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## Administrative Fascism in the U.S.

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# Federal government set to become junk bond kingpins

by Steve Parsons

Lest anyone might think that the federal savings and loans bailout is an unparalleled swindle, there is an even more outrageous theft in the works. The federal government is about to become the biggest junk bond broker in the United States.

The government's vehicle is the same Resolution Trust Corp., which the Feds created to take over the assets of failed S&Ls. The RTC is supposed to sell off these assets to minimize taxpayer costs from the S&L bailout. But the agency has no intention of selling its huge and growing junk bond portfolio, accumulated from failed S&Ls. Instead, it intends to set up its own trading desk and to *broker* not only the junk market, but other securities the government holds.

The government's move is the most blatant step yet in the Bush administration's frantic efforts to institute fascist controls over financial markets. The government will now prop up the "value" of both the unraveling junk market and other securities markets. The move presages not just another taxpayer bailout of another collapsing financial sector, potentially even larger than the S&L bailout; the RTC will subsidize the very investment banks that now face staggering losses from the junk bubble they themselves created.

All the "free market" cult's miracle financial "innovations" of the 1980s—from deregulation, to futures markets, to junk bonds—stand exposed as speculative frauds parasitically devouring the productive U.S. economy. The "free marketeers" are demanding ever greater bailouts and Big Brother-style fascist re-regulation.

### Three options

The revelation of the RTC's action comes one week into the March 10-April 10 period, defined by jailed economist Lyndon LaRouche as the next turning point in the deepening financial crisis. There are three options for dealing with the crisis.

The first is that the financial mudslide will simply occur, despite any and all efforts to contain it. Paper values will tumble in a dramatic deflation that will take down everything from the stock market to real estate, with financial institutions

of all denominations cascading into bankruptcy.

The second is the imposition of top-down administrative controls over markets, financial institutions, and key players, through a combination of federal agencies acting under the direction of the Wall Street blueblood establishment. Paper financial values are propped up through what LaRouche has termed "flat pricing," enforced through such operations as the RTC, or more directly through edicts of—and intimidation by—government offices, including the Federal Reserve, Securities and Exchange Commission, and the FBI.

The third alternative involves the supranational regulation of global financial markets, superseding national regulatory agencies, which would discipline markets and institutions internationally. This is the favored approach of the powerful "enlightened" banking crowd centered in Europe around the Bank for International Settlements, and most visibly supported by such spokesmen as former West German Chancellor Helmut Schmidt.

While agreeing with the Bush administration and Wall Street elite on the need for controls, the Schmidt group's concern is to preserve the international system, through the imposition of an "international regulatory agency," regardless of the impact on a particular nation or speculative sector. This has generated some conflict with the Bush administration, which is determined to keep up at all costs the speculative bubble that has brought the world to the brink of disaster.

In a private discussion, one Schmidt intimate said that an international regulatory agency was urgently required, to handle crises that are due to break out in the "one universal global financial market that we now have." He said this agency should either be created by a "totally renewed International Monetary Fund," or by a "binding agreement among the Group of Seven industrial countries."

"More and more people," he said, "think that if we don't want to have final disasters—and that is disasters in the plural, since we're talking about stocks, bonds, and currencies—then we need an international financial regulatory agency."

He added that the idea was completely supported by "the

far-sighted people who see what is coming.” The problem, in his mind, referring to the hustlers who typify the Bush and Wall Street crowd, “is that they are not the ones who have immediate political power. The politicians who have the power are not far-sighted.” Because of such political obstructionism, in his view, the mooted supranational regulatory agency would only come into being after a major financial crisis had occurred.

The conflict between the Bushmen and the “internationalists,” as well as the urgency of the spiraling financial crisis, have already forced two hastily called meetings of the G-7 finance officials, first in London on Feb. 28, and then in Tokyo on March 6. While little of substance has emerged publicly, there are reports that the United States opposed the prospect of the Bank of Japan’s raising its discount rate by 0.5%. It is also likely that the subjects of banking and market failures were also discussed. Another G-7 meeting was called for April 7 in Paris, which *Washington Post* columnist Hobart Rowen says is “unlikely to generate major policy shifts in Tokyo or Bonn.” Rowen reports that American officials are stubbornly insisting on their “independence of action,” citing “the stability of the American economy.”

### Stopping the mudslide

In the United States, the second option clearly has center stage. As LaRouche has pointed out, administrative controls over markets have been increasingly applied since at least the spring of 1987. In the October crash of that year, such measures contained the stock market plunge within manageable—if only barely manageable—boundaries. The Brady Commission report on that crash specified further measures to enforce market discipline, many of which have been at least partially implemented.

While including technical controls such as stock and futures market “circuit breakers,” in which trading is temporarily halted in the event of any nosedive, the central feature is that a shadowy committee of top federal agencies and Wall Street establishment figures is now firmly positioned to dictate terms to markets and individual players.

Brady’s committee has been functioning nearly non-stop since at least last October’s stock market plunge, when traders were ordered—under threat of FBI indictments—to prop up the market. Nicholas Brady has moved from authoring the famous report and recommendations in the wake of the 1987 crash, to Treasury secretary, where he has overseen implementation of those measures. His latest effort is an attempt to centralize market control under the Securities and Exchange Commission, thus effectively obliterating the Commodity Futures Trading Commission, which has permitted unbridled speculation in everything from stocks to currencies.

This action will incorporate the SEC’s enforcement apparatus more directly into market “management” with the Federal Reserve and the Treasury. This is in line not only

with the Brady Commission report, but with the Presidential Commission on Regulatory Relief, chaired by Bush from 1982, which helped reduce the financial system to its present mess.

“I suspect what they will do is simply impose a scaled-up version of the Brady ‘circuit-breakers’ to restrict the range of trading each day,” said a very well-placed European banking representative with close ties to Switzerland and Britain. “This I take as the meaning of the ‘leak’ by Brady’s office a few days ago about a plan to bring the Chicago commodity trading under a centralized regulatory umbrella of the SEC.

“The effect of that kind of blatant management would be to discourage foreign and domestic investors from the stock market. But that could draw them into the U.S. government bond market which would build support for financing the huge federal deficits.”

The apparently doomed CFTC is already cracking down with further control measures. At the beginning of March, it adopted a new package of surveillance and record-keeping rules, allegedly designed to deter trading abuses, but which in fact will enable even more enforcement of trading “discipline” and stock market manipulation. The new rules require the futures exchanges to collect trading cards from floor brokers every 30 minutes, supposedly to prevent alteration and fictitious trades. The CFTC has also increased the number of undercover agency staffers—including FBI agents—in the trading pits as part of a program to supplement the exchanges’ surveillance efforts. All of this is designed to ensure that the traders do the “right” trades.

### Helping the needy

Although the *Wall Street Journal* broke the story on the RTC’s takeover of the junk market only on March 15, the move was set up, at the latest, during the September-October junk bond collapse, which nearly took the stock market with it. It was in November that the RTC hired Elizabeth Spector of Merrill Lynch to run the RTC’s securities operations. It would be surprising if Spector did not make sure that her investment bank cronies, especially the ones in big name firms like Merrill Lynch, Goldman Sachs, Salomon Brothers, First Boston, and Morgan Stanley, benefit handsomely.

These firms will be managing the RTC’s bond portfolios, and thus can rig the markets, with the RTC’s complicity, so that they can come out on top, selling off their own portfolios of garbage under controlled conditions, while speculating on the futures price, knowing exactly how and when the government will make market moves. The government can also swap seized S&Ls’ viable assets for the illiquid junk of these major banks and investment houses. And on top of it all, they will make huge fees for their management skills.

The RTC even admits that its junk operation is not intended to “maximize their returns,” but to “minimize their risks”—supposedly to reduce costs for the taxpayers, but actually to reduce risks for the failing investment banks.