

# Greenspan sparks no-win debate

by Steve Parsons

Federal Reserve chairman Alan Greenspan's notorious remarks in Moscow have generated a remarkable amount of newsprint and commentary interpreting his "true meaning."

In a lecture on central banking delivered Oct. 10 to Moscow economists, Greenspan said that "attempts to maintain unrealistic exchange rates may lead to destabilizing international capital flows, and ultimately have to be abandoned."

The international press and most economists generally have interpreted these words to mean that Greenspan's Federal Reserve opposes the policy decision adopted by the Group of Seven finance ministers at the September International Monetary Fund meeting, to bring down the dollar's exchange rate. Since then, G-7 central banks have intervened almost daily in foreign exchange markets, selling perhaps \$10 billion in some three weeks of trading. Greenspan also implied that the Fed will maintain its policy of relatively tight money and high interest rates in order to keep a rein on U.S. inflation, and will not cut rates simply to lower the attractiveness of the dollar.

Within hours of Greenspan's remarks, the Bank of Japan surprised the markets by raising its official discount rate 0.5%. The move occurred less than one week after the West German Bundesbank raised its rates a full 1%, which was immediately followed by most major European central banks.

While nearly every U.S. economist and banker has tried to explain these actions as merely technical machinations designed to stem escalating inflation rates, and as attempts to try to contain the dollar's rise, *EIR* has emphasized that these are political messages of extreme dissatisfaction with the incompetent crisis-management approach of U.S. economic authorities.

There is no indication that these messages are cutting through the haze of inebriated financial speculation that shrouds Washington and Wall Street these days. Even for those G-7 financiers and the few Americans who acknowledge the spiraling collapse of the markets in junk bonds, LBOs, and real estate, their dogmatic adherence to monetarist policy options ensures that the feared "recession" will indeed become a full-scale depression.

## The incompetence of ideology

Greenspan certainly has not gone along with the dollar-dumping policies of the Treasury and central banks. Although Nicholas Brady's Treasury Department has directed the Fed to sell billions of dollars almost every morning, Greenspan has effectively negated its impact on the markets by "sterilizing" these dollars—removing them from the money supply every afternoon through government securities trades. The dollar, of course, has continued to rise on the markets, regardless of the moves by the other central banks.

While debate is raging in financial circles over whether there is in fact a significant split between Brady and Greenspan over the Fed's supposed emphasis on tight money and high interest rates, everyone acknowledges that when future economic statistics show a downturn and more-or-less stable inflation, Greenspan will quickly ease up.

Under these conditions, say the economic soothsayers, foreign investors will not flee from the United States and thus not force a compensatory interest rate rise, because the easing will not be perceived as inflationary, but as prudent. Money will simply shift from the speculative ventures like junk bonds, takeovers, and commercial real estate speculation, to more traditional investments like financing new industry.

For these sages, Greenspan is nimbly treading a fine line between inflation and recession; if he moves at the right time, everything can be managed.

Such rosy perceptions ignore the devastating combination of the underlying ruin of the real economy with spiraling financial illiquidity, both resulting from enormous speculation and unsupportable debt. They similarly ignore the abundant data portraying the virtual bankruptcy of the debt-saturated consumer sector, exemplified by the collapse of retail sales, automobile purchases, and consumer durables. This is often explained away as "increased consumer savings," that is, more funds for future speculation.

The wizards of Wall Street maniacally believe they will always be "awash with liquidity," hysterically denying the reality that foreign capital has flowed in largely because of the inordinately high returns from takeovers and similar speculative ventures. In their intoxication, they see the dollar as undervalued because it is currently in such great demand.

One economist at the investment firm of Morgan Stanley insisted, "There is no risk of contagion to other sectors from the problems with junk bonds and LBOs. The Fed is more focused than anyone on contagion to the banks. . . . The economy is rolling along well, there is a worldwide investment boom. We have a strong worldwide economy—including Britain. Consumption is still strong there, after all."

For most on Wall Street, even a "mild recession" is not in sight. For the few bears, a recession is perhaps inevitable. But even these seers believe that it will just shake out—albeit painfully—the excesses from what they perceive to be an otherwise adaptable system.