Alan ‘4-eyes Ayn’ Greenspan

2013. Acrylic on canvas, 20 x 24”
by
Martin Ostrye

Alan Greenspan, Federal Reserve Chairman under Presidents Ronald Reagan, George H.W. Bush, Bill Clinton, and George W. Bush.

Greenspan was a devout follower of the odd, anti-government, free-market Libertarian writer, Ayn Rand. Rand was opposed to any government control and believed in “separation of state and economics.”[1] However, toward the end of her life she was living off of Social Security checks. As the economist Joseph Stiglitz noted, Greenspan’s belief in Ayn Rand was a “bit curious for a central banker, because what is central banking? It's a massive intervention in the market, setting interest rates.”[2]

Greenspan, though, admitted that he wanted to work against regulation from within government and **"**had long since decided to engage in efforts to advance free-market capitalism as an insider, rather than as a critical pamphleteer."[3]

In 1933 President Franklin D. Roosevelt signed into law the Glass-Steagall Act to create a wall between commercial banks and investment banks so as to prevent the speculative practices that were a key factor in causing the Great Depression. [4]

However, by Spring 1987, in a 3-2 vote, the board of the Federal Reserve approves easing Glass-Steagall regulations. J.P. Morgan, Citigroup, and Bankers Trust had pushed to ease restrictions on the banks’ desire to move into the underwriting business which included mortgage-backed securities, municipal bonds, and commercial paper. Fed chairman Paul Volcker opposed the easing of the regulations fearing, “that lenders will recklessly lower loan standards in pursuit of lucrative securities offerings and market bad loans to the public.”[5]

Greenspan, a former director of J.P. Morgan and major supporter of deregulation becomes chairman of the Federal Reserve in August 1987 and sets about to dismantle Glass-Steagall, laying the foundation for financial disaster.[6]

With Alan Greenspan as chairman of the Federal Reserve the banks keep pushing further, and in January of 1989 the Board approves a request by J.P. Morgan, Citicorp, Bankers Trust and Chase Manhattan to deal in “debt and equity securities in addition to municipal securities and commercial paper.”[7]

Then J.P. Morgan is granted permission in 1990 to underwrite securities. The underwriting business was not to exceed 10 percent of the bank’s overall business.[8]

At the end of 1996, again under Alan Greenspan, the Federal Reserve Board issues a decision allowing, “bank holding companies to own investment bank affiliates with up to 25 percent of their business in securities underwriting.”[9]

By the end of summer 1997, the Federal Reserve had eliminated restrictions that had been part of the 1987 and 1989 orders. The Federal Reserve Board claimed that, “the risks of underwriting had proven to be ‘manageable’.” The banks could now, “acquire securities firms outright.”[10]

These actions would pave the way for the merger of Travelers insurance and Citicorp in 1998, which would lay the groundwork for the repeal of Glass-Steagall and the passing of the 1999 Financial Services Modernization Act.

As former Secretary of Labor Robert Reich noted, “Greenspan had urged Congress to dismantle the wall separating investment and commercial banking, thereby allowing investment banks to become lightly regulated financial behemoths that sold their shares to the public, borrowed to the hilt, and invested wildly. Greenspan was also against regulating the ‘derivatives’ they invested in –securities derived from making bets on the future prices of real assets, such as those tied to rising home values.”[11]

Furthermore, during the Clinton Administration, Greenspan was part of Clinton’s secretive in-house council known as “the President’s Working Group” an anti-regulation support group lead by Treasury Secretary Robert Rubin and included Larry Summers and Arthur Levitt, the SEC chairman.[12] This was the group that would gang-up on Brooksley Born, who was appointed by Clinton to run the Commodity Futures Trading Commission (CFTC).

In an initial meeting between Born and Greenspan, as recalled by Joe Nocera of the New York Times, Greenspan said that he and Born would never agree on fraud because she probably thought “there should be rules against it,” which she did. Greenspan replied that he thought, “the market will figure it out and take of the fraudsters.”[13]

As stated by Michael Greenberger, former director of the CFTC (1997-1999), “Greenspan didn't believe that fraud was something that needed to be enforced, and he assumed she probably did. And of course, she did. I've never met a financial regulator who didn't feel that fraud was part of their mission.”[14] Furthermore, Manuel Roig-Franzia of the Washington Post noted, **“**this is an absolute stunner for the new head of this tiny agency who is charged with making sure people don't commit fraud.”[15] Washington attorney Nancy Duff Campbell said Born, “was taken aback about how far [Greenspan] would go towards deregulation, that even the notion that we should police fraudulent activity he didn’t’ think was something that was a given.”[16]

Brooksley Born wanted to regulate Over-the-Counter (OTC) derivatives, which so outraged Rubin, Summers, Greenspan and Levitt, that Born became suspicious about what they were trying to hide.[17] So she published a Concept Release about regulating OTC derivatives. Clinton’s White House wants to stop her. However, only Congress can do that, so hearings are set and Clinton’s gang goes on the attack to discredit and humiliate her. Larry Summers claims that, “[t]he [concept] release has cast a shadow of regulatory uncertainty over a thriving market.” Levitt said, “[t]he CFTC's action has and will bring, I believe, significant disruption to this important global market.” And Greenspan said, “[r]egulation that serves no useful purpose hinders the efficiency of markets to enlarge.” When a Representative asked her what she was trying to protect, Born replied: “We're trying to protect the money of the American public, which is at risk in these markets.”[18]

Congress chose not to heed Brooksley Born’s warning and six weeks later her “warning became prophecy.”[19]

Long Term Capital Management (LTCM), a hedge fund, was melting down. The fund “invented complex mathematical formulas and used derivatives to place their bets.”[20] The investors nor the regulators knew how the hedge fund worked, “[i]t was a completely secret process.” LTCM was working with Wall Street’s largest banks, “leveraging $5 billion into more than $1 trillion in derivatives.”[21] As Brooksley Born noted, “[a]ll these big banks hadn't done their homework. They didn't even know the extent of LTCM's exposures in the market, or the fact that all of the other OTC derivatives dealers had been lending to them, as well.” Furthermore, she said, the regulators didn’t know LTCM was on the verge of collapse, “[b]ecause we didn't have any information about the market.”[22]

After four days the Fed pressured Wall Street banks to save LTCM.[23]

In the end, Greenspan told Congress, “I think it's very important for us not to introduce regulation for regulation's sake.”[24] And Congress went along, “[t]here would be no new regulations of over-the-counter derivatives.”[25]

As Michael Greenberger observed, it was now “an unregulated market, no transparency, no capital reserve requirements, no prohibition on fraud, no prohibition on manipulation, no regulation of intermediaries. All the fundamental templates that we learned from the Great Depression are needed to have markets function smoothly are gone.”[26]

Congress put a stop to Brooksley Born. She resigned.[27] “Again and again during the Clinton administration,” noted Joe Nocera, “you see these examples of the top regulators basically saying, ‘[t]he market knows better than us, and we're going to let the market do it.’"

Greenspan stayed on into the George W. Bush administration and the unregulated derivative market grew and grew and by 2007 it was at $595 trillion.[28] It had become a giant bubble that was going to burst and destroy the American economy, the financial stability of millions of Americans, and wreak havoc across the globe.

As former SEC chairman Arthur Levitt noted, “Alan was a great wizard. No one understood what he said, but he said it in such a way that everybody bought it.”[29] Furthermore, as the author of, *In Fed We Trust*, David Wessel observed, Greenspan was, “[t]he wizard, the man behind the curtain who mumbled in ways that ordinary people couldn't understand, but who appeared to be controlling absolutely everything.”[30] Wessel went on to say, “[Greenspan] understood that there were laws he had to enforce that he personally would not have passed. But he intended to do as little as he could on regulation, and he proceeded to do just that.”[31]

After debating Greenspan on the radio/television program, *Democracy Now!,* Naomi Klein, author of the *Shock Doctrine*, said she ”was stunned that this man who preaches the doctrine of personal responsibility refuses to take any at all.”[32]

As Rolling Stone reporter Matt Taibbi said, “Every time Wall Street gets in a lot of trouble the Fed has been there to bail them out. They even had a term for it on Wall Street called the ‘Greenspan Put,’ which essentially meant that every time the bank blew up a speculative bubble, they could go back to the Fed and borrow money at zero or one or two percent, and then start the game all over again.”[33]

And the game continues to the present day.

Notes

1. *The Warning*, PBS Frontline, October 20, 2009 transcript p. 3.
2. Ibid., p. 4.
3. Ibid.
4. Marshall, Andrew Gavin, *The Great Global Debt Depression: It’s All Greek To Me*. July 15, 2011, Global Research.
5. *The Long Demise of Glass-Steagall*. PBS Frontline. May 8, 2003.
6. Ibid.
7. Ibid.
8. Ibid.
9. Ibid.
10. Ibid.
11. Reich, Robert, *Alan Greenspan by Robert Reich*. January 16, 2009, The Guardian.
12. *The Warning*, pp. 4-5.
13. Ibid., p. 8.
14. Ibid., p. 9.
15. Ibid.

16. Ibid.
17. Ibid., p. 12.
18. Ibid., pp. 15-16.
19. Ibid., p. 16.
20. Ibid., p. 17.
21. Ibid.
22. Ibid., p. 18.
23. Ibid., p. 19.
24. Ibid., p. 20.
25. Ibid.
26. Ibid.
27. Ibid.
28. Ibid.
29. Ibid., p. 2.
30. Ibid., p. 3.
31. Ibid., p. 4.
32. *Greenspan and the Myth of the True Believer*, The Nation, October 15, 2007.
33. Taibbi, Matt, *Why Isn’t Wall Street in Jail?* (Complete Interview). *Democracy Now!* February 22, 2011.