

Alan Greenspan (1926–2026) and the crisis of capitalism

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Alan Greenspan, whose death at the age of 100 was announced on Monday, was chairman of the US Federal Reserve for 19 years, from 1987 to 2006.

He will go down in history as the individual who did more than any other to create a financial and economic system of parasitism and speculation, which characterises the US today and which has led to the creation of a financial oligarchy and a level of social inequality never before seen in history.

Marxist political economy is far removed from and is firmly opposed to any kind of historical subjectivism.

It does not ascribe the motion, the development of capitalism and its recurring crises to the role of individuals. It insists they are driven by objective contradictions rooted in the profit system based on the private ownership of the means of production—the irresolvable conflict between global production and the capitalist nation-state system and between the social character of production and private ownership.

Marx explained that the individual members of the capitalist class and those who carry out its interests, as Greenspan did, were, in the final analysis, the personification of objective socio-economic processes.

But individuals do play a role, at times a powerful one, and Greenspan was such. He was a living embodiment of free market ideology, the theoretical mainstay of the capitalist mode of production.

It is the ideological weapon, wheeled out time and again against socialism, with the assertion that socialism is inherently impossible. That while human beings may be able to plumb the depths of the atom, gain knowledge of the outer reaches of the universe, and examine the very structures of life itself, they cannot consciously control and regulate their own daily economic activity according to reason and need, and that the blind anarchy of the market must, of natural necessity, prevail.

Greenspan was an ardent promoter of this misanthropic outlook, the operation of which in practice has led to an ever deepening crisis of the global profit system, from which all sections of the capitalist class, with US imperialism in the lead, now seek to extricate themselves by means of war and deepening attacks on the working class, coupled with authoritarian and fascist regimes to enforce this program.

Greenspan's early life, it might appear, did not indicate the course he was to take. He was born in 1926 and was the only child of Herbert and Rose Greenspan. They divorced when he was five and he was brought up by his mother in the Washington Heights section of Manhattan. His father, however, was a stockbroker.

In his teenage years, he was an accomplished saxophonist, so accomplished that he was admitted to the Juilliard School in New York, where he spent several years playing in a jazz swing band. But he was taking out library books. He told the *New York Times* in a 1989 interview that one day he got a book on finance and the stock market and found it “really fascinating.”

He made the switch from music to economics and went to New York University, from which he obtained a bachelor's degree in 1948 and a

master's in 1950. He then started work for a doctorate at Columbia University under Arthur Burns, who would later become Fed chair.

The year 1952 proved to be a turning point in his ideological evolution after starting out under the influence of Keynesianism, which maintained that capitalism could and should be regulated through government intervention.

He married Joan Mitchell, and while the marriage lasted only a year, in that time she introduced him to the extreme right-wing writer Ayn Rand, a Russian émigré who authored a series of novels extolling free market capitalism and “rational selfishness.”

He became part of Rand's inner circle as he adhered to her ideas, including the assertion that capitalism was not only efficient and practical, but also moral.

Greenspan told the *Times* that he was “really fascinated,” got to know her and her writings over the years, and that “she had a sort of effect similar to that of a favourite college professor.” When Greenspan was sworn in as the chairman of the White House Council of Economic Advisers under President Gerald Ford in 1974, Rand was at his side.

After graduating from university, his first job was at the Conference Board, a business organisation that had been founded in 1916 to deal with rising militancy in the working class, where he worked on statistical and economic analysis. He then went into partnership with a former bond trader and began to make a reputation for himself on Wall Street as an analyst of the US economy.

His entry into top Republican political circles came in 1967 when he signed on to Richard Nixon's election campaign, delivering advice on the economy and analysis of polling data. After Nixon was forced to quit over Watergate, Greenspan's political career continued under Ford, to whom he was a close adviser.

The decade of the 1970s was one of militant upsurge of the working class in the US and internationally, in response to the global inflationary spiral set off by Nixon's removal of the gold backing from the US dollar in August 1971.

The spearhead of this movement in the US was the 111-day miners' strike in 1977–78, in which workers defied the anti-communist strike-breaking Taft-Hartley Act, which the administration of the Democratic president Jimmy Carter attempted to impose.

The response of the severely shaken Carter was to appoint Paul Volcker to the post of Fed chair with a mandate to use the Fed's financial instruments, above all interest rates, to crush the militancy of the working class in the name of fighting inflation.

Financial mechanisms, however, were not enough—the ground had to be prepared.

Accordingly, one of the first acts of the incoming Reagan administration was the mass sacking of air traffic controllers and the smashing of their union, PATCO, in 1981.

This was made possible only because the entire trade union bureaucracy, from the AFL-CIO down, refused to lift a finger in the defence of the air

traffic controllers and actively collaborated with the Reagan onslaught. The orientation of the union bureaucracy had been earlier signaled with the bailout of Chrysler in 1979, accompanied by wage and benefit cuts, and the appointment of UAW chief Douglas Fraser to its board of directors—the first time a union official had filled such a position.

With the suppression and betrayals of the air traffic controllers the way was open for the Volcker war against the working class. Interest rates were lifted twice in 1981, and by the end of the year the Fed's base rate hit 21.5 percent. Vast swathes of industry were devastated and the jobless rate hit the highest levels since the Great Depression.

Volcker was later to acknowledge the significance of the PATCO mass sacking in his so-called fight against inflation, because it was decisive in its "psychological effect on the strength of the union bargaining position."

A member of the interest rate-setting Federal Open Market Committee was more direct, stating at a meeting in February 1981 that "inflation would not be securely defeated... until all those workers and their unions agreed to accept less. If they were not impressed by words, perhaps the liquidation of several million more jobs would convince them."

These were sentiments with which Greenspan fully agreed. Central bankers always try to project the image that they are acting in the interests of the "people," but the class struggle is always on their minds.

In testimony to Congress in 1998, Greenspan said that despite economic expansion there had not been a significant increase in wages, attributing this to "concerns among workers about job security," and that "technology may still be leaving workers with fears of skill obsolescence"—a fear the capitalist class is seeking to instill today through AI.

The Volcker war led to a restructuring of American capitalism. Its industrial base was no longer the foundation of profit accumulation and was increasingly replaced by what became known as financialisation.

The titans of industry were being replaced by the junk bond kings, and profits were made by financial manipulation. Share buybacks, which had previously been outlawed, were made legal in 1982. Market manipulation, leveraged buyouts financed by vast amounts of debt, resulting in asset stripping, the use of bankruptcy provisions to avoid paying workers their entitlements, all started to become dominant. It was this milieu out of which Donald Trump emerged.

This new situation required a change at the Fed. Volcker, who was influenced by the New Deal legislation suppressing some of the more predatory operations of finance capital because of the disasters of the 1930s, was not the man for this new era. He was not reappointed for a third term and was replaced in 1987 by Greenspan, the advocate of finance capital on the basis that its operations were based on the "free market."

But Greenspan's most significant action as incoming Fed chair directly contradicted his professed ideology, as was everything he did throughout his 19-year term.

On October 19, 1987, Wall Street, after enjoying a boom run, crashed, with the Dow falling 22.6 percent in a single day, still the largest one-day fall in history.

In response Greenspan issued a single-sentence statement: "The Federal Reserve, consistent with its responsibilities as the nation's central bank, affirmed today its readiness to serve as a source of liquidity to support the economic and financial system."

This was not "free market" capitalism. Rather, all the references to the "free market," the sanctity of the individual, the need to avoid the "heavy hand" of regulation were the ideological cover for what was really taking place but could not be spoken of publicly—state-guaranteed speculation by a nascent financial oligarchy.

The Fed's rescue operations at the end of the 1980s under Greenspan were only the start of what was to take place in the 1990s, largely under the Democratic administration of Bill Clinton.

First there was the ongoing clean-up of the Savings and Loans debacle of the 1980s, which saw hundreds of small banks go to the wall, and required \$124 billion of government funds. Then came the bond market crisis of 1994 both in Mexico and the US, the latter requiring a \$50 billion bailout operation organised by the Clinton government.

In 1997–98, the Asian financial crisis, described by Clinton as a "blip" in the process of globalisation, had international ramifications when, in 1998, the US hedge fund Long Term Capital Management went under. It had to be bailed out by the New York Federal Reserve lest it bring down the entire financial system along the lines of what was going to take place a decade later.

At the turn of the century came the dot.com bubble and its bursting, in which Greenspan intervened to cut interest rates to finance a new round of speculation.

Throughout this period and amid signs of a deepening crisis of the financial system, Greenspan insisted that the task of the Fed was not to try to prevent financial bubbles from forming, but to clean up the financial mess when they burst. So entrenched was this position that a new term was coined, "the Greenspan put," meaning that speculation could continue in the knowledge that the Fed was its guarantor.

In this, and his campaign to scrap all previous regulations, Greenspan was backed to the hilt by Clinton and his administration.

He was lauded in the press—*Washington Post* writer Bob Woodward was to label him "The Maestro," and in 1999 the front cover of *Time* magazine featured a montage of Greenspan, Treasury Secretary Robert Rubin and his deputy Lawrence Summers, with the headline "The Committee to Save the World."

Throughout this period all the conditions were being created for the bursting of the financial bubble. The Clinton administration scrapped virtually all the regulations on finance capital introduced in an earlier period.

This process culminated in 1999 with the repeal of the 1933 Glass-Steagall Act, which separated commercial banking from investment banking and prevented commercial banks from gambling with customers' deposits in high-risk securities.

By the mid-1990s it was clear that a financial bubble was rapidly inflating. Greenspan denied its existence in public but admitted it in private. At the Fed meeting on September 24, 1996, in response to a warning from Fed Governor Larry Lindsey that a bubble was developing, he replied: "I recognise that there is a stock market bubble problem at this point, and I agree with Governor Lindsey that this is a problem that we should keep an eye (on)."

Nothing was done and the only response by Greenspan was to make his famous statement in December 1996 that there was "irrational exuberance" in the market.

But such was the hostile reaction from speculative finance capital to even a hint of a curb on its predatory activities that Greenspan retreated, with the claim that technology was increasing productivity and this meant there could be a continuing flow of cheap money into the markets—a claim which has been reprised by incoming Fed Chair Kevin Warsh with regard to the development of AI.

The policies of Greenspan facilitated the creation of the dot.com bubble which collapsed at the beginning of this century. Greenspan's response was to make more cheap money available, which then inflated a bubble in housing.

But even as it was clear a bubble was developing, Greenspan denied its existence, claiming in a major speech in 2003 that any resemblance to behaviour in stock markets was "rather a large stretch."

Any housing bubbles, he said, would be local rather than national in scope. But a national collapse did take place and manifested itself in the crash of 2008 triggered by the subprime crisis.

The increased use of derivatives was also a significant factor, but

Greenspan, from the time of the Clinton administration, and with its full backing, had opposed any control over or regulation of their use—nothing should be done in any way to curb profit by speculation.

Greenspan, of course, did not act alone. He had the full backing of the financial and political establishment—Democratic and Republican alike—which hailed him as a financial genius, having brought about the so-called Great Moderation.

This support was forcefully demonstrated at the annual central bankers' conclave at Jackson Hole, Wyoming, in August 2005. The meeting was set up as a valedictory for Greenspan, who was to step down early the following year, and the contributions consisted of paeans to the "Maestro."

However, a sour note was sounded by then-International Monetary Fund economist Raghuram Rajan, who raised the possibility that the Fed's easy money policies might be creating the conditions for a crisis. He was rounded on and denounced, with Lawrence Summers, then the chief economic voice for the Democrats, leading the charge.

In 2008, with the collapse of the investment bank Lehman Brothers and the threatened bankruptcy of the insurance giant AIG because of collateral calls on billion of dollars in credit default swaps, one of the forms of derivatives that had mushroomed in the preceding period, the crisis broke.

While the bankers and speculators were bailed out to the tune of hundreds of billions of dollars, as many as 10 million Americans lost their homes, with unemployment rising to 10 percent and more—one of the highest levels since the Great Depression—delivering a hammer blow to the working class, the effects which are still being felt.

While subsequent investigations revealed that bank chiefs and executives had engaged in criminal activity, particularly at Goldman Sachs, not one was jailed, and in 2014 when Obama's attorney general Eric Holder was asked why this had not happened, he said it would cause too much disruption to the financial system. The finance giants were "too big to fail" and their chiefs "too big to jail."

Though now out of the Fed chair, Greenspan was called to testify before Congress in October 2008 as the effects of the crash continued to roll through the US and around the world.

His testimony might well form the core of his epitaph. He confessed that his entire intellectual framework—based on the doctrines he had imbibed from Ayn Rand and the most vociferous defenders of the profit system—had collapsed.

The paradigm of modern risk management, based on the conception that the capitalist market could develop means within itself to ensure stability, had "held sway for decades," he said. "The whole intellectual edifice, however, collapsed in the summer of last year."

But the crisis was not simply the failure of an ideology. It was the demonstration of the bankruptcy of the capitalist system itself—that crises, each one more serious than the last, were not the result of some external forces disrupting a self-regulating machine, but were endemic to the profit system itself.

The aftermath of the devastating crisis which Greenspan facilitated, both via his reactionary ideology and his actions, has not been the introduction of reforms that can prevent a recurrence. Rather, the reaction of the capitalist state, through its economic arms such as the Fed, has been to pour still more money into the financial system, thereby creating the conditions for an even bigger disaster.

Above all, the working class must draw the lessons. There are no reforms possible within the framework of the profit system. It must be overthrown. The working class must fight for the conquest of political power to enable the complete reorganisation of the economic structure of society, based on the meeting of human needs and not the insatiable demands of the financial oligarchy that Greenspan did so much to create.



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