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Here's What They're Saying Now

Fred Sheehan

listeningin

The Lost Decade?

Not Here...Our Remarkable Interviewees Saw To That

Fred Sheehan

Author: "Panderer To Power" and "Greenspan's Bubbles: The Age of Ignorance at the Federal Reserve"

Au Contraire, Maestro; Fleckenstein & Sheehan Truth Squad Shred Greenspan's Image, February 29, 2008

Bill Fleckenstein and I spoke to you in early 2008, just after our book, *Greenspan's Bubbles,* had been published. We were very much correct in proclaiming that Greenspan had been a miserable failure and that we would all pay for it.

My greatest surprise continues: How long the inevitable is delayed. Technology, then mortgages, private-equity and now the government bubble. When Bill and I spoke to you, I thought we were at the end of bubbles. The government was gearing up, but I did not anticipate, that, should the U.S. government commit itself to $17 trillion in bailouts, the 10-year Treasury would trade at 3.6%.

That is not too interesting. I expect some readers will think, "Yeah, you and a million other people. Tell me something I don't know."

I'll try. I've spent a good part of the last year writing *Panderer to Power: The Untold Story of How Greenspan Enriched Wall Street and Left a Legacy of Recession* (to be published by **McGraw-Hill** in November). This is a deeper look at Greenspan, the linkages that elevated him to the Federal Reserve chairmanship and the parties who profited.

To try and understand how the today's Fed thinks, I read Ben Bernanke's *Essays of the Great Depression*. This is considered a great book by, among others, **Robert Shiller**, who told *CNBC*: "I think we are [sic] thankful that we have Ben Bernanke who is a great expert on the Great Depression at the helm."

Anybody expecting to read a history of the Great Depression may be disappointed. In his Essays, Bernanke mentions 139 names, 135 of whom are economists, and most of these are contemporaries (**Frederic Mishkin**, the dolt who recently resigned from the Fed Board, is cited more frequently than **Herbert Hoover** and FDR combined.) Even economics takes a back seat. Bernanke spends more time fussing over the statistical tests of his equations.

Most surprising was how little attention Bernanke gave to banking and the banking system. He skid past bank balance sheets and the balance sheets of those who might borrow. Over the past year or so, I've noticed, when he's told Congress that the banks need to lend, he seems unacquainted with the need of banks to hold capital before they can lend.

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In his world, at least in his equations, the Fed can always alleviate a slump by printing money.

But how is this useful to an investor? Bernanke is a man with little intellectual range but he does know one thing: printing money will alleviate a slump. This always works since he ignores the banking system. Academia's most respected resumes sit around the FOMC conference table with him. If Bernanke is replaced, there is little chance the new chairman or the FOMC will think much differently. His replacement will probably be one of the economists' who names appear in his *Essays* and who cross referenced each others' papers on their roads to tenure. They have nothing to say that wasn't old 30 years ago.

Confirmation of a sort comes by way of **Paul Samuelson**, retired **MIT** economics professor, well known for his economics textbook, Nobel Prize and uncle of President Obama's leading economic thinker, **Larry Summers**. Summers is most often mentioned as Bernanke's replacement. Samuelson told the *Atlantic* in June: "The 1980s trained macroeconomics – like **Greg Mankiw** [another possible Fed chairman] and Ben Bernanke and so forth [is his nephew a "so forth"?] – became a very complacent group, very ill-adapted to meet with a completely unpredictable and new situation, such as we've had. I looked up Bernanke's Ph.D. thesis, which was on the Great Depression, and I realized that when you're writing in the 1980s, and there's a mindset that's almost universal, you miss a lot of the nuances of what actually happened during the depression."

The nuances missed include a whopper that Alan Greenspan probably understood. I discovered the following after *Greenspan's Bubbles* was published. In 1996, Fed Governor **Larry Lindsey** bemoaned a problem related to inflation. Chairman Greenspan told Lindsey he had a solution: "We just have to make our dollar bills smaller and smaller to reflect the loss of purchasing power. The total amount of paper would be the same."

So, my prediction includes a top holding I mentioned when we last spoke: gold.

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