Reserve Bank of India Occasional Papers
Vol. 28, No. 3, Winter 2007

The Age of Turbulence: Adventures in a New World by Alan Greenspan, Allen Lane, Penguin Group, USA, 2007, pp. 531, Rs. 695

'The Age of Turbulence is the memoir of Alan Greenspan, the influential Chairman of Fed Reserve, who served one of the longest tenures (1987-2006). The book is aptly named as this period would be remembered in economic history for the many crises and changes witnessed by the world economy. Within weeks of assuming office, Greenspan had to face the crisis posed by 'black Monday' as the US stock markets witnessed a historical crash in October 1987. Falling of Berlin Wall and end of cold war followed soon thereafter. While Greenspan witnessed, and some claim, engineered- the boom of 1990s, he also faced the crisis created by 9/11 terrorist attack on US cities. Greenspan received praise for managing these crises skillfully. No doubt, any reader-especially student of economics-takes up the book with great interest to know the insider's account of these turbulent times.

The charisma of Greenspan as Chairman of Fed Reserve was great. He was famous for giving technical and confusing speeches, in true tradition of central bankers who believe that 'constructive ambiguity' gives more flexibility to monetary policymakers[1] . At the same time, however, Greenspan also managed to build credibility in the market for his willingness and ability to fight inflation, thus avoiding rude shocks and disturbances.

The present book appears to be divided in two parts: the first part is autobiographic in nature. The second part is largely devoted to

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[1] American media, however, went great lengths to try to decode the ambiguity. At the height of dot-com boom, the CNBC invented something called 'briefcase indicator'. Cameras would follow Greenspan on the mornings of FOMC meetings and the hypothesis was that if his briefcase was thin, his mind was untroubled and the economy was well. But if the briefcase was stuffed full, a rate hike loomed. Greenspan in his memoir has dismissed the hypothesis completely and has suggested that the size of the briefcase merely depended on whether he had packed his lunch or not.

issues close to Greenspan's heart including current accounts and debt; globalisation and regulation; education and income inequality; corporate governance and energy squeeze, apart from some nation /area specific writings on Latin America, China, Russia and Asia including India.

The autobiographical part includes some interesting details. Greenspan's father was a stock broker and dedicated a book titled 'Recovery Ahead' to young Alan with inscription:

To my son Alan,

May this initial effort with constant though of you branch out into an endless chain of similar efforts so that at your maturity you may look back and endevour to interpret the reasoning behind these logical forecasts and begin a like work of you own.

Your dad.

When Alan Greenspan showed this inscription to people after becoming Fed Chairman, they all concluded that his ability to give inscrutable testimony before congress must be inherited! Notwithstanding this, the present memoir is highly readable and understandable.

Greenspan (b. 1926) attended George Washington High School a few years behind Henry Kissinger. After High School, he was interested in pursuing a career in military like many of his friends but was rejected because of a spot on his lungs that was suspected to be tuberculosis. He then joined Henry Jerome's traveling band to play clarinet. In the band, he was never a soloist, never a star but a sideman, he has observed in the memoir. Even at the New York University, while his friends were absorbed by questions relating to new economic order, he was more interested in numbers and equations. He overcame this 'sideman psychology' and started focusing on 'macro view' rather than on 'technical challenges' only after his interaction with Ayn Rand. Ayn Rand-who nicknamed Greenspan 'The Undertaker' due to his serious manner- served as a stabilising force in Greenspan's life and pushed him to think beyond mathematics and helped him to turn into a libertarian.

Since early on, Greenspan inculcated the habit of reading economic indicators in order to predict everything from 1958 steel recession to the 1990s boom. He writes in his memoirs:

'*My early training was to immerse myself in extensive detail in the workings of some small part of the world and to infer from that detail the way that segment of the world behaves. That is the process I have applied throughout my career'*.

Greenspan has recorded in his memoirs that this habit of inference helped him greatly while serving as the Fed Chairman.

After having worked closely with all the presidents since 1969- except Jimmy Carter- Greenspan, a hard core Republican, is full of praise for Bill Clinton, despite ideological differences. This was mainly due to Clinton's '*consistent, disciplined focus on long term growth*'. Furthermore, about intertemporal fiscal choices he has observed, '*the hard truth was that Reagan had borrowed from Clinton (by running unsustainably high fiscal deficits which later Presidents needed to curb and pay back) and Clinton was having to pay it back…………but I was impressed that he did not seem to be trying to fudge reality to the extent politicians ordinarily do*'.

The memoir is full of Greenspan's frank observations and forthright comments on economic and political policies as well as personalities he interacted. For example, he has criticized his own Republican Party (which abandoned fiscal discipline) for the 2006 loss of majority in the congress. He has observed, '*They (Republican Party) swapped principle for power. They ended up with neither. They deserved to lose*'.

Further, about the war he writes, '*I am saddened that it is politically inconvenient to acknowledge what everyone knows: The Iraq war is largely about oil*'.

Greenspan's extraordinary ability to understand the economic trends is also evident in his writings. For example, during 1996, at the height of tech-boom, when most of FOMC members were '*leaning* *the other way towards an increase (of interest rates) so as to pre-empt inflation*', Greenspan was reading something more from the signals: '*But what if this wasn't normal business cycle? What if the technology revolution had, temporarily at least, increased the economy's ability to expand? If that was the case, raising interest rates would be a mistake*'. Greenspan as ususal observed the figures: '*Most companies were reporting rising operating profit margins. Yet few had raised prices. That meant that their costs per unit of output were contained or even falling*'. In the next FOMC meeting he took a tough stance: 'Government had been underestimating productivity growth for years and rise of inflation was too weak to warrant a rate hike'. Persuaded by Greenspan's argument, the FOMC took a decision to 'wait and watch'. The continuing economic growth and controlled inflation for next four years provided enough evidence that Greenspan's insight about the workings of the economy and the resultant policy decision was more accurate than 'what econometric models may suggest'. In his own words, '*This was a classic example of why you can't just decide monetary policy based on an econometric model. As Joseph Schumpeter might have pointed out, models are subject to creative destruction too*'.

Greenspan has devoted a small part of the Chapter 'The Tigers and the Elephant' to India. He has managed to gauge the strengths as well as weaknesses of Indian economy at current juncture rather accurately though the remedies he suggests are debatable. About the image of India in the US as a major provider of outsourcing he observes that '(Americans) *who exaggeratedly viewed India as cutting a wide swath through skilled US white collar jobs. But India's competitive incursion has been modest to small, especially in proportion to its workforce of nearly 450 million*'. After giving the estimates of jobs created in India –directly or indirectly- due to technology industry, he observes, '*………….that's barely 1 per cent of total employment in India and that's the problem*'. Observing the problem of rural poverty in India, his advice is '*For India to become the major player in the international arena, that it aspires to be, it will need to build factories that entice a very large part of its* *agricultural workers to urban enclaves to produce labour intensive exports, the time honored path of the successful Asian tigers and China*'. He observes some of the bottlenecks for manufacturing in India: '*Job destroying labour laws, a decrepit infrastructure that can not provide reliable electric power and roads and rails that inhibit movement of manufactured parts and finished products between plants and markets*'. He further observes that '*market competition in agriculture is badly needed* (in India).'

One common theme that is present throughout the book is Greenspan's strong confidence in the power of competitive markets. In his own words, '*If the story of the past quarter of a century has a one-line plot summary, it is the rediscovery of the power of market capitalism*'. This belief has two facets: one is the efficiency of the free markets in which he believes that in case of disturbances like high oil prices *etc*. the markets have the inherent ability to correct themselves. The other facet of his belief is policymakers' inability to 'control' and 'correct' the markets with a view to achieving the results that are deemed desirable. This theme is elaborated time and again in the memoirs.

However, despite Greenspan's belief in the robustness of the markets, the various actions the Fed initiated to control and correct markets — 'black Monday', 9/11 terrorist attack on US cities—appear contradictory. What is more, these incidents where the Fed intervened are not isolated 'special' events but in fact part of an entire chain of such actions, each following the other in quick succession. This is clearly in contradiction with Greenspan's stated confidence in the power of market forces.

Another major contradiction is that time and again, Greenspan has expressed his rejection of Keynesian economics, but this did not stop him from advocating fiscal stimulus at times of crisis.

One of the interesting features of the book-especially against the present international backdrop of sub-prime crisis- is Greenspan's views on the 'soft interest rate' regime that preceded the boom in housing market in the US. In fact one of the criticisms on Greenspan has been that he maintained the interest rates at very low levels for a long period of time, thereby indirectly helping the housing boom. Greenspan has written,

'*I was aware that the loosening of mortgage credit terms for sub prime borrowers increased financial risk and that subsidized home ownership initiatives distort market outcomes. But I believed then, as now, that the benefits of broadened home ownership are worth the risk*'. This 'belief' is, no doubt, highly debatable.

In the end, against the background of present international economic crisis and slowdown, one only hopes that Greenspan's 'belief' is not ill placed when he writes ' *we are living in a new world-the world of a global capitalist economy that is vastly more flexible, resilient, open, self correcting and fast changing than it was even a quarter century earlier*'. May the resilience and self correcting mechanism work this time round as well!!

Snehal Herwadkar*

* Snehal Herwadkar is Research Officer, Department of Economic Analysis and Policy, Reserve Bank of India.