

Banking by Kathy Burdman

IBFs prompt Venetian invasion

The new free banking zones are rapidly drawing capital into the United States. But who benefits?

At a rate of over \$30 billion a month this year so far, international capital is flooding into the new free banking zones created by Federal Reserve Chairman Paul Volcker and Governor Henry Wallich last December. This striking development, of which *EIR* warned in an October 1980 banking survey, is increasing penetration and control of the U.S. banking market by the "Venetian faction" of international finance: the oligarchic British, Swiss, and Italian banks.

According to Federal Reserve figures, over \$96 billion in loans has been booked by the so-called "International Banking Facilities" (IBFs) between the end of December 1981, when they were legalized, and March 29, 1982. That tremendous growth rate may not continue; but the size of IBFs "will certainly double by the end of 1982, at least," a Washington Fed official told *EIR*. "We expected IBFs to grow even faster," the Fed official stated, "because banks can bring all their international business into IBFs." He estimated such business immediately transferable to IBFs at \$300-\$500 billion, and went on to predict that the entire Caribbean offshore market, over \$300 billion, will be transferred to New York IBFs.

The purpose of IBFs is to "bring the Eurodollar market back home," in the words of one Chase Manhattan official—to take the world's speculative offshore markets in London, Hong Kong, and

the Caribbean, and house them in New York and other U.S. cities.

The Eurodollar market, now estimated at over \$1.2 trillion, has no reserve requirements against loan defaults; no taxes; no interest-rate usury ceilings; and no banking safety. Because of the lack of regulation, any Third World default could set off a chain-reaction collapse.

Thus, with IBFs, the Eurodollar speculators bring their floating crap game here, and make the U.S. Federal Reserve and U.S. government responsible for any international blowout. IBFs, as legalized by the Federal Reserve last December, have the same total lack of regulation as the Euromarkets, and are attracting the same speculation.

The sheer number of IBFs established since December is huge: over 145 were set up in December in New York alone, with others in major financial centers such as Chicago, San Francisco, and Miami. Of the 145 IBFs set up, 120 were set up by foreign banks, led by the British, Swiss, and Italian banks in New York. And of the \$96 billion in IBF assets so far, fully \$51.2 billion—more than half—has been booked by foreign banks' IBFs.

The foreign-bank activity is overwhelmingly concentrated in New York, with \$43.3 billion in loans out of the \$51.2 total. The latest figures on where foreign IBFs are lending show \$8.7 billion lent to foreign corporations, \$7.7 billion

lent to foreign banks, and \$4.4 billion lent to foreign governments. On the deposit side, foreign banks are shipping deposits in from all their Caribbean offices and from their European headquarters (about 50 percent of deposits), and from other foreign banks in London and around the world.

Asked why foreign banks are coming in so fast, the Fed answered "they want to be under the Federal Reserve umbrella." If there were a major bankruptcy, "they would be out in the cold in the Cayman Islands," the source stated. "Here, there will be the involvement of the Fed" in bailing out foreign banks.

Foreign banks are moving into the United States to take it over, as they abandon lending in Asia, Africa, Central America, and other parts of the Third World, a Swiss banker further explained. "There is no question these areas are much less attractive now for banking, and the U.S. is the most attractive," stated Richard Andermatt, Vice-President of *Crédit Suisse* in New York. "IBFs encourage this trend by making New York the world's best financial center. If we can do an offshore business here cheaply, and make money, this will support greater foreign bank activity in lending to the U.S. as well," he said.

Although foreign IBFs are not technically allowed to lend to domestic U.S. businesses, their profits will serve as a base to expand foreign banking in the United States, Andermatt stated. "There will be increasing European investment in the U.S., including purchases of U.S. companies, and European banks want to be on the scene to make loans for these purposes," he stated. "One of the most profitable ways to expand the scene is IBFs."