

TWO CHAIRMEN AND THE RESERVE

Andrew P. McGahren

AS.100.194 Undergraduate Seminar in History
Professor H.W. and Ms. Williams
April 30th, 2018

Introduction

United States central banking began with the founding of the First Bank of the United States in 1791 to ease the financial fallout from the Revolutionary War. Later, during the Civil War, the National Banking Act established an early precedent for modern banking through defining reserves and preventing banks from branching. However, the Panic of 1907 was the prime catalyst for the Federal Reserve. Money stocks and equity stocks declined, which caused a massive outflow of capital from the stock market, and a bank run. As a result, the Aldrich-Vreeland Act of 1908 created the National Monetary commission as a think tank to issue policy recommendations using international and domestic studies. President Wilson formalized this institution with the Federal Reserve Act in 1913.

Ultimately, the 1951 Treasury-Federal Reserve Accord is the final and paramount turning point in Federal Reserve history. It allowed for policy independence from the US Treasury and allowed the Federal Reserve to create a new identity for itself as an architect of monetary policy.¹ Today, the Federal Reserve constitutes twelve Federal Reserve Banks throughout the country whose goals are to carry out Federal Reserve policies. The Federal Reserve is mandated to be independent from the Treasury and Executive Branch by the Federal Reserve Act of 1913. However, the President will often have a natural interest in the Federal Reserve because its decisions could make or break his or her legacy.

¹ "Economic Quarterly." The Treasury-Fed Accord: A New Narrative Account - Economic Quarterly, Winter 2001 - Federal Reserve Bank of Richmond. Accessed April 10, 2018. https://www.richmondfed.org/publications/research/economic_quarterly/2001/winter/leachhetzel

The Federal Reserve Chair is selected by the President of the United States to serve four-year terms. The President may end the Chair's term as well. The Federal Reserve Chair is responsible for carrying out the Federal Reserve's mandate: securing maximum employment, stable prices, and reasonable long term interest rates. Many economists and politicians consider the Federal Reserve Chair to be the second most powerful position in the United States government because both the United States and global economy are heavily influenced by his or her hand.

This paper considers how the identity of the Federal Reserve Chair has shaped the institution's history. Emphasizing their tenors and interactions with the public and politicians, it argues that the upbringings and early careers of Paul Volcker, in office 1979-1987, and Alan Greenspan, in office 1987-2006, largely solidified the principles and philosophies that would affect their tenors as Federal Reserve Chairs. Ultimately, the fact that the principles and philosophies of two separate Federal Reserve Chairs so greatly influenced the operations of the Federal Reserve during their tenors carries significant implications. The Federal Reserve may not be a completely static institution that is defined by external laws passed, as it appears to be in its literary history. On the contrary, the varying identities of its Chairs ensures that the Federal Reserve is a dynamic institution that is greatly influenced by its Chairs' identities.

The analysis will focus on Volcker and Greenspan in particular, to join the rising volume of secondary works focusing on their careers. In recent history, it has taken between 20 and 40 years for substantial secondary literature to catch up with their historical subjects. Whereas Volcker maintained Federal Reserve independence through his dedication to public service and his stalwart character, Alan Greenspan contributed to the politicization of the Federal Reserve through his powerful Republican ties and elitist image.

Though there exists a myriad of scholarly literature and research regarding the Federal Reserve and its many facets, I believe that the general encyclopedia approach unfairly dominates the field. This approach minimizes the role of the Federal Reserve Chairs in shaping the Federal Reserve, and it also presents the Federal Reserve as a fully developed and defined institution. However, this paper will argue, in part, that the Federal Reserve Chairs' identities ultimately played a role in shaping the political and public facets of the Federal Reserve. Therefore, it may be reasonable to consider the notion that the dominant, encyclopedia approach is not the only approach.

The Federal Reserve System: An Encyclopedia (2005) by Rik W. Hafer is a chronological commentary on key developments and themes in the American Federal Reserve System's history.² Hafer's linear, melting-pot encyclopedia is representative of the scholarly research in this field. It touches upon every major event in Federal Reserve history with a particular focus on why critical events such as the Great Depression happened and how the Federal Reserve reacted. In addition, Hafer draws from an expansive list of scholarly works from the 1930s to the present day. These works are similar in style, argument, and content. It is reasonable to believe that the scholarly research dedicated to the Federal Reserve has not changed significantly since the early 1900s.

However, there are two core works on my subjects that explore how their childhood experiences and economic philosophies shaped their tenors as Federal Reserve Chair. *The Man Who Knew: The Life and Times of Alan Greenspan* (2015) by Sebastian Mallaby is a biography

² Hafer, Rik W. *The Federal Reserve System: An Encyclopedia*. Westport, Conn.: Greenwood Press, 2005.

of ex-Federal Reserve Chair Greenspan.³ Mallaby traces the development and implementation of Greenspan's economic philosophy, from his early life to his banking career. Mallaby pulls from a diverse array of primary sources, including Greenspan's colleagues, friends, papers from his Washington, D.C. office, and Greenspan himself. Mallaby frames Greenspan as an ambitious, introverted, and nerdy individualist. Greenspan sat quiet in NYU's School of Commerce and preferred to educate himself.⁴ As a result, Greenspan explored economic thought that deviated from the mainstream and became economically libertarian at a time when interventionist, Keynesian economics and New Deal progressivism dominated the country.⁵ Greenspan confirmed his opposition to Keynesian thought after it was consumer spending, rather than government intervention, which incited an economic boom after World War II. The implementation of Greenspan's libertarian economic policies earned him a Presidential Medal of Freedom.⁶ He kept inflation even lower than Volcker did, and maintained stable prices by preventing a return to the gold standard and refusing to print new money to inject into the economy.

Similarly, *Volcker: The Triumph of Persistence* (2012) by Silber investigates Federal Reserve history and policy through the eyes of Volcker.⁷ This biography chiefly explores how his early life and economic philosophy affected Federal Reserve policy during his banking career. Unlike encyclopedias and linear histories, Silber draws from different types of sources, such as *New York Times* and *Washington Post* articles from the 1970s and Federal Open Market

³ Mallaby, Sebastian. *The Man Who Knew: The Life and times of Alan Greenspan*. New York: Penguin Books, 2017.

⁴ *Ibid.*, 35.

⁵ *Ibid.*, 33.

⁶ *Ibid.*, 5.

⁷ Silber, William L. *Volcker the Triumph of Persistence*. New York: Bloomsbury, 2013.

Committee transcripts. Silber characterizes Volcker as a true public servant and American patriot. Since 1945, he felt that he let his country down because his 6'7 frame excluded him from the draft.⁸ He chose Federal jobs over Wall Street paychecks because he believed his ability to help others was greatest in the public sector. Silber suggests that Volcker's credibility and larger-than-life persona are derived from his unparalleled nonpartisanship and worshipping of public service. Silber further argues that Volcker's core principles of dedication to public service and unemotional decision-making enabled him to intimidate politicians, and deflect partisan pressures on the Federal Reserve to print money for financing.

A substantial portion of Volcker's professional and personal development can be traced to his childhood influences. While Volcker's parents were both proponents of public service, his father proved to be a more direct influence on young Paul. As the manager of Teaneck, New Jersey, his father went to great lengths to ensure the city operated optimally. He gave up his leisure time on the weekends to drive around and record levels of litter and conditions of local parks. In addition, his father carefully implemented a local financial plan in the years following the Great Depression to lower taxes and protect his community. He was as meticulous and caring as he was a nonpolitician. While his family was familiar with the town's political leaders on a first-name basis, the Volckers never joined a country club and lived off of modest salaries.⁹

Volcker played basketball and studied economics at Princeton University from 1945 to 1949. His time here is crucial to understanding the personal and academic developments that solidified his passion for economics. Silber suggests that Volcker's dive into economics can be explained by his lack of basketball skills. Volcker claims that he had disagreements with the

⁸ Ibid., The Early Years.

⁹ Morris, Charles R. *The Sages Warren Buffett, George Soros, Paul Volcker, and the Maelstrom of Markets*. Public Affairs, 2010, 139-141.

coach, and therefore was benched.¹⁰ While this explanation may have played a role in his decision to study economics at Princeton, I believe it is worth exploring another potential reason, with relevant implications.

I wish to present a more serious, complementary argument. It is well-known that Volcker found academic refuge with Friedrich Lutz and Oskar Morgenstern, two German economists who had fled Nazi Germany to continue their work at Princeton. It may be worth considering how their experiences with Nazism refined their economic philosophies, and how they connect to Volcker's identity.

First, Lutz fled Nazi Germany before World War II because his economic philosophy conflicted with Nazi ideology. He was neoliberal, and championed free market policies that put power in the hands of individual consumers and communities, instead of the government.¹¹ This conflicted with the Nazi regime's vision of a planned economy, to prevent the reoccurrence of Weimar-level inflation. In this way, Volcker could have been receptive to Lutz's work, because Volcker's father had instilled in him the values of community from a young age.

Second, Oskar Morgenstern decided to stay in the United States after Hitler invaded Vienna. Morgenstern helped develop the first game theory scholarship, which promoted rational and fact-based decision making in economic, political, and even military situations. In one of his works published just before World War II, Morgenstern warned that economic policy should be approached from an apolitical basis.¹² Predetermined ideologies can hamper the abilities of

¹⁰ Ibid., The Early Years.

¹¹ Dal-Pont Legrand, Muriel, and Harald Hagemann. "Lutz and Equilibrium Theories of the Business Cycle." *OEconomia*, no. 3-2 (2013): 241-62. doi:10.4000/oeconomia.232.

¹² Morgenstern, O. *The Limits of Economics*. London, 1937.

economic policymakers to make rational, informed policy decisions.¹³ Volcker's personal qualities, including cool-headedness and emotionless decision making, likely made him receptive to Morgenstern's works. Furthermore, Volcker's later tendencies to avoid politics and maintain the independence of the Federal Reserve may have been influenced by his time with Morgenstern. If the connection between Lutz, Morgenstern, and Volcker holds water, it would provide credence to the notion that the United States Federal Reserve is shaped considerably by the identity of the sitting Chair.

Throughout his career, Volcker's passion for economics brought him great recognition from across the economic spectrum. He received a variety of offers from Wall Street Banks promising him exorbitant compensation packages. However, his personal qualities prevented greed from winning him over. From his father, he learned to value public service and to be an unbiased decision maker. Whereas the average man would have likely preferred a padded bank account, Volcker understood that his financial well-being had no impact on the economic well-being of the United States and made career choices accordingly. He famously accepted a position at the Federal Reserve Bank of New York that paid only a fraction of a competing Wall Street offer. As Federal Reserve Chair, Volcker contently lived in a meager \$500/month bachelor pad, ate hot dogs for lunch, and chain-smoked low-quality cigars.¹⁴

Volcker was honored to serve as Federal Reserve Chair. He pledged to uphold the political independence of the Federal Reserve ever since his 1979 confirmation hearings. Senator Garn was concerned that Volcker's predecessors deferred to the President too often when considering monetary policy. Volcker, in response, cited the Federal Reserve Act of 1913 and

¹³ Ryan. "Remembering Oskar Morgenstern | Richard M. Ebeling." Mises Institute. January 25, 2017. Accessed May 07, 2018. <https://mises.org/wire/remembering-oskar-morgenstern>.

¹⁴ Morris 141.

stated that he will do everything in his power to ensure that monetary policy is ultimately decided by the Federal Reserve, instead of indirectly by the President.¹⁵

As a general theme, Volcker used this independence as Federal Reserve Chair to break systemic inflation in the American economy. Volcker assumed his duty as a public servant to the American people, who faced inflation rates of 1% per month during the Great Inflation. From 1979-1982, there was widespread fear of Weimar-level inflation and an economic downturn on par with the Great Depression. In the past, monetary policy had focused on nominal interest rates. By the time these numbers reached the paper, they were outdated. As a result, the Federal Reserve often stoked rather than quelled inflation. Volcker and the Federal Open Market Committee used monetarist policies to directly target the money supply, instead of just interest rates. While the Reagan administration lamented the resulting recession, the American economy ultimately freed itself from inflation. However, one must look deeper into the interactions between the Federal Reserve and the Reagan Administration to fully comprehend the extent to which Volcker valued and defended the independence of the Federal Reserve.

He prominently exercised his independence as Federal Reserve Chair through resisting episodes of political pressure from the Reagan administration. The ultimate source of the conflict was how the Federal Reserve and the Reagan Administration viewed the solution to the sluggish economy. Volcker's penchant for tight monetary policy clashed with Reagan's budget deficit. President Reagan and his Treasury Secretary, Donald Regan, desperately needed Volcker to reduce interest rates to combat the recession in 1982. Regan went so far as to leave a \$50 box of Partagas cigars on Volcker's desk just before the February 1982 Federal Open Market

¹⁵ *Nomination of Paul A. Volcker: Hearing before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Ninety-sixth Congress, First Session ... July 30, 1979.* Washington: U.S. Govt. Print. Off., 1979.

Committee Meeting, to change his mind.¹⁶ Volcker's father had taught him the values of public service and frugality from a young age, and to smoke a \$2 cigarette would signify not only bowing to political pressure, but ignoring the personal values that drove his professional career. That day, Volcker raised the target Federal Funds Rate to 14 percent from 12 percent, and smoked cheap cigars.¹⁷ This would not be the Reagan's Administration final attempt to influence the Federal Reserve.

In 1985, the Reagan administration launched a two-pronged attack on Volcker. First, Reagan used his new Treasury Secretary, James A. Baker III, to exert pressure on Volcker through the Plaza Agreement. This agreement was a coordinated plan between France, Germany, Japan, the United Kingdom, and the United States to depreciate the United States dollar. A depreciated dollar would improve the competitiveness of United States exports, such as automobiles. Greater automobile production would increase employment in industrial districts like Flint, Michigan and Akron, Ohio. From a political standpoint, this move would boost Reagan's popularity and ensure more Republicans were elected to office. Baker positioned Volcker next to him for the photos after the negotiation to send a message of unity between the Federal Reserve and the Reagan administration.¹⁸ However, it was widely known that Volcker was generally against currency depreciation because it could cause inflation, and he would seek to reduce the effects of the Plaza Agreement through his Federal Reserve policies.

Unfortunately for Volcker, the Reagan administration had a plot to prevent Volcker from undoing the depreciation achieved in the Plaza Agreement. Reagan appointed Wayne Angell and Manuel Johnson to the Federal Reserve Board. During his first term, Reagan appointed Preston

¹⁶ Silber 210-211.

¹⁷ Ibid. 212.

¹⁸ Ibid. 253.

Martin and Martha Seger. In this way, Reagan's loyal appointees controlled 4 of the 7 spots on the Federal Reserve Board and could therefore raise or lower the discount rate without input from the Federal Reserve Chair. In February of 1986, they voted 4-3 to reduce the discount rate.¹⁹

After Volcker's infuriation subsided, he felt powerless, and that his service was worthless. He understood that the Reagan administration would do all in its power to use the Federal Reserve for political gain. Volcker was the choice of Carter, not Reagan, and it is clear that Reagan preferred a popularity-boosting puppet rather than a maverick as Federal Reserve Chair. Consequentially, Volcker decided not to pursue a third term as Federal Reserve Chair. The day he quit, he famously stated that he did not have the "the vaguest idea" regarding his future career.²⁰ His focus was on his current job. The key takeaway from Volcker's departure is understanding that Volcker was, at heart, a nonpartisan and independent public servant. He came to Washington, D.C. to focus on being the best Federal Reserve Chair he could, and when the Reagan administration muddled his plan, he quit.

Volcker's half-century of public service has made him an economic legend. Though Volcker is technically a Democrat, his career leaves little to no trace of his political beliefs. This is because he did not have strong ties to the Democratic Party and made decisions as Federal Reserve Chair without politics in mind. In fact, after Reagan replaced Volcker in 1987, multiple

¹⁹ Ibid. 254-255.

²⁰ Robert D. Hershey Jr. and Special To the New York Times. "VOLCKER OUT AFTER 8 YEARS AS FEDERAL RESERVE CHIEF; REAGAN CHOOSES GREENSPAN." The New York Times. June 03, 1987. Accessed April 28, 2018.

<https://www.nytimes.com/1987/06/03/business/volcker-out-after-8-years-as-federal-reserve-chief-reagan-chooses-greenspan.html>.

news sources expressed worry that Greenspan's ties to the Republican party would reduce the objectivity of the Federal Reserve.²¹

Volcker became a somewhat populist symbol in the decades after his tenor. His reputation as a nonpartisan, battle-hardened economist influenced Obama's decision to use his image and name during the Wall Street reforms after the Great Recession. Obama placed Volcker at his side when announcing the response to the financial crisis. Obama called part of his new regulations the "Volcker Rule," which limited highly speculative institutional trading practices.²² Volcker supported regulating dangerously risky practices that contributed to the recent crisis, and in doing so, injected common sense into the debate over financial regulations. His dedication to his economic and moral principles continue to guide him today.

I will now turn attention to the childhood and economic philosophy of Volcker's successor: Alan Greenspan. From a character perspective, the two were similar as children: studious, quiet, and reserved.²³ Similar again, they grew up just across the Hudson River from each other. However, the childhoods of Volcker and Greenspan differ dramatically. Greenspan's father abandoned him and his mother over financial losses during the Stock Market Crash of 1929.²⁴ One cannot help but think this event may have left a lasting imprint on the man who

²¹ Reuters, From. "Greenspan's First Year Is Called a Success : Handling of October Crash Put Critics at Ease." Los Angeles Times. August 12, 1988. Accessed April 26, 2018. http://articles.latimes.com/1988-08-12/business/fi-107_1_alan-greenspan; Silk, Leonard. "VOLCKER ON THE CRASH." The New York Times. November 08, 1987. Accessed April 26, 2018. <https://www.nytimes.com/1987/11/08/magazine/volcker-on-the-crash.html>.

²² "Statement by the President on the Volcker Rule." National Archives and Records Administration. Accessed April 10, 2018. <https://obamawhitehouse.archives.gov/the-press-office/2013/12/10/statement-president-volcker-rule>.

²³ Martin, Justin McCory. *Greenspan: The Man behind the Money*. Cambridge: Diane Pub, 2000, 9.

²⁴ Kennedy, Helen. "BEFORE FED, GREENSPAN'S SAX & CITY." Nydailynews.com. March 26, 2006. Accessed April 28, 2018. <http://www.nydailynews.com/archives/news/fed-greenspan-sax-city-article-1.573717>.

would maintain those markets. However, it did not show in his early years. Greenspan's father briefly returned when Alan was nine and gave him a copy of a book called, "Recovery Ahead!" The book defended Franklin D. Roosevelt's New Deal, and Greenspan's father hoped his son would take an interest in the contemporary economic situation and explore the markets. The young Alan ignored the book.²⁵

Greenspan was not a child prodigy equity trader, or even exploring the market from a young age. The only connection Greenspan had to economics was a penchant for numbers. A baseball fanatic, Greenspan used complex formulas to analyze games and memorized the Brooklyn Dodgers' various batting and pitching averages.²⁶

Even after graduating George Washington High School, Greenspan seemingly came no closer to his destiny. His early career was highly unconventional. He attended Julliard on a full scholarship to explore his musical passions but dropped out to pursue an offer from the famous "Henry Jerome and his Orchestra" band. However, he lacked the musical acumen of his band mates, and decided to explore other interests. Whereas the other band members would smoke marijuana in between sets, Greenspan took it upon himself to self-teach economics and finance.²⁷ His new penchant led him to enroll in New York University, where he would finally begin to establish his economic foundations.

These economic foundations can be traced to two experiences in particular: his time with Ayn Rand, and classes at New York University. First, for background, the 1940s was a golden age for interventionist, Keynesian thought. After all, it was the immense government war spending that lifted America out of the Great Depression. Many universities, including New

²⁵ McCory, 4.

²⁶ Ibid.

²⁷ Ibid.

York University, taught economics according to Keynesian thought. Greenspan recalls one professor flipping through an assigned Keynesian reading and simply asking the class if they understood each page. For Greenspan, this narrow thought process was flawed, and he rejected it.²⁸ Greenspan correctly predicted that the end of wartime government spending and government rationing would not harm the economy. Instead, consumer spending skyrocketed as Americans dipped into wartime savings. They spoiled themselves on luxuries such as automobiles, televisions, films, and electric train sets.²⁹ In this way, he developed his libertarian economic philosophy at a time when Keynesian economics dominated both classrooms and the economy.

While Greenspan began to develop his economic philosophy at NYU, it was not until he befriended Ayn Rand that his beliefs were solidified. Ayn Rand (1905-1982) was a Russian-American novelist and philosopher who is most famous for developing the Objectivist philosophical school of thought. She expressed her Objectivist views through two of her most famous novels, “The Fountainhead” (1943) and “Atlas Shrugged” (1957). She argues that there is a higher, objective reality that humans can only interact with through sense perception, and that humanity learns more about this objective reality through using inductive logic.

Furthermore, according to Ayn Rand in “Atlas Shrugged,”:

“My philosophy, in essence, is the concept of man as a heroic being, with his own happiness as the moral purpose of his life, with productive achievement as his noblest activity, and reason as his only absolute.”³⁰

In other words, the only moral person is he or she that pursues his or her own self interest and values individual rights. More specifically, Objectivists believe rights are moral principles that

²⁸ Cassidy, John. "Alan Greenspan Rediscovered Keynes-Sort Of." *The New Yorker*. June 19, 2017. Accessed April 26, 2018. <https://www.newyorker.com/news/john-cassidy/alan-greenspan-rediscovered-keynessort-of>.

²⁹ Mallaby, 31-33.

³⁰ Rand, Ayn. *Atlas Shrugged*. New York: New American Library, 2016, 1170-1171.

define how one reacts in different social contexts. The rights are considered to be negative: an ideal person will never violate the rights of others, which include the rights to liberty, property, and the pursuit of happiness.³¹ According to Objectivist philosophy, the only social and economic system that recognizes these individual rights is pure, unregulated, laissez-faire capitalism.³² The philosophy of Ayn Rand was popular among many libertarians and conservatives in the late 20th and 21st centuries because of this positive view of free markets and capitalism, and negative view of regulations.

According to Greenspan in his memoir “The Age of Turbulence: Adventures in a New World,” Greenspan was initially attracted to Ayn Rand’s school of thought because of its rigor and emphasis on mathematics.³³ In the 1950s, he joined her inner circle, ironically deemed, “The Collective,” and wrote multiple essays for her book, “Capitalism: The Unknown Ideal,” including a piece on the gold standard.³⁴ For her part, Rand also respected Greenspan and his ability to think deeply and debate productively. In 1974, Rand proudly stated that Greenspan was “her man in Washington.”³⁵ Greenspan’s friendship with Ayn Rand and his contributions to Objectivism suggest he fully subscribed to its tenets. His anti-government, anti-regulation beliefs would go on to make him a favorite amongst Wall Street bankers and traders.

³¹ Peikoff, Leonard. *Objectivism: The Philosophy of Ayn Rand*. New York: Penguin Books USA, 1993, 351-352.

³² Rubin, Harriet. "Ayn Rand's Literature of Capitalism." *The New York Times*. September 15, 2007. Accessed April 26, 2018.

³³ Greenspan, Alan. *The Age of Turbulence: Adventures in a New World*. New York: Penguin Press, 2007, 40-41.

³⁴ "Alan Greenspan, Gold and Economic Freedom (1966)." *Constitution Society: Everything Needed to Decide Constitutional Issues*. Accessed April 28, 2018. http://www.constitution.org/mon/greenspan_gold.htm.

³⁵ Tuccille, Jerome. *Alan Shrugged: The Life and times of Alan Greenspan, the Worlds Most Powerful Banker*. Hoboken, NJ: Wiley, 2002.

One core difference between the early careers of Volcker and Greenspan is that Greenspan sought to become wealthy as soon as possible. In his early 20s, he co-founded Townsend-Greenspan, a consulting firm for wealthy Wall Street investors. By the time he was appointed Federal Reserve Chair, his firm boasted over 100 corporate clients who would pay tens of thousands of dollars each year for his advice.³⁶ He also held a personal stock portfolio of almost three million dollars, positioning him in the top 1% of wealth.³⁷

On a similar note, whereas Volcker pursued nonpartisan public service in his early career, Greenspan soon became close with Republican politicians. He served as Gerald Ford's Chief Economic Advisor in 1974. Even then, senators expressed concern at his extremely conservative and libertarian beliefs.³⁸ Despite this, they confirmed him due to his economic expertise and academic suitability for the position. At this time, Greenspan nurtured a close relationship with President Ford, who was impressed by Greenspan's cool-headedness and accurate economic recommendations. The pair soon became political allies. Greenspan came to advise Ford on political issues as he learned politics.³⁹ His sheer intelligence and calm demeanor enabled Greenspan to discuss any topic with anyone in Washington, and gain information about political happenings.

Through his service to Gerald Ford, his name became popular amongst Republican politicians. Greenspan deepened his Republican ties when he supported Nixon's Presidential

³⁶ Uchitelle, Louis. "GREENSPAN'S SPECIAL TALENTS." The New York Times. June 08, 1987. Accessed April 30, 2018. <https://www.nytimes.com/1987/06/08/business/greenspan-s-special-talents.html>.

³⁷ Nathaniel C. Nash and Special To the New York Times. "Senate, by 91 to 2, Backs Greenspan as Fed Chief." The New York Times. August 04, 1987. Accessed April 28, 2018. <https://www.nytimes.com/1987/08/04/business/senate-by-91-to-2-backs-greenspan-as-fed-chief.html>.

³⁸ Tuccille 114.

³⁹ Ibid., 116-117.

campaign. Generally speaking, Greenspan's election to Federal Reserve Chairman was interpreted as a thank-you for his years of official and unofficial Republican consulting work. Many Senators expressed this concern at his Congressional confirmation. They questioned his ability to be nonpartisan and whether he was ideologically fit for the position.⁴⁰ In one such line of questioning, senators noted that Greenspan was a vocal opponent of the Sherman Antitrust Act of 1890, which is the United States of America's fundamental antitrust legislation. Out of all government bodies, the Federal Reserve has the greatest influence over approving or denying mergers. However, Greenspan's qualifications and economic acumen eventually won the Senators over, and they confirmed him with ninety-one yeas, seven abstentions, and only two nays.⁴¹

Despite the landslide confirmation, Greenspan's political connections exposed the Federal Reserve to considerable partisanship; more so than Volcker. In 2005, many news stations covered the remarks of Harry Reid and Nancy Pelosi with respect to Greenspan's support of changes to social security. President Bush advocated for voluntary personal savings accounts for younger workers. While Greenspan expressed grave concerns about how these measures would affect the government deficit, he eventually supported the measures before Congress on multiple occasions. Democrats viewed his support as partisan lobbying of the likes never before seen in a supposedly independent Federal Reserve Chairman. For example, a March 2nd, 2005 Press Release from the office of then-House Minority Leader Nancy Pelosi refers to the Bush Administration as Greenspan's "Republican colleagues," and calls on them as a singular entity to

⁴⁰ Ibid., 169-170.

⁴¹ Ibid., 170.

reduce the budget deficit.⁴² On Fox News Sunday 4 days later, Pelosi claimed that Greenspan's performance had "seriously questioned the independence of the Fed."⁴³ In this way, Greenspan was labeled as an agent of the opposing party, rather than as a nonpartisan appointment.

On multiple occasions, Greenspan exposed himself to direct criticism from the American public, which negatively altered their view of the Federal Reserve. Early in his tenor, Greenspan jokingly told a reporter that the weak economy was hitting Wall Street stock brokers the hardest. The media took his comments to imply that he did not care for the plight of the working class.⁴⁴ Following this mistake, Greenspan learned to speak carefully and precisely in front of the camera. This level of multimedia engagement with the American public was largely absent during Volcker's tenor.

Later in Greenspan's tenor, Bernie Sanders riddled Greenspan with questions about his elitism and priorities as Federal Reserve Chair at a plethora of Congressional hearings. The C-Span recording of the July 15, 2003 Federal Reserve Monetary Report in Congress is representative of Greenspan's Congressional testimonies because of the clear juxtaposition between his own economic policies and the concerns of the working and lower classes. In one particularly heated moment, Senator Sanders exclaims that "cocktail parties are not real America," referencing Greenspan's frequent social interactions with the wealthiest 1% of the

⁴² "Pelosi: 'Stop Robbing the Social Security Trust Fund of Its Money'." Congresswoman Nancy Pelosi. June 26, 2013. Accessed April 10, 2018. <https://pelosi.house.gov/news/press-releases/pelosi-stop-robbing-the-social-security-trust-fund-of-its-money>.

⁴³ "Transcript: Nancy Pelosi on 'FOX News Sunday'." Fox News. Accessed April 10, 2018. <http://www.foxnews.com/story/2005/03/06/transcript-nancy-pelosi-on-fox-news-sunday.html>.

⁴⁴ Tuccille 118.

United States.⁴⁵ Senator Sanders also questioned Greenspan's conservative economic policies that give unproductive tax breaks to billionaires.

Unfortunately, only a small portion of the American public truly understands and follows economic policy. To the general viewer, two old men were arguing: one, a charismatic defender of the working and middle classes, and the other, a seemingly bored, rich, speaker of arcane nonsense. These YouTube videos have received millions of views, garnered a high like to dislike ratio, and the majority of comments are anti-Greenspan. However, one can make the argument that the anti-Greenspan sentiment is a result of selection bias. Those who watch his negative portrayal and comment are likely to be prejudiced against him. Despite this, the videos play a notable part in the politicization of the Federal Reserve because it widens its audience. In the early 2000s, video sharing platforms such as YouTube experienced a rise in popularity.⁴⁶ This means that more viewers can engage with favorable content. For example, a liberal internet user may not have considered Greenspan's politics and the Federal Reserve before, but after watching Bernie Sanders question Greenspan, may now have a particularly poor opinion of Greenspan.

Unfortunately for Greenspan, these Congressional testimonies were only the beginning of his public defacement. In the wake of the Great Recession, economists, politicians, and the general masses alike wondered how the Federal Reserve failed to predict the crisis. In particular, how did Greenspan as the Federal Reserve Chair fail to read market indicators, including the potential for the housing market to burst? On October 23rd, 2008, Greenspan answered those questions in disastrous fashion. Greenspan admitted that his economic worldview was

⁴⁵ "Bernie Sanders Confronts Alan Greenspan." YouTube. June 02, 2015. Accessed April 10, 2018. <https://www.youtube.com/watch?v=WJaW32ZTyKE>.

⁴⁶ "ComScore Releases May 2010 U.S. Online Video Rankings." ComScore, Inc. Accessed April 28, 2018. https://www.comscore.com/Insights/Press-Releases/2010/6/comScore-Releases-May-2010-US-Online-Video-Rankings?cs_edgescape_cc=US.

misguided. He put too much trust in the self-correcting power of capitalist markets, not realizing that unrestricted mortgage lending could cause a crisis. At the House Committee on Oversight and Reform meeting, Greenspan stated:

“Those of us who have looked to the self-interest of lending institutions to protect shareholders’ equity, myself included, are in a state of shocked disbelief.”

In other words, Greenspan admitted that some of his fundamental economic understandings were inaccurate, and therefore the Federal Reserve did not take the necessary steps to prevent the oncoming financial crisis. Greenspan further explained that he does fully understand how and why the Great Recession became as devastating as it was.⁴⁷

While politicians and the public alike criticized Greenspan, I believe that he deserves credit for his acknowledgement. It could have been easy for Greenspan to blame the Federal Reserve’s 200-strong research team, or the Federal Reserve Board, or any other group marginally related to the operation of the Federal Reserve, to save face. I believe that this event in particular solidifies Greenspan’s reputation as an economic sage. It is often said that the wisest of people know what they do not know.

However, it is rational to conclude that these videos and his public, Congressional testimonies both before and after the financial crisis further contributed to the politicization of the Federal Reserve. They generated politically-charged sentiment from the American public against a Federal Reserve Chair.

Conclusion

⁴⁷ Propublica. "Greenspan Says I Still Don’t Fully Understand What Happened." YouTube. October 23, 2008. Accessed April 10, 2018. <https://www.youtube.com/watch?v=R51ZPWNFizQ>.

The changes in the politicization and independence of the Federal Reserve under Paul Volcker and Alan Greenspan are direct results of their identities, which includes the principles and characteristics established during their upbringings and early careers. Volcker's father taught him the values of frugality and public service. As a result, Volcker became a staunch public servant who maintained a more or less independent Federal Reserve. Volcker resigned when Reagan prevented him from performing his job to the best of his ability. On the other hand, Alan Greenspan's early fascination with numbers eventually introduced him to the stock market. However, he gave up a highly successful economic consulting career to become Federal Reserve Chair. His public relations disasters, tight Republican political connections, and eventual apology increased the politicization and reduced the overall independence of the Federal Reserve.

However, the ultimate conclusion of this paper is not to compare and contrast the impacts of two Federal Reserve Chairs on the Federal Reserve. It is clear that the identities of Volcker and Greenspan greatly influenced the Federal Reserve's operations, interactions with the Executive Branch, and the public during their tenors. If nothing else, I believe that this paper calls into question the dominant historical narrative of the Federal Reserve, which, as previously described, focuses on how exterior events such as laws passed have affected the Federal Reserve. Perhaps it is time to place greater emphasis on analyzing Federal Reserve history from an internal perspective, with a focus on the Chairs who commanded it.

Jerome Powell, the recently confirmed Federal Reserve Chair, enters his post in a highly polarized political climate. A fiercely partisan 2016 Presidential election and the rise of populism has left many pondering our political future. There has been widespread concern over Powell's appointment because President Trump's other presidential appointments include heavily conservative and business figures. It is also worth noting that Trump's appointments often lack

the relevant experiences and acumen related to their positions. Powell, on the other hand, has extensive experience with law and monetary policy. In the future, it will be fascinating to analyze the tenor of Jerome Powell and how his identity influences the political state, independence, and overall operations of the Federal Reserve.

Bibliography

"Alan Greenspan, Gold and Economic Freedom (1966)." Constitution Society: Everything Needed to Decide Constitutional Issues. Accessed April 28, 2018.
http://www.constitution.org/mon/greenspan_gold.htm.

"Bernie Sanders Confronts Alan Greenspan." YouTube. June 02, 2015. Accessed April 10, 2018.
<https://www.youtube.com/watch?v=WJaW32ZTyKE>.

Cassidy, John. "Alan Greenspan Rediscovered Keynes-Sort Of." The New Yorker. June 19, 2017. Accessed April 26, 2018. <https://www.newyorker.com/news/john-cassidy/alan-greenspan-rediscovered-keynessort-of>.

"ComScore Releases May 2010 U.S. Online Video Rankings." ComScore, Inc. Accessed April 28, 2018. https://www.comscore.com/Insights/Press-Releases/2010/6/comScore-Releases-May-2010-US-Online-Video-Rankings?cs_edgescape_cc=US.

Dal-Pont Legrand, Muriel, and Harald Hagemann. "Lutz and Equilibrium Theories of the Business Cycle." *OEconomia*, no. 3-2 (2013): 241-62. doi:10.4000/oeconomia.232.

"Economic Quarterly." The Treasury-Fed Accord: A New Narrative Account - Economic Quarterly, Winter 2001 - Federal Reserve Bank of Richmond. Accessed April 10, 2018. https://www.richmondfed.org/publications/research/economic_quarterly/2001/winter/leac_hhetzel.

Greenspan, Alan. *The Age of Turbulence: Adventures in a New World*. New York: Penguin Press, 2007.

- Hafer, Rik W. *The Federal Reserve System: An Encyclopedia*. Westport, Conn.: Greenwood Press, 2005.
- Kennedy, Helen. "BEFORE FED, GREENSPAN'S SAX & CITY." *Nydailynews.com*. March 26, 2006. Accessed April 28, 2018. <http://www.nydailynews.com/archives/news/fed-greenspan-sax-city-article-1.573717>.
- Martin, Justin McCory. *Greenspan: The Man behind the Money*. Cambridge: Diane Pub, 2000.
- Mallaby, Sebastian. *The Man Who Knew: The Life and times of Alan Greenspan*. New York: Penguin Books, 2017.
- Morgenstern, O. *The Limits of Economics*. London, 1937.
- Morris, Charles R. *The Sages Warren Buffett, George Soros, Paul Volcker, and the Maelstrom of Markets*. Public Affairs, 2010.
- Nathaniel C. Nash and Special To the New York Times. "Senate, by 91 to 2, Backs Greenspan as Fed Chief." *The New York Times*. August 04, 1987. Accessed April 28, 2018. <https://www.nytimes.com/1987/08/04/business/senate-by-91-to-2-backs-greenspan-as-fed-chief.html>.
- Nomination of Paul A. Volcker: Hearing before the Committee on Banking, Housing, and Urban Affairs, United States Senate, Ninety-sixth Congress, First Session ... July 30, 1979*. Washington: U.S. Govt. Print. Off., 1979.
- Peikoff, Leonard. *Objectivism: The Philosophy of Ayn Rand*. New York: Penguin Books USA, 1993.
- "Pelosi: 'Stop Robbing the Social Security Trust Fund of Its Money'." Congresswoman Nancy Pelosi. June 26, 2013. Accessed April 10, 2018. <https://pelosi.house.gov/news/press-releases/pelosi-stop-robbing-the-social-security-trust-fund-of-its-money>.
- Propublica. "Greenspan Says I Still Don't Fully Understand What Happened." YouTube. October 23, 2008. Accessed April 10, 2018. <https://www.youtube.com/watch?v=R5IZPWNFizQ>.
- Rand, Ayn. *Atlas Shrugged*. New York: New American Library, 2016.

- Reuters, From. "Greenspan's First Year Is Called a Success : Handling of October Crash Put Critics at Ease." Los Angeles Times. August 12, 1988. Accessed April 26, 2018. http://articles.latimes.com/1988-08-12/business/fi-107_1_alan-greenspan.
- Robert D. Hershey Jr. and Special To the New York Times. "VOLCKER OUT AFTER 8 YEARS AS FEDERAL RESERVE CHIEF; REAGAN CHOOSES GREENSPAN." The New York Times. June 03, 1987. Accessed April 28, 2018. <https://www.nytimes.com/1987/06/03/business/volcker-out-after-8-years-as-federal-reserve-chief-reagan-chooses-greenspan.html>.
- Rubin, Harriet. "Ayn Rand's Literature of Capitalism." The New York Times. September 15, 2007. Accessed April 26, 2018.
- Ryan. "Remembering Oskar Morgenstern | Richard M. Ebeling." Mises Institute. January 25, 2017. Accessed May 07, 2018. <https://mises.org/wire/remembering-oskar-morgenstern>.
- Silber, William L. *Volcker the Triumph of Persistence*. New York: Bloomsbury, 2013.
- Silk, Leonard. "VOLCKER ON THE CRASH." The New York Times. November 08, 1987. Accessed April 26, 2018. <https://www.nytimes.com/1987/11/08/magazine/volcker-on-the-crash.html>.
- "Statement by the President on the Volcker Rule." National Archives and Records Administration. Accessed April 10, 2018. <https://obamawhitehouse.archives.gov/the-press-office/2013/12/10/statement-president-volcker-rule>.
- "Transcript: Nancy Pelosi on 'FOX News Sunday'." Fox News. Accessed April 10, 2018. <http://www.foxnews.com/story/2005/03/06/transcript-nancy-pelosi-on-fox-news-sunday.html>.
- Tuccille, Jerome. *Alan Shrugged: The Life and times of Alan Greenspan, the Worlds Most Powerful Banker*. Hoboken, NJ: Wiley, 2002.
- Uchitelle, Louis. "GREENSPAN'S SPECIAL TALENTS." The New York Times. June 08, 1987. Accessed April 30, 2018. <https://www.nytimes.com/1987/06/08/business/greenspan-s-special-talents.html>.

