Scramble for economic survival begins

by Anthony K. Wikrent

Ayn Rand free marketeer Alan Greenspan and the U.S. Federal Reserve delivered another jolt to the world's financial markets on April 18, raising the Federal Funds rate another quarter point. Coming after similar hikes on Feb. 4 and March 22, the rate at which banks lend to one another now stands at 3.75%. Long-term rates have risen even more than three-quarters of a percent; 30-year home mortgages, for example, were being quoted at 8.42% on April 18, up nearly twice the 0.75% increase in the Fed's short term rate, from 7.08% on Feb. 3.

In all the second-guessing of Greenspan and the Fed, one simple fact is being ignored: There is no rational economic justification for raising interest rates. Greenspan avers that the three interest rate increases in as many months are intended to ward off the specter of increasing inflation arising from a "booming economy" that might, just might, become overheated.

In fact, the U.S. economy is mired in a depression. Fed Governor Larry Lindsey, himself more hawkish against inflation than Greenspan, told the Baltimore chapter of the Commercial Finance Association in late March that the share of household income going to the elderly has risen from 7% in 1960 to over 16% in 1993, while the share going to the richest 1% of households increased from 9% to 13%. That means that those households that are most likely to use debt to finance consumption, particularly of cars and houses, have seen their share of national income fall from 84% to 71%. Thus, the average debt service burden for these households has actually increased from 18% to 23% of disposable income. More alarmingly, "In terms of total debt outstanding, the demographic adjustment raises the ratio of total debt outstanding to disposable income from 77% to 108%." In other words, for the first time ever, middle-class American households now have negative net financial worth. It is inconceivable under these circumstances that inflation can be much of a threat.

Well, then, if the Fed, as usual, is lying, and the reason for raising interest rates is *not* to combat inflation, perhaps those pundits who say that the Fed is trying to bring the speculative financial bubble under control are correct.

Again, the facts say otherwise. An estimated $2 trillion in paper values disappeared in the market turmoil of the first quarter. That's $1 trillion for each time the Fed raised the Fed Funds rate one-quarter percent. Entire institutions, even entire derivatives markets, have been obliterated (e.g., David Askin's $600 million hedge fund, and the market for collateralized mortgage obligations). Major industrial corporations, including Proctor and Gamble, Mead Co., Marion Merrell Dow, Gibson Greeting Cards, have announced that they lost millions of dollars on derivatives contracts, including some interest rate swaps sold by derivatives leader Bankers Trust. Orange County, California was forced to meet $140 million in margin calls when some derivatives in which it had invested went sour, and the county's treasurer says he is raising another $1 billion, suggesting that the losses are even worse. Suits have been filed against Askin, and some companies are contemplating legal action against Bankers Trust, resurrecting the bogeyman of political risk that the International Swap Dealers Association thought it had slayed last October.

Having thus been singed twice, how likely is it that Greenspan and the Fed would play with fire again?

Greenspan's moves are political

The fact is, Greenspan and the Fed are not raising interest rates for economic, or even financial reasons. The only way to understand the Fed's actions is to place them in the context of a systemic collapse of the world financial system. Focus on the scramble to pick up the pieces. "Greenspan is working politically to destabilize the Clinton administration, pure and simple," U.S. economist Lyndon LaRouche declared on April 20.

"We're now in the process of an inevitable, unstoppable collapse of the entire global financial and monetary system," LaRouche continued. "When the collapse will hit what some people might regard as bottom, is uncertain. What is certain, is that the collapse is going to continue. It will continue, not as a continuous slide, but through bumps and starts and bouncing-ball effects; but we're headed downward."

The problem, LaRouche explained, is that "most governments and establishments are clinically insane when it comes to monetary policy. There is an international financial collapse in progress, a monetary collapse. Everybody behind the scenes who is sane and intelligent, knows it. There is no disagreement. It's appeared in the French press repeatedly. People with whom I've discussed matters directly and indirectly who are in behind the scenes in finance, will all agree this is going on.

"However, the operators, the players in the market, are insane—like the neo-cons in the United States, the yuppies who are playing with their PCs in the market. They're fanatical—they admire Michael Milken, the criminal, as a folk-hero!

"Every government is filled with these kinds of nuts, who are influenced by these neo-cons. The establishment is filled with these nuts. The leading families that dominate the world with their family foundations—they're deteriorated, they're degenerated, they're decadent. They don't care about reality any more, so that on the level of establishments and governments, you have an absolute reluctance to face reality.

"We're in a countdown toward a fairly early financial collapse—that is, a breakdown collapse, not a market devaluation, we're already having that, but a breakdown collapse, where the whole system breaks down; and you have governments and establishments around the world which are not even willing to consider that possibility, even though all of us who are expert know that's coming.

"In that case, the problem is that governments are not prepared to deal with the collapse. We *can* deal with such a collapse. The U.S. government under Article I [of the Constitution] and other kinds of available resources, can control a collapse when it occurs, even the worst kind. We can get the country off its back; we can do it turning on a dime, we can get things moving, we can prevent pensions from being cut off and all that sort of thing. We can do that.

"But we have to be prepared to do it; because when the crisis hits, the U.S. government, in particular, must react quickly and must react with a very discrete set of measures which have no illusions built into them."

Will the U.S. assert its sovereignty?

LaRouche's reference to Article I of the Constitution, specifically Section 8, which mandates that Congress shall "coin money, regulate the Value thereof, and of foreign Coin," is the key to understanding Greenspan's attempt to destabilize the U.S. President. These powers of financial sovereignty have long been usurped by the nexus of banks and investment houses represented by Bankers Trust and by J.P. Morgan, Goldman Sachs and Salomon Brothers. Part of this usurpation involves the U.S. Federal Reserve, of which only the Board of Governors is an agency of the U.S. government. The 12 district Fed banks, including the all-important Federal Reserve Bank of New York, which conducts the "open market operations" used to establish interest rates (the "value" of money) are owned by the major banks of each region.

An even more important part of that usurpation is the foisting upon the United States the doctrine of "free trade" and "free markets." This has assumed monstrous proportions since then-Assistant Treasury Secretary Paul Volcker—now on the international advisory board of the Anglo-Canadian Hollinger Corp., which initiated and promotes the Whitewater scandal against Clinton—convinced Richard Nixon to deliver the *coup de grace* to the international system of fixed exchange rates by taking the dollar off the gold standard in 1971. Since then, governments around the world have sat on their hands while the J.P. Morgans and Bankers Trusts of the world have gleefully built up a whirlwind of global money speculation that now electronically flashes $1 trillion and more around the globe every day. An infinitesimally small amount of this is for actual trade of physical goods: the fertilizers, pumps, compressors, tractors, pipe, iron, ovens, and so on that the human race so desperately needs to halt the imminent starvation and death of over half its members, but which simply is not being produced because the prospective purchasers of such goods are not deemed creditworthy by the high priests of finance.

To save the world from the maelstrom of collapse of this financial hurricane requires, very simply, that the U.S. government reassert sovereign control over the financial affairs of its economy. That would mean that Bankers Trust would no longer be able to "create" complex financial derivatives to "help" hapless clients such as Proctor and Gamble "manage their risks."

The only other alternative is that the very financial institutions that have thrust humanity to the precipice, will determine what happens once the plunge reaches its bone-crushing end. Who will control what remains of the world economy after the crash? Will it be the monstrous conglomerations of money and financial power that have pretty much had it their way up till now? Or will it be nation-states, exercising sovereign control of financial and monetary processes on behalf of their citizens?

It is thus the institutions of the U.S. government, and the U.S. presidency in particular, that become the targets for those whose fortunes have been based on heaping speculative financial instruments ever higher on a world writhing in agony under the burden. They have now given us a measure of how desperate they are to maintain control over whatever process emerges from the ruins.