

## Bankers push deregulation, attempt to save their hides

by John Hoefle

With fires blazing all over the global monetary and financial system, and the imminent threat of a reverse-leverage disintegration of the \$100 trillion derivatives market, the British-centered international financial oligarchy has launched an assault on national banking laws. By asserting the primacy of the “markets,” the oligarchs hope to prevent the United States and other nations from taking the steps necessary to protect themselves and their populations.

There are two broadly defined policies on the political table. The first, advocated by economist Lyndon LaRouche and his co-thinkers, is for sovereign nations to band together, put the financial bubble through the equivalent of a bankruptcy proceeding, and launch a series of world development projects. The opposing policy, that of the Club of the Isles financiers, is to use the crisis to smash the nation-states, and turn back the clock to the days when the empires ruled the world, and 95% of the population were serfs, or worse. Policies which weaken the abilities of governments to respond to the crisis, strengthen the oligarchy.

It is from that perspective, that the calls for “private market regulation” in the United States must be measured. Private regulation is a euphemism for deregulation, for dismantling laws designed to protect the public from manipulation by the oligarchs; it is the law of the jungle, where the strong eat the weak.

### Self-manipulation

One of the leading voices calling for deregulation, is Federal Reserve Chairman Alan Greenspan, who has made a number of speeches over the last few months, touting the supremacy of private regulation.

“It is most important to realize that no market is ever truly unregulated, in that the self-interest of participants generates

private market regulation,” Greenspan declared on April 12, in a speech to a “zero-based government” conference of the Association of Private Enterprise Education. “Thus, the real question is not whether a market should be regulated,” he continued. “Rather, it is whether government intervention strengthens or weakens private regulation, and at what cost. At worst, the introduction of government rules may actually weaken the effectiveness of regulation if government regulation is itself ineffective or, more importantly, undermines incentives for private market regulation. Regulation by government unavoidably involves some element of perverse incentives.” As “the most painful and obvious example” of such “perverse incentives,” Greenspan cited “the Federal safety net for banks.”

“As the history of American banking demonstrates,” Greenspan claimed, “private market regulation can be quite effective, provided that government does not get in its way. . . . As we move into a new century, the market-stabilizing private regulatory forces should gradually displace many cumbersome, increasingly ineffective government structures.”

Greenspan’s comments are an open call for the systematic dismantling of the U.S. regulatory structure, a structure which, as demonstrated by the derivatives bubble—in which a loss equivalent to less than 0.5% of their derivatives portfolios would instantly bankrupt a number of major U.S. banks, triggering a reverse-leverage collapse of the entire system—has already proven dangerously inadequate. The indications are, that many such losses have already occurred, but are being “papered over” for as long as possible.

What Greenspan advocates, is precisely the policy that Lyndon LaRouche compared to doctors working to save the disease, even if it kills the patient.

The imperial authorship of these demands was made clear in an editorial in the April 15 edition of the City of London's *Financial Times*, which endorsed Greenspan's comments, adding that the government safety net "poses a much greater threat to banking systems than derivatives will ever do." "Derivatives trading . . . has yet to confront central banks with a failure that poses a systemic threat," the editorial lied.

### **Freedom to loot**

This rush to deregulate was the subject of hearings held April 15-17, by the House Agriculture Committee's Subcommittee on Risk Management and Specialty Crops. The hearings were held to discuss H.R. 467, the Commodity Exchange Act (CEA) Amendments of 1997, sponsored by subcommittee chairman Thomas Ewing (R-Ill.). A key feature of Ewing's bill, is an "exemption" from the CEA for "transactions involving professional markets."

"Capital does not recognize national currencies or boundaries," testified Chicago Mercantile Exchange Chairman John Sandner, at the April 15 hearing. He proceeded to complain of the "burdensome" costs of protecting small investors. "Markets are encrusted with regulation that inhibits their usefulness to sophisticated institutions," Sandner insisted. Sandner was reiterating comments he had made on Feb. 11, in testimony before the Senate Agriculture Committee on S. 257, the Senate counterpart of H.R. 467. Sandner complained that the Commodity Futures Trading Commission (CFTC) "does not view its role to be an advocate for the business of U.S. futures industry interests in the world economy. Instead, the commission views its role as the insurer of some ideally perfect regulatory scheme."

Pushing the same line at the House hearing, was Chicago Board of Trade Chairman Patrick Arbor, who demanded that the derivatives exchanges "be freed from the regulatory micro-management they have come to endure," insisting that the "viability of U.S. futures exchanges is in serious jeopardy," due to "crippling regulatory costs," and "outmoded and flawed economic thinking."

Another nasty little problem with derivatives was raised by International Swaps and Derivatives Association board member Mark Haedicke, of Sir George Bush's Enron Corp. Haedicke complained of "legal uncertainties that continue to exist" in the off-exchange over the counter (OTC) derivatives market, since the CEA "flatly prohibits off-exchange futures contracts." "If certain swaps transactions were ever classified as 'futures contracts,'" he warned, "they would be illegal and unenforceable as a matter of law." That "is obviously unacceptable," Haedicke complained, demanding that Congress exempt swaps from the CEA.

Amidst the greed and assaults on national sovereignty, the testimony of CFTC Chairman Brooksley Born was a voice of sanity. Born warned that the "professional markets exemption" contained in the bill "could lead to widespread deregulation," which "would greatly restrict federal power to protect

against manipulation, fraud, financial instability and other dangers." This would "radically alter the regulatory system," and would "pose grave dangers to the public interest," she warned.

Born noted that, by the exchanges' own figures, exempting entities with \$1 million or more in net worth from federal oversight, would exempt nearly 90% of the trading volume on those exchanges.

"It is the large institutions which have the greatest power to hurt us all by their attempts at manipulation," Born warned.

### **Not forgotten, not forgiven**

A similar assault is under way in the banking world, signalled by the April 6 announcement that Bankers Trust New York Corp., is buying Baltimore-based Alex. Brown, Inc., an investment bank and broker, a deal which takes aim point-blank at the Glass-Steagall Act of 1933, which prohibits commercial banks from engaging in investment banking. It is the Glass-Steagall Act, passed to curb the criminal activities of the banks that contributed to the Great Depression, which forced the breakup of the British-allied House of Morgan, into the J.P. Morgan bank and the Morgan Stanley investment bank. The House of Morgan has neither forgotten, nor forgiven, and is leading the fight to abolish Glass-Steagall.

The Bankers Trust-Alex. Brown merger is a clear case of the regulators working in collusion with the international bankers to violate U.S. law. Bankers Trust, readers may recall, was de facto, if unofficially, taken over by federal regulators, in the wake of the 1994 scandals in which the bank was caught flagrantly cheating its derivatives customers. Deputy Treasury Secretary Frank Newman resigned his government post to join Bankers Trust as vice-chairman, then quickly took over the presidency and chairmanship, replacing officials who were either fired, or "retired." Greenspan's predecessor as Fed chairman, Paul Volcker, was also brought in as a director. The regulatory coup complete, the new management began unwinding the bank's derivatives deals, and settling with cheated customers.

The Federal Reserve helped clear the way for the deal, by raising to 25%, from 10%, the level of gross revenues the banks could earn from the underwriting activities of their "Section 20" securities affiliates. Over the past decade, the Fed has actively undermined the law, granting permission to some 30 U.S. and foreign banks to set up illegal securities affiliates.

The elimination of the Glass-Steagall barrier between commercial and investment banking is intended to pave the way for a rapid consolidation between the two sectors, similar to the consolidation already taking place among commercial banks, thereby increasing the dominance of a handful of institutions. But the new banks won't be too big to fail: They will be too broke to survive. Chase Manhattan, for example, now has \$336 billion in assets, but also has \$5.6 trillion in derivatives.