from disorderly currency fluctuations. Jim Callaghan is also thinking of reestablishing a special relationship with the United States even if America is not encouraging it; nothing pays off more for the party in power than to act brutal and if possible 'beastly' towards Europe, three months from the elections.

...But this doesn't mean one should fixate on the English obstacle: in the European monetary framework, there is no obstacle that could stand up to a full accord between Germany, France and the (EC) Commission...

The fundamental analysis of Giscard and the Chancellor is that Europe's delay in growth in relation to the U.S. and Japan, comes in great part from the disequilibrium of balance of payments and Community trade distortions resulting from the drop of the dollar which has pushed the mark upward, thus increasing the gap between it and numerous other currencies of the Community.

...A combination involving the weakest European currencies with the strongest in the snake zone would converge to brake the harmful appreciation of the DM and would be less costly, no matter what the price, than the direct and vain interventions to support the dollar.

For his part, Giscard would like the franc to as quickly as possible enter the path of a more constricting monetary cooperation...

(There are several models — ed.) The first consists of extending the Community system of restricted variations in exchange rates, beyond the currencies of the snake which vary by a maximum 2.5 percent such that the others — francs firstly — vary in a coherent fashion with the snake, while having a greater margin of fluctuation.

Whatever form it takes on, this two-tier system has the inconvenience of eventually bringing into full light the vulnerability of the weaker currencies, and even providing a barometer for speculation.

The second model would extend the use of the European unit of account — based on a basket of currencies excluding the dollar — in such a way that it would serve for settlements among the central banks of the EEC. This would limit the destabilizing impact of dollar fluctuations. In addition, it would have a distinct effect of getting Europe into gear: having a possible need for units of account at any time, the central banks of the EEC would come to maintain some in their reserves or place them within European cooperation funds — like the FECOM, whose means, in any case, should be increased.

It is possible that the President and the Chancellor would want to mix the two systems without reinforcing too much the role of the unit of account. This is what would bother the United States the most, by making possible on the far horizon the flourishing of a European currency....

Senate Banking Hearings

A forum for Euromarketization of U.S. banking

The June 21 Senate Banking Committee McIntyre subcommittee hearings on the International Banking Act of 1978 (HR-10899) provided a public forum for Federal Reserve Chairman G.W. Miller, Controller of the Currency John Heimann, Senators Thomas McIntyre (D-NH) and William Proxmire (D-Wisc) and the British

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banks led by Barclays International Ltd., to demand full deregulation of the U.S. banking system. In effect, they argued that not only should British banks taking over American banks be allowed the run of the U.S. without regulation, but an entire set of new expediting legislation is needed to put U.S. banking on a London free-for-all standard.

The deregulation drive was vigorously opposed, however, by Senator Adlai Stevenson II (D-Ill) and the Bankers Association for Foreign Trade (BAFT), representing a broad cross-section of U.S. industry and banking. The recent takeover of U.S. banks worth $20 billion in assets by the British banks could spur "great concern in Congress," blocking the deregulation debate altogether, the financial press further noted June 19-21.

The Real Issues Behind IBA

The International Banking Act (IBA) itself is the 1978 version of a bill first introduced by the late Congressman Wright Patman at the request of the Nixon Federal Reserve in December 1974, the purpose of which was — and still should be — to subject foreign banks operating in the United States to the same regulations imposed on U.S. banks. U.S. banks are currently prohibited under the McFadden Act from interstate banking — taking deposits in more than one state or "across state lines" — in order to protect the full development of regional banking and industry; prohibited from acquiring other large U.S. banks; and "national banks," effectively any large bank, must be chartered, insured, regulated by, and hold non-interest bearing reserves at the Federal Reserve.

Foreign banks at present can and do operate free of any such regulations, and the 1974 International Banking Act proposed to regulate them on "equal footing" with U.S. banks — that is, to integrate them into the properly and safely structured American banking system.

Since his appointment as Federal Reserve Chairman, however, G.W. Miller has moved to turn the IBA into a legalization of the current state of total nonregulation of foreign banks — in effect encouraging U.S. banks to clamor for deregulation. When the 1978 IBA went to the House last April, Miller collaborated with House Banking Committee Chairman Reuss to water down the bill. They removed the crucial Section 5 prohibition on foreign banks interstate branch deposit-taking, as well as the requirement that large foreign banks' subsidiaries — such as Marine Midland will become of Hong Kong Shanghai Bank — need not be regulated by, or hold reserves at, the Fed — or be insured by the Federal Deposit Insurance Corporation. (See *Journal of Commerce* editorial, below.)

The bill before the Senate June 21 thus represents a rubber stamp for the current anarchy, which merely imposes Fed regulation and FDIC insurance on the more insignificant branch and agency operations of foreign banks and lets them into every state. Miller has done this because he wants to rush the approval quickly through a somnolent Congress before it does an about-face in alarm at the huge influx of British takeovers. Because the states have encouraged the development of international banking in their leading cities, Congress has traditionally beaten back the requests for regulation which formerly came from the Fed, and Miller is counting on such an "antiregulation mood" to push the legislation through.

Far worse than the mere rubber-stamp being sought is the clamor for bringing the entire U.S. banking system down to the level of foreign bank regulation which dominated the hearings. Miller testified with a pro forma request for the reintroduction of bans on interstate banking for foreign banks — the same points he has already bargained away in the House, and knows will therefore not be taken seriously by the Senate. He was immediately asked by his collaborator McIntyre if the idea of rather deregulating U.S. banks was not a more "modern" approach. "That is a question to be studied on its own merits," Miller replied.

Controller Heimann followed Miller with a similar pro forma request for interstate bans on the bill "as long as U.S. banks" are so regulated — and then launched into a broadside on the need for a new legislative program to deregulate all U.S. banking. "Clearly domestic branching restrictions require reevaluation," he said, referring to U.S. banking law as "archaic" (excerpts below).

A more thorough proposal to "tear off" the regulatory protection of the entire U.S. interstate banking law was made by Miller ally and Federal Reserve Board member Philip Jackson to the Association of Alabama Bankers in May (excerpts below).

U.S. Euromarket Legislation

What Miller, Heimann, and the other banking "free-traders" are aiming at is seen in the legislation now on tap to "bring the Eurodollar market back home," as one banker said June 20 (see Chase interview, below). McIntyre is reported to be planning a series of bills to put into law board member Philip Jackson's proposal for fully liberalized interstate banking. For a start, McIntyre has already written S-20651, the Interstate Placement of Electronic Funds or Electronic Funds Transfer (EFT) bill, which would allow all banks to set up terminals in supermarkets and other stores nationwide to take deposits, cash checks, and pay bills.

Proxmire reportedly is working on a bill to require the Fed to pay interest on banks reserves held by it, thus undermining the basic purpose of the reserve system and limiting the possibility of control of monetary policy.

"Bring the Eurodollar Market Back Home"

The following is an interview with the Washington Office of Chase Manhattan Bank on the implications of the International Banking Act debate on the broader question of deregulating U.S. banking.

Q: Do you support the International Banking Act as passed by the House in April?
A: It's a pretty good bill now; I'd say we do.

Q: But don't you object to Miller's compromise removal of the original Fed proposal to ban foreign banks from taking up the U.S. deposit base across state lines? The British are planning to take your U.S. corporate clients.
A: Why should we object? On the contrary, we wish we weren't stuck in New York. If the British banks want to try and take over the U.S. domestic deposit and lending market, God bless 'em, let them try—competition is the American way. We would like the right, too, to branch interstate. What is needed instead of more regulation for the foreign banks is less regulation for U.S. banks.

Q: And isn't the debate on the International Banking Act actually a forum for that kind of thinking?
A: Sure. What is underway in the near term is a massive review of banking legislation in this country by the regulatory agencies and Congress, and evolutionary general movement toward less banking regulations and toward open and free competition.

Q: By whom; and what other bills are there?
A: Well, Governor Jackson at the Fed is a real deregulator activist (see accompanying speech—ed.); Senator McIntyre, Senator Proxmire, Representative Reuss, Representative St. Germain all are working on bills. McIntyre has set an Electronic Funds Transfer bill (S-2065) next that would allow banks to take deposits and all other activities electronically across the country through machines in supermarkets and other shopping centers where you would cash your pay check and pay your grocery bill simultaneously. Proxmire has a bill to require the Fed to pay interest on reserves, which means the Fed would have to compete with the rest of the money market for funds. . . .

Q: Wouldn't that effectively undermine the reserve safety cushion for the U.S. banking system and lead to an unregulated system exactly like the Eurodollar market?
A: Yes, you're talking about bringing the Eurodollar market back home.

U.S. Controller Heimann: American Banking Regulations "Archaic"

Excerpted below is the testimony of U.S. Controller of the Currency John Heimann to the June 21 Senate Banking Hearings.

. . . We are disturbed, however, by the illogic of foreign banks having powers in the U.S. which our own banks do not have. . . . I do not think that the trend to greater penetration of banking in the U.S., recently accelerated by the large proposed acquisitions I have mentioned, makes the issue more significant—and highlights the structural inequity of interstate branching by foreign banks.

The central problem, of course, arises from the McFadden Act, which restricts branching for national banks and which is the product of another area in the economic and political history of this country. Clearly, domestic branching restrictions require reevaluation. We feel that an objective analysis could show that this archaic restriction frustrates the free flow of capital and perhaps even affects the economic growth of our nation.

Fed Official: Tear Down Artificial Banking Barriers

The following is an excerpt from remarks by Philip Jackson, member of the Board of Governors of the Federal Reserve, before the Alabama Bankers Association on May 11, 1978:

Your business of banking is an excellent example of the consequences that we are experiencing from excessive regulation. . . . While any banker could agree with this statement and could give an extemporaneous speech on examples of overregulation today, I'm not sure as many would be able or willing to discuss how overregulation also means overprotection.

And overprotection is the second reason banking has not met its potential. Due to overprotection and a lack of competition in the banking industry, some bankers have lost sight of their purpose. . . .

As a result of both of these impediments, other financial intermediaries have sprung forward to meet the new needs of our society and to fill the gaps that the banking industry has left unserved. As the banking industry has become ossified and encrusted by ancient practices and counterproductive laws, others are finding ways to circumvent these restraints in order to meet the demands of the public. . . .

The result is that banks are, to a certain extent, protected by the freedom to fail as well as the freedom to compete and succeed.

I think it is time to tear down these artifical barriers into the banking industry and to open the borders of banking to any who wish to come or go. Banks, like all other business organizations in our country, should have the freedom to open up shop where the needs are greatest and the opportunities strongest. Not only should we allow state-wide branching by any bank organized within a state but we should also authorize interstate full-service operations for any bank authorized to do business in our country. . . .

Given the present phobia about unrestricted branching on the part of some bankers, I find it hard to understand how the House of Representatives could overwhelmingly pass, as it did, a bill to give foreign banks the authority to branch across state lines. It seems to me inconsistent to have these foreign visitors enjoy privileges that we don't authorize for ourselves. Certainly we should have one rule apply to all who are striving to perform the same public function. If this legislation is adopted, we should then have another new law that gives all federally chartered banks the freedom to operate throughout the United States without restrictions. . . .

Moving the London Euromarket to New York

This review of the status of the "Domestic International Banking Facility" or "Free Zone" of total nonregulation of banks for New York City proposed by Citibank appeared in the May 5, 1978 London Investors Chronicle.

Too modest to think of their city as the Navel of the Universe, New Yorkers simply call it the World's Capital. Yet in international banking, the Big Apple has been consistently outperformed by London in the last decade. Offshore centres such as Singapore, Bahrain, the Bahamas and the Cayman Islands have further nibbled away at the remaining business, leaving New York trailing far behind.

Now some of the most important US banks want to see this change. Led by Citibank, a group including Chase Manhattan, Morgan Guaranty, Chemical and a number of others, has been pressing New York state authorities to amend existing laws so that the banks can engage in more business in New York....

The banks' proposed solution, also favoured by Ms Muriel Siebert, New York State Superintendent of Banks, and Governor Hugh Carey, is to establish "domestic international banking facilities" (DIBFs) in New York. These would be free from regulations D and Q, and liable only for federal corporation tax (at present 48 percent)....

Though Mr Miller, the new Fed chairman is said to be "receptive" (in private) to the DIBFs idea, no one is quite sure whether the Fed alone would have the authority to let DIBFs operate in New York, yet outside its province. Should Congress want to come in on the act, there is a danger that DIBFs could get the same never-never treatment as the International Banking bill.

British Banking Reorganization Of U.S. Opposed

Stevenson Aide Says "No Euromarkets in the U.S."

The following is an interview with an aide to Senator Adlai Stevenson (D-Ill.) during the International Banking Act hearings June 21.

Q. Are you aware of the danger that could be done to the U.S. banking system by the unregulated inflow of British bank takeovers here?

A. We have no problem with foreign banks coming in for productive purposes but, yes, that is not what the British banks are here for. They are here to take deposits and make loans to ameliorate their own foreign debt situation by moving into the U.S.

Q: In other words they are promoting lax regulation here in the U.S. in general to bring the practices of the Euromarkets home to the U.S.?
A: That's right, and that's what we want to prevent.

Q: What are you doing with the International Banking Act on this?
A: We are discussing the possibility of proposing an amendment to the Act which would allow the authorization outside of a home state for foreign bank branches or agencies of only those types of deposits now available to U.S. banks' Edge Act corporations, which is to say that foreign banks would be unable to take domestic U.S. dollar deposits across state lines, but could accept foreign deposits for international use such as the promotion for example of the financing of *U.S. exports.* In that light and for the promotion of export financing and general improvement of the U.S. balance of payments we are also considering a general liberalization of Edge Act corporations for both U.S. and foreign banks to help the U.S. enhance its international financing role.

Miller Fed Is "Compromising" On British Banking Invasion

The June 19, 1978 Journal of Commerce *editorial, "Congress and the Foreign Banks," pointed out that G.W. Miller has watered down the Nixon Fed's International Banking Act to get the legislation through before Congress is alarmed by the British invasion. Here, excerpts:*

It wouldn't be surprising if the latent protectionist tendencies of certain congressmen and bankers were touched off by the hyperactivity of the British banks in America. . . .

It certainly looked like a plot. But the British banks have good reasons for acting now. The dollar may well go up and the equity prices of the various banks may gain. There may not be as many bargains around in the future. Standard Chartered is more than anxious to reduce its exposure in Africa and all the banks would like to establish a solid dollar base if trouble develops again in the Euromarkets.

And there is, of course, the danger that Congress, which has been rather mellow about the foreign banks, might clamp down in the future. Ironically, the British banks in their rush to establish in the U.S. market could touch off what they sought to avoid—a harsh response from Congress. . . .

Chairman William Miller has already backed away, however, from his predecessor's position on multistate activities for foreign banks. Former Chairman Arthur Burns would have allowed agencies of foreign banks to establish in various states if they limited their activities to international banking.

The Federal Reserve last week, conscious that the Senate was unlikely to be more restrictive on foreign bank branching than the House, offered to compromise further. . .

But the Federal Reserve wants some sort of action while the mood is still good. At the rate things are going, Congress could turn mighty suspicious. The legislation when it emerges might not be much, but it is something.

Protect the American Banking System, Says Administration Official

These are excerpts from "Foreign Bank Influx: Hearings on Today," by Judith Miller, on the June 21 Senate Banking hearings, which appeared in the June 21 New York Times:

"The protection of American deposits and the safety and soundness of the nation's banking system is a cornerstone of our economy," said a high Administration official. "Buying a bank is not the equivalent of buying an American company, and the reaction from Congress, if the trend continues, is bound to be pronounced. . . ."

Although bankers and financial analysts are hesitant to be quoted by name or institutional affiliation, they express concern about the implications of recent purchases and the probability that such acquisitions will continue. Some bankers expressed worry about increasing competition in commercial and industrial loans American banks face from foreign institutions here. . . .

Not everyone, of course, shares the worries. Henry C. Wallich, a member of the Board of Governors of the Federal Reserve, for example, pointed out in an interview that American bank presence abroad — assets total about $200 billion — dwarfed the $66 billion foreign bank presence here. Americans, he said, would not risk retaliation by foreign nations.

Moreover, he said that such a reaction would not be consistent with the American philosophy of free trade and economic competition and that the purchase of American banks by foreigners would actually strengthen the dollar and attract foreign capital here.

"The welcome mat is out for responsible foreign banks," Mr. Wallich said. . . .

Some of the regulatory questions raised by the increasing foreign presence include: . . .

To what extent should foreign parent banks be able through their American extensions to use the discount window of the Federal Reserve, taking out low-cost loans that might possibly be used, for example, to rescue a troubled parent that has encountered difficulties in the Eurodollar market?

The banking industry, Congress and the regulators are deeply split over the response to those questions. . . .

Bankers Association for Foreign Trade Asks Foreign Bank Regulation

The following is taken from the testimony by Robert Palmer, President of the Bankers Association for Foreign Trade and executive vice president of the Philadelphia National Bank, at the Senate hearings June 21:

As the American banking community has expanded into foreign financial markets it has not asked for nor received preferential treatment. Our aim in our markets has been mutual nondiscrimination among us and foreign banks. . . .

Since 1973 this association has worked actively for such (equal treatment) legislation. Generally our position has been similar to that of the Federal Reserve Board and our efforts have been closely aligned. We were pleased when legislation incorporating these principles was enacted by the House in 1976 and was again reported out of the House Banking Committee in February. However, the legislation later passed by the House and before you today was altered significantly on the House floor by the omission of the amendment of Section V, thereby

Moratorium On Foreign Takeovers

The following is a shortened version of a statement issued by the National Executive Committee of the U.S. Labor Party on June 20. Nationally distributed prior to the June 21 hearings on the International Banking Act of 1978 before Senator McIntyre's Financial Institutions Subcommittee of the Senate Banking Committee, the full text appeared in the U.S. Labor Party's newspaper, New Solidarity, *June 23. The "USLP Non-Partisan Action Program" referred to in the statement is reprinted in this week's Special Report.*

Congress must immediately enact a one-year moratorium on foreign takeovers of American financial institutions, pending the passage of legislation securing the safety of the American credit system. The last few week's spate of British takeovers of American banks, which shows only the tip of the iceberg of the influx, represents an attempt by British financial circles to grab a decisive share of American credit and hence political control in the United States. This distress sale must be halted to give Congress time to enact broader measures to ensure the continued flow of cheap credit for American industry, agriculture, and foreign trade. The proposed moratorium would apply only to foreign purchases of existing banking and other financial institutions, not to foreign banks' opening of branches, agencies, and representative facilities.

These British financial interests are collaborating with Federal Reserve Chairman G. William Miller, Controller of the Currency John Heimann, and other officials, to transform the American credit system into a free-for-all resembling the speculation-oriented Eurodollar market abroad, to London's advantage and the severe detriment of the American economy.

The U.S. Labor Party is in possession of evidence that G. William Miller is in collusion with British banks to select appropriate takeover victims, on the pretext of targetting "weak banks" in need of "injections of capital." Furthermore, the Labor Party possesses evidence that John Heimann, in malfeasance of the Controller's duty under law, is suppressing evidence that the British institutions concerned are wildcatting in the United States in an attempt to hedge against their own fiduciary weakness. Three significant takeovers have occurred in the last two months—Hong Kong and Shanghai Bank's purchase of Marine Midland, National Westminster's purchase of National Bank of North America, and Standard and Chartered's purchase of Union Bank of California. By themselves, these takeovers have placed control of almost $20 billion in American banking assets in British hands. Controller John Heimann has stated publically that six more such transactions are currently in preparation.

Miller's objective is three-fold:

1) The British equity-buying spree, which includes operations of British bank holding companies across state lines, will prepare the way for elimination of all controls against interstate banking.

2) The explosion of foreign banking operations in the United States tends to merge the American credit system with the unregulated offshore dollar, or "Eurodollar" market.

3) The ultimate regulation of American banks through supranational entities through the International Monetary Fund. Bank of England Governor Gordon Richardson publicly demanded, in a speech in Berne, Switzerland, June 13, that the IMF have powers to review virtually all international bank lending operations. Miller proposed the same, including IMF powers to impose reserve requirements; limit the total size of bank operations; impose conditionality on borrowers; and set interest charges, to the IMF's Interim Committee, according to evidence in possession of the U. S. Labor Party.

Interstate banking would be a disaster. Doubters should inspect the Canadian banking system, where the domination of five money-center banks channels most national savings into Eurodollar-oriented operations, and starves the regions for credits needed for economic development. Such centralization of credit in a few money centers would threaten the political balance of the country.

The Labor Party does not oppose the expansion of foreign banking in the United States through normal means, as a benefit to American international trade. But Congress must call a halt to British scavenging. The country requires time to put into effect measures of the type USLP National Chairman Lyndon H. LaRouche, Jr. outlined in the "U.S. Labor Party Nonpartisan Action Program for 1978": a two-tier credit system favoring long-term industrial investment and development of new technologies, and a tax structure favoring investment in new plant and equipment and household incomes rather than speculation.