political economy

Where the Money is Going

Aug. 30 (IPS) — Yesterday's statistical release from the New York Fed confirms that the money of the world is being soaked up via the massive U.S. treasury issues. Added to this, the Federal Reserve is implementing a further deflationary policy by releasing further amounts of treasury securities onto the market by depleting its own account. Corporations, meanwhile, are battening down for the crash by increasing their cash and U.S. government securities accounts.

Eurocurrency interest rates on longer-than-call money have made a significant break from the pattern of the past several weeks, rising to a steady 14 per cent, compared with the 11-13 per cent of the post-Herstatt period. Meanwhile, the *Journal of Commerce* points out this morning, four out of five loan requests from bank customers are being turned down, indicating more than anything else, probably, the attack on Japan. Indeed, the immediate dollar refinancing difficulties of the Japanese may be responsible for jacking rates up.

In addition to this, August is the heaviest month for the repayment of third world debt; difficulties in repayment may involve a great deal of short-term financing to get over the payment period, putting additional pressure on short-term Eurocurrency rates.

But the top 25 Eurocurrency banks are, the *Journal of Commerce* says, apparently not giving full rein to this business. The most important Eurocurrency banks, i.e., the foreign branches of U.S. banks, increased their shipments of cash back to their home offices from $2,702 million last week to $3,239 million the week ending August 28 — or, about half a billion.

The top U.S. banks, especially Chase, Morgan, and Citibank, have a problem in accepting the petrodollars: they do not have credit-worthy customers to whom they can lend them out. They cannot perpetually field deposits back among themselves, so they must return the funds home.

Sharp Rise in Demand Deposits

This constitutes the first major input into the U.S. banking system. The other major input is an exceptionally sharp rise in demand deposits, as corporations build up their cash positions. From August 21 to 28, demand deposits at New York banks rose from $40,818 million to $44,157 million — or more than $3 billion. Of this, the rise is accounted for by a $1.7 billion rise in demand deposits of "individuals, partnerships, and corporations," and by a nearly $1 billion rise in demand deposits of Commercial banks, with a much more modest rise in the deposits of mutual savings institutions.

As a result of these two major inputs, the Federal funds rate fell steadily throughout the week, from 12.13 per cent Aug. 22 to 10.82 per cent Aug. 28. Federal funds and related interbank transactions, correspondingly, remained static at $1,894 million (from $1,895 million the previous week). Another sign of the easing of the cash position of the major New York banks was the lack of any discount borrowing from the Fed.

On the output side, the following pattern emerges. Of the increase in total loans and investments of $1.8 billion in New York (total on Aug. 28, $91,238 million), a bare $110 million is accounted for in the category of "Commercial and industrial loans" — which in any case account for only about 40 per cent of the total. The jump is accounted for almost entirely by the increase in "loans to brokers and dealers for purchasing or carrying U.S. Treasury securities," from $567 million last week to $2,016 million this week, an unprecedented weekly rise.

The banks' government securities position itself remained static (as did most other lending categories), since they do not have to build up their cash position. Rather, they provided loans for their investment bankers to make treasury securities available to other corporations — probably life insurance companies and pension funds. These corporations are liquidating stocks at the rate of about half a billion a day and turning them into either cash (reflected in the demand deposits rise) and government securities.

Where did the Fed securities come from? $500 million came onto the market from the Treasury itself, reflecting government re-financing. (The biggest block came across the previous week, with another huge $2 billion block coming across next week.) But more than $4 billion of the Fed's own holdings of government securities were put onto the market. This not only soaks up the liquidity coming in from Europe and from the asset liquidations in the stock market and elsewhere; it drove up treasury bill rates to near 10 per cent levels, pushing up all interest rates behind them. (Almost the entire Fed sale was in the form of treasury bills.) Thus, the deflation last week was more conscious deflationary manipulation than government refinancing per se.

© 1974 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.