EIR Economics

Citicorp loses billions, suspends dividend payments

by the EIR Economics Staff

The worst depression of this century is sweeping the United States, threatening to bring down the U.S. financial system, and the financial systems of all nations under the thumb of the Anglo-American empire. A number of the top U.S. banks, led by the brain-dead Citibank, are hopelessly insolvent, being technically kept alive on a federal life-support system. Untold billions of taxpayers' dollars are being pumped into these zombie banks, while millions of Americans lose their jobs, their homes, and their hopes.

On Dec. 7, 1990, the Bush White House held an emergency meeting to decide what to do about the U.S. banking crisis, and six insolvent banks with over $500 billion in assets: Citicorp, Chase Manhattan, Manufacturers Hanover, Security Pacific, Chemical Bank, and the Bank of New England. In the 11 months since, the Bank of New England has been closed, Chemical has merged with Manufacturers Hanover, and the Bank of America has merged with Security Pacific. Only Citicorp and Chase remain in their original form.

When the $217 billion Citicorp announced a mere $340 million addition to its loan loss reserves at the end of 1990, *EIR* warned that the amount was a token, an attempt to paper over—with the help of the Bush administration—the bank's bankrupt condition. During 1990, the bank's admitted non-performing real estate loans rose 120% to $2.6 billion, its foreclosed real estate holdings rose 78% to $1.3 billion, and its market value fell by 55%.

By the third quarter of 1991, when the bank announced an $885 million loss for the quarter, admitted non-performing loans stood at $6 billion, including $3 billion in non-performing real estate loans. The announcement was mostly fiction. More telling was the announcement that the bank, for the first time since 1813, would suspend dividend payments to stockholders. Citicorp has been desperately seeking new equity capital through stock sales, and that critical task will be far more difficult now that the bank has eliminated its dividend.

"We have reliable information that one of the largest U.S. money center banks has been operating under de facto government receivership since approximately summer, and we have reason to think it is Citicorp," one European banking source recently told *EIR*.

In early August, a remark by Rep. John Dingell (D-Mich.) that Citicorp was "technically insolvent" and "struggling to survive" triggered runs against the bank in Hong Kong and Australia. That same week, the Federal Reserve Bank of New York lent out $3.4 billion to "one or more money center banks," the vast majority of which reportedly went to Citicorp.

The liquidity problems at Citicorp are continuing. European banking sources indicate that the actual loss at Citicorp in the third quarter may have been as high as $5 billion—more than five times the reported amount—and that the bank has again turned to the Fed for money.

"The danger of a run on Citicorp is now extremely high," a senior London banker said recently. "The reaction here is that [Citicorp chairman] John Reed didn't touch yet any of the billions in bad real estate problems with the latest write-offs." The London banker warned of the "incentive for large banks and depositors to get out of that one very troubled bank. The only 'out' now is for the government to carve Citicorp into several smaller banks to reduce the systemic threat. . . . The demise of Citicorp could be a matter of weeks rather than months."

The latest crisis around Citicorp erupted within days of Bush's announcement that he was taking "action" to deal with the "credit crunch" that was slowing the recovery. His actions included such tricks as permitting banks to call their commercial real estate loans, residential mortgages.

Now Bush and company are going to have to face up to the coming bankruptcy of the country's largest bank, and the shock effects which will spread from that.

As ye sow . . .

Citicorp is now reaping the reward of what its previous chairman, Walter Wriston, insisted be done to the U.S. economy as a whole. It was Wriston who, between 1978 and 1983, together with Ronald Reagan's Treasury Secretary Donald Regan, was one of the loudest advocates of deregulation of banking—what he called "creative financing methods." Wriston is the one who compared his mission, as the head of America's largest bank, with Willie Sutton, bank robber. Why did Sutton rob banks? he asked of Congress back in 1982. Because that's where the money is, he answered. That was also why Citibank moved into consumer credit financing.

It was also Wriston, again with Regan, who over the weeks of the late summer and fall of 1982 rejected Lyndon LaRouche's "Operation Juárez" proposal for the financial and economic reorganization of the nations of the Americas to permit development and economic growth. Citibank doesn't need LaRouche, the bank replied at the time.

They backed the jailing of LaRouche, and adopted instead the policy which brought us Reagan's so-called "recovery," in which genocidal looting of Third World countries, and U.S. trading partners, was used to cover up and delay the collapse of the U.S. economy.

Wriston is one of those most responsible for the depth of the crisis the country faces today. And if he was a moral moron, who twice in 1982 rejected policies which could have prevented the suffering and misery apparent today, his successor John Reed is worse.

They wrecked the economy with the policies they insisted were in the interest of their bank, and, in doing so, they also destroyed their pathetic bank. For the whole economy, they organized the speculative spree which resulted in the indebtedness of the United States more than tripling since 1982.

Since they wrecked the economy, they also wrecked all banks. Now the crisis around Citicorp could be the trigger which brings down the whole rotten banking system. Reed, you see, has been a borrower, $2 billion this year so far. According to qualified reports, Reed's borrowing binge would have been classified as outright fraud if someone who wasn't the head of a $200 billion-plus bank had done it. You can't use borrowed funds as capital, but that is what Citibank has been doing. And then, re-lending against the capital expanded by borrowing. This is what Wriston and Regan meant by "creative financing methods."

The end nearly came in the first week of August, with the runs against Citicorp and other banks in Asia. Thanks to massive government aid, Citicorp survived that moment. But each successive "rescue" puts it even further in debt, and even more bankrupt. 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." Citicorp is set to blow, and the explosion will reverberate worldwide.

Scandinavia in crisis

The Citicorp news hit as bank failures were ravaging Sweden, Norway, 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 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. On Oct. 17, the Norwegian government announced a de facto $3 billion nationalization of the nation's devastated banking system.

Within hours of the Christiania 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.

Recently released data from the Basel, Switzerland Bank for International Settlements, 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."

Little wonder then, that the International Monetary Fund and Group of Seven (G-7) talks in Bangkok produced no "harmony" among the leading industrial nations. A successful economic transformation of the former Soviet and eastern European economies into a growing industrial region attracting hundreds of billions of dollars in investment, is at present the worst "nightmare" scenario of the Bush administration. Washington is frantic to attract international investment to the United States.

"The reality of Bangkok is that the G-7 is paralyzed, they don't know what to do about this situation," London banker Stephen J. Lewis told *EIR*. London *Guardian* editor Ben Laurance noted 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."