Remembering Greenspan

What made the Maestro unique? TIE *asked several long-time contributors to single out one attribute from his many years of public service that they believe made the late Fed Chair Alan Greenspan one of a kind.*

Greenspan's genius: not merely to read the data, but to interrogate it until it yielded truths the models had missed.

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Alan Greenspan possessed many rare qualities, but if I had to single out the one that truly set him apart, it was his extraordinary, hands-on command of economic data—and his willingness to mine it himself, relentlessly and creatively, in pursuit of trends no one else had yet seen.

Most Fed chairs consume the analysis their staffs prepare for them. Alan produced his own. He pored over disaggregated numbers, broke series apart industry by industry, and reassembled them into stories about the economy that were often invisible in the aggregates everyone else was watching. He was, in the most literal sense, a data detective.

Consider his fascination with the cash that households were extracting from their homes. As mortgage rates fell and refinancing surged in the 1990s and early 2000s, Alan suspected that home-equity extraction had become a powerful and largely unmeasured engine of consumer spending. He did not simply assert it. Working with Fed economist James Kennedy, he built a system to reconstruct the gross mortgage flows that official statistics no longer captured, estimating how much equity homeowners were withdrawing and how they were spending it. It was painstaking, granular work, and it illuminated a channel from housing wealth to consumption that the rest of the profession only later came to appreciate—and whose importance would become all too clear in the following decade.

The defining episode, though, came in 1996. Unemployment had fallen well below what most of us then believed was the natural rate, and much of the Federal Open Market Committee, along with much of the Board staff, was convinced that inflation was about to accelerate and that rates had to rise. Alan disagreed. Studying the productivity data sector by sector, he concluded that the official statistics were understating gains concentrated in industries where output was hardest to measure, and that heightened job insecurity was restraining wage demands even in a tight labor market. It was an argument his colleagues—myself included, at first—found difficult to follow.

I came to believe he was right, and I set out to make his intuition more understandable by writing a short