Alan Greenspan's Legacy

Greg's Note: Was Greenspan a Republican? Or did he lean to Democrat? Fred Sheehan scathes these two questions below. Tell me what you think: greg@whiskeyandgunpowder.com

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Greenspan Was Never a Republican — He Was an Opportunist

Ex-Federal Reserve Chairman Alan Greenspan has discovered the Republicans fall short of his standards. He is finding it difficult to break a smile on his *The Age of Turbulence* publicity tour. Greenspan "glumly" told *The New York Times* he is "very disappointed" with the Republicans. They ran an out-of-control budget. (In that, he is right.) "They swapped principle for power." Greenspan expressed "remorse" that the Republicans followed his advice to lower taxes in 2001. They should have placed "safeguards against surprises." The real problem was Congress. It did not place safeguards around Alan Greenspan. Despite the common claim that he has been a "life-long Republican," he was never anything of the sort. He has been a lifelong opportunist.

In February 2000, the last year of the Clinton administration, Greenspan appeared before the Senate Banking Committee. He recommended the government use the federal budget surplus to pay down the national debt. The chairman amplified: "The growth potential of our economy under current circumstances is best served by allowing the unified budget surpluses…to materialize, thereby reduce Treasury debt held by the public." Meaning: We should direct budget surplus dollars to reduce the federal debt. (This is accomplished by government-initiated purchases of U.S. Treasury securities.) The salient circumstance was that Clinton was not proposing a tax cut.

One year later, Greenspan worked for new management — the Bush administration. President Bush wanted a tax cut to kick off his tenure. Greenspan marketed the tax cut as fiscally responsible, given recent surpluses. His advice was rendered on Jan. 25, 2001, to the U.S. Senate Committee on the Budget. *The Wall Street Journal* reported the next day: "Giving a big boost to President Bush, Chairman Alan Greenspan reversed his long-held view and said he now sees room for significant tax cuts in the federal government's financial future…. [O]ver the coming decade, the latest budget surplus numbers show not only room for reductions, but even a need." *The New York Times* on the same day: "Alan Greenspan, the Federal Reserve chairman, gave his blessing today to a substantial tax cut…. In a clear shift from his previous position that reducing the national debt should be the focus of fiscal policy, Mr. Greenspan said improvements in the economy's long-term potential and the swelling surplus projections had 'reshaped the choices and opportunities before us.'"

In his testimony, Greenspan expressed concern "that continuing to run surpluses beyond the point at which we reach zero or near-zero federal debt brings to center stage the critical longer-term fiscal policy issue of whether the federal government should accumulate large quantities of private (more technically nonfederal) assets." Of the 10,000 most likely problems the government should consider, this was not one of them. Over

$5 trillion in the hole, the possibility of eliminating the federal debt ranked behind that of Venus crashing into Mars. (In January 2001, the Congressional Budget Office had projected the federal budget surplus would reduce the government debt by $5.6 trillion over the next 10 years. This gem of infinite interpolation gave Greenspan the cover he needed. In 2002, the CBO reduced its surplus estimate by $5.3 billion.)

Whether his audience scratched their heads at Greenspan's flight of fancy, another statement should have awakened their curiosity. Greenspan prefaced his tale of woeful surpluses by discussing "recent projections… [which] make clear that the highly desirable goal of paying off the federal debt is in reach before the end of the decade. This is in marked contrast to the perspective of a year ago, when the elimination of the debt did not appear likely until the next decade." The Nasdaq had fallen 43% from its March 10, 2000, peak. Tax revenue had risen from 12.5% of personal income to 15.4% during the boom years. In 2000, this 2.5% increase equaled $237 billion — precisely the same as the total 2000 budget surplus. It suited Greenspan's purposes to express mystification during testimony: "We still do not have a full understanding of the exceptional strength in individual income tax receipts during the latter 1990s."

Greenspan could not have been blind to the source of the budget surpluses: capital gains, exercised stock options, and bonuses. These tributaries had dried up. Without these flows, his fear of paying down the national debt, or even running a balanced budget, made no sense. And while Alan Greenspan could claim that paying down the debt was a bad thing, it is a tribute to the man that his audience accepted such a silly pretense approvingly.

The Greenspan campaign for renomination in 2004 kicked off its media blitz on Feb. 11, 2003. The Boston Globe reported that Greenspan viewed Bush's (new) tax cut plan with a chilly reception: "Greenspan… used the opportunity to admonish the federal government for losing its 'fiscal discipline.'" In the chairman's words, a "return to fiscal discipline should be instituted without delay." That was the stick; on Feb. 12, Greenspan offered Bush the carrot. *The Wall Street Journal* reported: "Federal Reserve Chairman Alan Greenspan muted his initially chilly reception of President Bush's tax cut plan, offering more praise for eliminating taxes on dividends and *playing down the near-term consequences for the federal deficit."* (Emphasis added.) President Bush announced that he would reappoint Greenspan for a fifth term on Feb. 22.

On April 30, mission accomplished and Bush now bound by the reconfirmation, the chairman slithered back: "Alan Greenspan…told Congress today that the economy was poised to grow without further large tax cuts, and that *budget deficits resulting from lower taxes without offsetting reductions in spending could be damaging to the economy.* Opponents of the large tax cut favored by President Bush took Mr. Greenspan's testimony as support of their position." (Emphasis added.) The dissembling was obvious; yet no one questioned Greenspan's motives.

On April 21, 2005, the chairman's bewildering tax and federal budget advice came full circle. At a Senate Budget Committee meeting, Democratic Sen. Paul Sarbanes of Maryland pursued a ragged thread in the Greenspan tapestry. The senator contended that Greenspan's endorsement of the president's 2001 tax cut was the "green light" that George Bush needed. Greenspan replied that he had not "specifically" endorsed the tax cut plan. The chairman claimed: "You will not find anywhere in the public record that I supported the [2001] tax cut."

Reading the Jan. 25, 2001 speech today (available for anyone to judge on the Federal Reserve Board of Governors Web site), his support is obvious. He was rooting for a tax cut.

This civil servant had made false assertions to the people's elected representatives before. When a vote to balance the budget loomed early in Clinton's presidency, Greenspan said a Fed study showed a balanced budget would reduce interest rates. The Fed had conducted no such study. Greenspan testified to Congress in 1993 that tapes of Federal Open Market Committee meetings were destroyed after summaries were written. Thus, no transcripts existed. He later admitted to Banking Committee Chairman Henry Gonzales that he had known for years transcripts were kept, but only remembered when a "senior staff member jogged my memory in the last few days."

Back to Sarbanes, Greenspan deflected the criticism with a tried-and-true tactic: flattery. Greenspan revealed “an alternative program of tax cuts and spending increases then proposed by the Democratic Party’s leadership would have achieved the same desired reduction in surpluses.” Now we have it. He had not *specifically* endorsed *the* Bush tax cut. Yet he also told Sarbanes that he, “like many economists,” had been wrong about the surpluses he warned of in 2001. So why was he endorsing the Democrat’s program if he had been wrong about the motivation for promoting a tax cut? We will never know. Greenspan had triumphed once again using another tried-and-true tactic: confusion.

In *The Age of Turbulence,* Greenspan praises Bill Clinton and criticizes George Bush. This has been good publicity for his book, but misdirected. He is not turning his back on the Republican Party; Greenspan’s only allegiance is, as it has always been, to himself.

Regards,
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