Banking by Leif Johnson

America: hot-money zone?

Money-center banks are using foreign takeovers as an argument for their own grabs—which would drain funds from industrial credit.

Last week's bid by the Midland Bank of London to take over 51 percent of Crocker National Bank of California stock for $820 million has begun to stir a real debate in top banking circles in this country.

Of course, there has been opposition to such cheap takeovers from a segment of the banking community. And most knowledgeable bankers know that the pseudo-debate about foreign banking takeovers is merely being used by the money center bank-controlled regulatory agencies to press for an end to the McFadden Act, which prohibits interstate banking takeovers by domestic banking corporations.

But there is now much more to the debate. Assume that U.S. banking were turned into a British-styled hot-money banking system, one run by British banks and their top U.S. allies—the Crocker-Midland move is a Citibank operation. What happens to the forces in U.S. banking and industry who want to "reindustrialize" America?

The dilemma is acute. In order to deflect the European industrial boom fed by petrodollars newly invested in European, especially West German industrial shares, a hot-money zone in the U.S. is being promoted. And that, by its very nature, would suck productive investment capital out of the United States as well, undercutting attempted capital formation.

Moreover, such a hot-money zone would drain the U.S. economy without necessarily augmenting the flow of petrodollars to Anglo-American banks, since the current OPEC investment in continental European industrial shares is politically negotiated. "Reindustrialization" would be sabotaged without accomplishing the perverse goal of defeating Europe's buildup.

Meanwhile, a front-ranking economic forecasting institute in Cambridge, Massachusetts, points out that the Carter administration's extraordinary tax policy will drain $60 billion in taxes (Social Security, windfall profits, and "rising income" brackets) plus another $60 billion in Treasury bills to cover the deficit. They claim that this much austerity will produce a depression worse than 1932.

Yet the hot-money operation rolls on in a major press campaign and a series of propaganda reports from federal regulatory agencies. On Saturday, July 5, in supposedly the least-read business pages of the year, the *New York Times* claimed that the New York City Free Banking Zone, the brainchild of Citibank, is gaining popularity. Checks with other top New York commercial banks found this hot-money operation still on the shelf, as the banks who had commented to the Fed on the idea over a year ago had demanded.

On July 14, both the *Times* and the *Wall Street Journal* ran prominent reports that the White House is preparing a report—a year overdue—that will ask Congress to consider eliminating the McFadden Act and allow unbridled interstate bank takeovers.

Elimination of the McFadden Act, passed in 1927 to protect regional banks and their productive investment against the raids of London-directed money-center banks, is a prerequisite for creating a nationwide hot-money operation.

The British banks that take over American banks—foreign bank takeovers are 90 percent British on an asset basis—are in fact transferring hot-money Eurodollar operations to New York and San Francisco because they are being squeezed out of Europe. Once in the U.S., they and their allies want sharks' rights to the rest of American banks. The illogical argument that McFadden should be dumped because it allows foreign banks to be exempt from it is only tolerated by American banks because of the pressure against them. It is well known that Fed and Examination Council "bank examiners" exerted unpleasant pressures on recalcitrant banks to accept Henry Reuss's Omnibus Banking Bill, passed March 31, 1980, and to keep quiet about McFadden.

Yet for all the stories in the press, and despite all the regulatory agency "reports," the proposal to eliminate 99 percent of the nation's banks and establish a hot-money operation under three dozen money-center banks, does not appear to have a bright future. Five thousand savings and loans are suing to protect the American housing market, and thousands of small commercial banks and their customers are willing to fight to protect their local productive activity. They could win.