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Citicorp loss sparks fear of depression

by William Engdahl

Citicorp, the largest U.S. bank, with some $214 billion in assets, announced that it had sustained a staggering $885 million loss for the three months ending Sept. 30. But more alarming, was the announcement that the bank would not pay stockholders any dividend this quarter. In its entire 179-year history, including the Great Depression years in the 1930s, the bank never failed to pay a dividend. While the reaction initially on Wall Street was euphoric, as the Dow Jones Industrial Average soared to new, all-time record highs, more than a few sober observers outside the U.S. began to fear the "unthinkable"—the imminent collapse of America's largest bank.

The Citicorp news hit during a week in which bank failures were ravaging Sweden, Norway, and Finland, and even normally stable Switzerland, creating a heightened sense of alarm among bankers internationally. Norway's second largest bank, Christiania Bank & Kreditkasse, was de facto nationalized by the Socialist Brundtland government Oct. 14 when huge losses forced it to declare technical insolvency. The bank had reportedly been notorious, along with other Norwegian banks, for its aggressive and high-risk international lending practices over the past six years, since Norway's government deregulated much of its traditional banking controls.

Within hours of the Norwegian shock, Sweden's new moderate government announced a state bailout of the country's largest bank, Nordbanken, which has been saddled with huge losses in speculative real estate as Sweden's economy goes through its worst depression in 50 years. Two days later on Oct. 16, the government announced state assistance in a private bailout of Sweden's largest savings bank, Foersta Sparbanken, also hit by huge real estate losses. Real estate problems also hit one, albeit small, Swiss bank, the Spar- und Leihkasse Thun.

"The Citicorp news has created enormous disquiet in the City of London," commented senior London economist S.J. Lewis. "In my estimation it marks a watershed. The perception is arising that it is a 'Citicorp problem,' a problem which is particularly concentrated in the nation's largest bank. The danger is now extremely high, as a result, of a run on that bank. It could be a matter of weeks before the government is forced to step in as it did in 1984 with Continental Illinois Bank." In August 1984, the Federal Reserve and the Reagan administration effectively nationalized that bank and guaranteed all deposits, regardless of size. It set the precedent that certain U.S. banks were deemed "too big to fail." But as one banker put it, Citicorp today is "too big to save. It would demand such a drain on the U.S. Treasury that the U.S. bond market would collapse in the process."

Interbank lending collapses

This is clearly what has the Bush White House worried. Recently released data from the Basel, Switzerland Bank for International Settlements (BIS), and data from the Bank of England, suggest that the banking crisis in the United States is assuming international dimensions. In the first three months of this year, the BIS reports, "Total cross-border claims of BIS reporting banks plus their local claims in foreign currency contracted by $54 billion, the largest-ever absolute decline recorded in gross international banking aggregates. There was an unprecedented contraction in interbank business."

The Basel report adds, "Cross-border claims, which had expanded by $187 billion in the fourth quarter of 1990, fell by $54 billion—the first such decline recorded since 1984 at the height of the LDC [lesser developed countries] debt crisis." The report does not note that it was also in 1984 when international banks pulled back their interbank credits to Continental Illinois and other U.S. banks over fears their Ibero-American debt exposure would lead to their own failures. But the decline in loans of banks to other banks in other countries, which the Bank of England alarmingly refers to as "an unprecedented contraction," reflects the growing fears of bank failure in the U.S. banking system as well as elsewhere. The London *Financial Times,* noting the alarming trend toward cutbacks in interbank lending, commented: "The most vulnerable banks are those with no retail deposit base—such as the U.S. money center banks—leaving them wholly reliant on 'wholesale' sources of funding," such as from other banks in the interbank lending market.

Little wonder then, that the Bangkok IMF and G-7 talks produced no "harmony" among the seven leading industrial nations. A successful economic transformation of the Soviet and eastern European economies into a growing industrial region attracting tens and hundreds of billions of dollars in western investment, is at present the worst "nightmare" scenario of the desperate Bush administration. With a U.S. budget deficit officially estimated to top $362 billion in the fiscal year ending next September, double the level of 1989, Washington is frantic to make sure international investment flows come to the United States, and not to Germany or Europe.

"The reality of Bangkok is that the G-7 is paralyzed, they don't know what to do about this situation," Lewis concluded. London *Guardian* editor Ben Laurance noted further, that the problems in U.S. and other banking represent the "bill coming due for the years of foolhardy financial deregulation. The risk is that it might turn into a full-blown worldwide depression."

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