

Business Briefs

Finance

Greenspan Created 'Precarious System'

A "precarious financial system" that may soon end in "breakdown," has been created by U.S. Federal Reserve Chairman Alan Greenspan, who has been "compounding systemic risk," by injecting massive liquidity into the markets, and thereby creating massive asset inflation, writes Stephen Tominey, in a commentary in the Oct. 15 London *Guardian*. Tominey echoes points made, until now, only by Lyndon LaRouche and one or two others around the world. Tominey is a former hedge-fund manager.

He writes: "While George Bush engages the enemies of the free world during carefully choreographed briefings, what of the previous incarnation of the world's most powerful man, Alan Greenspan? As it happens, he is covertly grappling with a different crisis, one that dares not speak its name. It is a struggle with his own hydra, the credit bubble that underpinned the boom, and a creature of his own creation.

"The United States financial system risks explosion, under the weight of an accumulated mountain of credit claims. At the end of the second quarter, outstanding net claims in the U.S. financial system stood at an astounding \$28 trillion, approximately 300% of GDP. . . .

"We may be entering some form of endgame. Despite repeated interest rate cuts and extreme levels of credit supply, economic growth continues to slow. . . .

"In essence, the U.S. has enjoyed a credit spiral that created self-sustaining asset market inflation. This, in turn, spawned a consumption and investment boom, that fed back into balance sheets, and so translated capital gains into perceived return on capital. . . .

Greenspan has constantly acted to keep up the "nominal demand" that "supports the spiralling debt burden. . . . By underwriting market risk in this way, the Fed has had the effect of artificially lowering its price, and compounding systemic risk. . . . Ever larger doses of liquidity are flushed into an increasingly inefficient policy mechanism, as the much-dreaded credit crunch keeps reappearing. . . .

"If current policy fails to re-ignite the

broad credit boom, a breakdown of the intermediation mechanism is probable. At such a point, priorities would suggest the direct use of the Federal Reserve's own balance sheet, in order to purchase assets. That means both debt monetization and inflation. The U.S. is, indeed, between a rock and a very hard place."

Middle East

Berlusconi Calls For Palestine 'Marshall Plan'

Speaking before Parliament on Oct. 9, Italian Prime Minister Silvio Berlusconi announced an Italian initiative to promote international investment in Palestine as a basis for "a durable peace." "As long as in the Middle East, the robust Israeli society and the fragile, desperate Palestinian society [co-exist], it will not be easy to reach a truce, it will not be easy to reach a durable peace," he said. "We have had the opportunity to stress our view in all international and bilateral meetings that we have had in the recent period: It is time to draft a concrete project of financial investment in Palestine to build roads, schools, hospitals, factories—to bring in income and work.

"It is not possible, otherwise, to expect and hope, without such interventions, to build a permanent peace. Peace must be prepared, and you must be able to maintain it; and preparing peace means also to build minimal conditions of welfare and serenity.

"Italy intends to take an initiative, which could be inserted into a broader European and Western framework, to give birth to a long but secure action to improve the conditions of life in the West Bank and all the territories under the Palestinian National Authority. We must involve the private sector and convince multinational corporations that it is in their interest to go there and build factories to create jobs; we must involve the private sector in a large public investment effort on the model and on the scale of the Marshall Plan: a plan whose aim is contributing to pacify that area, which has been tormented for more than half a century.

"I am absolutely convinced. . . . that once we achieve peace, there can be no possibility for peace to be durable, unless we shorten

the distance that exists today between Israeli wealth and the absolute poverty of young Palestinians."

Industry

U.S. Production Is In Twelve-Month Collapse

U.S. industrial activity declined in September for the 12th straight month, a phenomenon that has not been seen since November 1944 to October 1945. The decline in September was 1% for the output of factories, utilities, and mines, following 0.7% drop in August. The September decline matched the June drop of 1%. Every category reported had a drop, from auto production to consumer and household goods. In addition, operating capacity was 75.5% in September, the lowest since June 1983, as companies "throttled back production" because of lack of demand.

This continuing collapse is occurring despite the fact that Fed Chairman Alan Greenspan has cut interest rates nine times this year.

Japan

Trade Slump, Fear Of 'Deflationary Spiral'

The Bank of Japan (BOJ) issued a negative assessment on Japan's economy in September, in its monthly report Oct. 15, for the fifth straight month, based on the collapse of world trade and especially of U.S. imports. The BOJ warns that the drop in Japan's exports, along with the stock market drop, could lead to a "deflationary spiral" in which firms cut production and then "the substantial decline in production has a negative influence on employment and income conditions."

"Deflationary," in this case, refers not to money supply, which is being printed wildly, but to a 1929-style drop in the population's and the corporate sector's assets, which is causing individuals and businesses to stop buying goods, which is causing an absolute drop in prices of physical goods.