

Greenspan Humiliated: It's a Good Start

April 9—Former Federal Reserve chairman Alan Greenspan, now a senior economic advisor to British Prime Minister Gordon Brown, was reduced, on April 7, to defending his treasonous Fed record with the lame explanation: “Well, I was right some of the time.” Greenspan, in his appearance before the U.S. Congress’s Financial Crisis Inquiry Commission (FCIC), was sharply attacked, and his responsibility for the world economy’s debt-bubble crash exposed, by Commission member Brooksley Born, the Clinton Administration’s chair of the Commodities Futures Trading Commission (CFTC). The former Fed chief also, pathetically, tried to blame Congress for all his failed economic forecasts and criminal bubble-policies, claiming he was only implementing the laws Congress passed concerning the Fed!

Born had probably been waiting 15 years for this chance. In 1995-96, Greenspan was the leader of a “Gang of 3” (with Larry Summers and Robert Rubin) who threatened and blocked Born’s effort to regulate and limit so-called financial derivatives, the quadrillion dollars worth of poison that brought on history’s worst global crash ten years later.

While the FCIC has none of the powers of a Pecora Commission, the FDR-style investigative body which Lyndon LaRouche had called for, and which paved the way for the necessary major banking reforms of President Franklin Roosevelt, Born’s prosecutorial approach echoed its spirit. LaRouche applauded Born’s efforts to take Greenspan down, as a first step. “He needs to go down,” LaRouche said.

Going for the Jugular

“You championed so-called over-the-counter (OTC) derivatives,” Born lunged, “you pressed for them not to be regulated; you championed the Financial Commodities Modernization Act of 2000; the OTC derivatives grew to nominal value of \$700 trillion by 2006. In your view, did OTC derivatives, including credit default swaps, play a role in the financial collapse?”

Greenspan had to admit they had, but, “Oh, credit default swaps [CDS] were initially a very small fraction.” Sure, CDS created big problems, said the big man, but “I wasn’t talking about CDS” in the 1990s and early 2000s. That was the period when he claimed that bank counterparties using derivatives, not government regulators, should oversee all the markets.

Born sharply corrected Greenspan with the figures: The CDS “small fraction had risen to a notional value of \$60 trillion by 2008, more than the entire world’s total GDP. Are you aware that AIG’s failure and bailout was due to its CDS exposure, causing \$180 billion cost to U.S. taxpayers?” she asked. Born added that derivatives regulation (her intention) had been blocked by “the President’s Working Group’s actions up to 2000.” Greenspan effectively ran that body.

Greenspan then descended to nonsense: “Derivatives were not a big factor in anything. With respect to AIG, it is correct that was a proximate cause. But they could have gotten in just as much trouble selling insurance”—some in the hearing room laughed at this attempt.

Born then went right for the jugular of Greenspan’s bizarre Ayn Randist ideology: “Your book identifies you as a libertarian outlier, against almost all forms of regulation; you believe government regulation of markets is unnecessary or harmful. Now you say you’ve ‘found a flaw’ in that ideology. You were Fed chairman for 18 years, ‘the most respected sage on the financial markets in the world.’ Did your ideology have an impact on oversight of markets, here, and worldwide? . . . The Fed utterly failed to prevent any of the activities which caused the collapse. You failed to prevent many of our banks from growing into gigantic institutions too big and to interconnected to fail. Didn’t the Fed fail to meet its responsibilities?”

That’s when Greenspan admitted he “allowed the entire financial system to be undercapitalized and over-leveraged” with debt. But, not *his* fault! “Everyone else in government, in the private sector, in academia,” he claimed, shared the same ideology. Greenspan concluded, addressing Born, in his only nod to the truth, “I really fundamentally disagree with your point of view.”

The next day, the once-mighty Fed chief saw himself widely ridiculed in the media. He deserves much worse.