Free zones to cut world lending

International Banking Facilities for the United States mean "planned shrinkage" of credit and trade.

When International Banking Facilities (IBFs) go on-line Dec. 3 in major U.S. cities, the Federal Reserve and its controllers at the Swiss-based Bank for International Settlements are expecting to enforce a "shrinkage" of world credit.

The Federal Reserve Governor, Henry Wallich, who attends monthly BIS meetings in Basel for the Fed, recently bragged about this to *EIR* Economics Editor David Goldman. Asked if IBFs would help the Fed to limit world lending, Wallich replied "You're damned straight I think they will. The whole idea is to repatriate all those dollars and get them back where we can control them."

As Wallich implied, when they become legal Dec. 3, IBFs, also known as Free Banking Zones, will allow bankers to do in New York and other U.S. money centers what they now do in the totally unregulated offshore dollar markets in London, Singapore, Hong Kong and the Caribbean. In the offshore markets, U.S. dollars are borrowed and lent totally without reserve requirements, federal regulation, country lending limits, deposit insurance, and interest-rate ceilings. This is banking at its most unsafe.

It is also banking at its most lucrative in the short term, and there are over $1.2 trillion so-called Eurodollars out there. Now the Fed and the BIS expect this huge amount of cash will start to stream back into the U.S.

As world liquidity is increasingly concentrated under the Fed's jurisdiction, the Fed and BIS believe that they can tighten credit on the world banking system as a whole, just as Paul Volcker has done to the U.S. economy. Since the Fed is the world's most effective arm of the BIS, this would amount to putting the world dollar credit system under a BIS dictatorship.

IBFs could also mean a major foreign-policy blow for Ronald Reagan, forcing him to preside over the "dethroning" of the U.S. dollar as the world's reserve currency. The Swiss gnomes at the BIS have long desired to remove the national independence America still gains from the dollar's world role; BIS Executive Director Alexandre Lamfalussy warned in Brussels last month that the dollar may be in for "serious turbulence."

The fact is, IBFs provide a sort of "bomb shelter" into which the Fed could withdraw dollar assets in the event of a major dollar crisis such as that of 1977. Other crisis possibilities abound, such as the shaky Polish debt negotiations, which all but collapsed this week; a breakdown might trigger a foreign run on U.S. dollars or U.S. banks. Given IBFs, under such circumstances the Fed would just encourage U.S. banks to pick up their marbles, walk away from their foreign subsidiaries with all those messy LDC loans, and bring their assets back to the United States.

That means IBFs, as German bankers warned at the end of October, have the potential to "take apart" the entire postwar dollar-based monetary system. It may divide the world into a shrunken dollar bloc, largely located within the United States, and a host of other currencies, whose nations would then be forced to take up the world credit role of the dollar.

German bankers have already warned the Fed that Volcker and Wallich are "unilaterally taking apart" the monetary system, Fed officials told *EIR* Oct. 28. Two years ago Germany proposed a joint U.S.-German plan to control runaway offshore lending; but now the Fed is going ahead "unilaterally" with IBFs to cut back dollar credit. "They feel we have abandoned the principle of international negotiation, " the Fed man said, adding "that the rug was pulled out from under them, and that we have done something advantageous to our own banks at their expense."

In response, the Fed said, Chairman Wilfred Guth of Germany's Deutsche Bank has proposed that German banks set up their own offshore market in German marks in the Duchy of Luxembourg, to replace lost Eurodollar business in London. Deutsche Bank has announced majority purchase of the Banque de Luxembourg, and invited French depositors fleeing the Mitterrand government to deposit in Luxembourg.

Bankers also met with the Fed Oct. 28 to explore an even more dramatic proposal by Bank of America that U.S.-based IBFs be allowed to take non-dollar foreign currency deposits. This will further erode the dollar and the world credit system, breaking it up into unstable blocs and making trade finance between nations a nightmare.