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Brady Report proposes hyperinflation machine

by Chris White

The Establishment's hysterical refusal to face up to the reality of the developing financial crisis, is underlined, once more, by the recently issued report of "The Presidential Task Force on Market Mechanisms." That mouthful is the official name for the body, under Bush-league banker and Yalie Nicholas Brady, called into existence by President Reagan, in the aftermath of the "Black Monday" market melt-down, and given 60 days to produce the official cover-story.

The recommendations center on the creation of a hyperinflation machine, which once set into motion, will wreck the shards of the disintegrating financial system faster than anything else can. What is now afoot in Mexico ought to be seen as the model for those who propose to go down this route to protect the sacred integrity of their bankrupt financial system. The core recommendations are to put the Greenspan Federal Reserve in position as the liquidity spigot for banks, investment houses, and brokerage firms who would otherwise expect to be wiped out when the next wave of market shocks hit. The inflation of worthless paper will accomplish the same thing, perhaps more quickly. In short, the report proposes to make the "band-aid" patchwork, of Oct. 20 and subsequent days, the operating practice for the market from here on in.

This is how the commission proposes to deal with the "technical factors" which are supposed to be responsible for market chaos.

Narrow focus

The task force's major conclusions follow strictly from the mandate by which the body was brought into existence, "to focus on those factors which transformed this downward pressure into the alarming events of the stock market decline and to recommend measures to ensure, as far as possible, that future market fluctuations are not of the extreme and potentially destructive nature witnessed in October 1987."

Since that's how the commission described its mandate, it was kind of dishonest for the President, in his recent Cleveland speech, to trumpet the conclusion that the report found that there isn't "a crisis," and that "internal market mechanisms" alone can account for the melt-down. The commission didn't find what it wasn't told to look for. It did acknowledge, which the President didn't in the cited Cleveland speech, that the "fundamental causes of the recent market decline should not, of course, be ignored. To the extent that existing imbalances in the budget, foreign transactions, savings, corporate asset positions, and other fundamental factors are perceived to be problems, they merit attention."

And, in the first of the more detailed studies, which back-up the report's summary conclusions, entitled "The Global Bull Market," including subsections such as "The Levitating Stock Market: Defying Natural Forces" and "End of August to October 19th: Living on Borrowed Time," Section V. "Bursting the Bubble: October 1987," begins, "Eventually all things, good or bad, must come to an end, and the worldwide bull market did so with a vengeance in October 1987. In the U.S., the stock market collapsed under the combined weight of fundamental, technical, and socio-political problems."

Probably the President didn't read that far into the hefty document. It seems, though, that while the narrow focus of the commission's mandate produced the result intended, the broader thinking of those who put the document together is at variance with the pollyanna-ish rerun of Herbert Hoover scripts practiced by the outgoing President and his friends.

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Where was Citicorpse?

Among those who worked with Brady and his fellow commissioners, at their own expense, to produce the summary and appended detailed studies were the following Wall Street luminaries: E.F. Hutton, Inc., First Boston Corporation, Goldman, Sachs and Co., J.P. Morgan, Inc., Kidder Peabody and Co., Inc., Merrill Lynch Capital Markets, Morgan Stanley, Salomon Brothers, and Shearson Lehman Brothers, Inc. Is there a significance to the fact that the big money center commercial banks, Chase, Citicorpse, Manny Hanny, were not involved? Maybe.

Despite the differences with the President and his team over the existence or nonexistence of a broader financial crisis, the Wall Street financiers do, of course, have their own obsessional fixations to air. And that's where the institutionalization of the hyperinflation machine comes in. While Monday, the 19th, the day the Dow fell 500 points, was the day the crash shockwave hit, what the bankers who donated their services, *pro bono,* to the commission, are much more concerned about, is what nearly happened on Tuesday, the 20th.

On page 41 of the report, one finds, "Although Monday was the day of the dramatic stock market decline, it was midday Tuesday that the securities markets and the financial system approached breakdown. First, the ability of the securities markets to price equities was in question. The futures and the stock markets were disconnected. There were few buyers in either market and individual stocks ceased to trade. Investors began to question the value of equity assets. Second, and more serious, a widespread credit breakdown seemed for a period of time quite possible."

And on page 53, "By midday Tuesday, October 20th, it appeared possible that a continuing steep decline could have reduced the capital of certain market makers to a level at which they could not obtain sufficient additional funds to continue their participation in the market." Or, on page 52, "Bankers were also concerned that the clearinghouses would be unable to collect all their margin calls and would be unable to pay in full the balances owed to their clearinghouse members. These concerns apparently resulted in the withdrawal of some uncommitted lines of credit to some market participants, restrictions on new loans to some clearinghouse members and a general concern on the part of bankers over extending credit to cover Tuesday morning margin calls."

The concerns identified in the quotations cited above are what motivated the commission's recommendations. Much play has been made in the press, including the financial press, about subsidiary features of the recommendations put forward. These have included what Bush-leaguer Brady called "circuit breakers." The circuit breakers are supposed to be imposed halts in trading, cooling-off periods, when price movements, or trading begin to get out of hand, and, the imposition of daily limits on price movements for stocks, as now prevails in certain commodity markets. Played up with these has been the recommendation to force futures' markets to adopt the same margin requirements on trading as in the stock markets. In the press, this has been subsumed under the demand for Federal Reserve regulation of the system as a whole.

Why the Fed?

The press has been less than forthcoming about why the commission recommends that the Fed take over the regulation of the trading system as a whole. As the report says on page 64, the crisis conditions that prevailed on Tuesday 20th October "raised the specter of a full-scale financial system breakdown and required the Federal Reserve system to provide liquidity and confidence. The complexity of the clearing and credit mechanisms, rather than a substantive problem of solvency, was at fault. What is needed is a unified clearing with stocks, stock index futures, and stock options all cleared through a single mechanism. Unified clearing facilitates the smooth settlement of intermarket transactions, which is the linchpin of these markets. It clarifies the credit risk of lending to participants engaged in intermarket transactions. This would reduce the chance of financial gridlock and the attendant risk to the financial system."

The speciousness of the commission's report as a whole is contained in the sentence, "The complexity of the clearing and credit mechanisms, rather than the substantive problem of solvency, was at fault."

If that had been true, there would, presumably have been no need for the famous Federal Reserve announcement of 9:00 a.m., Tuesday, Oct. 20. "The Federal Reserve Bank affirms its readiness to serve as a source of liquidity to support the economic and financial system." Nor would there have been any need for the massive pumping of funds into the banking system to cover exposed clearinghouse and brokerage positions, and back up major banks' and corporations' stock repurchase operations.

Defending the indefensible

The fact of the matter is that, financially, "the system" is actually insolvent, and worse bankrupted by the proliferation of indebtedness which financed the expansion of the biggest bubble in history, known as the "Great Bull Market of 1982-87." To pretend now, after the events of October, that such is not the case is to continue to insanely exclude the one set of measures, overall financial and economic reorganization under Executive Branch direction, which could bring some order back into the spreading chaos. To set out to defend a bankrupt system is to set out to defend the indefensible.

Brady might think it will help improve George Bush's election chances, for the moment, but the next time around, the mechanisms now proposed will be recipes for absolute disaster. But, if that's what Brady and his *pro bono* assistants insist on, it will certainly be what they are going to get. And they will have no one to blame but themselves.