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Greenspan vs. Bernanke

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Most would agree that the Fed chairman directs the U.S. economy. Therefore, when Alan Greenspan, who has been declared "the most effective chairman of the Fed since its inception" by leader of the monetarists Milton Friedman, retired in 2006, many questioned how his successor, Ben Bernanke, would fare. Paul Samuelson, Nobel Laureate, said that Bernanke is "the best choice of the many names that were mentioned. I'm kind of surprised they chose him. Generally speaking, they haven't had perfect pitch in their appointments."

After perusing several articles on Bernanke's appointment, I came to the conclusion that the only looming question is whether or not Bernanke's inflation target plan will work. Currently, "Britain, Canada, Australia, Sweden, New Zealand, Brazil, and South Korea, among others" follow an inflation target policy (Peter Coy 2005). Studies have shown that countries following this policy tend to stabilize inflation rates as well as maintain economic growth, whereas, countries like the U.S. experience more volatile stock and bond markets leading to investor uncertainty (Coy 2005).

Therefore, if this policy has proven effective in other countries, why is the U.S. uncertain about its usefulness here in the states? The answer: Alan Greenspan's unmatched intuition on the direction of the U.S. economy. As Fred Hassan, CEO of Schering-Plough, said, "The key is to have good sensing mechanisms about when to turn on and turn off the spigot. Greenspan had a remarkable sense of that." Time will tell if Bernanke has this same talent. However, in the interim, he has a plan to follow, and we as a country know that plan. During a period of transition, the need for stability becomes even more crucial, and Bernanke has the knowledge to create this stability.

Those most concerned with Bernanke's plan question how he will handle crises. Many think that if Greenspan had followed an inflation target, then he would not have been able to guide monetary policy as successfully "through it all—tech boom, Asian financial crisis, stock market bubble, tech bust, recession, Enron, terrorist attacks, and a housing boom" (Michael Mandel, Peter Elstrom, Justin Hibbard, Christopher Palmeri 2005). However, Greenspan was able to successfully maintain the economy through these potentially damaging times due to his keen sense of intuition and analysis of subtle indicators, talents specific to Greenspan. Bernanke has assured that in times of crisis the Fed will reprioritize, placing stabilization of the economy over the inflation target. Essentially, the main concern stems from the fact that Bernanke has yet to show if he has the same sense of intuition to ward off economic disasters that Greenspan possesses.

While some worry about the impact the inflation targets will have on the economy, others look forward to Bernanke's position of strictly guiding monetary policy and avoiding giving advice on fiscal policy, opposed to Greenspan who often advocated tax cuts and the privatization of social security. A former Fed governor, Laurence Meyer commented "I don't object to the chairman speaking out on issues when he is offering the conventional wisdom of economists on a subject, and especially when he angers both parties equally, but I do object to him taking sides with Republicans or Democrats…on politically contentious topics that are outside the realm of Fed responsibilities."

Some fear sense Bernanke lacks the amount of Washington experience, Wall Street and corporate ties that Greenspan had coming into office that he does not have the feel for the "rhythms of the financial markets and business that only come with experience" (Paul Magnusson, Peter Coy, William Symonds, and Laura Cohn 2005). However, former Commerce Secretary Donald Evans stated "In the academic world, you can develop lots of sound ideas, but you have to convert those into good policies. [Bernanke] has been able to bridge the two." Additionally, due to his monetarist academic background, he has avoided the more partisan economic issues such as tax and spending policies, and therefore, will most likely remain faithful to his line of specialty, monetary policy, and refrain from giving fiscal policy advice.

Essentially, only time will reveal how Bernanke fares after the Greenspan legacy. However, from what I can tell, Bernanke's strength lies within his impressive intellect, non-partisan research, and personality which might spice up the Fed based on this proposal he made to the Fed. "The Fed governors should signal their commitment to public service by wearing Hawaiian shirts and Bermuda shorts." Perhaps one day the signal that interest rates are changing will be Bernanke sporting this tropical attire!

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