

## Behind Alan Greenspan's obfuscations on Japan

by Chris White

We did tell you he was a follower of the mystical cultist, the Russian-originated Ayn Rand. Some objected: whether their objections applied to the Russian part, or the mystical-cultist part, it doesn't really matter. Perhaps the objectors ought to take another look at the man they defended, who is, at present, the chairman of the Federal Reserve Board, Alan Greenspan, after the testimony he gave to the Senate Committee on Banking, Housing, and Urban Affairs, on April 17.

This appearance was the occasion for Greenspan to utter his weighted opinions on the situation which has recently developed in Japan, together with the possible implications for, and effect on, the United States. Televised media, dominated by shrinking "sound-byte" characterizations, have obscured the fact that the sound-byte most often quoted to characterize Greenspan's testimony. Here it is, quoted in full: "In my judgment the impact on the United States from Japanese stock price changes to date are likely to be limited." This is actually the very last sentence of 12 pages of testimony.

The chairman's grammar is awful: The word "impact," the subject of the sentence, is singular, but its verb, starting with the auxiliary "are," is cast in the plural. His punctuation also leaves something to be desired: Not only ought there to be a comma after "judgment," but properly, "to date," ought also to be set within commas.

The two words, "to date," after all, do nullify the entirety of the chairman's testimony, and would thus merit the emphasis the addition of the necessary commas would lend. The same formulation, even more hedged, can be found on page 3, to wit, "The Japanese stock market decline does not appear to have had important spillover effects on U.S. financial markets to date." Here, it is not only the present and future

which are left an open question, as they are in the concluding sentence of the testimony. Greenspan's "to date" formula also leaves the continuing effect of events which have already happened under a contingent question mark, raised by the use of the verb "appear."

### Is it the Bush-team line?

Is this the legacy of Greenspan's days as a consultant with Townsend and Greenspan? Is it the added constraint of a team member following the Bush league's election year gameplan? Nothing should be done, or give the appearance of being done, which might contradict the master's requirement that there be a recovery, so-called, in the second half of the year. Or is it the continuing influence of Ayn Rand's irrationalist brew? The Senate will not have to dig a hole in the floor of the committee room, and hang a tripod over it, as seat for the Delphic oracle, the next time Greenspan appears, for conclusions to be drawn about that.

It is very unusual, if not almost unprecedented, for the chairman of the Federal Reserve board to be called up to Capitol Hill in Washington to give testimony on developments in another country. Of course, the Fed chairmen do, and have testified on such matters as, "the debt crisis," or "trade" questions, which often enough raise questions about the countries involved. In this case, the sole purpose of the testimony was to make known what Greenspan thinks about the ongoing collapse of the Japanese equity markets.

### 'We have no idea'

Though such might be considered unwarranted interference in the internal affairs of another sovereign country, especially given the existence of Salomon Brothers' notori-

ous report on the vulnerabilities of Japan's banks to a slide, or collapse of their stock value, it is the caveats introduced into the testimony which make the occasion absolutely astounding. For Greenspan's use of the hedge formula "to date," reduces the testimony to a statement which could be translated into the simple English, "We do not have any idea what the effects of what has happened will be. Nor do we know for sure if there have already been spillover effects."

One can only imagine what was going through the minds of the senators who were present to hear the words which were to be uttered, just as one can also only imagine the effect of a news sound-byte, "Fed Chairman Greenspan tells Senate he has no idea what's going on," on the markets which take their cues from the spillover of the Fed chief's lips.

It is not credible, is it? Neither on the formal level, nor on the level of what was actually conveyed. Here's the biggest market development since Black Monday 1987.

Contrary to the actual content, the words Greenspan employed conveyed the impression that the developments which resulted in the collapse of the Japanese stock market are a purely local affair. "A correction of the bubble in asset prices that was causing distortions to the Japanese economy with some spillover effects on the rest of the world," was his most concise formulation.

### **A silk purse from a sow's ear**

Accompanying testimony by Richard Breen, the head of the Securities and Exchange Commission, took this view more than one step further, arguing that the "correction" was actually beneficial for the United States, because it would mean more open Japanese markets, a less competitive Japan, and greater opportunities to lend to Japanese banks and corporations.

This is all obviously total nonsense and obfuscation, which is, of course, affirmed to be such by the very hedges and qualifiers with which Greenspan supplemented his remarks. A longtime cash cow for the U.S. banks, the Japanese stock market has fallen by 50% since its high was reached at the end of 1989. Half of the fall has been registered this year, and it has recently accelerated. But the collapse in Japan takes place at the same time that Olympia & York, the largest real estate company in the western world, is headed on a course which will lead it into the bankruptcy courts, and when property markets are collapsing throughout the Anglo-American world. It is actually no wonder that Greenspan did not want to say anything either meaningful, or substantial.

As he ought to know full well, the question at issue is not the local effect of deflating Japan's super-bloated real estate bubble, but the matter of the collapse of the combined U.S. bubble of bloated real estate, usuriously expanded indebtedness, and speculation.

Since James Baker won Japan's agreement to strengthen the yen against the dollar, to the ostensible effect of promoting U.S. exports, in the accords finalized at New York City's

Plaza Hotel in 1986, Japan's surpluses have been employed as an adjunct to funds secured against the international drug trade, in underwriting the development of a bubble economy inside the United States.

### **Japan propped up U.S. real estate bubble**

Additionally, speculative increases in Japanese real estate values have also provided increases in collateral for various dubious financial operations conducted as part of the 1980s' buyout looting of a corporate America. In one known example, part of the financing for the Carlyle Group's takeover of Northwest Orient was provided by Bankers' Trust, against the collateral of a certain piece of Tokyo real estate, which had fallen into American hands during the postwar occupation period. Valued at next to nothing after the war, the parcel of land was put up to back \$650 million worth of the airline takeover.

Despite usually reliable reports that a sizable portion of the funds invested in U.S. real estate during the last years in the name of Japan is actually the realization of so-called capital gains taken out of inflated real estate holdings accumulated by Americans, and others, in Japan, during the immediate postwar period, the degree to which Japan's internal real estate bubble was assimilated as a further massive margin to collateralize the extension of credit within the United States remains undetermined.

Such practices make a mockery out of Greenspan's purely "local" presentation. For it is not simply a matter of the actual monies Japan has recently deployed into the U.S., for purchases of real estate, and government debt. Also involved is the extent to which credit, and obligations have been assumed inside the United States on the basis of the security of unrealized capital gains within Japan.

But none of this has anything to do with the main issue, which is the cultist irrationalism of Greenspan's refusal to say, one way or the other, what he thinks is going on, and what its effects will be. As the caveats imply, he does know, there is no doubt about that. All he's got left, like so many around him, is the hope that it doesn't mean what he knows full well it does mean.

Japan, whether its government pricked the bubble or not, is in a financial collapse and economic contraction, precisely because it has functioned as an adjunct of the collapsing British and U.S. economy and financial system. It is the collapse of Britain and the United States which is driving the collapse in Japan, and it is to the United States and Britain that the collapse will return, no matter how much money Salomon Brothers induces western and Japanese banks to pull out of Tokyo's markets.

Greenspan's hedging ought to be taken as a prime indicator of the degenerate imbecility which has seized all those supposedly responsible for what's going on. It ought also to be taken as an indicator of just how deep the crisis has become which he and his like so insanely refuse to face.