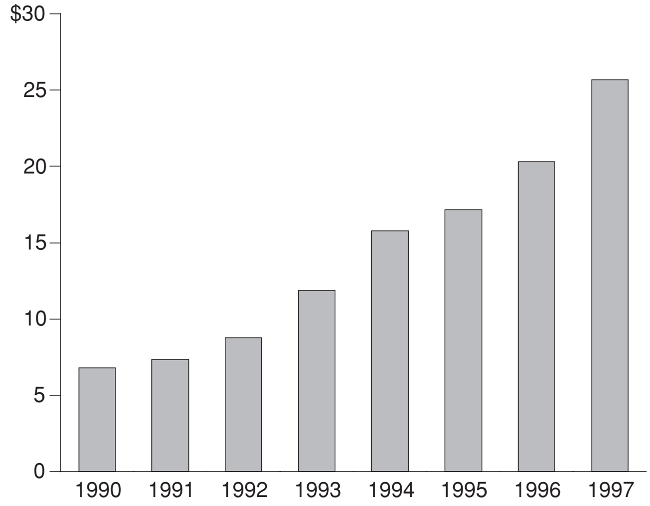
The financial bubble in 1997: a very bad year

by John Hoefle

During the first nine months of 1997, the notional principal value of the off-balance-sheet derivatives holdings of U.S. commercial banks rose 26.5%, to a record $25.7 trillion, a figure more than five times the assets of all banks combined, 62 times their equity capital, and 468 times the amount the banks have set aside as reserves for bad loans. These derivatives holdings are concentrated in a handful of banks: Seven bank holding companies had derivatives holdings in excess of $1 trillion, and together accounted for 94% of the total; Chase Manhattan alone had $7.9 trillion in derivatives, or 31% of all U.S. bank derivatives, and a figure just a hair short of the U.S. Gross Domestic Product of $8.1 trillion, while J.P. Morgan had $6.2 trillion, or 24% of bank derivatives. The top seven banks had derivatives holdings equal to 14 times their assets, 220 times their equity, and 1,264 times their loan loss reserves.

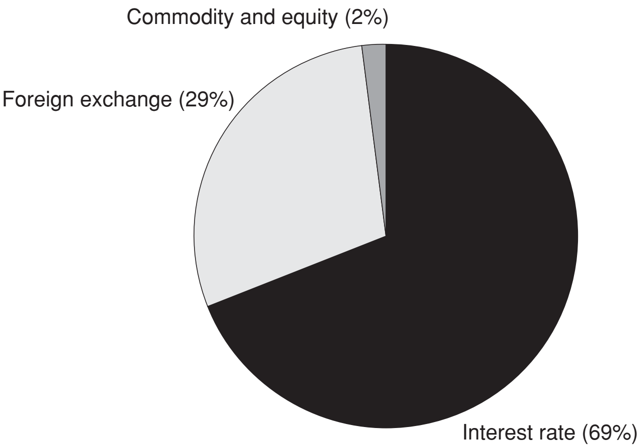
As of Sept. 30, 1997, there were more than $71 trillion in financial claims in the United States—debt, derivatives, and stock market capitalization—or $8.82 in financial claims for every dollar of U.S. GDP, compared to $2.50 in claims per dollar of GDP in 1980, during which period the productive sector of the economy has steadily declined. Since 1980, the U.S. economy has generated some $12 in financial claims, for every $1 increase in GDP. (GDP, it should be noted, is mostly a measure of the amount of overhead in the economy—only about one-third of GDP represents productive

FIGURE 1
U.S. bank derivatives exposure
(notional principal value in trillions $)



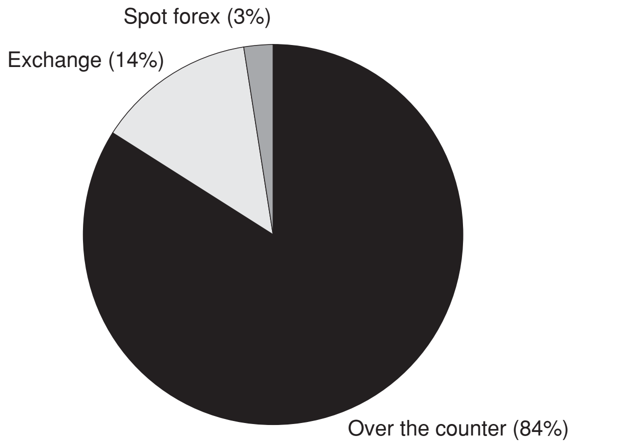
Source: Federal Deposit Insurance Corp.

FIGURE 2
U.S. bank derivatives, by type of contract
(percent of total)



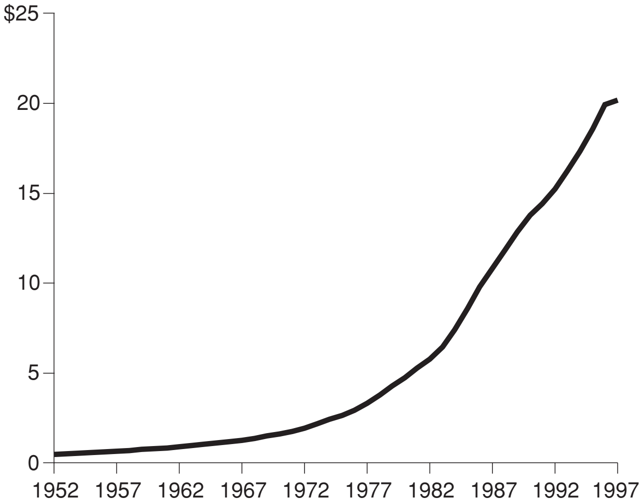
Source: Office of the Comptroller of the Currency.

FIGURE 3
U.S. bank derivatives, by source of contract
(percent of total)



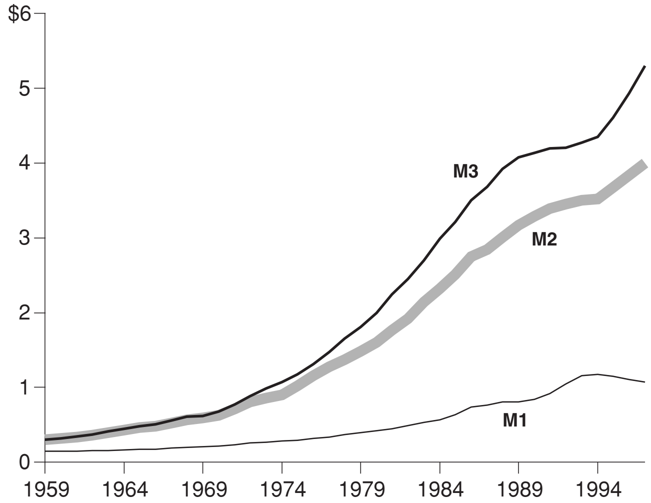
Source: Office of the Comptroller of the Currency.

FIGURE 4
Total credit market debt
(trillions $)



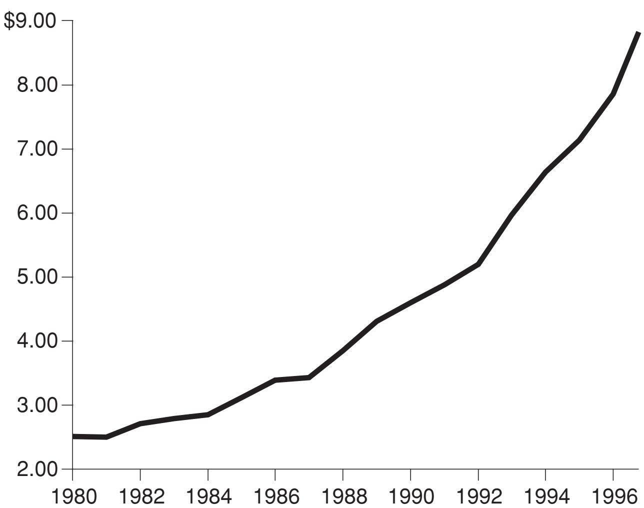
Source: Federal Reserve.

FIGURE 5
U.S. money supply
(trillions $, through November 1997)



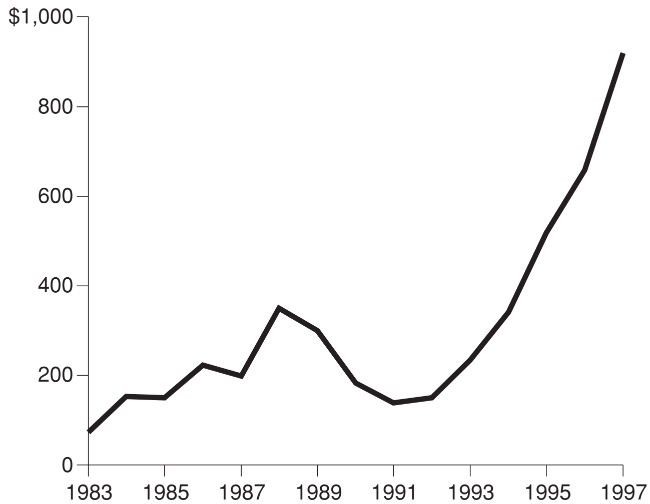
Source: Federal Reserve.

FIGURE 6
Financial claims per dollar of Gross Domestic Product
(dollars)



Source: EIR.

FIGURE 7
Mergers and acquisitions in the United States
(billions $)



Source: Securities Data.

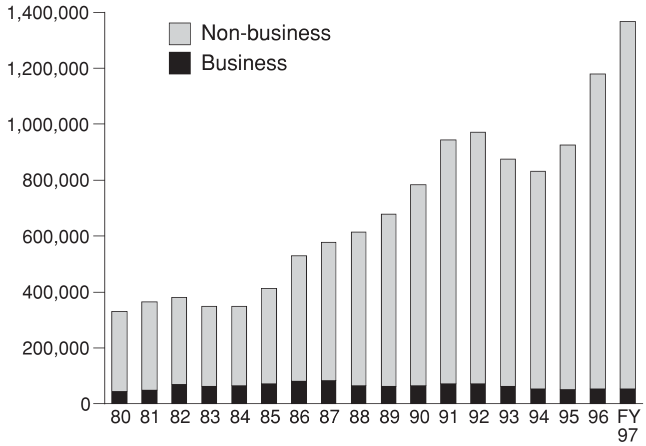
activity—so the comparison to GDP greatly understates the rise of financial claims compared to the shrinking ability to pay those claims.)

To keep this financial bubble going, the international financial oligarchy and their bankers have engaged in a savage looting of national economies all around the world, the effects of which can be seen most clearly in the collapse of Asian stocks and currencies, particularly since October. These devastating drops were not caused by problems within

FIGURE 8

U.S. bankruptcies

(number of bankruptcies)



Source: Administrative Office of the U.S. Courts.

TABLE 1

Derivatives at U.S. commercial banks, by year

($ trillions)

		Increase	
Year	Derivatives	Amount	Percent
1990	$ 6.81	na	na
1991	7.34	$0.53	7.8%
1992	8.76	1.43	19.4%
1993	11.87	3.11	35.5%
1994	15.77	3.90	32.9%
1995	17.17	1.39	8.8%
1996	20.30	3.13	18.3%
1997*	25.68	5.38	26.5%

* As of end of third quarter.

Source: FDIC.

the economies of the these nations, but were rather triggered by raids upon those countries, led by speculator George Soros and other agents of the British-centered financial oligarchy.

The mergers and acquisition boom in the United States is also a reflection of this process. The cartelization of America is in full swing, as companies favored by the financial interests buy out their competitors. Some one-third of the mergers in 1997 involved banks and other financial services firms. One effect of this consolidation, is a sharp rise in bankruptcies, as the shrinking economy pushes ever-increasing numbers of people over the edge.

TABLE 2

Loan loss reserves, equity, capital assets, and derivatives for the top 15 derivatives-holding bank holding companies

(billions $, as of Sept. 30, 1997)

Rank	Holding company	Loan loss reserves	Equity	Assets	Derivatives
1	Chase Manhattan	$ 3.5	$ 22	$ 367	$ 7,897
2	J.P. Morgan	1.1	12	270	6,243
3	Citicorp	5.8	22	300	3,042
4	Bankers Trust	1.0	6	140	2,177
5	NationsBank	2.8	20	242	1,788
6	BankAmerica	3.5	20	258	1,638
7	First Chicago NBD	1.4	8	113	1,266
8	Republic New York	0.3	4	58	325
9	Bank of New York	0.8	5	61	218
10	BankBoston	0.7	4	68	160
11	First Union	1.4	11	144	135
12	State Street	0.1	2	36	114
13	Norwest	1.2	7	85	94
14	Fleet Financial	1.4	7	84	59
15	Wells Fargo	1.8	13	98	56
	Top 7 bank companies	**$19.0**	**$109**	**$1,690**	**$24,051**
	Top 25 bank companies	**32.2**	**197**	**2,851**	**25,496**
	All U.S. banks	**54.9**	**415**	**4,869**	**25,679**

Sources: Office of the Comptroller of the Currency, company reports.

TABLE 3

Derivatives per $1 of loan loss reserves, equity, and capital assets of the top 15 derivatives-holding bank holding companies

($ of derivatives)

Rank	Holding company	Loan loss reserves	Equity	Assets
1	Chase Manhattan	$2,281	$364	$21.54
2	J.P. Morgan	5,696	537	23.16
3	Citicorp	525	141	10.13
4	Bankers Trust	2,240	355	15.54
5	NationsBank	642	88	7.38
6	BankAmerica	467	82	6.36
7	First Chicago NBD	899	157	11.18
8	Republic New York	998	91	5.63
9	Bank of New York	283	44	3.56
10	BankBoston	220	37	2.35
11	First Union	98	13	0.94
12	State Street	1,442	59	3.16
13	Norwest	79	14	1.10
14	Fleet Financial	41	8	0.71
15	Wells Fargo	31	4	0.57
	Top 7 bank companies	**$1,264**	**$220**	**$14.23**
	Top 25 bank companies	**792**	**130**	**8.94**
	All U.S. banks	**468**	**62**	**5.27**

Sources: Office of the Comptroller of the Currency, company reports.

TABLE 4

Concentration of derivatives exposure

Rank	Bank	Derivatives (trillions $)	% of all derivatives
1	Chase Manhattan	$7.90	30.8%
2	J.P. Morgan	6.24	24.3%
3	Citicorp	3.04	11.8%
4	Bankers Trust	2.18	8.5%
5	NationsBank	1.79	7.0%
6	BankAmerica	1.64	6.4%
7	First Chicago	1.27	4.9%
8	Republic New York	0.33	1.3%
9	Bank of New York	0.22	0.8%
10	BankBoston	0.16	0.6%

Sources: Office of the Comptroller of the Currency, EIR.

TABLE 5

Maturities of U.S. bank derivatives exposures

(trillions $)

	< 1 year		1-5 years		> 5 years	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Interest rate	$ 5.211	43%	$5.133	43%	$1.735	14%
Forex	5.483	89%	0.516	8%	0.143	2%
Gold	0.0441	73%	0.0136	22%	0.0031	5%
Precious metals	0.0047	89%	0.0006	11%	0.0000	0%
Other commodities	0.0298	71%	0.0106	25%	0.0016	4%
Equity	0.0771	65%	0.0391	33%	0.0026	2%
Totals	**$10.850**	**59%**	**$5.713**	**31%**	**$1.885**	**10%**

Source: Office of the Comptroller of the Currency.

TABLE 6

Asian and Pacific stock markets, 1997

(percent change over year)

	U.S. dollars	Local currency
Thailand	–76%	–56%
Malaysia	–70%	–54%
Philippines	–62%	–43%
South Korea	–69%	–37%
Indonesia	–63%	–35%
Singapore	–38%	–25%
Hong Kong	–25%	–25%
Japan	–26%	–17%
New Zealand	–18%	– 1%
Australia	–10%	+ 9%
Taiwan	– 5%	+13%

Source: Dow Jones & Co., *Wall Street Journal.*

TABLE 7

Ibero-American stock markets, 1997

Country	Index	Yearly change	Drop from peak
Argentina	Buenos Aires Merval	+ 6%	–21%
Brazil	São Paulo Bovespa	+45%	–25%
Chile	Santiago IPSA	+13%	–14%
Mexico	Mexico City IPC	+56%	– 3%

Sources: Dow Jones & Co., *Wall Street Journal;* EIR.