

US's great interventionist

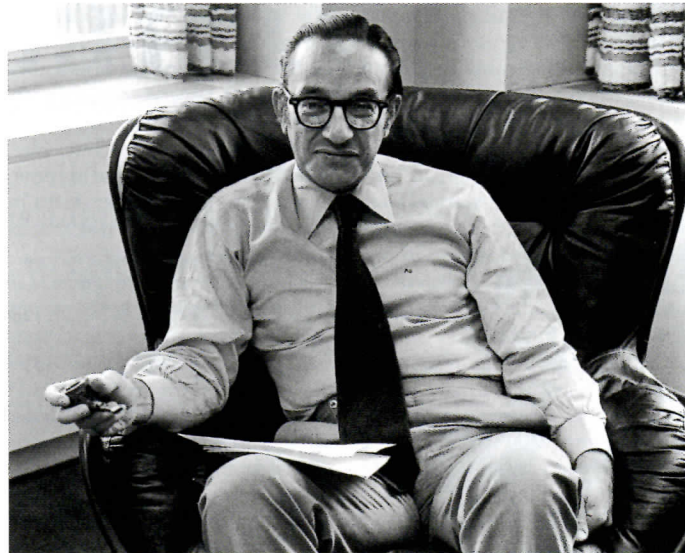
Federal Reserve chairman Alan Greenspan stayed on top for so long thanks to his activist approach and wide contacts. DeAnne Julius reviews a crisp autobiography

Alan Greenspan's autobiography is a 'three for the price of one' bargain: it's a personal memoir, an economic history and a policy primer. The writing is crisp and the book reads like a conversation with a lead protagonist previously visible only from afar.

The personal-memoir chapters are an engaging romp through the life of an only child in an extended family where music and baseball were shared passions. After the war, Greenspan parlayed his facility with maths into early jobs at the economic coalface. He studied housing starts and the new-car market. He was an early user of econometrics, with both an appreciation for and a scepticism toward model-based forecasts. His later work for industrial clients and as a non-exec director on many boards deepened his knowledge of the economy's inner workings. Greenspan had a more thorough apprenticeship for his job as the Federal Reserve Board's chairman than any central banker before or since.

The meatiest sections of the book relate to Greenspan's time in Washington, initially as chairman of the Council of Economic Advisors in 1974. His Senate confirmation hearing was on the day Nixon resigned. Fortunately, he and the new president Gerald Ford got on well. They agreed that inflation was the number one problem and that dismantling the Nixon-era price and wage controls was part of the solution. As CEA chairman, Greenspan was involved in the full range of economic policy issues and discovered that 'being at the center of things was admittedly fun'. Perhaps this laid the groundwork for the close relationships he cultivated later as Fed chairman with the presidents and treasury secretaries with whom he served.

Greenspan clearly felt that the independence of the Fed did not require an arms-length distance



Sitting comfortably: Greenspan in 1972, before his Washington career



The Age of Turbulence: Adventures in a new world Alan Greenspan

Allen Lane £25.00

from the executive branch. During the Clinton years he met treasury secretary Bob Rubin and his deputy Larry Summers confidentially every week over breakfast. The understanding they developed paid off when the Mexican debt crisis erupted in 1994. The three quickly

restored, the money was repaid and the US made a profit of \$500m.

Greenspan's activism and judgment as a crisis manager had been honed when he faced the stock market crash of 1987, just a few months after becoming Fed chairman. He weighed the moral hazard

Greenspan's greatest legacy was the courage to act pre-emptively

agreed 'US intervention should be massive and fast... based on the same principle of market psychology as piling currency in a bank's window to stop a run on the bank'.

A co-ordinated rescue effort involving the Treasury, the Fed, the White House and the IMF put together a \$50bn loan package. It worked: confidence in the peso was

arguments against taking action, telephoned his many contacts in the financial markets to assess the potential risk of market failure, and decided to act. A reassuring public statement was issued and the New York branch of the Fed began phoning banks to urge them to stay in the market. The Fed quickly reversed its tightening stance and

poured liquidity into the system to lower short-term interest rates.

Despite 'a half-dozen near disasters', the markets stabilised and the economy recovered. The Fed raised rates again five months later. Although pundits have criticised the Fed's activism as laying the seeds for later excesses, the recent British experience of the run on Northern Rock sheds new light on the risk-weighted judgment taken by Greenspan. He recognised early that the first job of a central banker is to preserve public confidence.

Perhaps Greenspan's greatest legacy was the courage to act pre-emptively – not only during financial crises but also in more normal times. In 1994 he persuaded the Fed 'to try a more radical approach: moving gently and pre-emptively, before inflation even appeared'. This enabled the soft landing of 1995, which he called 'one of the Fed's proudest accomplishments'.

Later in that decade he spotted the early signs of the US productivity surge and persuaded the Fed to stay its hand as growth rose above previously dangerous thresholds. Inflation did not ignite; indeed, the offshore winds of globalisation nearly brought deflation.

Following a gallop through diverse policy issues, Greenspan concludes with a warning. There are many threats to disrupt the golden period over which he has presided: inflation pressures will intensify as China's rate of expansion slows; income disparities in the rich countries may undermine support for liberal economic policies and demographic pressures on retirement and health plans will strain government budgets.

Every age has its challenges; let's hope there are junior Greenspans to guide us through the turbulent age to come.

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