Click here for Full Issue of EIR Volume 6, Number 18, May 8, 1979

Euromarket Controls: furor deepens

When Western central bankers assemble in Basle, Switzerland, on May 6-7 for their regular monthly consultation, the top item on their agenda will be a highly confidential memo prepared by the U.S. Federal Reserve staff advocating the imposition of reserve requirements on the Eurocurrency market.

Should the central bankers agree to implement such measures—acting under the guise of "fighting excessive credit expansion" in the Euromarkets—this could provoke a major flow of funds out of the offshore market and back to the offshore banks' parent branches in (primarily) the U.S. Then, if credit conditions are simultaneously tightened in the domestic U.S. market, the resulting worldwide credit squeeze could set off a "Crash of '79"—a U.S. recession which spreads to Europe and Japan, debt defaults by developing country borrowers, bankruptcies of major commercial banks, mounting currency chaos, and, finally, the transformation of the International Monetary Fund into a full-blown world central bank to "restore order."

INTERNATIONAL CREDIT MARKETS

Although the existence of the Fed's memo has so far been unreported by the nation's financial press, except *Executive Intelligence Review*, the Fed's staff has already begun a public relations campaign to prepare the U.S. business and financial community for Euromarket controls. Henry Wallich, a member of the Fed's Board of Governors, last week authored a two-part article series in the *Journal of Commerce*, a delphic, pseudo-objective assessment of the effects of the Euromarkets on domestic U.S. monetary growth.

Although Wallich did not explicitly endorse reserve requirements, he argued that the Euromarket had allowed an expansion in international lending which might not have occurred if the market had not existed: "Lenders of funds, and seekers of credit, would have had to go through other channels had the U.S. banking system not responded. But some of them might not have found an attractive source of funds. Consequently there might have been less lending and borrowing. Accordingly, inflationary pressures would have been less, interest rates would have been different, and a whole sequence of unforeseeable events would have unrolled." What Wallich really meant to say was: "The existence of the Euromarket is creating overly 'easy credit' conditions—both here and abroad. If we raise interest rates here, we simply pull more Eurodollars into U.S. markets and the domestic credit expansion continues. Therefore, to induce a U.S. and a world recession, *we must eliminate the Euromarket.*

French resistance

The Fed's plan is likely to draw support from the British, West German, and Dutch central banks, but it may run into tough resistance from the French central bank chief at the upcoming Bank for International Settlements (Group of Ten) meeting in Basle. According to a high French official, if Fed chief G. William Miller puts a proposal to implement reserve requirements on the table, the Bank of France will simply veto it.

A source at one of the major French commercial banks angrily characterized the Miller plan as an effort "to extort a retreat on the European Monetary System." Last year, many French and West German banking officials expressed the hope that the EMS might effect a "consolidation" of the Euromarkets—not to pull the plug on the world economy, as Miller and Wallich propose, but to provide long-term dollar and gold-based
goods exports to the Third World.

If the French are really serious about stopping the "Crash of '79" scenario, however, they will have to take on Otmar Emminger and his clique at the West German central bank. Bundesbank chief Emminger—a man notable for placing his narrow-minded obsession with controlling West German monetary growth rates above all other national priorities—has been acting as a de facto agent of the Anglo-American financial interests who are planning the Euromarket shakeout.

The Bundesbank's 1978 annual report, issued two weeks ago, warned that Euromarket "over-recycling" posed a grave "danger to the international community" and called on major governments to draw up "a set of rules" guiding Euromarket operations. The meaning of the phrase "over-recycling" was explained by Bundesbank official Herr Rieke in an interview with *Executive Intelligence Review*. According to Rieke, one must distinguish between countries which incur "avoidable" and "unavoidable" balance of payments deficits. It is "unavoidable" that certain countries would go into

© 1979 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

deficit as a result of increased oil prices. However, in the cases of "Turkey, Peru, Zaire," and other especially crisis-ridden countries, Rieke insisted that "if the Euromarket didn't finance them" then "the IMF could have moved in ... much, much earlier.... Those deficits would disappear if they weren't financed."

In other words, the Bundesbank is demanding that private commercial banks stop financing the countries with "avoidable" deficits and hand them directly over to the IMF, where they will be subjected to the IMF's austerity requirements. But, as the case of Zaire (whose central bank is now being run by an IMF official) shows, IMF conditions are a cure that kills the patient.

Dutch central bank chief Jelle Zijlstra, who also heads up the Bank for International Settlements, has joined Emminger in calling for the imposition of some form of controls on the Euromarket. Zijlstra's views were published in the annual report of the Dutch central bank issued last week. The London *Financial Times* reported that Dr. Zijlstra "said there was an increasing awareness that the lack of control over banks' foreign branches was unsatisfactory....Revised rules governing the consolidation of these foreign subsidiaries could extend controls across national boundaries."

Zijlstra's comments provide a hint as to the form which Euromarket controls may initially take. Banks will probably be required to "consolidate" their reporting of lending by their offshore branch offices with lending by their home offices, and a reserve requirement will then be slapped on all international lending. In this way, the central banks hope to get around the problem of how to police each presently unregulated offshore center. The Bank of England has already directed all British banks to consolidate their reporting and the Bundesbank annual report indicates a similar change in accounting practices is underway in West Germany.

—*Alice Roth*

BANKING

New York shows some fight versus British banks

The New York State legislature's passage on May 1 of the "Takeover Bill" proposed by New York Superintendent of Banks Muriel Siebert marks a new show of fight among New York legislators, banks, and citizens generally against the impending wave of predatory British bank takeovers of American banks.

This New York response has been sparked by the U.S. Labor Party's now year-old effort to expose the Hong Kong and Shanghai Banking Corporation and other British banks' involvement in the illegal world narcotics trade and their intent to politically influence the U.S. credit system on behalf of the British government. The USLP filed suit April 16 to stay the Federal Reserve's recent approval of the purchase by HongShang of New York's Marine Midland and the purchase by Standard Chartered of the Union Bank in Los Angeles.

Rumors are circulating in Albany that the public outcry, capped by the passage of the bill, may give Superintendent Siebert the support she needs to deny the HongShang its application on the New York State level.

Arthur M. Richardson, president of the Security Trust Bank in Rochester, reflected this in his statement to the bank's annual meeting late last month. "Like Superintendent Siebert, I have questions about these trends... these foreign based institutions operate with different management objectives and corporate philosophy than the unique 14,000-member bank system that has its roots in the American tradition. ... We are dealing with an issue that has an impact on the prosperity and quality of life of each of us..."

Mr. Richardson called upon Governor Carey to form a private sector committee "to chart the course for the state's banking system ... the very best people, experts in banking, members of regulatory boards, legislative leaders, nonbanking members." The committee must hold public hearings on the issue "to create opportunities for open dialogue among concerned citizens."

The Takeover Bill, which passed the New York Senate on April 23 and Assembly on May 1, will give the State Banking Board the right to prevent foreign banks from buying New York banks. Before, the law provided for oversight only on their voting of the stock once bought. The Board, led by Superintendent Siebert, will include five smaller New York State regional bankers, who will outvote the pro-British Chemical Bank Chairman Donals Platten nicely.

—*Kathy Burdman*