



Book review

Maestro: Greenspan's and the American Boom; Woodward Bob, Simon & Schuster, New York, 2000, 230 pp., \$25

Much has been said and written about Alan Greenspan since his appointment to Chairman of the Federal Reserve in 1987. His actions, opinions, and predictions have been closely followed by analysts and the public alike in the hope of catching a glimmer of the future of the United States economy. There has perhaps never been a person with as much economic power and clout as Alan Greenspan. Bob Woodward's *Maestro* brings us an inside look at Greenspan the economist and the man. Given the author and the publisher, the reader should not expect an academic treatise. However, given the price (\$25) relative to the \$200 plus esoteric tomes around today, this book is a bargain and an enjoyable read. Since I have done this review as part of an Honors option requirement in the Terry College of Business of the University of Georgia, the book is a good assignment for an undergraduate to read and review. In reading this review, please keep this perspective in mind.

Although we live in an age of exponentially expanding information, until Woodward's *Maestro* was written it seemed absurd that the world could know so little about a man who carries such economic and financial clout. But the fact remains that Greenspan is perceived through the result of his actions, leaving many people to continue to ask the question, "Who is Alan Greenspan?"

Bob Woodward sheds light on this question in his book *Maestro*. Woodward relates the economic and political events over the past decade and a half to the actions taken by the Federal Reserve under Greenspan's direction. By opening the door to closed Federal Reserve meetings and following the thought processes of its Chairman, *Maestro* conveys the economic and political thinking of Alan Greenspan. Doing so is no easy task, however. Deciphering Greenspan's theories and calculations into terms easily understandable by the average reader is as complex as the effects of the Fed's actions on the economy. Woodward does this well by providing enough historical context and economic background to make Greenspan's actions and reasoning comprehensible by any reader with a basic understanding of economics.

That is not to say, however, that understanding Alan Greenspan is an easy task. Obsessed with tables, models, and probabilities, Greenspan often withdraws from his surroundings to ponder the latest economic theory that has consumed him. His words are often followed by a scurry of notes and formulas to clarify his meaning to whoever is listening. Greenspan's opinions about the economy frequently seem to portray gloom and doubt. If Greenspan were to personally address the nation

on economic issues, it seems that consumer optimism and confidence would be low or nonexistent. But one thing remains certain; Greenspan speaks and acts with clear intent and calculation. In fact, many of his actions have a resounding effect unforeseen to any reader. It seems that any decision by Greenspan, private or economic, is highly deliberated and orchestrated. *Maestro* presents Greenspan's decision making as a type of craft that has secured his political security.

The Federal Reserve, despite the fact that it was established as an independent agency, is not free of the politics surrounding government. *Maestro* makes this clear and hints at the possibility that Greenspan's longevity as Chairman of the Fed is partly due to his ability to maneuver within Washington politics. In his years as Chairman, Greenspan deflected allegations that the FOMC was secretly hiding tape recordings of their meetings, endured the embarrassment of proclaiming that the failing S&Ls of the 1980s posed no threat to the economy, and allowed the political monster to swallow the vice chairman of the Fed, at the time, Alan Blinder (it is safe to say that Greenspan and Blinder did not see eye-to-eye on many issues). Greenspan managed to solve all of these political issues seemingly without getting involved in any of them, which reflects the genius of Greenspan's decision-making craft with regard to politics. Using the same observation and prediction skills that he uses to drive the Fed, Greenspan was able to successfully map out his political future by simply understanding the political forces and allowing them to work in his favor.

Although *Maestro* establishes Greenspan's political savviness, it primarily focuses on Greenspan's career in terms of an economic timeline. There is no doubt that the United States economy is currently in the "Greenspan Era" even after September 11. Regardless of one's opinion of the current status of the economy, it is clear that it is a major product of the actions taken by Greenspan's Fed over the past 14 years. Despite the fact that the US economy is not as strong as it was two years ago, consumer confidence remained high (prior to September 11), and the DJIA has recovered since the events of September 11. The United States remains undoubtedly the world's economic leader. Woodward presents the major economic characteristics of the US economy as a product of specific actions taken by Greenspan since his appointment to chair the Fed in 1987.

Greenspan's chairmanship at the Fed did not begin smoothly or slowly. A staunch believer in the free-market system, Greenspan (a protégé of former Fed chairman, Arthur Burns) believed in minimal government economic intervention. The ability of the free-market system to survive on its own, the core of Greenspan's economic beliefs, was tested just 72 days after being confirmed as chairman of the Fed. On Monday, October 19, the Dow dropped 508 points wiping out 22% of the Dow's value. There had never been a one-day decline of 22% and Greenspan saw that government intervention was inevitable to avoid comparison to, and the potential for, another Great Depression. Accordingly, the Fed immediately provided liquidity to the financial system and informed money-center banks that the discount window was open. This action assured investors that the Fed was not going to let the financial system collapse and restored stability in the US economy. Greenspan later remarked that "the big 1987 crash had probably raised the Dow several thousand points. Investors saw the sharp decline of 22% in a single day, and then nothing hap-

pened” (p. 218). The financial confidence the Fed established in investors during the 1987 crash has endured up to today, including the events of September 11.

The 1987 crash was a turning point for Greenspan. He maintained his belief that minimal government intervention in the markets was best, but realized that it was also a necessary component of the US economy. Greenspan would later tackle many more economic crises as chairman of the Fed. Having to infuse Mexico with billions of dollars, assure stability during the Gulf War, and maintain liquidity during the Asian and Russian economic catastrophes empowered Greenspan with more control than he could have possibly envisioned. As Woodward acknowledges, it soon became clear to Greenspan that he was running the central bank of the world. The importance of each of these international crises cannot be understated. Their effects on the world economy could have been disastrous, but none of these economic events perplexed Greenspan more than what was happening domestically.

Maestro focuses a great deal on Greenspan’s frustration with what he was witnessing in the US economy. Ever-focused on monitoring and preventing inflation, Greenspan spent hours everyday at the Fed monitoring business inventories, price levels, production levels, and almost any other conceivable statistic that would show some reflection of economic activity. He even went as far as to monitor mobile-home sales from his office in the Fed. Beginning in the early 1990s, Greenspan began to notice that economic statistics that had traditionally been good indicators of economic activity were not providing accurate forecasts. Something had changed. The economy was in a bubble of expansion, as Greenspan described it, and he could not understand what was feeding the growth of the bubble. The Dow continued to reach new highs, profits were up, prices were stable, and there was little sign of inflation. It seemed to good to be true. Greenspan was convinced that something was flawed. He believed that the data the Fed had access to was somehow inaccurate. The difficult task was to mathematically explain these new economic precedents. After years of collecting data and testing models (with help from the Fed’s staff, of course), Greenspan solved his problem and characterized the trend of the new economy. He concluded that increases in productivity through the implementation of technology were driving profits up and keeping prices low, thus inhibiting inflation.

Greenspan discovered the missing ingredient in the redefinition of the new economy. He explained why unemployment could remain so low for so long without triggering inflation. All of the questions and unexplained economic events that had disturbed Greenspan for years were settled with the acknowledgment that technology had changed the movements and interactions within the economy. Greenspan would not admit a new era of economic activity existed until he could mathematically and logically explain it. But after discovering what was propelling the economy, Greenspan saw the need for new models and calculations to maintain new economic stability in the US and the world.

Greenspan has often been criticized for being overly cautious. He supports, and most of the time passes through, rate hikes (and the rate cuts of 2001, before and after September 11) that are minimal, but continuous. It is evident in *Maestro* that he prefers soft, highly calculated movements. Greenspan’s methodology is one that

stair-steps rates to achieve the level of economic activity necessary to prevent a recession while not encouraging uncontrolled economic growth. (The problem in 2001, of course, has been to stimulate the US economy and avoid the prolonged contraction experienced by Japan.) He seeks to implement in the real economy what his models and calculations predict on paper. Perhaps Greenspan's masterpiece was his ability to achieve the hypothetical "soft landing" the economy experienced in 1996. Clinton's 1993 economic plan of deficit reduction, Greenspan's redefining of the economy, and consumer confidence were the tools Greenspan used to achieve the "soft landing" that prevented a recession in 1996, coincidentally an election year. There is no doubt that the US economy is not experiencing the growth it experienced in the late 1990s. Prior to September 11, many of Greenspan's critics accused him of being overly cautious in sparking economic recovery. Nevertheless, these are the same arguments that have been raised against Greenspan since his appointment in 1987 and yet he has managed to lead the US and world economies to unprecedented economic growth and development. Like Woodward, this reviewer continues to trust Alan Greenspan and his plans for the US economy.

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