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GREENSPAN AND THE MYTH OF HIS PURITY

“Gold,” writes Greenspan, “is the ultimate weapon of the haves against inflation,” a way for the “owners of wealth” to “protect” themselves against government schemes to “confiscate the wealth of the productive members of society to support a wide variety of welfare schemes.”

Alan Greenspan, “Gold and Economic Freedom,”
The Objectivist, July 1966, reprinted in Ayn Rand,
Capitalism: The Unknown Ideal (New York: Signet Books).

Alan Greenspan has been the single most powerful figure affecting the global economy since 1987. He had substantial influence before then as an economic adviser to Presidents Richard M. Nixon and Gerald Ford. Even retired, he will remain an important political force. He has been called apolitical, someone so detached from politics that he can always be trusted. Above all, he is the detached observer subservient to no political motive or operative. He is *pure*. He wants also to maintain *the purity* of the Federal Reserve System so as to insulate the Fed from the influence of politicians, who surely cannot be trusted.

Greenspan’s purity—as with most self-consciously persistent claims—is a myth. Moreover, as we will come to know, the purity of the Federal Reserve System is a sham. In the instance of Mr. Greenspan, “purity” generally has meant selfless dedication to an objective view of economic conditions untarnished by decisions benefiting special interests. To the contrary, we best understand this wizard behind the veil of money through a realistic understanding of his aims as well as the supra-natural instincts of the Federal Reserve System. But, first, let us consider Greenspan.

Greenspan's policies have always been directed at the protection of the greatest financial wealth holders. Whether it is dealing with stock market bubbles, currency crises or the bailout of giant financial institutions, his actions and those of the Federal Reserve generally have been forces shifting the income and wealth of Americans toward the top and away from the bottom and middle classes. Only through this prism can his policy positions and those inherited by his successor be understood. These effects go beyond the United States; it is a global strategy carried out not only through the Fed, but through multinational financial institutions, including the International Monetary Fund, the World Bank and private hedge funds. The Federal Reserve and the wizard have a unified defense for such policies: A central bank can't influence the configurations of family incomes and wealth. This is simply and categorically wrong.

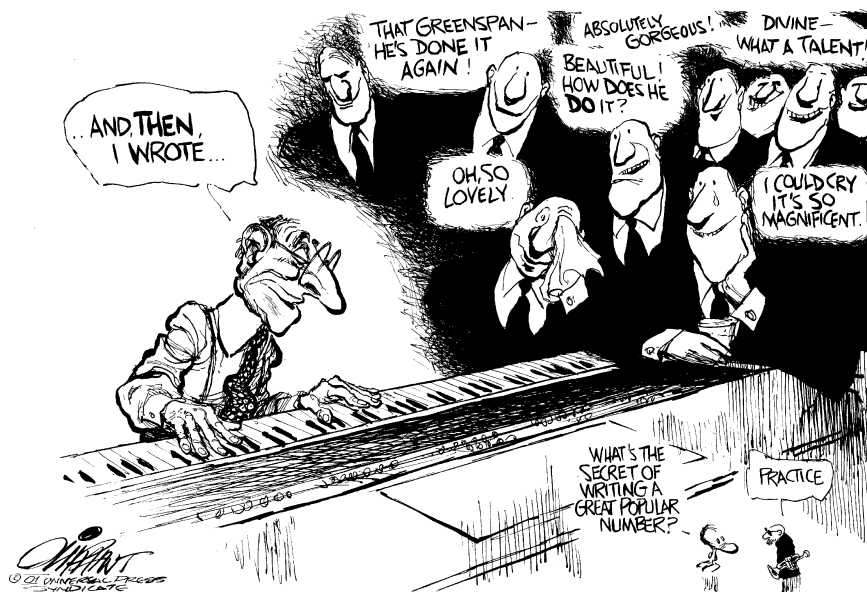
Maestro Greenspan's background ideally prepared him for his historic conducting of monetary policy. From his early days in New York City he quietly groomed himself for the uncompromising ideological stance he would take. Because of the imprint he leaves at the Federal Reserve, a shift in direction will require two things: the selection of a chair of opposite ideological leanings (unlikely in the age of President George W. Bush) and a severing of the intimate ties of the American central bank to the American and global financial community. Because of the co-dependency of the two—the setting of financial policy by the Fed and the use of financial markets to conduct these policies—institutional reform will require progressive forces at least as strong and effective as present day neoconservatism. We turn now to the maestro, the wizard, the oracle, and the Pope's inevitability.

Young Greenspan: The Musician and Keynesian

Alan Greenspan has never been quite as dull as he appears. His first career was as a musician, once even playing professionally with a 1940s swing band. Alan entered famed Juilliard as a clarinet major in the winter of 1943, but left the first week of the next year to play in Henry Jerome's swing band. Jerome's band was several notches below those of Benny Goodman, Glenn Miller, or Artie Shaw. Jerome played the

“businessman’s bounce,” more Guy Lombardo than Artie Shaw, at un-hip places. It didn’t matter; the swing era was coming to an end by the mid-1940s.

Jerome switched to bebop late in 1944—a new craze pioneered by Dizzy Gillespie, Charlie Parker and others. With its new hip style Jerome’s new band attracted several very talented young musicians, but the band never made it in the record business mostly because of a wartime shellac shortage required for the old-fashioned 78 rpm records. Henry Jerome’s band *disbanded* in 1945, with Greenspan quitting a few months ahead of Jerome. While Greenspan was a pretty good amateur musician, he was only average as a professional. It was like the difference between playing golf under the USGA and the PGA.



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Greenspan, the “Keynesian,” is even more difficult to conjure up than Greenspan, the jazz musician. Always a bookish sort, Greenspan next enrolled in New York University’s School of Commerce, and was among the few pursuing a degree in economics. One of the first

economics books that Greenspan read on his own was Dudley Dillard's *The Economics of J. M. Keynes*, perhaps the best popular exposition of Keynes' work. In Keynes' *General Theory* [1936], a government could end a business recession or depression by spending more than its tax revenue—willingly running federal budget deficits, a very radical idea at the time. It not only became Franklin Roosevelt's fiscal program during the Great Depression, but was the policy choice to fight business downturns of most economists until Reaganomics hit the fan.

Greenspan, seemingly impressionable, soon would be persuaded that Dillard, Keynes and Roosevelt were wrong. Geoffrey Moore, one of Greenspan's teachers, assigned *Measuring Business Cycles* by Arthur Burns and Wesley Mitchell [1946]. Moore, an incurable collector of economic data, developed a leading indicator of economic activity that Greenspan would later use in his work. Then, when young Alan went to graduate school at Columbia University, Arthur Burns was one of his professors and ultimately, his mentor. Burns, initially noted for hair parted down the middle, large round wire-rimmed glasses and a ubiquitous pipe, became one of the few critics of John Maynard Keynes at the time. Burns was asking Greenspan's class: "What causes inflation?" While his students remained silent, Burns' answered with a slap in Keynes' face, "Excess government spending causes inflation."

Arthur Burns' powerful personality was sufficient to turn young Greenspan into the staunch supporter of laissez-faire and limited government that neoconservatives around the globe have grown to love. As we will come to know, this is unfortunate. Eventually, Burns' free market credentials would eventually guarantee him the chairmanship of the Federal Reserve System where he would instill the fear of inflation from government deficits in American minds.

Greenspan's Randy Past

The switch from jazz musician to economist, from liberal Keynesianism to conservative laissez-faire political economy, would not be Greenspan's final reversals. Ten months after a blind date with Joan Mitchell—an extraordinary blond in her early twenties, elegant

and highly cultured—they were married. Alan had dropped out of Columbia because he was having trouble coming up with the tuition. Besides, Arthur Burns had gone to Washington to serve as chairman of the Council of Economic Advisers (CEA) in the Eisenhower administration. Greenspan went to work at what was then the National Industrial Conference Board, later shortened to the Conference Board, a not-for-profit business research organization. Meanwhile, Joan was spending a lot of time with a group of New York “intellectuals” interested in a philosophy called objectivism. Alan and Joan drifted apart and their marriage was annulled in 1953. Joan became a good friend post-annulment.

With the end of his marriage, Greenspan did a turnabout on objectivism; he had hated it when married to Joan but grew to admire Ayn Rand, the feisty woman behind the philosophy. (“Ayn” rimes with “swine,” as an amused Rand reminded people.) From Greenspan’s late twenties to his early forties, objectivism was a major part of his life, as he spent many hours in the company of Rand and her narrow circle, sufficiently wide nonetheless to make his head spin. She was to have as much influence on Alan as Arthur Burns. And, she did not even part her hair in the middle—rather, she wore bangs. Ayn Rand was formidable: she was brilliant, charismatic, iconoclastic, logical to the point of insanity, and capable of dramatic displays of incendiary temper. Some claim that she was mentally ill.

Greenspan Joins the Radical Right Collective

By now, Alan Greenspan was well to the political right of the Eisenhower Republicans. He still is. As for Dwight D. Eisenhower, Ayn Rand considered him a closet communist. As for Greenspan, he became one of the first students at the Nathaniel Branden Institute, the “think tank” founded by Rand’s lover to further her ideas. Rand called Greenspan “the undertaker” because—among other things—he always dressed in a black suit matching his demeanor, much like the one he wore to her funeral. He also was a bit of a pessimist who was not sure that he could prove he existed. Greenspan, as Fed chair, took to wearing only blue, perhaps so he would seem less the villain to blue-collar workers.

Greenspan was a member of a radical right group known to themselves as the Collective and, to Rand, as the Class of '43, modestly named for the year of her novel, *The Fountainhead*. Summing theologically the Collective's philosophy, Rand evokes radical individualism as the theme of *The Fountainhead*, which she called "individualism versus collectivism, not in politics, but in man's soul." Its hero, architect Howard Roark (Gary Cooper in the film), embodies a philosophy of pure self-interest. He designs a gigantic government housing project for the poor only under the condition that he designs it *his way* (*this* before Frank Sinatra's recording). In the end, Roark cannot save the project from the many evil-doers opposing him in the name of some greater good, such as the Robinhoodesque-taking from the rich and giving to the poor. Thus, Roark is justified in destroying his butchered creation with a charge of dynamite! The poorly housed are left with rubble, but Roark has saved Rand's philosophical theme: the evil "do-gooders" put the heroic entrepreneur in the awkward but defensible position of having to blow up their project.

The Collective converted Greenspan into a lover of free markets, a man not only suspicious of do-gooders but having a righteous hatred of government. No doubt Alan came under the spell of objectivism's narrow focus on rationality and individualism. Under this new philosophy, Greenspan was able to convince himself that he did, indeed, exist. Once converted, Rand came to admire Alan; now they both were fellow radicals for capitalism. In 1974 Greenspan tells *Newsweek*: "When I met Ayn Rand, I was a free enterpriser in the Adam Smith sense, impressed with the theoretical structure and efficiency of markets. What she did was to make me see that capitalism is not only efficient and practical, but also moral." He had become a moralist.

Greenspan helped Rand with some of her research for her next novel, *Atlas Shrugged*. While *The Fountainhead* had been about architecture, her new novel would be about the world of heavy, *really* heavy industry. Not only did Greenspan know much about railroads, oil derricks and steel mills, he now occupied a heavy role in the Collective. On top, of course, was Rand, followed by Nathaniel Branden, then Barbara Branden, *then* Greenspan. Bennett Cerf, an editor faced with a novel of 645,000 words, suggested that perhaps a few words could be

cut. “Would you cut the Bible?” was Ayn Rand’s cutting reply. The reviews, such as “The worst piece of fiction since *The Fountainhead*,” were savage. In response to a scathing review by Granville Hicks in the *New York Times*, Alan Greenspan was moved to write an angry letter (published November 3, 1957) in which he wondered “about a person who finds unrelenting justice personally disturbing.”

Still, passionate devotees were found for *The Fountainhead* and *Atlas Shrugged*. Enough that in 1958 Nathaniel Branden was able to found his modestly named Nathaniel Branden Institute. It opened with a series of twenty lectures called “Basic Principles of Objectivism.” Greenspan developed a ninety-minute lecture entitled “The Economics of a Free Society” that would make Ronald Reagan’s General Electric speech on free enterprise appear to be a communist manifesto. Eventually there would be a magazine called the *Objectivist*; Greenspan was a frequent contributor.

The Short Distances from Rand to Wall Street to Washington, D.C.

Greenspan certainly never wandered far from his Randian roots or from Wall Street, a short walk away. In 1954 he and an older bond trader, William Townsend, established the New York-based consulting firm Townsend-Greenspan & company. The company not only made Greenspan a millionaire (when it meant something), but also introduced him to the biggest banks in New York. At Ayn Rand’s aggressive prodding, Greenspan entered the political arena as the director of domestic policy research for Richard Nixon’s 1968 presidential campaign. Staying on as an informal Nixon adviser, the future central banker easily bridged the ideological gap between Wall Street and Washington. From Townsend, Greenspan learned how inflationary expectations could depress bond prices and increase long-term interest rates, something he never forgot.

The volatile mixture of Randian philosophy, Wall Street values and Washington reality, nonetheless sometimes exploded. For instance, Greenspan created a problem for Nixon by setting in motion a proposal to free Wall Street from regulations. Since many on Main Street

didn't trust Wall Street and still don't, the idea of regulating Wall Street was very unpopular. Nixon had to reverse Greenspan. Still, the president asked a seemingly reluctant Greenspan to head the president's Council of Economic Advisers. What happened next was fortuitous, for Greenspan had little admiration for Nixon's dark side. About the time of Greenspan's appointment, Nixon was forced to resign under a cloud of impeachment and the future maestro was named President Gerald Ford's chief economic adviser.

Ayn Rand came down from New York, along with her hard-drinking, long-suffering husband, Frank O'Connor, for Greenspan's inaugural ceremony, September 4, 1974. For Rand, Greenspan's appointment comprised some vindication for her beliefs; someone from her small circle was in a position of power, which she called "a heroic undertaking"—much like Howard Roark in a black suit. Alan Greenspan's invitation of Rand to the ceremony was itself heroic, testimony to his fervent belief in her doctrines. Greenspan, a born-again opponent of government and now the chief economic adviser to the president, moved into the Old Executive Office Building wonderfully situated next to the White House.