

Alan Greenspan vs. Naomi Klein on the Iraq War, Bush's Tax Cuts, Economic Populism, Crony Capitalism and More

In a Democracy Now! exclusive debate, former federal reserve chairman Alan Greenspan and journalist Naomi Klein square off on the Iraq war, oil, President Bush tax cuts, social security, economic populism in Latin America, corruption and crony capitalism. Greenspan headed the central bank in the United States for almost two decades. He has written a new 500-page memoir titled, "The Age of Turbulence: Adventures in a New World." At one point in the debate, Klein asks Greenspan, "The policies that you pursued—deregulation, privatization, free trade—have contributed to this extraordinary division of income that is really the fuel for this economic populism that you're now denouncing. Aren't you the one that has caused this crisis of faith in capitalism?"

- **Alan Greenspan**, Chairman of the Federal Reserve from 1987 to 2006. His new memoir is "*The Age of Turbulence: Adventures in a New World.*"
- **Naomi Klein**, award-winning investigative journalist, the bestselling author of "*No Logo*" and the co-director of "The Take." Her latest book is called "*The Shock Doctrine: The Rise of Disaster Capitalism.*"

AMY GOODMAN: As the credit crisis continues to grow and the US dollar hits a new low, we turn today to the former Chair of the Federal Reserve, Alan Greenspan. Alan Greenspan headed the central bank in the United States for almost two decades. He was first appointed to this position in 1987 by President Ronald Reagan. Greenspan retired in January 2006, after deciding the fate of national interest rates under four different presidents. Dubbed "the Maestro," he was widely regarded as one of the world's most influential economic policymakers. He has just written a new 500-page memoir; it's called *The Age of Turbulence: Adventures in a New World*.

Alan Greenspan joins us now on the phone. And in our studio we're joined again by journalist Naomi Klein, author of *The Shock Doctrine*. We welcome you both to *Democracy Now!* Welcome, Alan Greenspan.

ALAN GREENSPAN: Thank you very much. I'm delighted.

AMY GOODMAN: It's good to have you with us. You worked with six presidents, with President Reagan, with both President Bushes. You worked with President Ford, and you worked with Bill Clinton, who you have called a Republican president; why?

ALAN GREENSPAN: That was supposed to be a quasi-joke.

AMY GOODMAN: Talk about it.

ALAN GREENSPAN: Well, Clinton?

AMY GOODMAN: Yes.

ALAN GREENSPAN: Well, I stated that I'm a libertarian Republican, which means I believe in a series of issues, such as smaller government, constraint on budget deficits, free markets, globalization, and a whole series of other things, including welfare reform. And as you may remember, Bill Clinton was pretty much in the same—was doing much that same agenda. And so, I got to consider him as someone—as he described it, we were both an odd couple, because he is a centrist Democrat. And that's not all that far from libertarian Republicanism.

AMY GOODMAN: About how much would you say you agreed with him?

ALAN GREENSPAN: On economic issues, I would say probably 80%.

AMY GOODMAN: And what about President Bush?

ALAN GREENSPAN: President Bush had the wonderful characteristic of knowing that it was not to his advantage or to ours to interfere with the actions of the Federal Reserve. And I must say, through all of his years, he never once second-guessed what the Fed was doing. And that was very important to us, and we've been very much appreciative of that.

But, as I say in the book, he did not clamp down, as I thought was necessary, on what was a wayward Republican-controlled Congress, which I thought lost its way and started to spend and create all sorts of fiscal imbalances. And, essentially, what I hold—where I thought the administration could have done far better is if the veto were employed. And as you may remember, he did not use the veto at all. And that, what I thought, would have created a much more balanced procedure in the Congress. So it's a mixed case in this regard.

AMY GOODMAN: Alan Greenspan, let's talk about the war in Iraq. You said what for many in your circles is the unspeakable, that the war in Iraq was for oil. Can you explain?

ALAN GREENSPAN: Yes. The point I was making was that if there were no oil under the sands of Iraq, Saddam Hussein would have never been able to accumulate the resources which enabled him to threaten his neighbors, Iran, Kuwait, Saudi Arabia. And having watched him for thirty years, I was very fearful that he, if he ever achieved—and I thought he might very well be able to buy one—an atomic device, he would have essentially endeavored and perhaps succeeded in controlling the flow of oil through the Straits of Hormuz, which is the channel through which eighteen or nineteen million barrels a day of the world eighty-five million barrel crude oil production flows. Had he decided to shut down, say, seven million barrels a day, which he could have done if he controlled, he could have essentially also shut down a significant part of economic activity throughout the world.

The size of the threat that he posed, as I saw it emerging, I thought was scary. And so, getting him out of office or getting him out of the control position he was in, I thought,

was essential. And whether that be done by one means or another was not as important, but it's clear to me that were there not the oil resources in Iraq, the whole picture of how that part of the Middle East developed would have been different.

AMY GOODMAN: We're also joined in studio by Naomi Klein, author of the book *The Shock Doctrine: The Rise of Disaster Capitalism*. Your response to that, Naomi Klein?

NAOMI KLEIN: Well, I'm just wondering if it troubles Mr. Greenspan at all that wars over resources in other countries are actually illegal. Mr. Greenspan has praised the rule of law, the importance of the rule of law, in his book. But in his statements about the reasons why this has not been publicly discussed, he has said that it's not politically expedient at this moment. But it's not just that it's not politically expedient, Mr. Greenspan. Are you aware that, according to the Hague Regulations and the Geneva Conventions, it is illegal for one country to invade another over its natural resources?

ALAN GREENSPAN: No. What I was saying is that the issue which, as you know, most people who were pressing for the war were concerned with were weapons of mass destruction. I personally believed that Saddam was behaving in a way that he probably very well had, almost certainly had, weapons of mass destruction. I was surprised, as most, that he didn't. But what I was saying is that my reason for being pleased to see Saddam out of office had nothing to do with the weapons of mass destruction. It had to do with the potential threat that he could create to the rest of the world.

NAOMI KLEIN: Yes, I realize that, but he was not simply deposed. The US invaded Iraq, occupied it and took control over its resources. And under international law, that it is illegal to wage wars to gain access to other countries', sovereign countries', natural resources.

ALAN GREENSPAN: Yes. No, I'm fully aware of the fact that that is a highly, terribly important issue. And as I said in other commentaries, I have always thought the issue of what essentially amounts to what is often called pre-emptive, preventive action on the part of some countries to secure resources or something else like that, it's an issue that goes back to the Cold War, when we had the very difficult moral dilemma of what do you do when you think a missile is coming in our direction and you're not sure whether it's an accident or not an accident. And that is a problem which I think is a deep moral problem in civilized society. And the issue is one which I don't think we're going to resolve very easily. And as you point out, yes, I am a believer in the rule of law, and I think it is a critical issue, not only for domestic economies, but for the world economy as a whole.

AMY GOODMAN: Naomi Klein?

NAOMI KLEIN: You have also advocated economic shock therapy and supported IMF programs that have transformed economies very, very quickly. And then, you say that you are in support of the rule of law. But I'm just wondering how, in a country like

Russia, there could be rule of law when it's being transformed in fast-forward in that way.

ALAN GREENSPAN: Well, remember that you don't get a market economy merely by eliminating central planning. And remember, when the Berlin Wall came down and the Soviet Union disintegrated, you didn't have a market economy. What you basically had was a black market economy. And they tried to develop the institutions of the democratic society, and it's not something which they have had back for generations. And as you can see now, there's an increasing authoritarianism. It's a very—it's a society which has very different trends at different levels of that society. And I don't know exactly where they're coming up, but I don't like the direction it's been going in in recent years.

AMY GOODMAN: I wanted to go back to Iraq and ask you about, well, a piece by Jim Steele and Don Barlett that came out in *Vanity Fair*, where they're talking about the billions lost in Iraq. And they begin their piece by saying, "Between April 2003 and June 2004, [\$12 billion] in US currency—much of it belonging to the Iraqi people—was shipped from the Federal Reserve to Baghdad, where it was dispensed by the Coalition Provisional Authority. Some of the cash went to pay for projects and keep ministries afloat, but, incredibly, at least \$9 billion has gone missing, unaccounted for, in a frenzy of mismanagement and greed."

Alan Greenspan, when you were head of the Federal Reserve, how much knowledge do you have of this? And did you investigate this? Were you aware of this at the time?

ALAN GREENSPAN: Well, let me say that what we were involved in was essentially endeavoring to create a viable currency for the central bank of Iraq. And what we did do was—I think very successfully—create what is a viable financial system, even under the circumstances that currently exist. There was, as far as I can judge, a huge drain of the resources into areas which nobody to this day can understand or follow. It had nothing to do with the central bank. In our relationships with them, we were merely acting as an intermediary to assist them in creating a system, which they now have, which is working reasonably well, despite all of the problems that are going on. The issue which you are referring to had nothing to do with the Federal Reserve in any of our relationships with the central bank.

AMY GOODMAN: Well, they are talking about, in one day, for example, the East Rutherford operation center of the Federal Reserve Bank of New York, 100 Orchard Street in East Rutherford, a tractor-trailer truck pulling up, and though accustomed to receiving and shipping large quantities of cash, the vault had never before processed a single order of this magnitude: \$2.4 billion in \$100 bills. But ultimately, again, \$9 billion of \$12 billion gone missing in Iraq.

ALAN GREENSPAN: I am not familiar with any such evidence. And it was certainly not brought to my attention. I, frankly, find it very unlikely that those orders of magnitude were involved in any of the numbers that we were dealing with. You have to make certain that—there's been a lot of confusion about losses, and people have used the

dinar, the basic currency unit of Iraq, and assumed they were American dollars. And, of course, that gives you a highly distorted view. There's been, I've seen, several reports fairly recently in which that sort of mistake was being made. But what I can tell you is that no such numbers of any order of magnitude of the type you are discussing came to the attention of the Federal Reserve.

AMY GOODMAN: This is based on that award-winning article in *Vanity Fair*, or the team who have won—

ALAN GREENSPAN: Let me put it this way, award-winning doesn't necessarily—

AMY GOODMAN: Well, no, no. I mean Don Barlett and Jim Steele, Pulitzer Prize-winning journalists. I'm sure you know their work. But Naomi Klein?

NAOMI KLEIN: Well, I would just add that it's quite surprising, actually, that Mr. Greenspan is unaware of this scandal around Iraq's missing billions, because Paul Bremer had to testify before Congress and was asked directly about those missing billions. It's been the subject of very high-level investigations. There is a huge paper trail around it. So this is hardly a secret, and it's hardly just a matter that's confined to *Vanity Fair*. This is—

ALAN GREENSPAN: Oh, I'm not saying that the losses are not real. I think they are, because, obviously, we can't account for all the oil revenues. I'm just merely saying it's not something which was directly related to any of the actions which the Federal Reserve Bank of New York, to which we were referring, was involved, as far as I know.

AMY GOODMAN: Alan Greenspan, we have to break for sixty seconds, but we'll be back with you. Alan Greenspan, the former Chair of the Federal Reserve from 1987 to 2006. His memoir is out now; it's called *The Age of Turbulence: Adventures in a New World*. We'll be back with him in one minute. Stay with us.

[break]

AMY GOODMAN: Our guests are Naomi Klein, author of *The Shock Doctrine*, and Alan Greenspan, the former head, Chair, of the Federal Reserve, his book, *The Age of Turbulence: Adventures in a New World*. In fact, you were a classical and jazz musician, weren't you, Alan Greenspan, before you went into economics?

ALAN GREENSPAN: Well, I studied at Julliard, which means you've become a classical musician. And, indeed, that is still my fundamental interest in music. But I went on as a teenager to play in a dance band and spent a year and a half traveling around the country as a jazz musician.

AMY GOODMAN: Well, I wanted to move forward to your work as head of the Fed, as head of the Federal Reserve Bank, and ask you about that piece by Paul Krugman called "Sad Alan's Lament," that goes to that issue of supporting President Bush's tax cuts. In

his piece, Paul Krugman says, "Mr. Greenspan has just published a book in which he castigates the Bush administration for its fiscal irresponsibility.

"Well, I'm sorry," says Paul Krugman, "but that criticism comes six years late and a trillion dollars short."

He says that "Mr. Greenspan now says that he didn't mean to give the Bush tax cuts a green light, and that he was surprised at the political reaction to his remarks. "

He goes on to say the first big chance you had to clarify yourself came a few weeks after your initial testimony in 2001, when you appeared before the Senate Committee on Banking, Housing and Urban Affairs.

He says that, again and again you were offered the opportunity to say something that would help rein in runaway tax-cutting; each time evading the question, often replying by reading from your own previous testimony.

He said, "If anyone had doubts about Mr. Greenspan's determination not to inconvenience the Bush administration, those doubts were resolved two years later, when the administration proposed another round of tax cuts, even though the budget was now deep in deficit. And guess what? The former high priest of fiscal responsibility did not object."

And he goes on from there. He says in 2004, you "expressed support for making the Bush tax cuts permanent—remember, these are the tax cuts he now says he didn't endorse—and argued that the budget should be balanced with cuts in entitlement spending, including Social Security benefits, instead. Of course, back in 2001 he specifically assured Congress that cutting taxes would not threaten Social Security."

Your response, Alan Greenspan?

ALAN GREENSPAN: Well, I find it very unfortunate. Paul is a good economist. I have known him for years. He is wrong as fundamentally in many of the facts—in fact probably all of the ones you've just cited.

First of all, I was in favor of tax cuts of any type when it looked as though, according to all the technical experts, we were confronted with very large potential increases in surpluses. If we allowed those surpluses to run when the debt of the United States essentially went to zero, we would find that the federal government was beginning to accumulate huge amounts of assets of corporate business. There was to be no alternative to that. And if you look at the possibilities of what Lyndon Johnson or Richard Nixon would have done under those circumstances, it becomes extremely scary. It was only when it appeared that the forecasts were false, that, indeed, we were not running in—or not likely to run into these large surpluses, and, indeed, they disappeared.

At that point, I reverted to my older position: namely, I was in favor of tax cuts, but only if they are matched by cuts in spending. And I, therefore, reverted to that position in congressional testimony in 2002 and 2003, in fact, to the point where I recall a number of congressmen asked me, “Do I understand you correctly? You’re saying that you are in favor of the tax cuts, but only if spending is cut. If spending is not cut, were we to read from you that you are not supporting the tax cuts?” And I said, “That is correct.” So Paul Krugman’s view that somehow I didn’t change my mind until after I got out of office is factually false. And, indeed, I did change my mind. I changed my mind in 2002 and 2003, largely because the whole notion of which fundamentally got me in favor of significant tax cuts without offsetting expenditures was a very special event which probably had not occurred in the United States for 150 years—namely, division of our total federal debt effectively going to zero.

AMY GOODMAN: Naomi Klein?

NAOMI KLEIN: Just another piece of the puzzle here that I think is important to remember is that, Alan Greenspan, in your book, you make it clear that you are ideologically very much a supporter of the principle of privatizing Social Security and, in fact, were very disappointed that the Bush administration did not pick this up after the elections in 2000. Even though they hadn’t campaigned on privatization of Social Security, you felt that they should have pushed this forward. So doesn’t creating a shortfall because of tax cuts bolster the case for privatization of Social Security that you have written you are an ideological supporter of?

ALAN GREENSPAN: Well, first of all, ideology is not what I hold. I try to learn what are the facts, and I let my opinions, judged on the facts, not by some preconception, which I regret is what ideology as a notion means.

First of all, let me just suggest something to you. Social Security, as it now exists and is now currently funded, will be a very small part of overall retirement income in the years ahead. There is no—in fact, no alternative, as things now stand, that a very substantial part of the so-called replacement of income that one talks about when one retires is going to have to come from the private sector. And so, no matter what is done with federal Social Security, the average person is going to have to rely ever more increasingly on private sources of income, whether it’s private savings or working or whatever. But if you look at the future of Social Security and the demographics we’re now dealing with, the extent to which it replaces lost income when you retire is decreasing.

AMY GOODMAN: Alan Greenspan, the issue of whether we have enough money in this country, do you think that that also calls into question the war in Iraq, how the US can afford to continue this war?

ALAN GREENSPAN: Well, the issue is, basically, the question of the commitments of Social Security, relative—and Medicare, I might add—relative to the costs of the war. There is no question that a significant amount of money is being wasted in war. That is

what happens in war. And that's—clearly we're talking hundreds of billions. The issue here is that—

AMY GOODMAN: I believe the figure is in the trillions.

ALAN GREENSPAN:—even if the war spending were not there, we would have these problems. So it's true that there's a good deal of waste going on. But the problems to which I'm referring to existed before the war and will continue after the war.

AMY GOODMAN: The sub-prime crisis that we are seeing today, many saying that you seriously contributed to this, laid the foundation with keeping the interest rates low.

ALAN GREENSPAN: Well, the sub-prime crisis did occur as a result of lower interest rates. The lower interest rates, however, are, if one takes a look at the whole context of rising home prices throughout the world, is clearly a global issue. It is the result of fundamental changes that occurred as a consequence of the end of the Cold War, and that housing bubbles appear in more than two dozen countries around the world, which screams for an explanation that is global, not individual. So we in the United States—

AMY GOODMAN: I know that you're going to have to leave soon.

ALAN GREENSPAN: May I just finish?

AMY GOODMAN: Yes. Go ahead.

ALAN GREENSPAN: We in the United States basically try to get mortgage interest rates up and slow the bubble. And remember, it's the bubble which created a goodly part of the problem which we have had in the sub-prime market. And we failed. And that tells us, basically, that it's the global forces that are at play here.

But just going—taking a step back, I think it would be a terrible mistake if we look at the sub-prime market and decide it should be eliminated, because I think it's been a very successful market to allow many people in this country to have homes, which wouldn't otherwise be able to have them. The sub-prime market has a lot of technical problems wrong with it, and there are many issues that are involved with financial securitization alike, which created difficulties. I hope in the process we don't eliminate the sub-prime market.

AMY GOODMAN: Alan Greenspan, you write in the end of your book, “A Federal Reserve System that will be confronted with the challenge of inflation pressure and populist politics that have been relatively quiescent in recent years” is something that is very significant. You say the year—the United States in 2030 is likely to be characterized by populist politics that have been relatively quiescent in recent years. How important is populist politics, and what do you envision those to look like?

ALAN GREENSPAN: Well, remember what populist politics is. It's a very special brand of short-term focus, which invariably creates very difficult long-term problems. A goodly part of the book, as you know, is written about how populism has gripped, say, many Latin American countries to their detriment. And the term "populist politics" is essentially another way of saying short term versus longer term. And people who emphasize short-term benefits for long-term costs end up with very little in the way of economic growth and prosperity.

AMY GOODMAN: Naomi Klein?

NAOMI KLEIN: Mr. Greenspan, I'm wondering whether you feel that you share any responsibility in the rise of this economic populism, because, of course, you took over the Federal Reserve during the Reagan administration, and when Reagan took office, CEOs earned forty-three times more than their workers, and when you left the Federal Reserve, they made more than 400 times more than their workers. So the policies that you pursued—deregulation, privatization, free trade—have contributed to this extraordinary division of income that is really the fuel for this economic populism that you're now denouncing. So aren't you the one that has caused this crisis of faith in capitalism? Or, at least, don't you share some of that responsibility?

ALAN GREENSPAN: Well, look, the whole issue of what has happened in this country with respect to the increasing inequality of income is an issue I address and abhor in the book, and I point out that what is causing it to a very significant extent is the fact that skilled labor is under extraordinary demand as the technologies increase, and we've had a dysfunctional education system in this country, both in primary and secondary schools, which is showing up in all of the studies, which indicate that while our children in the fourth grade are doing fairly well relative to international comparisons, by the end of high school, they are in terrible shape. And as a consequence of that, we are not putting the proper number of people into the education cycle to get them up to skill levels, which creates much less, or would create a good deal less, in the way of income inequality.

And I also argue in the book that we ought to be opening up our borders to skilled labor from all sorts of—from all parts of the world, because if we were to do that, we would increase the supply of skilled workers, which our schools have been unable to create, and as a consequence of that, we would lower the average wage of skills and reduce the degree of income inequality in this country. It's a very important issue, and it's a very important issue which I raise in my book. And we have to confront this both at the education level and on the immigration level.

And it's not anything to do with what I am proposing. And just remember that the type of globalized economy that I support has taken hundreds of millions of people out of poverty. It's created a standard of living throughout the world which is unprecedented in history. And to assume that that is something we should be apologizing for, I find, is wholly inappropriate.

AMY GOODMAN: Naomi Klein?

NAOMI KLEIN: Well, you mentioned Latin America, and, of course, there is a rise in leftwing political parties and movements in Latin America. But this is after decades of adherence to IMF structural adjustment policies, and it's precisely because those policies failed to lift people out of poverty in countries like Bolivia that you have this rise of what you're calling economic populism. It's because trickle-down economics was seen to have failed. But you also mentioned economic populism in Latin America in your book, and you blame it for inflation episodes and the collapse of regimes and the toppling of governments, and one of your examples was Chile in the 1970s. Was Chile—was Salvador Allende's regime toppled because of inflation, or didn't the CIA have something to do with that?

ALAN GREENSPAN: Well, look, let's—I'm using Latin America as an example. The key question is not Latin America. Let's get back to the United States. Let's get back to the world at large and face the issue of populism here. Remember, the populist issue in Latin America goes back to the roots of Spanish and Portuguese colonization.

NAOMI KLEIN: I'm aware of that, Mr. Greenspan, but there are many developmentalist policies that were trying to address those colonial disparities. They were called import substitutions. And those leaders were systematically eliminated in a series of coups.

ALAN GREENSPAN: Well, let me ask you a question, which—you are just taking the capitalist system, to state it very bluntly, and say it's deficient here, it's deficient there, it's deficient every other place. The capitalist system has created more economic wealth in the last seven or eight years around the world. And as I said before, it's had huge effects in the developing world. Hundreds of millions of people have come out of poverty. And as a consequence of this, not on the basis of populist policies, but on the basis of policies which relate to markets, it strikes me that—you know, you can say all of the problems that exist in market economies—and in my book, you will find, I am very much aware of all of them in great detail.

The question you have to answer, however, is: what system works better? And I think the evidence going back to the Enlightenment of the early part of the eighteenth century and all of the events that occurred with respect to what's happened to the world since then has demonstrated that this system is the only one that seems to work well. I mean, all forms of socialist structure, which you seem to be implicitly in favor of, have failed. So the question is—

AMY GOODMAN: Naomi Klein?

NAOMI KLEIN: Actually, I am referring to mixed economies here. I'm not—

ALAN GREENSPAN:—what is [inaudible] issue here?

NAOMI KLEIN: Actually, I'm referring to mixed economies here. I'm not referring to state socialism.

ALAN GREENSPAN: Well, the question is, when you begin to talk in terms of changing what you're implicitly saying—and I've heard this story before—you have to say, what are you changing in favor of? And we've had regrettable problems throughout the world every time we've moved in the direction you're implying. The poverty level has gone up, not down.

NAOMI KLEIN: Well, Mr. Greenspan, I think it's worth remembering that the word "populist" simply means popular. So, obviously, a lot of people disagree with your assessment of the benefits of—

ALAN GREENSPAN: A lot of people disagree with my assessment, a lot of people disagree with yours.

NAOMI KLEIN: And are interested in another economic model.

ALAN GREENSPAN: That's what makes democracy work.

NAOMI KLEIN: There is something that I was quite interested in in your book, which was your definition of corruption and crony capitalism. You said, "When a government's leaders or businesses routinely seek out private sector individuals or businesses and, in exchange for political support, bestow favors on them, the society is said to be in the grip of crony capitalism." You say, "The favors generally take the form of monopoly access to certain markets, preferred access to sales of government assets, and special access to those in power." I kept thinking about Halliburton, Blackwater, Lockheed and Boeing. You were referring to Indonesia at the time, but I'm wondering, according to your definition—and we're seeing these extraordinary—we're seeing contracting emerging, as in the words of the *New York Times*, a fourth arm of government. Front page of the *New York Times* talks about \$6 billion being investigated for criminal activity in contract allocation in Iraq. I'm wondering whether you think the United States is a crony capitalist economy, according to your definition?

ALAN GREENSPAN: Every economy exists, no matter what the level of democracy, has elements of crony capitalism. It's—given human nature and given the democratic structures, which we all, I assume, adhere to, that is an inevitable consequence. The major issue is, is it the dominant force within an economy? It was the dominant force under Suharto. It is not the dominant force in this country.

NAOMI KLEIN: Well, how about this: in 2003, when you were head of the Federal Reserve, the US government handed out 3,500 contracts to companies to perform security functions. In 2006, the year that you left the Federal Reserve, they handed out 115,000 such contracts. It seems to me that it is becoming a dominant force.

ALAN GREENSPAN: Are you talking about the contracts that the Federal Reserve put out?

NAOMI KLEIN: I'm talking about the crony capitalist system of a Republican government handing out an extraordinary level of contracts to private companies, who then support these politicians with the political favors that you're describing in your book, in your definition of crony capitalism.

ALAN GREENSPAN: [inaudible] Federal Reserve is doing this or the government?

NAOMI KLEIN: You've overseen an explosion of the contract economy.

AMY GOODMAN: Final word, Alan Greenspan.

ALAN GREENSPAN: I'm sorry. I misunderstand what you're saying. Are you saying the Federal Reserve is doing that or the government is doing it?

NAOMI KLEIN: I'm saying that the US government is doing it.

ALAN GREENSPAN: Well, the US government has to purchase equipment from the private sector. It doesn't produce it itself. And you may characterize it in many different ways. And, obviously, I'm not going to deny that there's all sorts of corruption, which goes on in every country. The problem, essentially, for a democratic society is to maintain the civil liberties of the society and suppress that. Corruption, embezzlement, fraud, these are all characteristics which exist everywhere. It is regrettably the way human nature functions, whether we like it or not. What successful economies do is keep it to a minimum. No one has ever eliminated any of that stuff.

AMY GOODMAN: Well, on that note, we'll have to wrap up this discussion, because I know you, Alan Greenspan, have to go. But I hope this is just part one of this discussion. Alan Greenspan's new book is called *The Age of Turbulence: Adventures in a New World*. Naomi Klein, award-winning investigative journalist, is author of *The Shock Doctrine: The Rise of Disaster Capitalism*. I want to thank you both for being with us today.

ALAN GREENSPAN: You're welcome.

AMY GOODMAN: Thank you.

<http://articles.moneycentral.msn.com/Investing/ContrarianChronicles/NowGreenspanDoesntLikeBailouts.aspx>

Now Greenspan doesn't like bailouts?

By Bill Fleckenstein

The former Fed chief's criticism of the rescues of Bear Stearns, Freddie and Fannie is infuriating because he created the mess that led to them.

Last Thursday, the government reported that the Consumer Price Index was running at 5.6% year over year, the highest rate in about 16 years. Given that inflation is as high as it is, many folks are probably puzzled as to why, at the same time, home prices are collapsing.

That confusion became clear to me last week when I did an online chat. It *is* an odd mixture, one that was not only preventable but foreseeable.

In the shameless-self-promotion department, this is exactly why I wrote *Greenspan's Bubbles: The Age of Ignorance at the Federal Reserve*. I would encourage folks who are still puzzled about how these terrible problems can coexist to pick up a copy. Not because I need the book royalties but because I think it might be helpful.

The sorry state that we find ourselves in is a function of the Fed's interest-rate-targeting policies. More specifically, it was caused by the policies of Alan Greenspan, the Fed chief from 1987 to 2006. Just as this column was being filed, he graced the front page of *The Wall Street Journal* with some, shall we say, interesting observations.

Time for a new eyeglass prescription

In an article headlined "Greenspan sees bottom in housing, criticizes bailout," he said, "Home prices in the U.S. are likely to start to stabilize or touch bottom sometime in the first half of 2009." (He did leave himself some wiggle room, as he also noted that "prices could continue to drift lower through 2009 and beyond.")

Of course, we shouldn't forget that this is the same man who in October 2006 opined, "I think the worst of this (housing problem) may well be over." As I also note in the book, while Greenspan was in office he went to great lengths to suggest that housing couldn't experience a bubble. And, as The Journal pointed out, he also tried to make the case in 2004, when many of us were already certain a disastrous bubble was in full bloom, that "a national severe price distortion seems most unlikely in the United States, given its size and diversity."

This illustrates my strongly held (and well-documented) view that when it comes to matters of economics, Greenspan is utterly clueless and unable to learn from his mistakes.

However, what really sent my blood boiling was his criticism of the government bailouts of Fannie Mae and Freddie Mac. Now, you might wonder why I'd be angry that he said something I agree with, especially: "They should have wiped out the shareholders (instead)," referring to the bailout of Bear Stearns as well as that of Fannie and Freddie.

The reason I'm so angry is his logic, which The Journal paraphrased as follows: "The Fed-financed takeover of investment bank Bear Stearns also made government backing of Fannie and Freddie debt *'inevitable'*" (his adjective, my emphasis). Then Greenspan went on to tell the newspaper: "There's no credible argument for bailing out Bear Stearns and not the GSEs (government-sponsored enterprises)."

Own up to your bubble

The problem with that line of logic: Greenspan made the Bear Stearns bailout inevitable when he set the precedent of rescuing Wall Street during the collapse of hedge fund Long-Term Capital Management in 1998.

Of course, those actions led to the massive blow off to the stock bubble, the response to which led to the real-estate bubble. Thus, had he not bailed out Wall Street, I don't believe we would ever have been in a situation in which a Bear Stearns bailout would have been required or even considered.

In sum, it was Greenspan who set this train wreck in motion, with his specific policies regarding Long-Term Capital, dramatically altering the financial landscape by creating what's known as the "Greenspan put." Making matters worse, in the wake of that "warning shot," he advocated the deregulation of the financial system and championed securitization at every chance he got. While in charge, he never tried to put a stop to any dangerous policy but, rather, pursued it aggressively.

They live and they die by the square root of pi

Delusions of infallibility bring me to another subject: quantitative trading. Quantitative analysts have pursued a strategy based on the notion that the money to be made in stocks comes via mathematics rather than from company fundamentals. I believe that this strategy is responsible for much of the pandemonium we see on a regular basis.

No market seems to be safe from these maniacal, algorithm-wielding computer beasts. In a way, their systems have made it possible (in the short run) for almost anything to trade at any price, whether foreign exchange, stocks or commodities in general.