Freak-Out at Jackson Hole

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Even the mere hint of today's global, financial reality from Fed Chairman Alan Greenspan, and a matching side remark by former Treasury Secretary Robert Rubin, have touched off a furor of lunatic rage among the customary annual coven of wishful dreamers assembled for this weekend's annual rain-dance at Jackson Hole.

I restate, in clear text, what Greenspan and Rubin were actually thinking about as they spoke on this occasion.

Alan Greenspan took over the Fed from Paul Volcker at the point that the New York stock market had just gone through the October 1987 equivalent of what happened to Hoover in 1929. Greenspan's reign has been distinguished by his regime's bail-out strategies, which have consisted chiefly of a resort to the massive legalization of what are actually gamblers' side-bets, but are called, euphemistically, "financial derivatives" or "hedge funds," a kind of play-money which has been used as a way of papering over the effects of a major stock-market crash. About the time the unlucky, and easily duped George W. Bush, Jr. was entering office in January 2001, the beginning of a financial-derivatives-driven general collapse of the world monetary-financial system, was already in progress. Nonetheless, despite this reality, Greenspan continued to play his part in the wilder and wilder pumping up of collapsing world financial institutions by a method most fairly and kindly described as "blowing bubbles."

During the interval since the 2000 collapse of Greenspan's earlier "IT" financial bubble, the Fed Chairman and his accomplices overseas have postponed the overripe collapse of the world's current financial system so far, by resort to dubious schemes, typified most visibly by an international hyperinflationary spiral in mortgage-based financial securities markets, such as those in the U.S.A., the United Kingdom, Australia, and so forth. A blow-out of that over-ripe mortgage-securities bubble, is the leading immediate threat to the U.S. and British banking systems, a threat of an event which would spread like wildfire throughout world markets.

As a result of Greenspan's pumping policy, since about April of this year, the entire world system has been flirting with the increasing possibility of an immediate general blow-out of the hedge-fund system. Now, as until the present international system actually blows out, that system is wobbling on the edge of something far more menacing than a mere stock-market crash like that of 1929 or October 1987.

To calm the worst fears of the panicked pack at this weekend's Jackson Hole affair, I describe the actual situation of the markets in the plain language which Greenspan and Rubin avoided on this occasion.

The world markets as a whole are gripped now by what has been an accelerating global hyperinflation with certain mathematical-functional similarities to what happened in Germany during the Summer and Autumn of 1923. This threat is immediate, and worsening at an accelerating rate; but, fortunately, the challenge is manageable, on condition that certain essential emergency reforms are made quickly. As Franklin Roosevelt once said, famously, "We have nothing as much to fear as fear itself"—or, if not fear, the kind of mass-delusions exhibited by the maenads of Jackson Hole.

The Nature of the Crisis

The immediate problem of the world's principal financial markets has the following leading characteristics.

Greenspan's methods have amounted to flooding the financial system's current accounts through a massive infusion of financial-derivatives "Monopoly play-money." The crux of the problem is, that short-term apparent returns on current financial markets have been bought by an accelerating rate of growth of unpayable long-term financial obligations, which have been generated by Greenspan's and by similar methods

Federal Reserve Bank Chairman Alan Greenspan is beginning to lose his usual inscrutable composure.

used abroad. When that hyperinflationary debt-inflation halts, the present world monetary-financial system blows apart. The relationship between apparent financial returns and long-term unpayable financial obligations is now clearly hyperbolic. The really bad news is, that the longer the market does not collapse, the worse the financial collapse becomes; that, at an accelerating rate.

Wishful people who refuse to think clearly are deluding themselves, like people living on the proceeds of taking in one another's laundry, by asking one another, "Are we sure that the market will never really crash?" Asking "When" is their potentially fatal mistake; they should be asking, "How?" instead.

The best thing would be to have had the crash sooner, rather than later, but on the condition that the U.S. government were thinking clearly, and was prepared to act as Secretary Rubin and President Clinton had posed the need for international financial-system reform, back during September 1998.

The problem is that the crowd of virtual bankrupts represented at Jackson Hole are clinging so desperately to their delusion of riches, that they, like the dupes of 1923 Germany, would rather cling for another moment to their own doomed dreams, than face the reality of the urgently needed general reform.

Sometimes the worst kind of insanity is clinging to denials, as we see from the spectacle of the diabolical romp of the wild-eyed warlocks and witches assembled at Jackson Hole.

Even chief warlock of the Federal Reserve, Greenspan, can no longer charm them with his spells.

The question is: Are they willing to accept a merciful path to survival in bankruptcy proceedings, or the permanent torment their continued folly of today would assure them now? The question is: "Since most of that crowd at Jackson Hole are probably hopelessly insane, and probably soon bankrupt, for the moment, what are you, John Q. Citizen, willing to do, to save your country, and, also, your own butt?"