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The Age of Turbulence: Adventures in a New World

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About

Greenspan, Alan
The Age of Turbulence: Adventures in a New World.

In trying to understand the Impact of the Internet, the fundamental charge of the Berlgund Center for Internet Studies at Pacific University, Alan Greenspan has been an unavoidable figure. We have invoked his name repeatedly in our analyses. [1]

Greenspan’s importance, of course, does not come only from his status as a close observer of the Internet itself, but as the Chairman of the Board of Governors of the Federal Reserve Bank, or the “Maestro” of the American economy, as the appreciative biography by Bob Woodward was titled. [2]

When Greenspan’s autobiography was recently published (fall 2007), I labored through it on successive plane flights to and from China. [3] It was the absolutely appropriate read for more than twenty hours of flying and waiting. Certainly, familiar with Greenspan’s prose as I am, I was not drawn to The Age of Turbulence for its potential entertainment value. Had I been, I would have been sadly and expensively disappointed.

The work is, as expected, frequently turgid, requiring either a strong background in micro and macroeconomics or paging back and forth in an attempt to fully understand it. This is in part, of course, due to my shortcomings as an amateur student of economics. But I feel that it is challenging more because The Age of Turbulence is so aptly named.

Turbulence is, by its very nature, disorderly and confusing. The title suggests that the era in
which we now live cannot really be understood. To Greenspan, understanding requires a complete availability of information, primarily statistical. But one of the great puzzles in the last decade or so of the American economy has been the nature of the relationship between the Internet, productivity and economic growth. [4]

Greenspan has discussed the issue at various times, but *The Age of Turbulence* both gives him an opportunity to sum things up at length, and perhaps requires as well that he does so, in an effort to demonstrate his own understanding of the present era.

Greenspan first had to confront the Internet as an economic force in 1994, when he served at the Federal Reserve and as frequent advisor to the incoming Clinton administration. Greenspan and others were at that time “puzzling out the so-called New Economy”. Greenspan saw this period as dominated by the impacts of the “dual forces” of information technology and globalization. [5]

By August of 1995, the Dot.com boom was beginning. Greenspan saw this era as inaugurating a historic shift, a period of “creative destruction” caused by technological change, of the sort that occurred no more than perhaps every fifty or one hundred years. [6]

But precisely why information technology should have this transformational effect is, in Greenspan’s recounting, somewhat murky or at least it resulted from a variety of different effects, which he does not parse out. Primarily, however, he believes it to be due to a much-enhanced ability for business to collect and disseminate information. [7] This permits business to better manage uncertainty, a key obstacle to making improvement. This analysis illuminated for Greenspan the “primary riddle of the technology boom: the question of productivity.” [8]

What Greenspan saw, however, as a historic but necessarily limited effect of investments in information technology, others saw as a sign that the economy itself had changed; business cycles [9] were irrelevant, and the sky was apparently the limit, at least for the stock market. This boom was slowed, in part, by Greenspan’s pronouncement that it had become “irrationally exuberant”, but despite the .com crash, economic growth continued, albeit at a reduced pace.

By 1999, despite the Asian Contagion and problems with the Russian economy, globalization seemed to be spreading economic progress on an international scale. Partly, this was due once again to the Internet. The Internet provided new ways to move information and resources, including fiscal ones, quickly and broadly.

Greenspan, however, began to worry that the Internet-enabled international economy was becoming too complicated, or at least mutated too rapidly, to understand. Enter the Age of Turbulence—the 21st century.

Greenspan initially saw the advent of the Bush administration as an opportunity to enshrine proper economic policies across the board. He soon learned, however, that the administration
subordinated economic planning and policy, as it apparently does virtually everything, to politics.

Greenspan cautioned the administration about the effects of its ballyhooed tax cut, though he hoped for the best. However, when the Clinton surplus disappeared almost overnight, he, like the Bush administration, was puzzled. The cause turned out to be the long-term decline of the stock market, which, with a variety of complicating factors, led to an abrupt Bear Market. [10]

Then globalization, like the stock market, went south with a vengeance. It suddenly was revealed that globalization included irrational resisters to economic progress who savagely attacked the U.S. on September 11, 2001. The fear resulting from those attacks depressed economic growth.

Then the Republican Party itself went whooping and hollering south, joining the administration at a prolonged Texas-style barbecue in which fiscal orthodoxy no longer mattered. Deficits piled up, all pretence of restraint was abandoned. War costs cloaked extravagant spending. [11]

Thus was Greenspan betrayed. However, at the bottom of this story of unrequited love, is, I think, a moral dilemma. One of the most important influences in his life was the objectivist thinker/novelist Ayn Rand. [12] She, like Greenspan, believes that adequate information, plus an unswerving adherence to the principles of Market Capitalism, will inevitably lead to progress. [13]

Also like Rand, Greenspan’s model of appropriate economic policy comes largely from a very particular view of human nature, which many, including me, find sadly limited. This human nature is, to Greenspan, independent of time, place or culture. [14]

Human nature is, he believes, driven by our desire for self-esteem, dependent upon the approval of others. This determines how we spend our money. But human nature presents a particular challenge to an economist who believes that predictability comes from econometric models and statistics—it may oscillate between the poles of “irrational” exuberance and fear, even, in the economic sense of the term, “panic”.

If our natures are fairly similar and determinative, our natural endowments are, however, not. Some of us, Greenspan observes, are more intelligent than others, and the intelligent will naturally garner more of the rewards of economic activity than others. In the entire book, one does not encounter a homeless person, or a deserving poor one, though heads of state, and cultural notables of all sorts abound.

Greenspan recognizes U.S. income inequality as both a reality and a danger, if only because it might lead to irrational “populist” outbreaks that could damage the economy. This inequality, however, has little if anything to do with deliberate policies which structure the distribution of rewards in our society, but is “very likely” the result of the “dysfunction of elementary and secondary education in the United States.” [15]
Greenspan’s carefree Market Capitalism is viewed essentially as an autonomic process with its largely unexamined credo that a rising tide raises all boats, or that at the least the losers were simply too dumb to learn to swim. [16] He is aware that greed exists and uses the term occasionally in the text, though he never defines it. Neither is it found in the otherwise very useful and voluminous index, where, had it been included, it would have come after “Great Society” and before “Greenspan, Alan.”

Despite, however, the above lacunae, there are many reasons for reading The Age of Turbulence. It is the biography of a major political and intellectual figure with broad direct experience in American life. His criticisms of the policies of the Bush administration, for example, are still making headlines across the world, months after they first appeared. [17]

Greenspan is also a historian of the U.S. economy in that he closely ties recent economic issues to their roots in the past. The work can be read, then, as a history of the economy by the ultimate insider, the man who so strongly influenced it.

Greenspan also discusses some of the key events of our time as they impacted the American economy. Examples include globalization, the rise of China, and the impact of the Internet. It is this latter factor that drew us to the book, but at the last, we know little more about the relationship between the Internet and economic progress than we did before the book was published.

The Age of Turbulence does reinforce our awareness that Greenspan believes that the Internet increased productivity, but leaves us frustratingly distant from the sort of proof that Greenspan himself believes critical to good policy. Like the Internet itself, we seem to descend all too frequently into chaos.

End Notes


[3] I was flying to Hangzhou to receive an award for “Contributions by a Foreign Expert” to the wealthiest of the Chinese provinces, Zhejiang. My award came largely as a result of Berglund support for a number of Internet-enabled electronic initiatives. See the Transpacific project at: http://bcis.pacificu.edu/journal/2004/05/edit.php


[7] This ties in nicely, of course, to Greenspan’s own key belief that the collection of adequate information is the key task in his own ability to manage the complex American economy.


[9] The business cycle is a necessary fudge factor for economists such as Greenspan who believe that while any economy can be understood and hence managed with the right tools, it will periodically simply go south, without, of course, reflecting on the ability of the manager to manage it. See p. 191 for his use of the concept as an explanation for economic downturn.

[10] pp. 222-4


[13] See, for example, p. 14, where Greenspan basically sums up the entire book” “If the story of the past quarter of a century has a one-line plot summary, it is the rediscovery of the power of market capitalism.”

[14] My summary here comes largely from pages 16-18, but his fundamental assumptions are continually repeated at important points. The index to the work contains more references to human nature than to housing, a bit surprising in the autobiography of the Chairman of the Federal Reserve!

[15] p. 399

[16] To go down for the third time with this metaphor, I must observe that in my long career as an educator and the father of three children who have thus far spent more than forty years in various schools, none of us ever encountered a swimming program in a public school, though we have heard that they are frequently encountered in private ones.

[17] A Google search of “Greenspan and Bush” produced an incredible 1,230,000 hits at: http://www.google.com/search?q=Greenspan+and+Bush…. These include, of course, other juxtapositions of the two names, but the list is dominated by Greenspan’s “bashing” or
“Skewering” of the administration’s economic policies.

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