First Trust
Monday Morning OUTLOOK

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Alan Greenspan, RIP

Alan Greenspan passed away last week at the ripe old age of 100. Other than presidents, few Americans have wielded as much power in the arena of economic policy as Greenspan did during his roughly eighteen years and five months at the helm of the Federal Reserve.

Greenspan was originally appointed by President Reagan, but later re-appointed by Bush I, Clinton, and Bush II. His greatest accomplishment was consolidating and advancing the gains made against inflation under his predecessor Paul Volcker. Volker deserves the credit for whipping inflation in the early 1980s. But the PCE Deflator rose at a 3.1% annual rate in his last four years at the Fed. During Greenspan's entire tenure inflation averaged 2.5%.

Another accomplishment was that after Bill Clinton was elected president, with the support of many voters who wanted to boost spending, Greenspan convinced him to keep the budget caps put in place under Bush the Elder in 1990 and focus on deficit reduction, instead. In the meantime, Greenspan was a consistent advocate for cutting tax rates on investment and eliminating taxes on capital gains. He also advocated against the minimum wage.

Perhaps his greatest legacy was getting the Fed to pursue a 2% inflation goal. By law, the Fed is supposed to pursue both stable prices and maximum employment. Many policymakers would like the Fed to emphasize the employment part, even if inflation moves back up. Greenspan made it clear that if the goal is to maximize long-term job creation (as opposed to giving it a temporary boost), that the best way for the Fed to do that was by focusing on stable prices.

In other words, the only way to achieve both goals was to focus on just one of them. Otherwise, the extra jobs that might be created temporarily would be more than offset by job losses in the inevitable recession that followed, when monetary policy would have to get tighter. He also had the patience to explain this important point calmly and patiently to dovish Senators and Representatives time and time again.

But this doesn't mean Greenspan was always a hawk. During the 1990s, before there was clear evidence of an internet-related acceleration in productivity growth, he was able to convince other policymakers to hold off on aggressive rate hikes in spite of rapid economic growth and job creation.

Those other policymakers were using something called the "Phillips Curve," a Keynesian framework that assumed faster growth meant the Fed had been too easy and inflation was going to rise. Greenspan argued that if productivity growth was faster (faster growth in output per hour worked), then growth could accelerate but inflation would remain tame. He prevailed and was right.

But that doesn't mean Greenspan was flawless. In 1999-2000s, Greenspan ended up raising rates too aggressively, trying to offset a "wealth effect" related to stock market gains, very soon before an equity peak that threw the wealth effect in reverse. He then held rates too low in 2003-2004, stoking a housing bubble. And when the bursting of that bubble generated a financial panic Greenspan focused on lax regulation as the culprit. Instead, he should have blamed overly loose monetary policy, mark-to-market accounting, "too big to fail," and GSEs like Fannie Mae and Freddie Mac, which became much too big during his tenure and with nary a peep of warning from the Fed.

Regardless, Alan Greenspan's time at the Fed was largely a success. If Kevin Warsh's goal is to do better as chairman, the country would be blessed if he succeeds.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-30 / 8:45 am	Chicago PMI – Jun	55.0	**58.6**		62.7
7-1 / 9:00 am	ISM Index – Jun	53.9	**54.0**		54.0
9:00 am	Construction Spending – May	+0.2%	**+0.2%**		+0.4%
afternoon	Total Car/Truck Sales – Jun	16.1 Mil	**16.1 Mil**		16.1 Mil
7-2 / 7:30 am	Initial Claims – Jun 27	219K	**220K**		215K
7:30 am	Non-Farm Payrolls – Jun	113K	**70K**		172K
7:30 am	Private Payrolls – Jun	110K	**80K**		120K
7:30 am	Manufacturing Payrolls – Jun	4K	**2K**		7K
7:30 am	Unemployment Rate – Jun	4.3%	**4.3%**		4.3%
7:30 am	Average Hourly Earnings – Jun	+0.3%	**+0.3%**		+0.3%
7:30 am	Average Weekly Hours – Jun	34.3	**34.3**		34.3
9:00 am	Factory Orders – May	-2.0%	**-2.3%**		+4.8%

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.