

ments governing minimum deposits and time-frame for opening the IBFs. On May 28 the New York Clearing House accepted the amendments and wrote a letter to the Fed proposing them and urging a speedy move of the IBF plan back to the front burner.

Things began moving quickly. By June 2, New York Fed chief Anthony Solomon in a New York speech publicly endorsed the "revised" New York IBF plans as "consistent with the national interests of the U.S." On June 24, the 14,000 bank-member American Bankers Association, which earlier had set up a Task Force on IBFs chaired by John R. Cummings, Jr. of the Industrial National Bank of Rhode Island, switched its position wholesale on IBFs. The ABA wrote a letter to the Fed endorsing the New York Clearing House plan based on the two "new" amendments. By July, Volcker was urging a "speedy review" of the program before the House Banking Committee.

Now the Chicago, Boston, and San Francisco bankers say that the Fed could rule to set up free banking zones at any time.

reserve balances of member banks between Reserve Districts. This proposal would end discrimination between New York clearing banks and others by giving all *equal access to CHIPS and Fed settlement across district lines* [all emphasis added].

Anthony Solomon, president of the Federal Reserve Bank of New York, in a June 2 speech before the New York State Bankers Association endorsed the New York banks' proposal for a banking free trade zone. Solomon stated that he wishes to use IBFs to enact an international credit cutback by bringing sections of the international Eurodollar market back within the United States in these terms:

I believe offshore banking is likely to continue to grow. I would prefer to see a return of the Eurodollar business to the U.S. and foreign-based deposit and loan business serviced from U.S. shores. The proposal to create an International Banking Free Trade Zone in the U.S. would enable U.S. banks to handle foreign business onshore, free of the Fed's reserve requirements, state taxes, and interest rate ceilings. International banking facilities could be set up in any state that adopts appropriate enabling legislation, just as this state has done. The proposed international banking facility is consistent with the national interests of the U.S. and could strengthen our hand in international discussions of how offshore markets should be treated.

U.S. CHIPS move: electronic warfare

The Association of Reserve City Bankers, the elite club of the chief executive officers of the top 134 banks in the United States, has devised a plan to implement a nationwide interstate banking system using the medium of Electronic Funds Transfer. Dubbed "the U.S. CHIPS" by insiders, the system would be a national version of the New York Clearing House banks' Clearing House International Payments System (CHIPS) computer. N.Y. CHIPS currently clears each day over \$120 billion in international and domestic bank settlement payments between the top 12 New York banks, their London Eurodollar market offices, and their foreign bank clients.

The non-New York members of the Reserve City Bankers among the leading Philadelphia, San Francisco, Boston, and Chicago money center banks have made the establishment of such a national CHIPS clearing system the condition of their political support for the New York banks' proposal for free banking zones. "We seek the creation of a U.S. CHIPS," Continental Illinois executive vice-president Alfred F. Miossi told *EIR* recently. "We must have equal access by all major banks through national membership in CHIPS to clear directly with London. We can support the New York proposal for International Banking Facilities if we have such equal treatment."

The explicit aim of such a U.S. CHIPS, both New York and non-New York money center banks agree, is to set up a de facto interstate banking system in the U.S. to totally undermine the McFadden Act and Douglas Amendment which now restrain the big money center banks from crossing state lines to drive the rest of the nation's 14,600 banks out of business. The U.S. CHIPS system "would constitute a large breach of the McFadden Act, in fact a rather large hole in the dike," Industrial National Bank of Rhode Island chairman John B. Cummings, Jr. told *EIR* about the proposal, which he helped author.

The New York CHIPS computer, a Burroughs large-scale dual processor B 6700 located at the New York Clearing House in lower Manhattan, is owned jointly by

the 12 large New York Clearing House banks. As the name baldly implies, CHIPS is the center of a rather large international crap game. Most of the payments it clears through its 250 computer terminals located in New York, London, the Cayman Islands, Nassau, and other offshore banking facilities are the highly speculative debt refinancing transactions between the banks which make up these offshore markets. Few CHIPS payments have to do with actual movement of goods in international trade.

The very nature of the CHIPS time factor also skews the entire character of lending of its participants away from long-term productive investment-type lending and toward short-term credits which must continuously be rolled over. The predominant maturity of Euromarket and other offshore liabilities cleared through CHIPS is less than 30 days, and vast amounts of the activity are on a day-to-day basis. The more banks engage in such very short-term lending to each other, the more profit they make, and the less inclined they are to venture into long-term lending, especially when they have come to depend on this short-term finance for their own source of funds.

Electronic interstate banking

The move to bring this kind of nonproductive banking to the United States interstate is being led by the old-line "Brahmin" bankers of the Philadelphia-Boston aristocracy who have little use for industrial development in the United States, which they see as going into a "post-industrial technetronic society." Under the direction of its president, James H. Higgins, the chairman of Pittsburgh's Mellon Bank, the Association of Reserve City Bankers set up an International Banking Facilities Committee that proposed the U.S. CHIPS as part of the program for setting up these offshore operations in the United States itself. Committee members included Frederick Heldring of the Dutch Heldring banking family, president of the Philadelphia National Bank; Leland "Lee" Prussia, ex-vice chairman of the Bank of America; and Richard Thomas, president of the First National Bank of Chicago. Richard D. Hill, chairman of the First National Bank of Boston, provided consultant help. Reserve City leader John R. Cummings, Jr., chairman of the Industrial National Bank of Providence, Rhode Island, set up a Task Force on IBFs dominated by the Reserve City Bankers within the more broadly-based American Bankers Association to spread the concept there.

The Reserve City Bankers' IBF Committee's Final Report of June 1980 calls explicitly for the U.S. CHIPS. The IBF proposal, it states, provides a "unique opportunity . . . to improve the U.S. payments system [through] direct CHIPS settlement. This proposal would end discrimination between New York Clearing banks and others by giving equal access to CHIPS

across [Federal Reserve] district lines," including across state lines, the report states (see excerpts below).

In a series of interviews, executives of Continental Illinois, First Boston, and Bank of America outlined their negotiating positions vis-à-vis the New York Clearing House for such a U.S. CHIPS system. Each said that U.S. CHIPS is ready to roll.

The implementation of a U.S. CHIPS will mean the beginning of a full-scale interstate banking system in this country which will swiftly undermine America's regional banks. First, the 134 U.S. CHIPS members, by virtue of their superior clearing services, would have faster and cheaper access to funds by far than their 14,600 smaller regional banking competitors, creating two profit tiers in the U.S. banking system.

Second, the non-New York Reserve City Bankers are demanding either an overt breach of the McFadden prohibition against interstate banking so that they can set up IBFs as full branches across state lines into New York, or an equivalent breach of the Douglas Amendment to do so with IBFs as subsidiaries of their banking holding companies. As the Reserve City IBF Committee Final Report states, they demand IBF facilities in New York operated "in exactly the same manner in which a Caymans or Nassau branch is now operated," that is, as a full-service branch. Industrial National Bank's John Cummings, reiterating this proposal, noted in an interview printed below that he and his Philadelphia, Boston, and Chicago colleagues are demanding exactly this kind of "breach of McFadden" or an equivalent option for "full subsidiaries as in London, which would breach the Douglas Amendment."

Such interstate banking, which would put these IBFs into direct competition with the nation's weakened regional banks, is very near, Cummings stated. "We feel there is enough muscle at the ABA and the New York Clearing House to get this program through at the Fed," he predicted. "The Fed has been very cooperative."

DOCUMENTATION

ABA calls CHIPS a way around McFadden

John R. Cummings, Jr., chairman of the American Bankers Association Task Force on International Banking Facilities and head of the Industrial National Bank of Rhode Island, told EIR that the intent of the money center banks

of the Association of Reserve City Bankers in supporting IBFs is to effect a "breach" of the McFadden Act and/or Douglas Amendment to allow the money center banks to conduct international Eurodollar banking interstate.

Q: What are the conditions under which the non-New York money center banks will support IBFs?

A: The New York banks under IBFs would be able to bring the full resources of their parent capital to back up their IBFs' international activity, since their IBF branches are in their home state, whereas presently the non-New York money center banks (MCBs) are precluded by the McFadden Act and Douglas Amendment from having full-service branches or subsidiaries in New York. If this continues, foreign depositors would not view us as competitive from a risk standpoint with New York banks. Therefore we desire to have a Cayman Island- or Nassau-style full-service branch in New York, with full headquarters bank capital backing. These are legal outside the U.S., but inside the U.S. across state lines they would constitute a large breach of the McFadden Act, in fact a rather large hole in the dike. The other option is to have full subsidiaries as we do in London, which would breach the Douglas Amendment. Our lawyers are apprehensive about this, but the Fed may have more muscle than they think to allow it.

Q: Are you for a repeal of McFadden and Douglas?

A: Certainly, I would like to branch anywhere, we'd be happy to have them eliminated. Of course no one would want to come to Rhode Island, so that's easy for me to say. We feel that there is enough muscle at the ABA and the New York Clearing House to get this IBF program through at the Fed. The Fed has been very cooperative.

Q: What about a national CHIPS system, is that interstate banking?

A: Well, yes, the other way to accomplish the IBF program is to do it directly through our headquarter's home office and become a national member of CHIPS. It raises a similar breach of McFadden. This is too much like having a branch in New York—in fact the same as a branch in New York. The first step to this would be to have headquarters do most of the lending, operating on an interim basis with a New York representative office on line with CHIPS.

Q: Does the Fed now support IBFs because Volcker and Solomon want to put capital controls on Eurodollar lending?

A: Yes, of course their intent is to move the entire London-Cayman-Nassau market back to New York. This would strengthen Solomon's hand in negotiating with other central banks for Euromarket controls. Now, many of the BIS central banks will not go along.

Money center banks demand CHIPS system

Executives of three "Top 20" non-New York money center banks who are working with the New York Clearing House banks to set up a CHIPS Electronic Funds Transfer banking system detailed their negotiating positions to EIR:

Joseph Corriachi, Director of Electronic Funds Transfer, Continental Illinois Bank, Chicago: We are discussing a national CHIPS system in a task force set up by the New York Clearing House Association with the Chicago, Boston, and California banks. We would like full membership in CHIPS; all the regional money center banks want full membership in CHIPS. We want the whole pie. But we're not going to hold up the IBF [International Banking Facilities] for that. We're willing to move now on the IBFs if we can get certain first steps of access to CHIPS—it's not our system and we have to work with the people who run it, after all.

Right now the position of the task force members outside New York is that we are asking for installation of CHIPS terminals in our Chicago headquarters, just as these terminals are presently installed in our Edge Act subsidiaries in New York. Right now our Edge Acts in New York clear their payments through their sponsor New York bank; the Edge is not even a CHIPS member itself. We're not asking for head office CHIPS membership, either. We just want a terminal in the head office to clear through the New York sponsor correspondent bank.

We're also looking for same-day settlement on the CHIPS system. We feel the EFT has matured enough so that rather than just take the benefits of float, we'll forfeit that to be more competitive in offering same-day service.

The New York banks are fully agreed on both of these points, I think. They have no reasons not to be. It's a question of implementation, they just have to figure out how to put in the long lines, and the legal and regulatory ramifications.

We are also writing national tax legislation modeled on the New York State legislation passed in June 1978 by Governor Carey, which gives any IBF set up in New York the same tax breaks they now get in London—no state or fed taxes. We don't see why we should have to go state by state on this.

EIR: At what point does this become interstate banking in violation of the McFadden Act, the Douglas Amendment, and so forth?

Corriachi: We have a team of lawyers at the New York Clearing House working on this right now. We have to find out how far we can go and what are the legal ramifications.

George Phalen, Executive Vice President, First National Bank of Boston: We'll accept the IBF if the outside New York banks are not put at an anticompetitive disadvantage. We're all for the IBFs, we even think New York is a great place to have them. We just want to be sure we're in on the agreement on a fully competitive basis.

We want a national version of CHIPS. We are asking ultimately for full membership by our head offices in CHIPS directly.

However, if not, we might be able to operate through our Edge Acts in New York. We would prefer not to do it in the form of Edge sponsorships through a New York CHIPS member. We'd prefer our Edges to be granted full membership in CHIPS.

We feel confident that these proposals now being reviewed by the Fed will be forthcoming and that we'll be able to accept the Fed's eventual recommendations.

Raymond Peters, Executive Vice President, Bank of America, San Francisco: We want some kind of better clearing mechanism in New York both for liquidity and time-zone reasons. If there's a decision by the Fed to move with IBFs we're for the concept, but we have to have these conditions.

Our problem is that when we go to settle through our New York Edge at the end of the day in New York, we're still doing business in San Francisco. And the New York Federal Reserve monitors our New York Edge, which is not heavily capitalized, and we cannot use daylight overdrafts—which means that although we are moving huge volumes of funds around the world, we can't move them through the Edge unless we have the dollars physically in New York. And there are three hours a day when we don't. During this time, of course, the money is coming in from all over the world into San Francisco, but we have then an imbalance between San Francisco and New York which we can't settle because New York is closed.

We want to be able to have an account of the San Francisco headquarters at the New York Fed. I don't think that would be a violation of the Douglas Amendment; it would only be a Fed account. Then we could settle our CHIPS net imbalance by having CHIPS clear Bank of America payments directly with this headquarters account at the New York Fed, bypassing the Bank of America New York Edge altogether. This is not really full membership in CHIPS by Bank of America.

Of course we would rather have official full membership having CHIPS settle the San Francisco headquarters account directly with the San Francisco Fed. That would make us a full member in CHIPS.

Dereg bill aids interstate banking

Actions already being taken by the Federal Reserve and the Depository Institutions Deregulation Committee (DIDC) under the March 1980 Depository Institutions Deregulation and Monetary Control Act are bringing interstate banking to the U.S. without further legislative or regulatory action by the Fed or the Congress.

The two basic changes occurring under the Monetary Control Act are the implementation of interstate banking through Electronic Funds Transfer (EFT) systems, and a price war between the smaller thrifts and commercial banks that threatens to drive them both out of business and make them prey to interstate takeovers.

The act's provisions for "Pricing and Access to Federal Reserve Services," as described by Fed Board Governor Lyle Gramley, will force the introduction of an interstate EFT banking system. It mandates the Fed to remove itself as the central government institution responsible for providing banks with a national payments system, and encourages the top 100 money center banks to set up competing private EFT interstate clearing systems like the proposed U.S. CHIPS.

"The [dereg] law opens up new opportunities for the private sector to compete with the Fed," according to Gramley, "which will also help increase efficiency. We anticipate—and welcome—competition, not only from [large] commercial banks, but from a variety of private-sector suppliers of payments services. . . . We firmly believe that if private financial institutions can produce and sell payments services competitively more cheaply than the Federal Reserve, the nation may well be better served if they do so."

As Comptroller of the Currency John Heimann said in an Oct. 6 Washington speech, the advent of such private interstate EFT systems will render the McFadden Act and other such protective banking regulations "irrelevant and artificial." "Clearly, the authors of the McFadden Act did not envision automatic teller machines," Heimann told the National Association of Bank Women. "These technological changes will surpass legislative changes in making national banking an inevitability. Further, Heimann said, "the transition to this era