

tionary, and also distorts a host of economic metrics, such as GDP. This has the effect of turning collapse into apparent statistical growth.

A little over a year ago, Sir Alan publicly stated that the Fed would act as the lender of last resort to the financial markets, and that the American public would be called on to bail out the derivatives banks, if necessary; Bernanke echoed that by stating that the Fed could print unlimited amounts of money as needed. "If we choose to enjoy the advantages of a system of leveraged financial intermediaries, the burden of managing risk in the financial system will not lie with the private sector alone," Greenspan said in a Nov. 19, 2002, speech to the New York Council on Foreign Relations. "Leveraging always carries with it the remote possibility of a chain reaction, a cascading sequence of defaults that will culminate in a financial implosion if it proceeds unchecked. Only a central bank, with its unlimited power to create money, can with a high probability thwart such a process before it becomes destructive. Hence, central banks have, of necessity, been drawn into becoming lenders of last resort. . . . Thus, central banks are led to provide what essentially amounts to catastrophic financial insurance coverage."

That bailout policy still stands, as evidenced by a paper submitted to the AEA in 2004 by Bernanke and Fed Monetary Affairs director Vincent Reinhart. In that document, the pair said that even with interest rates at or near zero, the Fed still has plenty of room to intervene through such measures as an "unlimited commitment" to buy Treasury securities at a guaranteed price. The Fed could also "consider purchasing assets other than Treasury securities, such as corporate bonds or stocks or foreign government bonds." The prospect of the Fed using its "unlimited" supply of money to bail out the derivatives markets, the bond markets, and the stock markets at the same time—at an ultimate cost of hundreds of trillions of dollars—is perhaps the craziest economic scheme ever proposed. No amount of academic gloss can cover up the reality that these guys are truly nuts!

Out of Control

During LaRouche's Jan. 10 webcast, a former member of the President's Council of Economic Advisors commented to LaRouche that Rubin "clearly echoed what you've been saying," and cited Rubin's warning that the Administration's policy of driving down the dollar is not only incompetent, but catastrophic in a dollarized world. LaRouche responded that the Administration was driving down the dollar, but only in the sense that its policies are so bad that the world is losing confidence in America and its currency. Discovering the dollar is falling, the Administration attempted to claim it was instigating, rather than reacting to, that drop. LaRouche compared the White House policy on the dollar to a fellow driving a dilapidated car down the street, with one wheel after another falling off. The fellow insists that the car is actually cheaper to operate without wheels!

Reflect on the sharp discrepancy between those claims of

"recovery," the warnings of people like Robert Rubin, and the desperation of the Fed. If the economy is growing, why the warnings of catastrophe from people clearly in a position to know? If no catastrophe looms, why is the Fed openly promising a bailout?

Those are not the hard questions, however. Why do the American people tolerate this duplicity, and support elected officials and political candidates who refuse to touch this economic crisis? Has, as Schiller observed about an earlier period, a great time found a little people? If the American voters chose one of the nine dwarves over LaRouche, we shall have the answer.

Greenspan Confronted in Berlin

Before an elite gathering at the Bundesbank Lecture in Berlin on Jan. 13, Fed Chairman Alan Greenspan was confronted by LaRouche representative Dr. Jonathan Tennenbaum, who chided him for ignoring and abetting "the collapse of the greatest financial bubble in history." Said Tennenbaum: "You, Mr. Greenspan, will be the last chairman of an independent central bank in the United States. What do you say about that?" Sir Alan, taken aback, vehemently defended financial derivatives, but nevertheless was compelled to admit that he could not deny the possibility of a collapse.

Greenspan insisted that the use of credit derivatives "defuse[d] the makings of what could have been a very major financial crisis" in the meltdown of the telecommunications sector. Without them, he said, "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*. . . .

"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?" Greenspan said. "You are not the only one who says that. . . . How do we know that the total system will not collapse? Well . . . no one has the omniscience and certainty to say, without qualification, that you are wrong. I shall merely say 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."