Regional banks face phase out

by Kathy Burdman

The Carter administration is already in the midst of legislative and regulatory action to entirely restructure U.S. credit allocation.

The Carter administration has put into effect a far-reaching program for a national banking system in the United States that will phase out America's regional banks. Legislation already in Congress, and regulatory actions already under way at the Federal Reserve, are aimed at a top-down restructuring of the U.S. banking system far more dramatic than the 1910-14 measures that created the Federal Reserve.

The administration's current actions follow the predictions made by *EIR* in its May 1980 report, "Restructuring the U.S. Banking System: The Citibank Strategy for the 1980s." The pace of these actions may well advance *EIR*'s prediction that the nation's banking system will be consolidated into the hands of fifty to a hundred money center banks by the decade's end; significant consolidation could occur within the next two or three years.

The national interest?

The move toward a national banking system is the unanimous action of the 12 New York Clearing House banks led by Chase Manhattan and Citibank, along with the Carter White House, the Federal Reserve, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, Senate Banking Committee Chairman William Proxmire and House Banking Committee Chairman Henry Reuss. They intend to consolidate control over the entire U.S. banking system by the great multinational banks, which count the national interest of America as a purely secondary question.

The destruction of the dual U.S. banking system will seriously undermine the U.S. economy, precisely the effect intended by Carter administration planners, who openly espouse zero economic growth and call for the phasing out of regional basic U.S. industry such as steel, auto, and housing.

The nation's smaller 14,600 regional commercial banks account for 55 percent of American industrial, agricultural, and housing loans, and the U.S. savings banks and savings and loans threatened with them account for 80 percent of the rest of all housing mortgages. The bankruptcy or buy-out of these regional banks by the top 100 money center banks will result from the cutthroat competition fostered by administration deregulation, and leave whole sections of the U.S. economy deprived of credit, as the money center banks concentrate their activity on more speculative and profitable national and international lending.

Indeed, as *EIR* will show in subsequent studies, the regional banks probably account for far more than 55 percent of *productive loans* that actually foster growth in the U.S. economy.

The legislative and regulatory agenda

The administration's legislative and regulatory agenda is explicitly aimed, as Comptroller of the Currency John Heimann told the House Banking Committee this week, at "lifting the barriers to interstate expansion of domestic institutions." Major ongoing *legislative* initiatives include:

Report on the Douglas Amendment to the Bank Holding Company Act and the McFadden Act. Written by President Carter's Domestic Policy Adviser Stuart Eizenstat, the report calls for a "modification" of the Douglas Amendment to allow money center banks to buy smaller banks or set up *subsidiaries* across state lines. It would relax McFadden prohibition on interstate *branching* within Standard Metropolitan Statistical Areas, allowing, for example, major New York banks to branch into New Jersey and Connecticut. It would also relax McFadden for unspecified Electronic Funds Transfer banking interstate, such as Citibank's proposal to accept credit card deposits outside New York.

Status: Now being written into legislation to be introduced in the post-election "lame duck" Congress with probable support by House Banking Chairman Henry Reuss (D-Wisc.).

Emergency Bank Acquisitions Bill, S. 2575. Introduced by Reuss and Senate Banking Committee Chairman William Proxmire (D-Wisc.) with the advice of the Federal Emergency Management Agency, this bill allows abrogation of McFadden and Douglas in case of bank failures so that money center banks may go interstate to purchase them. Seen as a major precedent breaking of McFadden Act.

Status: Still in House and Senate Banking Committees. Comptroller Heimann expects to have the bill passed in the new January Congress on the basis that in is the administration's "minimum demand."

Export Trading Company Act, S. 2718. Introduced by Sen. Adlai Stevenson (D-Ill.), the bill gives banks the ability to set up trading company subsidiaries which can operate across state lines and make loans and take deposits for the bank. The ETCs will also engage in a full range of non-bank commercial activities for the bank such as investments and outright ownership of shipping and other export-related corporations (see Congressional Calendar).

Status: Passed by the Senate, the bill will be up for hearings in the lame-duck session by House Financial Institutions Subcommittee Chairman St. Germain (D-R.I.). Senator John Heinz (R-Pa.) this week endorsed the bill, giving it a major boost. Could be law by January.

Open Market Committee Amendment to Federal Reserve Act of 1914, H.R. 7001. Rep. Henry Reuss has introduced a bill into the House Subcommittee on Domestic Monetary Policy to abolish the Federal Open Market Committee, which Reuss claims is too responsive to the banks that elect its members. Monetary policy would be made by the Fed Board of Governors, who under the bill would be constrained by law to follow a thoroughgoing monetarist policy of fixing the monetary base M-1B down from the present Fed target of 7 percent per year to 2.5-3.5 percent by 1984, regardless of how high this would force interest rates. It would put regional banks and especially thrift institutions at tremendous competitive disadvantage.

Status: Has not yet been reported out of House Banking; could come up for House vote in January but is regarded as a protest measure to pressure the Fed to continue high interest rate policy.

Federal Reserve regulatory actions

Without the need for any legislation whatever, the Federal Reserve is already undertaking the following far-reaching actions:

The Fed's Depository Institutions Deregulation Committee (DIDC) which implants the March 1980 Omnibus Bank deregulation bill, has phased out the usury ceilings on interest rates for savings banks so fast that this week U.S. League of Savings Associations Executive William O'Connell charged the Fed with creating "near chaos in the financial markets" which will during the rest of 1980 cause the transfer of $17-$20 billion out of thrift institutions into the money center commercial banks. The DIDC wiped out the thrifts' competitive interest rate market over the commercials in 60 days instead of the six years mandated by law, he said.

Status: The League is suing in Federal court and introducing legislation to curb its excesses, which should be in Congress during its coming lame-duck session.

International Banking Facilities (IBFs), the banking "free zone" proposal of the New York Big 12 Clearing House banks, may be enacted this month. The Fed under Regulation D would lift all reserve requirements from designated branches, called IBS's, allowing Eurodollar-market business to be brought back to the U.S., causing a speculative bubble in the United States and giving major money center banks who could afford to operate such facilities a vast competitive edge in profits.

Status: The Fed board could vote IBFs into existence as early as this month, after the Chicago, Boston, and California money center banks made a deal with the New York banks to force it through.

National CHIPS payments system, a national version of the New York banks' Clearing House International Payments System (CHIPS), will be allowed to form by the Fed Board. Its new members will be the top 100 money center banks outside New York, led by the Chicago, Boston, and California banks who have agreed to the IBF plan. This is their payoff. "U.S. CHIPS" would be a de facto national electronic banking system which would put members of the system at a tremendous competitive advantage over the rest of the 14,600 banks outside the system, in terms of their ability to clear international funds cheaply and quickly.

Status: Limited membership in CHIPs will be extended to the non-New York money center banks when the IBFs go into operation after the Fed ruling. Phase-in to full memberships, forming a U.S. CHIPS, will take two to three years.

Edge Act liberalization is now being planned by the Fed. Staffers are writing a new liberal version of its Regulation K, which limits Edge Act branches of banks currently to only small amount of financing only for international transactions. Fed liberalization will allow Edges to make loans across state lines to any phase of the export production cycle, including building plants in the U.S. and financing domestic commercial business of exporters, putting Edges into direct competition with domestic U.S. commercial banking.

Status: Fed to report out a proposal for public comment on Reg K this month.