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Rockefeller Banks Hit By Biggest Loan Defaults in History

NEW YORK, July 28—In the last 48 hours the core institution of world capitalist finance, David Rockefeller's faltering commercial banking system, has been wracked by two of the biggest loan defaults in U.s. history, edging the dollar empire one step closer to a 1931-style breakdown crisis.

The Municipal Assistance Corporation's (MAC) cancellation of its planned $1 billion bond issue this week—provoked by the banking community's own inability to absorb it—insures an outright default on $791 million in New York City notes scheduled for redemption Aug. 22. Overnight, $1 million in these notes held on account at New York commercial banks will become worthless. In addition, $1.6 billion held on account by these same banks for future payment will become frozen (untradeable) and likewise worthless, instantly. At the same time, undisclosed billions used by corporations and banks as collateral for loans and deposits respectively will be discounted at zero value, triggering panic loan callins and deposit withdrawals.

Simultaneously, Continental Mortgage Investors, Inc., one of the nation's largest Real Estate Investment Trusts, disclosed that it was in default on $641 million in current debt obligations to a credit group led by New York Bankers Trust. Continental's own default, confirmed by an official spokesman today, was in turn sparked by defaults on its own loans and investments tied up in real estate and construction, book-valued at roughly $10 billion.

The Tip of the Iceberg

Even these record loan defaults represent merely the tip of the iceberg of real estate and other bad loan categories including $20 billion in short term loans to bankrupt Third World nations, $20 billion in shaky real estate and construction, $6-8 billion to insolvent tanker industry, and an undisclosed amount to hard-pressed industries and municipalities.

A recent survey done by a top consulting firm with direct connections to White House economic officialdom concluded modestly that 30 per cent of all bank loans were "soft."

Meanwhile, one of the leading bank stock analysts listened to an IPS description of the present liquidity position of New York banks and muttered, "This is startling. I never imagined anything like this. What you say is very persuasive. This is terrible...."

This unprecedented illiquidity of the banking system centered in New York has thrust the U.S. economy and the entire dollar-based sectors into depression and imminent financial breakdown. In the United States, despite masses of lendable funds flowing into bank checking accounts, the New York commercial banks have all but shut off loans to commerce, industry and investment in municipalities, making economic recovery a fantasy.

During the last five weeks, the money center banks have stripped themselves of loans and investments by an astonishing $2 billion, keeping as much reserves on hand so that the inevitable defaults do not catch them by surprise.

Meanwhile, although none of these funds are finding their way into the real economy, the build-up of deposits at the New York banks has created a hyperinflationary liquidity crisis. Until recently the money supply has increased at an explosive annual rate of 20 per cent adding to the latest resurgence of inflation.

In response, Federal Reserve Board Chairman Arthur Burns has moved aggressively to soak up "excess" deposits, tighten bank reserves, and raise short-term interests. As in 1929, when the same Fed raised the discount rate to curb the unbridled stock market speculation, a full-scale self-aggravating international liquidity crisis has burst on to the scene. As short-term interests rates have escalated, hot money has moved out of Europe and into New York; and as New York bank reserves have tightened, panic borrowing from European branch banks has ensued.

The result has been a complete dry-up of all short-term credit throughout Europe and the collapse of the German and Italian bond markets.

In an emergency maneuver to hold together local credit markets, the West German Central Bank has ordered all financial institutions under its jurisdiction to stop the renewal of all short-term credit to non-residents. Combined with the unavailability of trade credit on the Euro-currency market, because of an outflow of funds to the U.S., this means nothing short of a complete shutdown of trade financing to German firms, and a consequent collapse of its export market, already well below depression levels.

Faced with this reality, New York bankers and White House policymakers celebrate the sharply rising value of the dollar as sign that all bodes well. But like the stock market bubble of 1929, it is fully the creature of the most explosive liquidity crisis since the bankruptcy of the Spanish empire in the 16th century.

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