Why Larry Summers Must Go Now!

by Scott Thompson and Paul Gallagher

If the rising movement of American patriots is going to clean out the London/Wall Street swamp of the Obama Administration, not only must Treasury Secretary Tim Geithner go immediately; but Larry Summers, Obama's chief economic liar and cheat, must get the boot, as fast, or faster.

In a national condition of economic collapse, financial speculation, and swindling, brought on since the 70-year-old Glass-Steagall principle of sound national banking was thrown away a decade ago: This is the government official who repealed it. In the national misery of mass unemployment topping 30 million Americans: This is the "theorist" of doing away with unemployment insurance to "make people find a job." With the Obama "stimulus" act having clearly failed to reverse that mass unemployment: This is the head of Obama's economic team who, a year ago, ruled out any program of large-scale credits for infrastructure public works, such as was proposed by economist Lyndon LaRouche, and sought by Democratic constituencies and some Congressional Democratic leaders. With more millions of homes being repossessed, nearly 40 million Americans depending on food stamps to eat, and real unemployment rising over 20% of our national workforce, this is the economics chief who loudly repeats, "The economy is recovering," even drowning out members of his White House team who know the opposite is true.

As we will show below, Larry Summers' economic blunders and crimes are many, and some of them have had devastating consequences for this nation and others.

But worst among them: He is a British product, an agent of British imperial monetarism. When he was disgraced and booted out as Harvard University President in 2006—narrowly protecting his associates there from prosecution for theft from U.S. government foreign aid programs—it was the very imperial London *Times* which picked him up, via a financial column, which made him an "international economics expert" again. That enabled his reinsertion into international banking and financial circles as one of their favorite economists and public speakers—and then, his 2008 insertion, at the top, into the Barack Obama economics team as the controller of Obama's disastrous economic policies. Obama's complete embrace of British imperial monetarist policy, beginning at the G20's great London global bailout conference of Feb. 20, 2009, would not have been carried off without Summers.

Ten trillion dollars in central bank/IMF global bank bailouts later, physical economic reality is still a crash threatening a new Dark Age. Stopping it requires ending the British imperial monetary system often called "globalization," and returning to credit systems like Alexander Hamilton's American System of national banking, by alliance among great powers to defeat British monetary strategy. It requires restoring the Glass-Steagall principle of sound national banking immediately.

We need to get the man who crushed Glass-Steagall, out.

Not Just Part of the Problem

Urgent bills to restore the Glass-Steagall Banking Act of 1933, repealed by Congress in 1999, on demand of Larry Summers, as the Clinton Administration's last Treasury Secretary, were introduced into both Houses in December 2009. The step has been identified by former Federal Reserve chairman Paul Volcker as crucial to take "Federal [bailout] protection" away from investments banks and other speculative financial operations, and put it over deposit-taking commercial banks alone, breaking up failing "megabanks" in the process. As could be expected from Volcker's circles, these proposals do not go far enough. What is required is LaRouche's plan for recovery from the crash, reviving the Glass-Steagall principle to *take back* the trillions of dollars in bailouts extended to these casinos of financial leverage, and to put the *entire banking system* through bankruptcy reorganization, and thereby, restore commercial banking under a Federal credit regime.

In late 1999, at a time when President Bill Clinton was politically weakened and distracted by the im-


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Obama's chief economic advisor Larry Summers is the proverbial "elephant in the room," the British agent in the Oval Office, who is largely responsible for the insane and destructive policies that have led to the current financial-economic donnybrook.

peachment attempt, then-Treasury Secretary Larry Summers "led efforts to modernize the financial system ... and insure the viability of the over-the-counter derivatives market," as his official Treasury biographical sketch puts it. "Modernization" refers to Summers' killing of the Glass-Steagall Act (Section 12 U.S. Code, "National Banking"), which had kept commercial banks regulated and "out of the casino" for 65 years. "Insuring the viability of the over-the-counter derivatives market" refers to Summers' blocking any regulation of the destructive speculative riot we now identify by the deadly name of "AIG."

Glass-Steagall was repealed by the Gramm-Leach-Bliley "Financial Services Modernization Act," passed in November 1999. Then-Fed chairman Alan Greenspan had enacted three separate Federal Reserve regulations between 1987 and 1997 to weaken Glass-Steagall regulation, allowing banks, by 1997, to derive up to 25% of their earnings from speculation in debt securities, financial derivatives, etc. Gramm-Leach-Bliley knocked the gate down entirely, immediately allowing Citibank and Travelers Insurance to merge; even then-Citibank CEO John Reed now acknowledges that both the repeal and the merger were disastrous mistakes.

As late as March 1998, the Clinton Treasury under Robert Rubin was publicly opposing HR 10, the Financial Services Competition Act, a year-earlier version of Gramm-Leach-Bliley, which did not pass. Summers took over from Rubin in July 1999, and reversed Treasury policy to actively support repeal of Glass-Steagall. When that was done, on Nov. 17, 1999, he immediately hailed it. "Today," Summers crowed, "Congress voted to update the rules that have governed financial services since the Great Depression, and replaced them with a system for the 21st century. This historic legislation will better enable American companies to compete in the new economy."

President Clinton has recently admitted that the repeal of Glass-Steagall was the worst mistake of his Administration, and Rubin said, in his autobiography, that he would have "gone slower" with financial derivatives—but his deputy Larry Summers kept comparing the superiority of these "financial weapons of mass destruction" to that of the new graphite tennis rackets over their wooden predecessors.

Summers was not only the seminal influence in the repeal of Glass-Steagall, but assisted Greenspan and pushed Rubin, in 1999, to stop opposing the fantastic explosion of derivatives contracts. The so-called "notional value" of these derivatives was already then reaching the tens of trillions; it reached the *quadrillion* level by late 2008, before vast batches of these contracts suddenly became worthless.

In early 1999, Summers learned of a plan by Brooksley Born, chairwoman of the Commodity Futures Trading Commission (CFTC), to regulate derivatives

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As Assistant Treasury Secretary in the Clinton Administration, Summers demanded repeal of the FDR-era Glass-Steagall Act, with support of Fed chief Alan Greenspan (left); they convinced Treasury Secretary Robert Rubin (right) to allow an explosion of derivatives contracts instead.

and force them to be traded only on registered exchanges. Summers immediately called Born and dressed her down, reportedly, shouting and badgering. He said that any move to regulate derivatives would cost the United States billions in lost financial business, and cause international chaos. He marshalled calls from major bankers opposing Born. And Summers got Rubin to write a letter to Born saying the regulation of derivatives by the CFTC would be illegal. Summers and Greenspan called Born to the Treasury for further dressing down.

When all this failed to stop the CFTC chairwoman, Summers and Greenspan got Congress to stop her by passing the Commodities Future Modernization Act of 2000. This act mandated that financial derivatives could be traded over the counter by financial institutions without regulations.

That is what AIG's Financial Products Division was doing for the next eight years, until it imploded in September 2008, and AIG suddenly sucked in a taxpayer bailout of $200 billion to compensate Summers' graphite-racket investment bankers for their worthless derivatives contracts. Multiply that by 25, and you have a conservative estimate of what the unregulated OTC derivatives trading, "insured" by Larry Summers a decade ago, has cost taxpayers of the OECD nations.

Another of Summers' "graphite-racket" economic policy views is a threat and an outrage in the current economic collapse, although it's a theory he developed 30 years ago under his Harvard mentor Martin Feldstein. With nearly 12 million Americans currently receiving unemployment insurance benefits, and the number constantly growing, a "theory" has begun to circulate in Washington economic policy circles, that workers tend not to look hard for a new job until their (average $340/week!) unemployment benefits are exhausted. Cut them off rather than extend them, and the recipients will be forced to find work faster, goes this line.

In fact, this theory does not originate with "right-wing Republican" economists, but with chief Obama economic advisor Larry Summers. Summers' most important academic paper, published in 1979, argued that workers planned to use their unemployment benefits not as a stop-gap, but to their maximum limit. Implicitly, Summers argued that unemployment insurance harms the economy. He hasn't given up that view. Decades later, in 2006, Summers (now along with Rubin) began pushing an idea through their "Hamilton Project," that unemployment insurance should be replaced by "wage insurance," a limited, short-term payment, to be used for job-search, retraining, relocation, and "low-wage subsidy" to acclimate the worker to a lower-paying job.

Globalizer and Russia Looter

As Deputy Treasury Secretary during the 1990s, Summers promoted globalization, as the ascendant idea that after the collapse of the Soviet Union, all nations were wide open to looting by U.S. and British financial institutions.

During the "Asian" and "Long-Term Capital Management," and "Russian GKO Bonds" financial crises of 1997-98, Summers was effectively in charge of the

In early 1999, when Summers learned of a plan by Brooksley Born (above), chairwoman of the Commodity Futures Trading Commission (CFTC), to regulate derivatives, he went ballistic. When she stood her ground, Summers and Greenspan went to Congress, which then passed a measure to allow derivatives to be traded over the counter—unregulated.

IMF. And he wanted foreign governments to open their capital markets to foreign investors, and lower their trade barriers; he himself wanted to restructure the relationships between governments and banks, and even make specific personnel appointments. Strobe Talbott, Deputy Secretary of State under Clinton, later reported that Summers was able to control the appointments of ministers in the Russian government. "Conditionality in IMF lending was the economic equivalent of the spinach treatment," Talbott wrote in *The Russia Hand*, "and the master chef was Larry Summers."

The British/U.S. control of Russia's economic policies in the 1990s (in which Obama's Budget Director Peter Orszag was also directly involved, out of London) was far worse than "spinach"; it was foreign looting on a vast scale, and was nailed as genocide by honest Russian economists such as Sergei Glazyev. It reduced Russia's population by 7 million in ten years. When World Bank chief economist Joseph Stiglitz publicly criticized Summers over it, Larry's friend James Wolfensohn fired Stiglitz.

While Summers ran Russia's policy during the Clinton Administration, Harvard's best and brightest went to Russia to teach the Russians economic austerity, privatization programs which produced Russia's billionaire tycoons and criminal syndicates, and British Liberal free trade. Andrei Shleifer of Harvard—Summers' protégé, one of his closest friends among the "behavioral" economists—in August 2005 agreed to pay at least $31 million to settle a lawsuit resulting from his and others' corruption during this process, in a lawsuit brought by the U.S. government. Harvard's Shleifer and Jonathan Hay had been charged with conspiracy to defraud the U.S. government. Their group's crimes resulted in the entire Harvard International Institute for Development (HIID) being shut down—just as Larry Summers had become president of Harvard after the 2000 U.S. Presidential elections.

Shleifer was working with Deputy Prime Minister (approved by Summers) Yegor Gaidar on the privatization schemes, managing USAID funds for that purpose, and managing the HIID Russia Project. In late August 1996, Summers, vacationing with Shleifer as they had for years, warned Shleifer and his wife, hedge fund manager Nancy Zimmerman of Farallon Capital Management, about the possible consequences of their investing in the very privatization swindles they were creating and "advising" in Russia. But Summers did nothing about it, and the Shliefers stole both USAID and Russian government funds, brought down Harvard's Russia Project and HIID, and "damaged the U.S.-Russian relationship," as Summers himself testified in the 2002 U.S. lawsuit. The theft also cost Harvard $26.5 million in fines and $15 million in legal fees. Shleifer was finally fired from HIID—but not from his Harvard teaching position—by Jeffrey Sachs, but Sachs could not save HIID itself.

Summers Made Harvard Loot Itself

In spite of all this, Summers and Shleifer remained close friends, and when Shleifer got word that Summers was on the short list to become president of Harvard, he threw meet-and-greet parties for Summers at his Cambridge home, where Summers stayed on visits. When Summers was named president, in March 2001, Shleifer was able to remain on the Harvard economics faculty through Summers' pressure on Jeremy Knowles, the dean of the Faculty of Arts and Sciences.

It was this act, and Summers' blatant lying about it three years later, to a Harvard faculty already angry at a whole series of abuses by Summers, that triggered his ouster from Harvard in disgrace. And that was before they knew that he had nearly bankrupted the place.

Larry Summers had the shortest tenure of any president of Harvard University (except for one president who died in office during the Civil War), less than four years, from July 2001 to June 2006, when he was ousted by an enraged university faculty and corporation. During that brief interlude, his performance was praised by McCarthyite right-winger William F. Buckley, but opposed by just about everyone else. Summers tried to shut down anti-globalization and anti-WTO protests at Harvard during those years; he preached that those engaged in civil disobedience should look to be punished and jailed in the great tradition of Gandhi and Dr. King. He made one major speech as president, which identified as anti-Semitic any criticism of the policies of Ariel Sharon's Israeli government; and tried to force out numerous faculty members who disagreed with him politically. He finally infamously pronounced that women were innately less fit for scientific and mathematical understanding than men, provoking intensified opposition which led to his firing. And he planned a giant expansion of Harvard University itself across from Cambridge toward downtown Boston, to build a new campus center for the study of the human genome—a project which was completely abandoned after his removal.

But perhaps Summers' most telling actions as Harvard president were not remarked on at all, until several years after his disgraced departure—when the university's endowment went into financial collapse. In this, Summers showed his qualities as an "economics expert"—those qualities which demand that the American people oust him in disgrace now.

On Dec. 18 and 20, 2009, Bloomberg news service revealed that while serving as president of Harvard, Summers had cost the university's endowment billions of dollars through the purchase of derivatives, called interest rate swaps. Summers had purchased these interest rate swaps from JP Morgan, Goldman Sachs, Morgan Stanley, and the Bank of America. The purpose of the interest rate swaps, he maintained, was to build the science complex in Allston, across the river from Harvard. Summers had purchased a working-class neighborhood through third parties, so no one would know that Harvard was involved, and drove up prices. The interest rate swaps, which were incredibly risky for their size and duration, would guard against interest rate increases at the time of construction in 2008, he argued.

After Summers' forced resignation from Harvard in 2006, interest rates fell, until they reached 0%. Summers had invested Harvard's $36.7 billion endowment in equity funds, derivatives, and other risky investments. When the crash began in July 2007, Harvard's endowment dropped, and kept shrinking, down to $26 billion—and it is questionable how much of this is solvent and not toxic waste.

When interest rates fell to 0%, JPMorgan Chase and Company demanded cash collateral payments; Drew Faust, Harvard's new president since July 2007, tried to sell $1.5 billion of the endowment to cover the costs, but it proved unmarketable. Instead, Harvard applied for $2.5 billion in emergency bonds from the state of Massachusetts. JPMorgan Chase was paid for its $1 billion in penalty fees, and the interest rate swaps were cancelled.

But the collapse in the endowment's value continued, and continues to this day. The latest (January-February 2010) issue of *Harvard* magazine reports that, in addition to the endowment's huge losses, the university's operating cash fund has lost $1.8 billion, having been invested along with the endowment, on Summers' orders, in the same toxic speculations. Larry Summers had clashed with two previous financial advisors, to invest 80% of Harvard's hefty cash holdings in thoroughly "modernized" derivatives, equity funds, and other risky investments. Harvard has lost 27% of its previous cash holdings, or $1.8 billion, in the crash, and hundreds of its faculty have been laid off—Summers' revenge on the faculty, perhaps. Apart from the university's operating expenses, the cash holdings were the chief source of financial aid for students.

While some others have suffered significant losses, no other major university's endowment and/or operating fund has been devastated as Summers devastated the very economic existence of Harvard.

This is the work of the chief economic advisor to President Barack Obama, who now claims "the recession is over."

British Agent

While this disastrous cake was still baking in early 2005, the disgraced former president Summers clung onto the Harvard faculty roster. He was saved with the appointment as Charles W. Eliot University Professor with offices in the Kennedy School of Government and

White House/Pete Souza

Summers was instrumental in putting Tim Geithner (left) in as president of the New York Fed in 2003. From that position, Geithner (now, Treasury Secretary) carried out the criminal bailout of AIG, on behalf of the Wall Street and foreign financial firms—the crimes which now promise to drive Geithner out of office.

the Harvard Business School, and given a seven-figure presidential severance payment. He stayed there, and at the large DE Shaw hedge fund, for two years, until Obama became President.

But politically, Larry Summers was finished.

Then, British imperial finance "bailed him out" of well-deserved oblivion. The London *Financial Times* offered him a weekly column.

Summers used the *Financial Times* for his rehabilitation, with appeals to the "left" which he had alienated. Writing on globalization, he discovered its "flaw" was that the rich and middle class had not shared their newfound wealth with the poor. In October 2007, he began forecasting a recession—three months earlier Lyndon LaRouche, the world's leading economist, had announced to all that a financial crash was underway as of July 25. LaRouche's solution was to put the major banks through immediate bankruptcy reorganization and eliminate trillions in toxic debt "assets" choking the physical economies of the world's nations.

Summers' solution—the British imperial monetarist solution he circulated through the *Financial Times*—was directly opposite LaRouche's. Summers called for an end to concern with inflation, and a massive bailout of the banks, combined with a Keynesian "stimulus package."

These columns brought him to the attention of the Obama campaign, where he began regular briefings to the candidate. "He is brilliant," said Obama. Obama's choices for Treasury Secretary were quickly whittled down to two: Summers and Tim Geithner, who had been Summers' deputy at the Clinton Treasury Department.

Summers had been instrumental in getting Geithner his position as president of the New York Federal Reserve Bank in 2003. This was the position from which Geithner carried out his criminal bailout actions through AIG, for Goldman Sachs and Wall Street and foreign financial firms—the crimes which are driving Geithner out of office now.

Still Pushing Derivatives Bubbles

On his April 3, 2009 financial disclosure form, Larry Summers revealed that he made $2.7 million in 2008 from speaking engagements, many of which were with troubled Wall Street firms—some of which later received government bailouts at taxpayer expense. JP Morgan Chase, CitiGroup, Goldman Sachs, Lehman Brothers, and Merrill Lynch all paid Summers handsomely for his speaking appearances in 2008. In addition, he received roughly $5.2 million in compensation for a one-day-a-week job at DE Shaw. In that job, "thoroughly modernized Larry" has continued to push the derivatives that have brought down the global financial system.

LaRouche has asked whether Summers is still, today, receiving any compensation from the giant hedge fund, while monopolizing Obama economic policy.

Summers' main job at DE Shaw has been meeting with potential investors and telling, say, pension managers how much to invest in DE Shaw-originated derivatives. In the Fall of 2007, as the financial crisis simmered, Summers flew to Dubai, the hot money spot that replaced Hong Kong for the British Empire. Dubai is rife with drug money laundering from Afghanistan, real estate speculation, and is a world center for terrorism.

In Dubai, Summers held a series of meetings with potential investors. Bankers flew in from around the world. Summers spoke at several lavish dinners and met with several parties involved with DE Shaw's real estate holdings in the area—so, Summers was up to his eyeballs in the British Empire's drug money laundering, terrorism, and real estate speculation swamp.

Like every other economic project Summers has worked on, the Dubai speculative bubble is now notoriously blowing out.

But Barack Obama still follows Summers' British imperial monetarist advice. That is part of the reason that there are grounds for impeaching Obama. His chief liar about the economic collapse, Larry Summers, must go, *now*.

Behaviorism and Summers' Bad Behavior

The anti-social behavior which was most publicly discussed by observers of Larry Summers during his presidency of Harvard, was part of the tinder for the fire of revolt, by faculty and students alike, which forced him out of the university. That behavior was characterized by arrogance, social distance bordering on unawareness of others, and, above all, by a lack of affect—an inability to recognize or deal with the state of mind and intentions of other people.

Summers' "Red Queen" propensity to fire those at Harvard who disagreed with him politically; his hostile behavior over the crisis faculty meetings which eventually led to his removal; and his lack of empathy, led several faculty members to think there was a clinical, or even genetic explanation. Some speculated that it was a form of autism, called Asperger's Syndrome, after its discoverer, Hans Asperger, a Viennese psychiatrist. Asperger's Syndrome was officially recognized by the American Psychiatric Association in 1994. It affects mostly boys, and is commonly known as the "little professor" syndrome.

Summers' family legacy is that of experts in "mathematical economics," based on the idea that human beings in society form their behavior on the basis of mathematical logic, or *can be made to do so*, by government policy and regulation: i.e., behaviorism. One of Summers' uncles, Nobel Prize winner Paul Samuelson, was the inventor of "mathematical economics"; his belief in controlling behavior by mathematical logic led him to the idea, enshrined in his famous textbook, that "built-in government stabilizers" made it impossible for financial institutions' behavior ever to cause another crash! Another uncle is mathematical economist Kenneth Arrow; and Summers' father, a mathematical economist, obsessively trained him in mathematical logic as a boy.

Thus, Summers has, for many years, been a true believer in the work of the kooky group of "behaviorist economists"—Peter Orszag, Cass Sunstein, et al.—exposed in the April 2, 2009 *Time* magazine as shaping Obama Administration economic policies. His notorious Harvard pal Andrei Shleifer was another of them.

As World Bank chief economist in 1991, Summers signed a memo which, on the basis of pure mathematical economics, argued that the industrial countries should ship their toxic waste to Third World countries. "The economic logic is impeccable," the memo argued. The LDCs would benefit from the fees for this service, and their peoples' average lifespans, being shorter, wouldn't be so much affected by the toxic waste.

The reaction to this memo's exposure was one reason, nearly 20 years later, President Obama did not nominate Summers as his Treasury Secretary.