

Editorial

What the bankers wish to ignore

Committees of the U.S. Congress are currently conducting hearings on legislation designed to prevent supervision of the multitrillion-dollar derivatives trade. The Commodity Futures Trading Commission (CFTC), a regulatory agency, had suggested that it might conduct a review of the over-the-counter (OTC) derivatives market. Testifying before the House Banking Committee on July 17, top bankers exploded against any such idea. "What we're doing is illegal, and Congress had better change the law to protect us," was the gist of their argument.

When the Senate Agriculture, Nutrition and Forestry Committee held hearings on the matter on July 30, EIR submitted the following written testimony, prepared by banking columnist John Hoefle.

More important than the subject being discussed here today, is the subject which is not being discussed, but which nevertheless dominates the debate. The issue on the table, is not some arcane matter over jurisdiction, but something much more real: the ongoing collapse of the world's financial and monetary system. Like the proverbial 500-pound gorilla sitting in the corner, which everyone pretends to ignore, this financial firestorm has a palpable presence in the room. It, and not the Commodity Futures Trading Commission's Concept Release, is the real matter at hand.

The present system is dying. Entire nations are now sliding into oblivion, not despite the efforts of regulators and financiers to contain the crisis, but because of those efforts. The attempt to bail out Asia—actually, an attempt to bail out the international banks—through the International Monetary Fund, has only increased the instability, which has now spread to Russia and Ukraine, and will not stop there. Every such attempt to fix the system, only makes matters worse. This includes, emphatically, the nominal subject of today's hearing, namely, the attempt to protect the over-the-counter derivatives market from potential regulation by the Commodity Futures Trading Commission.

The near hysterical response by the derivatives dealers and the regulators to the mere suggestion that the CFTC might review the OTC derivatives market,

reflects a fear which borders on panic. That fear, that the crisis is out of control, is fully justified.

When a problem gets worse, resisting all efforts to resolve it, it is useful to examine the axioms upon which the failed solutions are based. Often, as in this case, the solutions being tried are not solutions at all, but instead, more of the same erroneous thinking which created the problem in the first place.

The testimony presented to this committee, and the testimony before the House Banking Committee on the same subject earlier this month, illustrates the ideological shortcomings of financial policymakers. Virtually every speaker at these hearings insists that the derivatives markets are essential to preserving the global financial system, and that Congress must take steps to preserve America's leadership in this vital area. Such claims are akin to a doctor claiming that a cancer must be protected, so that the patient might survive. Who would listen to such a doctor?

It is no secret that the financial crisis is spiralling out of control, and that extraordinary steps must be taken to prevent a catastrophe the likes of which no one alive has seen. The financiers would have us believe, that the only way we can weather the storm is by giving them *carte blanche* to do whatever they think they must, to save themselves: "What's good for J.P. Morgan, is good for the U.S.A.," they implicitly insist. But giving the financiers more power, is taking another dose of the poison which is already killing us. It hastens, not prevents, death. If we continue down that path, the financial system will fail, and it will take the world with it, into a new Dark Age.

What is necessary, is to admit the truth: The global financial system is bankrupt, filled to the brim with financial claims which can never be paid. What we must do, is use the power of the United States, to put the financial bubble through a bankruptcy proceeding, writing off all the unpayable claims, and reorganizing the system to rebuild the productive sector and protect the population. The issue, as the Declaration of Independence states, is that the welfare of the people is paramount. The money counts, only as a means to that end.