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New Gov't Bank For Industry Needed To Reorganize U.S. Financial Structure

By David Goldman

Sept. 4 (NSIPS) — U.S. commercial banks which hold about 40 per cent of the domestic assets of the American banking system will go under in the collapse of the so-called Eurodollar market — now about 10 business days away. This is the scale of the illiquidity in the U.S. banking system which must be triaged, and quarantined from the remaining healthy portion of the financial structure.

Until this week, discussions in the U.S. business community centered on how debt moratoria could be avoided in the aftermath of the August meeting of 85 Third World heads of state in Colombo, Sri Lanka. Now, at least a critical portiion of U.S. capitalists, mainly in the industrial heartland of the country, have given up looking for a way out for the banks, and are looking for a way out for themselves.

Strictly speaking the collapse of about 20 major U.S. banks deeply involved in the Eurodollar market should be of third-rate concern to U.S. industrialists. The Eurodollar market is a multi-hundred billion dollar chain letter game which hinges mainly on looting rights against Third World countries, with $250 billion in Eurodollar debt, and the weaker industrial economies, with about $100 billion in Eurodollar debt. It mushroomed in successive waves of speculation because the banks chose not to invest in U.S. industry.

Commerical and industrial loans from all large commercial banks in the United States, in fact, have fallen by $20 billion — or about 10 per cent — since the economic downslide began in January 1975. Loans to industry fell by $10 billion in the first half of this year alone. Without exception, the 20 banks listed below "compensated" for the decline of their industrial lending by shipping funds into the Eurodollar market, largely through their "shells" in the Cayman Islands and the Bahamas.

For Citibank — the most committed of the Eurodollar swindlers — every dollar of loan expansion for the past five years went through the Eurodollar market, for a staggering total of $9 billion in loans to the Third World. Broadly this pattern is true for the other Eurodollar operators. Their contribution to industrial growth in the last five years has been nil. During the past two years it has been negative.

How To Avoid Panic

Presuming there is no banking panic, the demise of these banks will not injure the world economy, To the extent that Eurodollar loans financed trade in the past, the trade of the debtor countries is already at a virtual standstill. All new Eurodollar credits to the Third World, with a handful of exceptions, have re-financed debt without moving one bale of goods since the export earnings of the Third World collapsed in the commodity market bust of May-September 1975. A panic, however, in which viable banks suffer runs on deposits and corporations stop extending credit to one another, would shut down the world economy. All that is necessary to avoid panic is a clear statement from major governments that the bankruptcy of Chase Manhattan, Citibank, and so forth is under control and need not spread to viable institutions, and that new monetary institutions can be rationally negotiated by the world community.

On the other hand, any attempt to try to "rescue" the Eurodollar market would feed panic. Typically, $1 transferred from the books of a Wall Street bank to the Cayman Islands turns immediately into $20 in deposits and loans on the books of Eurodollar banks, which live by taking in each other's laundry. Once the Third World stops paying on its $250 billion debts — at least 20 countries are now too broke to pay even interest — "reverse leverage" will shut down the market within days. The U.S. Federal Reserve, with a mere $90 billion in assets, does not have the means to prop the Eurodollar market from collapse.

Bank	Percentage of Assets Involved in Eurodollar Market
Bank of America	35.9
First National City Bank	50.9
Chase Manhattan Bank	36.3
Manufacturers Hanover Trust	26.2
Morgan Guaranty Trust	36.5
Chemical Bank	32.4
Continental Illinois	23.4
First National Bank of Chicago	33.0
Security Pacific National Bank	17.1
Bankers Trust Co.	32.2
Wells Fargo	15.4
Crocker National Bank	15.8
United California Bank	20.5
Mellon Bank	23.4
Irving Trust	27.8
National Bank of Detroit	16.8
First National of Boston	35.1
Marine Midland	37.1
Seattle First National Bank	7.8
First National Bank of Dallas	29.0

The above list is not a complete enumeration of banks that must necessarily fold in a Eurodollar market crash, and many of the above banks, especially the regional banks, may be "borderline" cases. Banks are listed by order of size.

Source: Figures provided by the Federal Reserve to the House of Representatives Banking Committee, Dec. 31, 1974.

Creating Credit

This sequence of events requires no special attention: the Third World countries have already set it in motion. What counts is the creation of means of financing for fusion energy,

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conversion of spare auto capacity to tractor production, reconversion of the aerospace sector to civilian production, and general renewal of the depleted U.S. industrial capacity. There are two immediate steps that must be taken in this direction.

First, once International Development Bank financial arrangements open up a world market for $100 billion in additional U.S. exports — doubling current U.S. exports — the requirements of industrial investment will outstrip all existing financial sources combined several times over. Apart from urgent investment in new areas of production mentioned above, existing U.S. industrial capacity has gone through almost a decade of aging and depletion. Adjusting the Commerce Department's highly conservative estimates of the age and condition of U.S. plant and equipment, U.S. industry would have to spend $225 billion (at 1975 prices) to return capacity to its condition in 1968! This sum is more than twice all capital investment in 1975. But the capacity in steel, machine tools, construction and raw materials either exists, or can be quickly created, to fill the investment gap.

Against this figure, all nonfinancial corporations in the U.S. have been able to borrow funds on the bond market at an annual rate of slightly over $25 billion during the record 1975 year, and even less this year. The "internal generation of funds" hailed by some economists is a pathetic sum, except in the distorted context of the current miserable levels of industrial output and actually-negative levels of captial investment.

The answer to the financing problem is simple. The Federal government — either directly through the Federal Reserve Banks or through a new National Production Bank — must create and issue long-term, low interest loans to industry, at an annual rate of serveral hundreds of billions of dollars.

There is a certain type of precedent for this in the Federal system of agricultural lending banks, which have developed a close working relationship with regional commercial banks since the 1930s. To permit regional banks to "compete" with Federal financing for industry — that is, to fill a productive function — the Federal Reserve must lower its discount rate (the rate at which it lends to banks as a lender of last resort) to about 2 per cent. The 95 per cent of the banks in this country who are basically viable are indispensable for an economic recovery, for the short-term side of business financing, but they are entirely unequipped to deal with the investment requirements of U.S. industry. (At the rate of economic expansion the U.S. can reach within six months, Federal agencies will also have to supplement short-term financing as well, by discounting bills of exchange arising from production and inventory.).

A Real Program To Stop Inflation

But the current agricultural bank system is totally inadequate, in the sense that it depends on issuing bonds on the open market to raise funds. This follows the stupid notion that all funds for investment must come out of "savings." That is, instead of providing advance financing for predictable **social surplus**, the securities markets attempt to gather up all the available "savings" of serveral tens of millions of households. This is allocation of social surplus inside-out. The need is to provide liquidity for those areas of investment which will generate social surplus by contributing in the most effective way to the total expansion of the economy. In passing, we will discard monetarist notions of inflation as well. Inflation has nothing to do with "excess" creation of liquidity, but rather, the application of existing liquidity to unproductive investments which do not contribute to generating social surplus. The more liquidity we create — by sheer government fiat — to invest in the Jordan steelmaking process, fusion power, tractor conversion, and so on, the quicker we eliminate inflation.

Wall Street Incompetents Try To Torpedo Ford's Economy Policy

WASHINGTON, D.C., Aug. 31 (NSIPS) — A noted Wall Street torpedo is trying to subvert the Ford Administration's economic policy stance through a fear campaign in high Republican circles. This malicious effort — which seeks to accomplish by internal wrecking of the White House what the flagging Carter campaign is failing to do from outside — will destroy the U.S. economy in the event that President Ford takes it seriously.

The torpedo, Wall Street business consultant Pierre A. Rinfret, suggests that Ford chuck everything in and turn on the printing presses, that is, take over the Carter "program," for the unstated purpose of bailing out the New York banks. In a message conduited through Ford advisor and former Texas Governor John B. Connally, Rinfret proposes Ford install hyperinflation advocate Walter W. Heller — the most wild-eyed of the Democratic Party funny money men — at the U.S. Treasury. This, Rinfret says, will enable Ford to shift present Treasury Secretary William E. Simon to the Federal Reserve, although Simon "would have to be prepared to testify before Congress that he would pursue a low interest rate, high money supply, easy credit policy."

Hyperinflation for Bailouts

What the Wall Street torpedo wants is more bailouts and more debt-rollovers — hyperinflation — as the leading Wall Street investment houses, notably Lazard Freres, have been demanding for months. The suggestion that this is "a positive program of economic growth in order to expand production and employment" is contemptible. Since mid-year, banking reserves have been rising at a 12 per cent annual rate — half again as fast as Fed Chairman Arthur Burns says he wants — and interest rates have been falling. The banking system is choking in Federal Reserve liquidity. But loans to business have been falling by several hundred million dollars a week at the nation's banks — by $600 million during the last reported week alone.

Every penny of available liquidity goes to refinancing. During July, renewed economic contraction showed up in falling retail sales, auto sales, industrial orders, durable goods orders, housing starts, industrial building starts, the U.S. trade balance, business loans, and flat industrial output.

Patently stupid in his professed motives, Riff-Raff is even stupider from the standpoint of his real, underhanded motives. Easily available liquidity is not what holds $800 billion of illiquid debt together. Wall Street's **political** license to loot the Third World past the point of genocide, and its political ability to impose a contraction of trade on Europe and Japan is what holds $800 billion of toilet paper together.

Wall Street's problem is not "high interest rates" and "low money availability," the bogeyman that Rinfret holds up to Ford. The Third World will stop payments on $450 billion in