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Banking by Kathy Burdman

Free banking zone on front burner

Has Volcker struck a deal with the Chicago banks for a national EFT system?

Federal Reserve chairman Paul Volcker is quietly pushing for immediate creation of no-reserve "free banking zones" in the United States, Fed sources said this week. Federal Reserve staff director for monetary policy Stephan H. Axilrod and his Washington staff are busy wrapping up a semi-classified new study of the International Banking Facility (IBF), to be submitted to the Board of Governors for approval some time during October. Volcker thinks he has the votes.

As one New York bank lobbyist put it, Volcker is bringing the Eurodollar market back home. Under the free zone proposal, U.S. banks would be able to accept non-taxable foreign deposits without U.S. government reserve requirements just as the London Eurodollar market banks now do, moving most of the American banks' London business, in effect, back into the United States. The American banking system would soon be awash with short-term Eurodollar lending as banks turn away from domestic production activities.

The Fed's new free zone plan may also be used to introduce national banking in the U.S., vastly accelerating the Carter administration's general deregulation of U.S. banking, and undermining the nation's regional banks.

To gain the support for free zones from Chicago and other big money center banks, the New York banks who originated the proposal may agree to set up a nationwide Electronic Funds Transfer system to hook the nation's 50 largest banks into one huge market.

The IBF proposal is not new. The New York Clearing House Association, the umbrella group for the big twelve New York banks, proposed the free zones in July 1978 and since then has repeatedly been voted down by vociferous opposition from the nation's 14,700 small and medium regional banks.

Pressed to explain, Fed sources claimed the new review was prompted by a little-known May 1980 letter to the Board from the New York Clearing House modifying its old proposal with two amendments. These would move back the opening of the free zone to July 1981 to "enable institutions to plan" for Fed removal of reserve requirements (Regulation D) and lifting of interest rate ceilings (Regulation Q), and raise the minimum deposits into free zone accounts from the $100,000 originally proposed to $500,000 to "avoid potential disruption of local markets," that is, to keep small depositors from rushing out of local banks and into the free zone with their savings.

Following these minor concessions by the New York banks, a number of startling events occurred. New York Federal Reserve president Anthony M. Solomon, in a speech to the New York Bankers Association June 2, made the first public endorsement of the free zone by a Fed official as "consistent with the national interests of the U.S." On June 24, the ABA, whose thousands of regional members had previously strongly opposed the free zone, sent a little-publicized letter to the Fed endorsing the proposal "in light of" the New York banks' so-called new amendments. In early July before the House Banking Committee, Fed chairman Volcker himself called for a speedy new "review" of the free zone issue.

In fact, this flurry of action on the free zone is taking place because "Volcker and the New York banks have made a deal with the larger regional banks," Capitol Hill sources say. The deal is to cut the larger banks outside New York—in Chicago, Boston, Detroit, San Francisco, etc.—in on the free zone, in return for their political support of the program. The rest of the nation's banks would be cut out.

With the creation of a Eurodollar market in the U.S., First Chicago, Continental Illinois, the First National Bank of Boston, and others, are demanding a nationwide extension of the New York banks' Clearing House International Payments System (CHIPS) computer.

Continental Illinois executive vice-president Alfred F. Miossi told *EIR* this week that "we could support the New York proposal for IBFs if we have equal treatment. We cannot have a situation where the New York banks have a competitive advantage because they can clear funds so cheaply with Europe through CHIPS and we cannot. We must have equal access by all major banks through a national CHIPS system to clear directly with London, nationwide."

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