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# “Down the Memory Hole,” Alan Greenspan Style

By Stephen Lendman
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He’s back and in denial in a March 11 Wall Street Journal op-ed headlined: “The Fed Didn’t Cause the Housing Bubble.” He lied, the way he did throughout his career and for 18.5 years as Fed chairman. How else could he have kept the job, be knighted in the UK for his “contribution to global economic stability, wisdom and skill,” then afterwards be extolled by the Money Trust he enriched.

So now he’s preserving his “legacy” by expunging its dark side the way Orwell described in 1984 – “down the memory hole,” a convenient slot for “any document….due for destruction,” politically inconvenient truths to be erased to preserve only sanitized versions for the public. It’s called historical revisionism, but even some on the right aren’t convinced.

The Ludwig von Mises Institute is a libertarian research and educational center espousing the Austrian School economics of its namesake. Robert Murphy is one of its adjunct scholars, and in an April 14, 2008 article he asked: “Did the Fed Cause the Housing Bubble?”

“The case….is straightforward,” he stated. “…Greenspan slashed the federal funds target from 6.5% in January 2001 down to a ridiculous 1% by June 2003. After holding rates at 1% for a year, the Fed then steadily ratcheted them back up to 5.25% by June 2006,” a pumping and popping process that “seemed to be more than just a coincidence.” It led to speculative “malinvestments,” then needing a “recession” to correct.

“The Fed’s role in the housing boom and bust is a classic illustration of the Austrian business cycle theory,” according to Murphy. “Indeed, the Misesian explanation is so compelling that more and more economists and financial analysts are being persuaded.” But not Greenspan who made his own case and got the Wall Street Journal to publish it. The problem is what he said, even worse what he omitted.

That as Fed chairman he led a pump and dump scheme, a financial coup d’etat, to defraud the public for Wall Street. It continues unabated, with new schemes, sucking trillions of dollars of wealth from the many to the few through fraudulently engineered housing, asset, and debt bubbles, illegally offshoring vast sums of capital globally, and shifting government assets to private interests, then their liabilities onto the government leaving taxpayers stuck with the bill.

Across the board, his Fed tenure outraged William Greider enough to call him one of “the most duplicitous figures (ever) in modern American government” who used his position to “corrupt the political dialogue” to sell snake oil to Congress and the public and be a willing co-conspirator in the theft of trillions going back to the early 1980s before his Fed days. He championed derivatives, securitization, and deregulation. He believed unfettered markets work best so let them and told a congressional committee in the mid-1990s:

"Risks in financial markets, including derivative markets, are being regulated by private parties. There is nothing involved in federal regulation per se which makes it superior to market regulation." In other words, let capital operate freely, plunder at will, and have no regulatory restraints regardless of the harm caused.

He sanctioned fraud as a tool of the Money Trust, and as Fed chairman engineered multiple bubbles in stocks, housing, mortgages, bonds, derivatives, currencies, and commodities, yet took no responsibility for the fallout. When asked, he said he has "no regrets on any of the Federal Reserve's policies that we initiated." In fact, he championed them.

He let house prices become an $8 trillion wealth bubble, yet had regulatory authority to prevent it. He chided his critics, ignored the public interest, and even encouraged use of risky no down payment adjustable rate mortgages (including subprime ones) at the worst possible time to buy property. He bears full responsibility for the greatest ever economic collapse costing millions their homes, jobs, savings, pensions, and futures – yet he has "no regrets" for any of his actions.

Here's his account of the housing bubble with a warning to the unwary. Take a strong dose of antacid before reading.

Greenspan admits that "lower interest rates spawned the speculative euphoria (but the) rate that matters was not the federal-funds rate. (It was) the rate on long-term, fixed-rate mortgages….The correlation between home prices and mortgage rates was highly significant, and a far better indicator of rising home prices than the fed-funds rate."

While it's true that longer rates affect mortgage ones, as important is how investors view the economy and prospects for inflation. In addition, short rates affect all others. They influence longer rates, including on Treasury notes, bonds and mortgages. Markets set all rates except one, Fed-funds, but it's the prime mover for others with added power from the central bank's bully pulpit.

Significant also is the close correlation between mortgage and Fed-funds rates. From 1971 – 2002, the average spread between them was 2.85%. Thereafter the relationship changed for a reason – because Fed- funds fell so low while mortgage rates bottomed at around 5.75% and didn't top 6% again until the Fed target rate approached 4%. If a 2.85% spread had held, 30-year mortgages would have been sub-4%. Today at 0% Fed-funds, 30-year fixed-rate mortgages are around 5%, and take note – historically the lowest ever 20th and 21st century mortgage rate was around 4.7% right after WW II.

However, in the wake of the Fed's announced intention to buy $1.25 trillion in Freddie and Fannie mortgage backed securities, $200 billion in Freddie, Fannie and Federal Home Loan Bank bonds, and $300 billion in longer-term Treasuries, mortgage rates may challenge or even better the previous low.

Greenspan blamed the housing bubble on success, or in his words: "the tectonic shift in the early 1990s by much of the developing world (away) from central planning to increasingly dynamic, export-led market competition. The result was a surge (in growth) that led to an excess in savings." That, in turn, "propelled global long-term interest rates progressively lower between 2000 and 2005," and guess who takes credit.

The "Maestro," of course, with Greenspan quoting Milton Friedman for support. In evaluating the 1987 – 2005 period, he said: “There is not another period in which the Federal Reserve System has performed so well. It is more than a difference of degree; it approaches a difference of kind.” From one defrocked icon about another, his comment rings hollow, and, according to Catherine Austin Fitts, the evidence is compelling from her experience as an insider.

Replying to the Wall Street Journal, she explained that her “company served as lead financial advisor to the Federal Housing Administration between 1994 and 1997. (She) watched both the Administration and (Fed) aggressively implement policies that engineered the housing bubble,” and gave an example involving securitizing mortgages for pooling, then repackaging and selling them in tranches to investors.

“Even in 1995, (she) could see that these plans would create unserviceable debt loads in communities struggling with” globalization-caused declining incomes. The fallout would be mortgage defaults combined with mortgage-backed securities (MBS) “drain(ing) retirement savings from 401(k)s and pension plans.”

Taxpayers would get the bill “but insiders would make bundle.” She accused an administration official involved in the scheme with “planning on issuing more mortgages than there were houses or residents.” His reply: “Shut up, this is none of your business.”

It gets worse the result of the “long standing partnership of narcotics trafficking and mortgage fraud,” then combining them “to target and destroy minority and poor communities with highly profitable economic warfare. The model is global” and very profitable throughout the world and across America with numerous examples as proof. She cited one.

In October 1996, Rep. Maxine Waters (D-CA) released documents showing evidence of CIA links to the South-Central Los Angeles crack epidemic at least since the mid-1980s, attributable to fund-raising efforts for the Nicaraguan Contras.

Fitts wrote in May 1999 that in December 1997, “the CIA Inspector General delivered Volume I of their report to the Senate Select Committee on Intelligence” on the charges. It documented “the continued (money laundered) flow of an estimated $500 billion – $1 trillion a year….into the US financial system.” To placate Waters, Greenspan met with her in January 1998 and “pledged billions (would) come to her district.” It began in February when Al Gore announced it “was awarded Empowerment Zone status….and made eligible for $300 million in federal grants and tax benefits.”

Fitts called Greenspan a “liar” and accused him of being complicit with the Treasury in engineering the housing bubble “as part of a financial coup d’etat” – documented in her writing “Dillon, Read & Co. Inc. (where she served as a Managing Director and Board member) and the Aristocracy of Stock Profits.” She explained how:

“America’s aristocracy makes money ensnaring our youth in a pincer movement of drugs and prisons and wins middle class support through (government-funded) contracts for War on Drugs activities at federal, state and local levels. This consensus (is sustained) by the gush of growing debt and derivatives used to bubble the housing and mortgage markets, manipulate the stock and precious metals markets, and finance trillions missing from the US government in the largest pump and dump in history….of the entire economy.”

It's "more than a process designed to wipe out the middle class. (It's) genocide – a much more subtle and lethal version than ever before perpetrated by" legions of previous scoundrels. She described a process of insider deals designed to:

— hollow out America,

— centralize power and knowledge,

— shift wealth to the privileged,

— destroy communities and local infrastructure,

— create new wealth by rebuilding them, and

— leave human despair in its wake.

It's no accident that they crushed world economies to enrich the Money Trust, wrecked lives and impoverished millions, and the scheme remains very much ongoing. Yet Greenspan remains unapologetic, indeed smug in his Journal op-ed.

He deflected blame on "global forces beyond the control of domestic monetary policy makers" while claiming that "Global market competition and integration in goods, services and finance have brought unprecedented gains in material well-being." For whom he wouldn't say. He didn't have to, just look at the winners and losers.

Then explain it to the victims, the millions of Americans losing homes, jobs, pensions, savings and futures, the growing numbers with inadequate safety net protection for emergencies. Explain the greatest ever economic collapse, not an accident but willfully engineered, the lack of regulatory restraints that allowed it, and the devastating toll from its fallout.

Tell those affected how "the appropriate policy response is not to bridle financial intermediation with heavy regulation" but free it save for minor reforms too little to matter and simple to remove once the heat's off. Justify the "ret(ention of) a dynamic world economy capable of producing prosperity and future sustainable growth" based on business as usual policies – ones you describe as not "rely(ing) on governments to intermediate saving and investment flows" but freeing capital to grow more of it to enrich the few at the expense of the rest.

Justify the global economic collapse, the billions harmed, the human misery, and the fear that's it's just beginning. Explain how that jibes with democratic freedoms, equal opportunity, and the best of all possible worlds. At age 83 as a prominent figure, a well-paid private advisor and speaker, historical revisionism is how, and let the devil take the hindmost.

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Stephen Lendman lives in Chicago. He can be reached at lendmanstephen@sbcglobal.net. His new book as editor and contributor is titled "Flashpoint in Ukraine: US Drive for Hegemony Risks WW III." http://www.claritypress.com/LendmanIII.html Visit his blog site at sjlendman.blogspot.com. Listen to cutting-edge discussions with distinguished guests on the Progressive Radio News Hour on the Progressive Radio Network. It airs three times weekly: live on Sundays at 1PM Central time plus two prerecorded archived programs.