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Greenspan presides over LTC disaster

by Richard Freeman

The collapse of the Long Term Capital Management (LTC) hedge fund, has triggered hysterical behavior on the part of U.S. Federal Reserve Board Chairman Alan Greenspan and the leadership of the Federal Reserve Bank of New York, who have muscled 14 banks to pony up a $3.6 billion cash infusion into LTC in an attempt to prevent the entire world's derivatives market and banking system from melting down. This marks the thorough discrediting of Greenspan, who has lied over the years, especially since the December 1994 derivatives debacle of Orange County, California, that "derivatives are not a problem," but "useful and necessary instruments" of the information age economy.

Now, Greenspan and his allies, with the LTC calamity far from over, and fearing that many other potential derivatives disasters are "still out there" in the world markets, are pursuing a reckless, 1920-23 Weimar-Germany-style hyperinflationary course. On Sept. 29, the Federal Reserve Board, under Greenspan's leadership, cut the federal funds rate by 0.25%, to 5.25%, opening the floodgates to pumping new liquidity into the financial system.

As Greenspan perceives the rules of the game, either he does nothing, and the financial system will collapse through a derivatives-triggered chain-reaction meltdown, or he injects vast amounts of liquidity, which would "hold the structure up" in the short term, but will actually bring it down through hyperinflation soon thereafter.

Replacing this system with a rational bankruptcy reorganization and a return to Hamiltonian national banking, is not an option for Greenspan. He has staked his reputation, and spent the last 11 years as Federal Reserve Board chairman, and three decades before that as a banker and consultant, in building up this speculation-laced, derivatives-larded financial bubble. This financial system is *his* financial system, and he will do everything he can to preserve it, even though it is bankrupt beyond rescue. Greenspan is readying to apply ferocious austerity in an attempt to loot the additional margins of wealth needed to keep the bubble afloat.

We present the history of Greenspan's continued support of the derivatives market, his attempt to cover up the bankruptcy of the system (now out in the open), and his record of austerity measures, including looting Social Security through privatizing it, to prop up the bubble.

Greenspan defends Soros

In August 1997, in response to fierce hedge-fund attacks on the Asian currencies, including the Thai baht, Malaysian ringgit, and Indonesian rupiah, led by the British Commonwealth's foremost speculator, George Soros and his Quantum Fund, Malaysian Prime Minister Dr. Mahathir bin Mohamad called Soros a "moron," and warned that there were plans afoot for the "financial recolonization of Malaysia." At the time, Greenspan was attending the annual meeting of bankers and economists sponsored by the Federal Reserve Bank of Kansas City in Jackson Hole, Wyoming. According to the Sept. 2, 1997 German business daily *Handelsblatt,* Greenspan took time out from the meeting to "lash out at Mahathir," in defense of Soros and the speculators. Greenspan called Mahathir's charges "baseless and absurd accusations," and insisted that Malaysia and other Asian economies are responsible for the currency crises. Greenspan's outburst against Mahathir, reflects the eruption of Greenspan's deeply held axiomatic beliefs in irrationalism, speculative looting, and hatred of the American System of political economy and the nation-state.

Alan Greenspan was born in New York City in 1926. During the late 1940s and early 1950s, he became an acolyte in the cult of Russian expatriate and fascist Ayn Ryan. Rand argued that any form of state intervention, especially regulation, would suppress the individual. She called her philosophy "Objectivism," and assembled around her an inner circle of disciples, called "The Collective." Among them was Greenspan, whom Rand dubbed "the undertaker." Greenspan commented on the pre-publication drafts of her books, wrote for the cult's newspaper, and taught for a decade at the Objectivist school. Rand taught that the individual must give free rein to his or her nihilistic-irrationalist rage, as well as to free trade and usury. In Rand's book, *The Fountainhead,* the protagonist Howard Roark, in a famous court scene, states: "This country was not based on selfless service. . . . It was based on man's right to the pursuit of happiness. His own happiness. Not anyone else's."

Greenspan told Rand's biographer, Barbara Branden, that her Hobbesian system was "the only system consistent with political freedom. . . . A whole new view of society was opened up to me." When Greenspan was sworn in, in 1974, as the head of President Richard Nixon's Council of Economic Advisers, Rand was seated in the front row. Greenspan has remained faithful to Rand's philosophy to this day.

For much of the period from 1954 through 1987, Greenspan was a partner, and then the head of Townsend-Greenspan, a consulting firm to New York City's financial community. From 1977 to 1987, Greenspan was a member of the board of directors of both Morgan Guaranty Trust, and its parent company, J.P. Morgan. Morgan is the top British intelligence operation in the banking community.

In August 1987, Greenspan was appointed as chairman of the Federal Reserve Board.

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Greenspan has long been an advocate of the deregulation of the U.S. banking system, and supported the 1982 deregulation of the U.S. banking system. This deregulation led in short order to the savings and loan disaster, and the commercial bank financial disaster, in particular in the real estate market, from the middle 1980s into the early 1990s. In fact, in 1991-92, when Citibank, then America's largest bank, and other money center banks, such as Manufacturer's Hanover, Chemical Bank, and Bank of America, were about to go under, Fed Chairman Greenspan personally organized the operation, by which the discount rate was lowered. Through seven rate cuts, rates eventually dropped to 3.0%, so that the commercial banks could borrow at the Federal Reserve's discount window at 3.0%, and then turn around and invest this money in U.S. Treasury bonds paying 3 to 4 percentage points higher. The Fed poured in billions of dollars, in effect subsidizing the big commercial banks, which were engaged in all sorts of speculation, because the banks were dubbed "too big to fail."

In June of this year, Greenspan vigorously supported H.R. 10, which would further deregulate the banking system by eliminating the last protective features of the 1930s McFadden and Glass-Steagall Acts: It would allow banks to set up and/or buy banks across state lines, and it would allow commercial banks, investment banks, and insurance companies to commingle and merge, and sell insurance, take deposits, and buy and sell securities as financial supermarkets.

Greenspan's actions flow from his belief in transforming the United States away from a manufacturing-agriculture-infrastructure-vectored economy, based on capital-intensive, energy-intensive development, into a deregulated, globalized information age economy. Financial services, led by derivatives, stock speculation, etc., are the main feature. In an Oct. 14, 1997 address to the libertarian Cato Institute in Washington, D.C., Greenspan said that physical economic production plays a far less important role "in the creation of wealth," than the combined weight of "processing of information" and "financial services."

'Derivatives Liberation Front'

Greenspan has discouraged with an unbridled ferocity any attempt to bring derivatives under regulation or to impede their growth, and has done everything within his power to support, provide liquidity for, and give preference to the growth of derivatives. The power of the Federal Reserve, both in monetary-credit policy, and also in the realm of regulatory-supervisory power, is immense. Any decision by the Fed to block the growth of derivatives, using the full arsenal of weapons at its disposal, would have meant that they would exist only at a fraction of their current cancerous size, or would not exist at all.

- In 1992, at the time that the Federal Reserve Board had Citibank under effective receivership, according to knowledgeable sources, Citibank made large loans to Soros's Quantum Fund, providing the money for Soros to attack the Italian lira and the British pound. There were more than 100 Federal Reserve supervisors and/or auditors stationed in key departments in Citibank. Citibank could not make loans of any significant size without the approval of the Fed. Thus, Citibank's large loans to Soros had to have been approved by the Fed, all the way up to and including Greenspan, because of Citibank's importance.
- In a Feb. 21, 1997 speech to the Financial Markets Conference of the Federal Reserve Bank of Atlanta, in Coral Gables, Florida, Greenspan derided government regulation of derivatives, saying that banks should be allowed to continue their practice of "self-supervising." Greenspan said, "If private market regulation is effective, then government regulation is at best unnecessary. At worst, the introduction of government regulation may actually weaken the effectiveness of regulation. . . . More likely, it will prove unnecessary, burdensome, and perhaps even contrary to what more careful consideration would reveal to be the underlying objectives." Greenspan further warned: "In the case of the institutional off-exchange derivatives markets [such as those traded by LTC], it seems abundantly clear that private market regulation is quite effectively and efficiently achieving what have been identified as the public policy objectives of government regulation. . . . Thus, there appears to be no need for government regulation of . . . derivative transactions between institutional counterparties."

In practice, over the last several years, Greenspan has ridden roughshod over anyone who would regulate derivatives. In the summer of 1997, the Financial Accounting Standards Board (FASB), an independent accounting board, proposed that derivatives contracts be reported on balance sheet, at current market value, which would simply tell investors how much derivatives liability a company held; Greenspan wrote three letters to the FASB and Congress attacking the FASB, saying that derivatives should be kept off-balance-sheet. In his third letter, released July 31, 1997, Greenspan stated, "The FASB proposal may discourage prudent risk management activities and in some cases could present misleading financial information"! The letter was signed, he claimed, by the heads of 22 "major companies in a number of industries that use derivatives [and] have expressed serious concerns about the FASB's proposed rules changes." The 22 corporate leaders were mostly the heads of banks.

The House Banking Committee, under Rep. James Leach (R-Iowa), held hearings on the FASB proposal, which threatened the FASB not to make the changes. Greenspan was a featured speaker at the hearings.

In May 1998, Greenspan attacked the proposal by Commodity Futures Trading Commission head Brookesly Born, for a CFTC investigation into the risks of over-the-counter (OTC) derivatives (which are traded by banks and hedge funds), while he worked with his cronies in Congress to set

up hearings to thwart the CFTC investigation.

In fact, every time an attempt has been made to rein in derivatives, even in a small way, Greenspan has acted to run interference for derivatives.

When Greenspan took over as head of the U.S. Federal Reserve in August 1987, the size of U.S. holdings of derivatives was approximately $3 trillion. Under his nurturing, today, counting derivatives holdings by U.S. commercial banks, investment banks, and other U.S. corporations, America's holdings of derivatives is *$40 trillion*. This should be appropriately labelled the Greenspan derivatives bubble.

Slashing living standards

The derivatives bubble, like a cancer, requires the most ferocious austerity to suck out wealth from plant and equipment of factories and from living standards of the population, to transfer to the account of the bubble.

Greenspan has made repeated attacks on living standards. For example, in Oct. 8, 1997 testimony to the House Budget Committee, he went after Social Security. He lied that the reason the Social Security trust fund is having problems, is because benefits are too high (in reality, whatever problems the trust fund will have, are because of the collapse of the U.S. physical economy). He stated that benefits need to be reduced, and that people should work longer before they could retire and receive Social Security benefits. He laid out a formula, which he said would help solve the Social Security situation, arguing that, since people are living longer, the percent of time they are retired, relative to their life-span, should remain the same. This is another way of saying that they should be forced to work longer. Greenspan also called for reducing the cost-of-living adjustment that elderly citizens receive in their benefits, by rigging the Consumer Price Index downward.

During questioning, Greenspan was effusive in his praise of privatization of the Social Security system, a Wall Street scheme to steal several trillion dollars and invest them to prop up the stock market bubble. Greenspan told the committee that he had recently met with José Pinera, who privatized Chile's Social Security system, and who now works on privatizing America's Social Security system for the Cato Institute. Greenspan stated, "José Pinera . . . said something at a dinner which I was at which I thought was really engaging, that when people got their recognition bonds [given to people in Chile's privatized Social Security system] and they knew what they owned in their retirement program, as distinct from having sort of a very generic overall type of program [i.e., real Social Security], there was a very considerable amount of pride." What Greenspan omitted to say, is that the Pinera privatization of Chile's Social Security occurred at gun-point during the neo-liberal dictatorship of Gen. Augusto Pinochet. Further, since Aug. 31, 1997, because of the collapse of the stock market, Chileans have lost 22% of the value of their retirement funds.

In his July 22, 1997 "Humphrey-Hawkins" annual address to Congress on employment, Greenspan spoke positively about worker insecurity—due to globalization, downsizing, layoffs—as an essential ingredient to keeping wages down.

In other Congressional hearings, he said that it was better to run a government budget surplus than to spend the money on building infrastructure, whose benefits he said were "unresolved."

In his book *Locked in the Cabinet,* an account by President Bill Clinton's first-term Labor Secretary Robert Reich, Reich gave an insight into the intimidating influence which the Federal Reserve Chairman has. Reich called Greenspan a "robber-baron pimp." Reich said: "Greenspan haunts every budget meeting, though his name never comes up directly. . . .

"Like Paul Volcker, the Fed chief before him, Greenspan can put the economy into a tailspin simply by tightening his grip. Volcker did it in 1979, and Jimmy Carter was fired. Bill Clinton knows that. Greenspan has the most important grip in town: Bill's balls, in the palm of his hand."

Reich gave an account of the effect that this had on Clinton himself. "He stalks around the room, fuming, 'We're doing everything Wall Street wants! Everything Wall Street *doesn't* want gets slashed!' He takes another few steps. 'We're losing our *soul!*' He talks to no one in particular, but I can't help imagining he's yelling at Alan Greenspan, 'I can't do what I *came* here to do.' "

Now, hyperinflation

The LTC crisis thoroughly discredits Greenspan's limp contention that "there are no problems with derivatives." This time there is no story about a "loan assassin" like a Robert Citron in Orange County, or Nick Leeson at Barings Brothers Bank, on whom to blame a derivatives mistake. The mistake is the entire $130 trillion worldwide derivatives trading system. The biggest banks in the world were involved in LTC, but at the hub of the world derivatives network stands Alan Greenspan and the Federal Reserve Board, who refuse to shut the derivatives system down.

Greenspan is attempting to sabotage President Clinton's Sept. 14 proposal at the New York Council on Foreign Relations for a new financial architecture, and the concept of Treasury Secretary Robert Rubin that the banks must take a hit and accept 5¢ on the dollar for their worthless paper.

Instead, Greenspan has put his hand on the printing press, in the insane judgment that the derivatives market should be bailed out, and the equally insane judgment that it *can* be bailed out. This will set off hyperinflation, in a derivatives market many orders magnitude greater than any market that existed in the 1920s in Weimar Germany.

Greenspan's reputation for competence, however undeserved, is now gone.