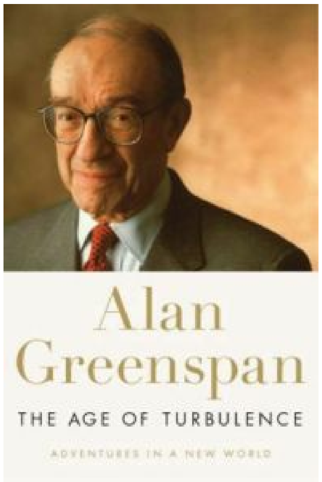

Book The Age of Turbulence

Adventures in a New World

Alan Greenspan
Allen Lane, 2007

Recommendation

In the wake of the 2008 global financial crisis, it's easy to forget that former US Federal Reserve chairman Alan Greenspan presided over a tumultuous economic period that was both "irrationally exuberant" (these are his own words) and painfully transformative. His autobiography predates the crisis – even the later edition's 2008 epilogue precedes the Lehman Brothers bankruptcy – so any current reader will likely view Greenspan's career through that crystal. Yet his thorough, expansive history of US politics and economics from the end of World War II to the turn of the 21st century, including his private thoughts on working with six US presidents, is a compelling illumination of how the nation evolved. His command of economic history, facts and figures is impressive, but he is much more than a numbers nerd: He grew up a fatherless only child, once made a living playing saxophone in jazz bands and married a famous television journalist, none of which kept him from being at one time "the second-most powerful man in the world" and its "most powerful banker." While the book's first half engagingly reveals Greenspan's personal journey, the second half – his meditations on global issues – bogs down in plodding econospeak. Nonetheless, *BooksInShort* warmly recommends this instructive personal and national saga to those interested in economic history and contemporary issues.

Take-Aways

- Alan Greenspan grew up in New York City, a fatherless only child whose passions were baseball, music and Morse code.
- He had no plans to attend college; instead, he toured with bands as a saxophone player.
- Fascination with numbers led him to study economics; he entered the field of econometrics just as businesses began using statistical modeling and forecasting.
- His friendship with free market proponent Ayn Rand formed his intellectual character.
- Greenspan began in government in 1967, as a Richard Nixon campaign volunteer. Gerald Ford made him head of the Council of Economic Advisers in 1974.
- Greenspan became Fed chairman in 1987 and always upheld the Fed's independence.
- In a speech in 1996, he characterized America's soaring markets as "irrationally exuberant," a term that became synonymous with the 1990s.
- Greenspan believes that a competitive marketplace, solid legal and property rights, and sound policies are the key components assuring a nation's continuing prosperity.
- Deficits and borrowing are natural outcomes of growth and economic progress.
- Since "global warming is real and man-made," the world needs better energy policies.

Summary

Numbers Driven

Alan Greenspan was born in 1926 in Manhattan, where his divorced mother raised him amid her large, lower-middle-class Jewish family. As a boy, he delighted in memorizing baseball statistics, train schedules and telegraph codes. Scouring the beaches of Queens for coins during the Depression led to his lifelong habit of walking with his eyes cast down. His absent father appeared in his life only sporadically.

> "Economics appealed to me from the start: I was enthralled by supply and demand curves, the idea of market equilibrium and the evolution of international trade."

Greenspan was a middling student, though he excelled in mathematics. He developed a love for music in his youth, diligently practicing first the clarinet and then the tenor saxophone. He never intended to go to college; in 1943, he fully expected the armed services to draft him, but a medical discharge precluded military service. He made a living as a musician, touring the US with big-band orchestras and jazz groups. He eventually attended Juilliard, where he studied piano and composition and played saxophone alongside his classmate, Stan Getz.

> "Economists cannot avoid being students of human nature."

Greenspan read business books in his spare time and prepared his fellow musician's income taxes. Finding that his passion for numbers never left him, he enrolled in New York University in 1945 to pursue degrees in finance and economics. He immersed himself in the works of free market economists.

> "There's an inherent conflict between the Fed's statutory long-term focus and the short-term needs of most politicians with constituents to please."

After college, he went to work in the up-and-coming field of econometrics, where he obsessively pored over statistics and wrote articles for publication. Major companies were beginning to see the planning benefits of financial forecasting and economic models, so Greenspan's talents were in high demand.

An Intellectual Education

Greenspan worked on research projects for manufacturers, particularly in the steel industry, and for government, where he contributed to Pentagon defense programs. In 1953, he and William Wallace Townsend formed an economic research and econometric modeling company, Townsend-Greenspan.

> "The Fed's job during a stock market panic is to ward off financial paralysis – a chaotic state in which businesses and banks stop making...payments they owe each other and the economy grinds to a halt."

In his personal life, Greenspan ended a brief first marriage. He also joined the Collective, a group of intellectuals under the leadership of *Fountainhead* author Ayn Rand, a Russian émigrée who espoused free-market "objectivism," a strident belief in individual achievement and laissez-faire capitalism. Rand informed Greenspan's thinking on subjects beyond economics. He explains, "I was intellectually limited until I met her." She attended his 1974 swearing-in as head of President Gerald Ford's Council of Economic Advisers. Greenspan and Rand remained close friends until her death in 1982.

"Economics Meets Politics"

In 1967, Greenspan volunteered as an adviser to Richard Nixon's presidential campaign. Nixon impressed him as "thoughtful," "intense" and "factually oriented," but Greenspan was so taken aback by the candidate's profanity-riddled rants that he turned down a position in his administration. He continued to serve on government committees and, in 1974, overcame his objections to Nixon's economic policies and agreed to chair the Council of Economic Advisers. Yet by the time Congress approved his appointment, Nixon had resigned in the wake of the Watergate scandal, so Greenspan served under Ford.

> "In the late '90s, the economy was so strong that I used to...say to myself, 'Remember, this is temporary. This is not the way the world is supposed to work'."

Though both Nixon and Ford were Republicans, Greenspan disagreed with both about the wage and price controls they set up to tackle crippling inflation. Greenspan used his facility with economic modeling and his network of contacts within business and industry to fine-tune the national metrics the US used to gauge output, business inventories and company orders. With better information, Greenspan improved his team's ability to predict outcomes and to advise Ford about economic action.

Out of Office and Then Back Again

When Democrat Jimmy Carter became president, Greenspan returned to New York and his firm, which his senior staff had been managing ably. Rejoining the private sector allowed Greenspan to join corporate boards. He continued to indulge his early morning habit of reading and writing in the bathtub (this became a lot easier when he discovered waterproof pens). He also dated journalist Barbara Walters, who introduced him to the world of media and celebrity.

> Presidents Richard Nixon and Bill Clinton "were by far the smartest presidents I've worked with."

When Republican Ronald Reagan became president, he asked Greenspan to lead the effort to shore up Social Security. In 1987, Greenspan agreed to succeed Paul Volcker as chairman of the US Federal Reserve Board. His first big test came 69 days later on Black Monday, October 19, 1987, when the market fell 508 points, an unprecedented one-day drop. He and his team scrambled to provide liquidity to roiling markets and to soothe nervous banks and investors.

> "I was saddened...when I discovered that [President George H.W. Bush] blamed me for his loss. 'I reappointed him and he disappointed me,' he told a television interviewer."

The Fed continued its policy of monetary control via interest rate management to maintain stability in the economy. While it could operate apart from political pressure, the Fed – and Greenspan personally – often felt the heat, particularly during Republican George H.W. Bush's administration. Worried about growing deficits and mounting debt, Greenspan advised Bush to address these issues while the economy was still robust. But Bush, who famously promised "Read my lips: no new taxes," resisted the need to raise revenue and cut spending. He objected to the Fed's interest rate increases and blamed Greenspan for his loss to Democrat Bill Clinton.

"Irrational Exuberance"

Greenspan enjoyed a solid rapport with Clinton, "a risk taker...not content with the status quo," and found him intelligent and economically astute. Resisting political pressures to tax and spend, Clinton revamped government expenditures, creating the biggest budget surpluses since 1948. The Fed, increasingly working with econometric data, forecasting models and interest rate manipulations, engineered a "soft landing" in 1995 for an overheating economy. By then, dot-coms were booming, and markets took off; the Dow Jones Industrial Average blew past 4,000, 5,000 and 6,000 by October 1996.

> “What attracted me to [President Ronald Reagan] was the clarity of his conservatism.”

Greenspan’s analysis first focused on productivity growth as the impetus for soaring economic activity, but as the Dow kept climbing, he struggled to encapsulate onrushing events. In December 1996, he coined the term “irrational exuberance” to capture the puzzling phenomenon of continually rising asset prices. And, in 1997, long-time bachelor Greenspan married well-known TV journalist Andrea Mitchell.

> “My biggest frustration remained [President George W. Bush’s] unwillingness to wield his veto against out-of-control spending.”

The new century caught the US at a propitious moment. Surging productivity from technology and investment meant economic good times. The disputed 2000 election ushered in Republican George W. Bush’s administration, which took a proprietary interest in financial matters to enact campaign-promised tax cuts. The problem – a good one to have – was how to manage the predicted unprecedented surplus of more than $500 billion due by 2006. Investing such immense surplus assets would be nearly impossible in most US and global markets. Greenspan “came to a stark realization that chronic surpluses could be almost as destabilizing as chronic deficits.”

> “Talking to Ayn Rand was like starting a game of chess thinking I was good and suddenly finding myself in checkmate.”

Politicians pushed for tax cuts, while Greenspan and others cautioned that the government should first extinguish the national debt and then assure the continuation of Social Security. He agreed with Treasury Secretary Paul O’Neill that tax cuts were in order, but only after covering the debt and Social Security. Both men endorsed the idea of “triggers,” like expenditure caps, that would halt spending and spur tax reductions if projected surpluses didn’t happen. But Congress and the president ignored their counsel and in 2001 approved “an across-the-board cut” of $1.35 trillion.

> “I’m not threatened by a powerful woman; in fact, I’m now married to one. The most boring activity I could imagine was going out with a vacuous date – something I learned the hard way...as a bachelor.”

Almost immediately, officials had to revise surplus projections downward, as stock market weakness as well as a slowing economy resulted in reduced tax revenues. In the year 2002, the deficit was $158 billion, despite the 2001 surplus of $127 billion. With Bush’s tax cuts and his 2003 Medicare revisions paying for prescription drugs, reduced tax revenue sealed the surplus’s fate: “Red ink was back to stay.” Yet Bush added to defense budgets, war spending and farm subsidies and approving every spending bill, a behavior “without modern historical precedent.”

Out of the Firing Line

In 2006, Greenspan retired from the Fed. As an informed observer, he offers the following:

- **“Economic growth”** – The components assuring a nation’s continuing prosperity are, amongst others, a competitive marketplace – in domestic commerce and in international trade – respected legal and property rights, and high-quality policy makers and policies. Capitalism demands its participants to demonstrate character and trust, since “government regulation cannot substitute for individual integrity.”
- **“Modes of capitalism”** – Socialism can’t provide capitalism’s economic well-being and growth, yet debate continues on what forms of capitalism are best. Each nation makes its own decision about the balance between building “material wealth” and addressing social services stresses; “regrettably, economic growth cannot produce lasting contentment.”
- **“The choices that await China”** – Chinese leaders have recognized that a centrally planned economy limited China’s progress, both materially and politically. “Without the political safety valve of the democratic process,” their challenge will be to align their political system with the free market principles that most Chinese have embraced.
- **“The tigers and the elephant”** – The rise of the Asian tigers (including Taiwan, Korea, Singapore, Indonesia and Malaysia) shows the economic power of that region. Yet each nation’s market reforms are based on its unique circumstances. For example, India’s challenging duality symbolizes “the productiveness of market capitalism and the stagnation of socialism.”
- **“Russia’s sharp elbows”** – While Russia has been imposing the rule of law, its authoritarianism continues in politics and culture. It must shift its economy away from reliance on oil and gas or risk falling victim to “Dutch disease,” whereby in-demand natural-resource exports lift a currency, making the rest of an economy uncompetitive.
- **“Latin America and populism”** – Capitalism vies with a persistent “economic populism” that comes from a legacy of colonialism. Following crises throughout the region, some countries, including Brazil and Mexico, have recently achieved stability.
- **“Current accounts and debt”** – Deficits and borrowing are natural outcomes of growth and economic progress. If the economy stays strong, debt should not pose a problem; it should allow continuing growth and prosperity.
- **“Globalization and regulation”** – As globalization makes increasing income inequities evident, social stresses will result. Regulators should constantly revisit their rules to ensure that they remain relevant to changing market practices.
- **The inflation “conundrum”** – Technology, globalization and monetary policies may be responsible for unusually low inflation throughout most economies.
- **“Education and income inequality”** – Wealth increasingly is concentrated into fewer hands, while middle-class people no longer can rely on good-paying manufacturing jobs. To prepare people for new positions by teaching them new skills, the US will need to implement education reform, along with prudent immigration policies.
- **“The world retires”** – But “can it afford to?” A falling birth rate and an aging population will put pressure on social programs in an unprecedented way. Benefit cuts are inevitable, so people will need to work longer and save more for retirement.
- **“Corporate governance”** – Corporate scandals, outsized executive pay and other abuses have focused attention on this area. Capitalism demands that shareholders must hold executives responsible for their actions. Yet government should have no role in legislating compensation for workers or executives.
- **“The long-term energy squeeze”** – Because “there can be very little doubt that global warming is real and man-made,” the world needs better energy policies, but any policy should hew to market dictates rather than government-imposed rules. A gasoline tax would help dampen petroleum use, an important step in reducing the US’s vulnerability to events in the oil-producing Middle East.

About the Author

Alan Greenspan served as chairman of the Federal Reserve Board from 1987 to 2006. He now heads Greenspan Associates, an economic consulting firm.