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‘Keeping At It’ Review: The Last Monetary Hero

The Fed under Ben Bernanke opened the monetary spigots; the Fed under Paul Volcker shut them off—and ended an inflation crisis. James Grant reviews “Keeping At It” by Paul A. Volcker.



Former Federal Reserve Chairman Paul Volcker in 2010. PHOTO: BLOOMBERG NEWS

By James Grant

Nov. 25, 2018 3:00 p.m. ET

In August 1979, when Paul Volcker began what would prove to be an eight-year stint as chairman of the Federal Reserve, inflation was running at a rate of more than 11% a year. Soon Americans would rub their eyes to behold a 16% Treasury-bill yield and an 18% mortgage rate. How these things happened and what put a stop to them furnishes the most striking portions of Mr. Volcker’s engaging and—from the current vantage point of 2.5% inflation and 5% mortgage rates—seemingly incredible memoir.

Before Jay Powell and Janet Yellen, before Ben Bernanke and Alan Greenspan, there was “tall Paul,” the thrifty, 6-foot-7 career civil servant who smoked cheap cigars and fished for trout with a fly rod. His policy, announced in an extraordinary Saturday press conference just two months after he took office, was the polar opposite of the radical “stimulus” imposed after the downfall of Lehman Brothers in 2008. If Mr. Bernanke opened the monetary spigots and pressed down interest rates, Mr. Volcker shut the flood gates and jacked up interest rates. The Bernanke Fed egged on inflation; the Volcker Fed vowed to kill it.

“Keeping At It” is part

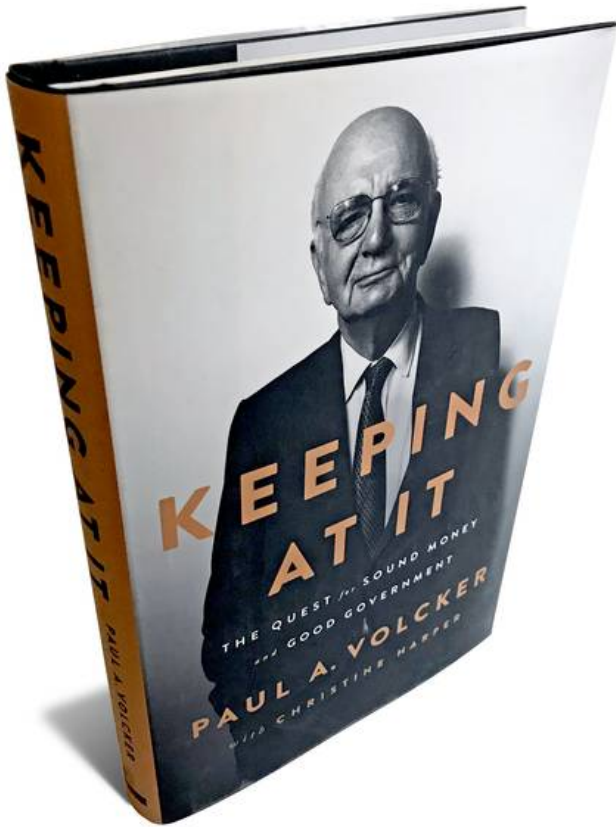


PHOTO: WSJ

KEEPING AT IT

By Paul A. Volcker

PublicAffairs, 286 pages, \$28

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autobiography, part monetary history, part plea for the restoration of trust in American political institutions. The son of the city manager of Teaneck, N.J., Mr. Volcker extols public service and beats the

drum for graduate-level instruction in the nitty-gritty of “public administration”—including perhaps, a New Yorker may hope, a course in coping with a small snowstorm.

Young Paul, according to the 91-year-old memoirist, was a slacker who nonetheless won admission to Princeton, Harvard and the London School of Economics, finally emerging as a not-quite

doctor of economics (lacking only the dissertation). Early in the 1950s, he went to work for the Federal Reserve Bank of New York before taking up duties as chief financial economist at the Chase Manhattan Bank under its superlative president, the aptly named George Champion. In 1962, it was back to the government, soon to serve as undersecretary of the Treasury for

monetary affairs in the brand-new Kennedy administration. He made an interim stop as president of the New York Fed in 1975 before his five-alarm summons to Washington to lead the Federal Reserve's fight against the inflation that it itself had instigated, a case of the arsonist grabbing a fire hose. At a salary of \$57,500 a year, America's monetary chief made his Washington *pied-à-terre* in a collegiate-grade one-bedroom apartment (his wife, Barbara, remaining in New York).

The final 100 pages of this concise narrative deal with Mr. Volcker's post-Fed career. Investment-minded readers may wish that there were more on the Fed and rather less on Mr. Volcker's teaching career at Princeton's Woodrow Wilson School or his activities at the Trilateral Commission or at the head of commissions to investigate corruption at the World Bank and United Nations. More in keeping with the dossier of a retired central banker is Mr. Volcker's account of his attempt to improve the quality of accounting standards and to prohibit the too-big-to-fail banks from speculating with the depositors' money. The so-called Volcker rule, the nearly 1,000-page appendage to the Dodd-Frank Wall Street Reform Act of 2010, may or may not be keeping banks on the straight and narrow, but it does provide much lucrative work to the law firms that purport to understand its stupefying detail.

"Good government" and "sound" money are Mr. Volcker's themes, in life as in print. What the author doesn't seem to consider is whether an excess of government might be the unmaking of the kind of money he favors, the kind that serves not only as a medium of exchange but also as a store of value. Drop a gold coin on a counter and it rings—hence, "sound." No such music emanates from the Federal Reserve's computers, on which Mr. Volcker's successors effortlessly materialized some \$4 trillion in digital scrip to quash interest rates, lift the stock market and rescue the overextended American financial system in the wake of the 2008 crisis.

Mr. Volcker came of age when the dollar was still defined as a weight of gold (foreign governments could exchange \$35 for an ounce) and banks still trembled at memories of the Great Depression. By the 1960s, bankers had stopped trembling. One, indeed, appeared fearless. Walter Wriston, chairman and president of what is today Citigroup, went so far as to deny that any well-managed bank (his own, for instance) needed any capital, a claim that seemed brash when he made it, risible following Citi's near death in 2008-09. In 1971, the dollar was cut loose from its golden anchor—henceforth, the U.S. could issue as many greenbacks, and run up as much debt, as the traffic would bear. Thus did an age of relatively restrained finance give way to the Age of Inflation and, its evil twin, the Age of Bailouts.

In a sense, Mr. Volcker made a career of trying to replace the conservatism inherent in the gold-based system with the caution imposed by regulation. The former chairman of the Fed doesn't put it quite this way, though he does concede that something is wrong with both high finance and the favor-grubbing politics that infests it. Washington in the early 1960s was a "comfortable, convenient medium-sized city," he writes; its law firms were "entirely local and small, occupying maybe a floor or two in a K Street office

building.” Today the capital is “a very different, unpleasant, place, dominated by wealth and lobbyists who are joined at the hip with the Congress and too many officials. I stay away.”

Humility is one of the charms of both the man and his book (written with Christine Harper, editor in chief of Bloomberg Markets). Though his kindergarten teacher, Miss Palmer, saw in young Paul a worrying lack of self-confidence, the grown man stuck to his anti-inflationary guns, let joblessness mount, bankruptcies climb and brickbats rain down. Refusing to flinch, he made the paper dollar, if not actually sound, then respectable. Tall Paul, indeed.

Mr. Grant is the editor of Grant's Interest Rate Observer. His “Bagehot: The Life and Times of the Greatest Victorian” will be published in July.

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