

A Reprint from *Tierra Grande*

As chairman of the Federal Reserve Bank, Alan Greenspan spent 18 years working with the brightest economists in the world. He conferred with central bankers from around the globe and had access to the richest sources of economic data available. This book gives readers Greenspan's personal perspective on the future of the global economy and what it might hold for Americans.

The title of the book hints at what's ahead. The author notes that for the past two decades the U.S. economy and the global economy as a whole have been characterized as "The Great Moderation." During this period, the volatility of economic cycles has been greatly diminished. Clearly, the "age of turbulence" is not a reference to the past but the future.

Greenspan began his tenure as Fed chair in the summer of 1987. He was in a doctor's office when the nurse came in to tell him that the White House was on the line. Greenspan picked up the phone in the doctor's private office to hear President Ronald Reagan invite him to become the next chairman of the Federal Reserve.

He took over the reins of the Fed from Paul Volcker, probably the most courageous Fed chairman in the history of the organization. Volcker was appointed by a distressed President Jimmy Carter to

save the country from runaway inflation. In just three years, Volcker smashed future expectations of inflation by raising interest rates high enough to cause the most severe recession since World War II. Volcker's courage paid off for all Americans with lower interest rates and inflation for the next 25 years.

Many historic events unfolded during Greenspan's years in office. In October 1987, shortly after he took office, the stock market experienced the largest one-day percentage drop in the



## *The Age of Turbulence* *Adventures in a New World*

by Alan Greenspan

A Review by Mark G. Dotzour

history of the exchange. The Berlin Wall fell in 1989, and two recessions occurred (1991 and 2001). The stock market bubble at the end of the century and the threat of deflation just a few years ago were major issues for Greenspan, as were the terrorist attacks on 9/11.

Greenspan offers a lengthy discussion of the fundamental global struggle between capitalism, socialism and populism. He also focuses on the longer-term economic opportunities

and challenges facing China, Russia, India, the “Asian Tigers” (Hong Kong, Singapore, South Korea and Taiwan) and Latin America. He gives an excellent overview of why these areas have become strong economic competitors in the global market and lists the challenges they must overcome to increase their competitive advantage relative to the United States in the future.

**N**ot surprisingly, the author has much to say about America’s battle to remain competitive in the global marketplace. Because most of the world’s economies have rejected socialism in the past 20 years and are now embracing the economic benefits of capitalism, new actors are appearing on the global business stage and many new workers are anxious to participate. With the stakes growing higher, America must improve its game to remain dominant.

Greenspan identifies several concerns that must be addressed to ensure America’s role as a global economic leader. The key issues are the American primary and secondary education system, the threat of inflation, how corporations are governed and how their leaders are compensated. The author also ponders the long-term outlook for energy and the ability of America and other countries to fund the retirement and health care demands of their aging populations. He discusses populist over-reaction to the pressures of global competition, which could lead to excessive government regulation.

The reader also gets a primer on interpreting public utterances from the chairman of the Federal Reserve. Greenspan describes a presentation he made before the Senate Banking Committee about how the U.S. economy had become increasingly resilient to shocks. He then confides that he “was putting a better face on the situation than I feared might be the case.” In another frank comment, he remarks “. . . I took a less pessimistic stance because if I had fully expressed what I thought the probabilities were, I’d have scared the markets half to death.” Perhaps Greenspan’s most legendary quotation is one he made to a senator: “If you understood what I said, I must have misspoken.”

What can we learn from this? The Fed chair is larger than life, especially in times of uncertainty. His comments are not frank assessments of current economic conditions. Consider, for example, Ben Bernanke’s statement last fall that the credit market difficulties were “contained” to subprime loans and that there was no “contagion” to other types of loans.

Memoirs of past Fed officials give perspective to current problems by comparing them with previous crises. For example, the author discusses how the White House and the Fed saw a need for a \$100 billion stimulus package immediately after the 9/11 attacks. By October 2001, initial unemployment claims skyrocketed to 517,000, and the unemployment rate was 5.7 percent.

Compare that with May 2008, when the unemployment rate was 5.5 percent and initial claims for unemployment were at

a modest level of 375,000. The government responded with \$152 billion in tax rebates. Apparently, the economy must be in pretty bad shape to warrant a stimulus package 50 percent greater than the one in response to 9/11.

For those who wonder why interest rates and yields on investments are so low, Greenspan describes how low-wage workers in emerging countries tend to save a lot of their earnings. They do this because their governments do not have social safety nets such as Social Security and unemployment benefits. Their savings rates are larger than the need for local investment in their country, so their surplus savings get invested across the globe. This surge in investment capital has driven prices up and yields down on bonds and other investments.

In the final chapter, “The Maestro” divulges his concern about inflation on the horizon. He tells how the United States has benefited from the lower cost of labor around the world for the past two decades. Each year, more and more of the goods Americans purchase have been produced in foreign countries, keeping prices in check. However, once all of these products are made overseas, the deflationary influence of outsourcing to low-cost labor countries will peak. As these countries prosper, labor costs will increase, and the prices of goods the United

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States purchases will start to increase at a faster rate. This process will be exacerbated by an enormous increase in the cost of shipping goods to the United States from overseas due to the exorbitant increase in fuel costs.

**W**hile the Federal Reserve attempts to maintain independence from the White House and Congress, political pressure on the Fed is a fact of life. Greenspan hints at how President Clinton clearly signaled the Fed through public remarks that he wanted faster growth, higher wages and new jobs. Ben Bernanke is under similar pressure to encourage job growth and higher wages by keeping interest rates low. But the cost of keeping rates low for too long is inflation, which will diminish purchasing power of all Americans’ retirement savings. ♣

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## THE TAKEAWAY

Former Fed Chair Alan Greenspan’s book, *The Age of Turbulence: Adventures in a New World*, offers insight into what’s ahead for the U.S. economy and expresses his concern that inflation is likely.



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