

# Parameters of world financial collapse

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The U.S. and world financial systems have reached the outer boundary layer of functioning in their current form. The biggest detonator for their final disintegration will be the worldwide derivatives bubble, estimated to be between \$125 trillion and \$150 trillion. The following graphs and tables indicate some of the parameters which reflect the process.

**Table 1:** In the second quarter of 1997, U.S. financial institutions and corporations held \$38 trillion in derivatives outstanding. Of this amount, the leading eight U.S. commercial banks held \$22.6 trillion; these eight banks have combined bank capital of \$93 billion, just 0.2% of their derivatives exposure. A failure of even a small portion of the derivatives portfolio could lead to a meltdown of the banking system.

**Table 2:** The Bank for International Settlements reports that in 1996, the world level of derivatives was at least \$82.6 trillion, up from \$62.6 trillion in 1994. For 1997, *EIR* estimates total world derivatives holdings to be \$125–150 trillion.

**Figure 1:** U.S. derivative holdings have risen from under \$10 trillion in 1990, to \$38 trillion today.

**Figure 2:** In 1997, America's two-way merchandise trade (exports and imports) represented only 1.99% of total U.S. foreign exchange trading: That is, less than 2% of foreign exchange trading is connected to real goods. Most of the cur-

TABLE 1

## Top 25 U.S. derivatives banks

(billions \$)

Rank	Holding company	Equity	Assets	Derivatives	Dollars of derivatives per dollar of:	
					Equity	Assets
1	Chase Manhattan Corporation	\$ 20.8	\$ 352.0	\$ 7,311.4	\$352	\$20.77
2	J.P. Morgan & Co. Incorporated	11.3	250.5	5,984.9	527	23.89
3	Citicorp	21.4	304.3	2,801.2	131	9.21
4	Bankers Trust New York Corporation	5.2	128.9	1,998.8	382	15.5
5	BankAmerica Corporation	20.4	258.4	1,683.9	83	6.52
6	NationsBank Corporation	20.0	240.4	1,330.2	67	5.53
7	First Chicago NBD Corporation	8.5	112.6	1,108.8	131	9.85
8	Republic New York Corporation	3.3	56.1	344.8	104	6.15
9	Bank Of New York Company, Inc.	4.9	61.2	200.7	41	3.28
10	First Union Corporation	10.0	142.9	142.9	14	1.00
11	BankBoston Corporation	4.7	66.1	145.3	31	2.20
12	State Street Corporation	1.8	36.7	99.7	54	2.72
13	Norwest Corporation	6.5	83.9	88.8	14	1.06
14	Fleet Financial Group, Inc.	7.0	83.7	59.5	8	0.71
15	Wells Fargo & Company	13.1	100.2	53.5	4	0.53
16	Mellon Bank Corporation	3.6	43.8	45.1	13	1.03
17	Keycorp	4.8	70.2	33.7	7	0.48
18	Banc One Corporation	9.8	115.6	30.9	3	0.27
19	ABN Amro North America, Inc.	4.2	50.9	27.9	7	0.55
20	PNC Bank Corp.	5.4	72.0	26.7	5	0.37
21	HSBC Americas, Inc.	2.1	32.9	24.8	12	0.76
22	Corestates Financial Corp.	3.2	47.0	20.3	6	0.43
23	Northern Trust Corporation	1.6	26.1	22.2	13	0.85
24	National City Corporation	4.3	52.0	18.8	4	0.36
25	Chase Equity Holdings, Inc.	6.0	51.8	18.4	3	0.36
<b>Totals, Top 25</b>		<b>\$203.9</b>	<b>\$2,840.0</b>	<b>\$23,623.1</b>	<b>\$127</b>	<b>\$8.32</b>
<b>All U.S. commercial banks</b>		<b>\$402.8</b>	<b>\$4,771.2</b>	<b>\$23,831.5</b>	<b>\$ 59</b>	<b>\$4.99</b>

Sources: Office of the Comptroller of the Currency, company reports, EIR.

TABLE 2

**World derivatives exposures**

(billions \$)

Institution	1994	1995	1996	Change 1994 to 1996
Banque Bruxelles Lambert	\$ 178	\$ 201	\$ 326	83.1%
Générale Bank	133	210	259	94.7%
Kredietbank	197	278	407	106.6%
<b>Belgium total</b>	<b>508</b>	<b>689</b>	<b>992</b>	<b>95.3%</b>
Bank of Montreal	403	498	487	20.8%
Bank of Nova Scotia	372	488	589	58.3%
Canadian Imperial Bank of Commerce	569	880	1,039	82.6%
National Bank	60	66	51	-15.0%
Royal Bank of Canada	703	929	857	21.9%
Toronto Dominion	353	460	409	15.9%
<b>Canada total</b>	<b>2,460</b>	<b>3,321</b>	<b>3,432</b>	<b>39.5%</b>
Banque Nationale de Paris	1,919	1,814	2,196	14.4%
Crédit Agricole	704	524	1,601	127.4%
Crédit Commerciale de France	604	367	419	-30.6%
Crédit Lyonnais	1,827	1,053	1,013	-44.6%
Indosuez	935	787	<i>Merged into Credit Agricole</i>	
Paribas	2,142	1,877	2,154	0.6%
Société Générale	3,274	2,543	2,710	-17.2%
Union Européene de CIC	290	409	415	43.1%
<b>France total</b>	<b>11,695</b>	<b>9,374</b>	<b>10,508</b>	<b>-10.1%</b>
Bank Gesellschaft Berlin	95	220	413	334.7%
Bayerische Hypotheken- und Wechselbank	114	160	242	112.3%
Bayerische Vereinsbank AG	288	454	616	113.9%
Commerzbank	392	776	1,082	176.0%
Deutsche Bank	1,410	1,651	2,922	107.2%
Dresdner Bank	473	641	892	88.6%
Westdeutsche Landesbank	345	356	460	33.3%
<b>Germany total</b>	<b>3,117</b>	<b>4,258</b>	<b>6,627</b>	<b>112.6%</b>
Banca Commerciale Italiana	47	77	137	191.5%
Banca CRT	26	23	15	-42.3%
Banca di Roma	28	31	50	78.6%
Banca Nazionale del Lavoro	34	32	52	52.9%
Banco Napoli	34	26	19	-44.1%
Credito Italiano	43	59	94	118.6%
Istituto Mobiliare Italiano	43	52	97	125.6%
San Paolo di Torino	177	183	309	74.6%
<b>Italy total</b>	<b>432</b>	<b>483</b>	<b>773</b>	<b>78.9%</b>
Bank of Tokyo (Mitsubishi 1995)	1,197	2,869	2,843	137.5%
Fuji Bank	1,971	1,891	2,023	2.6%
Industrial Bank of Japan	1,880	2,071	1,805	-4.0%
Long-Term Credit Bank of Japan	863	651	697	-19.2%
Mitsubishi Bank	1,667	<i>Merged into Bank of Tokyo</i>		
Sanwa Bank	1,248	1,495	1,761	41.1%
Sumitomo Bank	NA	1,644	1,677	NA
Tokai Bank	854	671	1,124	31.6%
<i>Japanese banks subtotal</i>	<i>9,680</i>	<i>11,292</i>	<i>11,930</i>	<i>23.2%</i>
Nikko Securities	53	90	87	64.2%
Nomura Securities	134	150	94	-29.9%

TABLE 2 (continued)

Institution	1994	1995	1996	Change 1994 to 1996
<i>Japanese securities firms subtotal</i>	187	240	181	-3.2%
<b>Japan total</b>	<b>9,867</b>	<b>11,532</b>	<b>12,111</b>	<b>22.7%</b>
ABN-AMRO Bank	706	924	1,205	70.7%
ING Bank	214	275	328	53.3%
Rabobank	330	397	490	48.5%
<b>Netherlands total</b>	<b>1,250</b>	<b>1,596</b>	<b>2,023</b>	<b>61.8%</b>
Nordbanken	172	158	184	7.0%
Skandinaviska Enskildten Banken	416	557	607	45.9%
Sparbanken Sverige (Swedbank)	132	153	250	89.4%
Svenska Handelsbanken	306	410	638	108.5%
<b>Sweden total</b>	<b>1,026</b>	<b>1,278</b>	<b>1,679</b>	<b>63.6%</b>
Credit Suisse	1,600	1,959	2,269	41.8%
Swiss Bank Corp.	2,009	2,581	3,336	66.1%
Union Bank of Switzerland	1,718	1,781	1,938	12.8%
<b>Switzerland total</b>	<b>5,327</b>	<b>6,321</b>	<b>7,543</b>	<b>41.6%</b>
Barclays	1,490	1,569	2,207	48.1%
Hambros	480	271	157	-67.3%
HSBC	1,638	1,527	1,510	-7.8%
Lloyds	1,154	1,435	1,639	42.0%
National Westminster	1,394	1,869	2,859	105.1%
Royal Bank of Scotland	196	273	320	63.3%
Schroders	82	104	156	90.2%
Standard Chartered	221	319	358	62.0%
<b>United Kingdom total</b>	<b>6,655</b>	<b>7,367</b>	<b>9,206</b>	<b>38.3%</b>
Bank of New York	80	47	130	62.5%
BankAmerica	1,376	1,581	1,599	16.2%
Bankers Trust NY	1,982	1,702	1,780	-10.2%
Chase Manhattan (incl. Chemical 1995-1996)	1,367	4,834	5,623	311.3%
Chemical Banking	3,182		<i>Merged into Chase Manhattan</i>	
Citicorp	2,665	2,590	2,430	-8.8%
First Chicago	622	815	1,035	66.4%
J.P. Morgan	2,471	3,447	4,670	89.0%
NationsBank	511	1,007	1,322	158.7%
Republic New York	239	268	285	19.2%
State Street	NA	59	65	NA
<i>U.S. banks subtotal</i>	<i>14,495</i>	<i>16,291</i>	<i>18,874</i>	<i>30.2%</i>
Bear Stearns	89	128	353	296.6%
Donaldson, Lufkin & Jenrette	27	39	41	51.9%
Goldman Sachs	995	1,091	1,383	39.0%
Lehman Brothers Holdings	1,086	1,209	1,517	39.7%
Merrill Lynch	1,169	1,610	2,106	80.2%
Morgan Stanley	835	985	1,317	57.7%
Paine Webber	38	41	39	2.6%
Prudential Securities	46	28	29	-37.0%
Salomon Inc.	1,470	1,659	1,981	34.8%
Smith Barney	51	48	81	58.8%
<i>U.S. securities firms subtotal</i>	<i>5,806</i>	<i>6,838</i>	<i>8,847</i>	<i>52.4%</i>
<b>USA total</b>	<b>20,301</b>	<b>23,129</b>	<b>27,721</b>	<b>36.5%</b>
Peregrine Investments Holdings	NA	NA	28	NA
<b>Grand total*</b>	<b>\$62,638</b>	<b>\$69,348</b>	<b>\$82,643</b>	<b>31.9%</b>

FIGURE 1  
**U.S. derivatives exposure**  
(trillions \$)

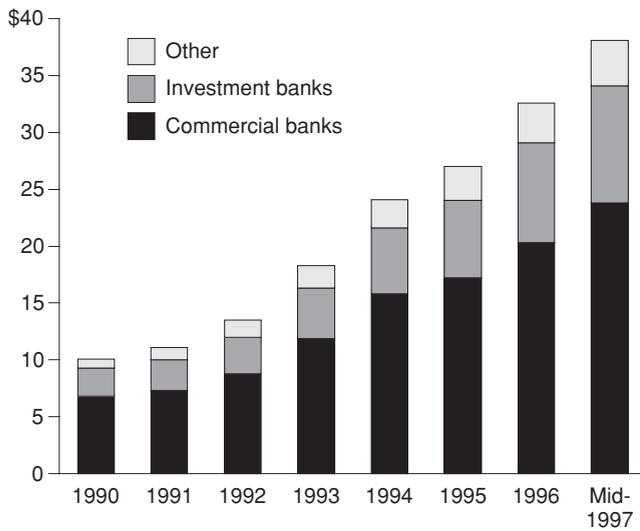


FIGURE 2  
**U.S. merchandise trade as percent of foreign exchange trading**

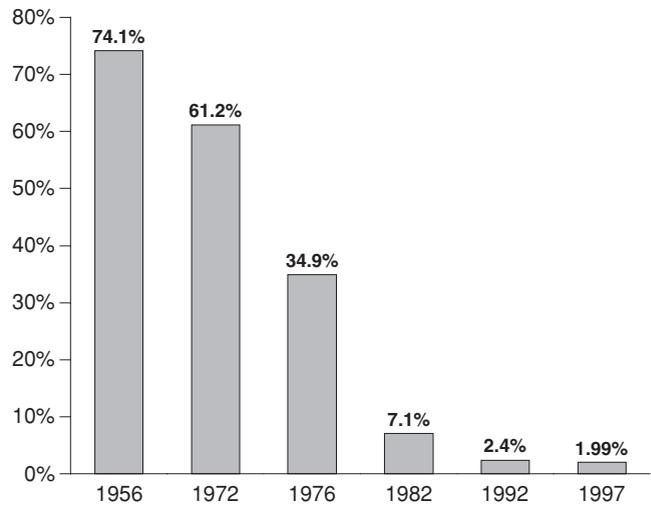


FIGURE 3  
**U.S. currency supply**  
(billions \$)

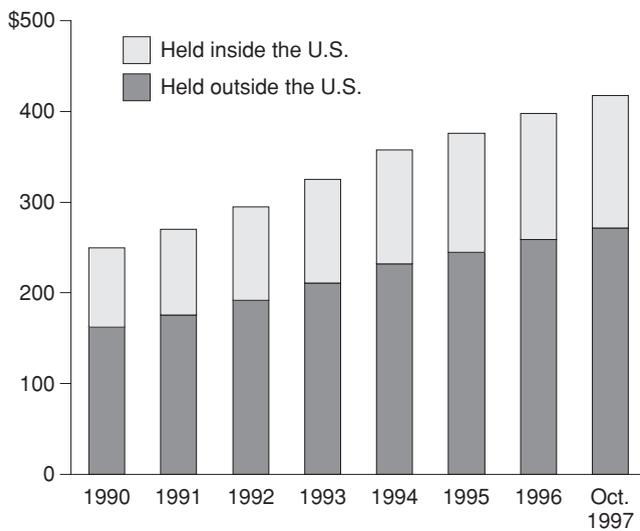
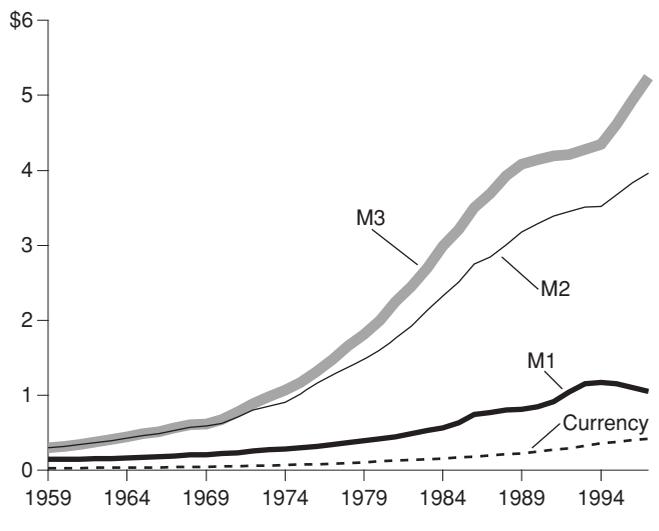


FIGURE 4  
**U.S. money supply**  
(trillions \$)



rency trading is pure speculation. Back in 1956, three-quarters of U.S. foreign exchange trading was related to trade, with much of the rest related to tourism. In 1971, the United States delinked the dollar from the gold reserve standard, setting the conditions for the take-off in currency speculation.

**Figure 3:** In 1997, there was \$417 billion in U.S. physical currency—cash—circulating in the world, of which \$271 billion, or 65%, was outside the United States. Were foreign

holders of the dollars to dump a significant amount of dollars, this would represent a U.S. vulnerability.

**Figure 4:** Over the last 10 years, U.S. money supply M-2 (currency, checking accounts, saving deposits, and money market funds) and M-3 (M-2 plus some other accounts) have grown at an increasing rate. The growth of the money supply is not in the service of the physical economy, but rather to keep the financial bubble from blowing out.