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U.S. Commercial Bank Liquidity Worst in History

NEW YORK, June 14 (IPS)The vaunted "U.S. economic recovery," officially anticipated for the second half of this year, is a cure worse than the disease. It is a prescription for one more devastating ratchet in the depression collapse which has already sent more than 10 million workers to the unemployment lines and shut down 20 per cent of U.S. production. With commercial bank liquidity now worse than at any time in U.S. history — including the benchmark Great Depression years of 1929 and 1932 — there is absolutely no financial basis for recovery.

Despite seven months of full-scale depression, bank liquidity has not only not improved, but has actually worsened. In October, 1974 the capital to asset ratio of commercial banks was at an historically low level of 7.5 per cent. Immediately banks curtailed their own lending and investment activities drastically, as corporations cut back production. From January through April alone, total loans by all commercial banks dropped by a whopping $20 billion. Nonetheless, banks' capital-to-asset ratio has worsened considerably, now standing at a dangerous 6.95 per cent.

The ratio of capital to assets, a key measurement of bank liquidity or the ability to extend new credit, is the ratio of outstanding shares or equity to total "assets" or outstanding loans.

In every previous "recessionary downturn," it has been the commercial banks which, recouping their capital reserves in the twilight of slack business loan demand, have supplied approximately 40 per cent of the necessary credit to finance the subsequent recovery. But, as New Solidarity has documented extensively, this is no typical "recession."

No Room for Recovery

At a time when banks should be, as the American Banker recently put it, "stockpiling capital against the resurgence (in loan demand) to come," they are desperately trying to stave off their own dangerous insolvency. For instance, the banks' recent substantial earnings, earnings which they have enjoyed largely as a result of the wide spread between what they have to pay to borrow funds and their own lending rates which has prevailed for the past six months, have been channeled directly into the banks' loan-loss reserve accounts. In 1974 loan losses more than doubled over 1973, and this year's losses are expected to be far greater.

Since October, the big New York commercial banks alone have liquidated close to $5 billion in loans to commerce and industry and another $1 billion in municipal securities. With the available cash they have purchased nearly $3 billion in Treasury securities — and used the remainder to pay their own huge short-term liabilities!

At the same time, the primary means of building capital reserves — marketing their own stocks in the back equity market — has virtually dried up. With $11 billion tied up in the technically bankrupt Real Estate Investment Trusts, and the spate of large bank failures over the past year, the banks have a difficult job selling themselves to prospective shareholders.

No Investment

For just this reason, i.e. the banks' own self-acknowledged massive illiquidity, commercial banks have not moved to increase their lending even though they have relaxed interest rates considerably, in what would normally signal an invitation to corporate and other borrowers.

With bank illiquidity already at the danger-level and with an upcoming regimen of $25 to $30 billion in Treasury securities to absorb in order to finance the federal deficit — an amount four times greater than the commercial banks have purchased in previous "post-downturn periods! — there is simply no room for financing a recovery. From the banks' precarious standpoint, the next safest thing to taking in the Treasury's dirty laundry is increasing their holdings of long-term austerity-based municipal bonds backed up by the fascist dictatorship of a big MAC. This not only further undermines the basis for an actual "recovery," but guarantees that should "recovery"-motivated loan demand begin in earnest the banking system will be blown sky-high.

As a participant at the recent conference of commercial bankers in Amsterdam (see p.), cynically observed, "Enjoy the recession, the boom will be terrible."

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