

Guru to five presidents

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THE AGE OF TURBULENCE

by Alan Greenspan

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Seated next to her at dinner, I was prepared for a dull evening with a politician. 'Tell me, Chairman Greenspan,' she asked, 'why is it that we in Britain cannot calculate M3?'. I awoke. M3 is an arcane measure of money supply embraced by followers of Milton Friedman. We spent the evening discussing market economics and the problems confronting the British economy.

Thus, according to Alan Greenspan's semi-autobiographical *The Age of Turbulence*, began the first meeting between Alan Greenspan and Margaret Thatcher, at a September 1975

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British embassy function in Washington. Greenspan evidently developed a great liking and respect for Thatcher, because, apart from anything else, she wished to conceptualise major issues of public policy. She wanted to locate day-to-day decisions against the background of a larger framework of ideas and principles, and within a long-run historical context.

Nowadays wry amusement may greet the notion that a reference to M3, like a double espresso, can wake someone up. M3 has certainly had a more chequered reputation in the following three decades than either Greenspan or Thatcher, and one has to wonder whether Greenspan's account of their 1975 encounter is meant as a joke. (There is much other humour in the book.) Nevertheless, no one can deny the obvious seriousness and concern for the public good of both these great figures.

Compare Greenspan's views on Thatcher with his comments on Nick Brady, US Treasury Secretary in the 1989-93 presidency of the first George Bush. Bush and Brady were worried that the feebleness of the recovery from the 1991 recession would hurt Bush's re-election prospects, and they had no qualms in bullying Greenspan to lower interest rates. Greenspan, who says he had 'a terrible relationship' with Bush, is scathing about both of them.

Brady comes in for some of Greenspan's sharpest critical comments. His problem was that he was 'not receptive to debate'. Brady had done well in investment banking and had a feel for markets, but he 'was not a conceptualiser, and was not inclined to take the long-term view'. Brady's and Greenspan's breakfast meetings over monetary policy 'would simply go round and round'.

So Greenspan likes 'conceptualisers' and 'conceptualisation'. In 40 years of involvement in American public policy, beginning with his participation in Nixon's presidential election campaign in 1968 and ending with his almost 19-year stint as Chairman of the Federal Reserve, he was averse to making things up as he went along. The advice he gave, the judgments he formed and the decisions he made were to a large extent driven by deeply held beliefs about how the world can and should work.

Reviews of *The Age of Turbulence* have complained that it includes few surprises. Greenspan may have nothing very new or startling to say about such issues as the effect of an ageing population on pension provision and the role of China in the world economy. It is indeed true that the second half of the book, which sets out Greenspan's thoughts on various questions of future public policy, is dull. But the more purely autobiographical first half contains much that is both fundamental to Greenspan's make-up as a public servant and rather unexpected. In particular, it throws light on those deeply held beliefs which were always implicit in his policy analysis.

Greenspan, who was brought up by his mother in very modest circumstances in pre-

war New York, was bookish and thoughtful from an early age. He left school at 17 and spent two years making a living as a jazz musician. The bands followed a routine 'dictated by union rules', with 40 minutes on set and 20 minutes off. 'I spent those 20-minute breaks reading books,' says Greenspan. He enrolled in New York University in late 1945 at the age of 19, and quickly excelled at mathematics, logic, statistics and economics.

From there it was all plain sailing in terms of Greenspan's career, but his intellectual direction — or rather his susceptibility to intellectual influences — was surely unusual. Chapter 2, on 'The making of an economist', begins by mentioning his attraction to logical positivism, and its dismissal of the place of culture and ethics in human affairs. But through his first wife ('very intelligent' and 'very beautiful', but they divorced after a year), he met Ayn Rand and was overwhelmed by her philosophy of life.

Some writers on Greenspan have regarded his involvement with Rand, an émigré from Soviet Russia who believed in the virtues of unfettered capitalism, as bizarre and embarrassing. But Greenspan hides nothing. He describes Rand as 'a stabilising force in my life', and says that in the 1950s and early 1960s 'I became a regular at the weekly gatherings at her apartment'. In Greenspan's words, she was

a devoted Aristotelian, whose ethics centred on the principle that 'individuals have innate nobility and that the highest duty of every individual is to flourish by realising that potential'.

So we have to imagine Greenspan, a young man in his thirties as someone who liked jazz, girls and money-making ideas on Wall Street, and yet who also worked his way through Wittgenstein and neo-Aristotelianism, and spent many hours each week ('all-night debates', no less) in an attempt to define a noble and inspiring ideal for the conduct of his life. What can one say? If this is 'conceptualisation', he did it in spades. (The contrast with counterparts on this side of the Atlantic — Alastair Campbell in his memoirs, say — could hardly be more extreme. And have any of the last ten Governors of the Bank of England taken an interest in logical positivism and neo-Aristotelianism?)

Greenspan remained close to Rand until her death in 1982. Initially their intellectual interaction overlapped with his contributions to US economic policy-making. These were virtually continuous, in one capacity or another, from the mid-1960s. In an important sense Alan Greenspan was the economics guru under whom five presidents (Ford, Reagan, Bush senior, Clinton, Bush junior) served. They were lucky to have him. Perhaps it's a shame he didn't give more help to Margaret Thatcher on the definition of M3.

Tim Congdon's latest book is Keynes, The Keynesians and Monetarism (by Edward Elgar Publishers, £79.95).