Banking by Kathy Wolfe

The threat to regional banking

The British and Soviets are driving down world commodity prices and bankrupting clients of U.S. regional banks.

The severe deflation of world commodity prices touched off by British and Soviet dumping of oil and gold last summer and fall now threatens the entire U.S. regional banking system. As U.S. farmers, oil producers, mines, metal smelters, and real estate companies go under, their bankers, the backbone of the United States, are in mortal danger.

It was the Queen's British Petroleum and the Soviet state oil companies—and London, Swiss, and Russian banks—who brought down the prices of oil and gold, their own commodities. By taking some losses, they have caused far greater, perhaps terminal, losses among U.S. and Third World producers of not only oil and metals, but all basic raw materials and commodities. Worse, the deflation kept the dollar strong, allowing the economic war to proceed against America while President Reagan foolishly equates a strong dollar with a strong economy.

By March or April, *EIR* expects a rash of small and medium-sized bank failures due to collapse of the more than $215 billion in U.S. farm debt as well as the U.S. oil and real estate sectors—as in the Continental Illinois model, while the New York megabanks used accounting fiction to cover both their own and Conti's bad foreign debts, Continental was brought down by the weight of its U.S. farm and oil producer debt alone.

This same massive price deflation has given a fat cash infusion to the Big 10 New York banks because it allowed Federal Reserve Chairman Volcker to lower his interest charges to them. While large banks' cost of funds fell by 3-4% during the fourth quarter, they kept their own loan prices high, and pocketed the difference.

As a result, the large banks, which are not strongly hooked into the bankrupt productive domestic economy, are now in a cash-rich position to buy up the thousands of regional banks about to go under.

If a debt crisis also erupts in Mexico, Venezuela, and other Third World oil producers, then the entire banking system is in jeopardy.

According to emergency farm credit hearings convened by Sen. John Melcher (D-Mont.) Jan. 30 in Washington, the severe drop in farm commodity prices has caused banks to simply stop lending to farmers. "Without credit now, they [farmers] are out of business," he said.

Several of the witnesses suggested that at least 20% of farmers and ranchers will not be able to get credit. That means 450,000 farmers and ranchers will be out of work and faced with the loss of homes and land."

As a result, bankruptcies are "escalating" among America's 4,100 farm banks, Independent Bankers Association of America (IBAA) President John King told the hearings. "There were 79 bank failures in 1984, forty of which since June 15. Four which failed prior to June 15 were agricultural banks; 22 since June 15 were agricultural banks."

Two more farm banks were declared insolvent Feb. 7 by the Comptroller of the Currency, bringing the 1985 total to five farm banks and nine banks as a whole.

The only way to deal with U.S. farm debt is a debt moratorium, coupled with a $200 billion extension of gold-backed U.S. notes by the Treasury, bypassing the usurious Federal Reserve. A moratorium by itself, pushed by leftist-populist groups close to the Soviet agents in the U.S. Green Party, would bankrupt local banks, letting Swiss, British, and New York giants buy them up cheap. The big banks would then have farmers cornered. But gold-backed credit could be loaned by the Treasury via local banks to farmers at 2-4%, keeping banks and farmers both afloat.

Unfortunately, the Melcher hearings only came up with plans for triage of farmers and farm banks, plans that pretend to ameliorate the crisis, but simply let it proceed. The hearing endorsed a plan by Minnesota's Communicating for Agriculture (CA) group to give bandaid loans of small amounts at only slightly lower interest rates to farmers with some equity and cash flow to pay additional debt service.

EIR farm experts estimate that at least 10% of U.S. farmers would fold up immediately under the plan because they have no cash or equity. These most-indebted farmers' debt, about $50 billion (25% of the total) is already at a 70% debt-to-equity ratio, well below CA's standards. Perhaps a full one-third of U.S. farmers might fail to qualify.

The IBAA's King proposed an even more insane plan, to improve farmers' prices by "mandatory production controls . . . for restraining production of wheat, corn, and other basic farm commodities to prevent overrunning demand." Certainly, if farm debt is not reorganized, production will collapse quite voluntarily.

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