Alan Greenspan: Rand, Republicans, and Austrian Critics

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Ayn Rand has influenced the lives of millions of people by means of her novels and essays. Her work lies at the very heart of the modern libertarian movement (*Liberty* 2000, 19–20). Of the many prominent individuals who have credited her with having an important impact on their thinking, none is more widely known than Alan Greenspan, chairman of the Board of Governors of the Federal Reserve System, the central bank of the United States.

One must admit that Greenspan is neither charismatic nor particularly entertaining. When appearing before Congress to testify on the state of the economy, he often has the look of an elderly, bored bloodhound. Nevertheless, his testimony is delivered so slowly and with such rabbinical solemnity and conviction that the listener finds it easy to believe he is privy to some heretofore unrecorded exchange between God and Moses. It is a style that greatly enhances Greenspan's image as a profoundly thoughtful and knowledgeable policymaker. Moreover, if it is an affectation, then it is an affectation that he has indulged in for all of his adult life.[1] Greenspan was ever thus: painfully serious, studious, restrained, and dignified.

Despite the peculiarities of his public persona, or perhaps in part because of them, the entire world pays close attention to every word Greenspan utters. And with good reason. As head of the central bank of the most important country on earth, he ranks as one of the most powerful men alive. In an American context, only the President of the United States has more power and influence. When it comes to purely economic events, one can plausibly argue that *no one* is the

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equal of Chairman Greenspan. Actions taken by the Federal Reserve affect not only the supplies of money and credit, but also interest rates, commodity prices, international currency exchange rates, wage rates, stock and bond prices, real estate, the level and distribution of production across industries, the intertemporal pattern of investment, international capital flows, incomes, wealth, rates of saving, and so forth. In short, since money is one-half of every economic transaction, changes in money affect every facet of economic life. Whosoever controls money basically controls the economy, and the Federal Reserve controls the supply of money. Most controversially, the actions of the Federal Reserve, or "Fed" for short, are the principal source of those disconcerting ups and downs in the economy commonly referred to as business cycles.[2] To put it rather dramatically, the "Fed chairman has just a handful of levers to push, but he makes all the difference as to whether the populace wears new shoes or eats old ones" (Martin 2001, 135).

Given the economic centrality of the Fed, not to mention the distinctiveness of its current chairman as a public figure, no one should be surprised that three recent books have been devoted to examining Greenspan's life and career. This essay will take those books as a starting point. Each will be evaluated, particularly with regard to insights into the character and personality of Alan Greenspan. In the course of that exercise, one will learn of his longstanding, though at times tenuous, connection to Ayn Rand, of his career-enhancing associations with prominent Republican politicians, and of his only consistent critics—economists of the Austrian School. What will emerge is a portrait of a talented, intelligent, and powerful man, a man who positively enjoys directing the American economy. Simply stated, Alan Greenspan was born to be a bureaucrat. Therein lies the danger.

The Basic Facts

The three books in question, *Maestro* by Bob Woodward (2000), *Greenspan* by Justin Martin (2001), and *Alan Shrugged* by Jerome Tuccille (2002), provide a reasonably consistent profile of Greenspan, especially insofar as biographical fundamentals are concerned.[3] In fact, Tuccille (2002, xi), for example, grants that he has drawn on the other two books as sources for his own. Martin (2000, 239) mentions *Maestro* and suggests that he and Woodward even largely concur in their assessment of Greenspan.

Alan Greenspan was born in Manhattan on 6 March 1926. His father and mother were the children of immigrants from Germany and Hungary, respectively. His father was, for a time, a successful stockbroker, while his spirited mother enjoyed singing and ballroom dancing. Their marriage proved to be a rocky one, and they divorced when Greenspan was still a small boy. He and his mother, Rose, moved in with her parents, into a household dominated by the stern grandfather who was an Orthodox rabbi. Greenspan rarely saw his father after the divorce, and was not even aware until years after the fact that his father had died in 1973 (Tuccille 2002, 218). In contrast, Greenspan's relationship with his mother was always a close one. Even after becoming head of the Federal Reserve, he would telephone her every morning, and when she died in 1995 he was visibly shaken.

The open expression of emotion seems never to have been terribly easy for Greenspan. Even as an adolescent he was very serious and very quiet, which at the time made him unattractive to most girls (17–18). Skinny and devoid of social graces, the young Greenspan was consumed by three powerful interests. He loved math, music, and the Brooklyn Dodgers (16).[4] Obviously bright and a good student, he never made straight As—either in high school or in college. His interest in music was strongly encouraged by his mother, and it brought him a scholarship to Juilliard in 1943. Fascinated by jazz, Greenspan majored in clarinet, but dropped out of Juilliard in 1944 in order to become a professional musician. For a while he played saxophone and clarinet with Henry Jerome and His Orchestra, but left in September 1944 to study economics at New York University.

At this point, Greenspan began avidly digesting the economic theories of John Maynard Keynes (Martin 2001, 24). Most commentators seem to assume that Greenspan later purged himself of

Keynesian beliefs, but that may not be entirely true.[5] 1944 also happened to be the year that Greenspan first encountered the writings of Ayn Rand in the form of her novel *The Fountainhead.* Greenspan went on to earn a master's degree in economics from NYU in 1950 and, after many years of attending classes on a part-time basis, a Ph.D. in 1977.[6] The primary personal influence on Greenspan during his college work was professor Arthur Burns,[7] who generally favored free markets but whose later actions as a public policymaker did not consistently reflect that preference.

Aside from his graduate studies, the key elements in Greenspan's life during the 1950s were four-fold. He worked as a researcher with the National Industrial Conference Board, was made a partner in the Wall Street consulting firm of Townsend-Greenspan, became one of Rand's close circle of friends, and dated and later (briefly) married artist Joan Mitchell.[8] As a researcher and economic consultant, Greenspan was able to utilize one of the enduring features of his personality: his obsession with numbers. "He came alive when faced with columns and rows of numbers. . . . Those who knew Alan at the time claimed he found his deepest happiness in numbers" (Tuccille 2002, 38, 41). Ex-wife Joan Mitchell would later recall that on "Saturday mornings he loved to wake up and study numbers. . . . He loved being in control of all those numbers" (55). Greenspan's current wife, TV reporter Andrea Mitchell, has revealed that at home at night he frequently pores over statistics, making endless calculations. "His idea of relaxation was doing calculus problems" (Woodward 2000, 152, 219).

By the 1960s, Greenspan seemed well entrenched as an admirer and associate of Ayn Rand. As a result, he contributed several essays to Objectivist publications (1967a, 1967b, 1967c). These articles expressed an unapologetic defense of laissez-faire capitalism and are the basis upon which some have charged Greenspan with later betraying his beliefs. The most significant of these is one which declares that "gold and economic freedom are inseparable. . . . [T]he gold standard is an instrument of laissez-faire and . . . each implies and requires the other" (1967b, 96). Greenspan does not stop with his condemnation of paper currency. He also rejects the notion that a central bank is essential to a smoothly functioning economy. "[U]nder the gold standard, a free banking system stands as the protector of an economy's stability and balanced growth" (98).[9] Far from serving as a bastion of stability, central banks cause positive harm. For example, the Federal Reserve of the United States was the source of the frenzied stock market boom of the 1920s (99–100). In order to solve the problems it had created, the Fed "nearly destroyed the economies of the world" (100). The question this raises is obvious: How can Greenspan reconcile these sentiments with the fact that he heads the most powerful central bank on earth, one that issues paper currency every day and thus evades the discipline inherent in the gold standard?

Objectivists might leap to the conclusion that 1968 was a pivotal year in Greenspan's life. They would be right, but probably for the wrong reason. 1968 was indeed the year of the volcanic split between Rand and psychologist Nathaniel Branden, a schism that plagues Objectivism to this day. However, Greenspan had always remained somewhat detached from the melodramatic intrigues of the inner circle, and in any case he did not learn the truth about the whole extramarital Rand-Branden affair until he had been informed by Barbara Branden in the 1980s (Woodward 2000, 58; Martin 2001, 147–48). What marked 1968 as a turning point for Greenspan was his chance encounter with old friend Lenny Garment. He and Garment had been fellow musicians in the 1940s. Garment had subsequently become a successful attorney whose law firm included one Richard M. Nixon. Garment introduced Greenspan to Nixon and urged Nixon to invite Greenspan to join his presidential campaign team. This Greenspan did, serving as coordinator of domestic policy research (Martin 2001, 71). Greenspan never cared much for Nixon, however, and rejected the invitation to hold some official position in the new Nixon administration.

Nevertheless, he did serve on several high profile national commissions. These included the Task Force on Economic Growth, the Commission on Financial Structure and Regulation, and, most importantly, the Commission for an All-Volunteer Armed Forces. This latter showcased Greenspan's talents as a conciliator. The commission included, among others, several high-ranking military officers as well as feisty economist Milton Friedman. Friedman frequently clashed with those who opposed the idea of all-volunteer forces. Greenspan apparently mediated those conflicts in a way that won the military personnel over to the position he shared with Friedman. "Alan's role . . . was to come in and offer reasoned argument. He was able to be a dispassionate advocate when it was important to talk quietly, intelligently, and thoughtfully in order to bring people together" (79). Playing the calm mediator remains characteristic of Greenspan to this very day.

Greenspan's name continued to circulate among Republican politicians, and in 1974 he became the chairman of Gerald Ford's Council of Economic Advisors.[10] This was a job Greenspan greatly enjoyed, largely because he and Ford got along so well. "[N]ever once would a cross word be exchanged between these two mild-mannered men" (98). Greenspan was sworn in as head of the CEA on 4 September 1974. In attendance were Ayn Rand, her husband Frank O'Connor, and Greenspan's mother Rose. When asked if Greenspan's new political position represented a betrayal of his Objectivist principles, Rand responded with "I'm very proud of Alan. His is a heroic undertaking" (100). According to Tuccille (2002, 116), Rand also said "Alan is my disciple. He's my man in Washington." Sadly, these statements by Rand sound rather like a combination of wishful thinking and political naivete.[11]

When Democrat Jimmy Carter was inaugurated as President in early 1977, Greenspan returned to the private sector. Then, in 1980, fellow economist and fellow Randian Martin Anderson persuaded Greenspan to become an advisor to Ronald Reagan during the latter's campaign to win the presidency. "Greenspan joined a campaign lineup that included Arthur Burns, William Simon, Paul McCracken, Richard Allen, and Dick Whalen—all old Nixon hands" (Martin 2001, 141). Once Reagan was in the White House, Greenspan decided to forgo any official position, opting to concentrate his efforts on his own firm of economic consultants, Townsend-Greenspan, at the same time that he made himself available to the Reagan administration for occasional economic advice. In addition, Greenspan was willing to serve as chairman of the 1982 National Commission on Social Security Reform. This service brought him further acclaim as a man capable of solving thorny problems by forging bipartisan agreements. On the other hand, one could point out that this "Greenspan Commission" did nothing to correct the underlying, long-term flaws in Social Security. All the commission did was raise taxes and cut benefits. "The problems inherent in a pay-as-you-go system remained. . . . Still, Greenspan won recognition for presiding over a commission that averted disaster in the short haul" (147).

The reward for his years of official and unofficial service to various Republicans was delivered to Greenspan in the summer of 1987. It came in the form of his nomination as chairman of the Federal Reserve by Ronald Reagan. "In many ways, Greenspan had spent his entire life preparing for the job of Fed chair" (154). The Senate confirmed the nomination by a vote of 91 to 2, and Greenspan was sworn in on 11 August 1987. Ever since, America has been living in the Greenspan era. Greenspan has become an institution unto himself, an icon, almost a cult figure. Bond traders and stock brokers hang on his every word and deed, as do Presidents of the United States.[12] "Hardly anyone can muster the courage to criticize him anymore"(Woodward 2000, 227), or at least not when the economic news appears to be good.

And yet, this Greenspan era has encompassed both prosperity and turmoil. Americans have enjoyed, by official measures, the longest sustained expansion ever—from March 1991 to February 2000. Between August 1987 and August 2000, the Dow Jones Industrial Average rose from 2,600 to 11,000. As a result, millions of individuals experienced large increases in their wealth. But they have also had to bear the brunt of the stock market crashes of 1987 and 1989, the S&L failures of the mid- to late-1980s,[13] the recession of 1991, the 1994 Mexican bailout, the 1997–98 crises in Thailand, Malaysia, Indonesia, the Philippines, Japan, and South Korea, the Russian default on foreign debt in 1998, and the "dot-com" collapse of 2001.

Evaluations

Despite the numerous problems, Greenspan's reputation has survived intact. Instead of seeing his actions as a source of instability, the American public seems to perceive him as a savior, some preternaturally wise man who alone knows how to guide this complex economy. Such an exalted view of Greenspan is particularly evident in the books by Woodward, Martin, and Tuccille. All three authors make statements that border on the sycophantic. For example, Tuccille (2002, xv) declares Greenspan to be "all-but-infallible." He later describes the Greenspan approach in the very benign terms of "gently notching [interest] rates up or down to fine tune the economy when it was necessary"(239). Tuccille concludes that "[Greenspan] was going to be a difficult, if not impossible, act to follow" (265). Martin (2001, 181) insists that because of quick action by the Greenspan-led Fed, "the Crash of '87 wound up being mostly a speed bump. No lasting damage was done.[14] The stock market bounced back in a hurry, and things returned to normal in astonishingly short order. . . . Greenspan had met and mastered a very serious challenge." In reference to the spate of financial crises in 1998, Martin once again thinks that "Greenspan showed infallible instincts in steering the U.S. economy. It was a masterful performance, and a crucial one" (xix). Woodward (2000, 228–29) is more colorful than the other two, indulging in the following, almost poetic, imagery: "With Greenspan, we find comfort. He helps breathe life into the vision of America as strong, the best, invincible. The fascination with Greenspan has become one of the ways in which the country expresses confidence in itself and in its future. . . . Each of us is a character in the nation's great economic soap opera; Greenspan is both director and producer." Elsewhere, Woodward tells us that Greenspan's greatest asset is his "immense knowledge and experience" (244). When looking back on and assessing Greenspan's record, we should award him "at least an A. History will rank him up there among the top men who held the job" (Tuccille 2002, 266).[15]

Such effusive praise for Greenspan might be plausible if it came from knowledgeable writers, but in these cases it does not. My claim is not that Tuccille, Martin, and Woodward have failed utterly to research their topic. It is evident that all three have tried to uncover what they see as the relevant facts of Greenspan's life and career. Nevertheless, their efforts are deeply flawed because none of them possesses a conceptual framework equal to the task. First of all, none appears to be an economist. Martin is a former staff writer for *Fortune* magazine, Tuccille is described as a financial writer who is also vice-president of a financial firm, and Woodward has long been a reporter and editor with the *Washington Post.* It is clear from their books that none of the authors possesses more than a somewhat shaky grasp of economics in general or of the effects of monetary policies in particular.

Furthermore, these authors exhibit very little understanding of Objectivism, despite the fact that all three take note of the connections between Greenspan and Rand.[16] Typical is Martin's admission that he needed someone to help him "make sense of Greenspan's time in Ayn Rand's inner circle" (2001, xi). Worse still is the undisguised hostility toward Objectivists that one encounters. One author describes Objectivists in the 1950s as constituting a "political and philosophical cult that was already taking on the aspects of a secular religion" (Tuccille 2002, 49). This is a description that Tuccille had offered earlier in a book on libertarianism (1971, 16–24). He goes on to call Nathaniel Branden (the former Nathan Blumenthal) a "young, confused Canadian college student" whose adopted name was "an acronym [sic] of Ben Rand, or son of Rand" (Tuccille 2002, 50).[17] Rand herself is portrayed as a charismatic but eccentric, even "bizarre," woman who needed to be surrounded by "acolytes" and "disciples" who would regurgitate the "party line" (Martin 2001, 45; Woodward 2000, 56; Tuccille 2002, 51).[18] Martin (2001, 42) rather snidely remarks that the "Objectivist party line held that inflation was an insidious form of taxation." Of course, inflation is *in fact* a kind of implicit taxation, an insight common among economists, and certainly not unique to Objectivists. Note, for example, what Nobel laureate Milton Friedman (1980, 256–57) has said—under the heading "Government Revenue from Inflation"—about the issue: "Financing government spending by increasing the quantity of money looks like . . . getting something for nothing . . . [but] the extra money printed is equivalent to a tax on money balances. . . . every holder of money has in effect paid a tax." Martin thus reveals a deficiency in his understanding of economics at the same time that he unintentionally confesses his prejudicial attitude toward Objectivism.

There are even more reasons to discount the judgments of these three writers. One finds a number of misstatements or misconceptions that jar the more perceptive reader. For example, Tuccille (2002, 209) refers to Anna Schwartz as the *wife* of Milton Friedman. Schwartz and Friedman have in fact collaborated on a number of articles and books over the past forty years, but Friedman's wife is the former Rose Director. They met in graduate school and have been married since 1938 (Breit 1999, 455). Tuccille (2002, 233) also claims that the prices of consumer goods in the United States were falling during the 1997–98 period. He does not specify on what quantitative measure he bases this, but one can assume that it is almost certainly the widely publicized Consumer Price Index, or CPI. Looking up the data on the Bureau of Labor Statistics's website <http://data.bls.gov>, one will find that in December 1996 the CPI was 475.0. In December 1998 it was 491.0. On a month-to-month basis, the CPI increased during nineteen of the months involved, fell during four of the months, and remained unchanged once. Admittedly, the rate of consumer goods inflation was quite small—about 1.7% per year—but a low rate of *increase* in the CPI cannot be called a *decrease* in the CPI.

Also, both Martin (2001, 24) and Tuccille (2002, 11) uncritically repeat the old myth that World War II brought an end to the Great Depression.[19] Martin believes, as many do, that there was little inflation in the United States during World War II (2001, 85). Of course, he is aware that the federal government imposed pervasive price controls during the war and that (officially measured) prices rose after the war when those controls were removed. He never stops to wonder whether prices actually shot up, or if they were high all along but "hidden" by the fact that the government assumed goods traded at the controlled price—an assumption no one schooled in economics should be so foolish as to make.

One of the most basic relationships observed in financial markets is the inverse relationship between the price of an asset and its yield (or interest rate). This occurs because asset prices reflect the discounted value of the stream of cash flows the asset generates, and the discounting process is literally the process of dividing the cash flows by the number 1 plus the interest rate expressed as a decimal. As interest rates rise, the discounted value (the magnitude of the fraction) falls, and vice versa. Equally basic is the proposition that nominal interest rates are driven up as investors come to expect a higher rate of inflation. My sophomore-level principles of economics students certainly are aware of both of these relationships. There can be little doubt then that economists who read Tuccille's book will be puzzled by the assertion that Greenspan, having already earned a master's degree in economics from NYU, needed to have all this explained to him by his business partner, bond trader William Townsend (2002, 60).

Martin (2001, 136) is burdened by the bizarre belief that "laissez-faire was coronated as the new king in the 1990s." Reading that, one is compelled to question whether Martin possesses any coherent notion of what "laissez-faire" means. How can the concept of a *totally unregulated economy* (save for protections against force and fraud) be consistent with the presence in this economy of Social Security, extensive public welfare programs, the Securities and Exchange Commission, the Federal Trade Commission, the Drug Enforcement Administration, the Federal Communications Commission, the Environmental Protection Agency, the Americans with Disabilities Act, and so forth? In the context of such intellectual evasion on the part of Martin—which is also exhibited, though in slightly different form, by Tuccille and Woodward—it is no surprise that he and his fellow authors experience no cognitive dissonance when portraying Greenspan as some John Galt-like character (Tuccille 2002, 263). They are unable to see that central banks are wholly inconsistent with laissez-faire.[20] Therefore, they are unable to see that Greenspan has been compromising his avowed principles for many years. Furthermore, they fail to grasp that he does not deserve anything more than rather limited praise, because most of the time Greenspan is "solving" problems that he has himself created.

The Austrian Critique

To a large extent the problem is that these authors are not Austrian economists.[21] Austrians are not entirely unique in being able to identify the mistaken assumptions and flawed concepts that lie behind any defense of central banks and their monetary policies, and thus any defense of men like Greenspan. Some others are also equal to the task. Nevertheless, the only way to comprehend the full impact of the Federal Reserve's actions is to rely on certain propositions that are associated with the Austrian School of economics.[22]

Before proceeding with the abovementioned insights from Austrian economics, a related issue needs to be dealt with. It is well known that Rand praised and recommended to her readers one and only one group of economists—Austrians such as Ludwig von Mises, Eugen von Böhm-Bawerk, and Henry Hazlitt (Rand 1967, 339–40). It is, therefore, natural to assume that any economist who is also an Objectivist has probably been greatly influenced by the Austrian School. At the very least, one would expect every Objectivist who is interested in economics to at least be familiar with Austrian thinking. What then about Greenspan? Tuccille (2002, 33) claims that Greenspan was "heavily influenced" by Mises, but this seems to be false. There is at least one authoritative source, an individual who has been personally acquainted with Mises, Rand, and Greenspan and who, moreover, is both an Objectivist and an Austrian economist: George Reisman.

> Over a period of approximately fifteen years, starting in 1957, I frequently met and spoke with Alan Greenspan, mainly at various Objectivist social gatherings. He never said anything in my presence that indicated that he had read and studied the works of Mises. Nor, as far as I am aware, do his writings or speeches provide any such indication. I believe that he attended Mises's graduate seminar, which met once a week until 1969, only a few miles from where he lived, on only one occasion, which was when Rand visited the seminar. (Reisman 2005, 257 n. 6)

This failure to learn from Mises and other Austrians, as well as from Rand, leaves a void.

> [T]he writings of Mises and Rand are equally important to the defense of capitalism. . . . With the study of Rand alone, the best result is likely to be someone along the lines of Alan Greenspan. The study of Rand and Mises in combination will produce far more stalwart and capable defenders of capitalism. (257)

What Reisman has provided is a valuable identification of the broad conceptual source of Greenspan's deficiency, namely his limited appreciation of Austrian economics.[23]

Why is Austrian economics essential to a proper evaluation of the Fed and Alan Greenspan? The reason is that without its insights, one cannot perceive the real harm that the very existence of a central bank imposes on a people, regardless of the sincerity or intelligence of the man who heads that central bank. I am quite willing to grant that Greenspan is dedicated, bright, and well-intentioned. What he does he no doubt does in the honest belief that it is for the good of the economy. There is no dark conspiracy to undermine the American economy lurking behind the closed doors of the FOMC[24] meetings. Nevertheless, damage is done on a daily basis.

A large portion of the negative effects of central banking is revealed by a study of Austrian business cycle theory (ABCT). Therefore, a brief survey of the theory is in order. The essentials of ABCT are bound up with the two "universals" of macroeconomics, time and money (Garrison 2001a, 47–52). Modern industrial production is a time-consuming process that is measured in monetary units, such as dollars, yen, francs, or euros. The intertemporal dimension of production is often given little attention by others, but is quite rightly emphasized by Austrians. To do so, they draw a distinction between higher-order goods (raw materials, productive machinery, semi-finished goods) and lower-order consumer goods. The former are employed relatively early in the temporal sequence, while the latter are the culmination of the multi-stage process. The production structure is complex, "stretched" across time periods, and vulnerable to allocation errors. In particular, complementary inputs[25] must be available not only in the right magnitudes but also at the correct moments in time. If they are not, then business projects that previously appeared profitable are soon seen to be unprofitable. In other words, intertemporal misallocation will lead to the consumption of the invested capital.

Oversimplifying a bit, one could say that the classical economists such as David Ricardo, Jean-Baptiste Say, Adam Smith, and John Stuart Mill focused on the long-run state of the economy. Keynesians are concerned primarily with the short run. ABCT concentrates on the "medium run." Austrians do so because that is the time frame in which cyclical problems arise. In the short run, the capital structure cannot be changed significantly, and in the long run—by definition—all errors have been discovered and corrected. By way of contrast, in the medium run there is enough time for capital projects to be initiated and the direction of production to change, but insufficient time for any potential malinvestments to be liquidated, at least not without serious repercussions. It is the heterogeneity of most higher-order goods that makes it so difficult to redirect projects smoothly once they have been started. Machinery designed for the construction of commercial airliners, for instance, cannot be easily converted so as to bake bread.

Business cycles are characterized by an expansionary or "boom" period that proves to be unsustainable and thus is followed by a contractionary or "bust" period. The unsustainable nature of the expansion is manifested in a widespread "cluster of entrepreneurial errors" (Rothbard [1963] 1975, 18–21). The source of these errors is a divergence of market rates of interest from the natural rate of interest. Market rates result from the interaction of supply of, and demand for, credit (or loanable funds). In contrast, the natural rate is an expression of individuals' time preferences, that is, the ratio of spending (present goods) relative to saving (future goods). If, in an attempt to stimulate the economy, the Fed pumps more money and credit into the system, then market rates of interest will decline. This will make it appear as if consumers have chosen to save at a higher rate than before, when in fact they have not done so.[26]

The abundance of credit and the relatively low rate of interest encourages businesspeople to lengthen the production process. This follows from the elementary financial fact that, as market rates fall, the net present value[27] of longer-term projects rises relative to that of shorter-term projects. Entrepreneurial demand for capital goods thus increases, and higher-order goods' prices rise relative to consumer goods' prices. The result, though it often *appears* beneficial, is a production structure that is unsustainable. Consumers begin to reassert their unchanged time preferences in the form of strong demand for consumer goods, and the prices of those consumer goods now begin to rise relative to those for capital goods—reversing the earlier price relationship. The resources needed in order to bring the projects to fruition will not be readily forthcoming, so many projects will be liquidated. Others might be completed, but at a loss.

Production in the economy is being pulled in two opposing directions. Businesspeople want more capital goods, and the complements to those goods, at the same time that consumers want more consumer goods. Both demands cannot be satisfied at the same time.[28] The unfortunate but necessary correction arrives in the form of a recession, during which business investment is sharply reduced, aggregate production falls, and unemployment rises. Macroeconomic stability can only be regained if the Fed ceases to expand the supply of credit, thus permitting market rates of interest once again to be consistent with individuals' time preferences. If instead, most likely in reaction to the public's demand that it "do something about the recession," the Fed keeps interest rates low, many projects that are inherently unprofitable will be keep alive artificially. Ultimately, this will only prolong and exacerbate the problems.

It is abundantly clear that, despite his awareness of the above Austrian explanation of business cycles, Greenspan wholly rejects it. Time and again he has overseen a Federal Reserve that has overstimulated the economy. Moreover, whenever signs of a possible recession have appeared, Greenspan has reacted in precisely the *wrong* way. That is, he has increased the supplies of money and credit, flooded the economy with "liquidity," and lowered interest rates. For example, consider the year 2001. The economy began to slip into a recession late in 2000. During 2001, in order to prop up the market for high-tech stocks, the Fed increased the money supply by a huge 21% and reduced market interest rates no less than eleven times (Callahan and Garrison 2003, 94). Even these drastic actions did not suffice, because this recession was not precipitated by insufficient liquidity. The problem was exactly that identified by ABCT. "There were too few [real] resources available for all of the plans formulated and funded during the boom to succeed" (87).

As Austrians point out, once an unsustainable expansion has been created, there can be no "soft landing."[29] The economy will recover fully if and only if all malinvestment is eliminated. That requires the liquidation of all those projects that appeared profitable merely because of the artificially low rates of interest. And that, in turn, implies a reduction in aggregate production and a rise in unemployment—at least temporarily. It is important to note that such a corrective process is one that Greenspan (2002) wants to avoid at all costs.

There is a further, related issue regarding central banks and their economic effects. Two foundational functions of central banks are a) to serve as a "lender of last resort" and b) to serve as the monopoly issuer of legal currency. The first means that the central bank is expected to supply liquidity to individual institutions that are in trouble in order to forestall any systemic financial collapse. The second provides a "uniform" money that avoids the supposed problems associated with having multiple currency issuers in a free banking system.[30]

The troublesome fact is that both actually *increase* the instability of the banking system. The mere existence of a lender of last resort "encourages banks to take on excessive risks, leading to trouble. . . . This problem, which has been called 'The Bagehot Problem' (after Walter Bagehot, who drew attention to it in *Lombard Street*) would be avoided if the lender of last resort followed Bagehot's advice—in offering support only to solvent institutions at penalty rates. But Bagehot's advice is violated by most central banks in practice" (Selgin 1989, 437). The Fed, for instance, seems most attentive to insolvent depository institutions, and it grants credit to them at its own "discount rate," which is almost always lower than any market interest rates. Furthermore, the Fed's position as the monopoly issuer of currency "makes possible much more erratic fluctuations in the money stock than can occur in banking systems where currency is issued competitively. . . . [A central] bank's power to inflate or deflate will, in principle at least, be unlimited" (448). Contrary to popular belief, central banking increases the level of uncertainty in financial markets.

It must be admitted that concern with these flaws in central banking has been largely the province of those who advocate free banking, with most of them being Austrians. But if it is true that Greenspan's beliefs have not changed since the 1950s (Tuccille 2002, 242), then he should be one who is well versed in these objections to central banks. After all, in the 1960s he was an outspoken proponent of free banking on a gold standard, as was noted earlier. Ironically, Greenspan (2001) has recently commented publicly on the relationship between uncertainty and monetary policy, but in the article in question he fails to mention the uncertainty *created* by the institution he heads.

Feet of Clay

There are actually two prongs to the critique of Alan Greenspan. On the one hand, as noted in the preceding section, he needs but lacks the analytical tools to be acquired from a study of Austrian economics. On the other hand, aside from that theoretical framework, he is simply not the incomparably wise, nearly "infallible" policymaker some make him out to be.

For instance, at the heart of all Fed decisions lies the question of accurate forecasting. Setting aside for the moment both ABCT and the Austrian challenge to the existence of central banks, if by his own standards Greenspan is to make things better rather than worse, then he must be able to forecast future conditions with a high degree of reliability. Sadly, his forecasting prowess leaves much to be desired. While testifying before the Senate in 1987 regarding his nomination to become chairman of the Board of Governors, "Greenspan simply acquiesced on the issue of his deficiency as a forecaster. . . . [A] study by the Federal Reserve itself had ranked Townsend-Greenspan dead last among eight firms in terms of inflation forecasting" (Martin 2001, 156). Sometimes he has even misidentified contemporaneous conditions. In August 1990, Greenspan stated that "those who argue that we are already in a recession . . . are reasonably certain to be wrong" (195). In fact, he persisted in this belief throughout the fall of that year. And yet, according to the National Bureau of Economic Research <www.nber.org/cycles>, the economy had begun to slide into a recession in July.

Then there is the flawed reasoning Greenspan exhibited in his analysis of the so-called "New Economy." In mid-1996, Greenspan was puzzled by the fact that, although unemployment had declined below 6%—the so-called "natural rate of unemployment"—and corporate profits were rising, neither commodity prices nor wage rates were going up (Woodward 2000, 167–74). Conventional macroeconomic thinking held that prices should be increasing under such circumstances. In his search for an explanation, Greenspan hit upon an equation that he thought might capture the essentials of the case. The equation states that the price of a good equals the sum of three things: labor costs, non-labor costs, and profits. If understood as per-unit costs and per-unit profits, the equation is irrefutably correct, that is, it is a tautology. Greenspan assumed that non-labor costs were constant, a critical error. But given that assumption, and noting that prices and wage rates were very stable, the unavoidable inference is that labor productivity had to be rising. This follows from the fact that labor's contribution to the per-unit cost of a commodity is an interface between the wage rate and the productivity of labor. With unchanging wage rates, the only way for per-unit cost to fall is for productivity to rise. Greenspan, urged on by several of his associates, happily concluded that the United States was entering a new era of high profits, high productivity, and low inflation—all of which was presumably due to the benefits bestowed by the advances in information technology. Such advances were, moreover, having effects throughout the economy. "Virtually every part of our economic structure is, to a greater or lesser extent, affected by the newer innovations" (Greenspan 2001, 164).[31]

Strictly in terms of the deductive logic employed, Greenspan was on solid ground. However, there are two nagging problems. First, one cannot simply assume that non-labor costs are constant. This means that, among other such costs, the interest rate—the cost of borrowing—would be unchanged. To make that assumption "is unwarranted and is especially peculiar when made by a Fed chairman, whose very actions change the cost of borrowing" (Callahan and Garrison 2003, 80). Indeed, due to Fed actions the interest rate has been one of the more unstable economic variables, which fact has served to exacerbate the already difficult task of business planning (Garrison 2002). Secondly, it has been notoriously difficult to quantify labor productivity in service industries. With services playing an ever-growing role in the economy, this should lead the careful researcher to view such data with a healthy skepticism. And without reliable measures of labor productivity, Greenspan's conclusion must be categorized as mere speculation.

If Greenspan has exhibited neither a mastery of forecasting nor especially clear reasoning, how does his reputation remain largely untarnished? There are probably two fundamental reasons. First of all, so few Americans possess a deep knowledge of economics that the liquidity bailouts of 1987, 1989, 1994, and 1998 appeared to be solutions. And the temporary prosperity of the 1990s certainly served to defuse criticism of the Fed, just as it had done in the 1920s.[32] In short, most Americans do not understand that credit expansions directed by a central bank create *unsustainable* expansions of the economy.

Secondly, one cannot overlook Greenspan's talent for obfuscation. It becomes difficult to assess a public figure's pronouncements —or to gauge whether his actions are consistent with his words— when those pronouncements are convoluted and amorphous. And Greenspan's public statements are often exceedingly opaque. Even his friends have described him as speaking in "well formed unintelligible sentences" (Tuccille 2002, 92). For example, he once told a congressional committee, "I know you believe you understand what you think I said, but I am not sure you realize that what you heard is not what I meant" (Martin 2001, 207). In 1990, Greenspan wanted desperately to avoid admitting the economy was in a recession. So he resorted to euphemisms such as "a rolling readjustment" and "a meaningful downturn in aggregate output" (195). Anything was preferable to the clarity of the word "recession." Milton Friedman has reportedly said that Greenspan "is a genius for being able to blur the issues. I listen to his testimony before Congress and I am rapt with admiration for his ability to take all that crap and turn around and deliver sentences that sound like he's saying something when he's really not" (222). Greenspan is a "master at obfuscation. . . . [H]e had been part of the Washington scene long enough to know that you should never take responsibility for anything that goes wrong" (Tuccille 2002, 192).

Conclusion

Austrian economists are not the only persons who have criticized Greenspan's actions. For example, Lawrence Parks, head of the Foundation for the Advancement of Monetary Education (FAME), offers the following:

> I continue to have mixed feelings about Mr. Greenspan's role in the monetary system. On the one hand, he heads a *prima facie* evil institution that I believe he must understand is evil. On the other hand, in contrast to all his predecessors, he has been fairly open—but not completely open—about the flaws in our monetary system. Could he do more to set things right? The answer, at least to me, is an unequivocal "Yes." . . . [And yet] attempting to look at the situation from his point of view . . . Mr. Greenspan may feel that he has done all he can. (Parks 2001, 84)

In contrast to Parks, one finds that a number of Greenspan's fellow Objectivists[33] have condemned him with less reservation, as documented by Martin (2001, 227–28). For instance, philosopher

Leonard Peikoff denounced Greenspan on his radio talk show. Bert Ely, a banking consultant, has said that "the guy is a hypocrite. Central banking is central planning. . . . Alan Greenspan is a real political prostitute." Economist Richard Salsman declares that the "story of Greenspan is the story of a gradual surrendering of principles. . . . Some people say he's doing the best he can within a fairly ridiculous regime, buying some time for us. . . . At some point along the line he must have decided he'd rather be known than be right. He must have decided he preferred to be influential" (Martin (227–28).

Salsman seems pretty close to the mark. Greenspan is not a monster in league with the forces of evil. But neither is he a champion of laissez-faire who decided to reform the Federal Reserve from within. If he were such a champion, then the only real reform would be the dismantling of that institution. That is nowhere in sight. The Fed continues to dominate the economic landscape, introducing further uncertainty into an already uncertain world at the same time that it poses as the solution to the problems caused by the uncertainty. Far from enacting structural reforms, Greenspan has really not even succeeded in achieving his one avowed objective of containing inflation (Tuccille 2002, 94; Martin 2001, 102, 183; Woodward 2000, 138, 176), because he is laboring under an inadequate definition of inflation.[34]

Moreover, along the way some of Greenspan's Randian principles seem to have been misplaced. For example, his devotion to the gold standard as a bulwark of freedom has often been cited as evidence of Greenspan's "radical" free-market ideas. Tuccille (2002, 80) claims that Greenspan "has never backed away from his basic assertion that a nation's currency is essentially worthless unless it is backed by a commodity with intrinsic value such as gold." And yet recently, Greenspan (2003), in a written response to an inquiry from Congressman Ron Paul, has said that, given the existing domestic entitlement programs, "on balance, a flexible system of exchange rates is more conducive to U.S. and global economic growth and price stability than is a system based upon a fixed price for gold." Whatever else they might be, those are not the sentiments of a proponent of gold.

One of the political virtues of a gold standard is that it limits monetary expansion and thus limits government spending. To take the current level of state spending as a given, as Greenspan here does, is to join forces with the collectivist critics of gold.

He has even retracted unpopular statements that he knew were factually correct. Most notorious were his 1974 comments in defense of Wall Street brokers. In September of that year, during a national conference on inflation, Greenspan said that "we are obviously all hurt by inflation. If you really wanted to examine who percentage-wise is hurt the most in their incomes, it is the Wall Street brokers. . . . So if you want to get statistical, I mean let's look at what the facts are" (Martin 2001, 103). This statement was greeted by boos from the audience and later by widespread criticism of Greenspan's alleged indifference to those in lower income groups. Subsequently, before a joint session of Congress, Greenspan apologized for the earlier remarks and added that "obviously the poor are suffering more" (103). If there actually were a John Galt, it is difficult to believe that he would have bent to the pressure the way Greenspan did. But then principles really mattered to John Galt.

Tuccille (2002, 231–32) has characterized Greenspan as a man for whom "power, and the proximity to people of power, was the primary aphrodisiac in his life. . . . [He repeatedly] weighed ideology against practicality and came down on the side of expediency." Sadly, Greenspan's deeds appear consistent with that judgment.

Allow me to suggest that Greenspan is not unique among Objectivists. All too many seem to have forgotten how truly radical the philosophy is.[35] At many levels—though certainly not all—Objectivism is at war with today's culture. To change that culture, does one attack it from without or try incrementally to modify it from within? Based on the career of Alan Greenspan, the latter does not appear to be a promising strategy.

Notes

1. Although Greenspan's style of presentation seems to be a natural outgrowth of his personality, there is also some evidence that he has consciously cultivated and refined that style. See Martin 2001, 126–27.

2. There have been a great many works that examine business cycles and their

causes. Those that I have found to be most insightful include, but are not limited to: Garrison 2001a; Rothbard [1963] 1975; 2002; Cochran and Glahe 1999; Horwitz 2000; Hayek 1933; 1935; 1941; and Anderson [1949] 1979. For a concise review of cycles, monetary policy, and banking regimes, one should read chapters 3 and 4 of Sechrest 1993.

3. It must be pointed out, however, that while both Martin and Tuccille devote a large segment of their books to Greenspan's early life and his career prior to 1987, Woodward compresses most of the story of those early years into the brief span of pages 54 through 58.

4. I must confess that this fact elicits a great deal of empathy from me. There was a time in my youth when I too would have said that I loved math, music, and the (by that time) Los Angeles Dodgers.

5. Allegedly, Greenspan has said that "it would not be unfair" to call him a Keynesian, at least in some respects (Branden 1999, 40).

6. Curiously, Greenspan did not write a dissertation. "Instead, the degree was awarded on the basis of articles he had published in a variety of scholarly journals and popular magazines going back to 1959" (Martin 2001, 138). As part of the collection of papers, he even submitted at least one document he had prepared while chairman of the Council of Economic Advisors under Gerald Ford. The substitution of published articles for a formal dissertation is now quite common in economics departments, but was somewhat unusual in the 1970s. Moreover, even today publications in popular periodicals or position papers intended for internal use in government agencies would probably not be acceptable. Therefore, this is questionable procedure on the part of the degree-granting institution—New York University. Is it possible that Greenspan's powerful political connections influenced NYU's decision?

7. Burns did not teach at NYU, but at Columbia, which Greenspan attended for a while in the late 1940s. Allegedly, "Burns encouraged Alan to be ever more vigorous [this may be a typographical error, since the word 'rigorous' seems more appropriate here], never committing to an idea unless it could be backed up by numbers" (Martin 2001, 30). For his part, Greenspan seemed to idolize Burns and may have consciously adopted the highly pragmatic approach to policy that Burns espoused (Tuccille 2002, 76). At the very least, Greenspan did follow in the older man's footsteps, since Burns served as Fed chairman from 1970 to 1978.

8. Joan Mitchell knew Barbara Branden, who was already an intimate friend of Rand's. Mitchell admired Rand's work and was instrumental in bringing Greenspan into the group.

9. Free banking regimes are the opposite of central banking regimes. The former are unregulated, except for customary legal prohibitions against acts of force or fraud. The latter are controlled by an official agency with special powers, known as a central bank. Central banking became universal in the twentieth century. For details about free banking, see: Sechrest 1993; Selgin 1988; Dowd 1992; 1993; Horwitz 1992; and White 1984.

10. Donald Rumsfeld, the Secretary of Defense in George W. Bush's administration, was then the head of Ford's transition team. Rumsfeld recalls being very enthusiastic about bringing Greenspan into the government (Martin 2001, 98).

11. One can certainly sympathize with the enthusiasm and pride that Rand was likely feeling on that day, but the subsequent three decades have offered no evidence that Objectivist principles are now embedded in national monetary policies. To the extent that Greenspan has been a success, it has not been as a promulgator of distinctively Objectivist ideas.

12. President George H. W. Bush, for example, believed that inaction by Greenspan was largely the cause of his 1992 loss to Bill Clinton (Martin 2001, 198).

13. Greenspan himself was involved in the "Keating five" scandal regarding Lincoln Savings and Loan. Despite being aware of Charles Keating's past record of questionable business practices, in 1985 he wrote a letter to regulators vouching for the soundness of the firm and the skill of its managers (Tuccille 2002, 156). Two years later, Lincoln failed and numerous financial improprieties were uncovered. Greenspan, though suitably embarrassed by the episode, was exonerated of any wrongdoing.

14. The reader should note this sentiment, one that is common to most who comment on Greenspan. Later, I will return to it and point out the hazards hidden within it.

15. As a college professor and Austrian economist, I would have to say that that is serious "grade inflation." If, on the other hand, I were to restrict myself to the very narrow question of how Greenspan has performed relative not to some theoretical ideal but to the actual records of previous Fed chairmen, I would have to admit that he has done a very decent job. In that narrow context, his grade might be as high as a B. In the final analysis, however, that latter context is not the appropriate one.

16. Martin and Tuccille refer repeatedly to the influence Rand supposedly had on Greenspan, while Woodward only mentions it in passing.

17. This assertion is refuted emphatically by Nathaniel Branden himself. Branden (1989, 139) points out that this myth was created by journalist Nora Ephron in an attempt to discredit Objectivism. If Tuccille had done a more thorough—or a less biased—job, he would have known this was false.

18. There may be some truth to such a characterization of Rand. See Branden 1986, 352; and Branden 1989, 134, 199, 406–8; 1999, 40.

19. For more informed discussions of what really happened during and immediately after World War II, see Higgs 1987, 196–236 and Vedder and Gallaway 1993, 150–72.

20. Of course, neither Martin nor Tuccille nor Woodward reveal any fondness for laissez-faire capitalism itself, so they are unlikely to take particular note of deeds that are inconsistent with it. It should be noted that Tuccille was once an advocate of free markets. See Tuccille 1970.

21. A number of Austrians have publicly criticized Greenspan. Examples include: Callahan and Garrison 2003; Shostak 2003; Garrison 2001b; 2002; Salerno 2001; Sennholz 2001; 2002; Rothbard 1987; 1991; 1994; Paul 2000; and Grant 1998.

22. One of the most fundamental of those propositions is that all human action stems from the evaluations made by individual actors. This calls into question the widespread dependence upon the numerical measurement of economic aggregates such as Gross Domestic Product (GDP), National Income, Consumer Expenditures, and so forth. See Shand 1984, 141–44; Mises 1976, 116–18; Hoppe 1995, 22–48; and Hayek [1952] 1979, 107–10. Austrians are, in other words, generally skeptical of the sort of analysis that Greenspan engages in constantly—trying to identify causal relationships based on the perusal of voluminous macroeconomic data.

23. As we note in our introduction to this symposium (Sciabarra and Sechrest 2005), Greenspan's essays for *The Objectivist* show some awareness of Austrian-influenced treatments of money, credit, and banking. But this does not justify categorizing him as a true Austrian. For a slightly different perspective on this issue, see Bostaph 2000.

24. The Federal Open Market Committee, or FOMC, is a group within the Fed structure consisting of twelve persons: the seven Fed Governors plus the president of the New York Fed Bank and, on a rotating basis, the presidents of four of the other regional Federal Reserve banks. Their collective task is to determine the course of monetary policy, that is, to determine the rate of change in the money supply, to

set targets for certain market interest rates, and so forth.

25. Productive inputs—labor, raw materials, energy, machinery, entrepreneurship, and so forth—can be used together as "complements" or instead of one another as "substitutes." Robotic machines can be substituted for human auto assemblers, for example; while personal computers complement the labor of clerical workers.

26. Under such circumstances, it is conceivable that, purely by coincidence, consumers might actually have decided to save more, thus driving down the natural rate to keep pace with market rates. However, it is extraordinarily unlikely that the quantitative declines in both market and natural rates should exactly match. For all practical purposes, this possibility can be ignored.

27. Net present value equals the sum of the discounted cash flows less the initial investment in the project.

28. Of course, if the increased investment in long-term projects had been induced by a decline in the natural rate of interest (an increase in consumer saving), then no such conflict would arise. Businesses would want *more* higher-order goods and consumers would want *fewer* consumer goods.

29. This refers to the idea of slowing down a rapidly expanding economy without suffering a recession. Greenspan has tried to accomplish this on several occasions (Woodward 2000, 118, 122, 147, 149, 151). No one who finds merit in ABCT would even attempt a "soft landing." Therefore, once again one has evidence that Greenspan is far from being an Austrian economist.

30. Such problems with competitive currency issue are exaggerated if not mythical. See Sechrest 1993, 95–108, 155–73.

31. One should note that Greenspan is here writing several years after his initial "revelation" regarding prices, costs, and profits. His vision of a pervasive structural change bringing about a "New Economy" had not changed since 1996.

32. From 1924 to 1929, stock prices rose by 187.5% while consumer prices only rose by 0.22% (Sechrest 1993, 126, 134).

33. Larry Parks is himself an Objectivist.

34. The conventional view, and no doubt Greenspan's, is to consider as inflation only the increases in consumer and producer goods' prices. However, Austrians have argued that in order to track the full effects of changes in the money supply, one should include the prices of other items, such as stocks, bonds, and real estate (Rothbard [1963] 1975, 154–55). By that standard, Greenspan has overseen a highly inflationary economy. For statistics on an alternative measure of "the price level" and its relation to the money stock, see Sechrest 2003, 57.

35. I have often been struck by the fact that, aside from their atheism, such Objectivists are virtually indistinguishable from conservative Republicans.

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