



Thoughts from Linda:

The Map and the Territory
*Risk, Human Nature and the Future of
Forecasting*

Alan Greenspan
2013

“There is little time to waste!”

This sentence concludes the Introduction to this very readable economic book written by one of the most experienced, educated, and enlightened Chairpersons ever to lead the U.S. Federal Reserve. In this Introduction, he tells his own experience of the day that the Fed authorized the rarely used Section 13 (3) of its Authorization Act, enabling it, as he says, “to lend nearly unlimited cash to virtually anybody.” That was March 16, 2008 and was a day that ultimately paved the path that led to Lehman Brothers’ failure on September 15, triggering the Global Financial Crisis of 2008.

He educates the reader on the history of economic forecasting, placing it in a useful historical context. And, as he notes, “leading up to the almost universally unanticipated crisis of September 2008, macro modeling unequivocally failed when it was needed most, much to the chagrin of the economics profession.” As we now know, neither the Federal Reserve’s highly sophisticated forecasting system nor that of the IMF predicted the events that occurred at that critical time. Even JPMorgan’s projection, given just three days before this crisis, indicated that the US GDP growth rate would be accelerating into the first half of 2009. How did everyone go so wrong? Greenspan began his investigation at that point, and the results of his analysis form the core of this enlightening book.

Just on April 19, 2022, amid the current Russian invasion of Ukraine, the International Monetary Fund slashed its expectations for global economic growth over the next two years. This forecast is because of Russia’s invasion, with the IMF comparing the ripple effects from the conflict to an “earthquake.” The IMF expects the world economy to

expand by 3.6% in 2022 and 2023. This is a reduction of their earlier forecast of 6.1% forecast that they offered just last year in 2021. The World Bank also noted this trend as it slashed its growth figures to 3.2% in 2022. These predictions are based on complicated modeling, and Greenspan explains the development of models and alternations which have improved probabilities after the 2008 crisis. However, he notes the fallibility of absolute certainty in the field.

The IMF report written in 2013 is available on the internet and illustrates the type of message provided in this macro-economic book by Alan Greenspan. Greenspan is an American economist appointed by President Ronald Reagan and served five terms as Chair of the Federal Reserve from 1987 to 2006. This is the second-longest term after William McChesney Martin, who served from 1951 to 1970. Born in NYC in 1926 and married to Andrea Mitchell of NBC News, he studied the clarinet at Julliard and worked briefly as a professional musician. He earned a B.A., M.A., and Ph.D. in economics from New York University and, in 1954, co-founded a consulting firm, Townsend-Greenspan & Co. His first book, *The Age of Turbulence*, was a NYT bestseller.

I have always been interested in the world of macroeconomics, having taught economics at a high school level, and well remember the somewhat crude statement attributed to President Harry Truman, "give me a one-armed economist!" This was in reference to his follow-up line, "I'm tired of hearing ...on the one hand, and then...on the other hand!"

This book gives a history of economic forecasting in the United States and is an economic tutorial on the difficulties faced by the Federal Reserve and other financial institutions today. He covers a broad landscape, and for those of us who lived through his many years as Chairman of the Fed, his voice in the book seems quite familiar as he lays out a map for navigating the rough territory we currently face and will in the future. It is challenging in parts because of the technical elements he takes you through. Still, at the highest level, his opinions and insights are important for anyone interested in our capitalist society and concerned about our long-term financial territory.

The flow of the chapters and their names give you an indication of where he takes you. There are fourteen chapters, including *Animal Spirits*, *The Crisis Begins*, *Intensifies*, and *Abates*, *The Roots of Crisis*, *Finance and Regulation*, *Schooner Intelligence and Then Some*, *Productivity: The ultimate Measure of Economic Success*, *The Onset of Globalization*, *Income Inequality*, and *the Rise of the Gini and the Crony*.

In his chapter entitled, *The Bottom Line*, he notes that “there must be a better way” and “that our highest priority going forward is to fix our broken political system.” He says, “short of that, there is no viable long-term solution to our badly warped economy. In America, we are being pulled apart politically in ways unrivaled since the aftermath of the 1929 crash.”

As he bemoans the current state of affairs, he offers this: “Democratic societies such as ours require a broad and deep adherence to a set of principles that are not subject to compromise...for Americans, it is our Bill of Rights. But if 300 million people are to live in relative peace and tranquility, most every other legislative initiative must be subject to compromise.”

He explains the first sentence mentioned in this review, noting, “We seem to have lost our legislative ability to reach across the aisle to find common ground for solutions.” And as this book focuses on economics, he goes on to say, “At risk is the status the American economy has held as the preeminent world economic power for more than a century.”

I would offer that, and much more is at stake today. This impressive tour of our current economic situation, offered by Alan Greenspan, adds to the mounting evidence of the severity of our problems in America today and is a clear call to action.

As he says, “We have little time to waste!”