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BOOKS

Ravi Batra,
Greenspan's Fraud: How Two Decades of His Policies Have Undermined the Global Economy,
Palgrave Macmillan, 2005.

REVIEWED BY LEE HOSKINS

Ankle-Biting From The Academy

Professor Batra mounts a full frontal attack on Federal Reserve Chairman Alan Greenspan. Greenspan is accused of being an intellectual fraud who foisted failed policies on the world economy in order to help his wealthy friends on Wall Street and to retain his position of power. To Greenspan bashers this is literary red meat. But it is a tough dish to swallow. Nefarious motives are assigned to Greenspan because he seems to change his views over time. This seems more of a character assassination on the part of Batra than a fraud by Greenspan. In addition, the evidence of policy failures does not stand up to examination.

The book is highly readable and a curious mix of biographical information, innuendo, and economic analysis. The story begins in 1981 when President Reagan appointed Greenspan to chair a commission on Social Security reform. In 1983 Congress passed and the President signed into law a bill aimed at improving the solvency of the Social Security system by increasing payroll taxes and reducing benefits. According to Batra, this is a Greenspan financial fraud: "Thus, the payroll tax hike became a massive fraud, when its surplus revenue was repeatedly used to pay for the tax cuts of people who were in the same opulent class as Mr. Greenspan himself. In hindsight, the Social Security legislation was just a sham designed to cover the federal shortfall so the pro-wealth tax cuts of 1981 could be preserved" (p. 35). The truth is that Greenspan just chaired a bipartisan committee (eight Republicans and seven Democrats) that, after much struggle and compromise, put forth a set of recommendation to Congress. If there was a fraud, it was committed by Congress, not Greenspan.

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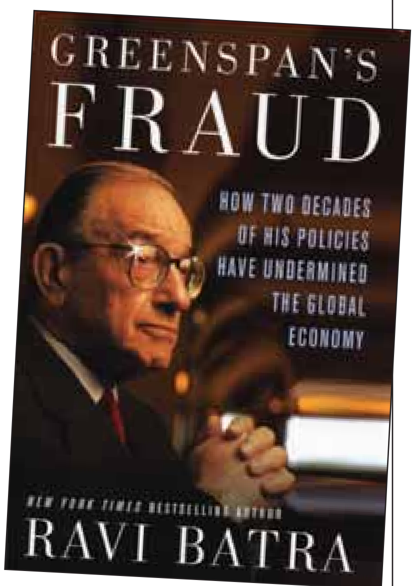
Greenspan is also accused of intellectual fraud. Batra argues that "…Greenspan repeatedly used his genius to alter his arguments, theories, and opinions to rise to the seat of power and remain there as long as possible. This amounts to intellectual fraud on a grand scale" (p. 74). Support for this position is pure supposition on the part of the author. Batra identifies changes in Greenspan's positions and asserts such changes were the result of base motives. No hard evidence is presented that Greenspan tried to influence elections or bias policy to help his "wealthy friends." The evidence against Greenspan (listed in a summary table, p. 120) is that he altered his position on income tax changes or budget deficits a number of times from 1974 to 2004. Interestingly, no monetary policy mistakes make the list.



So what is the legacy of the Greenspan fraud? According to Batra, Greenspan is responsible for the rise of regressive taxation here and abroad, budget deficits, trade deficits, rising income inequality, the loss of manufacturing jobs, shrinking paychecks, and the growth of debt worldwide. To undo this legacy, Batra argues the United States needs higher tax rates, particularly for the wealthy and large corporations, reduced Social Security taxes, a higher minimum wage, a break-up of large corporate conglomerates, and to persuade other nations to engage in free trade. He supports his arguments for higher taxes with data showing the 1950s and 1960s had higher real growth and higher tax rates. But correlation is not causality. Higher tax rates do not cause higher growth rates in the economy.

Aside from the unsubstantiated attack on Greenspan's motives, the primary flaw in this book is that it attempts to hold Greenspan accountable for policies he does not make. Greenspan provides public comments on tax policy, federal spending, Social Security reform, anti-trust enforcement, minimum wage laws, and trade policies. But he has no responsibility for making such policies.

The chairman of the Fed is responsible for monetary policy, bank supervision and regulation, as well as the lender-of-last-resort function. The transcripts from the Federal Open Market Committee are the most complete record of Greenspan's actions as a monetary policymaker. They show that Greenspan is a mainstream macro economist who pays careful attention to economic data and the views of other committee members. Also, the transcripts do not show a political or personal agenda or a change in Greenspan's overriding policy view that inflation needs to be contained if the economy is to have sustainable economic growth. (I should disclose that as president of the Federal Reserve Bank of Cleveland I served on the committee for a number of years while Greenspan was chairman). Yet Batra ignores this record.

Who knows what motivates Greenspan, but more importantly why should we care as long as he does his job well? Greenspan has provided the U.S. economy with low and steady inflation for nearly two decades. Over time all that a Fed chairman can do is determine the rate of inflation, not output and employment.

Batra does extensively criticize the use of the Fed's lender-of-last-resort function with respect to interventions that bail out market participants. He argues such bailouts create moral hazard that induces inappropriate risk-taking in financial markets. He is correct. The reason Fed chairmen are overly quick to intervene is that they want to avoid any risk of a financial meltdown on their watch. The Fed intervention with respect to Long Term Capital Management was particularly egregious because a private sector solution had already been put forth. Market participants must bear the cost of their risk-taking if financial markets are to be efficient, and central bankers need to stand aside so markets can impose the wealth loss.

Professor Batra's underlying complaint seems to be with mainstream macro economics which he sees as dominated by intellectuals bent on protecting their ideas and positions. He would like nothing better than to lead the revolution to displace them. Too bad he feels the need to attack Alan Greenspan's integrity to do so. ◆

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