Banking by Kathy Burdman

Carter's last word: shrinkage

Congress and the new administration may be ready to send his deregulation plan packing, too.

Jimmy Carter's "Report of the President: Geographic Restrictions on Commercial Banking in the United States" has been delivered to the U.S. Congress after two years of stonewalling. The monstrous 240-page compendium is, as expected, an overt call for the "contraction" of the U.S. banking system through the "phased liberalization" of the McFadden Act and Douglas Amendment, which protect the nation's regional banks.

President Reagan and Senate Banking Committee Chairman Jake Garn (R-Utah) are being advised by the U.S. League of Savings Associations, the Independent Bankers, and other local bank constituency organizations to reject the report completely, as detrimental to the nation's banking system and its ability to provide credit to the nation's economy.

The report stands as a grim warning to the new President that, while U.S. industry is overregulated, a sweeping, libertarian deregulation of the entire economy is not the answer. The Carter report openly confirms that the intended effect of banking deregulation in particular is the triage of large portions of the nation's banking system.

EIR insists that any translation of the Carter report into law would profoundly harm the economy and must be opposed by the new administration.

The Carter report calls for the "significant liberalization of existing geographic restrictions on the provision of banking services." The aim is unambiguously to *eliminate completely* the 1927 McFadden Act, which prohibits large banks from branching into new states, and the Douglas Amendment Section 3d of the 1956 Bank Holding Company Act, which prohibits major bank holding companies from buying banks in new states.

"The administration has concluded that the McFadden Act and Section 3d of the Bank Holding Company Act are increasingly ineffective, inequitable, inefficient, and anachronistic, and that interstate banking should be ratified and further liberalized through a phased relaxation of current geographic restrictions," states the first recommendation.

The report notes that current political opposition makes McFadden abrogation unfeasible, and calls for the phaseout of the Douglas Amendment as an initial step.

Concretely, the Carter report proposes that Congress immediately abrogate McFadden for major metropolitan areas, which would allow New York's giants, for example, to take over banking in New Jersey and Connecticut.

McFadden's repeal as soon as possible is recommended, although the report admits this would "lead to the greatest erosion of states' rights and the dual banking system."

McFadden repeal would not only remove federal protection for local banks but would force states to "liberalize their supervision of state banks or experience large numbers of banks switching to national charters."

"Unrestricted nationwide bank branching," the report states openly, "would most likely lead to domination of banking markets by banking organizations that are currently relatively large," namely, New York's Citibank and California's Bank of America.

This would be the end of many local banks, the report announces: "Unrestricted interstate banking would likely lead to a decline in the number of banks . . . as smaller institutions were acquired by larger institutions located in the same or other markets."

"Rising aggregate nationwide concentration . . . means that any event adverse to these banks may set off serious ripple effects through the financial community," the Carter report acknowledges.

Carter further recommends that "the deployment of Electronic Funds Transfer terminals ought to be subject to less onerous geographic restrictions than brick-and-mortar branches, and that this modification of the McFadden Act should be undertaken in the first phase of deregulation," even though EFT terminals "would tend to benefit the larger banks that can take advantage of scale economies."

In fact, as I have documented at length, the Carter Fed's plan for International Banking Facilities, now before the Federal Reserve Board, would utilize EFT to set up one huge national banking market run by the big multinational banks.