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## ECONOMIC BEAT

### Study History, Mr. Greenspan

By **GENE EPSTEIN**

**CAN FORMER FEDERAL RESERVE** chairman Alan Greenspan be blamed for the current crisis in mortgage debt? The question is like asking whether the recently departed Mafia lord in charge of pushing drugs might be responsible for the fact that a lot of folks got addicted, and eventually overdosed.

Now suppose this same Mafia lord also manages the major methadone clinics and rehab facilities. This is good for his organization, which wants to sell to users whose habits are kept under control. It all makes for a system that runs like a well-oiled machine.

The "drug" in question is money and credit, which the central bank dispenses. And it's the ready availability of money and credit that lures the irrationally exuberant into committing finance capital to unsustainable projects that eventually bring on the sort of crisis we're now in.

These points are worth making not because we share Greenspan's concern about the way history will remember him. (See his self-exculpatory article in *The Wall Street Journal*, Dec. 12.) Rather, they help us gain perspective on the current debate about fundamental causes: And as usual, it's the debate about whether government regulators should have been aware of the problem sooner, or whether the former Fed chairman, "the maestro," should have moderated the tempo sooner.

In this umpteenth variation on the credit crisis that periodically strikes the world's economies, the cause that is truly fundamental is rarely addressed. That cause is the very regime that makes the expansion of money and credit possible. The existence of that regime is bound to make the economists happy. Being an adviser to presidents can undoubtedly be exciting, as both Greenspan and current Fed chairman Ben S. Bernanke can probably attest, since both once served as Chairman of the President's Council of Economic Advisers. But what can be more glorious than running a virtual fifth estate, in the form of today's central bank?

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The human susceptibility to "Potomac fever" helps explain why Alan Greenspan so conveniently forgets that he himself once saw the alternative to the modern Fed. "A fully free banking system and fully consistent gold standard have not as yet been achieved," he wrote hopefully in his 1966 essay "Gold and Economic Freedom." And: "under the gold standard, a free banking system stands as the protector of an economy's stability and balanced growth."

In today's environment, anyone who even raises these issues risks being branded as a heretic and

crank. One common rejoinder is that credit crises predated the creation of the Federal Reserve. Of course; but the Fed didn't invent money-and-credit expansion, either. The creation of the Federal Reserve in 1913 only made the practice more respectable and systematic, while not incidentally giving the economists a seat at the tables of power.

For example, in his Dec. 12 article Greenspan refers to the "South Sea Bubble of the 18th century." But he does not mention, as economist Jesus Huerta de Soto does in his 2006 book *Money, Bank Credit, and Economic Cycles*, the role played by credit expansion in the South Sea Bubble via the Bank of England. De Soto's comprehensive work would make for indispensable reading by Greenspan, Bernanke and anyone else wishing to know the way out of our current predicament.

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