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*"Selective policies should be taken to cope with sectors and areas with particularly acute employment problems.

*"In most countries, policies should be directed more towards promoting investment rather than consumption."

At the end of the week, the Atlanticist faction was still smarting from its tussle with Healey. "The British say their unemployment rate is too high and they can't cut public spending until there is an economic recovery," a Federal Reserve spokesman noted ruefully, adding that the British are also "resisting" cuts in money supply which would force such budget cuts eventually. U.S. Assistant Treasury Secretary Edwin Yeo was forced to apologize publically for Parsky and Secretary Simon's attack on Britain, claiming their remarks were not intended to "focus on a single country."

Excerpts from the House Banking, Currency and Housing Cttee Report on "International Banking"

June 26 (NSIPS) — The following are the conclusions (Chapter 12) of the House Banking, Currency and Housing Committee report on "International Banking." The chapter is reprinted in full.

The material in the previous section was compiled to illustrate the degree of integration between national and international financial markets and the mechanims through which it occurs. Such integration results in greater uniformity of credit availability among countries through flows of funds between them and helps to explain why the business cycles in more developed countries now overlap. But it also makes it more difficult for domestic monetary policy to influence the course of the business activity in national markets.

The international financial market also influences the international monetary policies of nations. The use of balances denominated in external currencies as investment assets may have an impact on exchange rates which is at variance with economic events. Economic and political events would ordinarily serve as determinants and prognosticators of exchange rates under a floating rate system. But as an investment vehicle, the market could reflect speculative activity as well as become a vehicle itself for power politics. The development of international capital markets is not necessarily an undesirable but it does mean that, like domestic capital markets, the international exchange market should be subject to regulation in order not to damage economic activity.

Regulation of foreign exchange and foreign capital markets is all the more desirable because these markets are dominated by large banks which also serve as depository institutions. Participation by U.S. banks in currency speculation was made easy by the absence of regulation and disclosure. The rapid build-up of foreign currency assets and liabilities in their foreign branches which occurred in 1973, as well as the substantial increase in forward foreign exchange contacts weakened future bank soundness. Rapid entree into activities that require a high level of expertise and involve substantial new risk should have been discouraged. But the kind of monitoring necessary to discover the level of activity did not take place. Policy makers, therefore, had no data with which to assess some of the most remarkable international economic and monetary developments in the post-war era.

The absence of data applies also to the more traditional banking business of multinational banks. Recent disclosures have indicated that these banks have strayed beyond the U.S. regulatory framework in a number of areas. The absence of overt regulation of overseas activities and of disclosure has contributed to this trend. Loan concentrations — to countries, to industries, to customers, especially when those customers are other banks — and a widening gap between the maturities of loans and liabilities represent specific areas in which U.S. banks overseas branches exceed limits which the same banks scrupulously observe within the United STates. And yet, as has been argued, these are not separate banks but, rather, a part of the parent network and of the U.S. banking system.

The failure of the Franklin National Bank demonstrated the degree of integration of domestic and international operations of U.S. banks. It also indicated that U.S. regulators could take a *laissez-faire* attitude toward failures of large banks because such a high proportion of their liabilities are uninsured and because a substantial portion of uninsured liabilities are to other banks. It has been suggested that not only lack of disclosure, but the implied guarantee against failure which seemed to be confirmed by the way Franklin was handled may encourage unsound banking practices.

This suggestion seems particularly applicable in assessing the concentrations of loans to individual countries extended by the largest U.S. banks. It appears likely that banks have assumed that these loans are in some sense guaranteed — that some form of governmental assistance will be given to a country to prevent a default that might threaten major banks. If such an outcome is likely, then there should be some public policy input to determine where, how and in what amounts the funds are to be used. If decisions involving the allocation of credit to other governments are to remain subject to the judgment of the private sector banking system there must be some assurance that the private sector will bear the brunt should default occur.

Analyses of interbank lending and capital adequacy have indicated that deposit insurance is no longer an effective means of instilling confidence in the banking system since so small a portion of the liabilities of large banks are insured and these banks — because of their size and interrelationship with other banks — have such an actual and potential impact on the banking system. Thus, for the private sector to bear the brunt of failure of one of these institutions without suffering major disruptions, some new method of providing a margin of safety must be devised.

Any solution should involve increases in bank capital along with regulation and control of the interbank markets. Another solution is for banks to pay insurance premiums in relation to the amount of uninsured liabilities. This latter suggestion may seem unreasonable since it would appear that banks with less insured deposits as a ratio to the total should pay proportionately less insurance. But, as the Franklin experience demonstrated, the reverse is true. Banks have assuemd large uninsured liabilities with no commensurate increase in the collateral acquired by the

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Federal Reserve Bank of New York when it paid off Franklin's *uninsured* deposits. The insured deposits were transferred to European-American Bank and Trust Co. It may be that, after the 14 years required to liquidate Franklin's portfolio and reclaim the funds that must be repaid to the Federal Rserve Bank in two years, the FDIC insurance fund will have suffered no loss. But that is not the point. The point is that it assumed the responsibility and the risk to guarantee deposits which were not insured. Further, this appears to be the only acceptable method of handling large failures in the future since the alternative suggested by banking regulators is to permit their acquisition by other large banking institutions in other states or from other countries, which has the effect of increasing banking concentration.

Regulators have discovered that overseas activities of many U.S. banks were not well managed and are now encouraging the development of uniform internal controls and audits. A better degree of managerial involvement is necessary in a number of areas, especially with regard to control over foreign subsidiaries and affiliates. But it is also possible that the failure of U.S. regulators to assume responsibility for providing an adequate and unambiguous regulatory framework for overseas activities has contributed to some of the managerial problems that have developed. The suggestion has been made that the same regulatory standards which apply to domestic activities should apply to those overseas. Since this suggestion was made by a knowledgeable and experience international banker, it cannot be viewed as overrestrictive.

The same banker also supported the suggestion that the range of activities of U.S. banks overseas be limited to those permitted in the United States. It is hopeed that the material in Chapter 3 and Appendix A have indicated just how much at variance with domestic restrictions these activities are and that the risks involved, and the actual and potential conflicts of interest are real.

In addition to its concerns for bank soundness and the quality of regulation and supervision, this study has also attempted to call attention to the fact that efforts to increase competition in international banking principally through the licensing of small branches and of joint ventures, have not been worth the candle. No specific suggestions or remedies to improve the situation have been offered. But, again, it is hoped that the effort to demonstrate the extent of banking concentration in these markets and to explore some of the implications of the degree of concentration have been successful in indicating the seriousness of the problem.

Congressional Report Exposes Eurodollar-Cayman Islands Hyperinflationary Swindle

June 26 (NSIPS) — In a recently-released 447-page report on international banking, the House of Representatives's Committee on Banking has exposed the illegal Wall Street-dominated Eurodollar "offshore" swindle in the Carribean. The Eurodollar swindle is directly responsible for worldwide hyperinflation, destruction of international production, trade and living standards, politically-motivated currency and other forms of speculation and fradulent bookkeeping, the report charges. The committee document urges prompt action to regulate this Frankenstein monster starting with increased disclosure requirements for the U.S. banks involved.

The report is authored in large part by Committee staffer Jane D'Arista — one of the most knowledgable staffers on international banking on Capitol Hill — and in every aspect confirms the charges of the U.S. Labor Party made earlier this year. The Banking Committee report now opens the way for a fullscale Congressional investigation into the illegal operation and collapse of the bankrupt Eurodollar market.

The failings of the House report arise mainly from the lack of Committee support to investigate the areas pinpointed by the Labor Party's Special Report entitled "The Bermuda Triangle Banking Conspiracy." These are areas relating to the involvement of the CIA, Mafia, etc., via the Caribbean "shell" branches of international banks, the maintenance by unregulated Eurodollar banks of one set of books for reporting purposes and a different set for actual "transactions," and the mechanism for generating hyperinflationary credit in the Eurodollar market with no deposit backing. This matter must be taken up by the relevant congressional committees with subpoena powers requiring the banks involved to disclose their "real" books for Congressional examination and action.

Its shortcomings notwithstanding, the report documents enough damning evidence of a conspiracy between the New York banks and the Federal Reserve Board chairman Dr. Arthur F. Burns to warrant an immediate Congressional investigation.

Who Benefits?

The Staff Report leaves no doubt as to whom the major beneficiary of Mr. Burns' tailor-made monetary and banking regulatory policies really is. Burns' policies have consistently — and in sharp contrast to his designated function of managing national credit with the view of expanding the U.S. economy and pursuing full-empolyment goals — favored the cancerous growth of the Eurodollar market above all else. This market, as the report points out, is dominated by the 12 largest U.S. multinational banks, seven of which are New York-based and connected with the Rockefeller-Morgan family interests. "It does seem remarkable that a narrow sector of the private banking system has been permitted or encouraged to assume quasi-governmental functions and that so much control over a financial market which is so important to so many nations has been concentrated in so few hands," the report concludes.

The report notes the convergence of State Department, Treasury and Federal Reserve Board policies with the need of U.S. Eurodollar banks to continue mushrooming rollovers of uncollectable debts charged to the accounts of bankrupt countries. The report declares: "U.S. government policy