

The Lord of Money

Federal Reserve head Alan Greenspan has dictator-like power

Inside Report



By
**ROBERT D.
NOVAK**
Columnist

e-mail:
info@
creators.com

WASHINGTON — In a day when dictators no longer launch invading armies across borders, the one mortal who on his own can shock the world is a 74-year-old central banker. Federal Reserve Chairman Alan Greenspan energized global markets with an unexpected drop in interest rates on Jan. 3. But why? The answer has more to do with politics than economics.

Only two weeks earlier on Dec. 19, the Federal Open Market Committee (FOMC) under Greenspan's leadership determined that the economy was slowing down but the time was not ripe to lower interest rates. That disappointment for investors was reflected in a sharp market slump. During the blah business period between Christmas and the Fed's surprise move Jan. 3, however, nothing much happened financially.

But there was something going on politically last Wednesday. President-elect Bush had assembled captains of industry

for an "economic forum" in Austin, Texas, mainly to endorse his tax cut proposals. Greenspan's sensitive political antenna perceived that their mood about the economy — and about himself as well — was ugly. As interpreted by experienced Fed-watchers, he decided on a pre-emptive strike. The economy could wait until the next FOMC meeting on Jan. 31, but not the political imperatives.

The Lord of Money can be guided by political considerations because of the Federal Reserve's unique status. In an ever more democratic and transparent government, Greenspan controls an institution that remains autocratic and opaque. He also presides over the Fed's weakest Board of Governors in memory. Two of the seven seats remain empty, Vice Chairman Roger Ferguson is not a major player, and no governor has sufficient stature to challenge Greenspan. "Alan is running a personal fiefdom," says a former

Fed governor.

With this authority, Greenspan led the Fed to six consecutive interest rate increases despite no tangible signs of inflation, while tacitly joining President Clinton's opposition to tax cuts. This relentless money tightening contributed to a serious global corporate crunch.

The corporate chiefs who met in Austin with Bush last Wednesday were boiling. "A lot of folks in this room brought some pretty bad news," the president-elect told reporters, citing slow sales and reduced work forces. But that hardly did justice to what Bush heard behind closed doors. Jack Welch, the fabled General Electric chief who has ready access to Greenspan, led the way in bemoaning the state of the economy and what the Federal Reserve is doing about it.

Greenspan has been free from criticism during his long tenure at the Fed, an immunity not enjoyed by his predecessors. But business leaders invited by

Bush were free with their private criticism. They told the president-elect that Greenspan's soft landing had evolved to a hard soft-landing, to a hard landing, to a recession — and maybe to something worse.

One big interest rate cut cannot really transform that outlook overnight. But it did soften the mood in Austin and prevented any criticism of Greenspan from seeping into the public arena. The Fed supposedly acted because of an adverse purchasing agents report. But the chairman had that data in hand some 10 days earlier. The timing of his move was political.

Lawrence Lindsey, just unveiled as Bush's assistant for economic policy, rushed to a television set in Austin when he heard of Greenspan's surprise strike. "Great. The Fed is always right," said Lindsey, who as a Federal Reserve governor dissented from the majority more than anyone else did.

Of course, the Fed is not always right, and for the first time in eight years Greenspan must confront a critic in the White House. Bush caused a stir Wednesday when he said, "I'm pleased that the Fed has cut interest rates," ending Bill Clinton's iron no-comment policy about anything that the Federal Reserve does. An institution that can be praised can also be panned.

Democrats in Congress pray that Greenspan will open fire on the Bush tax cuts. The president-elect could respond to that by telling the nation that there is no way to maintain prosperity with interest rates that are too high and taxes that are too high. That would be recognition that the Lord of Money is just another government official.

©2001 Creators Syndicate Inc.