

Banking by Kathy Burdman

A fast road to credit controls?

Despite the Federal Reserve's denials, controls are possible in the near term—and on a supranational level.

In a recent talk with a reporter, former Federal Reserve Chairman William McChesney Martin argued that the ability of central banks to control national credit behavior would erode toward total deregulation, and that this would eventually compel the central banks to band together on behalf of an international system of credit controls. "McMartin" foresaw the cycle from total deregulation of the credit markets to virtually total regulation coming full circle in two to three years. Indications are that it might happen much sooner.

News that American corporations booked \$36 billion of Euro-market loans in July destroyed remaining illusions that the Fed had credit expansion under control. Business loans from all sources rose at a 35 percent annual rate during the first half of the year, and the July bookings—which do not necessarily represent drawdowns—could push that rate even higher. Conceivably, some of this loan activity, funded heavily from abroad, is responsible for the rapid growth of narrowly defined money supply during the last two reporting weeks.

Reviewing the methods by which borrowers and lenders have thwarted national central bank regulation, *The Banker*, a monthly owned by the London *Financial Times*, reports the following:

"All of the difficulties created for monetary policy by an electronic banking environment on a na-

tional level can be expanded to an international level when funds are transferred easily through communications networks across national boundaries. The Bank for International Settlements is already investigating the influence of automation and sophisticated payments systems on the money supply, and a coordinated approach for the whole of the worldwide central banking community may eventually be developed if it is felt that the measurement and control of the money supply is compromised in some way for individual nations."

Central banking sources who attend BIS meetings corroborate *The Banker's* report, and point to a little-noticed feature of the supposed "electronic" revolution in international banking: the centralization of electronic funds transfer systems ultimately makes the Eurodollar market eminently controllable.

At present, two computer systems clear perhaps 85 to 90 percent of all international transactions. Apart from the Clearing House International Payments System, or CHIPS, in New York, which clears the transfers between the 12 New York City clearing banks, the leading payments system is the Brussels-based Society for Worldwide International Financial Telecommunications, or SWIFT. SWIFT transfers consist merely of a transfer order typed into a computer terminal, which routes the order to its destination through a central computer terminal, pending trans-

mission of an encrypted confirmation code. In theory, the BIS would have no difficulties in tapping into the central computer system to obtain a continuous profile of international payments.

A precedent for this form of electronic monitoring of financial transfers was established during the November 1979 freeze of Iranian central bank assets by the U.S. Treasury. As *EIR* reported exclusively, the Treasury obtained continuous reports from the National Security Agency, which is responsible for monitoring electronics communications, on the status of Iranian bank assets. An operation of that complexity could not occur had the Treasury used only the monthly reports from the banks themselves.

Since the SWIFT system also provides the banks' customers with a daily status report of debits and credits to their accounts, the SWIFT network could, conceivably, permit the international central banking authority to closely monitor the exposure of banks to their corporate customers as well.

Despite the Reagan administration's ideological bias against controls, as economist James O'Leary of U.S. Trust points out, they represent the path of least resistance. Reagan cannot cut the budget sufficiently to bring down interest rates quickly, if ever, and is not likely to adopt the "supply-side" gold remonetization plan except as a last resort.

However, as *The Banker* (and IMF officials) emphasize, no domestic controls could succeed. So the prospect of credit controls through the BIS in the foreseeable future, even before year's end, is not to be excluded.