Regulation Is Too Little, Too Late!

by John Hoefle

June 26—The meltdown of the global financial system, in which derivatives played a crucially destructive role, has forced the issue of controlling the derivatives market out into the open once again, in a way not seen since the efforts of a brave regulator to regulate them in 1998, and Lyndon LaRouche's call to tax derivatives into oblivion in 1993. Now the matter has resurfaced, as an element of the Obama Administration's plan to restructure the financial regulatory apparatus.

The Obama plan is fatally flawed. It is not a serious attempt at correcting the errors and abuses which allowed the financiers of the Anglo-Dutch Liberal monetary system to blow up the world, but rather an attempt to head off any serious regulation by proposing a series of half-measures and cosmetic changes. Indicative of this is the plan to give the Federal Reserve even more power, in effect *rewarding* the Fed for its key role in blowing up the world. Any serious effort at reform would begin with seriously constraining, or better still eliminating, the Fed as part of a return to the Constitution. The Obama plan is not reform, but a further capitulation to the British Empire.

The same can be said about the Administration's plan to improve the oversight of the derivatives markets. What is required is to shut the derivatives markets down in their entirety, to declare all derivatives contracts null and void, and to forbid their use in the future. Instead, what is being proposed is a series of vapid and ineffective "reforms," which will allow the derivatives markets to continue, only this time under the supposedly vigilant eyes of no-longer-comatose regulators.

What Derivatives Are

The derivatives market is, and always has been, a mechanism by which the financiers of the imperial monetary system could reap huge profits while they systematically destroyed the productive economies of the world, particularly the United States. Derivatives are a criminal scam of the highest order.

During the 1980s, the U.S. economy became a playground for the parasites, whose endless stream of dope money and petrodollars allowed them to shut down our industrial base in favor of an economy dominated by finance. By the time of the stock market crash of 1987, our economy was in ruins, our savings-and-loan banking system destroyed, junk bond and real estate markets were crashing, the big banks were bankrupt, and Washington was in a panic.

Rather than take their losses, and put the system through bankruptcy reorganization, as Lyndon LaRouche recommended, the financiers and their politicians decided to cook the books and move the losses off the balance sheets, where they could be more easily hidden. Leading the charge was Federal Reserve chairman Alan Greenspan, who advocated derivatives as the way to keep the financial system going, even as the economy continued its collapse. In effect, Greenspan and his sponsors in the City of London created a giant casino, fueled by derivatives speculation.

The result of this insanity has been a financial system that has careened from disaster to disaster. Time after time, the "solution" to one disaster laid the groundwork for the next, and each time, the looting of the physical economy to support the growing bubble increased.

In 1993, LaRouche launched a campaign to eliminate the use of derivatives, which led to a series of hearings by Texas Democrat Henry B. Gonzalez, then, chairman of the House Banking Committee. Despite his valiant efforts, Gonzalez was unable to get the banker-dominated Congress to move against derivatives.

Another attempt was made in 1998, by Brooksley Born, then, the chairman of the Commodity Futures Trading Commission (CFTC). Born's effort was defeated by a high-powered lobbying effort by the big derivatives speculators and their trade group, the International Swaps and Derivatives Association (ISDA), and by the combined efforts of the Fed, the Treasury, and the Securities and Exchange Commission (SEC). Two

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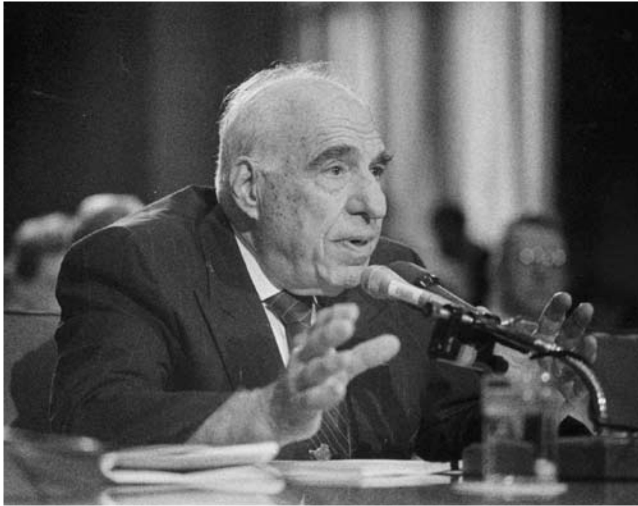
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In the 1990s, House Banking Committee chairman Henry B. Gonzalez tried to move against derivatives, but was stymied by the banker-dominated Congress.

of the major players in this effort were JP Morgan, now, the largest derivatives bank in the world, and Enron, whose financial shenanigans destroyed it in 2001.

Through it all, the financiers claimed that derivatives were an essential part of the economy, reducing risks and creating value. Trust us, they said, we know what we're doing.

Now we know that was a lie. Far from helping the economy, derivatives have destroyed it, blowing out the banking system, and triggering the largest bailout in history.

Even so, despite the overwhelming evidence to the contrary, the financiers continue to defend derivatives, and insist that they be allowed. More astonishing, but not exactly surprising, the regulators agree, and are defending derivatives under the guise of regulating them.

Meaningless 'Reform'

A complete lack of understanding of the crisis we face today, and of the measures necessary to resolve it, was on display at the hearings on derivatives held by the Senate Banking securities subcommittee on June 22. The title itself, "Over-the-Counter Derivatives: Modernizing Oversight to Increase Transparency and Reduce Risks," reflects the delusion which still grips Washington.

The three regulators who testified, SEC chairman Mary Schapiro, CFTC chairman Gary Gensler, and the Fed's Patricia White, all retailed the line that, while more stringent regulations are necessary, the derivatives markets should continue. The trio broadly agreed that a combination of increased regulatory oversight and increased reporting requirements could reduce systemic risk, increase transparency, prevent fraud, and protect less sophisticated investors.

Given that the derivatives market was designed as a way to let the insiders loot the "suckers," and that the regulatory apparatus is clearly dedicated to *saving* the crooks instead of shutting them down, such claims are ludicrous. Even if some of the regulators actually believe what they are saying, what they are proposing will not work.

The most obnoxious testimony came, predictably, from the derivatives lobby, in the person of ISDA CEO Robert Pickel, who repeated the hoary line that derivatives were good for the economy, and good for ordinary Americans. Pickel asserted that over-regulation would be a mistake, and would hurt the nation.

More interesting was the testimony of Chris Whalen, co-founder of Institutional Risk Analytics, who noted that "OTC derivatives trading is the leading source of profits" for large banks such as JP Morgan Chase, Goldman Sachs, and Bank of America, and that these derivatives "are net destroyers of value for shareholders and society even while pretending to be profitable." Whalen suggested that the Committee ignore the views of the regulators, "since the view of these agencies are largely duplicative of the views of JPM [JP Morgan] and the large OTC dealers."

Shut It Down

There is no way to apply meaningful reform to the derivatives market—the very concept is absurd, since the derivatives market is essentially a criminal conspiracy run by the British Empire. Derivatives, as we said before, are designed to help the imperial financiers record profits while destroying the living standards of the people of the world. They are, then, part of the British Empire's drive for global genocide.

Contrast the Obama Administration's protection for the financial system with its stated intent to slash healthcare and Social Security for the population, and the duplicity of the Administration becomes obvious. Once again, we are being had.

The derivatives market must be shut down completely, and the parasitic financial market be put into bankruptcy protection. Nothing less will work, and we are rapidly running out of time.

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