

Do central bankers really know what they are doing

Bankers like Alan Greenspan, Ben Bernanke, Mervyn King, and many others, have a sense of posture and way with their words that projects an image of confidence in their policies, with near mystic quality. But even the Grand Wizard of banking [Alan Greenspan admitted later](#) that he made a mistake in not avoiding the financial crisis.

ALAN Greenspan, has finally conceded that the free market philosophy he championed for 40 years has fundamental flaws.

The former US central banker from 1987 to 2006, who was once regarded as omnipotent in all things financial, said they must be addressed by a new era of regulation.

He made his historic backflip before a Congressional hearing in Washington, the same kind of forum that for years acted as his personal free market cheer squad.

In doing so he effectively marked the end of the Age of Reagan, the 30 years beginning with the rise of former President Ronald Reagan in which business was given free rein to create wealth wherever and however it wanted, with the bare minimum of government intrusion.

But now, with the world's most advanced economies in the midst of the worst financial crisis since the Great Depression and hundreds of billions of taxpayers' dollars spent trying to prevent a full-scale global meltdown, Mr Greenspan said the free market ideology that had guided his life and dominated world capitalism for a generation did not work the way he thought it would.

Appearing before the House Committee on Oversight and Government Reform, the man once dubbed "The Maestro" said he

had found a flaw in the “critical functioning structure that defines how the world works”. “I don’t know how significant or permanent it is but I have been very distressed by that fact,” Mr Greenspan said.

“I made a mistake in presuming that the self-interests of organisations, specifically banks and others, were such that they were best capable of protecting their own shareholders and their equity in the firms.”

Asked by committee chairman Henry Waxman if he was saying his world view was “not working”, Mr Greenspan said: “Absolutely, precisely. You know, that’s precisely the reason I was shocked, because I have been going for 40 years or more with very considerable evidence that it was working exceptionally well.”

Today the Guardian has also questioned the posture of central bankers, which do not match up with economic results.

[From the Guardian:](#)

Central bankers like to project a sense of serenity. The markets may be traumatised and the politicians may be panicking but nothing fazes the technocrats in charge of our money. They are headmasterly figures: slightly detached but with their fingers on the pulse.

That’s the image. In reality, the central bankers are in a funk about the health of their nations’ economies and the challenge of extricating their institutions from the stimulus policies that have been responsible for what has, so far, been a tepid global recovery.

Why else would the [Federal Reserve](#) have bottled a decision on gradually winding down its bond buying programme? Why else would the [European Central Bank](#) have surprised the markets with a cut in borrowing costs last week? Why else would the

[Bank of England](#) feel the need to reassure the public that the 0.5% bank rate that has been in force since early 2009 would remain in place until unemployment came down to 7%, barring some unforeseen inflationary shock?

Arguably, if central bankers had the end-all policy financial crisis would not exist. Yet it does.

Further Reading on Central Banking

http://en.wikipedia.org/wiki/History_of_central_banking_in_the_United_States

http://en.wikipedia.org/wiki/Central_bank#History