumated, further progression

BRITAIN

Sir Keith wields the ax against British industry

The Tory government's commitment to "free enterprise" was translated into action this week when British industry Secretary Sir Keith Joseph announced the first batch of proposals to "streamline" industry by reducing the role of the state in economic development. The most controversial measure, which was immediately attacked not only by the trade unions but by industry, is the plan to cut government subsidies to the economially depressed regions of Britain—by more than one third.

Expected to reduce the government's regional development budget by $525 million over the next three years, from its current level of $1.37 billion, the cuts are geared toward speeding up the "deindustrialization" of Britain and dissipating the country's skilled industrial work force, except for a small high-technology elite.'

The drastic pruning of industrial grants to areas worst hit by unemployment will be followed within the next two weeks by proposals for the future of the shipbuilding industry, which are expected to include plans to shut down several yards, and a decision on the role of the National Enterprise Board, a state-run entity which holds equity stakes in several high-technology firms which it has rescued from the brink of bankruptcy. Sir Keith has also given British Steel a "doomsday date" of March, 1980 beyond which the government will no longer subsidize its financial losses. To achieve a breakeven level by this date, the corporation will be forced to accelerate closure of its less profitable steelmaking facilities.

The combined measures instituted by the government may mean the loss of anywhere from 80,000 to 100,000 jobs, say experts, and will turn many outlying industrial areas into ghost towns. The steel town of Corby in central England—sometimes referred to as Britain's Pittsburgh—will face a mass exodus if the shutdown of its steel mill, which provides most of the town's employment, goes ahead as planned.

When Engineering Union officials declared angrily that "for the first time we have a government crewould open the floodgates to the dirty-money game of the British banks, with the U.S. economy turning into one big roulette game—of the Russian variety, with the bullets pointed at the economy.

Background to the issue

As *Executive Intelligence Review* readers know, the British policy of buying up American banks is an attempt to establish a firm base for further corporate acquisitions as well as direct policy input into U.S. banking practices. In mid-1978, after triggering runs which severely devalued the dollar, British and British-allied foreign banks began a series of banking takeovers and branch expansion in the U.S. At that point, the U.S. Labor Party moved to block these acquisitions, targeting in particular the Hongkong & Shanghai Bank's efforts to take over Marine Midland. Through widespread dissemination of the USLP-authored bestseller *Dope, Inc.*, which documents the HongShang's role as the premier international drug bank, plus legal action against the HongShang, the New York State Banking Department was provided the margin of ammunition with which to scuttle the Marine Midland bid last month.

While regional banks have increasingly opposed these foreign takeover attempts, both money-center and foreign banks themselves are lobbying for unrestrained acquisitions.

The push for expansion of Edge Act privileges is coming from these big commercial banks. This would permit them to operate full-service interstate branches, thus undercutting smaller regional banks through economies of scale and greater cash availability. Credit would become almost totally controlled by especially the major New York banks, with whole sections of industry cut off and a chain reaction of bankruptcies unleashed. While the International Banking Act of 1977 permits the Federal Reserve to authorize these privileges, the opposition of regional banks has stalled the move so far.

As for the international banking facilities (IBFs) or "free trade zones," regional banks fear, rightly, that the large banks involved in these unregulated, reserve-free areas would be able to suck funds out of regional banks by offering more favorable loan terms and higher interest on deposits. What they generally fail to see, however, is that these unregulated zones will serve both as centers for illegal money laundering for the drug trade, gambling, and other illegal activities—accelerating inflation—pulling funds away from productive investment, and enable the British-oriented money-center banks to gain hands-on control of what regional business survives.

—*Steve Parsons*

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ating unemployment" rather than alleviating it, Sir Keith replied that "local enterprise" and cooperation in "making business competitive" would restore Britain's industrial vitality. "The government seeks to create the conditions in which the whole country can prosper," Joseph told a new conference. "Nothing will do more for the prosperity of a region than a reputation for effective work, high productivity and cooperation between management and workforce."

Under the revamped Regional Aid Program, the proportion of Britain's employed population included in the so-called "assisted areas" will drop to about 25 percent from more than 40 percent. The three-tiered structure of classifying the weakest industrial areas into "special development areas," "development areas," and "intermediate areas" will remain, but scores of localities will be downgraded. The reduction of selective aid and development grants to hard-hit areas in northern England, Scotland and Wales will make it less attractive for British and foreign-owned firms to invest in these regions, since qualification for subsidies will be more restrictive.

Instead of disbursing aid fairly widely, Sir Keith plans to concentrate the bulk of it on the worst-hit urban areas, leaving other regions in the "development area" category to fend for themselves. The "intermediate areas," where companies can now receive up to $8,000 in government grants for each job created, will be phased out altogether over a period of three years. Certain industries such as oil and petrochemicals are expected to lose their automatic right to grants and will receive subsidies only at the Industry Department's discretion.

In response to a reporter's question, Sir Keith declined to say how many jobs might be lost as a result of the cuts, which are expected to save the government $525 million of the $1.37 billion now being spent. In one region alone, estimated a union leader, some $1.7 billion of investment is at risk, accounting for between 40,000-50,000 jobs a year. Spokesmen for the employers' association, the Confederation of British Industyr, protested the program as well, saying that "in the present economic recession, with its difficult trading conditions, high unemployment, low company profitability, and cash flow problems," if aid is cut before a reasonable level of profitability returns to business, "trade and industry and employment prospects in the regions will be damaged."

—*Marla Minnicino*