Newsletter 45: Greenspan Sets Wall Street Loose

Dear readers,
I want to take this issue of my complimentary newsletter to present an excerpt from my book, ***The Gods of Money: Wall Street and the Death of the American Century.*** The book traces American history from roughly the 1860's Civil War through to the present, showing how, step-by-careful-step, the powerful international banks and their allies in Congress moved to de facto transform the United States from a national economy and a political system responsive to its citizens to one responsive to those Gods of Money and their private interests. Anyone wishing to better understand the problems of America today should examine that monetary history as what it has been-- a political bankers' coup.

Here in what follows from the book we go into the actions of the Federal Reserve System and specifically the long-serving chairman Alan Greenspan, to give a case example of precisely how the Fed directly controls just when they will create a market crash to serve the interests of Wall Street. This is one of the most well-hidden purposes of the Fed, very much why it was created by Wall Street in 1913 in the first place.

In late 2018 US President Trump quite accurately identified Fed interest rate policy as deliberately causing economic and financial weakness with repeated rate hikes. That sent shock waves as a President broke a tabu, and accurately called out the Fed game. The selection below will give a better context to grasp how major that intervention by the President was.

If you find this excerpt interesting, consider buying the book, The Gods of Money: Wall Street and the Death of the American Century. As well I would be delighted if you consider a support via PayPal on my homepage so that I am able to continue to offer my content, especially now with looming EU and US censorship laws or actions on Internet content and the infringement of political free speech for independent researchers as myself.

Best regards
F. William Engdahl
www.williamengdahl.com

Readers are raving about Gods of Money:

"Awesome..." -- New Dawn Magazine

"Warning - This Book May Cause Nightmares" -- Afia

"...a truly epic work..." -- Ila France Porcher, Author of The Shark Sessions

"...eye opening..." -- Amazon Customer

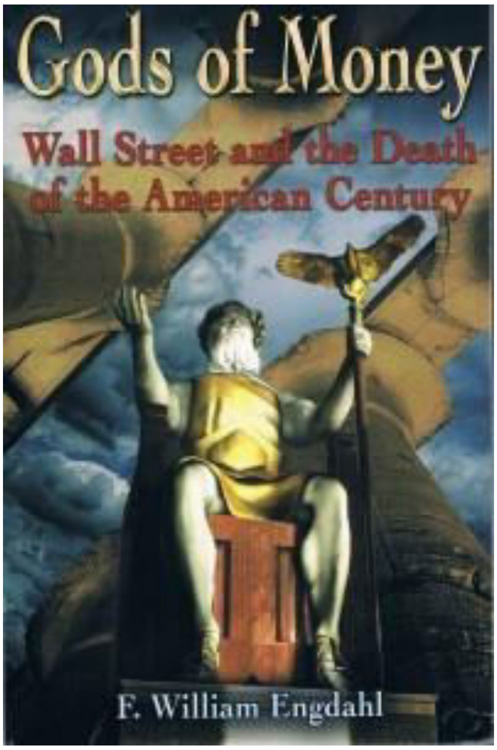
"WOW and double WOW" -- W. Palmer

"I wish I had read this book 2 years ago" -- Paul Majchrowicz

"Should be required reading in schools." -- NomadicLuxury

"Engdahl doesn't produce less than a 5-star work." -- Dr. T

Click here to buy the book:



Chapter Sixteen:

Greenspan's 'Revolution in Finance' Goes Awry

'As we move into the twenty-first century, the remnants of nineteenth-century bank examination philosophies will fall by the wayside…affiliation with banks need not--indeed, should not--create bank-like regulation of affiliates of banks.'

--Alan Greenspan, 1999, calling for deregulation of banks [1]

A long-term Greenspan agenda

Seven years of Volcker monetary shock therapy had ignited a payments crisis across the Third World. Billions of dollars in recycled petrodollar debts, loaned by major New York and London banks to finance oil imports after the oil price increases of the 1970s, suddenly became non-payable.

In August 1987, just a year away from the 1988 Presidential elections, in which George H.W. Bush was determined to succeed Reagan as President, Bush persuaded Reagan to name a new chairman of the Federal Reserve, a man more amenable to bowing before Wall Street. Bush did not trust Paul Volcker to be sufficiently partisan and feared he would choke off economic growth for fear of inflation just in time to deprive Bush of election victory; he preferred Alan Greenspan.

Greenspan would rarely disappoint his Wall Street patrons during the 18 years when he controlled the Fed with an almost iron grip. Those 18 years were marked by financial deregulation, successive speculation bubbles and instability.

With Greenspan at the helm, and after the large New York banks had looted all that was of value in the domestic US savings banks, the stage was set for the next phase in the Rockefeller financial deregulation agenda.. The next phase would entail nothing less than a revolution in the very nature of money—the Greenspan 'New Finance' Revolution.

A carefully cultivated public relations fest in the US media persuaded most Americans to believe that Alan Greenspan was essentially just a dedicated public servant who might make mistakes, but in the end always saved the day and the nation's economy and banks through extraordinary feats of financial crisis management, winning the appellation, "Maestro."[2] The truth was somewhat different.

Maestro serves the Money Trust

Alan Greenspan, like every Chairman of the Board of Governors of the Federal Reserve System, was a carefully picked, institutionally loyal servant of the actual owners of the Federal Reserve. The Federal Reserve owners, it will be recalled, consisted of the network of private banks, insurance companies, and investment banks which had created the Fed in December 1913 by rushing its statutory authorization through an almost empty Congress the day before Christmas recess. In *Lewis v. United States*, the United States Court of Appeals for the Ninth Circuit confirmed the true nature of the misnamed Federal Reserve when the court stated that "the Reserve Banks are not federal instrumentalities…but are independent, privately owned and locally controlled corporations." [3]

Greenspan's entire tenure as Fed chairman was dedicated to advancing the interests of American world financial domination in a nation whose domestic economic base had been essentially destroyed in the years following 1971.

Greenspan knew who buttered his bread and as Federal Reserve head he loyally served what the US Congress in 1913 had termed "the Money Trust," in reference then to the cabal of bankers behind the 1913 creation of the Federal Reserve.

Not surprisingly, many of the same banks which were pivotal in the securitization revolution of the 1990s and into 21st Century, including Citibank and J.P. Morgan had been at the center of the 1913 Money Trust as well. Both had share ownership of the key New York Federal Reserve Bank, the heart of the system. The real goal of the Money Trust whether in 1913 or in 1987 was to consolidate their control over major industries, economies and ultimately, over the economy of the entire world through what would be called the globalization of finance.

Alongside well-known institutions like J.P. Morgan and Citicorp and AIG, another shareholder of the New York Fed was a little-known company called Depository Trust Company (DTC), the largest securities depository in the world. Based in New York, the DTC held in custody more than 2.5 million US and non-US equity, corporate, and municipal debt securities issues from over 100 countries, valued at over $36 trillion. DTC and its affiliates handled over $1.5 quadrillion in securities transactions a year. That was to say, $1,500,000,000,000,000 -- a lot of responsibility in the hands of a company that most people never heard of.

The Depository Trust Company had a monopoly on the debt securities depository business in the USA. They had become in effect the back office of the world financial system. DTC advertised itself as a safe way for buyers and sellers of securities to make their exchange, and thus "clear and settle" transactions. It also provided custody of securities. They had simply bought up all other contenders, becoming in the process an essential part of New York's continued dominance of global financial markets, long after the American economy had become largely a hollowed-out, 'post-industrial' wasteland.

While free market purists and dogmatic followers of Greenspan's close friend 'self interest' ideologue Ayn Rand accused the Fed Chairman of hands-on interventionism, in reality there was a common thread running through each major financial crisis during Greenspan's near two decades reign as head of the world's most powerful financial institution. As Federal Reserve chairman, Greenspan managed to use each successive financial crisis to advance and consolidate the influence of US-centered finance over the global economy, almost always to the severe detriment of the US domestic economy and general welfare of the American public.

In each crisis, Greenspan used the situation to advance an agenda of globalization of risk and liberalization of market regulations to allow unhindered operation of the major financial institutions. Whether it was the October 1987 stock crash, the 1997 Asia Crisis, the 1998 Russian state default and ensuing collapse of Long Term Capital Management, or his refusal to make technical changes in Fed-controlled stock margin requirements to cool the dot.com stock bubble, or his encouragement of ARM variable rate mortgages (when he knew rates were at the bottom), Greenspan's manipulations of each crisis had the same goal. Moreover, most of the crises had been spawned or triggered by his widely read commentaries and publicly announced rate policies in the first place, as we will see.

When Alan Greenspan arrived in Washington in 1987, he had been hand picked by Wall Street and the big banks to implement their Grand Strategy. Greenspan was a Wall Street consultant whose clients included J.P. Morgan Bank, among others. Before taking the post as head of the Federal Reserve, Greenspan had also sat on the boards of some of the most powerful corporations in America, including Mobil Oil Corporation, Morgan Guaranty Trust Company and JP Morgan & Co. Inc. Greenspan had also served as a director of the Council on Foreign Relations since 1982. As Federal Reserve Chairman his first test in October 1987 would be the manipulation of stock markets using the then-new derivatives markets.

The 1987 Greenspan derivatives paradigm

In October 1987, Greenspan led a bailout of the stock market after the spectacular October 20 crash by pumping huge infusions of liquidity to prop up stocks. He simultaneously engaged in behind-the-scene manipulations of the market via purchases of Chicago stock index derivatives backed quietly by Fed liquidity guarantees. It was an unprecedented step by the central bank to intervene to manipulate stock markets covertly, something whose legality, should it be discovered, would have been highly questionable.

Since that October 1987 event, the Fed had made abundantly clear to major market players that they were, to use Fed jargon, TBTF—Too Big To Fail. No worry if a bank risked tens of billions speculating in Thai baht or dot.com stocks on margin. If push came to liquidity shove, Greenspan made clear he would be there to bail out his banking friends.

The October 1987 crash saw the sharpest one day fall in the Dow Industrials in history—508 points. The depth of the one day fall was exacerbated by new computer trading models based on the so-called Black-Scholes Options Pricing theory, whereby stock share derivatives were now being priced and traded just as hog belly futures had been before. As former Wall Street trader and author Michael Lewis described it,

> *A new strategy known as portfolio insurance, invented by a pair of finance professors at the University of California at Berkeley, had been taken up in a big way by supposedly savvy investors. Portfolio insurance evolved from the most influential idea on Wall Street, an options-pricing model called Black-Scholes. The model is based on the assumption that a trader can suck all the*

risk out of the market by taking a short position and increasing that position as the market falls, thus protecting against losses, no matter how steep. [4]

The Black-Scholes model had recently come out of the university onto major Wall Street trading floors at the time of the 1987 crash. During the 1970s, academic economists Fischer Black and Myron Scholes designed a model that appeared to give a scientific basis to predict the price of an option on financial products in the future based on the price of the actual or underlying stock, currency, or other financial commodity such as oil. The new instruments, which were sold to Wall Street and then to corporate America as a form of cheap "financial insurance" against sharp price swings, were priced in a relation to -- i.e., derived from -- an underlying product such as crude oil, hence the term "derivatives."

The use of such financial derivatives has been compared to "trying to replicate a fire-insurance policy by dynamically increasing or decreasing your coverage as fire conditions wax and wane. One day, bam, your house is on fire, and you call for more coverage?" [5]

The 1987 crash and the role of financial derivatives for the first time in a major market crisis made clear was that there was no real liquidity in the markets when it was needed. All fund managers tried to do the same thing at the same time: to sell short the derivatives -- stock index futures in this case -- in a futile attempt to hedge their stock positions.

But the selling spree triggered an automated trading spiral – in effect, a computer-driven freefall. Financial derivatives, in effect sophisticated bets on the future direction of stock prices, had made their debut on Wall Street by helping trigger the largest one-day fall in the stock market's history. It was a shaky start and not by any means the last crisis to be fed by the exotic new financial derivatives.

Stephen Zarlenga, then a trader who was in the New York trading pits during the crisis days in 1987, gave a first hand trader's view of the impact of the new derivatives on stock prices:

They created a huge discount in the futures market…The arbitrageurs who bought futures from them at a big discount, turned around and sold the underlying stocks, pushing the cash markets down, feeding the process and eventually driving the market into the ground.

Some of the biggest firms in Wall Street found they could not stop their pre-programmed computers from automatically engaging in this derivatives trading. According to private reports, they had to unplug or cut the wiring to computers, or find other ways to cut off the electricity to them (there were *rumors about fireman's axes from hallways being used), for they couldn't be switched off and were issuing orders directly to the exchange floors.*

The New York Stock Exchange at one point on Monday and Tuesday seriously considered closing down entirely for a period of days or weeks and made this public…It was at this point…that Greenspan made an uncharacteristic announcement. He said in no uncertain terms that the Fed would make credit available to the brokerage community, as needed. This was a turning point, as Greenspan's recent appointment as Chairman of the Fed in mid 1987 had been one of the early reasons for the market's sell off. [6]

What was significant about the October 1987 one-day crash was not the size of the fall, some 23%. It was the fact that the Fed, unannounced to the public, intervened through Greenspan's trusted New York bank cronies at J.P. Morgan and elsewhere on October 20 to manipulate a stock recovery through use of the new financial instruments, the derivatives.

The visible or presumed cause of the October 1987 market recovery seemed to occur when the Chicago-based MMI (Major Market Index) future price of select New York Stock Exchange blue chip stocks began suddenly to trade at a premium to the underlying actual stocks, midday Tuesday, at a time when one after another Dow stock had been closed down for trading. That was interpreted as a sign that "smart money" knew a rebound was about to happen. Brokers cautiously began buying the real stocks.

The meltdown began to reverse. Arbitrageurs, high-risk securities gamblers, bought the underlying stocks, re-opening them, and sold the MMI futures at a premium. The New York stock market had magically and for no clear reason begun a dramatic recovery. It was created in the trading pits of the Chicago MMI futures exchange, far from view of most of the public. Greenspan and his New York financial cronies had successfully engineered a stock market recovery using the same derivatives trading models in reverse, to drive the price of stocks sharply higher just as they had driven the same stocks to the bottom only days earlier. It was the dawn of the era of financial derivatives, a world of potential manipulation beyond belief.

For most mundane Wall Street traders, financial derivatives gradually became accepted as a highly profitable new instrument to make money out of money. A few savvy financial insiders realized that those who could gain control of the market for the new financial derivatives, and control of their exchanges, had the potential to make or break entire financial markets. It was the start of one of the most colossal projects in the history of finance—the derivatives revolution.

Historically, so most people were led to believe, the role of the Federal Reserve as the Comptroller of the Currency, among others things, was to act as independent supervisor of the largest banks to insure stability of the banking system and prevent a repeat of the bank panics of the 1930s by serving as 'lender of last resort.'

Under the Greenspan regime, after October 1987, the Fed increasingly became the 'lender of first resort,' as the Fed widened the circle of financial institutions worthy of the Fed's rescue.

It was the birth of an insider game sold to the public during the late 1980s as the 'democratization' of capital, using the argument that because millions of Americans were investing their pension funds into mutual funds and money market funds, that meant that 'the people' actually controlled finance, not the financial oligarchs of old like J.P. Morgan or John D. Rockefeller. Nothing was farther from the truth.

The Greenspan Federal Reserve's *laissez faire* policy towards supervision and bank regulation after 1987 was crucial to implementing the broader deregulation and financial securitization agenda that Greenspan had hinted at in his first Congressional testimony in 1987.

On November 18, 1987, only three weeks after the October stock crash, Alan Greenspan told the US House of Representatives Committee on Banking that, "repeal of Glass-Steagall would provide significant public benefits consistent with a manageable increase in risk." [7]

Greenspan would repeat this mantra until Glass-Steagall, the law that had required separation of investment and commercial banking, was finally repealed in 1999. The support of the Greenspan Fed for unregulated treatment of financial derivatives after the 1987 crash was instrumental in the explosion of derivatives trading worldwide. The global derivatives market grew by 23,102% between 1987 and the end of 2006 when it was a staggering $370 trillion. The volumes were incomprehensible.

Destroying Glass-Steagall Restrictions

One of Greenspan's first acts as Chairman of the Fed had been to call for repeal of the Glass-Steagall Act, something that his old friends at J.P.Morgan and Citibank had ardently campaigned for. [8] Glass-Steagall, officially the Banking Act of 1933, had introduced the separation of commercial banking from Wall Street investment banking and insurance. Glass-Steagall originally was intended to curb the practices that had caused the severity of the 1930s wave of bank failures and depression.

One problem that Glass-Steagall was designed to address was that, prior to 1929, banks had been investing their own assets in securities, with consequent risk to commercial and savings depositors in the event of a stock crash. Unsound loans were made by the banks in order to artificially prop up the price of select securities or the financial position of companies in which a bank had invested its own assets. A bank's financial interest in the ownership, pricing, or distribution of securities inevitably tempted bank officials to press their banking customers into investing in securities which the bank itself was under pressure to sell. It was a colossal conflict of interest and invitation to fraud and abuse. That era was appropriately dubbed the 'Roaring Twenties' as the stock market roared to new inflated highs.

Banks that offered investment banking services and mutual funds were subject to conflicts of interest and other abuses, thereby harming their customers, including borrowers, depositors, and correspondent banks. The Glass-Steagall Act of 1933 was specifically intended to prevent this.

After the law was repealed in 1999, with no more Glass-Steagall restraints, banks offered securitized mortgage obligations and similar products via wholly owned Special Purpose Vehicles they created to get the risk 'off the bank books.' They were directly and knowingly complicit in what will go down in history as the greatest financial swindle of all times—the sub-prime securitization fraud.

Commenting on the origins of the 1930's Glass-Steagall act, Harvard economist John Kenneth Galbraith noted,

> *Congress was concerned that commercial banks in general and member banks of the Federal Reserve System in particular had both aggravated and been damaged by stock market decline partly because of their direct and indirect involvement in the trading and ownership of speculative securities.*
>
> *The legislative history of the Glass-Steagall Act shows that Congress also had in mind and repeatedly focused on the more subtle hazards that arise when a commercial bank goes beyond the business of acting as fiduciary or managing*

agent and enters the investment banking business either directly or by establishing an affiliate to hold and sell particular investments.

....During 1929 one investment house, Goldman, Sachs & Company, organized and sold nearly a billion dollars' worth of securities in three interconnected investment trusts--Goldman Sachs Trading Corporation; Shenandoah Corporation; and Blue Ridge Corporation. All eventually depreciated virtually to nothing.[9]

Deregulation means 'Too Big To Fail'

From the 1980s Reagan era through the 1990s, major banks and Wall Street institutions consolidated unprecedented power over the United States and its economic life. The deregulation agenda proposed in 1973 by the Rockefellers was the driver of the power consolidation. For most of the period the consolidation took place under the watchful eye of the Greenspan Federal Reserve.

In the United States, between 1980 and 1994, more than 1,600 banks insured by the Federal Deposit Insurance Corporation (FDIC) had been closed or had received FDIC financial assistance. That was far more than in any other period since the advent of federal deposit insurance in the 1930s. It was part of a process of concentration into giant banking groups that would continue into the next century.

In 1984 the largest bank insolvency in US history seemed imminent. Chicago's Continental Illinois National Bank, the nation's seventh largest, and one of the world's largest banks, was on the brink of failure. To prevent such a large failure the Government, through the Federal Deposit Insurance Corporation, stepped in to bail out Continental Illinois by announcing 100% deposit guarantee instead of the limited guarantee provided by FDIC insurance.

This came to be called the doctrine of "Too Big to Fail" (TBTF). The argument was that certain very large banks, because they were so large, must not be allowed to fail for fear it would trigger a chain-reaction of failures across the economy. It didn't take long before the large banks realized that the bigger they became through mergers and takeovers, the more certain they were to qualify for TBTF treatment. So-called 'Moral Hazard' was becoming a prime feature of US big banks. [10]

The TBTF doctrine, during Greenspan's tenure as Chairman of the Federal Reserve, would be extended to cover very large hedge funds (LTCM), very large stock markets (NYSE), and virtually every large financial entity in which the US financial establishment had a strategic stake. Its consequences would be devastating. Few outside the elite circles of the largest institutions of the financial community even realized the TBTF doctrine had been established.

Once the TBTF principle was made clear, the biggest banks scrambled to get even bigger. The traditional separation of banking into local S&L mortgage lenders, on the one hand, and large international money center banks like Citibank or J.P. Morgan or Bank of America, on the other – as well as the prohibition on banking in more than one state -- were systematically dismantled. It was a new version of 'leveling the playing field,' whereby the biggest banks simply bulldozed and swallowed up the smaller ones, thereby creating financial cartels of unprecedented dimensions.

By 1996 the number of independent banks had shrunk by more than one-third from the late 1970s -- from more than 12,000 to fewer than 8,000. The percentage of banking assets controlled by banks with more than $100 billion doubled to one-fifth of all US banking assets. The trend was just beginning. The banks' consolidation was formalized in the 1994 Interstate Banking and Branch Efficiency Act which removed geographic restrictions on bank branching and holding company acquisitions by the individual states. Under the rubric of more efficient banking a Darwinian struggle for 'survival of the biggest' ensued. The biggest were by no means, however, the fittest. The consolidation was to have significant consequences a decade or so later as securitization exploded at a scale beyond even the banks' wildest imagination.

Operation Rollback: Enter Greenspan

The major New York money center banks had long had in mind the rollback of that 1933 Congressional restriction, Glass-Steagall. And Alan Greenspan as Fed Chairman was their man. The major US banks, led by Rockefeller's influential Chase Manhattan Bank and Sanford Weill's Citicorp, spent over one hundred million dollars lobbying and making campaign contributions to influential Congressmen to get deregulation of the Depression-era restrictions on banking and stock underwriting.

Within two months of taking office, on October 6, 1987, just days before the greatest one-day crash on the New York Stock Exchange, Greenspan told Congress that US banks, victimized by new technology and "frozen" in a regulatory structure developed more than 50 years ago, were losing their competitive battle with other financial institutions and needed to obtain new powers to restore a balance: "The basic products provided by banks - credit evaluation and diversification of risk - are less competitive than they were 10 years ago."

As the *New York Times* noted, "Mr. Greenspan has long been far more favorably disposed toward deregulation of the banking system than was Paul A. Volcker, his predecessor at the Fed." [11]

Greenspan's first testimony to Congress as Chairman of the Fed was of signal importance to understand the continuity between the policies he implemented right from that moment up to the securitization revolution after 2001 -- the New Finance securitization revolution. Again quoting the *New York Times* account,

> *Mr. Greenspan, in decrying the loss of the banks' competitive edge, pointed to what he said was a 'too rigid' regulatory structure that limited the availability to consumers of efficient service and hampered competition. But then he pointed to another development of 'particular importance' - the way advances in data processing and telecommunications technology had allowed others to usurp the traditional role of the banks as financial intermediaries. In other words, a bank's main economic contribution - risking its money as loans based on its superior information about the creditworthiness of borrowers - is jeopardized.*

The *Times* quoted Greenspan on the challenge in 1987 to modern banking posed by technological change:

> *'Extensive on-line data bases, powerful computation capacity and telecommunication facilities provide credit and market information almost instantaneously, allowing the lender to make its own analysis of creditworthiness and to develop and execute complex trading strategies to hedge against risk,' Mr. Greenspan said. This, he added, resulted in permanent damage 'to the competitiveness of depository institutions and will expand the competitive advantage of the market for securitized assets,' such as commercial paper, mortgage pass-through securities and even automobile loans.*
>
> *He concluded, 'Our experience so far suggests that the most effective insulation of a bank from affiliated financial or commercial activities is achieved through a holding-company structure.'* [12]

However, in a bank holding company, the Federal Deposit Insurance fund, a pool of contributions to guarantee bank deposits at that time up to $100,000 per account, would only apply to the core bank, not to the various subsidiary companies created to engage in exotic hedge fund or other off-the-balance-sheet activities. The upshot was that in a crisis such as the unraveling post-2007 securitization meltdown, the ultimate Lender of Last Resort, the insurer of bank risk, becomes the taxpaying American public.

The issues provoked a hard fight in Congress that lasted until the final repeal of Glass-Steagall – the Gramm-Leach-Bliley Act -- was signed into law by Clinton in November 1999. Clinton presented the pen he used to sign the repeal as a gift to Sanford Weill, the powerful chairman of Citicorp, a curious gesture for a Democratic President, to say the least. It seemed Clinton, too, knew how to follow the money.

Alan Greenspan had played the decisive role in moving Glass-Steagall repeal through Congress. Testifying before the House Committee on Banking and Financial Services on February 11, 1999, Greenspan declared,

> *…[W]e support, as we have for many years, major revisions, such as those included in H.R. 10, to the Glass-Steagall Act and the Bank Holding Company Act to remove the legislative barriers against the integration of banking, insurance, and securities activities. There is virtual unanimity among all concerned--private and public alike--that these barriers should be removed. The technologically driven proliferation of new financial products that enable risk unbundling have been increasingly combining the characteristics of banking, insurance, and securities products into single financial instruments.*[13]

In his same 1999 testimony Greenspan made clear that repeal meant less, not more, regulation of the newly allowed financial conglomerates, opening the floodgate to the fiasco that occurred less than a decade later:

> *As we move into the twenty-first century, the remnants of nineteenth-century bank examination philosophies will fall by the wayside. Banks, of course, will still need to be supervised and regulated, in no small part because they are subject to the safety net. My point is, however, that the nature and extent of that effort need to become more consistent with market realities. Moreover,* ***affiliation with banks need not--indeed, should not--create bank-like regulation of affiliates of banks*** [14] (emphasis added—f.w.e.)

Congress had passed Glass-Steagall in the first place precisely in order to break up the bank holding companies with their inherent conflicts of interest that had led tens of millions of Americans into joblessness and home foreclosures in the 1930s depression. In 1999, this protection vanished.

'Strategies unimaginable a decade ago…'

The *New York Times* described the new financial world created by repeal of Glass-Steagall in a June 2007 profile of Goldman Sachs, just weeks prior to the eruption of the sub-prime crisis: "While Wall Street still mints money advising companies on mergers and taking them public, real money - staggering money - is made trading and investing capital through a global array of mind-bending products and strategies unimaginable a decade ago." They were referring to the securitization revolution.

The *Times* quoted Goldman Sachs chairman Lloyd Blankfein on the new financial securitization, hedge fund and derivatives world: "We've come full circle, because this is exactly what the Rothschilds or J. P. Morgan, the bankers were doing in their heyday. What caused an aberration was the Glass-Steagall Act."[15]

Lloyd Blankfein, like most of Wall Street's bankers and financial insiders, saw the New Deal as an aberration, openly calling for return to the early, unregulated heyday of J. P. Morgan and other tycoons, the 'Gilded Age' of abuses in the 1920s.

Glass-Steagall, Blankfein's 'aberration,' had been finally eliminated by Bill Clinton. Goldman Sachs had been a prime contributor to the Clinton campaign and even sent its chairman, Robert Rubin, to the Clinton Administration in 1993, first as "economic czar" then in 1995 as Treasury Secretary.

In October 2007 Robert Kuttner, co-founder of the Economic Policy Institute, testified before US Congressman Barney Frank's Committee on Banking and Financial Services, evoking the specter of the Great Depression:

> *Since repeal of Glass Steagall in 1999, after more than a decade of de facto inroads, super-banks have been able to re-enact the same kinds of structural conflicts of interest that were endemic in the 1920s - lending to speculators, packaging and securitizing credits and then selling them off, wholesale or retail, and extracting fees at every step along the way. And, much of this paper*

is even more opaque to bank examiners than its counterparts were in the 1920s. Much of it isn't paper at all, and the whole process is supercharged by computers and automated formulas. [16]

Dow Jones *Market Watch* commentator Thomas Kostigen, writing in the early weeks of the unravelling sub-prime crisis, remarked about the role of Glass-Steagall repeal in opening the floodgates to fraud, manipulation and the excesses of credit leverage in the expanding world of securitization:

Time was when banks and brokerages were separate entities, banned from uniting for fear of conflicts of interest, a financial meltdown, a monopoly on the markets, all of these things.

In 1999, the law banning brokerages and banks from marrying one another — the Glass-Steagall Act of 1933 — was lifted, and voila, the financial supermarket has grown to be the places we know as Citigroup, UBS, Deutsche Bank, et al. But now that banks seemingly have stumbled over their bad mortgages, it's worth asking whether the fallout would be wreaking so much havoc on the rest of the financial markets had Glass-Steagall been kept in place.

*...**No one really questioned the new fad of collateralizing bank mortgage debt into different types of financial instruments and selling them through a different arm of the same institution. They are now**...*(emphasis added, f.w.e).

....Glass-Steagall would have at least provided what the first of its names portends: transparency. And that is best accomplished when outsiders are peering in. When every one is on the inside looking out, they have the same view. That isn't good because then you can't see things coming (or falling) and everyone is subject to the roof caving in.

*Congress is now investigating the subprime mortgage debacle. Lawmakers are looking at tightening lending rules, holding secondary debt buyers responsible for abusive practices and, on a positive note, even bailing out some homeowners. These are Band-Aid measures, however, that **won't patch what's broken: the system of conflicts that arise when sellers, salesmen and evaluators are all on the same team**.* [17] (emphasis added--f.w.e.)

Greenspan's 'Dot.com' bubble

Before the ink was dry on Bill Clinton's signature repealing Glass-Steagall, the Greenspan Fed was fully engaged in hyping their next crisis—the deliberate creation of a stock bubble to rival that of 1929, a bubble which the Fed would then deliberately burst, just as it had in 1929.

The 1997 Asian financial crisis and the ensuing Russian state debt default of August 1998 created a sea change in global capital flows to the advantage of the dollar. With Korea, Thailand, Indonesia and most emerging markets in flames following a coordinated, politically-motivated attack by a trio of US hedge funds, led by George Soros' Quantum Fund, Julian Robertson's Jaguar and Tiger funds and Moore Capital Management, according to Swiss and City of London financial insider reports, the Connecticut-based LTCM hedge fund of John Merriweather.[18]

The impact of the Asia Crisis on the dollar was notable and suspiciously positive. Andrew Crockett, the General Manager of the Bank for International Settlements, the Basle-based organization of the world's leading central banks, noted that in 1996 the East Asian countries had been running a combined current account deficit of $33 billion. Then, as speculative hot money flowed in, "1998-1999, the current account swung to a surplus of $87 billion." By 2002 the surplus had reached the impressive sum of $200 billion. Most of that surplus returned to the US in the form of Asian central bank purchases of US Treasury debt, in effect financing Washington policies, pushing US interest rates way down and fuelling an emerging 'New Economy,' the NASDAQ Dot.com IT boom. [19]

During the extremes of Asia's 1997-1998 financial crises, Greenspan refused to act to ease the financial pressures until after Asia had collapsed and Russia had defaulted in August 1998 on its sovereign debt, and deflation had spread from region to region. Then, when he and the New York Fed stepped in it was to rescue the huge LTCM hedge fund that had become insolvent as a result of risky bets it had made that came unstuck as a result of the Russian crisis.

To save the big New York financial institutions that had given the credit lines to LTCM and other hedge funds, Greenspan made an unusually sharp cut in Fed Funds interest rates for the first time in his tenure as Fed chief, by 0.50%. That was followed a few weeks later by a 0.25% cut. That gave the nascent dot.com IT bubble in the stock market a nice little 'shot of whiskey' as cheap money poured into stocks, fueling a new bubble in prices unrelated to any long-term economic reality. The financial crises in Asia and Russia had, in effect, supplied the new cash for the Wall Street stock market casino to play the next round.

Towards the end of 1998, amid successive cuts in Fed interest rates and pumping in of ample liquidity, the US stock markets, led by the NASDAQ and NYSE, went ballistic. In 1999 alone, as the New Economy bubble got into full swing, a staggering $2.8 trillion increase in the value of stock shares was registered. That was more than 25% of annual GDP, all in paper values.

Gone were the Glass-Steagall restrictions on savings & loan banks and investment banks promoting the stocks they had brought to market. The exact conflict of interest that Glass-Steagall had been designed to prevent was now the centerpiece of the New Economy. Wall Street stock promoters were earning tens of millions in bonuses for fraudulently hyping Internet and other stocks such as WorldCom and Enron. It was the 'Roaring 1920s' all over again, but with an electronic, computerized turbo-charged kicker. Blankfein and his Wall Street cronies were no doubt satisfied that the 'aberration' of regulation had given way to the 'norm' of free-wheeling speculative frenzy.

The March 2000 speech

In March 2000, at the very peak of the Dot.com stock mania, Alan Greenspan delivered an address to a Boston College *Conference on the New Economy* in which he repeated his standard mantra in praise of the IT revolution and its impact on financial markets. In this speech he went even beyond previous praises of the IT stock bubble and its putative "wealth effect" on household spending which he claimed had kept the US economy growing robustly:

> *In the last few years it has become increasingly clear that this business cycle differs in a very profound way from the many other cycles that have characterized post-World War II America," Greenspan noted. "Not only has the expansion achieved record length, but it has done so with economic growth far stronger than expected.*

He went on, waxing almost poetic as he built momentum:

> *My remarks today will focus both on what is evidently the source of this spectacular performance--the revolution in information technology…When historians look back at the latter half of the 1990s a decade or two hence, I suspect that they will conclude we are now living through a pivotal period in American economic history…Those innovations, exemplified most recently by the multiplying uses of the Internet, have brought on a flood of startup firms, many of which claim to offer the chance to revolutionize and dominate large shares of the nation's production and distribution system.*

Then the Maestro revealed his real theme, the ability to spread risk by using technology and the Internet, a harbinger of his thinking about the unfolding securitization phenomenon, then in its infancy:

> *The impact of information technology has been keenly felt in the financial sector of the economy. Perhaps the most significant innovation has been the development of financial instruments that enable risk to be reallocated to the parties most willing and able to bear that risk. Many of the new financial products that have been created, with financial derivatives being the most notable, contribute economic value by unbundling risks and shifting them in a highly calibrated manner. Although these instruments cannot reduce the risk inherent in real assets, they can redistribute it in a way that induces more investment in real assets and, hence, engenders higher productivity and standards of living. Information technology has made possible the creation, valuation, and exchange of these complex financial products on a global basis….* [20]

Most notable about Greenspan's euphoric paean to the benefits of the IT stock mania was its timing. He knew very well that the impact of the Fed's six interest rate increases that he had instigated in late 1999 were sooner or later going to chill the buying of stocks on borrowed money.

Sure enough, the dot-com bubble burst one week after Greenspan's speech. On March 10, 2000, the NASDAQ Composite index peaked at 5,048, more than double its value just a year before. On Monday, March 13, the NASDAX fell by an eye-catching 4%.

Then, from March 13, 2000 through to the market bottom, the market lost paper values worth more than $5 trillion, as Greenspan's rate hikes brought a brutal end to a bubble he repeatedly claimed he could not confirm even existed until after the fact. In dollar terms, the 1929 stock crash was peanuts compared with Greenspan's Dot.com crash. Greenspan had raised interest rates six times by March, a fact which had a brutal, chilling effect on the leveraged speculation in dot.com company stocks. …

---

[1] Alan Greenspan, *Testimony before the House Committee on Banking and Financial Services*, February 11, 1999.

[2] Bob Woodward, *Maestro: Alan Greenspan's Fed and the American Economic Boom* (New York: Simon & Schuster, 2000). Woodward's book is an example of the charmed treatment Greenspan was accorded by the major media. Woodward's boss at the Washington Post, Catharine Meyer Graham, daughter of the legendary Wall Street investment banker Eugene Meyer, was an intimate Greenspan friend. The book can be seen as a calculated part of the Greenspan myth-creation by the influential circles of the financial establishment.

[3] *Lewis v. United States*, 680 F.2d 1239 (9th Cir. 1982).

[4] Michael Lewis, *Inside Wall Street's Black Hole,* Portfolio.com, February 19, 2008, accessed in http://www.portfolio.com/news-markets/national-news/portfolio/2008/02/19/Black-Scholes-Pricing-Model/?print=true.

[5] Ibid.

[6] Stephen Zarlenga, *Observations from the Trading Floor During the 1987 Crash*, in http://www.monetary.org/1987%20crash.html.

[7] Alan Greenspan, *Testimony before the Subcommittee on Financial Institutions Supervision, US House of Representatives*, Nov. 18, 1987. http://fraser.stlouisfed.org/historicaldocs/ag/download/27759/Greenspan_19871118.pdf.

[8] Robert D. Hershey jr., *Greenspan Backs New Bank Roles*, The New York Times, October 6, 1987.

[9] John Kenneth Galbraith, cited in Michael J. Laird, *The Glass-Steagall Banking Act, its Demise*, Managerial Auditing Journal, 1998, Vol.13, no. 9, pp. 509-514.

[10] Federal Deposit Insurance Corporation, *History of the 80s, Volume I: An Examination of the Banking Crises of the 1980s and Early 1990s*, in www.fdic.gov/bank/historical/history/vol1.html, p.1.

[11] Hershey, op.cit.

[12] Ibid.

[13] Alan Greenspan, *Testimony before the House Committee on Banking and Financial Services*, February 11, 1999.

[14] Alan Greenspan, *Statement by Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, before the Committee on Banking and Financial Services*, U.S. House of Representatives, February 11, 1999, in Federal Reserve Bulletin, April 1999.

[15] Jenny Anderson, *Goldman Runs Risks, Reaps Rewards*, The New York Times, June 10, 2007.

[16] Robert Kuttner, *Testimony of Robert Kuttner Before the Committee on Financial Services*, Rep. Barney Frank, Chairman, U.S. House of Representatives, Washington, D.C., October 2, 2007

[17] Thomas Kostigen, *Regulation game: Would Glass-Steagall save the day from credit woes?*, Dow Jones MarketWatch, Sept. 7, 2007, in http://www.marketwatch.com/news/story/would-glass-steagall-save-day-credit.

[18] Various market traders in private telephone discussion with the author during the 1997-98 Asia crisis reported on the first hand knowledge of the three hedge funds in executing coordinated military-like attacks on the various Asian currencies. One source, a Swiss financial regulator, speaking off-record in 2002, told the author he had been present in the office of the President of Thailand's largest bank when a call came from the head of one of the three mentioned hedge funds telling him of a planned coordinated assault on the Thai currency and of the futility of trying to resist.

[19] F. William Engdahl, *Hunting Asian Tigers: Washington and the 1997-98 Asia Shock*, reprinted in http://www.jahrbuch2000.studien-von-zeitfragen.net/Weltfinanz/Hedge_Funds/hedge_funds.html.

[20] Alan Greenspan, *The Revolution in Information Technology, before the Boston College Conference on the New Economy*, Boston, Massachusetts, March 6, 2000.