

## Letters

### No Cheers for Greenspan

To the Editor:

Alan Greenspan does not deserve the accolades Floyd Norris heaped on him for having created the speculative bubble the Fed is now trying to deflate without causing an economic crash landing ("Man of the Year: High-Wire Artist Alan Greenspan," *Market Watch*, Jan. 1).

Mr. Norris implies that the steep yield curve Mr. Greenspan engineered in the early 1990's saved the

American banking system. Banks, however, can make money regardless of the slope of the yield curve. The decline in long-term rates, for which the Fed does not deserve much credit, helped to revive the economy and restore value to troubled loans burdening some, but not all, banks.

When the Fed signaled early last year that it was time for short-term rates to rise, it did not understand how many time bombs, like the one in Orange County, Calif., the steep yield curve had planted in private-

and public-sector balance sheets.

Contrary to Mr. Norris's suggestion, it was not asking too much that the Fed move sooner than it did. In fact, its inaction in 1993 was a major blunder. Summaries of Federal Open Market Committee meetings for the second half of 1993 clearly indicate that the Fed board had failed to appreciate the extent to which low short-term rates and the steep yield curve were beginning to overstimulate the economy.

Worse, Mr. Greenspan's Fed ignored strong signals from the money

markets in the fall of 1993 that short-term rates should begin rising. The yield in the secondary markets on the three-month Treasury bill rose almost 25 basis points from late September to late November.

More dramatically, rates on one-month borrowings jumped more than 30 basis points in the first week of December. The Fed immediately signaled its displeasure by driving the easily manipulated Federal funds rate noticeably below its then target rate of 3 percent until short-term rates began drifting back

down.

The costly Greenspan bubble reflects the Federal Reserve chairman's misreading of the economic forces at work in the early 1990's. The time has come to encourage the financial markets to set interest rates, without any Fed guidance.

BERT ELY

Alexandria, Va., Jan. 5

*The writer is principal of Ely & Company, consultants on public policy issues affecting financial institutions.*