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Merger mania: bankrupt on the British model

by John Hoefle

Were the *Titanic* to hit the iceberg today, the Wall Street propaganda machine would probably describe its descent into the depths as a "merger with the ocean floor." Financial pundits far and wide would tout this "merger" as a positive development, and the stock market would no doubt rise sharply at this further evidence of economic strength.

Which brings us to the subject of bank mergers and the rapid consolidation of the banking sector.

Let's start with the merger of Chemical Banking Corp. and Chase Manhattan Corp. The April 1 combination of the $183 billion in assets Chemical with the $121 billion Chase has created the largest bank in the United States. The new Chase Manhattan Corp., as it will be known even though Chemical bought Chase, has some $300 billion in assets, compared to Citicorp's $257 billion and BankAmerica's $232 billion.

According to a company press release, issued on April Fools' Day, "The new Chase starts life with $20 billion in shareholders' equity, ranking it fourth in the world among banks in terms of equity capital, and has a market capitalization of approximately $32 billion."

Very clever. Thanks to modern accounting tricks, regulatory collusion and lies, two bankrupt banks have combined to create the fourth-healthiest bank in the world.

Or have they? In addition to its other problems, the new Chase will have some $4.7 trillion in derivatives, more than 25% of all derivatives held by U.S. banks, putting it firmly in the lead in that suicidal category.

In another April Fools' Day merger, Wells Fargo and Co. completed its hostile takeover of First Interstate Bancorp. First Interstate, with $58 billion in assets, was larger than the $50 billion Wells Fargo, but was unable to resist its advances. Even more interesting is the fact that Wells Fargo paid nearly $13 billion for First Interstate, or $3 billion more than Chemical paid for Chase, a bank with more than twice First Interstate's assets. Something, it would appear, is rotten in Denmark.

Contraction of the banking system

At the end of 1995, there were just 9,941 commercial banks left in the United States, the lowest number since 1895. Throughout the 1800s and early 1900s, the number of banks grew rapidly, providing the credit that was the lifeblood of a growing nation. Determined to choke off this expansion, the British and their agents on Wall Street—the Morgans, the Warburgs, and others—conspired to create the Federal Reserve in 1913. The Fed began to take its toll, and the number of banks peaked at 30,500 in 1921, then fell dramatically to some 14,000 during the Depression.

The number of banks remained in the 13,000-14,000 range until 1984, when, thanks to President Jimmy Carter's earlier deregulation and the Fed's high interest rates, a new shakeout began. The number of banks dropped below 13,000 in 1989, below 12,000 in 1991, below 11,000 in 1993, and broke the 10,000 barrier in 1995.

The result of this contraction has been to wipe out entire regional banking systems. All of the major Texas banks are gone, having either failed or been bought by outsiders. Both major Los Angeles banks, Security Pacific (bought by BankAmerica in 1991) and First Interstate, are gone. Both major Chicago banks, First Chicago (bought by NBD of Detroit in 1995) and Continental (bought by BankAmerica in 1994), are gone. New England has experienced a rapid consolidation, with the disappearance of the Bank of New England, the takeover of Shawmut by Hartford, which was then eaten by Fleet Financial, and the takeover of BayBanks by the Bank of Boston. The contraction has also hit New York City, where the

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Bank of New York took over Irving in 1988, and Chemical ate Manufacturers Hanover in 1991.

A similar shakeout hit the savings and loan system. The number of S&Ls peaked at 12,800 in 1927 and now barely tops 2,000. Many of these thrifts were taken over by commercial banks at rock-bottom prices, and now federal regulators and the bankers are conspiring to eliminate S&Ls completely, under the cover of regulatory reform and the need to rescue the Federal Deposit Insurance Corp.'s Savings Association Insurance Fund, the S&L equivalent of the Bank Insurance Fund.

This consolidation has, in large part, taken the form of the rise of so-called superregional banks such as NationsBank and First Union, both of Charlotte, North Carolina; Fleet of New England; Banc One of Ohio; and PNC of Pennsylvania. The nation's top banking centers, measured by bank headquarters, are now New York, San Francisco, and Charlotte.

Two aspects of this demand attention. First, were this consolidation occurring via New York-based banks, there would be a populist outcry; but the use of the superregionals enables a more discreet assault on national banking. Second, the process of establishing regional financial centers fits quite nicely with the stated plan of the British Empire to balkanize the United States.

Global crisis

These developments occur against the backdrop of a global financial collapse, in which the very power of the oligarchy is threatened. The danger is underlined in a new report by the Bank for International Settlements in Basel, Switzerland, based upon a BIS survey of the foreign exchange activities of 80 leading banks.

Presenting the report in London at the end of March, New York Federal Reserve President William J. McDonough stated that "the central banks are worried about the potential consequences of the present level of credit and liquidity risks for the whole financial system. A single case of insolvency could at present lead to a collapse of other banks and financial companies." He warned that "excessive and unnecessary risk is being taken by banks in foreign exchange." According to the report, the risks involved in foreign exchange transactions are much bigger than previously thought. During the collapse of Barings Bank, for example, the settlement of more than ECU 50 billion (about $70 billion) of payments among 45 different banks was threatened—even though Barings was involved in only about 1% of the total.

There are many additional flashpoints.

Japan, which has a functioning economy, but huge exposure thanks to its capitulation to the banking policies of Sir Henry Kissinger, saw its 21 top banks write off $100 billion in bad loans during the fiscal year ended March 31. That figure is just the tip of the iceberg. Last November, the Japanese Ministry of Finance revealed that Japanese banks had $720 billion in bad loans, having raised the figure from $145 billion in January and $500 billion in August. In an interview with the German daily *Die Welt* in March, Kenneth Courtis, the chief economist of Deutsche Bank Capital Markets in Tokyo, estimated that $250 billion of that $720 billion was "absolutely lost" and that some 40% of the remaining bad loans were gone, for "a total loss of $450 billion, about the whole GNP of Canada."

Japan experienced its second bank failure since World War II on March 29, with the collapse of Taiheiyo Bank, a relatively small regional bank in metropolitan Tokyo. Several large Japanese banks moved immediately to provide emergency credit to Taiheiyo—of which they were part-owners—to try to contain the damage. Last August, Kobe-based Hyogo Bank failed, and four credit unions have also failed in the last 18 months.

Meanwhile, the Bank of Tokyo and the Mitsubishi Bank completed their merger April 1, forming the Bank of Tokyo-Mitsubishi Ltd., the world's largest bank, with assets of 72 trillion yen, or $679 billion, an amount nearly equivalent to the GNP of China.

In Italy, the government was forced to bail out—for the second year in a row—the Banco di Napoli, one of that nation's oldest and largest banks, after the bank reported a 3.1 trillion lira ($2 billion) loss. The loss, the worst ever reported by an Italian bank, came after the bank wrote down 3 trillion liras in bad debts. The government agreed to extend to the bank an initial 1 trillion liras ($639 million) emergency treasury loan, and to underwrite an additional 1 trillion liras of capital increases. The agreement requires Banco di Napoli to initiate a range of austerity measures, including cutting labor costs and closing branches.

The bailout gives the government—which already owned a minority stake—control of Banco di Napoli, effectively nationalizing it. The government has asked other Italian banks to provide some 1.0 trillion to 1.5 trillion liras to the bailout package, but the banks are leery, since the emergency loans they provided in 1994 to supposedly resolve Banco di Napoli's problems once and for all, failed to do the job.

The situation is reminiscent of France, where the government has repeatedly intervened to bail out Crédit Lyonnais, France's largest bank, while the bank's condition continues to worsen.

Similarly, over the past several years, most of the major banks in Scandinavia have received government assistance.

In London, rumors abound that another top merchant bank is in dire straits. In 1995, Barings, one of the oldest merchant banks in the world, failed; S.G. Warburg was rescued by Swiss Bank Corp.; Kleinwort Benson was rescued by Dresdner Bank; and Smith New Court was rescued by Merrill Lynch. Lloyd's of London, the giant imperial insurance syndicate, was likewise propped up by an investment from American Insurance Group of New York.

A bailout is under way in the United States as well, where federal regulators have seized effective control of Bankers Trust, and are moving to unwind its derivatives portfolio.