Greenspan’s Dark Legacy Unmasked

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After retiring as the Federal Reserve’s second longest ever serving chairman, Alan Greenspan is now cashing in big late in life at age 81. He chaired the Fed’s Board of Governors from the time he was appointed in August, 1987 to when he stepped down January 31, 2006 amidst a hail of ill-deserved praise for his stewardship during good and perilous times. USA Today noted “the onetime jazz band musician went out on a high note.” The Wall Street Journal said “his economic legacy (rests on results) and seems secure.” The Washington Post cited his “nearly mythical status.”

Stanford Washington Research Group chief strategist Greg Valliere called him a “giant,” and Bob Woodward called him “Maestro” in his cloying hagiography (now priced $1.99 used on Alibris and $2.19 on Amazon) that was published in 2000 as the Greenspan-built house of cards was collapsing. The book was an adoring tribute to a man he called a symbol of American economic preeminence, who the Financial Times also praised as “An Activist Unafraid to Depart From the Rule” – by taking from the public and giving to the rich.

Others joined the chorus, too, lauding his steady, disciplined hand on the monetary steering wheel, his success keeping inflation and unemployment low, and his having represented the embodiment of prosperity in compiling a record of achievement his successor will be hard-pressed to match.

In 2004, William Greider in The Nation magazine had a different view. He’s the author of “Secrets of the Temple” on “how the Federal Reserve runs the country.” He wrote Greenspan “ranks among the most duplicitous figures to serve in modern American government (who used) his exalted status as economic wizard (to) regularly corrupt the political dialogue by sowing outrageously false impressions among gullible members of Congress and adoring financial reporters.”

They were front and center in the New York Times for the man who “steer(ed) the economy through multiple calamities and ultimately….one of the longest economic booms in history….(He earned his bona fides) weather(ing) the Black Monday stock crash of 1987 (and in 18 and a half years in office) achieved more celebrity than most rock stars” and may now approach them in earnings.

The new book of his memoirs “The Age of Turbulence” is just out for which his reported advance exceeded $8.5 million (second only to Bill Clinton’s $10 for his memoirs) plus additional royalties if sales exceed 1.9 million copies. They may given the amount of high-impact publicity it and he are getting nonstop. And that’s not all. He’s in great demand on the lecture circuit at six figure fees, has his own consulting firm, Greenspan Associates LLC, and his lawyer, Robert Barnett says “virtually every major investment-banking firm” in the world wants to hire him for his rainmaking connections.

They have value, not his market advice, best avoided for the man who engineered the largest ever stock market bubble and bust in history through incompetence, timidity, dereliction of duty, and subservience to the capital interests he represented at the expense of the greater good and a sustained sound economy he didn't worry about nor did Wall Street.

For firms on the Street and big banks, he could do no wrong and was above reproach for letting them cash in big and then get plenty of advance warning when to exit. Most ordinary investors weren't so fortunate. They're not insiders and were caught flat-footed by advice from market pundit fraudsters and the most influential one of all in the Fed Chairman. Just weeks before the market peak in January, 2000, he claimed "the American economy was experiencing a once-in-a-century acceleration of innovation, which propelled forward productivity, output, corporate profits and stock prices at a pace not seen in generations, if ever."

It was hype and nonsense and on a par with famed economist and professor Irving Fisher's remarks just before the 1929 stock market crash and Great Depression when he claimed economic fundamentals in the country were strong, stocks undervalued, and an unending period of prosperity lay ahead. It took a world war a decade later, not market magic, for them to arrive, but before it did Fisher kept insisting in the early 1930s recovery was just around the corner. It's the same way Wall Street touts operate today on gullible investors who even after they've been had are easy prey again for the next con.

And they're really in trouble when it comes from the "Maestro," who at the height of the stock market bubble said: "Lofty equity prices have reduced the cost of capital. The result has been a veritable explosion of spending on high-tech equipment…And I see nothing to suggest that these opportunities will peter out anytime soon….Indeed many argue that the pace of innovation will continue to quicken….to exploit the still largely untapped potential for e-commerce, especially the business-to-business arena."

One week later, the Nasdaq peaked at 5048 and crashed to a low of 1114 on October 9, 2002. It lost 78% of its value, the S&P 500 stock index dropped 49%, and retail investors lost out while Greenspan was busy engineering another bubble with a tsunami of easy money for Wall Street and big investors. It's now unwinding as he gets a big payday for his memoirs and a chance to rewrite history. He aims to raise himself to sainthood and at the same time distance himself from the very costly policies he implemented on top of trillions he helped scam in the greatest modern era wealth transfer from the public to the rich. More on that below.

Greenspan's Background and Tenure as Federal Reserve Chairman

Alan Greenspan grew up in New York, got his B.A. and M.A. in economics from New York University and later was awarded a Ph.D. in economics from Columbia without completing a dissertation the degree usually requires. In a highly unusual move, Columbia made an exception in his case.

Early on, he became enamored with free market ideologue Ayn Rand, wrote for her newsletters and authored three essays for her book "Capitalism: The Unknown Ideal." It expressed her views on capitalism's "moral aspects" and her attempt (with Greenspan's help) to rescue it from its "alleged champions who are responsible for the fact that capitalism is being destroyed without a hearing (or) trial, without any public knowledge of its principles, its nature, its history, or its moral meaning."

That was in 1966 when Rand, a staunch libertarian as is Greenspan, believed fundamentalist capitalism was being battered by a flood of altruism in the wake of New Deal and Great Society programs she (and Greenspan) abhorred. She defended big business, made excuses for its wars, and denounced the student rebellion at the time and the evils of altruism. Greenspan concurred, maintained a 20 year association with Rand (who died in 1982), and never looked back.

From 1948 until his 1987 Federal Reserve appointment, he served as Richard Nixon's domestic policy coordinator in his 1968 nomination campaign and later as Gerald Ford's Council of Economic Advisers Chairman. He also headed the economic consulting firm, Townsend-Greenspan & Company, from 1955 – 1987. Its forecasting record was so poor it was about to be liquidated when he left to join the Fed. A former competitor, Pierre Renfret, noted: "When Greenspan closed down his economic consulting business to (become Fed Chairman) he did so because he had no clients left and the business was going under (and we found) out he had none (of his employees left)." That made him Reagan's perfect Fed Chairman choice, and Renfret added it was Greenspan's failure in private business that got him into government service in the first place.

He wouldn't disappoint as Wall Street's man from the start. He bailed it out in 1987 after the disastrous October black Monday. It was the same way he did in it later in 1998 following Long Term Capital Management's collapse and again after the dot-com bubble burst. It was by his favorite monetary medicine guaranteed to work when taken as directed – floods of easy money followed by still more until the patient is healed, unmindful that the cure may be worse than the disease. No matter, it's a new Chairman's problem with Greenspan claiming no culpability for his 18 and a half year tenure of misdeeds, subservience to capital, and contempt for the public interest.

His new book claims the opposite. It's a breathtaking example of historical revisionism that's become standard practice for the man Sydney Morning News' Political and International Editor Peter Hartcher calls "Bubble Man" in his new book by that title. In it, he quotes Bob Woodward saying Greenspan "believed he had done all he could" to contain over-exuberance when, in fact, he let it get out of control. He now claims:

— he didn't support George Bush's regressive tax cuts for the rich (that helped create huge budget deficits). In fact, he did, and in 2001 wholeheartedly endorsed this centerpiece of the administration's economic policy in his testimony before the Senate Budget Committee. At the time, he cited the economic slowdown saying: "Should current economic weakness spread….having a tax cut….may….do noticeable good."

— he's "saddened (in his book) that it is politically inconvenient to acknowledge what everyone knows: the Iraq war is largely about oil." In his typical obfuscating way to confuse and have things both ways, he tried clarifying his position in a September interview claiming: "I was not saying that that's the administration's motive. I'm just saying that if somebody asked me, are we fortunate in taking out Saddam? I would say it was essential." He failed to say he supported the Bush administration agenda across the board, including the Afghanistan and Iraq wars, with reasons given at the time he's now distancing himself from.

— no responsibility for the 2000 stock market bubble. He falsely claimed he never saw it coming while providing generous amounts of liquidity to fuel it. After citing the market's "irrational exuberance" in a December, 1996 speech, he failed to curb it and could have by raising interest rates, margin requirements, and jawboning investors to cool an overheated market to restore stability for long-term economic growth. Instead, he did nothing. He failed to take away the punch bowl, created a bubble, and allowed it to burst causing investors (mostly retail ones) to lose trillions.

— no responsibility for the housing and bond bubbles he created by cutting interest rates aggressively to 1% and flooding the markets with liquidity. As things got out of hand, timely responsible action could have avoided the summer, 2007 credit crisis. Again, he allowed a bad situation to get worse to keep the party going and allow lenders to profit hugely. In the unprecedented run-up in house prices to an $8 trillion wealth bubble, he derided critics claiming anything was wrong. He even encouraged homebuyers to take out adjustable rate mortgages, approved of very risky no down payment purchases, created the subprime mess as a consequence, and isn't around to address buyers faced with $1.2 trillion in mortgage resets later this year and next that will cause many thousands of painful foreclosures.

Affected homeowners won't likely be cheered by his speech-making bunkum that bubble level asset prices proved his monetary policies worked by getting investors to demand lower risk premiums. They also won't be calmed by his arrogant claim that it's "simply not realistic" to expect the Fed to identify and deflate asset bubbles when it's real role is to champion flexible and unregulated markets leaving everyone unprotected on our own.

— no responsibility for allowing outstanding US debt to more than triple to around $40 trillion on his watch that one analyst calls his "most conspicuous achievement." Those having to pay it off won't thank him.

Greenspan's Role in the Greatest Modern Era Wealth Transfer from the Public to the Rich

Greenspan was a one-man wrecking crew years before he became Fed Chairman, and his earlier role likely sealed the job for him as a man the power elite could trust. He earned his stripes and then some for his role in charge of the National Commission on Social Security Reform (called the Greenspan Commission). He was appointed by Ronald Reagan to chair it in 1981 to study and recommend actions to deal with "the short-term financing crisis that Social Security faced….(with claims the) Old-Age and Survivors Insurance Trust Fund would run out of money….as early as August, 1983."

There was just one problem. It was a hoax, but who'd know as the dominant media stayed silent. They let the Commission do its work that would end up transfering trillions of public dollars to the rich. It represents one of the greatest ever heists in plain sight, still ongoing and greater than ever, with no one crying foul to stop it. The Commission issued its report in January, 1983, and Congress used it as the basis for the 1983 Social Security Amendments to "resolve short-term financing problem(s) and (make) many other significant changes in Social Security law" with the public none the wiser it was a scam harming them.

The Commission recommended:

— Social Security remain government funded and not become a voluntary program (that would have killed it);

— $150 – 200 billion in either additional income or decreased outgo be provided the Old Age, Survivors, and Disability Insurance (OASDI) Trust Funds in calendar years 1983 – 89;

— the actuarial imbalance for the 75 year Trust Funds valuation period of an average 1.80% of taxable payroll be resolved;

— a "consensus package" to fix the problem by raising payroll taxes on incomes but exempting the rich beyond a maximum level taxed. Also a gradual increase in the retirement age and various other possible short and longer range options for consideration. The result today is low income earners pay more in payroll than income tax. For bottom level earners, the burden is especially onerous. They pay no income tax but aren't exempt from 6.2% of their wages going for Social Security and Medicare.

— coverage under OASDI be extended on a mandatory, basis as of January 1, 1984, to all newly hired civilian employees of the federal government and all employees of nonprofit organizations;

— state and local governments that elected coverage for their employees under the OASDI-HI program not be allowed to terminate it in the future;

— the method of computing benefits be revised to exclude benefits that can accrue to individuals from non-covered OASDI employment and only be for the period when they became eligible – to eliminate "windfall" benefits;

— 50% of OASDI benefits should henceforth be taxable as ordinary income for individuals earning $20,000 or more and married couples $25,000 or more;

— in addition, other recommendations concerning cost of living adjustments, the law pertaining to surviving spouses who remarry after age 60, divorced spouses, disabled widows and widowers, and for scheduled payroll tax increases to move up to earlier years up to 1990 after which no further change be made with the wage base rising and is now at a level of $97,500 in 2007 at a tax rate of 6.2% matched by employers;

— self-employed persons beginning in 1984 pay the combined employer-employee rates now at 12.4% with half considered a business expense;

— in addition, a number of other changes recommended that in total would penalize the public to benefit the most well-off that was the whole idea of the scheme in the first place.

The public was told the Commission recommendations of 1983 were supposed to make Social Security fiscally sound for the next 75 years. They weren't told there was no problem to fix and the changes enacted were to transfer massive wealth from the public to the rich. It was one part of an overall Reagan administration scheme that included huge individual and corporate tax cuts that took place from 1981 to 1986. The rich benefitted most with top rates dropping from 70% in 1981 to 50% over three years and then to 28% in 1986 while the bottom rate actually rose from 11 to 15%.

It was the first time US income tax rates were ever reduced at the top and raised at the bottom simultaneously. But it was far worse than that. In only a few years, Reagan got enacted the largest ever US income tax cut (mostly for the rich) while instituting the greatest ever increase entirely against working Americans earning $30,000 or less.

Alan Greenspan engineered it for him by supporting income tax cuts and doubling the payroll tax to defray the revenue shortfall. He also recommended raiding the Social Security Trust Fund to offset the deficit, and who'd know the difference. His scheme helped make the US tax code hugely regressive as well as for the first time transform a pay-as-you-go retirement and disability benefits program into one where wage earner contributions subsidize the rich as well as support current beneficiaries.

As a consequence, the wealth gap widened, continued under Clinton but became unprecedented under George W. Bush with Greenspan at it again. He supported the administration's wealth transfer scheme to the rich and outsized corporate subsidies with the public getting stuck with out-of-control deficits, deep social service cuts, and a new Treasury Department report just out promising more of the same.

It claims Social Security faces a $13.6 trillion shortfall "over the indefinite future," "reforms" are needed, delaying them punishes younger workers, and the program "can be made permanently solvent only by reducing the present value of scheduled benefits and/or increasing the present value of scheduled tax increases." Translation: cut benefits deeply, raise payroll taxes, and privatize Social Security so more public wealth goes to Wall Street and big investors.

Already the top 1% owns 40% of global assets; the top 10% 85% of them; the top 1% in the US controls one-third of the nation's wealth; the bottom 80% just 15.3%; and the top 20% 84.7%. In contrast, the poorest 20% are in debt, owe more than they own, and it's getting worse.

A generation of financial manipulation devastated working Americans, but it's even worse than that. Added are the effects of globalization, automation, outsourcing, the shift from manufacturing to services, deregulation, other harmful economic factors plus weak unions just gotten far weaker in the wake of the UAW September membership sellout to General Motors. The tentative agreement reached (for members to vote on) amounted to an unconditional surrender by a corrupted leadership after a two day walkout that was likely orchestrated in advance to cause GM the least pain. If the package is approved as is likely, it will encourage other companies to offer similar deals, take it or leave it. Organized labor suffered another grievous blow, corporate giants gained, and are more empowered than ever to win out at the expense of workers' futures.

The whole scheme was kick-started under Ronald Reagan. Between his tax cuts for the rich and the Greenspan Commission's orchestrated Social Security heist, working Americans lost out in a generational wealth transfer shift now exceeding $1 trillion annually from 90 million working class households to for-profit corporations and the richest 1% of the population. It created an unprecedented wealth disparity that continues to grow, shames the nation and is destroying the bedrock middle class without which democracy can't survive.

Greenspan helped orchestrate it with economist Ravi Batra calling his economics "Greenomics" in his 2005 book "Greenspan's Fraud." It "turns out to be Greedomics" advocating anti-trust laws, regulations and social services be ended so "nothing….interfere(s) with business greed and the pursuit of profits."

It won't affect the "Maestro." He's getting by quite nicely on his six figure retirement income that's just a drop in the bucket supplementing the millions he's making as payback for the trillions he helped shift to the rich and super-rich. They take care of their own, and

Greenspan is one of them.

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