

I. The HongShang takeover battle

New York's Siebert: 'will foreign governments control U.S. capital?'

In one fashion or another, almost the entire American financial community and assorted regulators had chosen sides as of EIR's deadline in a ferocious battle over the approval of the Hongkong and Shanghai Banking Corporation's proposed takeover of 51 percent

BANKING

of New York's \$13 billion Marine Midland Banks Inc. At the apex of the fight is New York's feisty Superintendent of Banks Muriel Siebert, who indicated plans to reject the HongShang bid in a 48-page draft report now circulating within the New York State government.

Siebert's draft report, as cited in press accounts, alleges that the HongShang does not have "the attributes needed for management" of the upstate New York giant Marine Midland—an apparent reference to charges that the Hong Kong bank is involved in financing narcotics traffic.

The haste of HongShang supporters at the Federal and State government level to bulldoze the New York State regulator strongly indicates that the merger, while substantial in itself, is being fought as a test case for major policy issues which affect the banking system as a whole. Most extraordinary was the intervention on the Hong Kong bank's behalf of Controller of the Currency John Heimann, the senior Treasury official responsible for regulation of national banks. In a letter to New York Governor Hugh Carey, Heimann insisted that legislation now on the Governor's desk for signature strengthening Miss Siebert's powers comes into conflict with Federal prerogatives.

According to the chairman of one New York bank, the legislation—Senate 3333—merely extends existing state powers over New York-domiciled, nationally chartered banks, and in no way step on Federal toes. Instead, Heimann's objections apparently derive from the fact that S.3333 would enhance Siebert's prestige, helping her to face down the Governor. Overwhelmingly, the State Assembly and Senate have backed Siebert rather than Carey. In an exceptional display of confidence for Miss Siebert, Assembly Banking Com-

mittee Chairman Hermann D. Farrell introduced a bill to ban *all* foreign takeovers of large banks in New York State, expected to pass this session.

Reportedly fearful that passage of S. 3333 would give Superintendent Siebert the political backing to immediately reject the HongShang, Gov. Carey sent the bill back to the legislature for review—a stalling tactic that will buy roughly 10 days. In private discussions with legislators, Carey waved the Heimann letter as an excuse.

In a further extraordinary intervention on the part of the Washington authorities, Federal Reserve and Treasury officials hastily summoned the New York

In this section

Departing from its usual format, our ECONOMIC report this week is heavily devoted to a series of in-depth reports, combined with press coverage and exclusive EIR interviews, on the implications of the fiercely contested attempt by Britain's premier Far Eastern drug bank, the HongKong and Shanghai Banking Corporation, to take control over one of America's largest banks, New York State's Marine

this moment pitted New York's Banking Superintendent Muriel Siebert, backed by numerous New York and other U.S. regional banks, against the plan of Britain's newly installed Thatcher government to finally reassert direct British control over the United States financial system. Our report focuses on three areas:

- A banking report which looks at the immediate takeover battle, and reviews its deeper political implications;
- An International Credit report, which situates the HongShang merger bid in the context of broader British plans to regain control over Eurodollar lending to the Third World;
- A Domestic Credit report, which examines further British hopes to "deregulate" all aspects of U.S. banking.

Superintendent to Washington for "consultations," i.e. a pressure session on the HongShang case. Reportedly, Siebert was unmoved by these remonstrations.

Finally, Gov. Carey called an informal press conference on May 15 to tell reporters that he intended to help his Banking Superintendent overcome any objections she retains to the merger, an unusual display of public pressure. From his Wall Street office, the Marine Midland chairman blasted Siebert for "jingoism" and "xenophobia."

The Treasury and Federal Reserve have made the HongShang merger the focal point—as the May 8 London *Financial Times* survey on U.S. finance predicted it would be—for an entire array of major policy proposals. These proposals, which add up to tight international controls over virtually all lending markets, with central authority passed on to the Bank for International Settlements and the International Monetary Fund, are detailed in the International Credit Markets section of our report, and elaborated in the appended interviews with commercial bankers. This accounts for the untoward speed with which the Federal regulators have dived into the issue.

Meanwhile, the 7,600 member Independent Bankers Association of America (IBAA) is prepared to join its New York affiliate in issuing a public statement denouncing the foreign takeover. The text of the New York statement is reprinted below.

Dope, Inc.

Action to block the HongShang takeover of Marine Midland was initiated during late 1978 by the U.S. Labor Party. The party delivered a massive documentation of reasons for preventing the takeover to the Federal Reserve Board and private banking agencies. Prominent in the evidence given against the proposed takeover was documentation of the HongShang's historic and continuing connections to the major portion of the world's illegal opium traffic. That opium traffic is a principal source of foreign exchange income of Hong Kong and also of the export earnings of the Peking government.

The Labor Party's brief to the Federal Reserve included documentation overlapping evidence published in part in the recent, influential book *Dope, Inc.* The book is a documentation of the political and financial structure of the international illegal drug traffic as well as incorporating hard evidence on the Bangkok-Hong Kong sector of the "Golden Triangle" production and distributions themselves.

The Labor Party, combined with widespread circulation of *Dope, Inc.* into top corporate and political circles, triggered a massive, if largely behind-the-scenes support for the party's initiatives during the past autumn. The HongShang's admission that its official financial records were "cosmetic," and the Hong-

London: can Siebert torpedo takeover plans

The Financial Times of London admitted that Muriel Siebert's opposition to the HongShang takeover of Marine Midland is presently the major barrier to what it termed London's "banking invasion" in an article titled "Powerful Stimulus" in its May 8 survey of finance and investment in the U.S.

... It is certainly true that foreign banks in the U.S. have become a powerful competitor and are one of the forces which have led large local banks to revamp their business strategies. Certainly, the banking sector is one where foreign investors are having a significant impact on a domestic industry.

Shang's refusal to make its true accounts available for inspection prompted many observers to believe that the Fed would be obliged to block out not only the HongShang takeover, but also those attempted takeovers of U.S. banks by various other City of London firms.

Recently, in an abrupt turnabout, Fed Chairman G. William Miller strong-armed approval of the HongShang takeover through the Fed's Board of Governors, and arbitrarily shut down the investigation under way by the Fed's investigative staff. Miller's action came immediately after the Bank of England had threatened to deny U.S. banks London clearing facilities if the HongShang takeover were not approved. New York commercial banks, which have recently depended upon ultra-high priced London Eurodollar funds for lending activity, either supported Miller's action or kept quiet.

After the Fed actions, only legal action by the Labor Party remained visibly a probable obstacle to the takeover, but official circles estimated Miss Siebert would not sustain a determined objection to the acquisition.

Miss Siebert's public actions of this past week came as a shock to London circles. In a frontpage *Financial Times* article of May 9, *Financial Times* New York correspondent Steward Fleming wrote: "The major obstacle to the Hongkong and Shanghai Banking Corporation's acquisition of 51 percent control of Marine Midland Bank, the 13th largest banking company, is expected to emerge this week. It is the reservations of Miss Muriel Siebert, the New York State Banking Superintendent, to the deal."

The front page of the May 11 *Financial Times*

The data is probably a little misleading and may overstate the case but it indicates that in both California and New York, for example, about one third of commercial loans are being made by foreign banks. ...

Another example of the impact which the foreign banks have had was the passage of the International Banking Act. ... The Act also required the White House to examine laws generally prohibiting U.S. banks from opening deposit-taking branches in more than one state. Action to change these laws could transform the face of U.S. banking. The foreign banks are thus helping to shape the regulatory environment in the U.S. ...

At the moment there is little evidence that Congress is seriously worried—indeed last year's International Banking Act was broadly favourable to the foreign banks. State regulators may be

another thing. Miss Muriel Siebert, the New York Bank Superintendent, has made no bones about her anxiety at a number of aspects of the foreign banking invasion of the city and the State. At the time of writing she still had to announce her decision on whether to approve the biggest foreign bank acquisition of control of a U.S. bank.

Her decision on the Hongkong and Shanghai Banking Corporation's acquisition of control of Marine Midland Bank, a \$12 billion institution, may give a better idea of just how much political opposition there is in New York to such transactions. Already some foreign bank executives fear that another wave of foreign takeovers—even where both parties favour the deal—could sour the atmosphere. The financial muscle of larger banks also makes them potentially, at least, a sensitive area for foreign investment.

carried a fresh dispatch by the same correspondent, this time including a photograph of Miss Siebert at the top of the page. In this report, correspondent Fleming reported Governor Carey's anger at Miss Siebert, supporting this report by reference to statements of Carey's Commerce Commissioner Dyson.

On the same day, May 11, the public statement supporting Miss Siebert's efforts was issued by the state branch of the Independent Bankers' Association, together with the de facto supporting statement issued by the office of Attorney General Abrams. This was the same day on which U.S. Labor Party economic-intelligence representative, and coauthor of *Dope, Inc.*, David Goldman, delivered his testimony before a New York State Banking Committee chaired by State Assemblyman Farrell.

Support for Miss Siebert's efforts from among the smaller bankers of the USA is now spilling over into the ranks of the American Bankers' Association. The fact that HongShang has admitted its "historic" connection to the illegal opium traffic, although denying its continuing connection, helps to bolster the opposition to the takeover. The deeper issue, as the *Financial Times* emphasized in an editorial column on Tuesday of this past week, is the possibility that the HongShang case may be the spark to rally political sentiment in the U.S. against British takeovers of U.S. banks generally.

The background issue

No one factor adequately accounts for the brutal character of the factional situation around the Hong-

Shang takeover. The HongShang case either directly involves or symbolizes several major political issues, including a growing revolt within the U.S. electorate against the Carter Administration's policy of promoting ending law-enforcement action against the largest, marijuana-centered aspect of the illegal drug traffic generally.

On the pro-HongShang side are not only the London financial interests, but also the leading boosters of the Carter Administration's current Peking and Camp David policies.

During 1972-1973, as Henry Kissinger and his aide Alexander Haig pushed the "China option" forward inside the Nixon Administration, Kissinger used his position as National Security Advisor to force the CIA and the U.S. drug enforcement agencies to shift the tracing of the opium-growing "Golden Triangle" in such a way as to exclude the chief opium-growing regions of southern China. Despite Kissinger's action to cover up the opium traffic of his new Peking collaborators, the entire production and initial processing and distribution of opium and heroin from Southeast Asia is controlled, top-down by a joint cooperation of British and Chinese foreign intelligence services. The British control 60 percent of the profits, and Peking's Chinese Communist Foreign Intelligence Service controls 40 percent of the Bangkok-centered, initial phase of the operation.

The government of Israel is the third principal factor in the illegal opium trade presently. Arms traffic, diamond-traffic revenues, plus opium-heroin, plus gold-jewelry traffic are the principal source of foreign earnings of Israel, of which earnings the major portion

are "black funds" not reported in budget and related reports of the Jerusalem government. All four of these elements of international traffic are handled jointly by the same or interlinked elements of Israel's Mossad and private-cover entities. In the black money markets of the world, the four commodities are interconnected elements of the same traffic.

Both the Israeli and Chinese foreign intelligence services derive the major element of their off-shore operating funds from either the illegal-drug related traffic, or in the Israeli case, from supplementary activities such as prostitution and other activities classically listed under the heading of organized crime. The Israeli link to the opium-heroin traffic is centered in Hong Kong, where presently known "private" covers for Israeli intelligence deal in drugs and arms under the cover of air freight and related disguises.

In the case of China, the principal margin of foreign currency earnings of the Peking government are derived from remittances of "off-shore" Chinese, with the opium-heroin component the largest single portion of this income. The receipts from Hong Kong as Peking's share of the illegal opium traffic are reliably estimated to be significantly less than \$10 billion annually, but the amount is a major component of Peking's purchasing power in Europe, the United States and Japan.

The HongShang, de facto central bank for the Crown Colony of Hong Kong, is the pinnacle of all the financial transactions involved.

The other principal component of the illegal drug traffic globally is centered financially in the British West Indies, notably in Bimini and other Eurodollar banks linked closely to London and the Canadian banking system. Here, the emphasis is upon marijuana and cocaine, using production areas in Latin America and in former British colonies in Africa. The Canadian side of this traffic features top circles of the British Crown's own Venerable Military and Hospitaller Order of the Knights of St. John of Jerusalem, and Jewish-name subsidiaries such as the Jerusalem Foundation.

The most prominent figures of the Jerusalem Foundation include the Bronfman interests, estimated by Canadian sources to hold over \$7 billion in assets. Bronfman is a key part of the so-called Zionist lobby in North America. The family, which accumulated its initial wealth in organized crime during the 1920s and 1930s, is closely allied to a New York State family, the Jacobs family.

Like Bronfman, Jacobs is historically associated

with organized crime. The predecessor organization for Jacob's principal holding, Sports Service, Inc., was Emprise, a corporation prosecuted as a part of organized crime during the Nixon Administration. Jacob's interests are currently under grand jury investigation in connection with the Arizona murder of a news reporter, Don Bolles. Jacobs is a major figure in commercial sports in the United States, including gambling casinos and real estate operations of the sort usually employed for "laundering" black funds.

Both the Bronfman and Jacobs families are historically associated with Michigan's Max Fisher, a major fund raiser for both the Michigan State and National Republican Party. Bronfman is also notable for loans extended in the order of hundreds of thousands of dollars for the political campaign of Governor Hugh Carey.

Bronfman interests were also the sponsors of the notorious Permindex organization, the organization expelled from Switzerland under French pressure for suspected links to the fascist assassination plots against President Charles de Gaulle, and also prominent in the investigation of the assassination of President John F. Kennedy during the same period.

Apart from London's special project of takeover of the principal U.S. commercial-banking interests, the forces with something at stake in the HongShang project are numerous, and extremely powerful—and dangerous—both inside and outside of the United States.

Strategic implications

One of the leading projects which the Thatcher government of Britain has inherited is a projected City of London takeover of direct control of the world monetary system. If the HongShang case leads to U.S. actions blocking foreign takeovers of key U.S. commercial banks, this project of Mrs. Thatcher's government is in serious trouble.

By taking over key portions of the U.S. banking community, and by wrecking the U.S. economy through aid of this increased influence, the City of London aspires to end the U.S. dollar's role as a reserve-currency, and to replace the dollar with International Monetary Fund Special Drawing Rights. By looting the internal economy of Britain for sake of enhancing short-term profit margins of London banks, and by attempting to collapse the bloated Eurodollar market onto the backs of the Federal Republic of

Siebert drafts rejection of HongShang bid

The May 12 New York Times reported that New York State Banking Superintendent Muriel Siebert planned to reject the HongShang bid, and had prepared a draft of her opinion. Excerpts from the Times account:

New York State's Banking Superintendent, Muriel F. Siebert, has sent a draft report to the Attorney General stating that she intends to reject a proposed takeover of Marine Midland Banks Inc. of Buffalo by the Hongkong & Shanghai Banking Corporation.

Governor Carey, who has said the merger could improve New York's position in several pending business deals and spur economic development in the state, was reportedly furious with her decision, but an aide said the administration was powerless to take any direct action to counter it because this would create the appearance of political interference in the regulatory process.

The state's Commerce Commissioner, John S.

Dyson, warned earlier this week that Miss Siebert might lose her job if she did not act favorably on the acquisition. But a top aide to Governor Carey flatly denied that this was the case. ...

Miss Siebert questioned whether Hongkong & Shanghai had "the attributes needed for management" of Marine Midland; the potential impact on the state if "Hong Kong were taken over by China at some time in the future"; how a bank controlled by a foreign power would react in a national emergency, and the impact on "public confidence in banking in upstate New York."

She also dismissed the argument that Marine Midland needed the infusion of capital promised by Hongkong & Shanghai, which has been cited as a major reason for the merger. ...

The report concluded: "I am, therefore, giving notice of my intention to deny this application by the Hongkong & Shanghai Banking Corporation."

Germany, France, and Japan, through abrupt increases in Eurodollar reserve requirements, the City of London scheme has a credible prospect for success.

President Carter's credibility is currently at an abysmally low ebb within the United States. Candidate John Connally's campaign has been almost wrecked by recent Labor Party exposures of a tape recording of Connally's remarks to a private New York audience. The Reagan candidacy is fading rapidly. An open fight is looming between Kennedy and Carter for the 1980 Democratic nomination. Any sharp setback to Carter Administration policy inside the United States could trigger a sharp reversal of the past two-and-a-half year trend in U.S. policy.

The growing groundswell of hatred against the "decriminalization" of marijuana, public belief that both the petroleum crisis and the Harrisburg incident were and are hoaxes, plus a wave of patriotic revolt against foreign takeovers of U.S. banks and industrial corporations, could provide the impetus for such a reversal of policy trends.

It is ironical, but not otherwise accidental that the U.S. labor Party's key role in mobilizing forces against the HongShang takeover correlates with accelerating

endorsement of the 1980 presidential candidacy of the Labor Party's LaRouche.

Such endorsements to date have come from important sectors of major trade unions, and from a number of black leaders. The latter reflect the aspiration among some strata of U.S. minority groups to finally get on board the train known as the "American dream"—not to have the train stopped and put out of service just at the point they have come within reach of economic and social equality. As patriotic industrialist and professional circles detect a significant growth of the LaRouche candidacy's mass support within the ranks of labor and minorities, they, too, will tend to move toward endorsements of the Labor Party campaign.

It is more than a year until the 1980 Democratic and Republican nominating conventions, and the LaRouche campaign-already has a greater growth of support than any other contender but Senator Edward Kennedy.

Something unusual, and hopeful may now be brewing around the growing opposition to the HongShang takeover.

—by the Economics Staff of
Executive Intelligence Review

New York bankers association decries foreign takeovers

The Independent Bankers Association of New York State issued a press release dated May 10 opposing the purchase of U.S. banks by foreign corporations. Here is that release

The continued proliferation of takeovers of U.S. banks and banking holding companies by foreign banks or other foreign interests should be brought to an immediate halt," stated Robert Ernst, President of the Independent Bankers Association of New York State and President of the Sullivan County National Bank, Liberty, New York. Mr. Ernst went on to say, "Continued acquisition of American banking assets may very well not be in the public interest. The potential drainoff of deposit dollars may have serious economic implications for America's banking system that have not yet been explored." The IBA actively supports legislation currently awaiting the signature of Governor Carey which would provide additional restrictive powers for Superintendent Siebert and the Banking Board.

Recent press reports have implied that the IBA of New York State supports the Superintendent of Banks. Mr. Ernst said he would like it understood that there is no question about this. "We fully support

Superintendent Siebert and her concern with the entire issue. Among others such foreign acquisitions are exemplified by the takeover of National Bank of North America by the National Westminster Bank, London and the pending takeover of Marine Midland Bank by the Hongkong & Shanghai Bank."

The completion of these two acquisitions would mean that approximately one-ninth of the banking assets in this country would either be owned or controlled by foreign interests. The Association is deeply concerned about the potential deposit drain overseas and the adverse effect on our local communities. This should be of equal concern not only to residents of New York State but also to everyone in this country. Officials of the IBA of New York State have met with representatives of the Governor's office to discuss this issue and voice our concern. The Association also supports Superintendent Siebert's call for a Federal review of the principles involved in the takeover of American banks by foreign interests. The IBA of New York State will urge Congress to act in preserving the financial structure of this country.

Assembly Banking Cttee chairman seeks ban on takeovers

New York Assembly Banking Committee Chairman Herman D. Farrell (D-NYC) introduced a bill on

Marine Midland defends acquisition by British drug bank

Surrounded by growing controversy over its proposed acquisition by the drug-trade linked HongShang, the Marine Midland Bank, which has actively sought acquisition by HongShang, defended the deal in a May 15 press release. Following are excerpts:

In response to news articles concerning the foreign nature of the Hongkong and Shanghai Banking Corporation, Marine Midland stated: "The HSBC desires to join forces with Marine Midland because of a high regard for our customers....

"Marine Midland seeks the partnership to better enable it to increase its business especially in New York State," according to Edward F. Duffy, Marine's Chairman of the Board, "and xenophobic attacks on investments from abroad are pure jingoism and contrary to U.S. policy and interests.... On March 16, 1979 the Federal Reserve approved and endorsed the proposed acquisition...."

Mr. Duffy's statement closed with optimism. "The plan is based on sound investment principles. It is in the best interest of the state, our shareholders and the bank. We're hopeful that the continuing discussion with our state regulator will lead to a positive decision."

Carey pressures Siebert to abandon opposition

At a May 15 press conference, Gov. Hugh Carey bluntly said that he would try to influence New York State Superintendent of Banking Muriel Siebert to accept the Hongkong and Shanghai Bank's bid for Marine Midland.

Here are exchanges from that conference.

Q: Governor...over the weekend one newspaper said you were furious because Superintendent Siebert is apparently going to...

Carey: No I am not furious. Last year I might have been furious; this year I'm not furious.

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 supported steps to make New 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 control of New York's largest banks can be accomplished fact....

The banking industry has significant responsibility 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

INTERNATIONAL CREDIT MARKETS

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