



INTERNATIONAL MARKETS  
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## New York Banks And Eurodollar Market Must Be Put Through Bankruptcy

April 16 (IPS) — By all standard capitalist accounting practices the New York international banks and their so-called “Eurodollar” market extension are bankrupt. The bankruptcy of these institutions is unspoken universal knowledge in the financial community on both sides of the Atlantic and among most governments.

A glance at the present condition of the world economy shows why this is the case: **the New York banks and the Eurodollar second-mortgage market are parasites who have destroyed their victims.** These include, in order of indebtedness, \$250 billion of loans to U.S. states and municipalities; \$120 billion of loans to the Third World; \$90 billion of loans to the weakest countries of Europe; plus several tens of billions in illiquid loans to U.S. industry and agriculture.

In addition, virtually all the post-1971 speculative swindles which the New York financiers mounted are choking in illiquid paper, including \$24 billion in lending for shopping malls, office buildings, and luxury condominiums, of which half was channeled through the so-called Real Estate Investment Trusts; \$35 billion in loans to oil tanker operators, mainly backed by ships in mothballs at \$20,000 a day; close to \$10 billion in lending for stockpiles of unsaleable commodities; \$5 billion of loans in the busted London real estate bubble; and others too numerous to mention.

New York banks and their Eurodollar branches are the major participants in these areas of lending, which, as a whole, are paying virtually no income to their creditors. The consensus among analysts of bank stocks in New York is that a minimum of 50 to 70 per cent of the loans of the New York commercial banks are bad paper. Since these banks normally put up \$1 of their own funds, or capital, against \$15 to \$20 of their depositors' funds to make loans, the banks' capital was wiped out long ago. Under capitalist bankruptcy law a bank is technically insolvent when its losses exceed its capital. By the conservative estimate that 50 per cent of the New York banks' loans are worthless, their losses exceed their capital by 1,000 per cent.

Not even the leading spokesmen for these insolvent institutions care to deny — in private — that the above estimates are highly accurate. There is nothing in capitalist customs and banking practices to discourage the victims of the New York banks and the Eurodollar banks from treating them as bankrupt. That means, as the first step to orderly liquidation proceedings, imposing a moratorium on further debt service payments.

The fact that bankrupt banks still enjoy the political authority to dictate terms to their creditors is the direct cause of the destruction of the world economy. The capacity

of the banks to extract payment under conditions of capitalist normality or even speculative excesses has been destroyed. As of the March 31, 1976 debt rollover period, the margin of income to the New York banks and Eurodollar market can only come from Schachtian looting.

### Profitability, Nazi Style

The immediate form that the New York insolvency takes, as first quarter reports of leading commercial banks come in, is a collapse of profitability. Chase Manhattan's first quarter report shows its profits, after very limited deductions for loan losses, at less than half their previous year's level. Marine Midland Bank, whose London Eurodollar subsidiary failed last November, showed an operating loss for the first quarter, the first by a major New York bank since the depression.

These miserable results disguise a much worse situation. Not only are the New York and Eurodollar banks not earning interest on half their loans, which must be post-dated at each maturity date, but the collapse of the overall economy prevents them lending to the productive sector. Since Jan. 1 the New York banks have lost \$3.8 billion of their commercial and industrial loans, continuing a pattern that began with the 1974 industrial collapse.

During 1975 the banks reduced their lending to business and industry by close to \$30 billion, when those debtors who could repay their short-term debts — leaving the banks with an ever-increasing proportion of loans to debtors who cannot repay their loans. Again during 1975, U.S. banks shipped \$26 billion abroad to refinance their loans to Third World countries and other bankrupt debtors.

Precisely the same gigantic shift of banking assets from earning loans to non-earning “rollover” loans is taking place at the moment: during the March 31 loan rollover period, New York banks sent over \$3 billion to their “Eurodollar” branches to paper over defaulting loans, approximately the same amount they lost in loans to industry during the first quarter of this year. New York banks now have substantially more money in their foreign than in their home branches.

**If normal banking practices applied, this swindle would have dissolved during the first months of 1974, the beginning of the industrial collapse. But the fantastic character of the Eurodollar market, which acts as a second mortgage, or refinancing, operation for its U.S. parents, has allowed the bankrupt institutions to keep their doors open.**

The \$320 billion Eurodollar money pool, half the size of the U.S. commercial banking system, consists of deposits of money outside their country, principally U.S. dollars traded in London. As such it is unregulated by any central banking

system. Unlike New York, where the Federal Reserve ensures that banks keep a certain amount of cash on hand and put up a minimum of their own loan-money along with depositors' funds, the Eurodollar market is an unregulated monster. Banks can create unlimited amounts of new deposits by lending and re-lending the same funds back and forth to each other. Each \$1 billion sent from New York turns into \$3 to \$5 billion Eurodollars. In this fashion the Eurodollar market can paper over bad debts, it seems, indefinitely.

But the fact that the sinkhole of debt has swallowed up most of the dollars in international circulation created the conditions for a general collapse of the U.S. dollar. Each speculative attack on European currencies since the Italian lira collapsed Jan. 21 has led to a general speculative collapse of the dollar with sickening inevitability. The collapse of profitability of dollar (and pound sterling) paper investments is the immediate cause of the rush of funds this month into commodities, with immediate threats to industry. The pressure against the dollar builds continuously. Out of the blue, \$300 million were dumped against the Swiss franc on Wednesday afternoon April 14, and a run against the U.S. currency was narrowly averted through huge amounts of central bank intervention.

In short, the disguised bankruptcy of the Eurodollar market has become in daily practice the open bankruptcy of the U.S. dollar.

#### **Accelerated Looting**

Therefore, to merely keep up the appearances of the existence of a monetary system, the New York banks and their Eurodollar branches must drive for accelerated looting of their victims to gain a margin of profit atop the mass of dead paper. This takes the form of:

1) New loans to Third World countries "guaranteed" by long-term contracts for the export of commodities. The banks insist that so-called "project loans" that yield profits will make it possible to roll over their \$120 billion of largely illiquid Third World loans by creating a critical margin of income. This is the content of Henry Kissinger's proposed "International Resources Bank," which would make loans of this type with government backing.

2) Loans to European industry "guaranteed" by rationalization and layoffs, a type pioneered by the British nationalized industries (see article this page).

3) Refinancing loans to U.S. municipalities at exorbitant interest rates backed by mass destruction of social services.

The mass of illiquid debt hanging over the narrowing real profits of the dollar system produces the continuous threat of a hyperinflationary explosion, identical to the one the Nazis faced in 1938-39. The satrapies of the dollar empire, the Third World, Italy, Britain, Denmark, and others have already gone through a 1931-style bankruptcy, marked by the March 31 payments date. Now the remains of the capitalist sector face a crisis of the type of 1938 in Nazi Germany — as West German Central Bank official Helmut Schlesinger warned publicly last week. The margin of real income required to prevent the explosion of the actually-bankrupt credit system is more and more difficult to loot. In 1938 the Nazis opted for war. The Atlanticists are preparing for the same "solution."

The weakest point in the entire Atlanticist framework is the notorious bankruptcy of the financial institutions they will destroy the human race to defend Chase Manhattan, Citibank, and Morgan Guaranty, the mainsprings of the drive for Schachtian austerity, need a decent, if speedy burial. They exist at the peril of the human race, and there is no cause to tolerate them for another minute.