

## Greenspan: Global Economy Going into 'Reverse'

Former Federal Reserve Chairman Alan Greenspan repeated his argument this week that the world's central banks have lost control over long rates – but suggested that global economies would slow, a factor which should eventually support higher rates.

Interest rates now are set by the supply of investment money worldwide, a force much larger than the concerted efforts of central banks, including the Fed, Greenspan said in an interview with National Public Radio.

"We and all other central banks lost control of the forces directing higher prices in homes," Greenspan said.

Nevertheless, he implied, long rates could rise going forward as economies slow and less money is sloshing around looking for a home.

What I point out is that we're in a turning phase and that the extraordinary improvements that have occurred in the world economy in the last 15 years are transitory, and they're about to change," Greenspan said.

"So, I think this whole process will begin to reverse," he said.

Global economic growth has brought "hundreds of millions" of people out of abject poverty, particularly in Asia, the former Fed chief pointed out, and that has been the result of market forces at work.

"The most extraordinary example is China. China is moving towards capitalism. It doesn't say that, obviously, it can't. But that's precisely what it's doing," Greenspan said.

Nevertheless, Greenspan argued, rising inequality of income is creating new problems, and declining U.S. education standards, especially in math and science, are doing harm to the historic "balancing" of income levels.

Greenspan also took on critics who have pointed out his own poor record at predicting recession, despite sitting at the helm of the U.S. monetary authority for nearly two decades.

"The record of forecasting not only of myself and of companies I have developed – but of the profession as a whole – is not particularly spectacular," Greenspan said. "I've been forecasting since the early 1950s. I was as bad then as I am now."

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Yet he cautioned again that the elements for a downturn are in place, and reiterated his warning that a recession is more likely than not.

The key is human psychology, which cannot yet be measured well enough to predict without that prediction affecting the outcome by giving markets time to

adjust and avoid recession, Greenspan said.

"What I have to forecast is that something will happen which is unexpected, which will knock us down," Greenspan said. "The odds of that happening, I think, are rising, because we are getting in vulnerable areas."