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The Mess That Greenspan Made

HOW EIGHTEEN YEARS OF EASY MONEY CHANGED THE WORLD

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My plan to save the world

MONDAY, OCTOBER 13, 2008

After much deliberation on the course of recent events in the world, it now seems appropriate to begin offering solutions in this space rather than what usually appears here in the form of critiques or (sometimes) witty aphorisms on the many problems that plague global financial markets today and how we arrived at this point.

While there are sure to be some readers out there who will interpret the following as both serious and constructive suggestions, let me assure you that they are not. To wit:

1. Stop house prices from falling. This is the root cause of all the world's problems today. Establish government agencies to assign current fair market values for every piece of real estate on the planet and pass laws that no home shall be sold for a price below these fair market values. Governments can revise these values up, but not down.

2. Save Distressed Mortgages. Ban pre-foreclosures, foreclosures, and bank ownership of real estate for which they carried the loan. Homeowners who purchased homes in recent years when prices were higher than current "fair market values" (see item 1) will have their outstanding balance and mortgage payments adjusted to make the mortgage affordable. Form a government agency to manage this process.

3. Launch a National Stock Purchase Plan. Encourage more participation in the stock market by establishing a government agency to match all stock purchases one-for-one over the next eight years. Shares will vest at the rate of 12.5 percent per year which should get us through to the end of the current secular bear market in stocks.

4. Ban All Short Selling. Ban all short-selling on all exchanges and form a government agency to regulate (limit) stock sales by individuals. Panic selling has been one of the primary causes of the recent stock market plunge and safeguards must be put in place to prevent skittish retirement investors from taking actions that are not in their own best, long-term interests.

5. Fix the Banking System. Buy, buy buy. Whatever it takes. Establish government agencies to write a dozen blank checks to every single bank in the world and then make sure the checks clear. Blank checks in excess of the original dozen should be handled on a case-by-case basis. The loss of confidence in the world's banks must be stopped immediately before people lose confidence in the world's governments and fiat currencies.

6. Eliminate Mark to Market. Increased capital requirements driven by rapidly changing market values for "hard-to-value" financial instruments have been a major cause of financial market distress in recent months. Eliminate this onerous task and allow financial institutions to value these assets as they see fit. Form a government agency to ensure that valuations do not exceed "reasonable" levels.

7. Regulate the Price of Gold. Establish a government agency to ensure that the the gold price moves in sync with other commodity prices using whatever means possible including participation in futures market and selling gold into the physical market (check first to see that such an organization *does not* already exist). Marshall bullion from central bank vaults and boost production at mints in order to keep coin shops supplied at futures market prices.

8. Regulate the Price of Oil. This might be a hard one. Form a government agency to consult with oil-exporting countries and develop a plan to regulate oil prices such that prices rise at a prescribed rate based on the global rate of inflation. Oil prices that are too high or too low are destabilizing forces in the world economy and a long-term price schedule must be agreed to and enforced.

There are probably more ways that the financial world could be made a better place, but none come to mind at the moment other than perhaps forming a government agency to monitor and restrict commentary that is critical of the current financial system and all previous efforts to resuscitate it



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