

Whiskey and Gunpowder

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Greenspan's Fame

Greg's Note: In his book *Greenspan's Bubbles*, Fred Sheehan examines the work done by Alan Greenspan during his tenure as chairman of the Federal Reserve. Today, he shows us how the personality of Greenspan affected the way he ran the economy and how he marketed himself to the media. Was Greenspan a brilliant economic mind, or merely a brilliant self-promoter? Let us know: greg@whiskeyandgunpowder.com

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May 14, 2008

By Frederick J. Sheehan

Clowning Around

(This is a longer version of that published in Whiskey & Gunpowder.)

It is said that artists speak for the ages. In 1951, Pablo Picasso described the end of our age when interviewed by Giovanni Papini: "From the moment that art ceases to be the nourishment of the best brains, the artist can use all the tricks of the intellectual charlatan. The refined people, the rich ones and the professional layabouts, only want what is sensational or scandalous in modern art. And since the days of cubism I have fed these boys what they wanted and pacified the critics with all the idiotic ideas that went through my head. Whilst I amused myself with all these pranks, I became famous and very rich. I am just a public clown, a fairground barker." The quotation is disputed. Whatever he said, Picasso's reputation suffered no harm when this confession was published.

On February 21, 2008, the *Financial Times* published the confession of Han de Jong, Chief Economist, ABN Amro Bank: "I am obviously biased, but I find it sad to conclude that the role of serious economists in financial institutions is very limited today. We are little more than clowns, whose purpose is to entertain clients...."

The substitution of image for substance, the promotion of sensational or simply idiotic ideas that destroy reality, are central to our time. Economic thought is a sad example of this deterioration, personified by a charlatan of little substance. This is not to deny the man credit for understanding how times were changing. Alan Greenspan was one of the first to climb the greasy poll of superficiality. He knew this path to the top did not include the study of economics.

Having earned a master's degree in economics from NYU, Greenspan transferred to Columbia University in 1951. He pursued his doctorate studies under Arthur Burns. Burns had co-authored an influential book, *Measuring Business Cycles*. His academic achievements were substantial as were his political instincts. Burns would head President Eisenhower's Counsel of Economic Advisers (CEA) and be named Federal Reserve chairman under President Nixon. Greenspan would also serve in both positions.

Greenspan did not finish his coursework at Columbia, but demonstrated his own political aptitude under Burns: He took up the pipe - Burns' trademark. Picasso might explain that Greenspan was Rene Magritte's subject in the surrealist's famous painting of a pipe. Under the pipe, Magritte painted: "Ceci n'est pas une pipe." ("This is not a pipe.") Greenspan understood he was not smoking a pipe. He knew the forgone parchment from Columbia was insubstantial compared to worshipping at Burns's doorstep. (When Burns was Federal Reserve chairman, he lived in the Watergate complex. When Greenspan moved to Washington as CEA director, he lived in the Watergate complex.)

Lessons learned in young adulthood have a tendency to stick. Alan Greenspan might have observed how promotion was leap-frogging substance in post-War America. Lever Bros, the soap manufacturer, moved its headquarters to New York. Meanwhile, industrial America was heading for the suburbs. Why this journey? Chairman Charles Luckman explained: "New York is the answer to our major problem - selling.... All advertising centers in New York, all show business except the movies. The platform from which to sell goods in America is New York." Soap and Elvis needed a publicity agent.

Greenspan may have observed an economist (aside from Burns) who shuffled seamlessly between academia and policymaking; one who generated the media attention necessary to an economist-politician. Harvard University professor Sumner Slichter told Washington that the Federal Reserve must accept inflation. This would achieve extended prosperity. (The Russians were catching up. Growth at any cost was gaining traction.) For such advice, which could only warm a politician's heart, *Fortune* magazine dubbed him the "father of inflation." (What a relief from that fussy Federal Reserve chairman, William McChesney Martin: "There is no validity whatever in the idea that any inflation, once accepted, can be confined to moderate proportions.")

By the late-1950s, Greenspan was proprietor of Townsend-Greenspan, an economic consulting firm. He headed President Ford's Council of Economic Advisers in the mid-1970s. His economic forecasts were abysmal. (Senator Proxmire: "... I hope... when you get to the Federal Reserve Board everything will come up roses. You can't always be wrong.")

This was of secondary importance. He received adulation where no other CEA director had gone before: the front cover of *Newsweek*, in the same year Jimmy Hoffa, Patty Hurst, and Liv Ullmann were likewise honored. The CEA was flooded with autograph requests. The clientele was not interested in the CEA director. They wanted Greenspan's autograph because he was famous.

In August 1977, Elvis died. The nation mourned. This was not due to his presumed talent: singing. Elvis himself had said: "I don't know anything about music. In my line you don't have to." In 1977, Alan Greenspan received his Ph.D. in economics from N.Y.U. His thesis is a hodge-podge of articles written in the 1950s. At least, that is the scuttlebutt. N.Y.U. will not release his work. It doesn't really matter. It can be said of Alan Greenspan, with some exaggeration that "He doesn't know anything about economics. In his line you don't have to."

His line was fame. Greenspan followed the most direct route: he dated the press. First Barbara Walters, then Susan Mills (a producer for the *MacNeil-Lehrer Newshour*), then he married a television personality, Andrea Mitchell. He gained entrée to the celebrity circuit. At the home of Oscar and Françoise de la Renta, Norman Mailer asked Giovanni Agnelli if he "was indeed Alan Greenspan 'the famous economist.'"

Townsend-Greenspan served Greenspan's own ambitions. Of the early Reagan years, White House staffer Martin Anderson recalls: "He had one life.... I don't think I was in the White House once where I didn't see him sitting in the lobby or working the offices. I was astounded by his omnipresence... He was always huddling in the corner with someone." In 1983, he was featured in a *New York Times* article about the lecture circuit ("The Superstars"). Readers learned that "Mr. Greenspan has emerged as the most sought-after economist by lecture audiences worldwide."

Greenspan became Federal Reserve chairman in 1987 and served until January 2006. He continued his fame game. Fewer than 10% of Americans knew the name of the Federal Reserve chairman in 1979. In 2001, 90% knew Greenspan's name, though zero percent knew what he was talking about. This was to his benefit. It was believed he spoke on an elevated but indecipherable level. To the dedicated student of Federal Open Market

Committee transcripts, Greenspan's contributions read like a screwball comedy. Few were in on the joke, so he was recast. He was the greatest testament of Magritte's warning to the twentieth century: "This is not a Federal Reserve chairman." He played a deity, an icon, Zeus, Moses, God – descriptions from an adoring or befuddled press. Greenspan lived in his own bulletproof bubble. As has happened in different countries at regrettable moments, the skeptic could only dismiss the transcendental gifts of this very common man at the risk of ridicule and loss of job.

As readers of *Greenspan's Bubbles* know, he left a remarkable record of back-sightedness. His odes to technology drew a delirious public under the big top. On March 6, 2000, he told a star-struck audience: "[T]he essential contribution of information technology is the expansion of knowledge and its obverse, the reduction of uncertainty. Before the quantum jump in information availability, most business decisions were made in a fog of uncertainty." The Federal Reserve chairman received a standing ovation. Less than two years later, after befogged technology investors had lost a few trillion dollars, he told a different audience: "[A]las, technology has not allowed us to see into the future any more clearly than we could previously."

As stock prices rose in the late-1990s, Greenspan led his audiences to believe the Federal Reserve would calm the waters (if not part them). For instance, in February 1997: "[R]egrettably, history is strewn with new eras that, in the end, have proven to be a mirage.... [C]aution seems especially warranted with regard to the sharp rise in equity prices during the past two years." Two years later, when the stock market bubble had engulfed the nation, Greenspan told a Congressional committee: "[B]ubbles generally are perceptible only after the fact.... Betting against markets is usually precarious at best." With that, the circus animals bid stocks to the moon, knowing the Federal Reserve was party to the greatest snow job on earth.

In 2004, the Federal Reserve chairman juggled and rode his unicycle for a different crowd: "Many homeowners might have saved tens of thousands of dollars had they held adjustable-rate mortgages rather than fixed-rate mortgages over the past decade." Only a fairground barker could make this statement in the same week it was announced that house prices had risen 17% over the past year in San Diego County, 29% in Los Angeles County, and 28% in New York. Just as his "can't see, can't speak policy" fed the chimpanzees in 1999, the circus act spurred the interest-only mortgage market. This was often the only affordable mortgage, meaning, the owner could make the first monthly payment but not necessarily the second. In California, the percentage of interest-only mortgages had risen from 2% in 2002 to 47% at the time Greenspan spoke. By the fall of 2004, 67% of California residential mortgages were interest-only. (The median residential real estate price in California rose from \$262,000 in 2001, to \$316,000 in 2002, to \$450,000 in 2004, and to \$542,000 in 2005.)

His dialogue alone might resurrect screwball comedy, if only it wasn't real. Alan Greenspan is still famous, but the adoration has waned. His clown act worked when he threw candy and fireworks above the crowd. The masses have eaten the candy and are suffering shellfire. He is no longer an icon. Deities do not scramble for approval. Gods do not attract such headlines as: "Don't Blame Me!" (*Sunday Times* of London). Alan Greenspan wants respect. We do not respect gods; we worship them. We respect certain people, when they are deserving. Greenspan told us in early April of this year: "I have no regrets on any of the Federal Reserve policies that we initiated back then because I think they were very professionally done." That the votes were properly tallied is not in question; the accomplishments of the ersatz economist are the enigma. He wrote articles, "some of them for publications such as *Business Economics*, which would not have met the scholarly standards for most economics departments." (Jeff Madrick, *New York Review of Books*, July 19, 2001.) He shambled through his Ph.D. thesis, composed of articles described by Madrick. He used Townsend-Greenspan as a platform to court the rich and the professional layabouts. It is too late to establish himself as a comprehensive economist; he made a different choice fifty years ago.

In 2004, John Kenneth Galbraith described the Federal Reserve's painless decisions made "in a pleasant, unobtrusive building in the nation's capital" as not of "the real world but to that of hope and imagination. Here our most implausible and most cherished escape from reality" is led by "an informed, confident and respected figure of no slight theatrical talent." When we are prepared to assess the end of this age honestly, here rests a truthful epitaph for Alan Greenspan and the Federal Reserve System.