Commentaries

America is not immune

Roger Altman, "Beware America, the World Financial Crisis Is Serious," *International Herald Tribune,* June 24 (appeared first in the *Los Angeles Times*). *Altman served in the Treasury Department in the Carter administration, and was Clinton's First Deputy Treasury Secretary.*

"Despite last week's tremors, an eerie calm hangs over U.S. financial markets, which reflects a seeming oblivion to the spreading international financial crisis. The stock market remains at stratospheric highs, interest rates have hit 30-year lows, and Wall Street sees the economy as impregnable. It is America as a financial island.

"But this isolation is increasingly untenable. A financial firestorm is spreading across East Asia, Russia, and parts of Latin America. Currencies have collapsed, capital has fled, and economies have sunk on an unprecedented scale. . . .

"All this constitutes the worst financial crisis since the birth of the international monetary system in 1944, and it seems to be accelerating. The U.S. Federal Reserve and Treasury are increasingly worried about a world market meltdown. . . .

"Apart from nuclear weapons, [the financial markets] are the most powerful force the world has experienced. In recent months the markets have obliterated governments overnight and imposed previously unthinkable changes on one nation after another. One day President Suharto of Indonesia is still omnipotent. Then, after the markets render their verdict, he is gone.

"Those who think that the mighty United States is immune to such forces are wrong. This is a dangerous moment."

John Kenneth Galbraith, interview in *The Observer,* London, June 21.

Asked about the potential for a financial crash, economist Galbraith replied, "I, of course, don't use the word crash; I repair to financial language and talk not about a major correction but a major adjustment. (I am considering retitling my book on the 1929 crash *The Major Adjustment*.). . .

"Greenspan has been doing admirably what the Federal Reserve has always done—which is nothing. . . . There should have been far more warning about the speculative splurge on Wall Street and the extent of citizen participation. That was the mistake that the Federal Reserve made in the '20s, and the mistake that it has made again now. And the reason for it is simple: you cannot warn against a speculative splurge without taking responsibility for what happens thereafter; no head of the Federal Reserve wants to be held responsible for a dip in the stock market. . . .

"One thing is wonderfully clear—when trouble comes on Wall Street, the blame will all be passed to Indonesia, Malaysia, and maybe Japan. Wall Street insanity—let me use a slightly milder expression, Wall Street 'speculative error'—now has a perfect cover. . . .

"As is happening now in East Asia, the peculiar genius of the IMF is to bail out those most responsible, and extend the greatest hardship to the workers, who are not responsible, who are innocent participants."

Interview: Arthur J. Rolnick

The case for fixed exchange rates

On June 20, the Minneapolis Star Tribune *took up the debate on the need for a new world financial system, in an article entitled "Falling Yen Raises Questions About Floating Currency," by columnist Mike Meyers. A section of that article was entitled, "A New Bretton Woods." Meyers identified two economists from the Minneapolis Federal Reserve, Arthur J. Rolnick and Warren Webber, who, "for nearly a decade, . . . have made the case for a return to fixed international currency rates. . . . Rolnick and his allies at the Minneapolis Fed argue that today central bankers around the world accept the idea that stable domestic prices are a cornerstone of sustained economic growth. In effect, that removes one old argument against fixed international currency values."*

Rolnick, Senior Vice President and Director of Research of the Federal Reserve Bank of Minneapolis, was interviewed by Richard Freeman on June 22.

EIR: You are quoted in the *Minneapolis Star Tribune* of June 20 as advocating a fixed-exchange-rate system, which it said, you have been advocating for a decade.

Rolnick: A fixed-exchange-rate system should be reconsidered. I co-authored an essay on this subject that appeared in the 1989 *Annual Report* of the Federal Reserve Bank of Minneapolis, which was titlted, "The Case for Fixed Exchange Rates." I argued that within a few years after the world went to a floating-rate system (about 1973), it was clear that exchange-rate movements were not being driven by fundamentals. I think that this is an inherent problem with fiat monies.

My views are based on research by professors Neil Wallace and John Kereken. They argue that fiat monies are special, that unfettered markets cannot determine their rates of exchange, that there is a fundamental price indeterminancy. In other words, exchange rates can take any value. Consequently, you can end up with large fluctuations in exchange rates. And, it's not because of inflation per se. Even if you