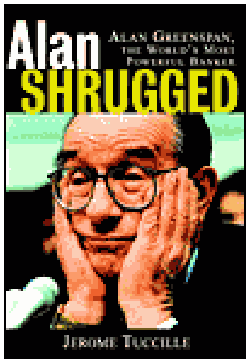

Alan Shrugged

Alan Greenspan, the World's Most Powerful Banker

by Jerome Tuccille
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302 pages

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Take-Aways

- Alan Greenspan became an economist after flirting with a career as a jazz musician.
- As an economist, he developed an early commitment to controlling inflation.
- Greenspan has been an active member of Ayn Rand's Objectivist group.
- He began his career in 1948 with the National Industrial Conference Board, then considered the premier economic research institute in the world.
- Greenspan worked as a private economist throughout the 1950s.
- He was an adviser to Nixon and became head of Ford's Council of Economic Advisers.
- Greenspan's political connections helped him become Chairman of the Federal Reserve under Ronald Reagan.
- In Greenspan's view, the Fed's mandate is to keep inflation in check and maintain price stability.
- While Greenspan is a lifelong Republican and a conservative in his economic thinking, he is above all a pragmatist, willing to change in response to political realities.
- Greenspan has been willing to aggressively cut interests rates to stimulate the economy.

Rating (10 is best)

Overall	Applicability	Innovation	Style
7	**3**	**7**	**9**

Relevance

What You Will Learn

In this Abstract you will learn: 1) The life history of Alan Greenspan, who has served as Chairman of the U.S. Federal Reserve under four presidents; 2) How the work of Ayn Rand has influenced Greenspan's economic philosophies, and 3) The economic beliefs and strategies that have guided Greenspan throughout his tenure as Fed Chairman.

Recommendation

If your view of Alan Greenspan is one of a humorless, pin-striped central banker, Jerome Tuccille has someone he'd like to introduce you to: Alan Greenspan, the jazz musician, libertarian philosopher and wooer of media princesses. In this lively and engaging book, Tuccille weaves together Greenspan's biography, a colorful history of the times and an analysis of political and economic philosophy. Of special note is the book's detailed look at how the thinking of Ayn Rand influenced Greenspan. *getAbstract.com* strongly recommends this book for such intellectual fare, as well as its juicer tidbits — like Greenspan's torrid fling with Barbara Walters.

Abstract

Alan Greenspan: The Early Life

For a man who became the world's most powerful banker, Alan Greenspan had a modest beginning. He was the son of a successful stockbroker and Wall Street trader, Herman Herbert Greenspan, but in 1929, when Alan was three years old, the stock market crash devastated his family. His parents divorced and his father appeared only sporadically in his life afterwards. His mother moved with him back to her parents' apartment in the Washington Heights section of New York, a largely lower-income Jewish neighborhood. He developed an early love of classical, bebop, and jazz music from his mother, who became an accomplished singer and musician. At the local public school, Alan first discovered his talent for math. Before he was 10, Alan could correctly multiply 3-digit figures in his head.

"It was the machinery and morality of the marketplace that fascinated Greenspan, not the manner in which personal fortunes could be made."

As he grew up, Alan's interests were math, baseball and music. Though he tried out unsuccessfully for the baseball team, he joined the school band and played the clarinet and tenor saxophone. As a teenager, he developed an early interest in the relationship between the individual citizen and the government. After graduating from high school, Greenspan was torn between pursuing a career in economics, since he had such a strong talent for math and statistics, and a career in music.

"Greenspan discovered that he had a gift for convincing people in power that he was essential to their cause. He found it easy to persuade Nixon and other politicians that they needed the numbers he had rattling around in his head."

He chose music, and started going to jazz clubs in New York like the Village Vanguard and Birdland. In 1944 he joined the Henry Jerome Swing band. After touring with the group for 6 months, however, he discovered that he possessed one large shortcoming: He couldn't improvise. He realized that he would never be more than a journeyman musician and decided to return to economics, enrolling in the New York University School of Commerce in 1944.

Around this time he encountered Ayn Rand's book, *The Fountainhead*, which tells the story of an idealistic architect who blows up his own building rather than compromise his principles. The book had a profound influence on Greenspan, and in some ways provided a foundation of his belief in the free-market system. Eventually he became a member of Rand's circle of Objectivists.

"Greenspan observed that when the Fed failed to pursue its primary goal of maintaining price stability, disaster followed."

Greenspan Begins His Career

In his years as a graduate student, Greenspan was exposed to the ideas of John Maynard Keynes, the most influential economist of the time, who cautioned against leaving free markets unattended. Greenspan had many questions about Keynes' ideas. He believed that free markets would sooner or later correct whatever economic excesses emerged. He wondered under what circumstances the government should intervene, or if intervention had the potential to make a crisis worse. Generally, he concluded that the government should only act under extraordinary circumstances. He thought he saw a flaw in Keynes' thinking: Once government started spending money, Greenspan believed that it would continue to spend, as opposed to pulling back its expenditures when intervention was no longer required. Such ideas helped shape his early thinking and continued to influence him as he embarked on his career.

Greenspan graduated in 1948 and joined the National Industrial Conference Board, which was regarded as the premier international economic research institute. Among other things, he used the data he assembled there to make forecasts, such as about how many automobiles, homes and major appliances U.S. citizens would purchase and the effects of those purchases on economic growth. As he worked at the board he pursued his Ph.D. at Columbia University, finally obtaining his degree about 10 years later.

"Alan had concluded that paying off the national debt and returning the excess cash to the taxpayers was preferable to government asset-gathering, which would expand the government's reach and lead to dislocations in the marketplace."

During the late 1940s and 1950s, Greenspan became an active Randian. He met and — briefly — married Joan Mitchell, a friend of the wife of Nathaniel Branden, who had joined Ayn Rand in founding a group dedicated to the author's ideas. The group, which espoused the philosophy of rational self-interest, became a large part of Greenspan's life; he attended frequent meetings and became close to Rand herself.

In 1954, William Townsend, a successful Wall Street bond trader, invited Greenspan to become his partner. They set up Townsend-Greenspan & Co. as a consulting firm offering economic forecasts to large corporations. The consultancy was a success — their forecast services soon found huge demand, and their growing notoriety also translated into brokerage commissions. When Townsend died in 1958, Greenspan bought out his heirs and continued the business, though his eyes were increasingly turned to Washington, D.C., where his friend, Arthur Burns, had been named chief economic advisor to U.S. President Dwight Eisenhower in 1953. From Burns, Greenspan learned the mantra that "politics was the art of governing in an imperfect environment," a phrase that signaled fiscal conservatives to promote free-market principles, but adjust to existing political realities.

Advisor to Presidents

In the 1960s, Greenspan and other Washington D.C. objectivists — as the disciples of Rand were known — were left on the sidelines when John F. Kennedy arrived in the oval office. In 1966, however, Greenspan ran into Leonard Garment, a partner in Richard Nixon's New York law firm, and Garment invited him to meet with the politician, who was preparing for another run at the presidency. Drawn especially by Nixon's pledge to fight inflation, Greenspan joined his domestic policy team.

"As Fed Chairman, Greenspan is the number-one arbiter of U.S. monetary policy."

Fortunately, Greenspan turned down an invitation to become chairman of the Council of Economic Advisers. As a result, he was never tarred by the poor performance of the group, which was later accused of sacrificing free market principles for political expediency. Greenspan, who disagreed with Nixon's Vietnam policy, especially objected to the Nixon administration's attempts to enforce price controls, on the grounds that the government didn't have the knowledge needed to rationally assign prices.

Thus, Greenspan kept his distance from Nixon's policies while remaining friendly with some of Nixon's key advisers, like Arthur Burns. As a result, Greenspan escaped the tarnish of Nixon's resignation after the Watergate scandal. Before Watergate erupted, Burns had asked Greenspan to become Nixon's economic adviser. After Nixon resigned Gerald Ford retained Greenspan's nomination, and the Senate approved it.

"A lifelong Republican, Greenspan has been flexible enough to work with Democrats as well, despite his Randian background."

In 1974 Greenspan became the head of Ford's Council of Economic Advisers. He joined Ford's Committee on Energy, which was set up to create a national energy policy in response to high oil prices. He also worked with Secretary of the Treasury William E. Simon on U.S. policy related to the role of the International Monetary Fund and the World Bank. These activities helped him connect to the country's center of political and economic power.

Ford to Reagan

In his new position as presidential adviser, Greenspan mingled with the rich and powerful, including Barbara Walters, then the first female co-host for NBC's *Today Show*, whom he dated for several months. He cemented Washington friendships on the tennis court and the golf course. Unfortunately, the economy refused to cooperate with Greenspan's plans; it remained stagnant and contributed to Ford's defeat in 1976, leaving Greenspan out of a job. The economic doldrums continued throughout the four years of the Jimmy Carter presidency, however, leaving the administration open to attack from private economists like Greenspan.

"As Greenspan was concerned, Rand's novel provided the first moral defense of the free-market system."

When Ronald Reagan arrived in the White House in 1980, he appointed Greenspan to his Economic Advisory Board, along with other well-known conservative economists, including Arthur Burns, Milton Friedman and George Schulz. Greenspan, who recommended steep tax cuts and sharp reductions in government spending, lost out to the other supply-siders who maintained that tax cuts would increase economic growth and government revenues enough to pay for increases in government spending.

Although Greenspan held deep reservations about Reagan's method of governing, feeling that the president was more style than substance, the economist continued to serve in the administration, accepting the chair of the National Commission on Social Security Reform. He was disappointed with the Social Security legislation that passed however, feeling that inevitable future shortfalls warranted a privatization of the system. He diplomatically kept his views to himself, but returned to New York to work again as a private economist.

"While he softened his language later in his role as a public figure, he has never backed away from his basic assertion that a nation's currency is essentially worthless unless it is backed by a commodity with an intrinsic value such as gold."

The Fed

While working in New York, Greenspan was linked to Charles Keating, the savings and loan banker later embroiled in financial fraud and political corruption. When a New York law firm hired Greenspan to study Lincoln Savings — Keating's S&L — Keating asked Greenspan to intervene on his behalf to persuade bank regulators to exempt the S&L from a rule limiting the percentage of depositors money that could be invested in real estate and other risky markets. Greenspan agreed, but Keating never got the exemption and Greenspan was able to distance himself from the ensuing scandal.

In 1987 Greenspan's D.C. connections paid off when the chairmanship of the Federal Reserve Banks became vacant. Reagan had become dissatisfied with Paul Volcker, a Democrat appointed to a second term as Fed Chairman, and was looking for someone more cooperative to take charge of the U.S. money supply. With George Bush and his allies advocating for Greenspan, Reagan selected him for the job.

"Resorting to price controls was the ultimate heresy for both Alan and Milton Friedman."

Greenspan become Fed Chairman at a difficult time; the stock market was soaring, despite hikes in short-term rates and inflation was starting to emerge. Greenspan felt it was the mandate of the Federal Reserve to keep inflation in check and maintain price stability. When the Fed fails or becomes distracted from this primary goal, Greenspan maintained that disaster follows.

On assuming office, he quickly took action against inflation, pushing up the yield on key Fed funds to 7.25%, thereby increasing the cost of borrowing money. The stock market collapsed soon thereafter, and Greenspan reversed the Fed's tight money policy to supply the liquidity needed to keep the system afloat. He ordered the Fed to buy $2.2 billion in U.S. Treasury securities and lowered the Fed Funds Rate — the rate at which banks borrow money from the government. His measures seemed to work perfectly as investors were encouraged to return to the market and buy stocks at bargain prices.

"Greenspan quickly learned that the best places to cement friendships were on the White House tennis courts and on the golf links."

In March 1988, however, Greenspan resumed his fight against inflation by embarking on a new round of monetary tightening. He began increasing short-term rates until they hit a high of 10% in February 1989. But then, as the U.S. economy slipped into a recession in 1990, Greenspan again reversed course and lowered rates while buying government securities in the open market.

These shifts between tight and loose monetary policy defined Greenspan's strategy as chairman of the Fed — He skillfully adjusted policies to balance out the economic forces of the times. The pragmatism of his approach was illustrated during the 1990s equity market boom, when Greenspan warned investors about the dangers of "irrational exuberance" in the hopes of pushing down over-inflated stock prices. This phrase, which has since come to define the entire era, also defines Greenspan's approach to his office — He weighs ideology against practicality to craft the perfect response to economic conditions.

About The Author

Jerome Tuccille is the author of 20 books, including *Trump* and *Rupert Murdoch*. He has worked in the investment industry for 25 years, as a financial writer and vice president with a major financial firm.

Buzz-Words

Ayn Rand / **I**rrational exuberance / **M**onetary policy / **O**bjectivism / **S**upply-side economics