Banking by Kathy Burdman

'Pathetic Earthlings, who will save you?'

'Wired society' global banking techniques are making national markets a fossil.

Strategic planning departments at major commercial banks are producing—and acting on—scenarios that make the science fiction most of us grew up with look tame. By the early 1980s, the global banks will implant "voice chips," microelectronics that decipher human speech, into the telephones of foreign exchange and money traders. Worldwide telecommunications will assemble an instantaneous update system on the behavior of all markets into arbitrage and money-purchasing decisions, with instructions communicated to branches through central computers.

If this sounds unfathomable, consider what initiatives the London-based foreign exchange brokers—the market operators who place orders between commercial banks—have set into motion.

The most important part of the globalization program, a principal of one of the leading brokerage firms told *EIR*, is already in operation. The national boundaries of markets formally disappeared late in 1980—only a few months after this publication first sounded warnings to that effect. International operations by the London brokers meant that a single firm, for the first time, centralized its information and its trading positions on a 24-hour basis, enabling the brokers to take advantage of opportunities for arbitrage (playing small differentials in different markets) in a fashion not seen before.

The commercial banks began to follow suit, and adopted operating methods, including pricing of loans at the London Interbank Offered Rate rather than U.S. prime, global management of liabilities, and global centralization of information. Major U.S. and British commercial banks no longer ask their branches to fund their own day-to-day operations by going out on the most convenient market to obtain funds. All funding operations now proceed via a central computer.

Every bank's liability and asset management group starts the day with complete updates from every national market and every sector of the Eurodollar market, treating the Singapore-based Asia-dollar market on a par with the domestic market in certificates of deposit. A well-trained staff, and in some cases a computer monitoring system, calculates exchange risks and interest differentials, and fund *all* the branches' requirements for lending on what appear to be the most advantageous terms available anywhere in the world.

A business loan in the United States, under this system, might be funded through the interbank market in Hong Kong, and a project loan to Brazil might be funded through small savers' certificates of deposit in the United States.

This has already produced dramatic effects in terms of U.S. money management, or lack of management. The money supply bulge in the first quarter is due to currency inflows arising principally from foreign bank lending to American nationals, something not even counted in the lending figures published week to week by the Federal Reserve. Yet this Euromarket-related phenomenon was the basis for the Federal Reserve's decision to push up interest rates again.

As bankers point out (see Foreign Exchange), the flow will reverse later this year, and banks' foreign lending operations will probably benefit from the shakeout of deposits from small U.S. commercial banks and thrifts.

Now that the dam has burst, the prospects for further globalization are mind-boggling. Bankers now talk of two-hour money instead of overnight money, as computerization and bank cash-monitoring systems reduce the level of required transactions balances in corporate checking accounts. Banks might lend funds to cover a midmorning deficit in a major customer's account, and fund the loan by taking advantage of the time lag in crediting the account of retail merchants who have taken payment for purchases through their customers' computer-linked "debit cards"!

The Flash Gordon aspect of the technology is fascinating, and in some ways useful. But the economic consequences are much more dangerous than most observers realize. We are watching the terminal collapse of the world's long-term credit markets, and the end of capital formation prospects for many sectors of industry. The commercial banks now have an electronic blank check to walk over the rules central banks used to make to protect credit for capital formation in domestic markets.