Bank Liquidity Crisis To Shut Down U.S. Economy

July 19 (IPS) — Devastating evidence has crept out from under the public relations lid to show that the "top ten" U.S. banks are already virtually bankrupt — except for their capacity to strip down the rest of the American economy. The Rockefeller financier gang, the U.S. Treasury, and the Federal Reserve's Board of Governors are conspiring to delay the coming bank bust through the devastation of economic activity in the U.S. sector.

Between the Oct. 1974 industrial downturn and the end of this year's second quarter, banks swallowed the following doses of bad loans:

* $12 billion in loans to bankrupted Real Estate Investment Trusts, speculative outfits which borrowed short-term money and re-lent it to the failing construction industry.
* Over $12 billion in "construction and development loans," that is, direct lending to the same bankrupt sector.
* $6 billion to $8 billion in short-term loans to the shipping industry, bankrupted by the collapse of international trade.
* Over $20 billion in short-term refinancing, in the form of "trade credits," to underdeveloped countries who are defaulting in the worst bankruptcy since the 16th century.
* An undetermined number of tens of billions of uncollectable loans to failing economic sectors, principally municipalities, the retail trade, textiles, aerospace, and auto, to cite only the worst-off industrial categories.
* A similar number of tens of billions in consumer loans made uncollectable by the second wave of industrial layoffs, spreading out from steel, chemical and rubber, which gained momentum during the past two weeks.

What, Me Worry?

This situation, which puts more than 20 per cent of bank loans in the "non-earning" category, does not by itself worry bankers. During the past six months, banks have quadrupled their rate of return on lending, which is measured by the "spread" between the rate banks pay to depositors and other sources of money, and the rate at which they lend out to their victims.

During the speculative spree of 1974, when corporations loaded up $40 billion of inventories on short-term bank loans, banks skimmed a measly 0.4 per cent "spread" off their loans to "top corporate borrowers" — which is to say that they skimmed a good deal more off loans to the overwhelming majority of corporations who did not qualify for "prime" rates. At present, the "spread" on prime loans is four times that of a year ago, or 1.60 per cent.

This stranglehold on the productive sector of the economy has permitted commercial banks to raise their profits enormously during the first half of 1975, despite a cutback in their volume of business to the productive sector by over $20 billion during the same period. According to banking sources, Federal Reserve chairman Arthur Burns has not only encouraged but enforced this practice, in the name of "banking prudence."

The accompanying table gives the "before and after" pictures for the looting process described above. Banks known to be in the worst position among the Rockefellers panoply, including Chemical New York, First National City Bank, Girard Trust, and Chase Manhattan, had profits respectively 31 per cent, 18 per cent, 67 per cent, and 35 per cent above their 1974 levels. But a group of banks, predominantly Southern, showed massive profit declines, including the Trust Company of Georgia, Union Bancorp, North Carolina National Bank, and others. Following a five-year "boom" period of speculative looting, these banks are going down with the collapse of the Southern real estate industry.

How The Top Banks Are Surviving

	Net operating income		Net income	
	2nd qtr. 1975 Millions of dollars	Percent change vs. 1974	2nd qtr. 1975 Millions of dollars	Percent change vs. 1974
Bank of New York	$8.2	+ 6%	$8.1	+ 5%
Chemical New York	28.4	+31	28.0	+29
Citicorp	95.2	+18	94.8	+18
CleveTrust	10.2	+ 6	10.3	+10
Crocker National	10.2	+42	10.2	+42
First Banc Group of Ohio	4.4	+ 3	4.4	+ 6
First National Boston	11.5	−21	11.4	−13
First Union	4.8	+24	4.7	+23
Girard	4.4	+67	4.4	+65
Harris Bancorp	6.8	+10	6.8	+10
Manufacturers National	4.8	+ 6	4.8	+ 6
Marine Midland	10.2	+ 2	10.0	0
Mercantile Bancorp	5.9	+14	5.6	+ 9
Morgan (J. P.)	45.0	+ 4	43.6	+11
NCNB	5.2	−14	5.1	−22
National City	7.8	+28	7.2	+34
National Detroit	12.8	+21	12.8	+24
Nortrust	6.4	+ 7	6.1	+21
Philadelphia National	6.6	+ 2	6.2	0
Pittsburgh National	7.5	+ 9	7.1	+17
Republic of Texas	9.9	+ 7	9.9	+ 7
Riggs National	3.6	−18	3.6	−20
Security Pacific	17.2	− 5	17.4	− 4
Southwest Bancshares	4.4	+ 2	4.4	+ 3
Sun Banks of Florida	0.2	−96	0.2	−95
Trust Co. of Georgia	1.1	−70	1.1	−69
Union Bancorp	3.7	−40	3.7	−31
Valley National Bank of Arizona	4.4	− 2	4.4	− 1

Within the next three months, the high-riding Rockefeller banks will go through the same trap-door that has already opened under their country cousins. Within six months, the U.S. banking system will blow to pieces — for the simple reason that there will be nothing left in the U.S. sector to loot! Indeed, this projection of a six-month life span for Chase Manhattan Bank and its fellow pirates rests entirely on the passive acceptance of mass unemployment, mass destruction of city services, tax increases and wage New York's man-eating Big MAC is the best example of this: Big MAC's long-term bonds, whose saleability is the ostensible motive for the RAND Corporation's murderous cutback proposals this week, is over 9 per cent tax-free, or the effective equivalent of 25 per cent interest compared to taxable bank assets. As a spokesman for First Boston, one of the key banks behind the Brazilian model, put it, "liquidity is a question of the political environment that exists to guarantee these loans."

This process confused the hell out of the editors of Forbes Magazine ("The Capitalist Tool"), who complained that the following two statements are "both correct": "1) Banks are making record profits. The spread between the cost of money to them and what they can earn in interest has never been greater. 2) Banks are loaded up with tens of billions in doubtful loans."

quadruple their rate of return on loans, then three-quarters of their loans can go bad, while earnings can remain at the same level as previously — at least theoretically.

In practice, the devil takes his due over the normal quarterly payments period. Look at Big MAC again: the $650 million in MAC bonds which New York banks swallowed during the first note issue earlier this month are frozen, unsaleable assets, untraded on the open market, since they depend entirely on the day-to-day capacity of the bankers' thugs in the City government to enforce their collection. This is no accident. To the extent that the banks slap state controls on the economy to enforce debt payment, bank assets become the spoils of war, frozen and illiquid (cannot be turned into cash). Nazi Finance Minister Hjalmar Schacht issued a financial instrument identical to MAC bonds to finance the Nazi war machine, "blocked bills" which banks were forced to absorb but could not cash in.

Panic

David Rockefeller's short-term plans for pulling through the depression only ensure that illiquidity will rush in on the banking system from all sides, forcing the cancellation of outstanding loans to businesses, further bankruptcies, further emergency pulling-in of cash to the banks, and so on, in a whirlpool that will destroy the U.S. economy.

This situation has panicked the Federal authorities to the point that full-scale factional war has broken out between the Securities and Exchange Commission and Sen. William Proxmire's (D-Wisc.) banking committee on one hand, and the Federal Reserve, the Treasury, and the banks on the other. By demanding disclosure of bad loans, the SEC two months ago forced two of the "top ten" banks, Chemical and Manufacturers Hanover, to cancel bond issues. "A bad loan does not itself offer a liquidity problem," one expert says, referring to the looting capacity of the banking system. "But if it is publicized," he adds, "then you have real problems." The Treasury's Controller of the Currency, responsible for inspecting banks' loan portfolios, and the Fed claim that unless the real situation is covered up , there will be an immediate panic. According to sources in the Controller's office, the loans on the books of U.S. banks to only three Third World countries are rated "substandard," although at least 20 countries are completely bankrupt!

After IPS reporters made enquiries about the health of Manufacturers Hanover, a bank spokesman immediately contacted the agency and begged it not to publish what it knew. "We're really in good shape," the banker pleaded. "If you're looking for loan losses, try First National City — their losses are five times as bad as ours!"