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EIR Economics

On Dollar Crash: LaRouche Against Greenspan in Berlin

by Our Special Correspondent

An elite assemblage of some 300 persons—including top leaders of German and European finance, several ministers of the German government, many prominent politicians and members of the parliament, and representatives of the world financial press, gathered Jan. 13 at Berlin's Historical Museum for an anxiously-awaited address by U.S. Federal Reserve Chairman Alan Greenspan. In his speech, the "high priest" of Wall Street and the Anglo-American financial oligarchy demanded further, radical deregulation and globalization of the world financial system, as the only way to prevent a collapse of the present, monstrously ballooning U.S. trade deficit and debt bubble.

But Greenspan's proposals did not go uncontradicted, as a number of questioners in the audience poked holes in his arguments. Most prominent was Lyndon LaRouche advisor Jonathan Tennenbaum. In a substantial intervention, Dr. Tennenbaum characterized Greenspan's policies as incompetent and "totally opposite to the principles of the American System" as exemplified by Alexander Hamilton. He emphasized to the well-informed audience that the world is in the midst of "the collapse of the greatest financial bubble in modern history", prophesizing the end of the system of independent central banking and a revival of the American System of *national banking* under the leadership of LaRouche. Greenspan was obliged to make a lengthy answer, denying the well-established fact of a gigantic real estate bubble in the United States, and defending the use of financial derivatives contracts—now estimated to amount to five or more times the total world GDP—as a means for staving off a collapse of the banking system.

Outside the event, a spirited group of LaRouche Youth Movement Organizers and contacts held an impromptu demonstration.

Financial Imperialism

Greenspan's Berlin speech was devoted to the exploding U.S. trade and current account deficits, and the menace of an uncontrolled, all-out collapse of the dollar. With his typical "delphic" psychological detachment, Sir Alan said "With the seeming willingness of foreigners to hold progressively greater amounts of cross-border claims against U.S. residents [i.e. to maintain the large net capital flow into the United States], at what point do net claims against the United States become unsustainable?" He emphasized that financing the gigantic U.S. debt would never have been possible without the growing globalization of the world financial system. The latter made it possible to divert vast amounts of capital, from domestic sectors of other nations, into the U.S. financial markets.

Thus today, he argued, the answer to a threatening collapse of the dollar, is to unleash new rounds of radical deregulation of the world economy and financial markets, eliminating all remaining traces of the former protectionist, regulated economic system of the immediate postwar period. Especially Europe, he said, must give up what he charged was "residual resistance" to the unbridled "free trade, free-market capitalism", which he lyingly called the United States' tradition.

Implicitly refering to recent warnings by Robert Rubin and others—on the danger of an abrupt collapse of the dollar—Greenspan asked: "Can market forces incrementally defuse a worrisome buildup in a nation's current account deficit and net external debt, before a crisis more abruptly does so? The answer seems to lie with the degree of flexibility in both domestic and international markets. . . . Should globalization be allowed to proceed and thereby create an ever-more-flexible international financial system, history suggests that current imbalances will be defused with little disruption." That

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Sir Alan Greenspan in Berlin on Jan. 13, with German Chancellor Gerhard Schröder. He faced sharp questions about the dollar's huge "twin deficits," and a confrontation with LaRouche advisor Dr. Jonathan Tennenbaum.

Greenspan chose as his "opponent," U.S. first Treasury Secretary and founder of American System Alexander Hamilton—and lyingly presented his virulent anti-Hamiltonianism as "traditionally American."

"flexibility," Greenspan implied, must include an unlimited, hyperinflationary expansion of financial derivatives, and the elimination of all remaining arbitrary "adjustments" of the relative parities of national currencies. "If we can manage to get a *fully flexible system,*" he clarified in response to a journalist's question, "then we can resolve the problems of what is an inevitably expanding spread of deficits, and therefore accumulation of net liabilities by countries such as the United States. If however, we find we are going back to the types of rigid economies and rigid structures that have existed previously, then we risk (a crisis of confidence and dollar collapse)."

Greenspan's "full flexibility" means, in reality, a top-down global financial dictatorship by the private banking interests who control the Federal Reserve and the "independent" central banks of other countries.

Haunted by Protectionism' Ghost

While preaching "optimism" that the final victory of globalization would defuse all existing financial crises, Greenspan admitted to "one major caveat": "Some clouds of emerging protectionism have become increasingly visible on today's horizon. Over the years, protected interests have often endeavored to stop in its tracks the process of unsettling economic change. Pitted against the powerful forces of market competition, virtually all such efforts have failed. The costs of any new protectionist initiatives, in the context of wide current account imbalances, could significantly erode the flexibility of the global economy. Consequently, it is imperative that creeping protectionism be thwarted and reversed."

What is it that is giving Greenspan bad dreams? The growing influence of LaRouche's worldwide campaign for a "New Bretton Woods" reorganization of the world financial system? The emerging French-German alliance against the Maastricht Stability Pact? The recent turn of Russia's Putin to break the power of the "oligarchs"? The motion among Europe, Russia, China, India and other Asian countries to consolidate a Eurasian economic development alliance? No doubt, all of these things! The Fed Chairman lashed out especially against the Europeans. Both the developing countries and Europe "have accepted market capitalism in large part as the most effective means for creating material affluence," he said; "(Europe) does so, however, with residual misgivings. The differences between the United States and continental Europe were captured most clearly for me in a soliloquy attributed to a prominent European leader several years ago. He asked, 'What is the market? It is the law of the jungle, the law of nature. And what is civilization? It is the struggle against nature.'

Greenspan insisted, however, that it is the law of the jungle—"unbridled competition"—that has produced what he described as a virtually infinite growth of U.S. productivity. Unfortunately, he complained, "those that still harbor a visceral distaste for highly competitive market capitalism, doubtless gained adherents with the recent uncovering of much scandalous business behavior during the boom years of the 1990s." Indeed, the apparent U.S. "economic miracle" of the 1990s has been shown to have been a total illusion, based on massive manipulation of statistics, unprecedented bookkeeping fraud and a monstrous expansion of debt—for every dollar of GDP growth, overall indebtedness grew by 3 dollars!

'Can't Deny' Possible Collapse

"You mentioned globalization makes it easier to fund the U.S. deficit," asked Sir Alan's first questioner, a financial

Rubin Warns on Crash

Speaking to a Jan. 13 Brookings Institution conference on "Restoring Fiscal Sanity," former Treasury Secretary Robert Rubin emphasized that it is now necessary to highlight nonconventional effects of huge deficits, which could trigger a crisis far beyond the expected parameters, instead of the conventional effects which most economists look for. He warned that attempts to use "quantitative models" to predict whether or not there will be a crisis, will not work.

Rubin noted that "virtually all mainstream economists" believe "there is a significant relationship between long-term deficits and interest rates." Referring to a paper he recently presented at the American Economic Association meeting, he said it discussed "the conventional analysis of the effects of long-run deficits and then—recognizing that those conventional effects are indeed serious—went on to discuss the potential for exceeding those conventional effects."

In his Jan. 13 speech, Rubin recapped the conventional analysis of what budget deficits produce: to cover the deficits, government must borrow a large amount of capital from the credit markets, which crowds out private sector demands for capital, causing a downturn in the economy, etc. But then, focussing on "nonconventional effects," he added: "Beyond that, there are the effects that go beyond this conventional analysis; and in my judgment, at least, I think those effects have the potential of being far more serious, and far more severe, and should be far more troubling."

As the crisis develops, he said there could be a sharp increase in interest rates over and above the increase projected through conventional analysis. "I think there is also a risk . . . that the international markets could lose confidence in our currency because of our long-term fiscal regime, and also because of our large current account deficits." This can escalate, as the U.S. dollar drops, so that "the international markets will begin to demand [still] sharply higher interest rates in order to compensate for the risks—both currency risks and interest rate risks—that I've just mentioned." This can lead to the risk "that they will become reluctant to engage in the rollover of the very large amounts of U.S. dollar-denominated Treasury debt now held abroad. Further, this process could begin to undermine business and consumer confidence more generally.

"Furthermore, all of these effects *could happen together,* and any one of them individually could create serious additional problems over and above the conventional analysis. *Put them all together,* and you could have a very severe set of effects" (emphasis added).

Rubin then attacked those who would rely on quantitative models to disprove crises, or to say they will not be severe. "There are various models that attempt to quantify the conventional kinds of effects. I don't think there is any way to reasonably get at trying to quantify these nonconventional effects, and that, unfortunately, makes it much more difficult to convey them in a public domain and to create what I think would be a totally appropriate, terribly troubled public reaction—which in turn could help feed our political process. But in my judgment, there is no question that the risks are severe, and need to be taken with great seriousness."

journalist, "but actually the reverse is also true: Globalization also makes it easier to *sell* U.S. assets. Do you see the danger of a crisis of confidence or a dollar collapse?" A second questioner raised the issue of how the claimed spectacular "upswing" of the U.S. economy fit with the continuing growth of mass unemployment. A third questioner asked Greenspan to comment on the recent publicized statements by former Treasury Secretary O'Neill, which he declined to do. The fourth questioner was the notorious Graf Otto von Lambsdorff, former German economics minister (1977-1984) and one of the most vicious "free trade" ideologues in Germany; unwittingly, von Lambsdorff contributed to raising the spectre of a "LaRouche turn" in the United States. He demanded: "You have warned rightly against creeping protectionism. Now we have an election year in the U.S.. Can we really be optimistic that new protectionism will not come up? Especially if we see the new forces worldwide—globalized forces—against the free trade system?"

The shock, however, was delivered by LaRouche collaborator Tennenbaum, who followed Graf Lambsdorff. Introducing himself as an advisor to the U.S. Presidential candidate, Tennenbaum noted that Greenspan had entirely failed to address the crucial issue, the ongoing collapse of the entire global financial system. He pointed out that outstanding financial derivatives claims dwarf world GDP, and referenced the gigantic real estate bubble in the United States, and the implications of the behavior of leading U.S. financial institutions as revealed by the Parmalat affair. Tennenbaum challenged Greenspan to *prove* "that we are not in the midst of the collapse of the greatest financial bubble in modern history." And he noted that the economic development of the United States, in all its periods of healthy growth, was based on Hamiltonian principles "totally opposite to those you seem to represent."

"80% of the U.S. population do not see the great prosperity you talk about," Tennenbaum said. Rather, the tide is rising for a new Franklin Roosevelt to come on the scene. "Lyndon LaRouche has pledged to put an end to the system of independent central banking. You, Mr. Greenspan, will be the last chairman of an independent central bank in the United States. What do you say about that?"

Tennenbaum's remarks met with intense concentration from the audience, with applause from some, and enraged scowls from others. After a pause, Greenspan replied: "I can't deny the possibility that the whole system might collapse. You are raising issues which, to really get at the root of them, would probably take a hour or so, so I'll try to keep it short. It is certainly the case that credit derivatives have increased very substantially in the U.S. . . . They have been quite extraordinary in being able to take a very major potential problem in finance—and I will give you one specific example—and defuse what could have been the makings of what could have been a very major financial crisis."

Elaborating on the method of "solving" one bankrupt bubble by creating another much larger one, Greenspan let some cats out of the bag: "I refer to the fact that between 1998 and 2000, world-wide and in all currencies, the equivalent of $1 trillion of debt was taken out by the telecommunications industry, a significant part of which went into default. Had we had the type of financial system which we had in the earlier postwar period, with the rigidities you referred to, because banks are largely leveraged institutions, we would have had a very major collapse in banking. In the event, however, because credit derivatives moved the risks from banks who initiated the credits, to those far less leveraged institutions, which were insurance companies, reinsurance, pension funds etc. not a single major international financial institution was in trouble. These have been very major instruments for *smoothing out the system.*"

After flatly denying that there is a real estate bubble in the United States economy, the Fed Chairman concluded: "And you presume that as a consequence of all of these issues, that we are sitting on some massive financial bubble, which is going to blow up in our faces. You are not the only one who says that. . . .

"How do we know that the total system will not collapse? Well, the answer to that question . . . is that no one has the omniscience and certainty to say, without qualification, that you are wrong. I shall merely say that the evidence that most of us who evaluate the data with respect to trying to answer that question, have overwhelmingly come to the conclusion, that that is extraordinarily unlikely to happen."

Unfortunately for Greenspan, the questioner following Tennenbaum raised the issue of Argentina's debt default, which is actually only the tip of the iceberg. Sir Alan replied, "I wish you had not asked that question."

Can Argentina v. Vulture Funds Bring System Down?

by Cynthia R. Rush

It is with good reason that Federal Reserve Chairman Alan Greenspan found it distasteful to discuss Argentina, when asked about it during his Jan. 13 appearance in Berlin [see article above]. The Fed and its allies are panicked over Argentina's current brawl with creditors holding bonds on which the country defaulted in 2001—many of them the notorious "vulture funds." In the context of the deepening global financial crisis and dollar crash, this battle holds the potential to bring down the whole rotten International Monetary Fund system. Evidence of that panic was seen Jan. 14, when the New York Federal Reserve, the U.S. Treasury, and the New York Clearinghouse Association filed *amicus curiae* briefs on Argentina's behalf in the court of New York Federal judge Thomas Griesa. Bondholders, who reject Argentina's plan to restructure $99 billion in debt with a 75% writedown, are beseeching Griesa to allow them to seize Argentine assets worldwide, including bringing injunctions allowing them to block Argentina's payments to the IMF. The Fund is the only one of the country's creditors to have been faithfully paid in full, to the tune of $12.3 billion, since the December 2001 default.

There should be no "privileged" creditors, bondholders scream, demanding that Griesa make a liberal interpretation of the *pari passu* clause, according to which all creditors have equal standing. This would allow them to start embargoing any Argentine funds sent abroad—that is, to the IMF—as payment for what they say they are owed. Bondholders have already filed a series of legal suits against the Kirchner government, and are awaiting Jan. 31, the date on which Griesa may enforce execution of an October ruling by which vulture fund godfather Kenneth Dart was awarded $724 million on an initial $500 million investment in Argentine bonds, plus unpaid interest. Should Dart be allowed to collect, this would be the signal for a bondholder onslaught to seize Argentine government assets abroad.

But the international implications of any blocking of Argentina's payments to an IMF which is in de facto bankruptcy itself, was more than the Fed and Treasury wanted to contemplate. In its *amicus* brief, the New York Fed warned in urgent tones that, were Argentina prevented from paying multilateral lenders, this would disrupt the banks' payment systems, most particularly the "Fedwire" system of international payments and settlements, involving billions of dollars. "The availability of such injunctions would create uncertainty as to the fi-