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A NOTE FROM THE PUBLISHER

Dear Reader,

I'm writing to let you know about ***BERNANKE'S TEST: Ben Bernanke, Alan Greenspan, and the Drama of the Central Banker*** (Agate B2, 978-1-932841-37-4, February 20, 2009, \$26), by **Johan Van Overtveldt**. This is an in-depth look at Ben Bernanke and how his professional and academic careers have shaped his handling of the current economic firestorm, as well as a provocative analysis of the increasingly criticized tenure of Bernanke's immediate predecessor, Alan Greenspan.

This is one of the first books ever published about Bernanke, and the first to deal with the events of the Fall 2008 financial crisis. As such, it may be the timeliest business/economics title of the new year—*Kirkus Reviews* has already called it “a timely study that will help readers interpret the headlines.”

Van Overtveldt discusses how Greenspan single-handedly transformed the role of central banker from obscure bureaucrat to geopolitical megastar, all while guiding the U.S. to new heights of prosperity. However, Greenspan's decisions bear a significant responsibility for the present worldwide economic crisis—a crisis that Bernanke has a significant responsibility for solving. Van Overtveldt provides historical context for his analysis with looks at other former Fed chairmen such as Benjamin Strong, William McChesney Martin, Arthur Burns, and especially Greenspan's predecessor, Paul Volcker, who has returned to prominence as a top adviser to Barack Obama. Most of all, he examines the work and career of Ben Bernanke—the central banker now being tested by the worst economic crisis in 80 years.

Bernanke's Test is an informed, straightforward, and compelling first look at one of the biggest tests our economic system has ever faced. Johan Van Overtveldt, himself the holder of a PhD in economics, is a veteran authority on economics, business, and political affairs based in Belgium. His perspective as a European economist and close observer of the American scene lends an especially valuable character to his analysis of Bernanke and Greenspan. Van Overtveldt is also the author of the critically acclaimed *The Chicago School* (2007), which Agate is just releasing in paperback to coincide with the release of *Bernanke's Test*. As a longtime journalist himself, he understands how to craft a lively interview, and he is available to be interviewed by phone or email at any time. Please contact me at 847.475.4457 or seibold@agatepublishing.com to set something up.

Best,

Doug Seibold

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Praise for *BERNANKE'S TEST*

“Should we feel better that the chairman of the Federal Reserve is an authority on the Great Depression? Perhaps so, suggests Belgium-based economist Van Overtveldt (*The Chicago School: How the University of Chicago Assembled the Thinkers Who Revolutionized Economics and Business*, 2007)—if only because Ben Bernanke is more sensitive to market movements and trends and more forthright in his assessments of them than his predecessor, Alan Greenspan, whose gnomic public utterances were ‘usually vague and restrained.’ The central bank that both headed is, at least as ideally conceived, responsible for helping maintain the overall health of financial conditions that drive the economy. Yet the power of the Fed has grown, perhaps unintentionally, and it has become less accountable, more secretive and obscure, and perhaps less effective. Van Overtveldt examines this evolution in light of the current financial crisis, noting provocatively that whereas Greenspan was once viewed as something of an economic magician and an exemplary manager of money, ‘recently...there has been a considerable re-evaluation of some of his decisions.’... Van Overtveldt is particularly clear when he examines pronouncements on the part of both Bernanke and Greenspan that he considers ‘spectacularly wrong.’ A timely study that will help readers interpret the headlines, though it offers little comfort to those hoping for a quick solution to the present mess.”

Kirkus Reviews, January 15, 2009

Praise for Johan Van Overtveldt's *THE CHICAGO SCHOOL*

“The field Johan Van Overtveldt chose to till sounds unpromising: the history of a single discipline at a single university. But when the discipline is economics and the place is the University of Chicago, the soil is rich indeed. Mr. Van Overtveldt counts nine Nobel economic laureates ‘primarily associated’ with Chicago, a further four who did much of their best work there and several others with Chicago connections. Nowhere else comes close...”

“The book is far more than a trot through the dry record of academic papers. Recollections, in interviews with the author or from published sources, illuminate personalities, rows and controversy. There is bluntness and wit from George Stigler, another great Chicago name, and from Friedman. There is Knight, a perpetual sceptic, and the eldest of 11 children of Plymouth Brethren, who hated the clergy and doctors. And Aaron Director, Friedman's brother-in-law, gets his due weight: although he published little, he influenced many. ‘If we had been in Greece,’ Stigler once wrote, ‘I'm sure I would have called him Socrates’...”

“This is an admirably detailed and thoroughly welcome history of a great centre of economic thought.”

The Economist, June 23, 2007

“During the 1950s, '60s and '70s...The name of the school became virtually synonymous with the idea that free markets are the most fair and efficient way to distribute wealth, while any government intervention distorts the economic order. And even before the rise of the Chicago School, in the early years of the 20th Century, the University of Chicago was home to many important and influential economic thinkers. Hyde Park has nurtured record numbers of winners of the Nobel Memorial Prize in Economic Sciences—more than twice the number at either Harvard University or the University of California at Berkeley, the runners-up.

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“In his history, which is based on extensive interviews with economists as well as archival and secondary research, Overtveldt seeks to understand the secrets of Chicago's success: ‘Was this triumphant century just an incredibly long-lasting coincidence, or is there more to it?’....

“Overtveldt is at his best in his depiction of the ruthless yet stimulating internal culture of the department during these years. Workshops that might be polite but sleepy seminars at other campuses became ‘bloodbaths’ at Chicago. Graduate classes were exercises in ‘terror.’ Rather than quench debate, Overtveldt argues that for those who could withstand the pressure, the intellectual hazing helped hone their economic analyses.”

Kim Phillips-Fein, page one review, *Chicago Tribune* “Books” section, June 25, 2007

“Van Overtveldt, director of a European think tank devoted to economics, describes the role economists at the University of Chicago have played in the development of economics as a science, including their dominance among Nobel Prize winners. He sets out to answer questions such as what is distinctive about the University of Chicago and what are the major contributions that give Chicago economists a prominent place in the 20th century’s history of economic thought.... We learn about their influential economic thinkers, including Milton Friedman, Gary Becker, George Stigler and Robert Lucas, whose work transformed business practices around the world. Although traditional thinking is subject to challenge, the author makes a persuasive argument against concern that the university is losing its leading role in economics. Excellent historical perspective.”

Mary Whaley, *Booklist*, April 15, 2007

“This book begins with both definitions and explores how the broad Chicago tradition attracted and shaped the researchers who built an intellectual movement that not only revolutionized economics and finance, but was deeply influential in law, sociology and government. Emphasizing the links between the lives and ideas of dozens of famous Chicago researchers, it spans many intellectual fields over more than a century. The sometimes dizzying result is held together by core principles that define the Chicago tradition: insistence that ideas must be supported by both theory and data, hard work and vigorous debate. In particular, the workshop system nurtured strong personalities who could build and defend orthodoxy, and dissenters of equal strength.... Its exploration of the interaction between institution and idea is unique and fascinating.”

Publishers Weekly, March 26, 2007

“For better or worse, the influence of Milton Friedman and the rest of the Chicago School over the discipline of economics and the economic policies of nations is difficult to overstate. In his intellectual history of the Chicago School, Overtveldt (director of the Belgium-based economics think tank VKW Metena)...has organized the work in terms of the areas of study to which they contributed, thus offering chapters on Chicago School contributions to basic price theory, human capital, monetary analysis, economic analysis of government regulation. He also discusses the related work carried out at the University of Chicago's business and law schools and profiles some of the few Chicago School figures who got involved in politics in a direct manner, thereby violating ‘one of the cardinal rules of the Chicago Tradition.’”

Reference & Research Book News, May 2007

“A landmark in the history of economic thought.”

Tyler Cowen, “The Marginal Revolution” blog, June 5, 2007

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BERNANKE'S TEST

BEN BERNANKE, ALAN GREENSPAN, AND THE DRAMA OF THE CENTRAL BANKER

By Johan Van Overtveldt, Ph.D.

Hook: Just released—updated through the events of November 2008—the first book ever published that deals with Federal Reserve chair Ben Bernanke and his legendary predecessor, Alan Greenspan, and how their professional histories and styles of leadership are shaping the worst economic crisis in generations.

This book takes an in-depth look at Federal Reserve chair Ben Bernanke, now under a sharp spotlight due to the global economic crisis, and it could not be more timely. The professional lives of both Bernanke and Greenspan are thoroughly explored, showing how their careers have culminated in the policies and styles of leadership they exhibited in their roles as Fed chair. The two men's Fed tenures—for Greenspan, the ticket to unprecedented success and global celebrity, and for the less-heralded Bernanke, the culmination of his quieter career as an academic economist—are analyzed side by side.

Johan Van Overtveldt also furnishes a brief history of the U.S. Federal Reserve, explaining how it was created and how it functioned throughout the 20th century. He shows how past Fed policies are now being viewed in a wholly different light, as are earlier Fed chairs like Benjamin Strong, William McChesney Martin, Arthur Burns, and Greenspan's predecessor, Paul Volcker, newly returned to prominence as an advisor to President Barack Obama. The series of events leading up to today's full-blown worldwide financial crisis are documented every step of the way throughout late 2008—all while being compared and contrasted with previous economic booms, bubbles, and crashes.

The consensus on Greenspan's performance as Fed chair used to be extremely positive, but more and more it's been called into question. Now, the events of 2008 have thrust Bernanke into the eye of a global economic storm created largely on his predecessor's watch. His leadership will be a decisive factor in how the U.S. economy weathers this crisis, and his decisions will have an impact felt around the world. This is Bernanke's test.

Johan Van Overtveldt, PhD, is the director of the Belgium-based think tank VKW Metena, which works on a breadth of economics-related issues. Formerly editor in chief of the Belgian newsmagazine *Trends*, he has written several books in Dutch on economics-related issues and contributes frequently to the *Wall Street Journal Europe*. His landmark book *The Chicago School* has just been released in paperback.

***Bernanke's Test*, ISBN 978-1-932841-37-4, 6 x 9, 287 pp, February 20, 2009, TC \$26**

Author Home: Belgium

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Q&A with Johan Van Overtveldt, author of *Bernanke's Test*

When did you first become interested in writing about Bernanke, Greenspan, and the Fed?

Monetary theory and policy and central banking have fascinated me since my student days in the 1970s. In those days macroeconomics was dominated by the Keynesian approach, which focused heavily on fiscal policy. There was a manifest lack of attention for the monetary side of the economy. Milton Friedman changed that almost single-handedly. Friedman's analysis struck me immediately as more relevant than that of the "pure" Keynesians. Writing my book *The Chicago School* sharpened my interest on monetary issues further.

So why then specifically a book on Bernanke and the Fed? Ben Bernanke was an "academic lifer" (an expression he once used himself) likely on his way toward a Nobel Prize, not least because of his work on the Great Depression. His appointment to chair the Federal Reserve Board in early 2006 was, for me, a signal that the people responsible for this appointment (in theory, President Bush) realized that financial trouble was coming. There were many other good candidates—but they chose Bernanke, who had the more intimate knowledge of the Great Depression than anyone else alive. I found that fascinating.

What specifically does your book have to say about the ongoing global financial crisis?

So far I think Bernanke has shown not only great insight, but also admirable coolness (in what have been extremely stressful situations) and the courage to take bold action. In his own modest way, he has shown himself to be a true and authentic leader.

It's been clear from the beginning of this crisis, dating to August 2007, that Bernanke's thinking and actions have been dominated by avoiding a Great Depression scenario. Under his leadership, the Fed has applied new—even revolutionary—techniques to keep the financial and banking crisis from really exploding. I think this has been very difficult for him and his colleagues at the Fed, because the political authorities (the Bush Administration as well as Congress) were rather late in recognizing the severity of this crisis. Not only were they often too late with their reactions, but also their initiatives often lacked coherence. The muddling with the "Paulson plan" is the obvious example.

As I see it, Bernanke has avoided the much-feared Great Depression scenario by ensuring that there are no substantial reductions in the money supply, as of my writing this in mid-January 2009. To achieve that goal, extraordinary policy actions had to be taken by the Bernanke Fed. It remains to be seen now how the interventions of the Fed will work out over the longer run. From a macroeconomic point of view, we are now to a large extent in unknown territory.

All this does not mean that Bernanke's performance was faultless. First of all, he was a governor on the Fed board from 2002–2005. As I discuss in the book, at that time the Fed—under then-chairman Alan Greenspan—was negligent with respect to its regulatory duties. During that same period, the Fed stopped the publication of the M3-series on monetary growth—probably because the explosion in M3 showed clearly that the financial sector was really going off the cliff. Furthermore, Bernanke declared in October 2005 that there was no housing bubble, although the signs of trouble were already very much visible. Also, his famous analysis on the worldwide savings glut was at the very least controversial, especially in terms of how he used it to explain the imbalances in the American economy.

How has the consensus regarding Greenspan's Fed tenure changed over the past few years?

It was laughable to see (and hear) some commentators, politicians, economists, and others assign semi-godlike status to Greenspan. But it's equally wrong to assign him the foremost

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blame, as many now do, for this financial crisis. I think the criticism of his interest-rate policy is overdone, and certainly taken out of context. When he pushed short-term interest rates to 1 percent early in the 2000s, the fear of deflation was very real; many economists and policy-makers feared a repeat (at best!) of Japan's more than a decade of deflation and stagnation.

More relevant, I think, is criticism of how the Greenspan Fed handled its regulatory obligations. Greenspan showed himself to be very ideological about these issues. With respect to the subprime mortgage market, for example, I certainly think the Fed could have intervened to block the worst excesses. A telling incident happened in September 2005. With Fed economist James Kennedy, Greenspan coauthored a paper showing how credit creation on the basis of inflating house prices was skyrocketing. Hence, Greenspan was very much aware of what was happening. As I write in the book, "Perhaps [Greenspan] wanted to signal that he endorsed this phenomenal increase in home refinancing, which was directly fueling an explosion in consumption expenditures, or perhaps he wanted to indicate that things had gone too far and needed correction. If the first interpretation is correct, Greenspan was flat wrong; if the second is correct, the fact that he failed to intervene more forcefully is deplorable." (p. 99)

How do you see the differing personalities of Greenspan and Bernanke reflected in their leadership of the Fed?

These differences are huge. First, Bernanke is a much better economist than Greenspan. His analyses are consistently more to the point than Greenspan's have been (which does not mean, automatically, that Greenspan was also a bad central banker). Second, Bernanke is much more of a team player. Over time, Greenspan came to dominate the Federal Open Market Committee, to an extreme extent. Bernanke always tries to achieve a group decision. Third, Bernanke is much more direct and explicit about his thinking. Greenspan's public comments were usually vague and unclear—intentionally. Whenever possible (and sometimes a central banker has no other option than to speak tongue in cheek) Bernanke says exactly what he thinks is true and real. Open and transparent communication is for Bernanke an integral part of effective monetary policy.

In researching the history of the Fed, did you find anything that you think would surprise readers?

First: how difficult it was even to create the Fed in the first place. Most people at that time were extremely suspicious of investing so much power in a federal institution (hence the complex structure of the regional Feds). Second: the huge importance of individual Fed chairs, beginning with Benjamin Strong and later on William McChesney Martin, Paul Volcker, Alan Greenspan, and now Ben Bernanke. Weak leaders make the institution weak, too. Third: how much discussions inside the Fed are dominated by fear of political intrusion into the areas where the Fed is responsible. In this indirect way, political impact on the Fed is substantial.

How does your book discuss the global impact of the current U.S. recession?

The global impact of the U.S. financial crisis has been enormous, for several reasons: the dominance worldwide of American financial markets and institutions, and their continuous stream of financial innovations; the fact that the American economy is still the largest economy of the world; and the fact that the dollar remains the dominant world currency. The financial crisis in the U.S. led to recession in the U.S., and this was quickly felt—through trade, investment and financial ties—all over the world. I was always convinced that the decoupling thesis was nonsense. Trouble in the homeland of the great green buck inevitably shows up in most other countries worldwide.