Greenspan's Bubble Can't Be Saved; The Economy Can

by Marcia Merry Baker

"Markets In Meltdown," was the headline used by the Sept. 23 London *Sunday Telegraph* to describe the financial events of "Week I," the Sept. 17-22 re-opening of Wall Street after the Sept. 11 assault on the United States. The point of the article, is that Federal Reserve Chairman Alan Greenspan et al. are using the terror events as the cover-up excuse for the origins of the current meltdown of the financial bubble, which Greenspan himself created in the first place. The characterization is accurate (see p. 7).

As of Week II, Greenspan remains in deliberations in Washington, pushing for intensification of the very same bubble-serving measures to "hold the line" in the meltdown. This is as insane as it seems to those watching in horror from abroad.

Only a trifle more insane is the campaign to yank the economy out of crisis by a forced march to "normalcy." On Sept. 25, Commerce Secretary Don Evans stood side by side with Mr. Marriott, from the Marriott hotel chain, to tell reporters, Americans must get beyond their fear of terrorism, and resume tourism. The "Uncle Sam Wants You To Shop" cartoon is for real. It is from Leesburg, Virginia, not far from Washington, D.C., and home to a 110-store outlet mall, fast becoming a ghost town.

On the financial side, the "Plunge Protection Team" agencies—the Federal Reserve, the Securities and Exchange Commission, the Commodity Futures Trading Commission, and others—are continuing with every trick in the book to jack up the markets. They are pouring in tens of billions of dollars in overnight cash and credits, and bending and breaking all the trading rules. At the time of the Sept. 28 expiration date for the Securities and Exchange Commission "temporary" lifting of trading prohibitions—such as company buybacks of their own stocks, or of mutual fund borrowings from associated banks—there was intense debate over how to continue to suspend the rules, despite the law.

On Sept. 26, Nasdaq stock market officials suspended the rules that set minimum share prices and market values for companies traded, through at least Jan. 2, 2002, in hopes of preventing hundreds from ending up de-listed due to drastic falls in value.

On the Federal bailout side, what's being readied is a so-called "stimulus" package, of some $100 billion of various kinds of Federal expenditures, intended to stimulate the economy after the Sept. 11 attacks. One basic problem, is that the authors of the package are operating on the presumption that something is still viable enough to stimulate!

In reality, the recent, terminal forms of the U.S. financial bubble (home mortgage debt, corporate bonds, derivatives, and so on) were already at the bursting point *prior to Sept. 11,* and taking the physical economy down with it. The U.S. economy, and the global economy, need to be restored; they are expiring. In the United States, the current spectacular wave of mass layoffs, insolvencies, and state and local budget blow-outs, while quickened by the Sept. 11 attacks, were impelled by the ongoing breakdown dynamics already under way. Internationally, whole nations were already in the throes of impossible-to-pay debt situations.

LaRouche: 'Worse Than A Depression'

"People must realize, that this is not a depression we are in, this is a breakdown crisis of the entire monetary and financial system worldwide," was the comment by 2004 Democratic Presidential pre-candidate Lyndon LaRouche, speaking on Sept. 25, the same day that a closed-door pow-wow, including Greenspan and Clinton Administration Treasury Secretary Robert Rubin, was held in the Senate Finance Committee. LaRouche said that the United States, like every other nation, is hopelessly bankrupt. The fact that the U.S. media won't


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OUR VIEW

Needed now

Consumer confidence and shopping

If you had planned to shop for fall clothes, it's time to do it. If you were thinking about a new car, it's time to buy it. If you need a new dishwasher, it's time to buy it. If you usually dine out a couple of time a week, it's time to go back to doing that.

It's what President Bush wants you to do. It's what the nation's and this region's economic leaders are telling you to do.

There is fear all around and with that comes staying home, staying close to those you love. But the country needs its economic systems to return to normal, and normal involves consumer spending.

There is good reason for consumers to spend wisely. This is not the time to be frivolous, but there is no reason to delay making purchases for things we need.

With soft buying, prices tend to be lower; wise consumers will buy now those commodities and goods that they will be needing now and in the

A cartoon in the Loudoun County, Virginia Times-Mirror, *sums up the attitude of the ludicrous Rohatyn-backed stimulus advocates. It's only going to make matters worse.*

admit it, does not make it any less true. So, if you try to act to save this hopelessly bankrupt system, LaRouche said, "We lose."

So far, the loser outlook is still prevalent in Washington, as the pow-wows, and the briefings to the White House and Congress, continue. As of late September, the Congressional Rules Committees were assigned to work on putting "stimulus" measures and amounts of allocations, into rush-legislative form, without recognition of the underlying erosion of the very economic base itself.

What's realistic and required, given the rapid collapse now under way, are the LaRouche proposals for a New Bretton Woods set of stabilizing international monetary arrangements, and for a Chapter 11 bankruptcy-style approach to saving national economies. In brief, this means simply to restructure unpayable debts, issue low-interest credits for priority functioning, and determine the scope and direction of restoring economic activity on a 10- to 20-year basis. This is dramatically what is required for the civil aviation sector, and nothing less; but also for all other sectors of manufacturing, agriculture, health care, and other vital services.

To be sure, there are voices in Congress being raised for putting self-evidently useful priorities into the "stimulus" hopper, for example, pumping money into the rail system. In the House of Representatives, Don Young (R-Ak.), chairman of the Transportation and Infrastructure Committee, has said that he plans to introduce legislation to provide $71 billion in tax-exempt bonds, loans, and loan guarantees to establish high-speed rail corridors nationwide. The lack of even a rail link between Alaska, Canada, and the lower 48 U.S. states, makes the point that there has been conspicuous underinvestment to date.

But for certain, any impulse toward economic improvements will be thwarted, if there is no recognition of the need to restructure out-of-control, unpayable debts, and mobilize to restore long-term functioning. Expenditures will just end up as part of the hyperinflationary spiral.

Rohatyn Is At It Again

One devious variant of this is financier spokesman Felix Rohatyn's call for government spending projects as an anti-economic depression action. Associated with the Lazard Frères financial house, Rohatyn is proposing that the Bush Administration launch a five-year, $250 billion public works program, in the name of dealing with the economic fall-out of the Sept. 11 attacks. In a guest editorial in the Sept. 25 *Wall Street Journal,* Rohatyn writes of "the country's strong fiscal condition," to argue that such a government-funded program could set the national economy back in order. Only a month ago, Rohatyn was writing about the desperate condition of the global financial and monetary superstructure, but now he has changed his tune.

Rohatyn's latest approach—and he ought to know, because he designed the infamous "Big MAC" bankers' bailout which looted the City of New York (1975-82)—deliberately retains intact all the bubble-based financial claims on the economy. **Figure 1** shows the wild dimensions of today's total U.S. debt (business, consumer, government) as a per-household ratio. From $58,311 per household in 1980, which was bad enough, the ratio zoomed up to $278,404 per household in the first quarter of this year.

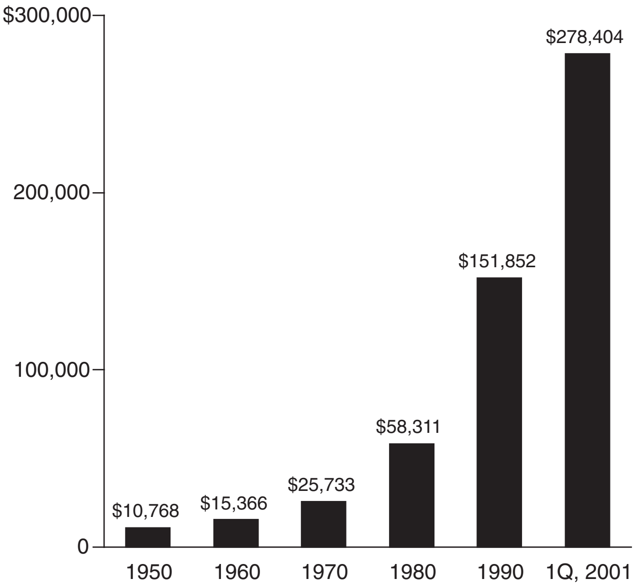
Rohatyn, by choosing to ignore this debt overhang, and related bubbles (especially derivatives), is knowingly backing the austerity, impoverishment, and chaos that will result from spending on selected government-backed public works projects—say, military build-up and transportation—and selectively ignoring all the rest. Rohatyn is not ignorant of the consequences; his record is clear.

Therefore, the interesting question about Rohatyn is, why would constituency leaders listen to him? True, he writes under headlines such as one on Sept. 25, "Rebuilding Can Revive The Economy." But the historical analogy for the Rohatyn approach is the 1930s German economic build-up under Finance Minister Hjalmar Schacht, under Hitler. He, too, called for spending, and for looting—to the death.

The direct historical counter-approach is that of President Franklin Delano Roosevelt, who acted to end the 1930s Great Depression. That tradition is what is behind the proposals and method of Lyndon LaRouche today. LaRouche's programs are circulating widely through the mass distribution of his

FIGURE 1

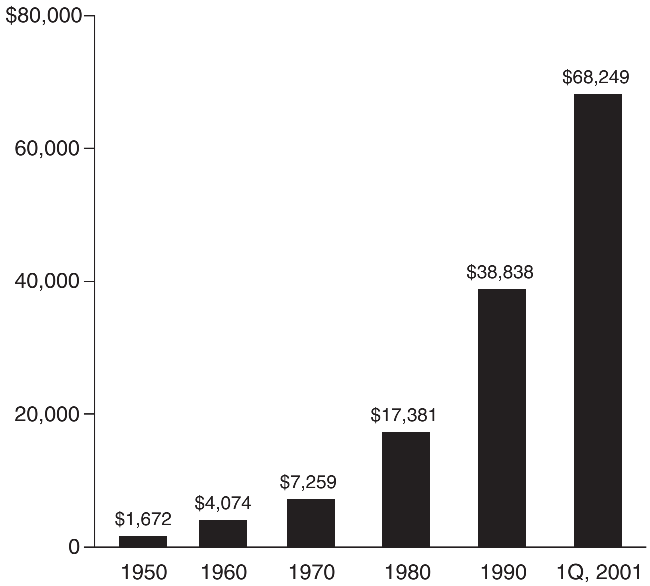
Total U.S. Debt, Per Household



Sources: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts"; Federal Deposit Insurance Corporation; U.S. Comptroller of the Currency; *EIR*.

FIGURE 2

U.S. Household Debt, Per Household



Sources: U.S. Federal Reserve Board of Governors, "Flow of Funds Accounts"; U.S. Department of Commerce; *EIR*.

campaign documents and on his website, www.larouchein2004.com.

Scope Of The U.S. Collapse

Economic contraction is now proceeding at a self-feeding rate. The commercial airlines industry is in the headlines for obvious reasons, but the economy-wide process is not defined by the Sept. 11 attacks. More than 1 million job cuts of all kinds had been announced between Summer 2000 and Summer 2001 already, and now the rate is even faster.

On Sept. 26, the Bureau of Labor Statistics (BLS) reported that in August, 1,474 firms laid off 50 or more workers each, the number which is considered to be a mass layoff. This is the largest number of mass layoffs for August since the BLS began keeping this series in 1995. It is also 96% greater than the mass layoffs of August 2000. There were 163,263 workers who lost their jobs in the mass layoffs in August 2001, which is up 68% from the 97,215 workers laid off this way in August 2000.

Even before September was over, there were already announcements of 122,000 pink slips in just the airline/aerospace industry, following Boeing's recent announcement of up to 30,000 layoffs. As well, there have been many other firings announced in the dot.com, telecommunications, auto, and other sectors, meaning that September will have a monstrous level of mass layoffs.

On Sept. 26, Delta Airlines announced 13,000 layoffs. Textron, maker of Bell helicopters and Cessna planes, will cut jobs; so will aviation giant Bombardier. Air Canada will cut jobs, scale back flights, and ground aircraft. The new Federal aviation aid law was passed on Sept. 21 and signed by President George Bush. But it does nothing to restructure debt, or restore and expand service.

The auto sector is reeling. On Sept. 26, General Motors announced the closing of a Quebec assembly plant, eliminating 1,000 jobs. It was announced in late September that U.S. auto sales in September were down 25% compared to a year earlier.

The global chip manufacturing sector is practically in free fall. On Sept. 26, Intel rival Advanced Micro Devices announced that it will shut down its two semiconductor plants in Austin, Texas, and globally will cut 2,300 jobs. Worse is the memory chip sub-sector. One of the four biggest producers in the world, Idaho-based Micron Technology, reported that it will post a $576 million loss this quarter, as its quarterly sales have plunged 79% compared to a year ago.

Asian electronics production centers are in severe crisis. In Taiwan, overseas orders were down in August by 17% from a year earlier, and semiconductor orders were down by 35%.

German memory chip producer Infineon, whose stock prices have fallen by another 60% in the last two months, put out a statement on Sept. 27 denying market rumors that it will go bankrupt this quarter or next.

Consumer Confidence Con Job

Even the crudest of official statistics and indices now coming out for August and September, document how the U.S. collapse process has been under way for months.

What about "consumer confidence"? Millions are now worried about their existence, not their shopping. The immediate background to this is shown in **Figure 2.** As of the first quarter this year, the United States had a per-household ratio of $68,249 in national household debt (all kinds), when in 1990 that figure was $38,838, and in 1980, $17,381. Now, households do not have the means to service this debt. The Labor Department report released on Sept. 27 said that jobless claims for the week ending Sept. 21 rose by 58,000, to 450,000, the highest level in nine years.

On Sept. 25, the private business research group, the Conference Board, released its September figures for U.S. consumer confidence, showing a much stronger fall than had been expected—and most of its Sept. 1-21 survey was conducted before the Sept. 11 attack.

The index measuring consumer confidence fell from 114.0 in August to 97.6 in September, the lowest level since January 1996. It was the biggest monthly drop of the index in 11 years.

Millions of consumers are among the 48% of U.S. households involved in the stock market directly or indirectly, and have watched as stock market valuations fell from $14.5 trillion in March 2000, to $9 trillion as of August. The events of Sept. 11 did not figure in this.

Tony Dye: 'Greenspan Is The Real Culprit'

On Sept. 23, British financial expert Tony Dye warned that Federal Reserve Chairman Alan Greenspan and friends are using the events of Sept. 11, to "cover" for their own responsibility, for the onrushing financial collapse. While Dye's criticisms of the bubble are strictly in market terms—not addressing the 30 years of policies which have destroyed the physical economy, or what should be done to solve the crisis—they are nevertheless useful.

For half a decade, Dye has been warning that the "bubble" created by Greenspan was becoming unsustainable. In the March 9, 1997 London *Sunday Telegraph,* he warned that the world was heading toward a "$55 trillion nightmare," because of the coming collapse of a world derivatives market with that estimated value (see *EIR,* March 28, 1997).

In recent years, Dye had come under vicious attack, as the global markets soared and his "bear market" forecasts apparently were not being borne out. Under such pressure, he had recently stepped down as head of Phillips & Drew Fund Management (PDFM).

But, on Sept. 23, twelve days after the Sept. 11 attacks, Neil Bennett, the *Sunday Telegraph* City Editor who had featured Dye's warnings back in March 1997, wrote a feature entitled "Markets In Meltdown," which asserted: "Tony Dye was right. He was the Dr. Doom of the stock market who . . . attracted scorn and disbelief, for his constant warnings of an impending stock market crash, in the past five years."

Dye told Bennett: "It is a shame it has happened this way, because the [Sept. 11] disaster will provide a bit of cover for the people who pushed the market up. Alan Greenspan is the real culprit who let this market get out of kilter. The disaster has only accelerated an inevitable process. . . .

"This bubble started to form in 1995. At that stage, it was minor, but by 2000, it was the biggest in history. The people who should have been worried were the financial regulators, but they merely exacerbated the problem."

Dye warned that "when bubbles burst, they do a lot of damage, because people make erroneous forecasts on erroneous market levels. . . . Bubbles create a lot of bad investment, and you have to get rid of it all and start again." Dye insisted that companies will suffer more in this downturn compared to previous ones, primarily because "there is going to be a big increase in bad debts now."

Market Collapse Accelerating

Bennett emphasized that the "cataclysmic week in world equity markets," the week of Sept. 17, was "the worst since the Depression in the 1930s." He said, "The fall in share prices has been accelerated, because some of the market's biggest investment groups have been selling. The U.S. mutual funds have been liquidating parts of their portfolios and increasing their cash reserves, in anticipation of a wave of redemptions from private investors. The general insurers and reinsurers, meanwhile, have also been selling to build up their cash reserves, to prepare for the flood of claims from the disaster that will soon hit them."

On Sept. 24, a senior City of London expert told *EIR,* "All sorts of techniques will be used, now, to kick the markets up. But I don't read too much into that. We're still headed for lower levels. Ordinarily, during a crash like this one, you would find money pouring back in, to buy up cheaper assets. But now, even as the crash deepens, values are so high, because Greenspan had so inflated prices, that that kind of buying is not going on."—*Mark J. Burdman*