

The Economist and the Management Consultant *the macro and the micro point of view*

Reflections on Alan Greenspan's book, *The Age of Turbulence*

I just finished reading, **The Age of Turbulence**, by the former Chairman of the Federal Reserve, Alan Greenspan. I wanted to see what the buzz was about, but I had low expectations for enjoying the book. I always found his FedSpeak to be almost incomprehensible. I'm so glad I bought the book. It is spectacular. I would rank this book with some of Peter Drucker's finest works.

Alan Greenspan, who was called "the leading practical economist of our era" by BusinessWeek, provides an extraordinary macro perspective of the global and U.S. economies and the forces that affect them. As I was reading the book, a variety of statements stood out for me. Over the past ten years as a management consultant, I've taken a micro approach to improving business results. In other words, I have focused on how an individual executive or manager could accelerate business results through his or her ability to make decisions, communicate, and facilitate discussions.

In this article, I'm going to provide a list of statements from Alan Greenspan's book, **The Age of Turbulence**, with the page number that the statement was on, and my thoughts regarding each statement.

GREENSPAN: We rarely look closely at that principal operating unit of economic activity: the human being...All people appear motivated by an inbred striving for self-esteem that is in large part fostered by the approval of others. (Page 16)

COUGHLIN: Clearly, self-esteem is a driver of business activities. The person who gains a sense of personal value from having a secure, safe job is less likely to leave his or her post, or to take gambles that would put the business at risk. A different person who gains a sense of personal value from living on the edge is more likely to start up his or her own business or take risks within the current organization.

While I agree with Greenspan that self-esteem is fostered by the approval of others in the form of new sales, promotions, and positive evaluations, I encourage you to not put all of your esteem in the opinions of other people. When that happens, you're destined to ride the roller coaster of emotional highs and lows. Listen to the input of others, take notice as to what you're doing that people buy or reject, and gain insights from your boss's evaluations. However, base your sense of self-worth on what you bring to the party: your strengths, your passions, and your past experiences. Even Greenspan was let go when Jimmy Carter became president. It had nothing to do with his performance. Greenspan is a Republican, and Carter is a Democrat. When Carter was being sworn in, Greenspan was on a flight back to New York. When Ronald Reagan, a Republican, was president and an opening came as the Chairman of the Federal Reserve, Greenspan was back in.

GREENSPAN: Economists cannot avoid being students of human nature, particularly of exuberance and fear. Exuberance is a celebration of life. We have to perceive life as enjoyable to seek to sustain it. Regrettably, a surge of exuberance sometimes also causes people to reach beyond the possible; when reality strikes home, exuberance turns to fear. Fear is an automatic response in all of us to threats to our deepest of all inbred propensities, our will to live. It is also the basis of many of our economic responses, the risk aversion that limits our willingness to invest and to trade, especially far from home, and that, in the extreme, induces us to disengage from markets, precipitating a severe falloff of economic activity. (Page 17)

COUGHLIN: Again, this is why I think it's important not to gain your sense of self-esteem from the opinion of others. A tendency I have seen with a large number of people is they tend to celebrate hard when results are good and get overly depressed when results are bad. In other words, the results, which are outside of any individual, directly affect their level of self-esteem. When their self-esteem is high, they become exuberant, and oftentimes spend more than they can afford. When their self-esteem is low, they become fearful, and oftentimes are not willing to invest in what it would take to grow their businesses.'

Regardless of the results you and your group have achieved, I encourage you to answer these questions:

1. What was our goal?
2. What did we achieve?
3. What did we do to try to achieve our goal?
4. What worked well?
5. What did not work well?
6. What lessons did we learn?
7. What will we do going forward to improve our results?

Notice this way you're attacking the future with the same approach every time regardless of whether your results were good or bad.

GREENSPAN: As I worked with Sandy (Note: Sandy Parker had hired Alan as a 26-year-old to do some free-lance research assignments), **I began to see that his authoritativeness derived largely from the fact that he simply knew more about the economy than anyone else. My knowledge was not as extensive as his, yet the gap wasn't wide. I was learning every day by doing work I loved – if I kept at it, I thought, I could catch up. (Page 43)**

COUGHLIN: I think this is an inspiring point. Greenspan stuck to what he loved doing and what he was good at doing for nearly forty years before he was named Chairman of the Federal Reserve. He didn't get this dream job until he was 61. Keep honing your craft, keep studying to improve your contribution, and be patient. Those are three things that are easier to say than to do.

In the end, business comes down to six C's: character, competency, content, connections, credibility, and contribution. You have to have integrity so people can trust you. You have to know your stuff and you have to be able to deliver the goods. You have to know people who can introduce you to potential customers. You have to have a track

record that people believe in. And you have to add value to build a reputation. It starts with a willingness to keep at it until you catch up, or surpass, the contributions of other people.

GREENSPAN: Working with heavy industry gave me a profound appreciation of the central dynamic of capitalism. “Creative destruction” is an idea that was articulated by the Harvard economist Joseph Schumpeter in 1942. Like many powerful ideas, his is simple. A market economy will incessantly revitalize itself from within by scrapping old and failing businesses and then reallocating resources to newer, more productive ones. (Page 48)

COUGHLIN: “Creative destruction” should be the mantra of every business. You and I both need to look at what can be done to add more value to customers and prospects. Then we need to be willing to let go of old ways of delivering value if in fact we have found possible better ways of adding value. If we don’t, we might end up holding the bag of doing things that customers don’t want.

Another wonderful book I’m reading right now is, **Only the Paranoid Survive** by Andrew Grove, the former CEO of Intel. He tells a great story about how the company had to get out of the memory chip business and into the microprocessor business. It was hard financially and emotionally, but it led to extraordinary results.

What do you need to let go of so you can deliver greater value to your current and future customers?

GREENSPAN: (Note: Alan is referring to thoughts from Ayn Rand, one of his mentors, here.) ...individuals have innate nobility and that the highest duty of every individual is to flourish by realizing that potential. (Page 51) Rand persuaded me to look at human beings, their values, how they work, what they do, and why they do it, and how they think and why they think. This broadened my horizons far beyond the models of economics I’d learned. I began to study how societies form and how cultures behave, and to realize that economics and forecasting depend on such knowledge – different cultures grow and create material wealth in profoundly different ways. (Page 53)

COUGHLIN: This really gets to the art of managing. It’s not enough to roll out a new policy or initiative, and then walk away thinking that everything is going to go smoothly. Instead you need to think through how that change will affect or be interpreted by different people. In all probability, you will need to meet with some individuals and with some groups privately before the rollout in order to increase acceptance to the change. There is no cookie-cutter formula. These thoughts from Ayn Rand also get to the importance of a manager empowering his or her employees to think for themselves, make decisions, and be held accountable for their results.

GREENSPAN: (Note: This quote is referring to Alan’s thoughts on his own business, Townsend-Greenspan, right before he was named chairman of the Federal Reserve.) Ultimately, I concluded that the best course was to focus exclusively on what I did best: solve interesting analytical puzzles for sophisticated clients who needed answers. (Page 98.)

COUGHLIN: I like this quote very much. He thought he was going to be a private citizen for the rest of his career, and he was trying to determine the best way to optimize his own business. I think his formula of focusing exclusively on what he did best and that would add the most value to clients was a great business decision. Maybe today he'll get a chance to test this theory. I encourage you to invest the vast majority of your time doing what you do best and are most passionate about. In time, the cumulative value that you create for your organization will help move your career forward.

GREENSPAN: (Note: Alan is referring to people he met with immediately following Black Monday, October 19, 1987, the day the stock market dropped 22.5%.) **These were men who had built up wealth and social status over long careers and now found themselves looking into the abyss. Your judgment is less than perfect when you're scared, "Calm down," I kept telling them, "it's containable." And I would remind them to look beyond the emergency to where their long-term business interests might be. (page 107)**

COUGHLIN: I think this is great advice for all of us. Stuff happens, and sometimes it's not pretty. Accounts go away, good customers suddenly become bad customers, and all of your marketing efforts fail. It happens. However, you still have the same set of strengths and passions that created success for you in the past, and you still have those strengths and passions as you go forward. So calm down, it's all containable. That is, as long as you don't give up completely. You may have to change your business or your approach or the line of work you're in. But that's a whole lot different than completely giving up.

GREENSPAN: All this frees the Fed to focus on its statutory mission: putting in place the monetary conditions needed for maximum sustainable long-term growth and employment. (Page 110)

COUGHLIN: This was another statement I loved. Notice the clarity of purpose. Right now, what is the purpose of your work? Hint: it can't be to make money. What purpose is your organization trying to fulfill? By clarifying that purpose, you have an objective screen that you can put all of your possible activities through. With a clear purpose, you can just simply ask, "Does this activity support our purpose?" Those activities that don't support the purpose need to be eliminated whenever possible.

GREENSPAN: I am a believer in delivering bad news in person, privately, and in advance – especially in Washington, where officials hate to be blindsided and need time to decide what they want to say publicly. (Page 111)

COUGHLIN: This is how to keep difficult issues from become catastrophes. If you're having a problem with your boss, peer, or direct report, then go to that person and discuss your thoughts in a private meeting. Point out what you've observed and let the person know how you felt. If you're demoting the person or putting him or her on probation or firing the person or delivering any other bad news, do it in person.

GREENSPAN: ,,business risks, a prerequisite of wealth creating and economic growth. (Page 140)

COUGHLIN: Greenspan mentions this brief idea at a variety of points throughout the book. You simply must be willing to take risks in order to move your business forward.

That's what "creative destruction" is all about. By definition, not every risk is going to pay off. Sometimes you're going to spend a lot of money with the intention that you will be satisfied if you get just one new customer, and in the end you get no new customers. That happens. That's why it's called a risk. But you have to keep trying. Read Greenspan's statement again. A business risk is a prerequisite for wealth creation. That means you have to risk first, create wealth later.

GREENSPAN: (Note: Here Alan is referring to the impact of the internet in 1996 and on his economic decisions.) **This was a classic example of why you can't just decide monetary policy based on econometric models. As Joseph Schumpeter might have pointed out, models are subject to creative destruction, too. (Pg 174)**

COUGHLIN: Models are helpful, but they are not infallible. Today's great business theory may very well be disrupted by tomorrow's powerful insight. More on that in a minute.

GREENSPAN: Weighing costs and benefits systematically in this way gradually came to dominate our policymaking approach. I liked it because it generalized from a number of ad hoc decisions we'd made in years past. It let us reach beyond econometric models to factor in broader, though less mathematically precise, hypotheses about how the world works. Importantly, it also opened the door to the lessons of history. Some economists still argue that such an approach to policy is too undisciplined – overly complex, seemingly discretionary, difficult to explain. They want the Fed to set interest rates according to formal benchmarks and rules. ..But too often we have to deal with incomplete and faulty data, unreasoning human fear, and inadequate legal clarity. As elegant as modern-day econometrics has become, it is not up to the task of delivering policy prescriptions. The world economy has become too complex and interlinked. Our policymaking process must evolve in response to that complexity. (Page 196)

COUGHLIN: I think Greenspan is making a very important point for managers and executives to consider. The more sophisticated a person's education has been, the more theories, models, and formulas he or she has been introduced to. Models are useful for organizing complex information and explaining what it means to other people. However, using a model or a formula or a personality test to make decisions on who to hire, who to fire, which strategy to select, and which supplier to stick with does not always make for the best business decision. Use the models, formulas, and theories to help you organize your thoughts, but at the end of the day make the decision you believe is the best for your organization and the people in it.

GREENSPAN: The data point to three important characteristics influencing global growth: (1) the extent of competition domestically, and especially for developing nations, the extent of a country's openness to trade and its integration with the rest of the world; (2) the quality of a country's institutions that make an economy work; and (3) the success of its policymakers in implementing the measures necessary for macroeconomic stability. (Pg. 250 and 251)

COUGHLIN: This one is a little trickier to see in terms of applications for a manager. However, take each of Greenspan's three characteristics and think about how you can apply them to your business or business unit. In other words, are the members of your organization improving their competitiveness through trading best practices with each

other? Do you have the support systems in place in your organization to help your employees thrive? Are the policies in your organization providing the freedom and stability for the long-term success and growth of your employees? Take the same macro approach Greenspan took for our country, and apply it to your organization.

GREENSPAN: A rarely discussed, but important, macroeconomic determinant of economic success is the extent of an economy's flexibility and hence its resilience to shocks. (Pg. 255)

COUGHLIN: If your business becomes locked into one way of doing things, it may thrive today and die tomorrow. You arrived at your current approach to doing business because of factors in the past that caused you to create your current mode of operations. As those factors change, you will need to change your approach. The problem occurs when you have associated your identity as a person or as a business with one way of doing things. Then when the world shifts it becomes hard to change your identity. Instead of associating yourself or your business with a certain way of delivering value just associate yourself with delivering value. That way you can change the way you deliver value more easily.

GREENSPAN: Another important requirement for the proper functioning of market capitalism is also not often, if ever, covered in lists of factors contributing to economic growth and standards of living: trust in the word of others...As I noted earlier, material well-being – that is, wealth creation – requires people to take risks. We can't be sure our actions to acquire food, clothing, and shelter, for example, will succeed. But the greater our trust in the people with whom we trade, the greater the accumulation of wealth. In a market system based on trust, reputation will have a significant economic value. Reputation is an important contributor to the market value of a company. Reputation and the trust it fosters have always appeared to me to be the core required attributes of market capitalism...Government regulation cannot substitute for individual integrity. (Page 256)

COUGHLIN: This is a classic example of how intangibles in the business world drive tangible results. Trust and reputation are intangibles, but they are very real. You build them or weaken them everyday with virtually every action you take and comment you make. Trust means you can count on the other person to do what he or she said would be done. It doesn't mean the other person will do what you want him or her to do. You can largely affect the amount of trust other people have in you.

Reputation is a bit harder to control because some people can damage your reputation without you ever meeting them. They can tear you down because of jealousy or competitiveness. The best you can do is to act with integrity and a strong character in all situations. One of my favorite quotes comes from John Wooden who said, "Character is more important than reputation because character is who you really while reputation is merely what others think of you." If you always act with integrity, you can enhance your reputation. If you don't act with integrity, then your good reputation will soon be ruined.

GREENSPAN: (Note: This piece is where Alan quotes Adam Smith, author of *The Wealth of Nations* written in 1776): The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security is so powerful a principle, that it is alone, and without any assistance...capable of

carrying on the society to wealth and prosperity. To enhance the wealth of a nation, every man, consistent with the law, should be free to pursue his own interest in his own way. (Page 262) ...An essential determinant of a nation's standard of living is the skill, integrity, and judgment with which labor is generally applied." (Page 263)

COUGHLIN: It's a little humbling for any writer when he or she realizes that almost everything that needed to be written for the success of the United States was written in 1776. The shortest and most famous document written that year was the Declaration of Independence. Enough said about that one. The second most important item was the book by Thomas Paine, **Common Sense**, which laid out why the American colonies should start their own country as a democracy. And the third most important item was the book, **The Wealth of Nations**, by Adam Smith, which posed that the best path to a nation's economic success was allowing its citizens the freedom to work to improve their current condition.

Now think about your business or business unit. Are you providing employees with the freedom to make decisions that can enhance the organization, or are you micromanaging them to the point where they are not allowed to think for themselves? Organizations need direction. That's the strategy. Managers need to clarify expectations in terms of behaviors and results. And employees need freedom to think and to try to implement their ideas so they know they are an important part of the organization's progress. Adam Smith's ideas can be applied on both a national level and on an organizational level.

GREENSPAN: The problem is that the dynamic that defines capitalism, that of unforgiving market competition, clashes with the human desire for stability and certainty. Competition, capitalism's greatest force, creates anxiety in all of us. One major source of it is the chronic fear of job loss. Another, more deeply felt angst stems from competition's perpetual disturbance of the status quo and style of living, good or bad, from which most people derive comfort. (Page 268)

COUGHLIN: **Run From Safety** is one of my favorite books by Richard Bach, the author of **Jonathan Livingston Seagull**. Bach's main point in the book is that the only path to achieving security is to run from safety. In other words, run from what other people think is safe and secure and run toward opportunities to apply your passion and your strengths. This apparent oxymoron holds for individuals and organizations. When Intel shifted from memory chips to microprocessors in the mid-1980s, they ran away from what used to be their safety and into the unknown.

We have to be willing to let go of the tried-and-true and go for the risky-and-unknown. The prudent risk is to take the chance and move forward. The imprudent risk is to assume that what used to work will always work. However, that transition time can be scary, humiliating, and nerve-wracking. Transformations are like stepping through the teenage years. It has to happen if you want to become an adult.

GREENSPAN: We are alternately the aggressive entrepreneur and the couch potato, who subliminally prefers the lessened competitive stress of an economy where all participants have equal incomes. (Page 268)

COUGHLIN: The desire for a stress-free life is real, and that's why we have spas. Go get a massage, a manicure, and a pedicure. Chill out for several hours and do that frequently. And then step back into the stress zone because that's where growth happens on an individual basis and on a group basis.

GREENSPAN: The notion of enlisting representatives of a corporation's various stakeholders on the board – unions, community representatives, customers, suppliers, and so forth – has a nice democratic ring to it. But it is ill-advised and I strongly suspect will not work. Today's highly competitive world needs each corporation to execute plans from a single coach, as it were. A vote by the whole team on each big play is a recipe for defeat. (Page 432)

COUGHLIN: This is never more true than when it comes time to formulate a new strategy for an organization. The CEO should listen to a variety of people and gather input. The CEO should organize 10-12 people to be intimately involved in the formulation of a new strategy. But at the end of the day you don't just multi-vote to land on a strategy. Instead the CEO gathers all of the input and makes the final decisions on the direction in which the organization is heading.

GREENSPAN: All gains in efficiency are the result of new ideas in the way people organize their physical reality. Over the generations it has been new ideas embodied in newly built plant and equipment that better leverage and multiply human effort. In all categories, productivity growth results from ideas translated into valued goods and services. The quality of raw materials used in the production process adds only modestly. (Page 471)

COUGHLIN: I've always thought of "technology" as relating to computers and other electronic devices. Recently I learned a more intriguing definition. Technology is the intellectual capacity to create new value. In that sense, anyone who has the intellectual ability to create ideas that generate new value for customers is strong in the area of technology. This person could very well have nothing to do with computers or electronics. Steve Jobs doesn't really know that much about the nuts and bolts of electronics and computers, but he has an amazing ability to intellectually create ideas that generate new value for consumers. The human mind is the source of economic growth.

GREENSPAN: Large manufacturing plants, office towers, even homes, have value only to the extent that market participants value their future use... Nothing has to be happening outside our heads. Value is what people perceive it to be. Hence liquidity can come or go with the appearance of a new idea or fear. (Page 486)

COUGHLIN: Value is in the eye of the beholder. A brand is the perception of value that a customer thinks she gets when she buys from an organization, or a prospective customer thinks she would get if she did buy from that organization. This is why branding is such a critically important business driver. If customers don't perceive great value from their interaction with your organization, then you are never going to generate reasonable profit margins.

GREENSPAN: If you compare the dollar value of the gross domestic product – that is, the market value of all goods and services produced – of 2006 with the GDP of 1946, after adjusting for inflation, the GDP of the country over which

George W. Bush presides is seven times larger than Harry Truman's. The weight of the inputs of materials required to produce the 2006 output, however, is only modestly greater than was required to produce the 1946 output. This means that almost all of the real-value-added increases in our output reflect the embodiment of ideas. (Pages 492-493)

COUGHLIN: I actually find that to be empowering. The future growth of any economy, or any business for that matter, lies in the development of innovations, not in the discovery of gold, oil, or diamonds. In other words, you and your team members can generate growth in a dependable way if you continue to seek improvements for your best fit customers.

GREENSPAN: In life, unless we take action, we perish. But action risks unforeseen consequences. The extent to which people are willing to take risks depends on the rewards they think they may gain. (Page 503)

COUGHLIN: This is why democracies are critically important on a national level and on an organizational level. It does no good to encourage your employees to take risks if they can only receive negative consequences and never positive consequences.

GREENSPAN: It is not an accident that human beings persevere and advance in the face of adversity. Adaptation is in our nature, a fact that leads me to be deeply optimistic about our future. The Enlightenment's legacy of individual rights and economic freedom has unleashed billions of people to pursue the imperatives of their nature – to work toward better lives for themselves and their families. Progress is not automatic, however; it will demand future adaptations, as yet unimaginable. But the frontier of hope that we all innately pursue will never close. (Page 505)

COUGHLIN: In essence, we have nothing to worry about no matter how difficult times become. That is, we have nothing to worry about as long as we embrace adapting to changing circumstances. And not just adapting as in putting up with the changes. I mean adapting in the sense of innovation, where we leverage the changes to add greater value to other people and, consequently, enhance our own lives.

About Dan Coughlin

Visit Dan at www.businessacceleration.com. Dan Coughlin is a business keynote speaker, management consultant, and author of **Accelerate: 20 Practical Lessons to Boost Business Momentum**. He has been quoted in USA Today, the New York Times, and Investor's Business Daily. Dan's clients include Coca-Cola, Toyota, Boeing, Marriott, McDonald's, AT&T, American Bar Association, and the St. Louis Cardinals. He speaks on entrepreneurial habits, quality, leadership, branding, sales, and innovation.