

Things Didn't Go as Planned

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THE MAP AND THE TERRITORY

Risk, Human Nature, and the Future of Forecasting

By Alan Greenspan

Illustrated. 388 pp. The Penguin Press. \$36.

Alan Greenspan is one of the most famous living economists. But he is not what you would call an economist's economist.

To appreciate Greenspan's unusual status, you have to understand the social dynamic of the economics profession. There is a standard route to becoming a star economist. This path was followed by the three economists whose names we have all been hearing recently: Ben Bernanke, Larry Summers and Janet Yellen.

Step 1 is to attend an elite college, like Harvard (Bernanke), M.I.T. (Summers) or Brown (Yellen), followed by a top Ph.D. program at a place like M.I.T. (Bernanke), Harvard (Summers) or Yale (Yellen). Next, establish yourself as one of the smartest kids on campus, though not necessarily one of the most popular.

While in graduate school, find a prominent mentor. For Bernanke, it was Stanley Fischer (later governor of the Bank of Israel). For Summers, it was Martin Feldstein (later Ronald Reagan's chief economist). For Yellen, it was James Tobin (a former adviser to John F. Kennedy).

If your dissertation is good enough, you get to become an assistant professor at yet another elite institution, like Stanford (Bernanke), M.I.T. (Summers) or Harvard (Yellen). There you spend your time teaching and, more important for your future career, writing scholarly papers. These

papers may be unintelligible to mere Muggles, but that's O.K. Your goal is to impress your fellow economists.

If your articles are sufficiently numerous, well published and widely cited, you are eventually awarded a tenured sinecure in a top economics department or business school, like Princeton's (Bernanke), Harvard's (Summers) or Berkeley's (Yellen). Having achieved this rung of success, you are on your way to becoming an economist's economist.

At this point, paths diverge. Most economics professors are content spending their careers at universities. Some temporarily depart from academia to make a small contribution to the policy world. (Full disclosure: From 2003 to 2005, when I left Harvard to serve as chairman of George W. Bush's Council of Economic Advisers, I regularly interacted with Greenspan, who was then chairman of the Federal Reserve.) But most of these professors-on-leave soon return to the comforts of the ivory tower.

Yet a few tenured economists become restless with the obscurity, slow pace and petty politics of academia. They yearn for the fame, fast pace and petty politics of Washington. With the help of political benefactors, they find themselves in positions of real authority. Bernanke, Summers and Yellen are examples.

Where in this professional hierarchy does Greenspan sit?

His is an odd case. After earning bachelor's and master's degrees at New York University, Greenspan continued his studies under the prominent Columbia University economist (and later Fed chairman) Arthur Burns. But Greenspan dropped out before earning his Ph.D. Without a doctorate, a good job at a top university was out of the question, so he worked as an independent business economist — a position with less prestige, though perhaps greater compensation. (Much later, when he was 51 years old and already a prominent Washington figure, N.Y.U. gave him a Ph.D.) As a result, Greenspan did not spend the years toiling as an assistant professor, publishing in esteemed but obscure journals. Unlike other famous economists, he did not begin his career by impressing his peers.

Greenspan's rise to prominence came entirely from political appointments. He served as chief economist to Gerald Ford from 1974 to 1977. He was appointed Fed chairman by Reagan in 1987 and then reappointed by George H. W. Bush, Bill Clinton and George W. Bush. He kept the job for an astounding 18 years.

It is against this backdrop that Greenspan's new book, "The Map and the Territory," is best understood. The book offers much wisdom, but that wisdom comes wrapped in a strange package.

First, the wisdom. Because of Greenspan's nontraditional ascent to economic eminence, he sees the world through a different set of eyes than do many others in his field. He is driven less by theory, more by data and practical experience.

In addition, although Greenspan lacks the training that accrues as young economists climb their way up the academic ladder, he had a rare form of education. Being Fed chairman is not only a great responsibility but also a great way to learn. The Federal Reserve's staff includes hundreds of excellent economists, whose main responsibility is to make sure the chairman (or chairwoman) knows what he (or she) is doing.

Greenspan's new book lays out his worldview in light of the financial crisis, the deep recession and the meager recovery of the past five years. His critics often condemn him as an ideologue, but the book demonstrates the unfairness of that accusation. On a wide range of topics — from monetary, fiscal and financial policy to productivity, inequality and globalization — he offers readers a thoughtful, nuanced and open-minded perspective, tempered by many years of having seen both business and public policy from the inside.

His comments on financial regulation will garner much attention, for he is frequently blamed for having set the stage for the recent crisis. Greenspan concedes that as Fed chairman, he was too sanguine about the ability of financial institutions to act rationally and prudently. He now gives greater weight to the role of irrational "animal spirits" and advocates much higher capital requirements. Yet he also cautions, correctly in my view,

against placing too much faith in the foresight of regulators, who are likely to succumb to whatever irrationality is in vogue. Financial regulators are just as human as those they are regulating, just not as well paid.

Despite the book's many strengths, however, it is a flawed piece of writing. It suffers in trying to appeal to two audiences.

One audience is the professional economists. The book contains dozens of graphs and tables of regression analysis, together with t-statistics calculated with the appropriate Newey-West heteroskedasticity and autocorrelation consistent standard errors. (Don't ask.)

But Greenspan is also writing for lay readers who want to hear from this famous man about how the economy works. For their sake, most of those graphs and tables are put in an appendix, where they can be safely ignored.

In trying to reach two audiences, the book does not quite reach either. Economists can learn a lot from it, but they will recognize that many of the arguments would have trouble passing scrutiny in peer-reviewed journals. Many other readers will buy the book (it's perfect for placing on your coffee table to establish your erudition), but few will finish it. Where are those Freakonomists with their breezy writing style when you need them?

Those who do finish the book will be amply rewarded. Whether or not you're an economist, you can't help coming away from "The Map and the Territory" with greater insight into many of the crucial issues facing the nation. Greenspan's path to fame may have been unconventional, but after reading this book, you'll understand why five American presidents turned to him and made him one of the great economic policy makers of our time.