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Exit Maestro

As I write this newsletter Alan Greenspan is presiding over his last meeting as chairman of the Fed reserve. For 18 years he has managed the US economy as well as anybody could have. Under his leadership the US economy had two of the longest peacetime expansions ever punctuated by two relatively short and mild recessions. Greenspan had a unique style, a unique language and a dedication to the job that will be a very hard act to follow.

So, what is the state of our economy after all this hard work? Today I ran off some 30 pages of graphs showing the trend of different pieces of the US economy over the last 10 to 15 years. (Don't worry, I don't intend to subject you to a long list of statistics.) The bottom-line is that the economy is solid but not great, growing but not running away with itself and in overall good health like a middle-aged patient under a good physicians care.

At the Federal Reserve, job number one is to take care of this aging patient in such a way that the inevitable flu or cold doesn't turn into pneumonia. In fact, the Federal Reserve tries to manage the economy in such a way that the minor ups and downs have little effect on our daily lives. I believe they do a great job. They manage growth while keeping inflation under control and head off recessions with various tools at their disposal. These tools, just like the tools in our hospitals, keep getting better. The managers, just like our physicians, are better trained than their predecessors and are able not only to see what is going on more clearly not able to react to it with more precision and confidence than ever before.

The management job at the Federal Reserve is somewhat more difficult these days because some of America's biggest companies (Ford, GM and othes) are having trouble. It is not the Fed's position to innovate for these companies. The companies have to heal themselves. The Feds job is to help keep the environment healthy. They must try to manage the economy around and in spite of these stumbling giants so that the consumer is still healthy and confident when the company begins to recover. Mr. Greenspan did this very well and I expect Mr. Bernake to do well also.

Capitalism will always have a boom and bust cycle. There will be periods of stability and periods of growth. When the growth is followed by a period of excited growth there is an inevitable bursting of the balloon. In either case, a recession of some magnitude follows. Far be it for me to explain why this is so, but it is. Something about human nature I suspect. The people at the Federal Reserve work with this every day. It is part art and science that keeps the wheels of capitalism rolling.