

# **VOLCKER: THE TRIUMPH OF PERSISTENCE**

**WILLIAM L. SILBER**

## **BOOK REVIEWS AND CLIPPINGS**

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# The Economist

## Paul Volcker

### Tall tale

# The most influential central banker of the modern era

Sep 1st 2012 | from the print edition

**Volcker: The Triumph of Persistence.** By William Silber. *Bloomsbury*; 454 pages; \$30. To be published in Britain in January; £25. Buy from [Amazon.com](http://Amazon.com), [Amazon.co.uk](http://Amazon.co.uk)

ALAN GREENSPAN may be the most famous central banker of the modern era, but Paul Volcker has been the most influential. He played a crucial diplomatic role during the death of the Bretton Woods financial system in the early 1970s, which severed the link between money and gold and ushered in floating exchange rates. As head of the Federal Reserve from 1979, Mr Volcker then tamed the inflation that ensued, bringing monetary stability in the face of political opposition to the very high interest rates required. In doing so, he set the template for modern economic management, built around an independent central bank with an implicit, or explicit, inflation target.

After serving at the Treasury under Richard Nixon, the towering (6ft 7in) Mr Volcker was appointed to the Fed by both Jimmy Carter and Ronald Reagan. More recently he has been an adviser to Barack Obama, who traded on the former Fed chief's credibility by dubbing his plan to end banks' proprietary trading the "Volcker rule".

This long record of public service earns the admiration of William Silber, his new biographer. Mr Volcker could have earned much more on Wall Street. Upon becoming head of the Fed, his salary was halved. To balance their domestic budget, his wife, Barbara, took a part-time job as a book-keeper and let a room in their flat. He smoked cheap (and smelly) cigars because he could not imagine spending as much as \$2 on a stogie. In later life, when he chaired investigations into the UN oil-for-food programme or Arthur Andersen, an accountancy firm, he charged only a token \$1 fee.

Yet Mr Volcker still lacked the consolation of popularity, unlike Mr Greenspan, who was praised by the press and politicians for much of his term. Democrats blamed Mr Volcker for losing them the 1980 election because of his tight monetary policy. Milton Friedman saw him as insufficiently monetarist, and many in the Reagan White House regarded him with suspicion as a Democrat. Mr Volcker barely made it though his eight years at the Fed. He nearly failed to be reappointed in 1983 and almost resigned in 1986, when

defeated on a key vote. It was only in retrospect that his reputation grew; Mr Silber's well-written book should help cement it.

While Mr Volcker's record at the Fed is well-known, what might be more surprising is the crucial role he played in the exchange-rate crises of the early 1970s. Like an economic Henry Kissinger, Mr Volcker shuttled around the world to placate foreign allies in the face of Nixon's marked indifference to international economics. "I don't give a shit about the lira," was one of Tricky Dick's choice phrases.

For decades politicians had mouthed their support for a strong currency, but Nixon cut through the claptrap. "Volcker thinks we ought to sacrifice the domestic economy to save the dollar," he said. "I'm not in favour of that." The dollar duly fell sharply in the 1970s, although it rebounded under Mr Volcker's tenure at the Fed. Mr Silber praises his subject for stabilising the currency and also for opposing Reagan's budget deficits. Whether he is right to say that it was those deficits that pushed up real interest rates in the 1980s is harder to tell; after all, deficits are even higher now and real rates are negative.

Perhaps the most remarkable fact about Mr Volcker is that he has spent much of his career dealing with Wall Street without being captured by its influence. Mr Silber highlights his subject's commitment to financial reform, but fails to mention one of his more pointed *bon mots*—that the only useful modern financial innovation has been the automated teller machine. Such robust cynicism about Wall Street, along with his links to the current president, may explain why Mr Volcker is not a hero of the conservative movement, despite his anti-inflationary credentials.

# When Volcker Ruled

## Lessons from the man who led the U.S. through four decades of economic storms

By [JOHN B. TAYLOR](#)

Whoever wins the election in November, high on the president's agenda must be the task of reviving a flagging economy. Just as important as figuring out what to do will be actually making it happen—getting something done despite the inevitable obstacles and infighting.

William Silber's "Volcker: The Triumph of Persistence" thus comes at the perfect time, for Paul Volcker is one of those rare Washington figures who know how to think shrewdly about the economy and also how to make broad intentions into hard political realities. As Treasury undersecretary and as Fed chairman in the 1970s and 1980s, he got very big things done indeed. Mr. Silber offers fascinating subplots and revelations along the way—not to mention a portrait of a tough and colorful man—but his main storyline concerns two of the most dramatic-policy changes in economic history, one international, the other domestic. Mr. Volcker played a key role in both.

At the end of World War II, the major world economies had entered into the so-called Bretton Woods system, tying the value of major currencies to the dollar even as the dollar itself remained tied to gold. It was a system of fixed exchange rates, and it simply could not last, especially when inflation started to erode the value of dollar in the late 1960s and early 1970s.

### **Volcker: The Triumph of Persistence**

*By William L. Silber*  
*Bloomsbury, 454 pages, \$30*

On Sunday evening, Aug. 15, 1971, President Richard Nixon announced that the United States would no longer sell gold to other governments at \$35 per ounce—the dollar would no longer be convertible into gold at all. Although no one quite realized it at the



*Bloomberg News*

Paul Volcker, chairman of President Obama's Economic Recovery Advisory Board, testifies at a House Financial Services Committee hearing in Washington, D.C., U.S., on Wednesday, March 17, 2010.

time, the era of fixed change rates was over. In memos and briefing books, Mr. Volcker, an undersecretary at Treasury, had been arguing for an end to gold convertibility. He had persuaded his boss, Treasury Secretary John Connally, and Connally, in turn, had persuaded President Nixon. As Mr. Silber puts it, Nixon "would turn Volcker's proposals into law."

The Nixon Shock, as the Aug. 15 announcement would come to be called, was startling in other ways. In the same speech, Nixon declared a wage-price freeze. Mr. Volcker had recommended that course of action too. He was backed in this case by Arthur Burns, the chairman of the Fed, and by other White House advisers, who saw the move as a way of counteracting any temporary inflationary effects from untethering the dollar from gold.

The freeze, though, was an extreme measure, at odds with economic logic, and it took policy in a highly interventionist and damaging direction. George Shultz, then heading up the Office of Management and Budget, had argued against such controls but had lost the battle. It is indicative of how quickly Nixon was veering away from free-market principles that, when the president told Connally to brief Mr. Shultz on the plan, he added: "Tell Shultz that he cannot talk with Milton Friedman."

At that time no one knew what exactly would replace the Bretton Woods system. In December 1971, the U.S. and other countries agreed to continue with fixed exchange rates, with a somewhat devalued dollar, but the agreement quickly fell apart. Soon it

became clear that a completely new international monetary system was needed. What would it look like?

Answering that question was Treasury's great task when Mr. Shultz replaced Connally as secretary in May 1972, with Mr. Volcker remaining as undersecretary, responsible for international monetary issues. Mr. Shultz had long been in favor of a flexible exchange-rate system of the kind that Milton Friedman had advocated, in which the value of foreign currencies in terms of the dollar floated as determined by the forces of supply and demand. Mr. Volcker, with his experience in international policy circles, was more skeptical. He worried that, if rates were allowed to fluctuate, speculating traders would destabilize markets. When Mr. Schultz arrived at Treasury, Mr. Silber writes, "nothing could have been more threatening to Volcker, except perhaps if Milton Friedman himself had set up a classroom inside the Treasury Building."

Mr. Silber goes on to describe the first conversation between Mr. Shultz and Mr. Volcker about Treasury's plans for reforming the international monetary system. Mr. Volcker confessed to the secretary that, when it came to drawing up plans ahead of a big September meeting of the International Monetary Fund, "we're not that far along." Mr. Shultz pressed him to get going. "Are there any guidelines?" Mr. Volcker asked. "Yes," Mr. Schultz replied, "something that has a chance to work."

So Mr. Volcker went to work that summer of 1972. The eventual plan—called "Volcker's plan X" in Mr. Silber's chronicle—involved a mix of flexible and fixed exchange rates. Countries with trade deficits would regularly lower the value of their currency, and countries with trade surpluses would regularly raise theirs. As an incentive, the U.S. would allow countries that were willing to work within this new system to convert their dollars into gold. Mr. Volcker got support for the plan from other members in the administration. Mr. Silber writes that Mr. Shultz accepted the plan and thus rejected Milton Friedman's call for a system of flexible exchange rates. "Shultz put his Chicago colleague's proposal on the back burner," Mr. Silber writes.

As it happens, I have recently been talking to Mr. Schultz (a colleague of mine at Stanford's Hoover Institution) about his experiences in Washington, as part of a research project of my own. He has a different memory of this hinge moment. What Mr. Silber calls Plan X, Mr. Schultz says, was in fact Milton Friedman's idea, not Mr. Volcker's. The purpose of the plan was to get our European and Japanese trading partners—accustomed to fixed rates—to warm up to the idea of exchange rates moving regularly. Mr. Shultz describes circulating his IMF speech to his European colleagues in advance to get their input and, ultimately, their buy-in. His aim was to build a consensus without seeming to impose an American "solution" on everyone else.

Regardless of whose idea Plan X was, it was a reform strategy—and it worked. Almost exactly as scripted, the skeptical and reluctant Europeans themselves ended up broaching the idea of moving toward a flexible exchange-rate system. In March 1973, at a meeting in Paris, Helmut Schmidt, then the German finance minister, raised the possibility of a joint European float against the dollar. He asked Mr. Shultz how the U.S. would respond.

Mr. Shultz replied with diplomatic understatement: "It is something we would consider sympathetically."

And so the course of economic history was changed. The fixed-rate system that had governed the global economy since the end of World War II, but that fell apart because of its own rigidity, was replaced by a system in which exchange rates were free to adjust and thereby help insulate countries from policy mistakes and other shocks from abroad. And these benefits were not offset, as some had feared, by massive speculation and turbulence in the markets for foreign exchange.

Even as the major world economies were figuring out a new way of managing their currency relations, the American economy was heading into a period of crisis—and here, again, Mr. Volcker helped to guide a momentous change. By the late 1970s, inflation and unemployment in the U.S. were rising while economic growth and the dollar were falling. The problem of stagflation, as it was called, seemed insoluble. Confidence in the American economy was waning everywhere. In July 1979, President Jimmy Carter appointed Mr. Volcker as chairman of the Fed.

At first, the appointment was well-received by the financial markets. Mr. Volcker's record at Treasury was well-known, and he openly questioned the academic view—defied by the persistence of stagflation itself—that a higher inflation rate would lower unemployment. Mr. Volcker clearly wanted lower inflation, and he knew that a tighter monetary policy was the way to do it. But the markets soon lost confidence in his leadership. On Sept. 18, 1979, he nearly lost on a decision of the Federal Reserve Board to raise the discount rate by 50 basis points—the vote was 4 to 3. The close vote raised doubts about his ability to lead the Fed to change its inflationary ways.

As Mr. Silber shows, Mr. Volcker decided to go on the offensive, though diplomatically. He worked with the Fed's staff to design a new strategy that, if presented properly, might win support among the Fed's governors and its district bank presidents. Its key ingredients were a full percentage-point jump in the discount rate; new reserve requirements on large banks to reduce the growth of credit; and, crucially, a new "operating procedure" for the Fed that would focus on reducing money growth and thus bringing down the rate of inflation. His approach to selling the strategy was similar to the way the new international exchange-rate system was sold by Mr. Shultz a few years before.

According to Mr. Silber, "Volcker recalled his admiration for former Secretary George Shultz, who built a consensus for floating exchange rates with an evenhanded approach, suppressing his preferences to promote an exchange of views. The crisis atmosphere encouraged Volcker to follow suit." After Mr. Volcker laid out the strategy to his colleagues on the Federal Open Market Committee, he announced that he was prepared "to go with whichever way the consensus wants to go as long as the program is strong." He won the unanimous support and buy-in of every member of the Federal Reserve Board. The new policy was announced Oct. 6, 1979.

The shift to money-growth targets allowed Mr. Volcker to say that it was the market rather than the Fed that determined the short-term interest rate. Thus he could allow the rate to go higher than it otherwise might by normal Fed procedures, though Mr. Silber reports that Mr. Volcker "denied the premise" behind this rationale. (I have to say: He didn't always deny it. I recall a conversation, several years later, in which James Tobin, the Nobel laureate, asked Mr. Volcker why he didn't just lower the interest rate at a certain point, and Mr. Volcker answered that he didn't set interest rates; the market did.)

The high interest rates in the late 1970s and early 1980s—Mr. Volcker continued at the Fed after Ronald Reagan's took office in 1981—slowed the economy for a while, casting doubt on the new strategy. But Mr. Volcker showed fortitude and, yes, persistence.

When the construction industry sent two-by-fours to his office and farmers circled the Fed in Washington, he stuck with the policy. When asked on CBS's "Face the Nation" if he would stop fighting inflation and start fighting unemployment, he answered that he could not stop fighting inflation.

There is some suggestion in Mr. Silber's book, based on the comments of a few White House advisers, that Mr. Volcker did not have the support of President Reagan in his disinflation efforts. But Milton Friedman and Mr. Shultz both said in interviews that Reagan was highly supportive. In any case, the effort paid off: Inflation slowed dramatically and created an economic environment that made possible 25 years of strong and steady economic growth.

Toward the end of "Volcker: The Triumph of Persistence," Mr. Silber tells us that Mr. Volcker nearly became Treasury secretary in the administration of Barack Obama but instead became an outside adviser, though one with enough clout to make the "Volcker rule" a part of the 2010 Dodd-Frank law, curtailing banks from trading securities on their own behalf. It is clear that, even so, the power of an outsider is limited. As we can see from the stories of Mr. Volcker's earlier work, actually implementing major change must come from the inside.

And major change is now needed. The American economy is doing poorly. The federal deficit remains large. The federal debt is soaring, and the Federal Reserve itself is buying huge amounts of this debt (77% in the last fiscal year). A reckoning is due.

The economic answers are as simple as they were in Mr. Volcker's time in office: Get back to sound and predictable fiscal and monetary policy. Though there is a cacophony of views about how to proceed, the differences are no greater than they were when a new monetary system was established in the early 1970s or when American monetary policy changed for the better in the late 1970s and early 1980s. The job today is to forge a consensus and put the needed reforms in place. The experience of Paul Volcker and his colleagues, so compellingly chronicled in this book, shows the way.

*—Mr. Taylor, a professor at Stanford, a senior fellow at the Hoover Institution and a former Treasury undersecretary for international affairs, is the author of "First Principles: Five Keys to Restoring America's Prosperity."*

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# FT & Goldman Sachs Business Book of the Year Award

September 13, 2012 11:46 pm

## Biographies and economics dominate

By Andrew Hill

Heavyweight biographies of two towering figures of global business and economics are among the six finalists for this year's Financial Times and Goldman Sachs [Business Book of the Year Award](#).

The seven judges chose the shortlist – including *Volcker*, William Silber's newly published life of Paul Volcker, the former Federal Reserve chairman, and *Steve Jobs*, Walter Isaacson's account of the life and work of the late chief executive of [Apple](#) – from [17 longlisted titles](#). Lionel Barber, the FT's editor, called it “the strongest list in terms of quality” since the prize was launched in 2005.

The judges will select the winner on November 1, and the £30,000 prize will be presented at a dinner in New York that evening to the book that “provides the most compelling and enjoyable insight into modern business issues”. Authors of each of the five other finalists will receive £10,000.

The 262 entries for this year's award included many books about the US economy, timed to appear before the presidential election. But the shortlist reflects a broader range of topics of global relevance.

The finalists include *The Hour Between Dog and Wolf*, John Coates' analysis of the biology of financial traders. Vindi Banga, a partner with private equity firm Clayton Dubilier & Rice and one of the judges, described it as an “important book” that looks “at the only business situation where response times have to be as quick as in war or sport”.

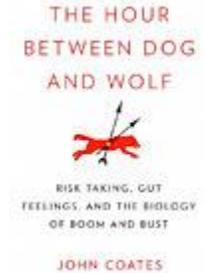
The judges also drew attention to *Why Nations Fail* by Daron Acemoglu and James Robinson, which traces the roots of power and prosperity to the nature of economic and political institutions. Shriti Vadera, former UK minister and an adviser to multinationals, praised the book for its “great sweep of politics and economics and history”.

In a strong year for in-depth investigations of companies, journalist Steve Coll's *Private Empire*, which dissects the power base of [ExxonMobil](#), the US oil and gas company, earned a place on the shortlist. Jorma Ollila, who brought his insight as chairman of Royal Dutch Shell to the judging table, said the book “captures the DNA of the company marvellously well”.

Rounding out the list is *What Money Can't Buy*, Michael Sandel's exploration of the moral limits of markets. Lynda Gratton, professor at London Business School, said it was

a “thought-provoking antidote” to the usual market-driven discussion of business and the economy.

The Shortlist

Title	Author	Publisher
	John Coates	US: The Penguin Press, UK: Fourth Estate

The Hour Between Dog and Wolf: Risk-taking, Gut Feelings and the Biology of Boom and Bust



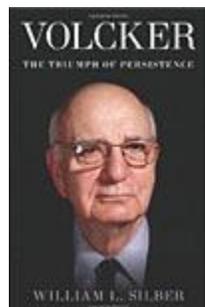
Steve Coll	US: The Penguin Press, UK: Allen Lane
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Private Empire: ExxonMobil and American Power



Walter Isaacson	US: Simon & Schuster; UK: Little, Brown
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Steve Jobs: The Exclusive Biography



William L. Silber	Bloomsbury Press
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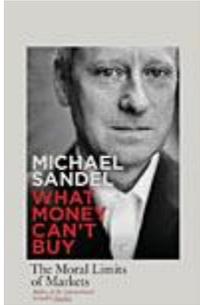
Volcker: The Triumph of Persistence

The Shortlist

**Title**

**Author**

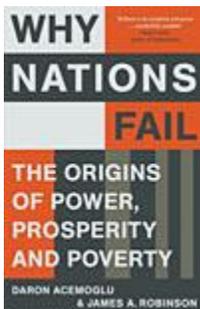
**Publisher**



Michael J. Sandel

US: Farrar, Straus and Giroux, UK: Allen Lane

What Money Can't Buy: The Moral Limits Of Markets



Daron Acemoglu and James A. Robinson

US: Crown Business, UK: Profile Books

Why Nations Fail: The Origins of Power, Prosperity and Poverty

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# WALL STREET JOURNAL

September 20, 2012, p. A17

## Notable & Quotable

### **Author William L. Silber on Paul Volcker and inflation in the 21st century.**

*From William L. Silber's "Volcker: The Triumph of Persistence," published this month by Bloomsbury Press:*

Long-term budgetary extravagance combined with a banking system brimming with liquidity threatens investors with inflation. Increases in real interest rates as the economy expands, [Paul] Volcker's medicine during the 1980s, can preserve investor confidence by restraining private spending and by persuading Congress to legislate a balanced budget. But Volcker acted after years of inflation had galvanized public opinion behind him, while in the second decade of the twenty-first century, Americans have been weakened by recession and unemployment. The Federal Reserve may not have the public support it needs to act preemptively.

Inflation is ancient history to most Americans, like some medieval curse, but the risk of resurgence in a world of fiat currency demands vigilance. Volcker worries that the international financial system is especially vulnerable now, "when foreign countries own trillions of our dollars, when we are dependent on borrowing still more abroad, and when the whole world counts on the dollar's maintaining its purchasing power."

A commitment to a full-employment balanced budget would confirm the fiscal integrity needed to neutralize the danger at the source.

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<http://seekingalpha.com/article/884721-paul-volcker-lessons-learned>

# Paul Volcker: Lessons Learned

September 24, 2012

**John Mason**

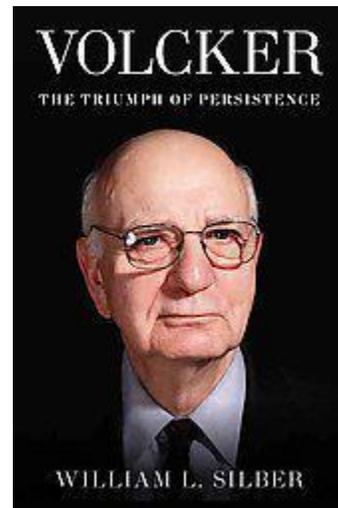
**Disclosure:** I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.

I have just finished reading the book, "Volcker: The Triumph of Persistence," by William L. Silber. It is an excellent book, well written, and a book that I could not put down. Bill has done a remarkable job in producing this book and it is a well-deserved member of the Financial Times' short list for best business book of the year.

The work contains biographical information on Volcker, but the main thrust of the book deals with three major periods of Volcker's life: his work in the Nixon Administration; his experience at Chairman of the Board of Governors of the Federal Reserve System; and his efforts surrounding the development and passage of the "Volcker Rule," which became a part of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Paul Volcker's initial job after graduate school was at the Federal Reserve Bank of New York, where he was hired as an economist. His good fortune brought him into contact with Robert Roosa, vice president of the Research Department and an expert on the money markets. Roosa, in the 1950s, wrote the bible of how the Federal Reserve conducted monetary policy and Paul Volcker was drafted to help in the research and writing of this document. Roosa then put Volcker to work in the trading room at the Fed in order to get first-hand experience with markets.

In the 1960s, Roosa moved to the U. S. Treasury Department to join the Kennedy administration as undersecretary of the Treasury for monetary affairs. He brought Volcker along with him.



This was an interesting path because the economists in the Kennedy administration generally tended to be of the "Keynesian" persuasion and focused upon unemployment and "getting America growing again." Volcker, on the other hand, worried about the international monetary system, the Bretton Woods system, international capital movements, and foreign exchange rates.

This gave Volcker a different perspective on economic events from the one held by most of the economists that worked in the administration at this time. The latter were focused on stimulating the economy, the Kennedy tax cuts, and reducing unemployment. Volcker focused on international finance, international capital flows, and the value of the dollar.

In 1965, Volcker left the Treasury to go to work at Chase Manhattan Bank. He was not to be there long. Remarkably, Volcker was drawn back to Washington, D. C. when Nixon was elected president in 1968. Volcker, a Democrat, was appointed to the Treasury Department, in the exact same position previously held by Roosa.

I cannot do justice to Silber's treatment of Volcker's experience at the Treasury Department. All I can say is that Volcker was the key person that developed the plan to sever the ties between the U. S. dollar and gold and ended up being the "point man" in discussions with leaders in Europe and the rest of the world after the plan's August 15, 1971 announcement by Nixon.

I also cannot cover in great deal Volcker's tenure as the Chairman of the Federal Reserve. Silber does a remarkable job of bringing his reader into the time and the politics of his fight against inflation. It is truly amazing what Volcker was able to do.

I would like to emphasize some key insights into how Volcker views the world.

Volcker's experience was not with the problem of unemployment. The events that dominated his time at the Treasury Department related to international monetary relationships and the value of the dollar. Key to the international monetary system at the time was the relationship between gold and the dollar.

And, what raised its head during Volcker's time at the Treasury in the 1960s? Inflation!

The Kennedy administration's emphasis on creating "a little inflation" to reduce unemployment and the Johnson administration's efforts to fight a war in Viet Nam resulted in rising price levels. By the beginning of the 1968 presidential campaign, inflation had increased to the point that it was becoming a real issue. After Volcker joined the Nixon administration, inflation became more and more of a problem, which, of course, ended up precipitating the severing of the dollar and gold.

Volcker came to focus on two crucial variables during this time: the value of the dollar and the value of gold. This is truly remarkable because this was not something that came out of his academic experience, his working in the trading room at the New York Fed, or his colleagues. Volcker developed this focus by actually living through the international

monetary upheavals of the 1960s. And, the focus never left him during his tenure as the Chairman of the Fed.

Why did he focus on the value of the dollar and gold? Because the prices of these two items captured as surely and in as timely a way as possible the expectations of the financial markets concerning inflation. And, inflation was the major problem that Volcker had to fight.

Volcker believed this so strongly that he wrote in his book (with former Japanese Minister of Finance Toyoo Gyohten) "Changing Fortunes: The World's Money and The Threat to American Leadership" the following: "a nation's exchange rate is the single most important price in the economy." (page 232) It's value reflects traders expectations about future inflation.

Another idea was important to Volcker, but this one did not come to him until he was the Chairman of the Fed. This was the concept of "rational expectations." Simply put, this idea contends that you cannot constantly fool people because people adjust their expectations as they learn.

For example, a little bit of inflation may initially fool people, but they will catch on. Thus, to get a similar impact, say on reducing unemployment in the future, inflation must be increased. People learn and their expectations tend to catch up with what is actually happening to them.

In the 1980s, Volcker observed that inflationary expectations in the United States had ramped up and presented the Federal Reserve with a substantial problem. The expectation that the government would continue to create more and more inflation had become widespread. Thus, you could have a period of "stagflation" where economic growth was extraordinarily slow, yet inflation continued on at a very rapid pace. Volcker perceived that these "expectations" had to be broken before the country could resume a more normal rate of growth.

The author also presents an interesting picture of the development of the "Volcker Rule" and how it became a part of the financial reform bill. Volcker's thoughts here go back to the old, old belief that bankers must always be protected from themselves because, historically, they always try to squeeze too much out of a good thing. But, read the book for exactly how this plays out for Volcker.

Silber ends his book with a chapter entitled "Trust." He argues that government officials must be trusted in terms of the programs they present and in their willingness to see them through to the end. The programs must be clearly present, and the commitment must be fully exhibited. In this respect, no leader in the United States government over the past 50 years or so has commanded so much trust as has Paul Volcker.

## ABOUT

John M. Mason writes on current monetary and financial events. He is an entrepreneur and a writer. Current projects include a new banking institution, an Internet company, a private equity fund, two depository institutions and a community redevelopment fund. He formerly was on the faculty of the Finance Department, Wharton School, the University of Pennsylvania. Dr. Mason has been President and CEO of two publicly traded financial institutions and the executive vice president and CFO of a third. He has also served as a special assistant to the secretary of the Department of Housing and Urban Development in Washington, D. C. and as a senior economist within the Federal Reserve System.

# The Washington Post

<http://www.washingtonpost.com/blogs/ezra-klein/wp/2012/09/25/volcker-biographer-bernanke-needs-to-embrace-lessons-of-1970s/>

## Volcker Biographer: Bernanke needs to embrace lessons of 1970s

By Neil Irwin, September 25, 2012; In Print September 30, 2012, p. G4

The ideas and legacy of Paul A. Volcker loom as large in contemporary economic debates as his 6'7" frame. From the merits of the most recent Federal Reserve actions to boost the economy to how to regulate Wall Street, many of the challenges of today have echoes of those that the former Fed chief grappled with in a five-decade career. William L. Silber has written a rich and detailed new biography of a man who has left as deep an imprint on the world economy as anyone of his generation. Silber, a professor at [New York University](#) and author of a bestselling textbook on money and banking, discussed the lessons for the present from his new book, ["Volcker: The Triumph of Persistence."](#)

**Washington Post: What do you see as the lessons that Ben Bernanke and the current Federal Reserve should be taking from Volcker's experience in the 70s and 80s?**

**William L. Silber:** I'm going to preface what I say with this: Bernanke gets an A for what he did in 2008. He did exactly what a central banker, knowing the history of the Great Depression, should have done when confronted with the potential for panic. Open up the floodgates and lend. But now he should worry about the fallout from remaining too easy for too long, which Volcker maintains is the reason we lost the battle against inflation before.

The 1970s delivered two important messages. First, we can't get a permanent reduction in unemployment by inflating. It doesn't work. And second, we've got to worry about inflation even with unemployed resources. Waiting until we see a clear and present danger is too late. Will there be a recovery in economic activity in the United States? Yes. Is this recovery taking longer than almost everyone thought it would? Probably. But the leveraging process that got us into trouble took years. We can't expect the de-leveraging to happen overnight. And letting monetary policy ease the de-leveraging by inflating will only get us into more trouble.

Volcker articulated a view on the fundamental evil of inflation that I had never thought of until I wrote this book – and I had been analyzing inflation for a long time before that. He

believes that the main problem with inflation is that it undermines trust in government. We, as citizens, give the government the right to print money and we expect the government not to abuse that right by inflating. When the government inflates it breaks its pledge and undermines our trust. Right now we need trust in government more than anything else.

**WP: But inflation hasn't been much of a problem the last four years. Shouldn't the Fed be focused on addressing the major economic problem of today, unemployment, just as Volcker addressed the major problem of his day, inflation?**

**WLS:** The big difference today versus the problem Volcker confronted in 1979 is that inflationary expectations were already out of hand back then. Today they are still under control, but no one knows how fragile they are. More importantly, it will be difficult for Ben Bernanke, or whoever follows him, to maintain low expectations of inflation by raising real interest rates – the way Volcker did — when that's needed. We have had five years of unemployment and the American public may not tolerate a central bank that acts preemptively, as it must, to prevent inflation. The Fed is independent but it cannot do whatever it wants. Moreover, the Fed does not know how high rates need to go to maintain control. So it is not clear that the Fed will be willing and/or able to do what is necessary to control inflation. Bernanke needs to replace the lessons of the Great Depression, which helped until now, with the teachings of the 1970s and 1980s, which are needed going forward.

**WP: So what can Washington do to address the weak recovery?**

**WLS:** We need short-term budget stimulus, like increased unemployment insurance, to bolster spending, but we also need long-term fiscal restraint, like fixing Medicare and social security, to promote trust in the government's ability to meet its obligations. The Fed can help by focusing on what we know it can do, which is to maintain price stability.

**WP: You write that President Obama passed over Volcker, who had advised him during the campaign, to join the administration full-time. How do you think the last few years might have been different with Treasury Secretary Volcker?**

**WLS:** It's pretty clear the Volcker Rule [enacted as part of Dodd-Frank financial reforms that prohibits banks from engaging in speculation] would have happened more quickly and without as many holes.

**WP: How would you characterize how much influence Volcker has truly had on Obama since he became president?**

**WLS:** Not that much, except for the Volcker Rule.

**WP: As you see regulators try to implement the Volcker rule, what are your thoughts so far? Is it going to work?**

**WLS:** There's only one way the rule can work: Make the bank's CEO legally and publicly accountable for implementing the ban on speculation. No matter how many regulators we have they'll never stop the speculators unless bank executives help. And they can. I was a trader and had to report my activities to the manager of a trading desk. The trading manager knew when I had taken more risk by speculating than by market-making. He looked at the size of my inventory, frequency of trading, and so on. If the CEO gives very clear marching orders to trading managers then 95 percent of the problem will disappear. Will it mean no more blowups? No, but they will be held to a respectable minimum. That's all we can hope for, and all the Volcker Rule can accomplish, which would be a lot.

**WP: Volcker's critique of modern Wall Street has long been that it has been corrupted by excessive compensation and a pursuit of innovations that don't actually benefit society. Do you agree?**

**WLS:** People cite Volcker's quote about the ATM [he has said that the only socially useful financial innovation of the recent times was the automated teller machine]. I love the ATM machine. Anybody who ever stood in line to cash checks loves the ATM machine. But it's not as important as the invention of index funds in the mid-1970s. Index funds have helped investors diversify risks at low cost and have revolutionized the mutual fund industry for the better. The same could be said of money market mutual funds. I don't expect to convince Volcker, but there have been some very beneficial financial innovations in addition to the ATM.

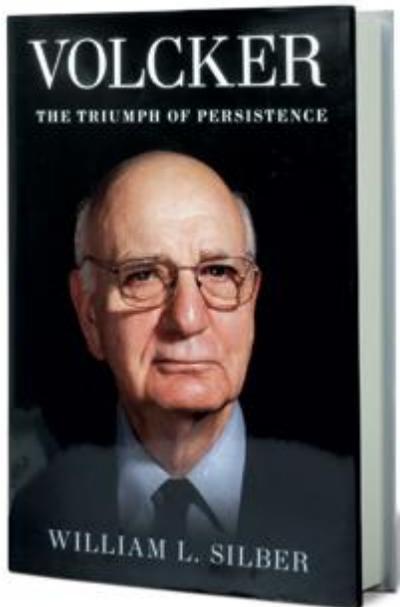
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# BloombergBusinessweek

## Book Review: 'Volcker,' by William Silber

By [Roger Lowenstein](#) on September 27, 2012

<http://www.businessweek.com/articles/2012-09-27/book-review-volcker-by-william-silber>



*Volcker: The Triumph of Persistence*

By William Silber

Bloomsbury Press

464 pp; \$30

Some statesmen blossom late in life; others bloom early and disappear. Paul Volcker did both. The young Volcker was an influential Nixon administration official during the 1971 crisis when America ditched the gold standard. Volcker later ran the Federal Reserve Board for eight years, where he had the guts to raise interest rates and brook a recession, thereby subduing inflation. When he retired in 1987 he was an international hero, having acquired a reputation for unflinching rectitude. He retreated from public view and became a partner for a spell at Wolfensohn, an investment bank. Then, as Wall Street began to lose its head with mortgages, Volcker, like a curmudgeonly deity on Olympus, began to toss thunderbolt warnings about the frothiness of America's financial system. President Barack Obama, capitalizing on Volcker's wise man rep, brought the banker back to public service and—briefly—to center stage.

William Silber, a financial historian and professor at the Stern School of Business at New York University, has the challenge of fitting this lopsided story—his subject, who turned 85 last month, enjoyed his most fruitful years before age 60—into a coherent narrative. He succeeds admirably in *Volcker: The Triumph of Persistence*. Silber, who had Volcker's cooperation, emphasizes the former Fed chief's independence and willingness to take unpopular stances, a trait as laudable in public life as it is uncommon. Silber all but ignores the 20 years following Volcker's Fed chairmanship; even his recent service is an afterthought.

As an Obama adviser, he fought for adoption of the "Volcker Rule," which forbids proprietary trading by banks. The reason his star doesn't shine as brightly in this section is that Volcker himself admits the rule wouldn't have prevented the failures at Lehman Brothers or American International Group ([AIG](#)), or much else that went wrong in 2008. One has the sense that Volcker's motivation for promoting the reform was partly emotional—that the banks had gotten too big and too risky and something had to be done.

Yet this episode underlines a little-noted facet to his character. Contemporary bankers loathe the Volcker Rule and tend to see its creator as a flame-throwing radical. As Silber deftly brings out, he's anything but. The son of the town manager of Teaneck, N.J., Volcker "learned integrity at home." Modest despite his towering, 6-foot-7 height, he was a throwback to the era of less-moneyed officials who endured personal sacrifice to work in government. His son was born with cerebral palsy and his wife suffered a variety of ailments; as Fed chief, Volcker lived in virtual student quarters in a one-bedroom apartment furnished with a bridge table and a 10-inch black-and-white TV, commuting to his family in New York on weekends.

On the job as a public official, he was a quintessential pragmatist committed to finding workable solutions. As Silber says of Volcker's perception of an early boss, "he knew that politics, not economics, dominated Nixon's mind and heart." Moderation also ran in Volcker's blood. To the extent that any ideology had a hold on him, it was the ideology of hard work, of earnestness, and old-fashioned virtues. He harbored a visceral dislike for traders of modern collateralized-debt obligations because they upended the traditional, more stable banking culture centered on lending to clients.

Volcker's a conservative in the true sense of resisting change. Even in the early 1970s, as undersecretary of the Treasury for monetary affairs, he evidenced a profound reluctance to abandon Bretton Woods, the postwar framework under which every currency was pegged to the dollar and the dollar pegged to gold. As Americans bought more products overseas, the dollar came under fierce pressure and the system collapsed. Volcker jetted around the world trying to patch together a new set of fixed rates. Free-floating rates were inevitable, but he wanted no part of it. He likewise abhorred inflation because it can destabilize the economy.

Silber devotes most of the book to the first two of Volcker's "crises"—the collapse of the gold standard and the battle against inflation (the third crisis being the meltdown of 2008). These sections are extraordinarily well researched; readers come to realize that the

crises were joined, and that Volcker was engaged in one sustained battle. Once gold was no longer relevant, the dollar had no anchor, and inflation became unavoidable—at least until the Fed developed the will to combat it. This required the sort of gruff resolve that was Volcker’s forte. As Silber says, Volcker “showed that a determined central banker can behave like a surrogate for gold.”

It was Jimmy Carter who in 1979 nominated Volcker as Fed chairman. The president later complained when Volcker’s policies of high interest rates threatened to tip the economy into recession and thus jeopardize Carter’s reelection. Volcker never blinked and proceeded to stare down Ronald Reagan as well. He hiked the overnight rate (also known as the fed funds rate) by two percentage points, to 14 percent, in the midst of a major recession—and he made clear that such tight money policies would continue until Reagan got serious about cutting the deficit. When Reagan (or his underlings) tried to undercut the Fed chief, Volcker demanded a solo meeting with the president. Afterward, Reagan issued a conciliatory statement and months later signed a bill raising taxes and moderating the deficit. It’s hard to think of a Fed chief acting so independently since, what with Alan Greenspan cozying up to then Treasury Secretary Robert Rubin and Ben Bernanke clinging to Secretaries Hank Paulson and Tim Geithner. As Silber sums up, Volcker “refused to accommodate increases in government debt as the economy expanded.” Not for nothing is he missed today.

# FINANCIAL TIMES

September 28, 2012 8:48 pm

## Confidence in a crisis

Review by Robin Harding

### The political battles of a central banker are recounted in a timely biography

**Volcker: The Triumph of Persistence**, by William Silber, *Bloomsbury*  
RRP£25/RRP\$30, 448 pages

The economy suffers a malaise. A fiscal deficit yawns but government is paralysed. The only agency that can act is the US Federal Reserve. It all sounds very familiar.

[Paul Volcker](#) was chairman of the Fed from 1979 to 1987. His foe was inflation – the opposite of the [high unemployment fought by Ben Bernanke](#) today. But the pressures on the two men from purist academics and interfering politicians are eerily similar.

That makes this fine new biography especially timely. William Silber's theme is the tension between monetary and fiscal policy, between the ascetic central bankers and the wilful politicians, and how one must check the other.

Silber, a professor of finance and economics at New York University's Stern School of Business, argues that Volcker's achievements went beyond taming inflation; by keeping interest rates high, he also forced Ronald Reagan to rein in the budget deficit. That is relevant to today's debate, which pits supporters of the Fed against Republican critics who say that by striving to push down long-term interest rates, the central bank is relieving market pressure on politicians to tackle the public finances.

Most of Silber's account is devoted to the three main policy episodes of Volcker's career: his role in ending the link between the dollar and gold at the US Treasury in 1971; in fighting inflation at the Fed a decade later; and in proposing the "[Volcker rule](#)", which restricts commercial banks from speculating, in 2010.

Volcker, still influential at 85, comes across in this book as determined and principled but also pragmatic. He misses out on early chances to become Fed chairman or Treasury secretary because presidents Lyndon Johnson and Richard Nixon do not trust him to do what he is told. When a crisis unfolds, however, he does what is needed – even when that means bailing out the creditors of Continental Illinois in 1984, and thus establishing the idea that some banks are too big to fail.

It is for his fight against inflation at the Fed that Volcker is best known. Throughout the 1970s, under the chairmanship of Arthur Burns, the central bank was quick to cut interest

rates whenever unemployment seemed likely to increase. By the end of the decade prices were rising by close to 15 per cent a year.

Volcker changed the regime at the Fed and targeted the money supply (although never to the satisfaction of monetarist economists). Short-term interest rates rose as high as 19 per cent, the economy fell into recession, but inflation was crushed. As Silber notes, the price of gold fell and the dollar rose once Volcker was in charge, suggesting markets believed he would avoid inflation. But interest rates on treasuries stayed high as Reagan's tax cuts led the government to borrow more and more.

In early 1982, the Fed raised interest rates again by 2 percentage points in the teeth of recession. Silber argues that it was the knowledge that the private sector would get no relief on interest rates unless the government reined back that pushed the Reagan administration to raise taxes later that year, and led to further deficit reduction in 1985.

It is interesting to compare that situation with the present day. Now, short-term interest rates are close to zero, inflation is low and inflation-protected bonds do not imply an investor fear of runaway price rises. But with 10-year Treasury bonds yielding just 1.62 per cent at the time of writing, investors seem happy to lend to the government, despite high deficits.

Instead, all the facts indicate that there is little private demand to borrow, in which case the Fed could raise interest rates and still put little pressure on Congress to tackle the deficit. Indeed, it might well have the opposite effect. Silber recognises that, but in a final chapter titled "Trust" he argues that the Fed may at some point have to raise interest rates pre-emptively, and in an economy weakened by recession and unemployment it "may not have the public support that it needs".

What Volcker's experience shows is that when a central bank is forced to keep rates high by a profligate government, then politicians will threaten its independence. Jimmy Carter appointed Volcker in 1979 and the resulting high interest rates may have cost him re-election in 1980. Volcker's reappointment by Reagan in 1983 was touch-and-go. In 1986, Volcker was outvoted 4-3 on the Fed board by four Reagan appointees, who wanted to lower rates. He almost resigned but the matter was smoothed over.

In January 2014, Bernanke's term at the Fed will end, and whoever is president will have to appoint a replacement. This book suggests that the most important thing is to choose somebody wise, stubborn and, above all, independent.

*Robin Harding is the FT's US economics editor*

October 19, 2012

## Central Banker

By FELIX SALMON

**VOLCKER**

**The Triumph of Persistence**

By William L. Silber

Illustrated. 454 pp. Bloomsbury Press. \$30.

The global financial crisis destroyed reputations as effectively as it destroyed wealth. Alan Greenspan, Robert E. Rubin, Sanford I. Weill, Richard S. Fuld Jr., James E. Cayne — the list of the humbled is almost endless, while the number of heroes is minuscule. One man, however, bucked the trend and almost alone emerged from the crisis even more revered and admired than he had been already. And now, with the arrival of “Volcker: The Triumph of Persistence,” Paul A. Volcker has finally been awarded a meticulous historical account of exactly how he reached his exalted position.

William L. Silber, a professor at New York University’s Stern School of Business, is more technocrat than traditional biographer, and his detailed book — he calls it a “biography of Volcker’s professional life” — concentrates almost exclusively on Volcker’s years in public service. There’s almost nothing here about Volcker’s private life: his marriages, for instance, and the births of his two children warrant scarcely a mention. Even the eight years he spent as a high-powered investment banker for Wolfensohn & Company, first as chairman and then as chairman and chief executive, are dispatched in just a couple of paragraphs. If you’re looking for a portrait of Volcker the man, this is not the book for you: you’ll be much better off with Joseph B. Treaster’s breezy and easily digestible 2004 biography, “Paul Volcker: The Making of a Financial Legend.”

On the other hand, this book is a treasure trove for policy wonks fascinated by gold prices and foreign exchange rates, and minutes of the meetings of the Federal Open Market Committee. The long account of Volcker’s years at the Treasury Department, from 1969 to 1974, will be particularly hard to follow for anyone who lacks a reasonably strong grip on the economic history of international exchange-rate policies. But one theme is clear: These were the years when Volcker became an international financial heavyweight and developed a reputation as a public servant of the very highest probity. That reputation was to serve him very well during the years that are the core of the book — Volcker’s

career as Federal Reserve chairman and vanquisher of inflation, from 1979 to 1987. And it lasted all the way through the book's final section, which covers the Volcker Rule, President Obama's attempt to prevent too-big-to-fail banks from gambling with taxpayer-guaranteed money.

All of "Volcker" is told very much through its subject's eyes, as you'd expect from a book based mostly on a series of 42 lengthy interviews with the man himself. When Volcker is depicted running the Fed, that's no problem: his history is the monetary history of the United States at that time. But when he's at Treasury, or being roped into lending his name and stature to his eponymous rule, the perspective can feel a bit narrow.

Silber is not the kind of person to admit that the Volcker Rule is ultimately little more than a footnote in postcrisis financial reform: he clearly worships his biographee. At one point, when Volcker muses in a 1980 Fed meeting on the subject of inflationary expectations, capital positions and banks becoming "extended on liquidity," his remarks are described as "a soliloquy worthy of the lead character in a Shakespearean drama."

Still, it's fascinating to relive the grim days of the early 1980s from Volcker's perspective. The markets were truly crazy then: between April and July 1980, the prime interest rate dropped to 12 percent from 20 percent, and the price of gold rose by 30 percent. These are numbers that we can barely imagine today, when traders get excited by moves of a fraction of 1 percent.

Yet other parts of Volcker's experience have very strong echoes in the present day. In 1981 he worried that the Fed was "the only game in town" and that it wasn't getting any help from Treasury in terms of fiscal policy. Ben Bernanke would say the same thing today. And in 1984, Volcker orchestrated a multibillion-dollar bank bailout, of Continental Illinois — and ran straight into pushback from the chairman of the Federal Deposit Insurance Corporation, who was expected to uncomplainingly provide all the money and take all the risk. William M. Isaac didn't like that then, any more than Sheila C. Bair would 24 years later, when she was asked to do much the same thing on an even larger scale.

Volcker set less noble precedents, too. At no point did he ever cut interest rates because he felt that the unemployment rate was too high, for instance. But the minute there was a banking crisis, in 1982 — a crisis brought on in large part thanks to weak supervision by the Fed — he suddenly decided that he had to cut rates, in order to help rescue the financial sector. "Extraordinary things," he said, "may have to be done."

In an era when Fed chairmen are constantly assailed by ideologues of many stripes, one comes away from this book very impressed by Volcker's pragmatism: far from being the stalwart anti-inflationary crusader, keeping interest rates high at any cost in his quest to vanquish ever-rising consumer prices, he was always willing to break self-imposed rules. What's more, Volcker's most revolutionary innovation — the three-year period when the Fed set targets for the amount of money in the country, rather than for interest rates —

was itself a deeply pragmatic move: he never had the support of genuine monetarists like Milton Friedman, and never really wanted it either.

In the end, Volcker achieved something genuinely magnificent. They really said it couldn't be done: in 1980, the very deans of the economics profession — Paul Samuelson, Kenneth Arrow, Henry Kaufman — all claimed there was no way the Fed could bring down inflation, which was then running at a rate of 12 percent a year. But within six years, Volcker had it whipped, down to a rate of just 3.4 percent.

Volcker's achievement shines through this book almost despite Silber's attempts to underscore it: the editorial interjections from the author don't make him seem particularly reliable. For instance, Silber devotes a substantial amount of space to putting together a dubious theory that large budget deficits cause inflation, and that it was Congressional budget legislation in 1985, rather than Fed policy, that was ultimately responsible for the decline of long-term interest rates. He also doesn't think much of Congress's charge to the Fed that it try to achieve full employment as well as stable prices, calling the dual mandate "hydra headed." And he seems to have a thing about the French: "Charles de Gaulle pursued gold the way Henry VIII did wives," he writes, adding later, apropos of another French president, Georges Pompidou, that "perhaps a split personality is the real French disease."

In a way, the greatest honor paid to Volcker can't be captured in any book, and instead lies behind the job he always wanted but never got. Presidents from Nixon to Obama considered him for the position of Treasury secretary, but none of them ever offered it to him, for one very good reason: he would always speak his mind, and he couldn't be trusted to toe the presidential line. Volcker's loyalties were never to individuals, or even to political parties. Perhaps that explains better than any specific action how he retained his integrity while so many others lost theirs.

Felix Salmon is the [finance blogger](#) for Reuters.

The New York Times

## Sunday Book Review

### Editors' Choice

#### Recently reviewed books of particular interest.

Published: October 26, 2012

**BUILDING STORIES**, by Chris Ware. (Pantheon, \$50.) A big, sturdy box containing hard-bound volumes, pamphlets and a tabloid houses Ware's demanding, melancholy and magnificent graphic novel about the inhabitants of a Chicago building.

**SILENT HOUSE**, by Orhan Pamuk. Translated by Robert Finn. (Knopf, \$26.95.) A family is a microcosm of a country on the verge of a coup in this intense, foreboding novel, first published in Turkey in 1983.

**BRIGHAM YOUNG: Pioneer Prophet**, by John G. Turner. (Belknap/Harvard University, \$35.) This non-Mormon historian's biography of the 19th-century Mormon leader is fair and deeply researched.

**SPILOVER: Animal Infections and the Next Human Pandemic**, by David Quammen. (Norton, \$28.95.) Quammen's meaty, sprawling book chronicles his globe-trotting scientific adventures and warns of the dangers of animal microbes crossing over to people.

**TIBET WILD: A Naturalist's Journeys on the Roof of the World**, by George B. Schaller. (Island Press, \$29.95.) An account of the field biologist's long study of the culture, wildlife and landscapes of Tibet.

**VOLCKER: The Triumph of Persistence**, by William L. Silber. (Bloomsbury, \$30.) This detailed account of the economist Paul Volcker's public service in five administrations shows how he maintained his integrity.

**PURPOSE: An Immigrant's Story**, by Wyclef Jean with Anthony Bozza. (It Books/HarperCollins, \$26.99.) The Haitian-born rapper's escapade-filled memoir offers a diasporic narrative.

**HOW TO GET INTO THE TWIN PALMS**, by Karolina Waclawiak. (Two Dollar Radio, paper, \$16.) A first novel about a Polish immigrant in Los Angeles.

**GOODBYE FOR NOW**, by Laurie Frankel. (Doubleday, \$25.95.) A software wizard designs a program that sends e-mails from the dead in this clever novel.

**A version of this list appeared in print on October 28, 2012, on page BR22 of the Sunday Book Review with the headline: Editors' Choice | Recent Books of Particular Interest.**

# The Washington Post

## “Volcker: The Triumph of Persistence” by William L. Silber

By [Steven Pearlstein](#),

November 11, 2012

To read William L. Silber’s engaging biography of Paul Volcker in the fall of 2012 is to be reminded of a time, not so long ago, when a cadre of public servants, respected for their knowledge, integrity and practical experience, were allowed to guide government policy even as presidents, partisans and ideological fashions swept in and out of Washington.

It’s hard to imagine what today’s partisans and ideologues make of someone like Volcker. He is a graduate of Princeton and the London School of Economics who admired the libertarian Austrian economics of [Friedrich von Hayek](#) but voted for Adlai Stevenson for president; a Democrat first recruited to Washington by the Kennedy Treasury who played the key role in Richard Nixon’s decision to break the link between dollar and gold; an inflation hawk who was appointed chairman of the Federal Reserve Board by Jimmy Carter but won reappointment and respect from Ronald Reagan after pressuring the famously anti-tax president to undo some of his tax cuts.

To say the man has an independent streak doesn’t quite capture it.

Silber, a professor at NYU’s Stern School of Business and author of a widely used textbook on banking and finance, certainly has the academic cred to write the definitive Volcker biography. But he is also an unabashed Volcker admirer who spent more than 100 hours interviewing his subject and many more reading through personal papers that Volcker made available through government archives. Although Volcker exercised no control over the final product, Silber makes no pretense that he has brought the same critical eye to his subject as would a historian or a tough-minded journalist. What he does bring is a sophisticated and nuanced understanding of monetary policy and international finance, along with that rare ability among academics to explain it while weaving an interesting tale.

Volcker arrived on the policy scene just as the United States was making the bumpy transition out of the “golden era” of the 1950s, a time when everything seemed to be right with the American economy and the United States dominated the global scene. Suddenly, Americans were faced with the reality of ballooning trade deficits and budget deficits and inflation that gradually eroded the foundations of an international monetary system based on gold, fixed exchange rates and a strong U.S. dollar. Volcker’s legacy was to push and

prod the country and the world to adopt a system that broke all ties with gold and allowed all currencies, including the dollar, to float freely on currency exchanges.

By the time he stepped down as Fed chairman in 1987, Volcker had managed to wring inflation out of the American psyche and bring the country's trade account and the government's budget much closer toward balance. His triumph over inflation persists to this day, even as the victory over trade and budget deficits proved short-lived.

Perhaps the most interesting chapters in Silber's account are those concerning the Nixon years. Volcker teamed up with his boss, John Connally, the wily Texas governor turned Treasury secretary, to outmaneuver key Nixon confidantes such as Arthur Burns and Milton Friedman and to engineer the devaluation of the dollar and the end of fixed exchange rates. It was from Connally that Volcker learned the trick of standing pat and allowing problems to approach the crisis stage so that people finally agreed to the kind of fundamental changes they would otherwise resist.

Indeed, one theme running through Silber's biography is the degree to which Volcker's success was due to the instincts of politicians he worked with rather than the theories and models of trained economists.

As Volcker saw it, it was John F. Kennedy, not his esteemed economic advisers, who correctly saw the long-term challenge posed by the growing trade deficit. It was Nixon who rejected the orthodoxy of his advisers and imposed temporary controls on wages, prices and currency speculation in order to move the markets and trading partners toward flexible exchange rates. And it was Reagan, not his advisers, who understood that taming inflation was a political and economic imperative, even if it meant raising taxes and tolerating recession-inducing high interest rates.

The one president who disappointed Volcker, not surprisingly, was disappointed by him. Carter blamed his hand-picked Fed chairman for dooming his reelection by raising interest rates three percentage points — an almost unprecedented move — in the weeks before the 1980 election. Biographer and subject both see this as a sign of Volcker's courage and independence. Others might see it as a sign of self-righteousness and pig-headedness by someone who could just as well have waited a few weeks until after the election, as other Fed chairmen have done.

At other moments, Volcker was certainly willing to use a bit of sleight-of-hand in the service of his policies. Shortly after taking over as Fed chairman, for example, he appeared to shed his skepticism about monetarism and convinced the Fed's policy committee that the only way it could get a handle on double-digit inflation was to try to control the supply of money directly, rather than try to control interest rates, as monetarists such as Friedman had long espoused. In truth, Volcker never really bought into the monetarist theology, in part because it was never certain what the total supply of money was at any moment. But, according to Silber's account, Volcker realized that by cloaking the Fed's actions in monetarist garb, he could justify raising interest rates faster and higher than any Fed had dared to do before. The policy worked and the inflation

genie was put back in the bottle, but for years afterward Friedman and others complained that Volcker and the Fed never really were serious about or successful in controlling the money supply.

Although Silber sprinkles his narrative with some personal details — the cheap Antonio y Cleopatra cigars, the argyle socks, the financial strain that forced his wife in New York to seek part-time work and take in a boarder — this is not a book about Volcker’s life so much as one about his work.

And even in that there are some glaring gaps, such as the coyness with which Silber recounts Volcker’s judgments about his successors at the Fed.

Although he recommended Alan Greenspan for the Fed chairmanship and admired Greenspan’s pragmatic management of monetary policy, Volcker was no doubt more than a bit resentful of the excessive public adulation that Greenspan received, culminating in Bob Woodward’s book “Maestro.” By 2007, Volcker had begun to direct some thinly veiled criticism at Greenspan for refusing to acknowledge the giant credit and real estate bubble growing right under his nose. Yet Silber shies away from exploring the Volcker-Greenspan relationship.

Silber is equally circumspect in dealing with Ben Bernanke and his repeated rounds of money-printing known as “quantitative easing.” Volcker no doubt views such actions as handing a free pass to politicians by giving them the financial headroom to continue running large budget deficits — something he refused to do during the Reagan era.

Then again, such circumspection is what we’ve come to expect from Volcker, whose genius has always been to play the Washington game brilliantly while appearing not to play it at all.

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[http://www.washingtonpost.com/blogs/ask-the-fedcoach/post/great-leadership-books-in-2012/2012/11/26/a4c31b7a-37eb-11e2-8a97-363b0f9a0ab3\\_blog.html](http://www.washingtonpost.com/blogs/ask-the-fedcoach/post/great-leadership-books-in-2012/2012/11/26/a4c31b7a-37eb-11e2-8a97-363b0f9a0ab3_blog.html)

## THE WASHINGTON POST

Posted at 12:20 PM ET, 11/26/2012

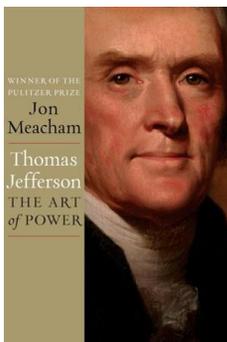
# Great leadership books in 2012

By [Tom Fox](#)

For the federal leaders on your holiday shopping list, here are some of my favorite leadership books from 2012. Each book offers keen insights into management, human nature, and the thinking and actions of those who have been on the frontlines and succeeded.

In the biography category, two recent additions to the bookshelves are perfect for federal leaders.

William Silber's [\*Volcker: The Triumph of Persistence\*](#) examines Paul Volcker's work battling inflation in the 1970s and his role in helping the nation recover from the most recent financial collapse. The book offers behind-the-scenes accounts of Volcker's time at the Department of Treasury and the Federal Reserve. It also chronicles his resolve and independent thinking during times of crisis. Few individuals have had as profound an impact on our federal government over the last 50 years as Volcker.



For those who appreciate history —particularly Revolutionary-era leaders — Jon Meacham's book on President Thomas Jefferson is a great read. In [\*Thomas Jefferson: The Art of Power\*](#), Meacham provides what many critics consider one of the most comprehensive and balanced portraits of a very complicated man with many strengths and weaknesses. It offers leaders who want to learn from history an invaluable resource

by providing insights into a man who understood humanity, could marshal ideas, learned from his mistakes and prevailed.

Another good choice is Robert Pozen's book, [\*Extreme Productivity: Boost Your Results, Reduce Your Hours\*](#) . Pozen offers advice on how to achieve workplace productivity and high performance, and provides solace to those feeling overwhelmed by a heavy workload and competing demands. He also offers suggestions on how to determine the highest priorities and manage time wisely.

Maybe it's not time management that's the major challenge, but information overload. If that's the case, check out the new book by data rock star Nate Silver — [\*The Signal and the Noise: Why So Many Predictions Fail-but Some Don't\*](#) . This book can help any leader struggling with the best way of handling everyone's latest, greatest buzz term: big data. If you are a federal leader overwhelmed by numbers, Silver's book will help you distinguish between useful versus merely interesting data analysis.

And finally, for the leader who is looking to engage employees, check out Patrick Lencioni's [\*The Advantage: Why Organizational Health Trumps Everything Else In Business\*](#) .

A quick and easy read, *The Advantage* distills many of Lencioni's best lessons from previous works (*The Five Dysfunctions of a Team*, *The Four Obsessions of an Effective Executive*) into a single, short volume. Whether you're an executive, front-line supervisor or team leader, there's great advice on creating a healthy, productive working environment. He also advocates attacking the root causes of dysfunction and confusion to help you improve organizational performance.

What great leadership and management books have you come across this year? Are there any books on your shopping list that others should consider? Please share your ideas in the comment section below. You can also email me at [fedcoach@ourpublicservice.org](mailto:fedcoach@ourpublicservice.org).

*Government leaders, nominate your outstanding federal employees for the 12th annual Samuel J. Heyman Service to America Medal (Sammies). Nominations are accepted at [servicetoamericamedals.org](http://servicetoamericamedals.org) through January 4, 2013.*