
Interest Rates

Sometimes, Nature Conspires

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Today, *EIR*'s Kathy Wolfe sent a dispatch featuring the following included element:

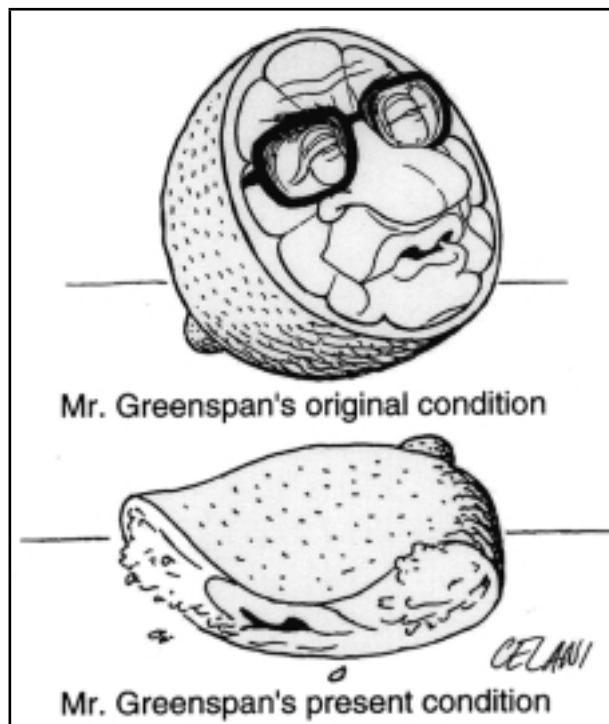
"Since before Alan Greenspan's June 6 Beijing speech 'Unprecedented Inversion of the Yield Curve,' the Federal Reserve, Bank for International Settlements, et al. have been hyping a great 'mystery.' This may have something nasty to do with the nomination of Fed Governor Benjamin Bernanke, to the White House Council of Economic Advisors. Bernanke is one of the main architects of the Asian central bank bailout of the U.S. dollar. It is probable he will try to expand this operation, with disastrous consequences. It certainly sends a very strong, foul signal to the Japanese and Chinese.

"Greenspan claims it's a huge mystery—'unprecedented'—that interest rates (yields) are lower on longer-term bonds of 10 years and up, than rates on short term paper. How is it possible, he asks? And why are 10-year+ rates not rising, despite the Fed's hike of short term rates in the past months (raising Fed Funds from 1% to 3%)? ['Common sense' and dead statistics indicate 'people' would want a higher rate of return to invest over a longer time, since longer investments are considered more risk, so 'normally' the yield curve rises with time—LHL.] On June 15, Fed Governor Donald Kohn repeated this, warning that 'Our economy is in unexplored territory in many respects. The risk is higher than normal' due to 'speculative behavior and risky lending practices' which 'may not be sustainable.'

"Greenspan rejected the idea that 'markets are signaling economic weakness.' But in part, Asian central banks and investors worldwide are signaling precisely 'economic weakness'—behaving as if they expect a crash."

The concluding part of that excerpt from Mrs. Wolfe's account is to the point. I explain.

The reported apparent discrepancy is exactly what should have been expected as a result prompted by the way in which the General Motors crash has exposed the unstoppable character of the collapse of the marketable credibility of the already "lame duck" George W. Bush Presidency. The growing rejection of the proposed European Constitution since the French election, has nailed the coffin shut on the illusory assumption that the European Union could provide even a relatively short-



term refuge from a collapsing U.S. financial system. Bad news for Dick Dracula is about to be permanently buried very soon; everywhere, in the real universe, there is no longer any security for the present world monetary-financial system, even during the short term.

There is still hope for the world's economy, if—but only if—the equivalent of a New Bretton Woods system is in the offering for the near term. In that relatively hopeful case, only long-term securities, especially the U.S. Government Bonds which an intellectually challenged President George W. Bush, Jr. has repeatedly called "worthless IOUs," have much value. As leading banks are now attempting to dump a sufficient number of hedge funds over the rail to keep the banks themselves afloat, U.S. Treasuries, especially long bonds, are making the votes for the second Bush-Cheney election itself look like a collection of "worthless IOUs."

In short, it is the survival of the principal, not the rate of the premium on the relevant paper, which determines its perceptible value to any moderately sane investor.

So, the time has come when Federal Reserve Chairman Alan Greenspan's career is holding desperately to the frayed ends of a slippery rope. What he, Benjamin Bernanke, or any one part of that White House team think they are doing, or not doing, is not in the mainstream of relevant underlying trends. The point I am making, by aid of reference to Mrs. Wolfe's somewhat different view of the way events are being orchestrated, is that, sometimes, as whenever a drunken driver takes charge of the wheel, it is nature itself which does the relevant conspiring.