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Deregulation=theft: We told you so

by Harley Schlanger

On Oct. 4, the readers of the *Wall Street Journal* were informed about something that subscribers to *EIR* already know: that the commodities trade, and the trading of the so-called exotic instruments known as "derivatives," are rife with fraud, thanks to the deregulation policies and the loosening of enforcement measures of the Reagan-Bush years. In reality, the slogans of "free enterprise" and "get the government off our backs," so popular with much of the U.S. electorate in the 1980s, were used to justify dismantling the already-weak agencies designed to protect the investments, savings, and pensions of millions of Americans.

What the American people voted for was nothing less than an invitation to thieves to loot the U.S. economy. While the looters got rich, a debt bubble has ballooned. It has not popped yet only due to the asset-stripping of what remains of the productive economies of the so-called Third World and, increasingly, the advanced sector—asset-stripping which is required to maintain an income stream into bankrupt financial institutions. As the bubble's demands grow, there is less to loot, thus threatening the breakdown of the present monetary system.

Of course, the *Wall Street Journal* did not tell the real story! The *Journal* story focuses on a commodities trader in Illinois, Thomas Collins, who was trusted with more than $40 million from 500 investors. For over five years, while under investigation by enforcement agents of the Commodities Future Trading Corp. (CFTC), who were looking into minor tax violations, Collins ran a classic "Ponzi" scam involving derivatives. He bought futures contracts in which he bet on both sides, that the price would go up, and down. While telling his original investors they were making up to 50% on their investments, he was using funds from newer investors to keep the game going. He hid his losses by keeping two accounts. He transferred the profits into one account, while putting all the losses in the other.

On June 2, 1994, Collins disappeared, with his girlfriend—after cleaning out his bank accounts. The bankruptcy trustee told the *Journal* that the 500 or so investors "will get back only a tiny fraction of their investments."

CFTC officials say that this was a special case of a slick operator, "a case where people got seduced by this guy." But even the *Journal,* which has been campaigning for years to reduce enforcement to "free up the markets," had to admit that the failure in the Collins case was not an exception. Instead, "people familiar with the agency insist it isn't. At a time when the futures industry it regulates is growing explosively and is becoming more entwined with the controversial, ill-understood private derivatives market, the CFTC remains undermanned and beholden to the interests it is supposed to police."

Bush and the Gramms

It is no accident that the CFTC is incapable of monitoring the commodities markets and protecting against fraud. The Reagan administration was committed to deregulating the securities and commodities markets, and diminishing the enforcement powers of the regulatory agencies. It was George Bush who did the dirty work.

Bush chaired the President's Task Force on Regulatory Relief, a "blue-ribbon commission" assigned to "free" the markets. Bush described its role as "to eliminate or revise hundreds of unnecessary federal rules and regulations." The son of an investment banker and a close ally of Wall Street bluebloods, Bush knew what to do.

The first target was the Securities and Exchange Commission. Under chairman John Shad, the SEC was staffed with free market radicals from the University of Chicago. Guided by Milton Friedman's vision of completely unfettered markets, they shredded regulations imposed to protect investors. Among the beliefs of the Chicago School were that insider trading benefits the economy, and that anti-trust laws should be eliminated. Their actions opened the door to thieves and looters such as Michael Milken and Kohlberg Kravis Roberts, whose junk bonds and leveraged buyouts (LBOs) loaded the economy with debt and pumped up the debt bubble, while snatching assets from savings and loans, pension funds, and insurance companies.

When the junk bond/LBO bubble burst after the $26 billion RJR-Nabisco LBO, the Chicago School trained its sights on the commodities markets. Bush appointed Wendy Gramm to chair the CFTC in 1989. Gramm, wife of free trade windbag Sen. Phil Gramm (R) of Texas, did a hatchet job on the CFTC, deregulating all phases of the commodities business, with two immediate effects. First, derivatives trading, which had played a minor role before deregulation, less than $4 trillion in 1989, exploded to more than $20 trillion today. Secondly, as the *Wall Street Journal* story on Collins shows, CFTC enforcement did not expand to keep up with market growth, as its agents were forced to operate on a budget of around $12 million per year!

Phil Gramm is not done yet. In the congressional session which just ended, Gramm personally killed a bill designed to provide funds to hire more staff to examine the credentials of the more than 20,000 people licensed as investment advisers entrusted with the savings of the American people. Despite a unanimous vote in the House, and support of the mutual fund industry, Gramm defeated the measure. His spokesman justified his action saying, "The SEC has tons of money for that purpose."

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