

## 'Bigger than life' Fed chairman retires

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Gannett News Service

WASHINGTON -- When Alan Greenspan retires from the Federal Reserve on Tuesday, the onetime jazz band musician will be going out on a high note.

From behind oversized glasses and sometimes in undecipherable language, Greenspan shepherded the economy through one of the most prosperous periods in U.S. history. In the more than 18 years Greenspan held the reins of the Fed, the economy enjoyed a 10-year economic expansion, the longest in history, and had just two brief recessions that were the mildest since World War II.

Inflation is now at a low, more-manageable level than when Greenspan took over. Helped by low interest rates, 69 percent of Americans own their own homes, a record. And the United States' position as the No. 1 economy in the world remains solidly intact.



Outgoing Federal Reserve Chairman Alan Greenspan prepares to answer questions before the Senate Banking Committee on Capitol Hill in Washington in this July 16, 2002 photo. (Doug Mills/AP)

### Key moments in Greenspan's tenure at the Fed

June 2, 1987: President Reagan nominates Greenspan as chairman of the Federal Reserve. When Greenspan was notified by the White House that he had been selected, he was at a doctor's office having his back examined.

Aug. 11, 1987: First day as chairman.

Oct. 19, 1987: Dow Jones industrial average falls record 508 points.

Greenspan releases one-line statement next day to try to calm markets.

July 1990: Economy enters recession.

March 1991: Recession ends and 10-year expansion, longest in post-World War II period, begins.

Feb. 4, 1994: For the first time, Fed announces policy changes immediately after meetings. Previously, investors would have to guess the U.S. central bank's stance by watching the Fed's actions in markets.

Dec. 5, 1996: Delivers "irrational exuberance" speech about stock market frenzy. Markets rise anyway.

April 6, 1997: Marries NBC correspondent Andrea Mitchell. Supreme Court Justice Ruth Bader Ginsburg performs ceremony.

September 1998: Hedge fund Long Term Capital Management appears to be on the brink of failure. The Fed, led by New York Fed President William McDonough, gets banks together to ease the impact on the economy of LTCM's impending collapse.

Jan. 14, 2000: Dow Jones industrials hits all-time high at 11,722.98.

All that came despite a number of serious shocks to the economy, including

Jan. 19, 2000: Fed begins immediately announcing policy decisions, even if there is no change.

March 2001: Economy goes into recession, which turns out to be one of the mildest in post-World War II era.

Sept. 11, 2001: Greenspan is midflight from a conference in Europe as terrorists attack the World Trade Center and the Pentagon. His plane turns around for security reasons while Vice Chairman Roger Ferguson releases a statement suggesting the Fed's willingness to keep money flowing.

November 2001: Economy emerges from recession, but hiring lags, leading some to declare the "jobless recovery."

June 25, 2003: The Fed lowers the target for its key short-term interest rate to 1 percent, the lowest in 45 years, to help boost the economy.

June 30, 2004: With the economy on solid footing, Greenspan's Fed begins raising rates at a "measured pace" in quarter-percentage-point increments. To date, the Fed has raised rates at 13 consecutive meetings.

Dec. 14, 2004: Fed policymakers vote to release minutes three weeks after meetings, cutting release time about in half.

Oct. 24, 2005: Ben Bernanke, chairman of the president's Council of Economic Advisers and former Fed board member, nominated to succeed Greenspan when his term ends Jan. 31.

Source: Gannett News Service

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the Sept. 11 terrorist attacks in 2001, the 1987 stock market crash and the bursting of the dot-com bubble.

"The extraordinary events of the time make a person," JPMorgan Chase senior economist James Glassman says. "He'll be bigger than life because of that."

In a USA TODAY poll taken Jan. 20-22, 65 percent of the 1,006 surveyed said they approved of the job Greenspan did as chairman. He was popular across the board: A majority of Democrats and Republicans, higher-income and lower-income, and college-educated and those who did not go to college approved of the job Greenspan did at the Fed.

Although Greenspan wasn't the sole force behind the economy's success, the 79-year-old gets much of the credit. That has in part created a larger-than-life, oracle-like persona for a man who once dreamed of being a baseball player and later trained at New York's renowned Juilliard music school.

"He's been a giant," says Greg Valliere, chief strategist at Stanford Washington Research Group.

But Greenspan's career at the Fed was not without controversy. Some economists blame him for not doing enough to try to stop the stock market bubble from developing in the late 1990s.

In perhaps the loudest criticism, some economists and politicians say Greenspan got too involved in political issues, at one point backing tax cuts and at another supporting some privatization of Social Security. Those issues were too far outside the Fed's domain and threatened the much-revered independence of the marble-walled institution, detractors say.

"He's one of the biggest political hacks we have in Washington," Senate Minority Leader Harry Reid, D-Nev., said in an interview with CNN in March after Greenspan spoke about the need to make changes to Social Security.

#### **His words moved markets**

But even those who criticize Greenspan say his flaws are far outweighed by his successes. "He has a legitimate claim to being the greatest central banker who ever lived," Princeton University economists Alan Blinder and Ricardo Reis said in a paper at a conference on Greenspan's legacy in August.

For nearly two decades, Greenspan has been a household name, and investors have hung on his every word for ideas about the future course of interest rate policy.

That hasn't been easy. Famous for veiled, sometimes complex speeches that he often wrote while nursing a bad back in his bathtub, Greenspan in 1987 said he had "learned to mumble with great incoherence." He will long be remembered for setting off a worldwide frenzy after uttering just two words - "irrational exuberance" - about stock prices in 1996.

The Fed chairman even became part of the political debate. When running for president in 1999, Sen. John McCain, R-Ariz., said he would keep Greenspan at the Fed - no matter what: "If Mr. Greenspan should happen to die, God forbid, I would do like they did in the movie 'Weekend at Bernie's.' I would prop him up and put a pair of dark glasses on him and keep him as long as we could."

Greenspan and his wife, NBC News correspondent Andrea Mitchell, were also fixtures on the Washington, D.C., social circuit. They were regulars at White House dinners and embassy parties. Greenspan was sought out not just in the United States but worldwide. He frequently traveled abroad to make speeches and to meet with his counterparts. In 2002, he was honored by Queen Elizabeth II with an honorary knighthood.

#### **Four major successes**

Greenspan will be remembered for four major successes:

Increased transparency. It may seem ironic, given Greenspan's penchant for obscure language, but the chairman is leaving a Fed that is far more open than it was when he came.

Before his tenure, the Fed would make changes to interest rates without publicly announcing what they were doing or why they were doing it. Analysts made their careers on discerning the Fed's decisions by studying the bond market.

"There was a view that by not telling a lot ... the Fed could surprise and, therefore, have a greater effect on markets," recalls former Richmond Fed president Alfred Broaddus. Now, "We don't think in those terms at all."

Under Greenspan, Fed officials began to announce their decisions and released statements about their thinking on the economy immediately after their meetings. A year ago, the Federal Reserve significantly cut the time it took to release minutes from policymaking meetings by several weeks.

These steps have given investors, businesses and consumers insight into the Fed's thinking. That helps even ordinary consumers wrestling with a decision: If rates are going to go up, a homeowner might want to refinance sooner rather than later, for example

Lowered inflation. Greenspan's predecessor, Paul Volcker, has a place in history as the person who broke the back of inflation in the United States. Greenspan held onto Volcker's playbook and brought inflation so low that at one point earlier in this decade there were fears of falling prices, or deflation.

Inflation in 2002 hovered around 1 percent, the lowest in nearly four decades. Inflation has since increased some but is still far from the double-digit gains of the late 1970s and early 1980s. In December, the increase in the consumer price index was 3.4 percent from the prior year.

Greenspan's success in lowering inflation has led to a sharp drop in inflation expectations. That's key, because if consumers expect prices will rise quickly, there can be panic buying and businesses have a hard time making plans.

Such low inflation also has given the public more confidence in the Fed, which helps to keep the economy on an even keel. Lower inflation has also allowed the Fed to keep interest rates lower.

"He continued the fight against inflation which Volcker began and has gradually managed to squeeze inflation out of the system," says Marshall Vest, director of economic and business research at the Eller College of Management at the University of Arizona-Tucson.

Crisis management. Greenspan took office on Aug. 11, 1987, and quickly faced the first of what turned out to be many challenges at the Fed. On Monday, Oct. 19, 1987, the Dow Jones industrial average plunged 508 points, or 23 percent.

The newly minted chairman, after canceling a speech in Texas and heading back to Washington, issued a one-sentence statement before the markets opened, assuring the Fed would continue to keep the financial system liquid. The Dow rose on Tuesday and Wednesday as the Fed pumped money into the economy at breakneck speed. By Thursday, banks were lowering their prime lending rates. A major economic downturn was avoided.

The move established Greenspan's reputation as an aggressive policymaker in the face of crisis. That reputation was reinforced in his actions after a number of shocks, including the Sept. 11 terrorist attacks, the bursting of the dot-com bubble, corporate scandals, problems in major economies around the world, worries about the Y2K computer changeover, two wars and natural disasters.

Productivity recognition. In the late 1990s, Greenspan had a hunch that productivity, or worker output per hour, was picking up, but it wasn't showing up in data.

Productivity is a big boost for business profitability and allows CEOs to hire more workers. In 2000, the unemployment rate dipped to 3.8 percent, the first time it had fallen below 4 percent since 1970.

The low unemployment rate had many economists nervous, including some on the Fed. Historically, low unemployment rates have been associated with inflation dangers as workers are able to negotiate for fatter paychecks.

But Greenspan argued price pressures could remain contained because firms did not have to jack up prices to cover increased labor costs - their bottom lines were already improving because of the output gains.

Greenspan's Fed left interest rates much lower than they would have otherwise been. The gamble paid off: The economy had its longest expansion in history from March 1991 to March 2001.

"If you had used sort of the textbook types of rules about how fast the economy could grow safely and didn't consider these other possibilities ... it would have led you maybe to put on the brakes," former San Francisco Fed president Robert Parry says.

"Greenspan does deserve credit for having figured out that something was afoot. ... And that probably meant a lot in terms of jobs."

### **Criticism over politics**

Greenspan has had his critics.

Many economists, such as Richard DeKaser at National City, David Lereah at the National Association of Realtors and Mark Vitner at Wachovia, say the Fed chairman got too involved in political issues. The biggest example was in January 2001, when Greenspan publicly supported tax cuts.

Critics say Greenspan's backing gave the Bush administration momentum to cut taxes. But after posting surpluses for four years, the budget has been in deficit since 2002 and is projected to remain that way through 2011, according to the Congressional Budget Office. Such deficits could put a strain on the government, particularly as the baby boomers retire and draw benefits such as Social Security.

"Anybody who looked at the budget four or five years ago knew that the surplus projections were funny" and unreliable, says Larry Chimerine, president of Radnor International Consulting.

Still others, such as economists Ed McKelvey of Goldman Sachs, Allen Sinai of Decision Economics and David Kelly of Putnam Investments, argue that the Fed should have done something to try to prevent the run-up in stock prices in the late 1990s, by trying to jawbone investors, raising interest rates or raising margin requirements to try to reduce the amount of stocks being bought on loan.

But Greenspan himself has said it's hard to identify a bubble in real time and has argued the Fed could not have stemmed the excitement about stocks without harming the overall economy.

Former Fed governor Lyle Gramley, who served before Greenspan took office, says the Fed could have tried to prevent the stock market run-up. But, he says, that doesn't detract from Greenspan's record.

"It's hard to carp about a guy who is the greatest central banker that ever lived," Gramley says. "He set the example for central banks around the world.

"Had Greenspan not been the leader at the Fed ... we would not see the world in as good of shape as we do now."

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