Soft Loans Lock In Banks as Oil Projects Sink

by David Goldman

July 22 (IPS) — Over the last week it occurred to the Rockefeller banking network that it is in a liquidity crisis, the way it might occur to a bug that he is in a bottle. Gone are the boasts that the New York banks could ingest a full $2 billion in flimsy debt-paper which the city's Municipal Assistance Corporation hopes to have issued by September. Gone, also, is the murderous, complacent tone bankers used to describe the "political climate" they would impose to enforce payment of debt-service on $140 billion in Third World obligations.

What the bankers now see dimly, drawing on their previous encounters with such problems, is that the entire $5 trillion debt structure now turns on the marginal hundred million of current debt-service income. This is no exaggeration: close to half of banks' loan-books are plugged holes. To the extent that bank lending is pure debt roll-over (re-financing), to municipalities, bankrupt firms like Lockheed and W.T. Grant's, or bled-white underdeveloped countries, the banks are fully "locked in" to paper assets that cannot convert into cash in case of emergency. The last loan default on the order of magnitude of a few hundreds of millions of dollars, a seeming pittance next to the $600 billion holdings of U.S. banks, which cannot be re-financed, is the one that forces the panic liquidation of the masses of paper assets, and brings down the credit structure as a whole.

By last September, one consultant says, 30 per cent of U.S. banks' loans were "soft," i.e., doubtful of collection. Since then, the source adds, "they have had to put so much more money into these areas that they are totally locked in." "Soft" loans are now between 40 and 50 per cent of bank assets. Bankers complain that the corporations who have paid off their loans, such as the oil companies, are ones who were most liquid in the first place.

Without exception, the fields of major cash deployment by the Rockefeller banking system since the 1973 oil hoax have turned to mud into which new money sinks without a trace. This applies with a vengeance to development project spinoffs from the oil hoax. Britain's North Sea oil operation, the floor model for "Project Independence" swindles worldwide, is suddenly on the rocks. Its core, the Ninian Field of British Petroleum, now produces one-quarter of its projected output of crude for 1975. In other offshore fields, a sudden drop in investment flow has thrown production schedules back indefinitely.

But the high-interest Eurodollar loans which backrolled the projects still demand interest and amortization every six months. In turn, funds allocated for capital expenditures in backlogged projects find their way into the debt-service account, and new money coming in is eaten up by old debt flowing out. The suddenness of this "flip" in the North Sea projects from an earning enterprise to a re-financing sinkhole is largely due to the fact that the expected revenues of the North Sea projects had been pegged to Britain's servicing of $14 billion in external debts in the first place!

Among other development areas which, one year ago, were the pride of the Rockefeller empire — including Brazil, Mexico, and Argentina — incoming Eurodollar "project loans" now function almost exclusively to cover short-term financial needs on these countries' debt accounts.

The irony here is that such transfers of funds from the "capital" budget of Rockefeller projects to the "operating" budget, i.e., debt payments, is the same procedure which, the banks claim, has pushed New York City to the brink of default!

June 30 marked the point of no return for the Rockefeller financial network, the point at which banks could not extricate themselves from short-term loans on the international markets going into default around that payments date. The $30 billion worth of short-term credits to underdeveloped countries, the main kicker in the international liquidity crisis, are "evergreen loans," according to an officer at Chase Manhattan, that is, loans which must be renewed at each payment period.

What the banks viewed as their best assets, high-interest loans to the Third World and 9 per cent-plus bonds from Big MAC, are now their worst problems. Banks rely, as the market commonly recognizes, on "high-earning assets" of this type to cover for non-earning assets piling up in their portfolios. These loans take their extra margin from state-enforced primitive accumulation against the debtor economy; in the case of New York City, MAC's tax-free bonds yield the banks a rate of return equal to 25 per cent on taxable investments.

But — precisely because they depend upon an enforced "political climate" — these loans are entirely illiquid. In this respect they are identical to the blocked (untradeable) "Mefo-bills" which Nazi Finance Minister Hjalmar Schacht issued to German banks during the 1930s.

Meantime, banks are wary of anything but the very short side of the lending market, fearing new defaults on all fronts. Chase Manhattan must have several billions of dollars available on a call-money basis to meet the eventuality of short-term loan defaults from one of twenty underdeveloped countries, hundreds of bankrupt realtors, and, worst of all, New York City itself. Senior bank officers interviewed today on the prospect of a New York City bankruptcy went white at the mention of this subject.

Every penny that the short-term debt crisis has drained out of Western Europe since June 30 has gone into the one-to-seven day side of the Eurodollar market, the most speculative financial mechanism in world history. According to banking sources, banks are actively discouraging borrowers from taking out 30 day loans, preferring to "limit their exposure" to loans which can be called on three hour notice! This is enforced, bankers say, through interest rates 3-and-one-half per cent higher on the longer side of the short-term market. Compare this to the imbecilic myth that the improvement of the dollar's value on international money markets is based on confidence in the U.S. economy—none of this money changed into dollars has left London and Frankfurt.

The banks cannot re-finance their sinkhole loans. They also cannot get out. They can do nothing but sit back and wait for the end.

All of the Rockefeller political muscle is in jeopardy; it relies on a political-patronage machine worldwide which is either superimposed on or identical to the debt structure. Greece, for example, is seeking half a billion dollars in loans this year; one banker admitted, "Greece has no economy and nothing to export, but that's not the main consideration—it's the southern flank of NATO!"

Where will the money come from? Chase can strip its German accounts, and leave its German allies to burn in oil; sacrifice its remaining flunkeys in the underdeveloped sector, such as Brazil; call in some of Japan's $12 billion in foreign short-term debt; or exercise any number of similar options. Democratic party hack Mayor Beame, in the thick of the assault on New York City, has fewer patronage problems than his controller, David Rockefeller.