

The Bankers Know: Something Catastrophic This Way Comes

by John Hoefle

By now, most people are aware that former Federal Reserve chairman Alan Greenspan is on a “not my fault” tour, proclaiming to everyone who will listen that he is not to blame for the collapse of the financial system. By saying he “didn’t really get it,” Sir Alan is choosing to cloak himself in the mantle of incompetence, in the hope that he won’t go down in history as the worst central banker of all time. Greenspan, to protect himself, is blaming President Bush, who is admittedly an easy target, while riding to Bush’s defense is Vice President Dick Cheney, who wrote an op-ed in the Sept. 19 *Wall Street Journal* claiming that Greenspan was “off the mark.”

Cheney insisted Bush’s (and therefore his) record was “superb,” adding that “no other president has spent more time or political capital trying to avert a fiscal disaster that everyone knows is coming.”

At the same time, both Fed chairman Ben Bernanke and Bank of England governor Mervyn King are being criticized for flip-flopping in their handling of the financial crisis, with King in particular catching flack over the run at Britain’s Northern Rock bank.

Why are such senior figures suddenly so concerned about their reputations? What do they see coming that causes them to go into a very public “not my fault” mode?

These comments are de facto admissions that the global financial system is bankrupt, and that the efforts of the central bankers to contain the collapse have failed. Something catastrophic this way comes, and the bankers know it.

Runs on the Banks

Northern Rock, a \$230 billion British mortgage bank based in Newcastle, is emblematic of the problems facing fi-

ancial institutions at this point. The bank ran into serious trouble in mid-September when it could not borrow the money to make new loans, and had to turn to the Bank of England for emergency funds. As word of the bank’s problems spread, anxious depositors descended on the bank to withdraw their funds, sparking a panic. Few things scare bankers more than runs, which can easily spread as panic sets in. Even healthy banks can be destroyed by runs, and there are few, if any, major banks that are healthy these days.

The Bank of England, despite its recent assurances that it would not bail out faltering institutions, threw all its promises out the window to stop the runs from spreading. The Bank stepped in as lender of last resort, and the British government, through Chancellor of the Exchequer Alistair Darling, guaranteed the Northern Rock depositors that their money was safe. Subsequently, the Bank agreed to accept mortgages as collateral for loans. This move, like the decision of the Fed to buy mortgage-backed securities and accept asset-backed commercial paper as collateral for loans to the banks, reflects the desperation of the central banks to stop the collapse. Thus far, the Fed, the European Central Bank, the Bank of England, and other central banks have pumped *hundreds of billions* of dollars into the system in a vain attempt to control its collapse.

The run on Northern Rock in September followed a similar run against Countryside Bank in California in August, amid fears that its mortgage-lending parent Countrywide Financial would collapse. This run occurred in spite of the fact that the bank deposits were insured by the FDIC. Countrywide subsequently borrowed \$11 billion from a line of credit set up before the crisis struck, and later received a \$2 billion injection from Bank of America.

While the bankers have tried to portray these runs as isolated cases, they actually represent an important inflection point in the disintegration of the system. We have gone from denial, in which the problem was presented as too minor for serious concern, to attempts to dismiss it as a mere “sub-prime” crisis, to treating it as a larger but still manageable “credit crunch,” to the point where panic is openly setting in, and the central banks are openly intervening, and the players are looking for ways to escape the blame for the growing catastrophe.

Gasoline on the Flames

Lyndon LaRouche has compared the central bankers’ attempts to pump money into the system to keep it from seizing up as the equivalent of trying to put out a fire by pouring cold gasoline on the flames. By treating the crisis as a “credit crunch” which can be solved by lowering interest rates and providing liquidity for borrowing, the central banks are only making matters worse. The problem here is not a lack of credit, but far, far too much debt, which the central bank actions exacerbate.

The only rational approach to a debt crisis of this magnitude, is to address the economic policies which created it. The U.S. economy has been operating below breakeven for some four decades, during which period the productive side of our economy has been systematically dismantled and replaced with casino-like speculation and Information Age paper-pushing. As a substitute for the wealth formerly generated by the productive sector, we have gone ever deeper into debt, to the point that we now have an increase in debt of nearly \$5 for each \$1 increase in GDP. The level of debt is crushing what remains of our economy, and adding more debt will not help.

What is needed is to return to a productive economy, led by manufacturing and supported by scientific and technological breakthroughs, investment in infrastructure and essential public services such as education and health care. The first step in that direction is to put the financial system through bankruptcy, while erecting firewalls to protect the welfare of ordinary citizens. Freeze the debt, stop foreclosures, protect the essential functions including banking; save the people and the economy, and let the speculators take their losses.

The alternative is a hyperinflationary blowout of the financial system, coupled with a savage deflation of living standards, and a descent into corporatist fascism.

Deregulation Is Sabotage

Deregulation has been an unmitigated disaster which has destroyed our economy. Our deregulated transportation system is a nightmare, from our cattle-car airlines to the disappearing rail grid, to the overloaded trucks tearing up our highways, and the decline of our inland waterways. Electric utility deregulation, far from lowering prices, has raised them, in

some cases to obscene levels. Health care, once the province of doctors, is now largely run by corporate bureaucrats under orders to protect profits, not patients. Financial deregulation, coupled with changes in tax policy designed to promote speculation at the expense of production, has turned our economy from an industrial powerhouse into a bankrupt casino.

Deregulation, to put it simply, was intended to destroy our economy, and we are now seeing the fruits of that effort. At every downward ratcheting of the system, we are told that further deregulation is required to deal with the problems. Hand in hand with this goes globalization. To make our companies more competitive, we are told, we must outsource our manufacturing to places where wages are lower. The result is that the Midwest, formerly the center of the industrial world, is now a rust-bucket. Our family farms are dying, our food supply increasingly imported by giant agri-business cartels. We are more dependent than ever before on these corporate cartels, which are increasingly global in scope and controlled by the international bankers.

Where we are headed, is a combination of a return to the feudalist/looting model of the British East India Company, paired with the surveillance and control capability of George Orwell’s Big Brother.

Complete BS

Virtually everything we are told about the world situation today, is complete bullshit. What we are witnessing is a power grab by the British-centered international financial oligarchy, which wants to put the genie of human progress back in the bottle as a way of maintaining its miserable power over world affairs. The men of the empire have no intention of allowing the United States to fulfill its founding mission of leading the world out of colonialism, and have no intention of allowing the nations of Ibero-America, Africa, and Asia of developing into sovereign nation-states which put the welfare of their people ahead of the demands of the imperial parasites.

Globalization is a euphemism for imperialism, and deregulation is a euphemism for destroying the ability of a nation to protect itself from the empire. The target of the police-state measures put into place by the Bush Administration is not the oft-mentioned amorphous terrorists, but the American people. The war against Iraq was sold to the American establishment as a Malthusian move to secure our oil supplies, and to the public as a move to protect us from an imminent attack from Saddam’s weapons of mass destruction, but the real reason was to destroy us as a nation. The beating of the war drums against Iran, and others, is more of the same.

Forget the financial system—it’s gone. What we must defend is the concept of national sovereignty and the public welfare, as epitomized by the Declaration of Independence and the Constitution. This is a crisis of civilization itself, and we are the battleground. Save civilization, not speculation.