

Wall Street Still Listens to Greenspan

By JEANNINE AVERSA

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WASHINGTON -- Judging from the markets, you'd hardly know Alan Greenspan has been gone from the Federal Reserve for more than a year. When he talks, Wall Street still listens.

Stocks tanked around the globe Tuesday as skittish investors fretted over the prospects of major economic slowdowns in the United States and China. Greenspan had warned a day earlier that the U.S. economy might slip into recession by year's end.

Although many economists still believe the odds of a U.S. recession this year are fairly low, investors' reactions made clear that Greenspan's utterances are paid close attention even though he no longer has the power to raise or lower interest rates.

Experts said that's a testament to the credibility and forecasting prowess Greenspan earned during his 18-plus year run _ the second-longest in Fed history _ as chief of the nation's central bank.

"Greenspan was there for nearly 20 years and has had such a big influence over a long time with investors. It may be a habit that the market has adopted _ listening to Greenspan," joked Victor Li, associate professor of economics at Villanova School of Business.

The market is still listening because "he has been so right about the economy for so long," added Mark Zandi, chief economist at Moody's Economy.com.

Greenspan's agile handling of the economy has earned him monikers, including the maestro, the greatest central banker who ever lived and the second-most important person in Washington.

On Monday, Greenspan said, "It is possible we can get a recession in the latter months of 2007." Although Greenspan also went on to say that most forecasters are not making that judgment, his remark nonetheless roiled financial markets.

The former Fed chief's recession comment came just weeks after Ben Bernanke, the current Fed chairman, gave Congress a mostly upbeat assessment of the economy's prospects.

Economists who give Bernanke good marks for his handling of the economy thus far don't believe Greenspan's recession remark undermines the new chairman's credibility.

But they do think that an outspoken Greenspan _ should his words in the future continue to cause stock market gyrations _ could become a headache for Bernanke.

"If the ex-Fed chairman is out there being fairly opinionated, Bernanke might have to start shadow boxing with him and that's not a good position to be in. If a relatively obscure comment by Greenspan in Hong Kong can cause a ripple effect around the world, that is something Bernanke can't ignore. There is certainly an annoyance factor there," said Brian Bethune, economist at Global Insight. "Why doesn't Greenspan go to Hawaii and play golf?"

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Former Federal Reserve Board chairman Alan Greenspan is shown in Washington in this Jan. 26, 2006 file photo. (AP Photo/J. Scott Applewhite, FILE) (J. Scott Applewhite - AP)

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