Greenspan Bubble Theory Draws 4.8 Million Shrugs: William Pesek

Commentary by William Pesek

Sept. 16 (Bloomberg) -- As **Alan Greenspan** tirelessly makes the rounds to save his legacy, Singapore is reminding us why the former Federal Reserve chairman's efforts aren't working.

Mr. "We Can't Detect Bubbles" probably never thought he could learn a thing or three from an economy of 4.8 million people. This week, Singapore's National Development Minister **Mah Bow Tan** unveiled measures to prevent excessive price swings in the real-estate market.

The reason: The Asian country sees the very signs of rampant speculation in home buying that central bankers such as Greenspan long argued couldn't be spotted or headed off. Funny how tiny Singapore can do it and the mighty Fed can't.

Mah, in perhaps a Freudian slip, seemed to note the irony. He said Singapore's measures were meant to "temper the exuberance in the market." Remember it was in December 1996 that Greenspan made the words "irrational exuberance" a euphemism for bubble.

The world could learn from Singapore's speculation- management efforts. The U.S. can learn the most.

This suggestion may raise blood pressures in the laissez- faire crowd. It's worth noting that Singapore, for all its quirks, scores highly in measures of economic freedom. A **Cato Institute report** this week ranked Singapore among the 10 freest economies, grading it higher than the U.S. or Switzerland.

Full of Bunk

The point here isn't to celebrate Singapore's economy or politics. Nor is it to say a $182 billion economy is a model for a $14.2 trillion one. It's to show that central bankers are full of bunk when they say bubbles can't be identified.

This is blasphemy to free-market fundamentalists. Yet why did Yale University's **Robert Shiller** see what the Greenspans of the world either couldn't or refused to? That goes both for the technology-stock meltdown in 2000 and the housing one seven years later. How come **Nouriel Roubini** in 2006 predicted the very credit crisis the supposedly omniscient Greenspan missed?

One reason is dogged ideology. Being steeped in a history of **Ayn Rand** and **Ronald Reagan** meant Greenspan probably never saw a government regulation he didn't want to scrap. Perhaps hubris was part of it. In the 1990s, Greenspan was a celebrity, showing up in People magazine. It's dangerous to believe your own press.

Singapore's Example

The good news is that Asia has few of these problems. Central banks and finance ministries in the region were slower to deregulate than the U.S. was. Monetary officials in **Asia** never became the larger-than-life powers that they did in, say, the U.S. or Germany.

That's not to say Asian central banks don't dig in their heels. The global crisis that tarred Greenspan's standing has been good to **Yaga Venugopal Reddy**. As Reserve Bank of India governor from 2003 to 2008, Reddy resisted allowing the kind of leveraging and risk-taking that killed Bear Stearns Cos. and Lehman Brothers Holdings Inc.

"If America had a central bank chief like Y.V. Reddy, the U.S. economy would not have been such a mess," Nobel Prize- winning economist **Joseph Stiglitz** was quoted as saying in the New York Times in June.

While hindsight may be 20/20, forecasting and central banking are anything but. It's also true that one investor's dangerous asset bubble can be another's perfectly rational bull market. There comes a point, though, when central bankers need to take away the punchbowl.

China's Froth

Look at China. As impressive as China's 7.9 percent growth is, it's hard to argue the Shanghai Composite Index should be up almost 90 percent this year.

The same goes for the Hang Seng Index's 45 percent rally. The city is, after all, in recession. This week, Hong Kong Monetary Authority Chief Executive **Joseph Yam** said central banks face a dilemma. Tightening too soon may curb a recovery, while maintaining loose policy may produce "asset bubbles," he said.

In Hong Kong's case, I'd say it's too late. Its market capitalization to gross domestic product ratio is 640 percent, according to **Mark Matthews**, a strategist at Fox-Pitt Kelton in Hong Kong. That's four times larger than that of Singapore and 10 times as large as the average for the rest of the region. Bubble, anyone?

Exhibit A: A one-bedroom apartment in Kowloon sold for a record HK$24.5 million ($3.2 million), the South China Morning Post reported. For 816 square feet (76 square meters), that had better include visits by **Jackie Chan** or Jay-Z.

No one is saying bubble management is easy. It's often more art than science. Yet today's growth is more about easy money than genuine demand. The quality of growth matters as much as the quantity.

Asia learned that lesson 12 years ago, just as the U.S. is today. The difference, of course, is that Greenspan's bubbles were global phenomena. The Fed's low-rate policies fueled speculation in high-risk assets. By 2003, speculative capital flows into Asia reached a record high, surpassing the previous peak in 1996. They had the Fed written all over them.

You can stick with the idea that bubbles are mythical forces than can't be tamed. Or, for a different view, you could visit Singapore.

(**William Pesek** is a Bloomberg News columnist. The opinions expressed are his own.)

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