Greenspan's rate hikes will only make things worse

by Chris White

On Nov. 15, Alan Greenspan and his buddies on the Federal Reserve's Open Market Committee did it again. They raised interest rates on both the Federal funds rate and the discount rate, by three-quarters of a percentage point. It was the sixth interest rate increase since Feb. 4, and the largest single increase in the Fed funds rate, the rate the Federal Reserve charges banks for overnight balances, since the heyday of Fed Chairman Paul Volcker back in 1981.

There is a school of thought in the money-world, which we elaborate in the following article, that Greenspan's interest rate increases have, over the last months, performed some benefits to the financial community, by, among other things, reining in the notoriously speculative hedge funds, like George Soros's Quantum Fund, thereby letting some hot air out of a bloated speculative bubble, to restore a bit of order, so to speak, in that world.

There is another school of thought, which insists such thinking is insane; that its insanity is reflected in what it refuses to take into account, or even to accept as relevant.

We show, in a third piece (p. 9), what the lacunae are in this line of crazy so-called thinking from the money-world. As the post-election post-mortems among fallen Democrats and others are revealing, these lacunae are not simply a matter for the denizens of the precincts of the money-gods. Some among the worshippers of sacred money-power might delude themselves that they have bought stability, that they can talk about a continuing, third wave, economic recovery. They are full of it.

They can only buy apparent stability by means which ensure the ultimate, and inevitable, demise of that which they are trying to stabilize. This is the utter folly which the proponents of the "lean, mean, competitive" American corporation and economy have not grasped. They gut "cost structures" as efficiently as a Tyson's chicken-processing plant handles its feathered intake; they claim, insanely, that the results "drop straight through" to the bottom line, as increases in so-called profit. And thus what accountants call "earnings" increase, even while the whole economy is bankrupt. Finding new ways to scrape scraps of rotten flesh off the carcass of a Tyson's chicken might be an achievement for some. No one in his right mind would call the result dinner.

LaRouche was right

This was the subject of Lyndon LaRouche's "Ninth Economic Forecast," published in *EIR* on June 24, 1994 under the headline "Early Disintegration of World Financial Markets." LaRouche, whose forecasting record is unmatched by anyone else in the period since the 1950s, warned therein that the disintegration of financial markets might be delayed, out of this year into next year, and might be pushed out of 1995 into 1996, but that it probably could not be delayed much beyond 1996.

Speak of "financial disintegration," and the reaction all too often is, "Oh, you are predicting a stock market collapse," a 1987- or 1929-style market meltdown. So now, perhaps, the crazies—who insist that what Greenspan is doing is all somehow for the best, don't you see?—will probably also insist that events are proving LaRouche wrong. They miss the point. The subject is not the financial markets. The subject is the wealth-producing capability of the economy. The financial markets are a cancer feeding metastatically on the healthy tissue of the population and economy. Their survival and growth cannot endure past the decease of that on which they feed. Thus, the better Greenspan appears to be maintaining stability, the more surely is he ensuring the doom of that which his allies proclaim him to be stabilizing.

So unemployment increases, and does not decline, the quality of jobs available deteriorates, health and retirement benefits disappear. All, swallowed down the maw of the money-bomb Greenspan and company created and tend. For the first time, a generation of Americans is doing worse than those who preceded them. And, by such means, they claim to stabilize a financial system which, bearing about $15 trillion of debt, and booking, every night, some $30 trillion worth of contracts, worldwide, in derivatives, staggers from one such financial stabilization effort to the next, more deadly one, as the assets available to support such looting shrink, through the cost-cutting which allegedly increases the accountants' "bottom line."

The lessons of the mid-term election

The proponents of this, the third "recovery" since the Reagan "recovery" of 1982-83, could learn a lesson from the 18- to 30-year-olds who voted on the basis of the reality that there is no economic recovery, or from the older cohorts in the electorate whose concerns with employment, Social Security, health, also reflect the same reality. This "recovery" doesn't exist any more than Bush's recovery did, or Reagan's before Bush's.

As one of the country's pundits put it: "People do not understand that 'good times' are no longer what they used to be." This pundit, speaking before the elections, was addressing the question why it was that President Clinton, and the ranking members of his administration, had so much difficulty getting the so-called message of the administration's "economic successes" across.

The message was simply not believed.

Some object. "No," they will say, "it's because the media didn't put the President's record out properly." Or, more simply, that people do not understand what the issues are.

An opinion poll conducted by Merrill Lynch, also prior to the elections, might put that latter view in context. Only 11% of Merrill's respondents knew what the magnitude of the federal government's deficit is, to within plus or minus $300 billion. Less than 30% of respondents knew the name of the chairman of the Federal Reserve Board, what the Federal funds rate was, or what the official unemployment rate was.

Yet the runaway budget deficit is supposed to be one of the top "issues" in the popular mind. Equally, after the election, Democratic Party pollsters found out that only about 5% of the electorate actually supports the President's free-trade agenda, or knows about it. And the majority of the 5% happen to be Republican by party affiliation.

Perhaps on this one, the "professionals," the "experts," ought to listen to those who are telling them that all their professional expertise doesn't matter a jot when it comes to the things that really count. On this one, it is the experts who are the ignorant ones. To do something effective about the economy, get rid of the experts, with their Philips curves and their J-curves and their yield curves, and their supply and effective demand. Don't put professors of economics anywhere near positions of responsibility.

Who, in his right mind, would care about the monthly report of the unemployment rate, really? To all, except for those attached to the computer terminals in Alan Greenspan's beloved bond market, it is a hoax. It is known to be a hoax. A virtual industry has grown up in the country dedicated to proving it is a hoax. Who has time for government figures on personal disposable income, on consumer price inflation, on the Gross National Product? No one really needs to know that they are all calculated on the basis of the fictions employed to make up the employment/unemployment numbers, in order to know that they are all garbage.

Thus, anyone who comes down from his or her professional heights to report on the experts who say that we are on track to creating 5 million jobs by 1996, and claim credit for doing that, is going to have a really tough time, except when talking to fellow experts.

In the red

Our third article compares selected parameters of financial performance with certain economic yardsticks.

It is easily shown that the only growth there has been since the late 1970s—when Paul Volcker pushed the economy below breakeven levels of functioning with his early policy of interest rates increases—is growth of indebtedness and speculation, as represented, in this case, by derivatives transactions.

Financially, the U.S. economy is operating at a loss, a loss which will increase for as long as the claims of debt and speculation are accorded priority over economic activity as such. But not forever, for the sources of loot available to meet the appetite of such debt and speculation are relatively finite. Economically, ratios of productive employment, energy use, and movement of freight, epitomize the downward careening of productive capacity, reflected in the collapse of family life, and the degradation of the mental and physical capacities of the population.

As LaRouche proved in his "Ninth Forecast," there are two ways to go, and only two. Either governments take the lead, and declare that the present money system, and all that hangs on it, is bankrupt, to then create a new one, which will, in the case of the United States, provide public credit, at low interest rates, to finance necessary works of improvement in infrastructure and technology, through fostering productive employment—or the whole shebang will disintegrate.

To right-thinking people, though there be two such alternatives, they don't necessarily merit an equivalent weight in judgment, pending the outcome. Better act now to ensure that the experts are put where they really belong, and that the lunatics get the proper treatment.