

## Ayatollah Greenspan strikes again!

by Chris White

When you've got a follower of the Russian cultist Ayn Rand, who also happens to be a jazz clarinetist, ensconced in the chairman's position at the Federal Reserve, prepare for the worst. That much has been true since Morgan Guaranty's Alan Greenspan took over the top job from its previous incumbent, Paul Volcker, otherwise known as the "Hulk." Those who didn't believe it before ought to have rather less difficulty now.

On Friday, Feb. 24, the Greenspan-led Board of Governors of the Federal Reserve upped the discount rate, the charge levied on banks borrowing from the Fed, from 6.5% to 7%. The day before, David Rockefeller's Chase Manhattan Bank and Edmond Safra's Republic National Bank had increased their prime rate—the base for calculating the levy imposed on their borrowers—to 11.5%. The Federal Reserve also notched the Fed Funds rate upwards to around 9.75%.

The interest rate increases followed Greenspan's semi-annual testimony to the Joint Economic Committee mandated by the so-called Humphrey-Hawkins Full Employment Act. Both Tuesday and Wednesday, in his prepared remarks—and befitting the jazz clarinetist, his apparently extemporaneous embellishment of those remarks—Greenspan highlighted a theme which has become familiar, namely the "unacceptable" threat of resurgent inflation.

The Bureau of Labor Statistics' Tuesday, Feb. 21 release of the latest Consumer Price Index numbers, a 0.6% increase in one month, was the occasion for Greenspan's Wednesday extemporaneous digression, which included a tirade against the out of control wage component of inflation.

That last would surely draw bitter mirth from those trying to make their way on today's wage and salary incomes, the more so when compared with the purchasing power of the same dollar content wage packet of 20-25 years ago. The

attack on wage levels is part and parcel of the insane thesis that Greenspan has been elaborating in his recent testimony before the Congress.

### More austerity

This is called the "over-heating" thesis, under which the economy is said to be operating at pretty much full capacity, under conditions the crazed members of the economics profession call "full employment." The "over-heating" is manifest as an increase in inflation, which the nutters and fruitcakes ascribe to the consequences of full capacity usage and full employment. It ought to be obvious what their answer to this fictitious picture is: namely, reduce capacity utilization, and reduce levels of employment, to "cool down," or "put the brakes on," the runaway over-heating.

Greenspan, in the jargon of the profession, which happens to bear about as much relation to reality as jazz does to music, is demanding another savage round of austerity against employment and wage and salary incomes.

Politically, the interest rate hikes have widened the breach between the money managers at the Federal Reserve and their allies in the banking system. Greenspan's Humphrey-Hawkins testimony was the third occasion since George Bush was inaugurated President that the chairman of the Federal Reserve has asserted that he will not shy away from using interest rate increases to combat what he calls "unacceptable" rates of inflation. Twice before his threats have been rejected by the new President and his staff.

From Tokyo, Bush again asserted that, in his view, inflation is not the threat the chairman of the Federal Reserve claims it is. The President's remarks were supported by Secretary of State Baker and, by Treasury Secretary Brady. This time, unlike the earlier two occasions, Greenspan and his

allies in the banks went ahead and increased their interest rates anyway.

Deepening conflict between the money manager and the political administrators then, but also, to take Greenspan's testimony further, apparent conflict with himself. The Fed chairman also insisted during the testimony that, in his view, "there is no cut too large" to be made in the federal budget deficit. He went on to demand "expeditious action" to reduce the deficit, warning of the dangers ahead if the fiscal year was ended with a deficit in sight of about \$160 plus billion.

The conflict here is straightforward. What Greenspan is recommending as the means to be adopted to combat the threat of resurgent inflation guarantees that the budget deficit cannot be reduced, but will rather be dramatically increased. The Bush-outlined revision of the budget assumed that the federal government would be paying interest at a rate of about 7%. That unreal assumption has now been blown away.

The revision further assumed that thanks to the prospects of continued economic growth, we could all look forward to an \$88 billion increase in tax revenue over the year. Thus, if outgoings were held steady under the so-called "flexible freeze," the increase in revenue would result in a deficit of less than \$100 billion.

With the chairman of the Fed now announcing a full-scale assault on employment and wage and salary income—after all is said and done by the economists, the source of most tax revenue—the prospects for the revenue increase evaporate as surely as the unrealistic assumptions about interest rates.

## **Frankly, the U.S. is bankrupt**

The contradiction is, as usual, a product of deceit employed in the choice of priorities. Greenspan's number one concern is neither what he chooses to call either inflation or the budget deficit. The United States is running a deficit on its current account of about \$150 billion, thus owed to the rest of world. The current account deficit is the net of trade and service receipts owed to and collected from the rest of the world. The net is that margin of current economic activity which foreign creditors are expected to finance, or roll over on behalf of maintaining the fiction that the United States continues to be a viable economic undertaking.

In the past, currency manipulations have been employed to supposedly reduce the amount owed under that rubric. The dollar has been devalued systematically, according to the book followed by such as the Ayatollah at the Fed, to increase the price of U.S. imports, and lower the cost of U.S. exports. This way imports are supposed to decline and exports increase, such that the amount the foreign creditors are expected to carry is reduced. After nearly three years of this sort of manipulation it ought to be clear the approach hasn't worked. Now Greenspan is, in effect, proposing another way to reduce the amount owed abroad on the current account.

Rather than manipulate prices through exchange rate fiddling, Greenspan's proposal is to strip out the remaining

capacity to buy by imposing new levels of austerity on employment and wage income. It is to be presumed that someone buried in the Fed has crunched through the numbers which show that for every percentage point decline in living standards inside the United States, the current account deficit will be reduced in some corresponding proportion. Since 25% or so of U.S. output is directly imported, or dependent on imports, the ratios would roughly transform into a 4% decline in the real standard of living for a 1% decline in the current account deficit.

This is what Greenspan is actually proposing, and despite what he testified, is also insisting that this be done, no matter what the consequences for the federal government's budget deficit. That deficit, unlike the current account deficit, does not have to be monetized at demand.

In this respect then, Greenspan is speaking on behalf of the creditors of the United States, of which British, Dutch, Canadian, and Australian interests hold combined accumulated stakes inside the United States four times greater than that built up by Japan. The creditors are organized through the financial interests associated with the Bank for International Settlements central bankers' central bank in Basel, Switzerland. As Greenspan bludgeons the United States with his interest rate increases, so those central bankers, acting through the so-called Group of Ten, are bludgeoning the dollar with their standing threat to increase their own interest rates.

Since the dollar has been supported by the higher interest rates that obtain within the United States, the threat from the Group of Ten to increase their rates, and thereby reduce the differential, is also a threat to the dollar and to the bankrupt U.S. banks. In this rigged arrangement, to avoid uncontrolled collapse of the dollar, the U.S. must maintain interest rates significantly higher than those which prevail in European financial centers.

It is not a game which will last very long. Rate increases within the United States will rapidly translate into the collapse of whole chunks of internal banking, and the arrangements known as leveraged buy-outs. Abroad, rate increases translate equally rapidly into the absolute destruction of Third World debtors such as Argentina, Brazil, Venezuela, and Mexico, by encouraging capital flight and imposing currency devaluations. Effects of the same sort are also thereby imposed on the debtor economies of the East bloc, including the Soviet Union.

The more so since the economy isn't "over-heating," but is plunging ever deeper into the depths of a new depression. Since so far, no one apart from the jailed economist Lyndon LaRouche has come up with any solution to this which combines reviving the process of production with financial reorganization to sustain production, Greenspan's latest turn of the interest rate screw, will simply help to ensure that, perhaps next month or the month after, the delayed phase II of the financial collapse which erupted in October 1987, will ensue.