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U.S. facing credit crunch

Massive Eurodollar borrowing puts America in the position of a banana-republic borrower.

Bank for International Settlements data released in April show that U.S. banks borrowed net from the Eurodollar market $13 billion in the third quarter of 1983 and $20 billion during the fourth quarter. Indications are that at least $40 billion, perhaps much more, was borrowed in the first quarter of 1984.

For example, during the month of March alone, three giant oil-industry mergers brought $35 billion into the hands of American stockholders, and thence into the banking system. The April 26 charge by Pennzoil chairman J. Hugh Liedtke that banks were raising lending charges to compensate for bad loans to the Third World is oversimplified, but substantially true.

Liedke said, "When the banks grant loans to countries that would not ordinarily be justified in order to receive abnormally high interest rates, the risk is obviously very high. Now the banks want to share that risk with the American public, and so interest rates creep upward."

In fact, Citibank, Rockefeller's Chase Manhattan, and the London Ditchley bank cartel have set up some profits for themselves by creating an even more dangerous situation for the national credit structure. While directly cutting loans to Third World nations during 1982 and 1983, the Citibank crowd had continued to loan dollars to the offshore Eurodollar bank market at a $10-$20 billion quarterly rate during much of that time. This money allowed a certain amount of credit for trade in turn to be created out of London.

When U.S. banks, however, became net borrowers from the London Eurodollar market in late 1983, even that small trickle of credit was turned off. This immediately forced an additional huge leap in the U.S. trade deficit, as debtor nations were forced to slash even further their imports from the United States and gun their exports to the United States, in a vain attempt to earn cash to pay their debts.

In March, the United States therefore reached the situation of borrowing funds from the Eurodollar market to finance a record $10.3 billion trade deficit, an annual deficit rate of over $123 billion.

This is not new. The United States has been living off foreign investment capital imports since early 1982, in the form of flight capital from Europe and Latin America into U.S. bank deposits and the stock and bond markets. But the BIS data show that foreign investment flows into the U.S. have now had to be massively supplemented by straight bank borrowings from the Eurodollar market. This is financing the American budget deficit and the sagging consumer-spending uptick.

The U.S. banking system is therefore now in the position of a Third World banana-republic debtor—the slightest destabilization of the Eurodollar markets by eruption of any debt crisis could lead to a run on the U.S.A. Watch Eurodollar six-month to one-year interest rates (the latter now near 12%), not federal funds, for an indication of the actual state of credit tightening. The United States is subject to a massive credit crunch later this year.

Undaunted by the results of their stupidity, the Citibank-Rockefeller crowd also plan to use the chaos as opportunity for more domestic takeovers and expansion of their national banking operations. Savings and loans institutions and smaller banks in particular will see new red ink with another rise in interest rates, rendering them more vulnerable to mergers and aquisitions.

Citibank's announcement April 13 that it plans to open 10 banks in nine states outside New York, and similar announcements by Chase Manhattan, Mellon Bank, U.S. Trust, and Chemical Bank at the end of April, underscore the major domestic reorganization in progress. Despite a 2% drop in first quarter earnings stemming entirely from a $6.2 billion loss by two S&Ls it acquired last year, Citibank announced it plans to convert existing consumer finance offices in Houston, Dallas, Philadelphia, West Hartford, St. Louis, Phoenix, and other cities into consumer banks. These would both accept consumer deposits and make consumer loans. By simply not making commercial loans, they would escape being called "banks" through a federal loophole, and thus escape laws against interstate banking.

Senate Banking Committee Chairman Jake Garn (R-Utah) stated April 22 he will pass the most comprehensive deregulation legislation possible. "I don't care which way it goes," he said.

Temporarily, this U.S. vulnerability is being masked by a new inflow of capital from Europe, as the Soviet Union's Berlin crisis causes investors to seek safe haven in New York.

But at the end of the June or September quarter, debt crises could explode, leading to tightening on the Eurodollar interbank market and dramatic consequences for U.S. credit markets.

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