Both parties applaud reappointment of Greenspan to head US Federal Reserve

Jerry White
13 January 2000

President Bill Clinton last week nominated Alan Greenspan to his fourth four-year term as chairman of the Federal Reserve Board. The reappointment of Greenspan, who has headed the US central bank since August 1987, was hailed by Democratic and Republican politicians, corporate spokesmen and the news media.

The leading presidential candidates, Democrats Al Gore and Bill Bradley and Republicans George W. Bush and John McCain, all praised Greenspan's record. Bush, who had called on Clinton to renominate the Fed chairman in advance of the presidential primary elections, said, “I have long urged President Clinton to reappoint Alan Greenspan, and so I applaud the decision.” Bradley praised Greenspan for being “good for the markets.”

Senate Republicans predicted the nomination would be quickly confirmed. Banking Committee Chairman Phil Gramm (R-Tex.), who has called Greenspan the “greatest central banker in the history of the world,” said he would schedule a hearing by the end of the month.

While the nomination was widely expected, it is noteworthy that Clinton reappointed Greenspan six months in advance of the expiration of the Fed chairman's current term, and ten months before the presidential elections. The early announcement was intended to allay concerns within the political establishment and business circles that the question of Greenspan's appointment might become the subject of partisan debate during the election campaign, thereby rattling the stock and bond markets.

With last week's announcement, Clinton has sent a clear signal to Wall Street that Greenspan will have a free hand to pursue the economic agenda that has enriched the top 10 percent of the population beyond their fondest dreams, regardless of the ups and downs of election polls and the ultimate result of the vote next November. As one unnamed White House official said, “If you know how both sides wanted to resolve it, why not resolve it rather than let unwarranted speculation accumulate?”

The Federal Reserve chairman—often described by the media as the most powerful man in America—controls monetary policy using a variety of means, most notably the setting of interest rates, to determine the amount of money in circulation and its cost. This, in turn, profoundly influences the decisions made by corporations—whether to invest or cut back, to hire workers or lay them off.

The Federal Reserve Board, which exercises virtually untrammeled power over the jobs and living standards of tens of millions of working people, is not subject to any popular or democratic control. It is an unelected body consisting of representatives of the largest US banks and corporations.

As with all important economic decisions, the masses of working people are excluded from any input concerning who should run the Federal Reserve and what its policies should be. As an institution, the Fed embodies the political realities of American bourgeois democracy, in which the “rights” of the corporate bosses and wealthy stockholders are elevated above all social concerns.

The reappointment of Greenspan means that no matter which party wins in November, the basic thrust of the next administration's economic policy has essentially been set. On this basis there can be no serious discussion of the critical issues of concern to the vast majority of Americans—the growth of social inequality, stagnating wages, corporate downsizing, the lack of health care, the decay of public education. Greenspan's reappointment underscores the degree to which elections in the US—dominated by two big business parties whose policies are increasingly indistinguishable and a media owned and controlled by huge corporations—have lost whatever democratic content they may have once possessed.

An investment banker and board member of various Fortune 500 companies, Greenspan was an economic advisor to Republican Presidents Nixon, Ford and Reagan before being selected by the latter to serve as Fed chairman in 1987. His nomination was approved by the then-Democratic-controlled Congress. President Bush nominated him for a second term in 1991, and Clinton reappointed him in 1995.

He has continued the attack on the working class that was initiated by his predecessor, Paul Volcker, the Wall Street banker selected by Democratic President Jimmy Carter in 1979 to head the Federal Reserve. Volcker pushed interest rates up to a record 20 percent and more, producing the worst recession since the Great Depression. The growth of mass unemployment in the early 1980s, combined with government-backed union-busting under Reagan, set the stage for an onslaught against the working class that continues to this day. Huge tax cuts for big business and the wealthy and sweeping reductions in social benefits for working and poor people have contributed to a vast redistribution of the national wealth in favor of the rich.

Greenspan has presided over the downsizing of millions of jobs, the stagnation of workers' living standards and a de facto lengthening of the workday and workweek. At the same time he has advocated deeper cuts in social programs in order to finance further tax cuts for the wealthy and the channeling of billions of dollars, which would otherwise be available for public spending, into the banks and the stock market.

The resulting bull market on Wall Street—with share values increasing more than 500 percent during Greenspan's terms in office—has contributed to an unprecedented growth of social inequality in the US.

Greenspan has made no bones about the fact that his main concern is to keep masses of workers in a state of economic insecurity, so as to hold back any struggle for wage increases. Preventing the working class from regaining the ground it lost in the course of two decades of wage cuts and other concessions is at the heart of his program to fight inflation.

His policies have fostered the destruction of stable, decent-paying jobs and an enormous growth of low-paying jobs, including a sharp increase in the number of part-time and temporary workers. As a result, the official unemployment figures, nominally at the lowest level in decades, mask a profound erosion of living standards for tens of millions of Americans.

Testifying before Congress in 1998, Greenspan said that inflation had been held down in the United States because of "concerns among workers about job security." All but declaring workers' fear of being laid off to be a positive good, he cautioned, "We now seem to have moved beyond that phase of especially acute concern."

He cited a strike by General Motors workers in Flint, Michigan, which virtually shut down the company's North American operations, as a danger sign that "increasingly confident workers might place gradually escalating pressures on wages and costs."

Greenspan has made clear his willingness to sharply increase interest rates and thereby drive up unemployment at the first signs of a significant push for higher wages by the working class. In November 1999 the Federal Reserve boosted interest rates for the third time in six months. In a statement justifying its moves the Fed said, “the pool of available workers willing to take jobs has been drawn down further in recent months, a trend that must eventually be contained if inflationary imbalances are to remain in check."

These statements reveal a great deal about the state of class relations in the US. Greenspan acknowledges that the continuation of the bull market and further enrichment of the top echelons of the population are threatened by any trend in the economy that would provide an abundance of good-paying and secure jobs. The Fed chairman acts to counter this “danger” and further direct the wealth of society into the hands of the privileged few.

The *New York Times* recently wrote that “no figure is held in more esteem in Washington today than Greenspan, rivaling the awe previous generations reserved for military heroes.” A look at the most critical points in Greenspan's tenure illuminates why he is so revered in these circles.

Greenspan's first test came just two months after his confirmation, when the stock market crashed in October 1987, losing a record 508 points, or 23 percent, in one day. Greenspan flooded huge resources into the stock market and the banks in order to prevent a 1929-style collapse of the financial system.

In the late 1980s he played a key role in the multibillion-dollar bailout of the savings and loans industry, once again providing vast sums to rescue failing real estate speculators and financial swindlers.

The next crisis the Fed chairman faced was the recession of the early 1990s, when major banks and other financial institutions were on the brink of collapse. Greenspan again cut interest rates, allowing the banks to recover their profits by borrowing from the Fed at 3 percent and investing in government bonds paying 5 percent. During the Mexican peso crisis of 1994-95 Greenspan played a similar role, this time rescuing US banks that were overexposed in Latin America.

The Fed chairman received the most praise, however, for his response to the global crisis following the collapse of Asian economies in 1997, and the fallout that spread to Russia and Latin America the next year. When the US stock market began to fall precipitously in the late summer and early fall of 1998, Greenspan reduced interest rates three times in the space of several weeks. This was a signal that the Fed would do everything in its power to prevent the stock market bubble from bursting and thereby underwrite the fortunes of Wall Street speculators.

Just two years before, during testimony in Washington in 1996, Greenspan had warned of “irrational exuberance” on Wall Street in an effort to slow the speculative rise of share values. But last year Greenspan intervened to save the market, cognizant of just how critical the stock market bubble had become in propping up the American economy and the entire international capitalist order.

One of the effects of Greenspan's rapid cutting of interest rates in the fall of 1998 was to shore up the Clinton presidency. This was a high point of the impeachment campaign against the White House, and a market crash would have very likely led to Clinton's resignation or his conviction by the Senate and removal from office.

Throughout his tenure, Clinton has adapted himself to the economic and social policies called for by Greenspan. Shortly after his election in 1992, Clinton dropped his campaign pledge to implement a modest program of government spending to stimulate the economy, embracing instead the Fed chairman's policy of fiscal austerity to eliminate the budget deficit. Most recently the Clinton administration backed Greenspan's push for the deregulation of the banking industry, another windfall for big business.