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May 15 that would prevent foreign acquisitions of New York banks with assets in excess of $2 billion. If the bill becomes law it will apply to all transactions completed after May 24, 1979. Chairman Farrell recalled that he has always suported steps to make Neww York the banking capital of the world. Following are excerpts from a statement issued by Assemblyman Farrell in support of the bill.

While New York has been the forerunner it may not be wise to allow substantial foreign domination of New York markets without careful study. By prohibiting the foreign acquisition of New York banks with assets in excess of $2 billion without careful study, both the federal and state governments will have sufficient opportunity to thoroughly review the issues before significant foreign connrol of New York's largest banks can be accomplished fact....

The banking industry has significant responsiblity for making major economic decisions which affect all aspects of our society...Foreign owners may be less inclined to promote domestic investment...foreign governmental policies...may put pressure on foreign owners to change policies of the banks which they control.

New York State Banking Superintendent Muriel Siebert has noted that no developed country would permit any significant local bank to be acquired....

Q: Do you think you could overcome the Banking Superintendent's objections and get this approved?

Carey: I am sure we can get together on legislation that will strengthen the position of the banks, strengthen the competition, provide additional capital and therefore more services in banking, and then make sure the legitimate concerns of Miss Siebert or other members of the Banking Board can be answered.

Q: Do you think her concerns about China taking over Hong Kong are valid?

Carey: Well, no, if you want to be specific...in the past, the Federal Reserve and the Comptroller of the Currency and the federal legislature have looked at all these concerns. The International Banking bill handled some of this in a prior year, and the Federal government has passed on this particular transactions and they take into consideration national security and those kinds of considerations.

2. London bids for control over lending

New York commercial banks, together with the U.S. Federal Reserve and Treasury Department, are collaborating with leading London bankers to bring about a "managed" collapse of international lending markets. By imposing reserve requirements on the presently

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unregulated Eurocurrency markets, this New York-London alliance intends to induce a general credit squeeze—suffocating French, West German, and Japanese efforts to transform the European Monetary System into a new international monetary system based on high-technology exports to the Third World.

Last week, both Treasury Undersecretary Anthony Solomon and Federal Reserve Governor Henry Wallich told business gatherings that the Carter Administration is considering Euromarket reserve requirements as a policy option—the first time that Administration officials have ever publicly admitted that the measure is under active consideration. Meanwhile, a top Bankers Trust official revealed in a private interview (see below) that the large New York commercial banks have thrown their support behind Euromarket controls. The Bankers Trust official stated that the main purpose of reserve requirements is to discipline the Japanese, West German and other continental European banks, who for months have been quietly advancing their own plan to reorganize the Euromarkets—not to reduce credit availability as the New York and London banks propose, but to facilitate long-term financing for industrialization projects in the Third World.

Through the Bank for International Settlements, the central banks will jointly police the imposition of reserve requirements, forcibly removing "excess" liquidity from the Eurodollar market by compelling Eurodollar banks to place a portion of their deposits with the central banks. According to the Bankers Trust source, the reserve requirements will have to be in the order of 10 to 20 percent to have the desired effect ("To have a credit squeeze, we have to stick it to them").

The resulting dollar shortage will allow the New York and London banks to push up Euromarket loan spreads and enhance their profitability. Third World and other financially ailing governments will meanwhile be forced to submit to IMF austerity conditions.

The rationale for Euromarket reserve requirements was presented by Henry Wallich in a May 14 speech before the annual conference of the Bankers Association

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for Foreign Trade in Boca Raton, Florida. According to Wallich, the international banking system is awash with liquidity. This is leading to a dangerous erosion in the profitability of U.S. banks' international operations, an erosion reflected in the persistent downward pressure on the spread between the rates which banks must pay to acquire Eurodollar deposits and the rates they charge loan customers. European and Japanese banks are primarily responsible for this risky situation, Wallich charged, because of their allegedly over-aggressive lending practices. Specifically, these banks have granted too-easy terms to Third World governments, allowing these countries to bypass the International Monetary Fund. "It is not a compliment to the credit judgment of commercial banks that some countries should have been afforded the means to get into debt so deeply," Wallich intoned.

Wallich and the New York commercial banks' proposed solution to the problem of declining bank profitability is to use Euromarket controls to put the world economy through a wringer. The enforcers of this deflationary program will be the IMF and the Bank for International Settlements (BIS), the Anglo-American dominated central bankers' club, which together will assume top-down control over world credit flows, riding roughshod over national sovereignty. As the Bankers Trust source said, "The key thing is that all the central banks have to get together and set international credit policy."

Blowing the Basel conspiracy

Whether the New York-London banking cabal will be able to push through this program, however, is a totally open question. At the last monthly Bank for International Settlements meeting held in Basel, Switzerland on May 6-7, Federal Reserve chairman G.W. Miller presented a secret memo which called on the other major central banks to collaborate with the Fed in the imposition of Euromarket reserve requirements. This memo was subsequently discussed by Group of Ten central bankers and finance ministers at a meeting in Paris on May 15. At both meetings, the assembled officials failed to reach agreement, to put it mildly, on Miller's plan.

Concerning the earlier Basel meeting, the May 11 *Frankfurter Allgemeine Zeitung* reported that no agreement had been reached on the Miller plan because it had received "too much public exposure." In fact, what happened is that the *Executive Intelligence Review* economics staff discovered the existence of the Fed memo before the meeting and raised a ruckus in the business community on both sides of the Atlantic. A highly placed French government source subsequently told *EIR* that the Bank of France would veto the Miller proposal. (The report in the May 16 *Journal of Commerce* and elsewhere that it was the British and Swiss who blocked the Euromarket controls is a British fairy-tale based on the Bank of England's supposed desire to defend the reserveless London Euromarket above all else.)

Night of the long knives

Despite this setback, the London and New Yok banks are still intent on securing their own survival in the midst of a Euromarket squeeze, a survival based on cannibalizing their Japanese and continental European banking competitors.

This "night of the long knives" prospect was expressed by Otto Schoeppler, chairman of Chase Manhattan's London-based Merchant Banking Group, in an interview published in the May 15 London *Financial Times*. Schoeppler echoed Wallich's warnings concerning excess liquidity and overly aggressive lending by "non-dollar-based banks" (that is, the Japanese and Europeans). He gloated about how vulnerable these banks would be in the event of a Euromarket squeeze. According to the *Financial Times*, Schoeppler wondered out loud "whether a sharp recovery of the dollar (to be brought about through Euromarket controls—A.R.) might not very quickly affect the liquidity of the Eurodollar market, creating possible problems for some market participants with regard to the continuing financing of dollar obligations. ... U.S. banks are known to be perturbed about the increasing internationalization of syndicated lending through the activities of 'non-dollar' banks in Europe and the Middle and Far East. Such banks, it is claimed, do not have a natural dollar base and are vulnerable in that they rely more heavily on the volatile Euromarkets for funding."

British banks, meanwhile, have moved to ensure their own access to dollar deposits through expanding their U.S. operations and through takeovers of U.S. institutions, such as Marine Midland, Union Bank of California, and National Bank of North America.

Ironically, by allying with London against Europe and the projected expanded version of the EMS, the New York commercial banks will set into motion a disastrous breakdown in world trade and industrial production which could ultimately end in their own demise. The large U.S. money-center banks have become so engrossed in takeover games and beggar-thy-neighbor tactics that they have lost sight of the fact that London is masterminding a fundamental reorgan-

ization of the banking system—both internationally and inside the U.S.

Despite the free enterprise rhetoric of Britain's newly elected Prime Minister Margaret Thatcher and her Mont Pelerin Society advisors, the actual perspective of leading London policymakers is that the U.S. economy and banking system will be governed from the top down by a Federal Reserve System which is merely a wholly owned subsidiary of the IMF. U.S. Treasury Undersecretary Anthony Solomon, who is heavily influenced by London, hinted at this in a May 11 speech to a business conference in Washington, D.C. According to the *Journal of Commerce*, Solomon not only endorsed Euromarket reserve requirements but called for improved international "regulatory techniques" which would "link" the Eurodollar market with domestic credit markets. The immediate implication of this is that the Treasury and Fed plan to use Euromarket controls to halt domestic credit growth and induce a recession in the U.S. economy. (Recently, banks have attempted to circumvent the Fed's tight credit policies by importing billions of Eurodollars from their offshore branches.)

A further consequence of Euromarket controls—the destruction of the U.S. dollar's role as the international reserve currency—was outlined by a top official at the London-controlled New York investment bank Lazard Freres. According to this source, the imposition of reserve requirements on the Eurodollar market could boost the dollar in the short run by creating a severe dollar shortage, especially considering the fact that many nations must now expand their dollar borrowing to pay for the increased cost of imported oil. However, the credit squeeze could eventually become so severe as to kick off a Herstatt-style banking failure. The failure of the West German Herstatt Bank in 1974, also in a period of Euromarket tightness, created such a severe crisis of confidence that interbank lending in the Euromarket temporarily ground to a halt and it was feared that a "domino" pattern of banking failures would occur. With the imposition of reserve requirements, such a banking crisis could be potentially much more severe than the one in 1974, and could trigger a flight from the dollar. At that point, Lazard's says, the IMF would step in and completely phaseout the dollar as the international reserve currency, replacing it with Special Drawing Rights. The U.S. economy would thus be placed in hock to the IMF and the IMF would assume direct control over the creation or contraction of world liquidity—the perfect realization of John Maynard Keynes' world central bank.

—*Alice Roth*

Curb on Third World loans on Tokyo summit agenda

In an interview this week a Carter Administration official involved in preparations for the upcoming Tokyo economic summit revealed that the purpose of placing reserve requirements on the Eurodollar market is to impose curbs on development lending by European and Japanese banks in the developing sector.

Q: *What about the talk at the May 6 Basel BIS meeting that the "non-dollar based" commercial banks, meaning the Japanese and Germans, are the real target of the new push by Miller and Emminger for reserve requirements on the Eurodollar market?*

A: Well, I'm not sure I'd call what they do dumping but we do know European and Japanese banks are lending at extremely small margins over LIBOR, in fact at no margins, at zero profitability. This is not a common banking practice. There is more than just maintaining their borrowers at stake here. These are not commercially viable loans. ...

Q: *But isn't this a problem of the past? The DM is weak and the yen is collapsing, which means the Japanese spent over $6 billion of their reserve supporting it—so how can the Japanese and German commercial banks remain a threat, when their central banks no longer have cheap dollars to deposit in them to allow them to dump?*

A: Aha, but the question is, where does the Bundesbank put the dollars? And the Bank of Japan? They don't give them to American banks when they sell dollars to support their currencies; they give them to Japanese and German banks. I'd say over 80 percent of the Japanese central bank dollar outflow, and close to 75 percent of the Bundesbank outflow, went to their commercial banks. And so in France and Switzerland: that's close to $15 billion total (i.e., 80 percent of $17 billion plus figures from France et al.—ed.). Not only have they not stopped their cheap loans, but we would argue that it is precisely this reflux out of the central banks into the commercial banks which has created this problem of overproduction of loans. It goes mostly to the LDCs—they borrowed $50 billion last year and they'll borrow another $50 billion this year—but the difference is this year the cheap loans are helping them build up their reserves.

Q: *What is to be done?*

A: Put reserve requirements on the Euromarkets.