Bank mergers reflect growing world liquidity crisis

by Chris White

Security Pacific bank has joined the list of U.S. banks in the mortuary. In the past month, six out of the top 12 U.S. banks have been put through mergers. The watch-words have been "consolidation," "competitiveness," and so forth. The watch-words are garbage. The U.S. banks are being put through a kind of bankruptcy reorganization, under the pressure of developing potentials for the eruption of a financial and monetary cataclysm unparalleled in recent centuries. So Security Pacific, which merged with BankAmerica, has gone the way of C&S/Sovran Bank (which merged with NCNB) and the New York merger of Chemical Bank/Manufacturer's Hanover. They exist now in name alone. The layoffs, closures of branches, and shedding of so-called assets tell the story of what it is all about.

The "merger" bankruptcy reorganizations reflect a pattern now erupting around the world. Developments in Hong Kong and other parts of Asia in recent days may well provide a foretaste for what senior European analysts consider to be brewing below the surface, possibly to erupt by the early fall, if not contained.

Panic withdrawals in Hong Kong

In the Crown Colony and offshore banking center of Hong Kong, depositors began panic withdrawals of funds held in the branches of Citicorp, Standard and Chartered, the International Bank of Asia, Dao Heng Bank, and two unidentified Middle East banks at the end of the first week in August. Runs against some of the same banks, especially Citicorp, were also reported from Pakistan and Australia.

Hong Kong banking authorities vowed to take "criminal action" against people spreading rumors about the soundness of the British Crown Colony's banks. They were supported by officials of the Hongkong and Shanghai Bank and the National Bank of China, in a high-level press conference convened to announce that the "wave of rumors . . . is demonstrably without foundation."

Among the "rumors" to which they were referring was a statement released by U.S. Rep. John Dingell (D-Mich.), the chairman of the House Energy and Commerce Committee which is now debating the administration's proposed banking law. Dingell reported during the course of hearings held just before Congress went into August recess that Citicorp is "technically insolvent." Denied by the bank's directors and by outgoing Federal Deposit Insurance Corp. chief William Seidman, it seems that Hong Kong's depositors preferred to believe the congressman. Thousands of them took to the streets to pull their money out. Burned once before when assured that the Bank of Credit and Commerce International (BCCI) was sound, depositors gave no credence to what the representatives of the Hong Kong government had to say.

The Hong Kong panic reflects the development of what used to be called an international liquidity crisis. It is a development which has officials at the Federal Reserve and the U.S. Treasury climbing the walls, according to German officials. Overall, means of payment are not sufficient to meet accumulating demands for payment. The panic on the streets of Hong Kong reflects the same phenomenon as the panic in the offices of the U.S. banks which are being put through bankruptcy reorganization.

The panic withdrawals are not a Hong Kong phenomenon, nor a matter of rumors. Worldwide, there is developing a pattern of financial collapse which is centered in Britain and the United States. In Japan, the first major bank has failed in the postwar period. In Italy, agricultural financing companies related to the Banca Nazionale del Lavoro are insolvent. In France and Spain, banks have been shaken by the insolvency of the textile industry. In Norway, the banks are on the verge of collapse because of the depression collapse of world shipping.

In Britain, where depositors also panicked in the south coast town of Eastbourne, insurance companies, secondary banks, and mortgage companies are in trouble.

But the epicenter is the United States. The runs in Hong Kong reflect the developing potential for a cataclysmic type of financial and monetary eruption around the U.S. banks and U.S. dollar. The same type of panic which erupted in Hong Kong is going on inside the U.S., as yet not in the streets, but inside the banks and the agencies which regulate them.

Inside the U.S. there is emerging the potential for the eruption of a liquidity crisis which would be the proverbial "mother" of all liquidity crises. This is reflected in the insolvency of insurance companies, the expanding financing requirments of the federal government, and the banking crisis.

Again, European banking sources point to evidence accumulating which is systematically being downplayed within the United States for fear of the consequences if what is going on became known.

There are three classes of such evidence. First, the Basel, Switzerland-based Bank for International Settlements has just produced its report on international inter-bank lending. The report documents an unprecedented collapse of such lending, comparing rates for the first quarter of 1990 and the first quarter of 1991. Such bank lending shrank by about $54 billion. The collapse is reflected most acutely in Japan and in the United States, less so in Europe. In all the time the BIS has been monitoring the performance of banks, nothing like this has ever happened.

Credit drying up worldwide

This puts the issue of the so-called "regulatory credit crunch," the drying up of internal bank lending, into a new light because it is not just a domestic problem, but credit is drying up worldwide.

Second, it shows the absurdity of what the Federal Reserve claims to have been doing, in ways which European sources also believe reflects the gathering storm inside the U.S. credit system. The Federal Reserve has been lowering interest rates for months now, ostensibly to counter the credit contraction. The result of lowering interest rates has been a contraction in the money supply by all measures. The credit being generated is not leaving the banks.

Third, no one, except for Salomon Brothers, seems to want to buy U.S. government paper. The firm has fired four senior executives, including Thomas Murphy, head of its U.S. government securities trading, amid allegations that it acted illegally to monopolize government auctions. Maybe so. But what about the other 40 or so dealers in government paper who would normally participate. If Salomon is accounting for 44-85% of the trade, what has happened to everybody else?

This leaves the government buying and selling its own paper, with Salomon Brothers the intermediary. But the federal government now requires about $500 billion in new borrowing and refinancing every three months. That leaves the Federal Reserve trading paper chits back and forth with banks, with the banks' claims for payment growing as have the government's—all under conditions of an international contraction in lending.

Since the stock market crash of Oct. 19, 1987, the Federal Reserve and the U.S. Treasury have attempted to keep a lid on the developing financial disaster. In so doing, the methods they have adopted, selectively preserving the claims of debt and protecting the over-valued pricing of real estate which provides the collateral for so much debt, have simply ensured that when it does come, the crisis would be much worse.

As in 1987, when the worldwide stock market crash began in Hong Kong, so now it may turn out to be the case that the financial and monetary collapse of 1991 erupted from the British colony and offshore banking centers.

Inside the U.S., the panic focuses on the insurance companies and the banks. It is reflected in the national discussion about the need for a federal guarantee or insurance system for the insurance companies. That's like locking the stable door after the horse has bolted.

This depression preceded crash

Does that mean "the depression is coming"? Most of the people who ask that have everything upside down. They share the common delusion that financial collapses—that is to say, stock market crashes, runs against the banks, and liquidity shortages—cause depressions. And, because such a crash has not occurred, they insist that we can't be in a depression. Well, this time, it is the depression which is causing the financial collapse, and making the kind of earthquake which may well be erupting out of Hong Kong unstoppable.

The United States was pushed into economic depression 10 years ago under the high interest rate policy associated with former Federal Reserve chairman Paul Volcker. And the U.S. has been in an economic depression ever since. Like the dairy farmer who financed his operation by selling milk, his bankers told him he could stay solvent if only he didn't spend so much on feeding his herd. Pretty soon there was no milk, no herd, no farmer, but there was an awful lot of debt.

Production and employment in production were cut back. The sales which generate the revenue to keep the business going were cut back, while financial demands associated with debt and real estate increased. And the rest of the world paid, through genocidal austerity imposed to generate the loot and plunder to maintain appearances that all was sound.

Now the sources of loot have dried up, not only in the Third World, but also out of Japan and Europe. The liquidity is no longer there to meet all the payments coming due.

We warned about it. And people didn't listen. What sprang loose in Hong Kong in early August may well portend the kind of shocks people will not be able to ignore.