Salomon scandal just part of financial collapse

by EIR Economics Staff

George Bush has been temporarily bailed out once again, as the Soviet coup captured the headlines which would otherwise have focused on the unraveling U.S. financial system. Had this dramatic turn of events not occurred, however, the Salomon Brothers scandal was on hand as a convenient scapegoat for the fracturing of the Anglo-American financial system under the strain of economic depression.

The number one primary government bond dealer, Salomon Brothers, Inc., was caught with its pants down manipulating the U.S. Treasury auction by secretly purchasing more than its allowed 35% share of a U.S. Treasury auction.

Salomon Brothers admitted that it had committed "irregularities and rule violations in connection with its submission of bids in certain auctions of Treasury securities." The firm also admitted that it had bought more of some Treasury issues than allowed by law, and admitted that it had submitted bids "on behalf of persons who had not authorized such bids."

That Salomon would voluntarily make these admissions is surprising. Even more surprising is that Salomon chairman John Gutfreund—the so-called "King of Wall Street"—resigned within the week, as did his two vice chairmen, Thomas Strauss and John Meriwether.

According to the *Wall Street Journal,* the government had set a trap for Salomon after other securities dealers and investors complained that Salomon was manipulating the market. After getting caught red-handed, the *Journal* said, the firm decided to admit its violations in public, allowing it to apply its own "spin control" before the government could act. Furious at this tactic, the story goes, Federal Reserve Bank of New York president Gerald Corrigan demanded—and got—the head of Gutfreund.

Salomon Brothers a convenient scapegoat

Such behavior may well defy Treasury regulations, and be reprehensible, but it is hardly unknown or even uncommon on Wall Street. For years, U.S. Treasury markets have been routinely manipulated and rigged. This past May, Salomon Brothers was bragging in public of manipulating the market in government debt. It was also public knowledge that the company was being investigated by the U.S. Treasury Department, the Securities and Exchange Commission, and the Federal Reserve. The cited agencies, involved in disputes with Congress, and each other, over how to regulate the market in government debt, could not agree on how to proceed.

Nor is it exactly news that such crimes have been committed routinely, over at least the past 10 years, in the more than $2 trillion annual market in government debt, and which is now at the astronomical figure of $35 trillion a year.

In fact, the scandal itself is relatively old news, which actually broke in July of last year. It was then that the *Wall Street Journal* headlined its column on the credit markets: "Unfillable Bids Flood Auction of 7-Year Notes." In May, the *Washington Post* revived the story under the headline on the first page of the business section, "Fed Studies Possible Squeeze on Sale of Treasury Securities."

What is news is that these outfits are no longer capable of handling the huge volume of debt, about $500 billion every three months, which the federal government now seeks to finance, or refinance. Failure of the U.S. government's last quarterly debt auction, during the first and second weeks of August, when nearly $40 billion of federal debt was expected to be financed, has helped unleash a major crisis on Wall Street. The crisis is part of the developing international potential for an unparalleled financial and monetary earthquake, perhaps to erupt sometime this fall.

With the United States government facing a projected \$362 billion deficit for fiscal 1992, according to the latest figures from the Congressional Budget Office, the Treasury will need to sell some \$2 trillion in securities—counting both new issues and "roll overs" of maturing securities—in fiscal 1992, which begins Oct. 1 of this year.

Police-state methods

The administration, flexing its police-state powers through the Treasury, the Securities and Exchange Commission (SEC), the Department of Justice, and the Federal Reserve, has launched a sweeping investigation of the government securities dealers.

In the third week of August, the SEC launched a formal investigation of all 40 primary securities dealers, the firms which sell government securities. In a letter to the dealers, the SEC asked for any documents which relate to "the submission of false bids at any auction for U.S. Treasury securities or any parking or similar arrangements." The SEC is also seeking any information that customers at any of the dealers had submitted bids for any single Treasury auction at a single yield level that would exceed the 35% maximum, and whether any of the dealers have maintained "overstated, excessive or inaccurate information" in their records. Given the predilection of the investment banks to break the law, such investigations are a serious threat indeed.

Beyond Salomon Brothers, the list of primary dealers subpoenaed by the Securities and Exchange Commission over illegalities and irregularities in the trading of government bonds includes investment houses such as Goldman Sachs, Merrill Lynch, and Morgan Stanley, as well as a collection of the country's largest commercial banks. Nothing like this has ever happened to the Wall Street Mecca of finance, not even in the days when New York U.S. Attorney Rudolph Giuliani's goons descended on Goldman Sachs and hauled away operatives from the trading floor in handcuffs.

Bush's financial reorganization

The simple fact is that the U.S. federal deficit is defying all attempts to control it under the prevailing assumptions of policy.

To keep the escalating cost of Treasury borrowing down, and to provide badly needed liquidity for the big banks, the administration must dramatically lower interest rates. Bush may be trying to diminish the clout of the Wall Street investment houses, in order to ram through some new reorganization.

The government's debt financing requirements are growing astronomically, because the depression-driven economic collapse is wiping out the tax revenue base, even as the demands for debt service are increasing. Now, government financing is added to the insolvency of the insurance companies and commercial banks. Without a change in policy, all the subpoenas in the world will not be able to stop what is being unleashed.

The same forces of breakdown of the physical economy are at work undermining the "successes" of Bush's foreign policy, as attested by the Art-B scandal in Poland, the attempted coup in Moscow, and the out-of-control conflict in what used to be Yugoslavia.

Kissinger crony moves in

Taking Gutfreund's place at Salomon is Warren Buffett, the billionaire chairman of Berkshire Hathaway of Omaha, Nebraska. Upon taking the job, Buffett immediately promised Treasury Secretary Nicholas Brady that he would make sure Salomon obeyed the law.

Buffett is hardly a stranger at Salomon, however, as he owns 16% of the company. Buffett and his vice chairman at Berkshire Hathaway, Charles Munger, both sit on the Salomon board.

Salomon is not the only company Buffett has rescued lately, either. Within the last month, he agreed to invest \$300 million in the troubled American Express, and raised his stake in Wells Fargo, the troubled California bank, to 22% from 9.7%. On top of that, Citicorp Chairman John Reed is reportedly seeking financial help from Buffett.

Where does Buffett get the money to bail out all these sick institutions? one asks. And why would this supposedly cautious investor be willing to risk such enormous sums?

The answer is that Buffett, like most of the so-called self-made billionaires, is really a front for more powerful financial interests who prefer to keep their involvement secret.

One of the primary promoters of this "Wizard of Omaha" is Wall Street investment banker John Train, a key player in the "bankers' CIA" and an organizer of the "Get LaRouche" task force, which has used its power in the government to put the main political critic of these vultures' economic policy, behind bars. Train wrote two books, *The Money Masters* and *Midas Touch,* praising Buffett and promoting his career, a technique often used by the "bankers' CIA" crowd to promote their assets. Buffett is also well-connected in Washington intelligence circles, counting among his friends the notorious Henry Kissinger.

Warren Buffett helped create the Franklin Credit Union in Omaha. Franklin chairman Lawrence E. King, a Republican Party influential, was implicated in money laundering related to the Iran-Contra affair, and is presently serving a 15-year sentence for defrauding his credit union.

Even darker are the links of Buffett, through King, to a pedophile scandal in Omaha, a scandal involving reports of ritual satanic murders of children. Two European magazines, *Avvenimenti* of Italy and *Pronto* of Spain, have printed exposés alleging that King runs a national child prostitution ring that serviced the political and business elite of both the Democratic and Republican parties.