



Written by [Gary Benoit](#) on October 24, 2008

## Greenspan Wrongly Faults Free Market for Crisis

He went on to state that certain securities like derivatives did require government regulation after all, and that the subprime meltdown has been caused by unrealistically optimistic credit ratings combined with "a critical lack of transparency in secondary markets left policy-makers and regulators unable to discern the true nature and extent of the systemic risk that continued to build."



The free market, in other words, doesn't really work, according to Greenspan. And government is needed to curb its excesses — what Mr. Greenspan himself once termed "irrational exuberance." Left-wing hardliners like Representative Henry Waxman lost no time seizing on the former Fed chief's testimony. "For too long, the prevailing attitude in Washington has been that the market always knows best," the California Democrat gloated. "The Federal Reserve had the authority to stop the irresponsible lending practices.... But its longtime chairman, Alan Greenspan, rejected pleas that he intervene."

In truth, the free market does work and, unhampered by state interference, will regulate itself far more efficiently than government could. But the brand of "free-market" economics to which Greenspan has long subscribed — so-called "monetarism" — believes in the power of the "invisible hand" everywhere except in the money markets. Free markets work fine except where the money supply is concerned — or at least, so have claimed monetarists like the late Milton Friedman (otherwise an eloquent champion of laissez-faire). Monetarists inexplicably do not believe that the money supply (which, at least before the era of modern money, was just another commodity) will adjust according to market valuations; instead, they, along with socialist economists of every stripe, have long called for enlightened oversight and control of the money supply, allegedly to check financial panics and act as a guarantor of long-term stability. Lest we forget, it was Karl Marx himself who, as one of his famous 10 planks of communism set forth in the *Communist Manifesto*, recommended, decades before the advent of modern central banking and fiat money, "centralization of credit in the hands of the state, by means of a national bank with State capital and an exclusive monopoly."

We have today, in varying degrees, free markets in many economic sectors, but a total state monopoly over the money supply itself and many stifling controls over financial activities that, like government controls everywhere, have hampered and distorted market operations rather than improving them. It is primarily the inflationary policies of the Federal Reserve, along with an overload of niggling regulations



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— not the alleged wickedness of investors — that are responsible for distorting the credit markets and inflating the money supply via artificially low interest rates year after year.

If investors created money out of thin air in order to bankroll their investments, they would be arrested for counterfeiting. But the Federal Reserve counterfeits legally — and in the process diminishes the purchasing power of our currency. The Federal Reserve also uses its monopoly powers to artificially lower interest rates, causing malinvestments that otherwise would not have occurred. Now the Federal Reserve is trying to prop up an economy trying correct for past malinvestments, and in doing so the Fed will ultimately make the Panic of 2008 even worse.

That individuals like Greenspan can profess free-market values and yet embrace the cognitive dissonance of a socialized money supply speaks volumes about their real commitment to liberty (Greenspan, we note, was a champion of the gold standard decades ago, but apparently performed a volte-face after being invited to the councils of the wealthy and well-connected). In truth, Greenspan's latest disclosures are less an apostasy from his former free-market faith than a more consistent embrace of the financial socialism he has embraced for many years.



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