Silber, William – Volcker: The Triumph of Persistence

Bloomsbury Press, 2012, [Economics] Grade ★★★★

After a lot of research and 42 lengthy interviews with the subject of this book Mr William L. Silber, a professor at New York University's Stern School of Business, has a better understanding than most of two major economic events; the introduction of fiat currencies (The Nixon chock 1971) and the end of double digit inflation in the US (first half of 1980's). To know more about these events is highly relevant, not least in order to better understand political processes in general and their interaction with basic economic fundamentals.

The book is written chronologically in four parts besides an initial prologue which neatly sums up the three crises Paul Volcker had to endure. Part 1 is about Mr Volcker's formative years, not least his experience at the New York FED. Part 2 gives an excellent insight into America's break with the gold standard and introduction of the fiat currency system. Volcker considers this the most significant event in his career. Part 3 deals with his actions as FED chairman 1979-1987, a period in which he despite numerous headwinds still saw some of his finest moments. Part 4 is about more recent events, not least the "Volcker rule".

Of the over 450 pages, roughly 100 pages are notes and references to various sources, i.e. it's easy to drill further in whatever interests you. For the most part however, the level of details is already high enough, and sometimes it might be excessive. When it comes to the main events I don't mind, I actually enjoy it, but sometimes the author spends a bit too much time on less relevant events.

We are now a few year into a financial crisis which some would say started with US house prices rolling over late 2006. Reading about more dated crises gives you some perspective, both in terms of adding complexity to something you thought was easy to understand (most think of the 70's as Vietnam War => inflation, Volcker => higher rates, eventually lower inflation) and of how much that could have gone wrong. Large crises also require a lot of time to get resolved. This book gives tremendous colour to what actually happened, and you realise how much of the happy ending in reality was luck.

My interest was mostly caught by the two middle parts and that's also where the book has its main focus. Part 2, *Confronting Gold 1969-1974*, is all about the problems of a semi fixed currency regime, with gold convertibility as a centrepiece. As most people will recall Bretton Woods was implemented after WW2. At that time, most of the gold in the world was held by the US so it was natural to have a system where other currencies were pegged to the dollar and the dollar was then convertible in to gold. However, due to large and lengthy balance of payment deficits, the US was eventually going to run out of gold. Mr Volcker saw this coming and it was mostly his solution that Mr Nixon brought to the public august 15th, 1971.

In part 3 we learn how Volcker by accident became FED chairman, and despite few supporters managed to change the way FED worked completely. During three years FED set targets for money supply, not interest rates. Very few supported this, not Milton Friedman, not Paul Samuelsson or Henry Kaufman which all said Fed could not bring down inflation. Inflation in 1980 was at 12% and six years later inflation was 3.4%, and Volcker became the hero. He still is.

So who is the Paul Volcker of 2012/2013? Is it Ben Bernanke or Mario Draghi? Both are rewriting the rules for how conventional central banks operate when the economy stops working like it used to work. Let's hope some professor writes a book about their successes a few decades ahead.

Bo Börtemark, December 29, 2012