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## ECONOMIC NEWS UPDATE

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“Continuity”. That’s what Alan Greenspan’s nominated successor is promising the president and the financial markets. But be careful before concluding that Ben Bernanke is simply Greenspan Mark 2. He isn’t. My (London) Times dictionary defines “continuity” as a “logical sequence”, not quite the same thing as slavish adherence to the policies of his predecessor.

More important, Bernanke carved out some wiggle room for himself when he said, “Our understanding of the best practice in monetary policy evolved during Alan Greenspan’s tenure at the Fed, and it will continue to evolve in future.” So we are to get policies that will “evolve” in a “logical sequence” from those the new central banker will inherit when he takes the Fed chair on February 1 of next year.

It is, of course, most likely that the new Chairman -- his confirmation is assured, since the Senate confirmed him twice in the past three years, once as Fed governor, once as chairman of the President’s Council of Economic Advisers -- will not want to use his first monetary policy meeting to reverse

Greenspan’s policy of steady, quarter-point increases in the federal funds rate. Such an abrupt policy change would roil the markets, the last thing Bernanke wants to do, especially at a time when investors will be slightly edgy at the departure of the legendary Greenspan.

After that, look for some procedural changes -- members of the monetary policy committee will substitute participatory democracy for awe-struck acquiescence to the chairman’s wishes. Members of congress will also be somewhat less deferential when the new chairman reports to them. But Bernanke’s innate courtesy and his distinctly non-imperious style should see him over any early hurdles.

Whether he can also convey authority to the traders and investors who are an important constituency is not quite so clear. Greenspan’s greatest strength was as a crisis manager. It is difficult now to remember the potential for financial mayhem in the stock market crash of 1987; the collapse of Long Term Capital; the peso, ruble and other currency crises; and the attack on New York’s financial center. Greenspan’s

swift reactions -- at times flooding the system with cash -- avoided systemic collapses.

My own guess is that Bernanke believes he can intervene more quickly to prevent crises, and will prove an equally competent manager of any crises he may face. That will be a key to the success of his tenure since he will be taking the chair at a time when the dollar is under threat from persistent US trade deficits and anti-American politicians who threaten its role as the world's sole reserve currency, the housing market might be on the verge of a major adjustment, the world's oil supply is subject to terrorist cut-off, and protectionist pressures are mounting. We may well find out sooner rather than later whether an academic background equips a Fed chairman to respond quickly, decisively and correctly to threats to the financial system.

After the settling-in period is completed, we are likely to see several changes from the Greenspan era. For one thing, Greenspan's reliance on what we might call well-informed intuition is likely to be replaced by a more formulaic approach to monetary policy. Not that Bernanke is a prisoner of economic models. Rather, it is that he -- or anyone else, for that matter -- cannot match Greenspan's ability to assemble and process shards of economic and business data in the very special way that was Greenspan's hallmark.

Besides, Bernanke has long believed in a combination of transparency and inflation targeting that is more akin to the British and European models than to Greenspan's. He believes that the cause of stability is served by announcing a target rate of inflation, and developing policies to achieve it. That is something

Greenspan, a master of opacity, has steadfastly refused to do. In the end, this is a matter of horses for courses: it is a good thing that Bernanke is too clever to attempt to emulate Greenspan's unique method of policy-making.

We are also likely to see a narrowing of the Fed's perceived remit. Greenspan, long in honors and prestige, felt free to comment not only on monetary but on fiscal policy. To the annoyance of both the president and the congress, he complained of "out-of-control" federal spending. That complaint carried with it the implicit threat of higher interest rates to offset the inflationary pressure of large budget deficits.

Bernanke does not yet have the prestige to wander into such territory. Besides, he is less concerned about the state of the nation's finances, only recently pointing out that, at 2.6% of GDP, the budget deficit is in line with historical levels, and does not pose an inflationary threat.

That is only one reason that Bernanke is believed to be more relaxed about the outlook for inflation than Greenspan has been. He is on record as believing that high oil prices have so far not seeped into the prices of other goods, consistent with his reputation as an inflation "dove." When Bernanke served on the Fed board he was so concerned that American might slip into a Japan-style deflationary spiral that he pushed for the round of interest rate cuts that brought the Fed funds rate down to 1%. He even went so far as to suggest that the Fed had more than one way of fighting deflation -- it could throw money out of helicopters. This has unnerved notoriously humorless investors and traders, and will

undoubtedly be a source of merriment at Bernanke's confirmation hearings.

One thing that has been overlooked is Bush's sigh of relief. Time has finally freed him of a turbulent Fed chairman, one who persisted in calling for spending cuts to match tax cuts. Bush, already up to his knees in alligators, to use the regional vernacular, is counting on Bernanke for studied silence on that front.

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