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Champion of Capitalism

Alan Greenspan's Memoir Is an Endorsement of Free-Market Economics

Review by Stephen Wolter

The Age of Turbulence

by Alan Greenspan

The Penguin Press, \$35.00

In the year 2000, one of the country's best-known journalists, Bob Woodward, wrote a book-length profile of Federal Reserve Board Chairman Alan Greenspan; he called his book *Maestro*. The title was appropriate, for not only was Greenspan the person so many economists, business people and Wall Street investors looked to as a source of economic guidance, he was also considered a master in his field. How exactly a self-confessed math geek, who rose to the top post of an institution most Americans know little or even nothing about, became someone whose name is recognized by nearly every informed American remains something of a mystery, even to Greenspan himself.

In his new memoir, *The Age of Turbulence: Adventures in a New World*, the man who served as the Federal Reserve Board's chairman for 18 years still seems puzzled by the amount of influence his pronouncements in his former position seemed to have. Nevertheless, his book, for which he reportedly received more than \$8 million dollars, is probably the most discussed Washington-insider memoir of the last few years, giving credence to the notion that his word still carries a good deal of weight.

For a man who was lampooned by pundits and cartoonists as someone who spoke the language of economic mumbo jumbo whenever he testified before Congress in his role as Federal Reserve chairman, Greenspan's

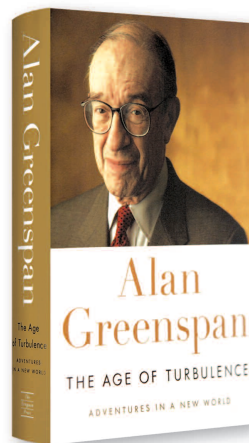
book is surprisingly readable, written in clear, concise, almost workmanlike prose. He displays flashes of self-deprecating humor throughout. He also demonstrates, for this day and age, a remarkable amount of civility in his assessment of the many powerful figures he crossed paths with during his years of public service. Those readers looking only for the typical tell-all autobiography, in which criticism is freely assigned to everyone the author dislikes, will come away disappointed.

That's not to say Greenspan is afraid to recount the disagreements he had with government leaders, including presidents. But it's just not part of his intent to tear down the reputations of the individuals he interacted with during his time in Washington.

Greenspan states in the book's introduction that his memoir is divided into two parts. As such, it is really only the first half of the book that qualifies as memoir, where he describes the entire arc of his life, from his birth in 1926 until his final days as chairman of the Federal Reserve Board.

No doubt it is the first half of the book that many readers of Washington memoirs will be drawn to, but to consider only that portion of the book as relevant would be a mistake. Greenspan's mission in telling his life story in the book's first half is not just to write an autobiography, but also to present the history of our world during an "age of turbulence," as seen through a specific lens — that of an economist dedicated to free-market capitalism.

In doing so, he sets the stage for the second half of the book, where he describes the challenges that capitalist societies will have to face in order to raise the standard



of living for everyone and, in the process, defeat those extremist forces that seemingly wish to see the world's great economic powers spiral downward into anarchy.

Beginnings

The introduction to Greenspan's memoir recalls one specific day in his 75th year of life. He writes about where he was and what he was doing on September 11, 2001. It's not uncommon in the last few years for autobiographies to begin with 9/11 as a jumping-off point, and apparently Greenspan was drawn to this way of beginning his book as well. And why not? Not since World War II has there been such a defining moment in American history. Along with the fear, outrage and sadness that affected all Americans as a result of 9/11, Greenspan — in the most significant position an economist in the United States can hold — was faced with dealing with the economic impact that would ripple throughout the world as a result of the terrorist attacks. "The possible economic crises were all too evident," Greenspan writes. "The worst, which I thought highly unlikely, would be a collapse of the financial system." For the record, on 9/11, Greenspan was flying back to the United States from Zurich, Switzerland, where he had attended a meeting of international bankers.

After this brief introduction into what America was facing in a post-9/11 world, Greenspan continues his

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autobiography in a chronological fashion. His description of his early life is written in an almost conversational tone, and the reader senses that even though this is a published memoir, Greenspan still wants to keep parts of his life private.

For example, he covers his brief first marriage and subsequent divorce in the space of a single paragraph, declares that he was the main problem for the marriage's failure and writes that the woman he was married to is an extraordinary person with whom he remains friends to this day. Despite several shallow passages like this one, we still glean some interesting aspects of Greenspan's early life.

The Education of an Economist

Greenspan's parents divorced before he could even remember them being together as a family. He credits his mother with instilling in him her love for music, and when he was still in high school he took up playing clarinet and saxophone in jazz bands.

Rejected from military service during World War II — an X-ray revealed a spot on his lungs that indicated a possibility of tuberculosis — Greenspan studied clarinet for a year at Juilliard before hitting the road with a 14-man jazz ensemble called the Henry Jerome Orchestra. Who but the most dedicated Greenspan watcher could picture the chairman of the Federal Reserve playing in a jazz band? It's an interesting revelation into Greenspan's life that helps to humanize him to the general reader. It's also telling and somewhat humorous when Greenspan, describing his days as a musician, shares that when the rest of the band was in the backroom partying between sets, he was reading books about J.P. Morgan or, on occasion, working on his bandmates' tax returns. "I was known as the band's intellectual," he writes.

As the war came to an end, Greenspan watched as former soldiers, many the same age as he was, headed off to college on the GI Bill. Several years before, he had not had any interest in higher education, but now, cleared of any signs of tuberculosis, Greenspan realized he might live a healthy life after all and decided to enroll in New York University's School of Commerce, Accounts and Finance.

Greenspan writes that in the early post-World War II years, economics was a hot topic, because the world appreciated the way the U.S. economy had responded to the industrial challenges during the war. It was also a time, as Greenspan puts it, when "new economic institutions were being created and a new economic order was taking shape right before our eyes."

Many of his classmates were followers of the ideas of the 20th century British economist John Maynard Keynes, whose writings would eventually be given the label of *macroeconomics*. Keynes' theory, as Greenspan puts it, provided the "intellectual underpinning" for Roosevelt's New Deal. Simply put, Keynes argued that free markets, left to themselves, did not always deliver the greatest good for societies. There were specific times, such as periods of high unemployment, when government intervention was needed to improve the economy.

Greenspan admits that while he found Keynes' mathematical innovations fascinating, he was not interested in his economic policy ideas. It is a theme that is repeated throughout the book, as Greenspan remains an ardent defender of the free market, with as little government

interference as possible.

Perhaps the most interesting story Greenspan tells about his education in economic theory was his relationship with author Ayn Rand, whom he writes was one of the two most influential teachers he had. (The other was Arthur Burns, his faculty advisor when he began work on his Ph.D.) Rand — whose books *The Fountainhead* and *Atlas Shrugged* have an almost cultlike following today — was a Russian immigrant who despised Soviet-style communism. Greenspan met Rand through a friend of his first wife and soon became part of a small social group that would meet at Rand's apartment once a week to debate any number of topics involving society and economics.

Although Greenspan was working on a doctoral degree in the 1950s, he abandoned his studies in 1953 and founded an economic forecasting firm with William Wallace Townsend, a man 38 years his senior. He seems to have been quite happy in his work as an economist over the next 14 years.

He may never have left his firm, but in 1967, the finance professor at Columbia University — with whom Greenspan was co-authoring an economics textbook — was asked by Richard Nixon to join his presidential campaign in the role of chief policy advisor. Not long afterward, Greenspan was invited by this same professor to help write speeches and develop policy for Nixon, and so began a career of nearly 40 years in government service.

The Public Servant

Greenspan's time in Washington forms the core of his autobiography. From Richard Nixon to George W. Bush, he would serve in some capacity under six presidents. His service to Nixon, however, was brief and limited almost entirely to the presidential campaign.

He tells the story of a meeting a week before the Republican convention in 1968, when Nixon called for a gathering with 15 members of his staff. Greenspan, who was present, sat down for what he assumed would be a policy discussion. Instead Nixon launched into a profanity-laced tirade about how the Democrats were the enemy. Greenspan writes that he was stunned; this was his first exposure to Nixon's dark side. After the election in November, Greenspan turned down an offer from Nixon to join the White House staff. It was Nixon's dramatic personality shifts that steered Greenspan clear of wanting to work for him. Nevertheless, he claims that Nixon was one of the two most intelligent presidents that he worked with; the other president was Bill Clinton.

In 1974, at the height of the Watergate scandal, Treasury Secretary Bill Simon asked Greenspan if he

would take over as chairman of the Council of Economic Advisors (CEA). The CEA chair, according to Greenspan, was one of the top three jobs an economist in Washington can hold (the other two are Treasury secretary and chair of the Federal Reserve). Despite the importance of the position, he resisted accepting it because he didn't want to be part of Nixon's administration. After an appeal from his old graduate school professor Arthur Burns, who told Greenspan that the government was paralyzed and he should take the job for the good of the country, Greenspan reluctantly agreed. As it turns out, his confirmation hearing before Congress was on August 8, just hours before Nixon announced his resignation on nationwide TV.

So began a three-year stint under Gerald Ford, serving on the CEA. His appraisal of Ford is the most touching portrait in the book, especially in light of Ford's death in late 2006. Greenspan has great admiration for this president who was never elected and looks back on Ford's administration with a sense of nostalgia. Specifically, he misses the civility with which Ford led the government and the general good will between politicians of the day. Greenspan longs for a return to that kind of political discourse. He also praises Ford for his actions toward deregulation, which he calls the administration's "great unsung achievement." As a disciple of free-market trading, Greenspan writes that it is hard to overestimate the benefits of deregulation — even if some of those benefits took years to unfold.

With Ford's defeat by Jimmy Carter, Greenspan was once again a private citizen. But four years later he served as an advisor to Ronald Reagan during the 1980 presidential campaign, and after Reagan became president, Greenspan was appointed to chair a commission that explored ways to keep Social Security solvent. But it was his appointment by Reagan in 1987 to chair the Federal Reserve Board that would make Greenspan the best-known economist in America.

The Federal Reserve and Beyond

In the second half of the book, Greenspan turns more philosophical as he examines

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numerous issues facing the global economy today and in the near future. If timing is everything, then Greenspan's appointment to the Federal Reserve in mid-1987 could not have been more dramatic. Just a few months later, on October 19, the stock market took its greatest one-day drop in history — 508 points, which at the time was 22.5 percent. "The Fed's job during a stock market panic is to ward off financial paralysis," Greenspan writes. He details the steps he and his staff took in the aftermath of the crash to prevent an economic disaster. By early 1988, he writes, the economy had stabilized and the Dow had reached the same level it had been at in early 1987.

Greenspan admits that even now he is still unable to identify any single factor that led to the market crash on Black Monday in 1987. His only explanation is human nature — investors were gripped with an irrational fear that made them sell off shares even if it didn't make financial sense.

Readers continue to follow Greenspan through his years at the Federal Reserve as he describes the stagnant economy that plagued the first President Bush (Greenspan reveals that Bush blamed him for his election loss in 1992), to the boom years of the 1990s, to the recession of 2001, and finally, to the challenges the country faced in the wake of the 9/11 terrorist attacks.

Readers also get a detailed explanation of his speech from December 5, 1996 to the American Enterprise Institute, which contained what is probably his most famous quote: "But how do we know when irrational exuberance has unduly escalated asset values...?" It was "irrational exuberance," of course, that the press latched onto, and which became a sort of catchphrase for the economic outlook of the day.

As mentioned earlier, the second half of the book contains Greenspan's observations of where the world economy is heading. Chapters are devoted to China, Russia and Latin America. Greenspan addresses the relationship between education and income equality, and

why Americans must be ready to accept the costs of education reform. And he concludes the book by giving some predictions about where America's economy might be in 2030. Much of this has been covered by other authors — Thomas Friedman's *The World Is Flat* being one notable example — so some readers may find this portion of the book less interesting than the biographical section. But there's no reason why someone with Greenspan's knowledge shouldn't weigh in on these topics, especially when his arguments and observations are so clearly written and convincingly presented.

If there is one theme that runs throughout the entire length of the book, it is Greenspan's belief in the necessity of the free market. He is vehemently opposed to the concept of "central planning," that tool of government that interferes with the natural ebb and flow found in a capitalistic system.

His strongest example of the failure of central planning is how the economies of East and West Germany stacked up against one another during the era of Soviet dominance. Greenspan describes the economic disaster that East Germany had become after the fall of the Berlin Wall — one that was worse than even the most dedicated capitalists had imagined.

He is not so naive as to think that all the world is about to embrace free-market capitalism anytime soon. Even in the United States, he still finds a "latent protectionism" that could hurt our free-market economy. Nevertheless, he writes that after the fall of European communism, "the verdict on central planning has been rendered, and it is unequivocally negative."

In his public appearances, Greenspan may not have come across as the most demonstrative character in Washington. However, his book reveals a true passion for his chosen field of economics, a passion that can't be faked. *The Age of Turbulence* is rousing celebration of the capitalist system and an entertaining look into one man's richly led life. ■

The author: Alan Greenspan earned a Ph.D. in economics from New York University. In 1954, he co-founded Townsend-Greenspan & Co., an economic consulting firm. He served as chair of the Council of Economic Advisors under President Gerald Ford from 1974 to 1977. In 1987, he was appointed chairman of the Federal Reserve Board by President Ronald Reagan. Greenspan served as chair until his retirement in 2006.



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