

## Greenspan is Back

By [Mike Whitney](#)

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Greenspan is back. Maestro is scheduled to appear at the Brookings Institute today to deliver a 48 page explanation of why his low interest rates and regulatory neglect did not cause the financial meltdown. The contents of the ex-Fed chief's apologia have already been released to the press. It's just more finger-pointing and buck-passing; 48 pages of the-dog-at-my-homework excuses in Greenspan's cryptic Fed-speak.

"We had been lulled into a sense of complacency by the modestly negative economic aftermaths of the stock market crash of 1987 and the dotcom boom.....Given history, we believed that any declines in home prices would be gradual. Destabilizing debt problems were not perceived to arise under those conditions."

See? It wasn't Greenspan's fault, after all. It was "the savings glut" or the "undercapitalised banks" or some other such nonsense. The bottom line is that everyone else was to blame for everything that went wrong. Everyone except the Teflon Fed chief, that is.

Does Maestro really think he can salvage his battered reputation with this phony charm offensive or is he just trying to stay one step ahead of the hangman?

Greenspan tries to acquit himself on the main charges; that he kept interest rates "too low, too long", and that his support for deregulation expanded the use of risky financial instruments (derivatives) These are the two main factors which triggered the meltdown. Greenspan defends himself on both counts, although not convincingly.

He rejects the idea that low interest rates created the housing bubble because mortgage rates are linked to long-term rates which the Fed doesn't control. That's true, but it's also a poor defense. Everyone knows that tighter monetary policy cools off speculation, forces financial institutions to reduce leverage, and slows credit growth. If the Fed didn't believe that low rates increase spending, than why would they lower rates every time the economy begins to slow down? Interest rates matter! End of story. Greenspan's argument isn't even worthy of a response. It's ridiculous.

Greenspan also invokes the "global savings glut" meme which he reiterates at every opportunity. But that's feeble defense, too.

Yes, the massive current account deficit is destabilizing and, yes, China and Japan do save "too much" while Americans consume too much, but so what? That's why we appoint policymakers to intervene when necessary to avoid a global crisis. But, of course, Greenspan doesn't believe in regulation, because he thinks the market is the manifestation of God's immortal plan and mere humans shouldn't interfere in its divine workings.

Greenspan: "There is nothing involved in federal regulation per se which makes it superior to market regulation." That sums it up nicely, doesn't it?

Greenspan refused to perform his task as regulator because he was morally opposed to regulation. He's been quite consistent on that point. So, naturally, the imbalances and fraud grew until the entire mechanism broke down. It all could have been avoided if Greenspan had done his job.

Peter S. Goodman of the New York Times wrote the best indictment of Greenspan in an article titled "Taking Hard New Look at a Greenspan Legacy" (2008) If you haven't read it yet; get a copy. It will convince you that one man—more than any other—was responsible for the current economic catastrophe. Here is an extended excerpt which covers the main points:

"For more than a decade, the former Federal Reserve Chairman Alan Greenspan has fiercely objected whenever derivatives have come under scrutiny in Congress or on Wall Street. "What we have found over the years in the marketplace is that derivatives have been an extraordinarily useful vehicle to transfer risk from those who shouldn't be taking it to those who are willing to and are capable of doing so," Mr. Greenspan told the Senate Banking Committee in 2003. "We think it would be a mistake" to more deeply regulate the contracts, he added....

"THE CURRENT CRISIS MIGHT HAVE BEEN AVERTED"...

"Clearly, derivatives are a centerpiece of the crisis, and he (Greenspan) was the leading proponent of the deregulation of derivatives," said Frank Partnoy, a law professor at the University of San Diego and an expert on financial regulation....If Mr. Greenspan had acted differently during his tenure as Federal Reserve chairman from 1987 to 2006, many economists say, the current crisis might have been averted or muted."

GREENSPAN THE FREE MARKET SAGE: "Risk is part of life."

"As the long-serving chairman of the Fed, the nation's most powerful economic policy maker, Mr. Greenspan preached the transcendent, wealth-creating powers of the market....A professed libertarian, he counted among his formative influences the novelist Ayn Rand, who portrayed collective power as an evil force set against the enlightened self-interest of individuals. In turn, he showed a resolute faith that those participating in financial markets would act responsibly."

GREENSPAN VS BERNIE SANDERS

"Aren't you concerned with such a growing concentration of wealth that if one of these huge institutions fails that it will have a horrendous impact on the national and global economy?" asked Representative Bernard Sanders, an independent from Vermont.

"No, I'm not," Mr. Greenspan replied. "I believe that the general growth in large institutions have occurred in the context of an underlying structure of markets in which many of the larger risks are dramatically — I should say, fully — hedged."

GREENSPAN ON THE HOUSING BUBBLE: 'No worries'

"When Mr. Greenspan began to hear of a housing bubble, he dismissed the threat. Wall

Street was using derivatives, he said in a 2004 speech, to share risks with other firms. Shared risk has since evolved from a source of comfort into a virus. As the housing crisis grew and mortgages went bad, derivatives actually magnified the downturn.”

MAESTRO: “NO REGRETS”

Greenspan: “Governments and central banks could not have altered the course of the boom.” (excerpts from “Taking Hard New Look at a Greenspan Legacy” PETER S. GOODMAN, New York Times)

Greenspan’s conduct was shaped by his anti-government, anti-regulation, laissez faire fanaticism. Regrettably, ideas have consequences, which is why the country is still in a Depression.

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