EIR Economics

Alan Greenspan fairy-tale fails to lull markets

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Today, if he has any sense, Federal Reserve Chairman Alan Greenspan is as disappointed as the Tom Dewey who awoke one Wednesday morning, to discover that he had not been elected President of the United States, after all. It happened in the following way.

On a gloomy Monday morning, Oct. 27, the previous week's catastrophic sell-off in east Asia and European markets hit the United States stock-market with hurricane force. The stock market was shut down twice, in a futile effort to halt the collapse.

However, during late afternoon, and evening, Oct. 27, following the biggest wipe-out of stock-values in the history of the New York Stock Exchange (NYSE), panic-stricken "Big Blue"—International Business Machines (IBM)—led off the organizing of the biggest dog-and-pony show in U.S. stock-market history, to occur the following day, Tuesday.

During that Monday's evening hours, brokerage phone-banks around the country were calling through their customer lists, promising the biggest and best bargains in recent history, for those who could be lured into a stock-buying panic, next day. Meanwhile, the hysterical Federal Reserve System, ripped the faucets from the money-pipelines off for the day, flooding markets with tens of billions of dollars of credit from U.S. and western European financial sources, in addition to the sucker-money, in the biggest rigging of financial markets in history. By the end of Tuesday's wild trading, the NYSE index had recovered about two-thirds of what it had lost on Monday.

On Wednesday, Greenspan delivered a prepared, lulling, fairy-tale, as his testimony to the U.S. Congress. That day, however, Greenspan's "dead cat" would not bounce a second time. The NYSE barely eked out a cosmetic 8-point rise.

On Thursday morning, before the U.S. markets opened, the world markets plunged into a new round of collapse, more menacing than that which had panicked world markets on Monday. Whatever else may have happened on the New York Stock Exchange that day, the lesson was clear: the doomed international financial system was not inspired by the kind of pep-talk Alan Greenspan had spun to the U.S. Congress that day.

FEATURE

Who is rigging what?

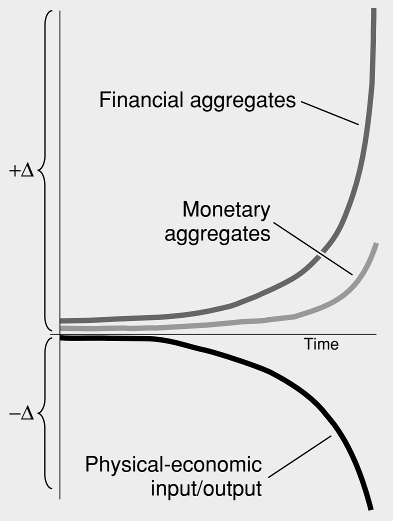
In part, like the Tuesday upturn on the New York Stock exchange, some features of the past two weeks developments were pre-rigged.

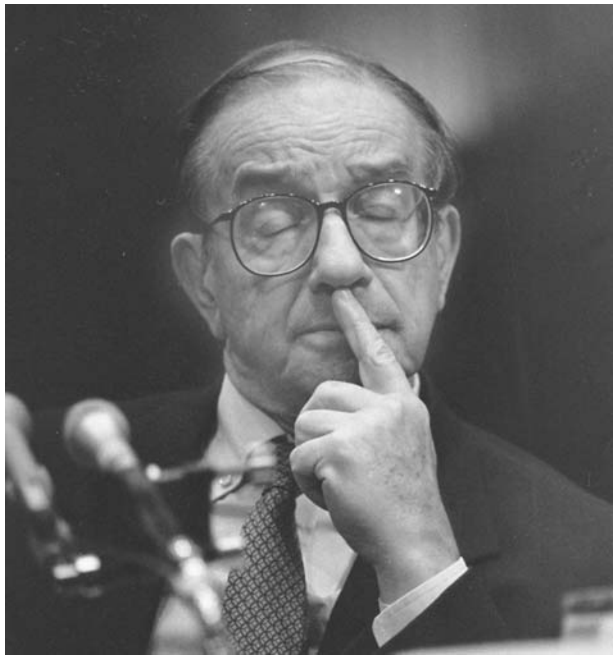
This does not mean that Alan Greenspan and his friends can prevent the international financial system from collapsing. One should think of the case of the expert swimmer who set out to swim across the Atlantic. If he starts from the Caribbean, he might be eaten by sharks; whereas, if he takes the northern route, he will probably die of exposure. In any case, he is not going to complete the journey. Similar things should be said of any schemes dreamed up by Alan Greenspan or people of his ilk.

The timing of the new shock-wave of collapse of the Hongkong market, which set off the chain-reaction hitting the U.S. stock-market on Monday, was also orchestrated. This shock-wave was also rigged, chiefly by European political and financier interests hostile to both China and the United

LaRouche's "Triple Curve" schematic shows why any effort to "save" the system by keeping the speculative bubble aloft, will only make things worse. To the far right: Federal Reserve Chairman Alan Greenspan.

FIGURE 1
A typical collapse function





States. They used the occasion President Jiang Zemin was out of China, to test their ability to panic the government in China into a strategic blunder. China's leadership calmly held its ground; therefore, it was the speculators who suffered the pain that day.

Nonetheless, whether anyone succeeds temporarily in rigging markets up, or down, on some particular day upcoming, the Earth will not leave its orbit, nor will the present international financial system survive the continuing series of major crises which will continue to wrack it. This crisis will continue, until, either the governments put that system out of its misery (by bankruptcy reorganization), or the world-wide system as a whole is simply allowed to disintegrate of its own accord.

The only practical questions are three: What should governments do? What is the appropriate timing for those actions? Who has the proven scientific authority for suggesting what the answers to those two questions might be? Since I am the only economist, or leading political figure of international rank, who has accurately forecast the nature of the new financial earthquakes now in progress globally, the responsibility for answering the first two questions is chiefly mine.

The methods which the U.S.A.'s European adversaries used on Tuesday, in concert with Alan Greenspan's Wall Street gang, can be compared fairly to the fireman who douses a fire with buckets of gasoline: they dampened the fire a bit, by greatly increasing its explosive potential.

As I have forecast the presently ongoing systemic crisis, repeatedly, since 1994: what is in progress, is the effect of the systematic destruction of the economy by waves of speculation based upon the principles of the gambling-house, "derivatives." It is best described by aid of the now rather widely known "Triple Curve" [**Figure 1**], which I first presented in written documents and a public address, delivered to two European conferences, at the close of 1995.

To understand how a global seismic financial crisis has been spreading, since the Thailand crisis of July 1997, from Asia, through Europe, into North and South America, we must go back to fundamental changes in direction of policy-shaping dating from the middle of the 1960s, to policy-changes which have continued to accelerate since the August 1971 dollar-crisis and the establishment of the "floating exchange-rate monetary system."

My "Triple Curve" represents the pattern of changes in rate of change of relations among physical economy, monetary circulation, and financial circulation, since the time of downward, 1966-1967 policy-changes in the U.S.A. Since that point, there has been a repeatedly accelerated shift of the ratio of monetary and financial aggregates, to physical production, per capita. This is echoed by the radically downward trend, since 1971, in ratio of trade to foreign-exchange turnover. We passed into the mid-1970s "petrodollar" scam, to the 1982-1988 "junk bond" scam, to the post-1987 "derivatives" scam. All the while, the production of monetary output supplied to support financial-bubble speculation, has been sustained by looting of past investments in maintaining infrastructure, agriculture, mining, manufacturing, and, especially, the machine-tool sector.

The mathematically modular nature of the functional relations depicted by that figure, is that the rate of rate of change in magnitudes is inherently of the form associated with hypergeometric curvature. For purposes of illustration, this is approximated by the indicated set of three interacting, hyperbolic curves (functions). This configuration defines a convergence of the entire, global economic-monetary-system, upon a boundary-layer condition. In this condition, any sort of "energy" supplied in the effort to sustain the continuation of that system, accelerates the self-induced rate of disintegration of underlying props of the system itself.

In the present situation, the magnitude of the short-term financial obligations attributable to the combined total of on-balance-sheet and off-balance-sheet "derivatives," approximates $100 trillions equivalent, of which about one-third sits on top of the U.S. financial system itself. In addition, there are tens of billions of short- to medium-term, speculative financial assets, such as grossly inflated, marginal gains in valuation of real-estate titles. The combined amount is several times larger than the entirety of the GDP of all world nations combined.

Sometimes, only a sufficiently great shock impels a society to rid itself of the influences which threaten its doom. At the most important turns in all known history, a shocking crisis is usually the only pathway to the possibility of practicable solution for a crisis.

Since the maintenance of the speculative financial values, is immediately premised on financial leverage, rather than direct values of produced output, the entire system represents a kind of global financial "chain-letter," all based upon a real economy which continues to be shrunk, and that at accelerating rates of austerity imposed to supply the looting upon which the maintenance of the "chain-letter" depends.

The result of such an arrangement, is inevitable. "Inevitable" is "about now."

Perhaps, for those who live in northern latitudes, it may be said, that the season for toboggan-rides is rapidly approaching.

What must be done?

What should be done about the collapse of the financial system? The answer is implicit in the celebrated utterance of one of those rare U.S. economists who is known for sanity. That senior U.S. economist once said: "It is only paper." That, implicitly, sums it up.

Number one: The governments must not attempt to bail out any investors in the fictitious assets of derivatives holdings, stock prices, or speculatively inflated real-estate values. Let the paper collapse to as low a price, and in as free a fall, as it may choose. The only necessary action of government on this account, is to provide state-controlled instrumentalities for ensuring that the process of writing off these fictitious financial values, functions in such a way as to protect people, productive enterprise, useful trade in hard commodities, and science-related services, from being injured by any of the falling debris from collapsing financial markets.

Number two: The credit and issued public Treasury debt of the national governments must be protected at all costs, otherwise the necessary, immediate launching of measures of economic recovery and growth would not be possible.

Number three: There must be no mass evictions, or breaks in continuity of operations of essential production and distribution of goods and essential services (merely because of even a catastrophic financial collapse). When the collapse, which Calvin Coolidge and Andrew Mellon had prepared, struck the Herbert Hoover administration, in the form of the 1929-1931 depression, terrible, mass-murderous blunders were imposed upon the Hoover administration by Andrew Mellon et al. This must not be repeated in any country.

Number four: The President of the United States—in this case, President Clinton, must act in concert with willing other governments, to put the existing, ruined, present international financial and monetary systems into bankruptcy, under terms of government receivership. At the same time, the same concert of nations of good will, must establish a new world monetary system among themselves as partners. With one principal exception, this must echo the highly successful, pre-1959 form of application of the Bretton Woods agreements. The exception, is the need to fill the vacuum created by the hopeless bankruptcy of the world's presently existing central banking systems. The model of the U.S. Constitution's provisions, and other relevant precedents, must be used to establish Hamilton-style national banking systems, to replace the hopelessly bankrupt central banking systems.

Number five: A global recovery program must be adopted, to foster immediate recovery in world hard-commodity trade, and to provide an urgently wanted general stimulant for the private economies of the participating nations.

Politically, of course, such measures require surefootedness and exceptional strength of nerve among the relevant world leaders. Waiting is the hardest part. Politically, heads of state can do what must be done, only in the circumstance that the crisis itself generates a popular demand for radical action by the executive branch of government. To introduce even needed radical actions of the type required, prematurely, could be politically fatal. Yet, to postpone such radical actions, because of Hamlet-like vacillation, at the critical juncture, would be assuredly fatal. One must hope that we find leaders with the intellectual and moral strength to act so, and, also, to prepare themselves and their collaborators to act appropriately with great pungency and force, at the moment the people's desperate pleas supply the political authority for the needed actions.

Who is making the mess?

Obviously, what must be done would not be tolerated by the majority among the relevant operating executives of financial institutions. One must not waste valuable efforts and time on the groundless presumption, that that portion of the financial establishment is capable of rational behavior.

There are four, closely interdependent reasons for the stupidity shown by the financial community in its transparently artificed "dog and pony show" on the U.S. financial markets this past Tuesday, and in Alan Greenspan's fairy-tale performance before the U.S. Congress this past Wednesday.

First, as in the case of the 1989 assassination of Germany's leading banker of the Hermann Abs tradition, Deutsche Bank's Alfred Herrhausen, the period since the middle of the 1980s has seen a chiefly disastrous change in the social composition of the top ranks of operating officers of leading financial and other relevant institutions of the private sector and government. The result, especially since the 1987 financial crisis, has been the takeover of the top and subordinate ranks of these institutions, by a younger generation of executives whose philosophy is that of a class which lacks the moral fitness to survive.

The second reason, is the ideological characteristics of the stratum which had come into these positions of power: "*Après nous, le déluge!*" This crisis brings us to the precipice, beyond which the world ends for what they represent. For them, the end of their way of life, creates a world in which there is no future for them: "*Après nous, le déluge!*"

What they have been taught, and otherwise conditioned to believe, represents a world which is about to cease to exist. Faced with the thought of such a future world, their minds go blank: "It could never happen!" they tell themselves, in utter hysteria. They will sacrifice anything, and almost everything, especially your pension, your children, in their increasingly desperate efforts to appease the Moloch whom they worship.

"You will see!" such pitiable wretches scream, shaking their fists, and putting a fiercely menacing expression on their faces. They add, "Very soon, the markets will come back, stronger than ever! You will see!"

Thirdly, this stratum has not the slightest idea how economies work. Those investors from the "Baby Boomer" and "X" generations simply never had adult experience of the kind of economic policy-thinking which ran the United States economy, on nearly every level, prior to the 1966-1972 brainwashing of the U.S. into accepting a "post-industrial" utopia in a world of "floating exchange-rates."

This is reenforced by a refusal to accept the plain evidence of an approximate halving of the per-capita levels of content of physical market-baskets of infrastructure, agriculture, manufacturing, municipalities and households, over the 1966-1996 interval. For them, the loss of vital industries, is explained away cheerfully by the argument that products imported from cheap-labor markets are advantageous to the U.S. consumer downgraded from well-paid industrial employment to the cruelly reduced income of a household each of whose wage-earners work two or more low-paid service jobs per week.

Fourth, as reflected in the philosophy departments of universities and community colleges, in the streets, and among those administrators and political figures who have adopted the reading of opinion polls as a substitute for thinking and morality: among such strata, the prevailing ideology of today is twofold.

In one aspect of this philosophy, they are as the cult of "political correctness" suggests: symbol-minded, radical nominalists, living in a "virtual reality" of linear computer models, not the real world. Theirs is a system of induced belief, in which each has his, or her own "relative truth," not shared by those who have a differing choice of "relative truth."

In the second aspect of their delusion-ridden mind-set, radical nominalism is coupled with the kind of existentialism associated with names of such philosophical fascists as Friedrich Nietzsche, Nazi philosopher Martin Heidegger, Heidegger's acolyte Jean-Paul Sartre, Sartre's fascist acolyte Frantz Fanon, and so on. Their personal outlook converges upon that of fascist novelist Hermann Hesse's ***Steppenwolf,*** the feral individual in a society which he hates. He is a feral individual in Nazi philosopher Heidegger's sense of "thrownness:" a person for whom society is an alien thing, an enemy like a dangerous beast, whose nature the individual can not change, which one can only hope to outmaneuver, to outwit.

Such currently influential, predominantly existentialist social strata within the system, know only how to dissimulate in face of "relative truths" contrary to their own, and, otherwise, to claw, to lie, to cheat, as the so-called "objectivist" philosophy of Ayn Rand (like George Soros) implicitly proposed.

How, then, shall we be rid of the controlling role of those irredeemable types presently dominating the decision-making of financial institutions, and of all too many related functions of government? That is the question which presently occupies the attention of the most senior ranks in the board rooms of leading banking institutions.

When the crisis strikes with sufficient force, the new generation's existentialists will be thrown aside, in the manner Heidegger's philosophy begs for such results. They will become visible in new social roles, a pathetic display of newly unemployed "has beens," best qualified for selling applecores in locations near Manhattan's Wall Street.

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