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Viewpoint: Greenspan's Fingerprints All Over Enduring Mess

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In the fable "The Emperor's New Clothes," two make-believe weavers purport to spin a fine suit of clothes for the emperor, which is made of beautiful material that possesses the wonderful quality of being invisible to any man who is unfit for his office or unpardonably stupid. The potentate and his subjects acknowledge that the garments are very fine indeed. That is, until one little child sees the emperor marching in a procession, and says at last: "But he has nothing on at all" — and the grand swindle is exposed for all to see.

The U.S. economy as well as economies around the world have been going through wrenching experiences lately, and much more is likely. Former Federal Reserve Chairman Alan Greenspan is the architect of the enormous economic "bubble" that has burst globally. No longer is he revered as a "potentate." His reputation is in tatters. Giulio Tremonti, Italy's Minister of Economy and Finance, has said: "Greenspan was considered a master. Now we must ask ourselves whether he is not, after [Osama] bin Laden, the man who hurt America the most." That speaks volumes.

Greenspan let things get out of control, and the prices of U.S. homes rose to stratospheric levels. Americans and their counterparts abroad borrowed like drunken sailors because of their newfound wealth and net worths, and no one believed that the party would end. While borrowers were told to read the fine print about the risks of adjustable-rate mortgages and the like, few people worried about the future.

Home prices have been falling, with no end in sight. Stock markets around the world have been falling to unfathomable levels — though there may be brief respites from the downward trend.

Anyone who thinks that the bottom is close to being reached, or that the package devised by the Fed and Treasury Department and Congress will solve the problems, has never taken a college course in economic history. It took years for the bubble to reach its staggering proportions; and when it burst, an economic tsunami was released that has been rolling worldwide with devastating effects, stretching well into the next decade. The Great Depression did not end until the onset of World War II; and the painful experiences that the U.S. and other global economies are witnessing today may take just as long.

While lots of people around the world are coming to the conclusion that Greenspan is an emperor with no clothes, the same thing may be said about the bailout legislation that was rushed to enactment, and the politicians who supported it. Now that the floodgates are open wide, other bailout measures may follow in the weeks and months to come, none of which is apt to solve the basic economic problems. Also, it appears that any lobbyist who worked on bailout legislation of one sort or another has obtained something for his or her clients.

Banks that hold tens of billions of dollars in securities, which may be eligible for the rescue plan, have lobbied lawmakers and Treasury officials intensely. The lobbyists' feeding frenzy has produced Christmas gifts for their respective clients that far surpass their wildest expectations. Now, any bank, bank holding company, financial institution headquartered in the U.S., or foreign financial institution that does substantial business in the U.S. may be deemed "too big to fail." Such financial institutions will be trying to sell their loans to the government, which is tantamount to rewarding them for having made the bad loans in the first place.

The various pieces of bailout legislation help Wall Street, the banks, Detroit's automakers, home builders, and others, but there is no relief for the American people. Ultimately, the bailout legislation may cost taxpayers much more than a trillion dollars. That is frightening for Americans who will be paying the government's bills when they are worried about meeting their own obligations. Even with the legislative "fix," the U.S. economy is in a deep hole.

Greenspan's tragic errors of judgment have begotten all of this; and Treasury Secretary Henry Paulson is a lame duck who will be gone when the next administration takes office in January. Hence, it must be asked: Who will be administering the bailout programs and making sure that the taxpayers are not fleeced to a greater extent in the future? This is even more frightening. Obviously, the alternative has been to allow the free markets to work their magic, and let the chips fall where they may. Any notion that the leading nations are able to develop a clear and coordinated plan that ends this time of global financial upheaval is pure political folderol.

Years from now, economic historians may conclude that the "rescue" measures were too little, too late; the world's central bankers were overwhelmed, and Depression-era "safety nets" did not work; and global market forces ultimately determined the depth and duration of the economic meltdown, not the politicians anywhere. One thing is certain enough: there are lots of rude awakenings yet to come, both in the U.S. and abroad. Greenspan unleashed a firestorm, and it will take years to contain it.

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