

Greenspan's take on housing a case of 'If I did it'

The Fed head's past words indict him for the subprime mess even if a new autobiography doesn't

Alan Greenspan, apparently speaking through a translator, has released his \$8 million book, "The Age of Turbulence: Adventures in a New World." To his hefty speaking and consulting fees we can now add book advances. Saying he's free to speak without the convoluted tongue he used and practiced for so many years, the former Fed chairman purports to impart knowledge and wisdom. Now that he is out of office, he can bravely set the record straight. But since he was paid by taxpayers, weren't we entitled to his wisdom while in office?

Released one day before arguably one of the most important Federal Reserve meetings in recent years, the 505-page tome (which works out to about \$160,000 per page) is filled with Greenspan's reminiscences, the names of famous people who have known him and such chestnuts as the dress his wife wore to the White House. We are treated to three pages (\$480,000) of his saxophone career.

The book release happened to fall in the midst of a credit crisis and a plunging housing market. As far as a housing bubble is concerned, Greenspan writes that when he was Fed chairman he talked about "froth" in the housing sector, and that by "froth" he meant "bubble." "All the froth bubbles add up to an aggregate bubble," he is quoted as saying in the Financial Times.

Greenspan reports that many people will face foreclosure or lose their homes because of the subprime debacle. As foreclosure rates in August rise 36 percent, he forecasts "a period of adjustment," warning of "large double digit declines" in home values, "larger than most people expect." "There are going to be a lot of people who have very tragic stories," he says.

Business Week wrote in July 2004 that it was a "Federal Reserve-engineered decline in rates that inflated the housing bubble ... (and) recent buyers are squeezing into houses that they can barely afford by taking advantage of the lower rates available from adjustable rates mortgages." Greenspan had promoted adjustable-rate mortgages in testimony before Congress. As I remarked in my writings at the time, this was odd for a Fed chairman to do. But now Greenspan says low interest rates were caused by global forces, not by the Fed's work. We "tried to get interest rates up," he says, even as the



SUMMING IT UP

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Fed lowered rates to 1 percent and held them there for a year.

According to Greenspan, the chairman really knew very little about subprime loan practices, and he couldn't have done any-

thing anyway. In fact, Greenspan had praised subprime loans, saying, "innovation has brought about a multitude of new products, such as subprime loans. ... Improvements have led to rapid growth in subprime mortgage lending; today subprime mortgages account for roughly 10 percent of the number of all mortgages outstanding, up from just 1 or 2 percent in the early 1990s."

When a Fed governor approached Greenspan personally about his concern over subprime loans, Greenspan refused to get involved. The Fed was "not capable," Greenspan said. Greenspan confirms this conversation.

It is astonishing to learn how little he had to do with much of anything. According to Greenspan, he was an observer as the walls tumbled around him. If something happened to average Americans, like the 2.5 million who lost their jobs in 2000 and 2001 as a result of Fed policies, he might say, in the words of Donald Rumsfeld, "stuff happens." Greenspan says the Fed's role in a bubble is to clean up the mess after it's over — not to intervene.

The last 250 pages of this yawner are devoted to tidbits that most readers will have read many times before. The last chapter is about an "Oracle" (you know who) whose prophecies are the rise of China and other emerging markets, and how America should get its act together or risk becoming irrelevant. The \$35 book price seems steep for those deep insights.

He blames a "glassy eyed" Congress for failing to heed his advice even as he practiced obfuscation. If only they had listened, he laments while admitting he tried to make his testimony unintelligible. He prides himself in not answering when a question was asked. "Syntax destruction," he called it in a "60 Minutes" interview. At one hearing a congressman

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remarked, "I think I understand you," to which Greenspan replied, "I must have misspoken."

He hasn't lost his skills. We are treated to nuggets like: "The increase in the dispersion of the imbalances of the economic entities within U.S. national borders appears to have flattened somewhat over the past decade." Armed with that knowledge you should call your broker immediately.

In his book Greenspan fiercely opposes the Bush tax cuts, even though he favored tax cuts in his congressional testimony. Just not those Bush tax cuts, he now says. Greenspan says he tried to put daylight between himself and the Bush proposals at the time, but no record can be found of that outside of his book. At the very least, he allowed his testimony to be spun in favor of the cuts. He is now shocked and appalled to find politics in Washington. Grim news for a political operator, described by Sen. Harry Reid "as one of the biggest political hacks we have in Washington."

Now that Bush and his policies are deeply unpopular and

the Democrats control Congress, Greenspan says Bush and his policies are deeply flawed. Ever the politician, Greenspan finds Bush-Cheney a big disappointment despite being their toad. He was especially disappointed in his old friend Cheney, who insisted on being called Mr. Vice President, not just Dick. He finds new love for Bill and Hillary Clinton (although he was disappointed in the Lewinsky matter), giving Hillary a boost going into New Hampshire's primary election that should help his own stock later. He says the Republicans deserved to lose the last election. And by the way, the Iraq war is all about oil, but his job description kept him from revealing that until now.

With a host of problems left over from Greenspan, Fed Chairman Ben Bernanke is left to clean up Greenspan's mess while Greenspan is off to his next speaking engagement.

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