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## Rubin Warns on Crash

Speaking to a Jan. 13 Brookings Institution conference on "Restoring Fiscal Sanity," former Treasury Secretary Robert Rubin emphasized that it is now necessary to highlight nonconventional effects of huge deficits, which could trigger a crisis far beyond the expected parameters, instead of the conventional effects which most economists look for. He warned that attempts to use "quantitative models" to predict whether or not there will be a crisis, will not work.

Rubin noted that "virtually all mainstream economists" believe "there is a significant relationship between long-term deficits and interest rates." Referring to a paper he recently presented at the American Economic Association meeting, he said it discussed "the conventional analysis of the effects of long-run deficits and then—recognizing that those conventional effects are indeed serious—went on to discuss the potential for exceeding those conventional effects."

In his Jan. 13 speech, Rubin recapped the conventional analysis of what budget deficits produce: to cover the deficits, government must borrow a large amount of capital from the credit markets, which crowds out private sector demands for capital, causing a downturn in the economy, etc. But then, focussing on "nonconventional effects," he added: "Beyond that, there are the effects that go beyond this conventional analysis; and in my judgment, at least, I think those effects have the potential of being far more serious, and far more severe, and should be far more troubling."

As the crisis develops, he said there could be a sharp increase in interest rates over and above the increase projected through conventional analysis. "I think there is also a risk . . . that the international markets could lose confidence in our currency because of our long-term fiscal regime, and also because of our large current account deficits." This can escalate, as the U.S. dollar drops, so that "the international markets will begin to demand [still] sharply higher interest rates in order to compensate for the risks—both currency risks and interest rate risks—that I've just mentioned." This can lead to the risk "that they will become reluctant to engage in the rollover of the very large amounts of U.S. dollar-denominated Treasury debt now held abroad. Further, this process could begin to undermine business and consumer confidence more generally.

"Furthermore, all of these effects *could happen together,* and any one of them individually could create serious additional problems over and above the conventional analysis. *Put them all together,* and you could have a very severe set of effects" (emphasis added).

Rubin then attacked those who would rely on quantitative models to disprove crises, or to say they will not be severe. "There are various models that attempt to quantify the conventional kinds of effects. I don't think there is any way to reasonably get at trying to quantify these nonconventional effects, and that, unfortunately, makes it much more difficult to convey them in a public domain and to create what I think would be a totally appropriate, terribly troubled public reaction—which in turn could help feed our political process. But in my judgment, there is no question that the risks are severe, and need to be taken with great seriousness."

journalist, "but actually the reverse is also true: Globalization also makes it easier to *sell* U.S. assets. Do you see the danger of a crisis of confidence or a dollar collapse?" A second questioner raised the issue of how the claimed spectacular "upswing" of the U.S. economy fit with the continuing growth of mass unemployment. A third questioner asked Greenspan to comment on the recent publicized statements by former Treasury Secretary O'Neill, which he declined to do. The fourth questioner was the notorious Graf Otto von Lambsdorff, former German economics minister (1977-1984) and one of the most vicious "free trade" ideologues in Germany; unwittingly, von Lambsdorff contributed to raising the spectre of a "LaRouche turn" in the United States. He demanded: "You have warned rightly against creeping protectionism. Now we have an election year in the U.S.. Can we really be optimistic that new protectionism will not come up? Especially if we see the new forces worldwide—globalized forces—against the free trade system?"

The shock, however, was delivered by LaRouche collaborator Tennenbaum, who followed Graf Lambsdorff. Introducing himself as an advisor to the U.S. Presidential candidate, Tennenbaum noted that Greenspan had entirely failed to address the crucial issue, the ongoing collapse of the entire global financial system. He pointed out that outstanding financial derivatives claims dwarf world GDP, and referenced the gigantic real estate bubble in the United States, and the implications of the behavior of leading U.S. financial institutions as revealed by the Parmalat affair. Tennenbaum challenged Greenspan to *prove* "that we are not in the midst of the collapse of the greatest financial bubble in modern history." And he noted that the economic development of the United States, in all its periods of healthy growth, was based on Hamiltonian principles "totally opposite to those you seem to represent."



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