No retirement for the President of the Federal Reserve

On June 20, Alan Greenspan accepted a fifth term

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Within the last few days, the US Senate confirmed the appointment of Alan Greenspan as President of the Federal Reserve (Fed) to his fifth consecutive term of four years. Remember that last May 18 the White House had decided to reappoint Mr. Greenspan for another term.

While named to another four-year term, several of his former coworkers believe that Greenspan could leave office in February 2006 when his term expires as Governor of the Federal Reserve, the other position held by the Fed president. The current law allows a maximum 14 years in the position of governor.

Of course, Greenspan’s competence and popularity could result in the law being amended. Another more likely possibility is that the White House asks the current Fed president to remain in office and not appoint a new one.

Alan Greenspan is considered by several a guru!

### Performance of Federal Reserve Presidents since 1950

(Average annual rate in %)

<table>
<thead>
<tr>
<th>President</th>
<th>Real GDP</th>
<th>Inflation rate</th>
<th>Unemployment rate</th>
<th>Productivity</th>
<th>Federal Funds rate</th>
<th>Treasury Bond - 10 year</th>
<th>Stock markets according to Dow Jones</th>
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</thead>
<tbody>
<tr>
<td>Wm. McC. Martin Jr.</td>
<td>3.7</td>
<td>2.1</td>
<td>4.6</td>
<td>2.9</td>
<td>3.7</td>
<td>4.3</td>
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<tr>
<td>(1951 to 1970) - 19 yrs and 10 months -</td>
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<td>Arthur F. Burns</td>
<td>3.3</td>
<td>6.6</td>
<td>6.3</td>
<td>2.3</td>
<td>6.6</td>
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<td>(1970 to 1978) - 9 yrs -</td>
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<td>G. William Miller</td>
<td>4.4</td>
<td>9.5</td>
<td>6.0</td>
<td>0.6</td>
<td>9.6</td>
<td>8.9</td>
<td>0.5</td>
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<td>(1978 to 1979) - 1 yr and 5 months -</td>
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<td>Paul A. Volcker</td>
<td>2.9</td>
<td>6.4</td>
<td>-7.7</td>
<td>7.5</td>
<td>10.5</td>
<td>10.9</td>
<td>10.9</td>
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<td>(1979 to 1987) - 9 yrs -</td>
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<tr>
<td>Alan Greenspan</td>
<td>3.0</td>
<td>3.1</td>
<td>-1.4</td>
<td>5.6</td>
<td>5.2</td>
<td>6.6</td>
<td>11.5</td>
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<td>(1987 to now) - 17 yrs and 11 months -</td>
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replacement for him. That would make Alan Greenspan, as well as being the oldest, to become the president to hold the prestigious position the longest, beating the record of William McChesney Martin, Jr.

At 78, the Fed’s wizard is still considered one of the most powerful men on the planet. His pronouncements regularly shake and move most of the world’s financial centres and his influence extends far beyond managing US monetary policy. He has often advised the statemen on other spheres more related to politics and even on international relations. The last fifty years of Alan Greenspan’s professional life have been marked by great accomplishments and tremendous successes.

A full life

Born in 1926 into an average New York family, Alan Greenspan decided to study music when he graduated from high school. But, less than a year after making the choice, he left the conservatory to work as a professional clarinetist. He justified the choice by saying, “Why study for several years when you have the chance to work right now?” Already, at 18 years old, he displayed a certain pragmatism.

Greenspan’s stint as a professional musician did not last very long. He had been struck by another passion—numbers and the economy. In 1948, he obtained a bachelor’s in economics from New York University. Two years later, he was awarded a master’s degree.

At the beginning of the 50s, he did his first work as an economist at the United States Conference Board. In 1954, he founded an economics consulting firm for private enterprise and the financial industry. Townsend-Greenspan was active until July 1987, a few days before he became leader of the Fed.

As a consultant during the 50s and 60s, Alan Greenspan was led by the force of events to study almost all of the existing statistics as well as the numerous probable links among them. Over the years, he developed a marked sense of rationality and pragmatism to solve the problems that were submitted to him. Things went so well that, at the end of the 60s, Greenspan was already a man of independent means.

This independence led him to exercise several duties in service to the State. First, in 1968, as an economics consultant, he took part in the campaign of Richard Nixon who, once elected, offered him several jobs within his administration at the beginning of 1969. But Greenspan, who apparently had some reservations concerning Nixon at the time, turned them all down!

In 1974, however, he accepted the position of president of the Council of Economic Advisors, the agency that advises the United States president on economic policy. After Nixon’s resignation, Greenspan continued to serve under Gerald Ford during the time when inflation was considered the United States’ Number One enemy. The victory of Democrat Jimmy Carter in November 1976 returned Greenspan to consulting, but he continued nonetheless to carry out several tasks for the government.

Some months later, New York University awarded him a doctorate in economics. At the end of the 1950s, Alan Greenspan had gone back part time to post-graduate studies at his alma mater. The feat was unusual enough that it caused a controversy. His degree was awarded on the basis of his numerous publications, because he had never been able to finish writing his thesis. Since then, seven universities have awarded him honorary degrees. He has also been granted many other prizes and prestigious honours.

In the summer of 1987, he received the call that was to change his life—President Ronald Reagan offered him the second biggest job in the world. So, on August 11, 1987, Alan Greenspan was sworn in as president of the Fed.
A pragmatist

Alan Greenspan’s first few years at the head of the organization were far from restful. The hike of 50 basis points in interest rates in September 1987, a few days after his arrival at the Fed, and maintenance of a too restrictive monetary policy in 1989 and 1990 contributed to the crash of 1987 and the 1990-91 recession.

Many analysts feel that the Fed was in part responsible for these events. Remember that the stock market in the fall of 1987 was overpriced in the extreme and that, at the beginning of the 90s, the savings and loans crisis, the bankruptcy of numerous business banks and the sudden jump in the price of oil as a result of the Gulf War dealt repeated blows to the US economy.

The 1990-1991 recession, one of the shortest in history, lasted only eight months, ending in March 1991. US President George Herbert Walker Bush reappointed Greenspan to a second term in the summer of 1991 because, it seems, he could find no serious replacement. Nevertheless, Bush blamed him for his defeat in 1992 at the hands of Bill Clinton in a campaign focussed strongly on the Republicans’ poor economic performance.

During the following years, Alan Greenspan and his followers were to lay the foundations for the longest period of expansion in the history of the United States. Already by 1996 inflation had been brought down to under 3% and economic growth was strong. Bill Clinton reappointed Greenspan for the third consecutive term at the beginning of 1996, and for the fourth in June 2000.

A farseeing president

During the decade of the 90s, it is true that the reduction, and later complete elimination, of the sizeable budgetary deficit, the end of the Cold War, the free trade agreements and numerous deregulations gave economic policy greater leeway and chances of success. But Alan Greenspan had nonetheless understood, before many others, the changes that were occurring within the economy and he rapidly put the mute on certain old concepts with the coming of the new economy. In addition, he did not for a second hesitate to ease monetary policy during the Mexican peso crisis of 1995 and the political-financial crisis of 1998. And, at the beginning of January 2001, he led the charge to counteract the slowdown of the economy, surprising many observers.

Today, after cleaning up the consequences of the burst of the speculative bubble, the negative effects of the terrorist attacks and the fears concerning the arrival of a period of deflation, Alan Greenspan and the Fed are preparing to soon raise interest rates in the face of the re-emergence of inflationary pressure. But, they still have to deal with the threat caused by the world’s huge economic and financial imbalances such as the US budgetary and current account deficits. Nevertheless, let’s wager that the wise man of Washington and his followers will succeed once again in containing inflation and securing another good period of economic prosperity for the United States.