

PAUL VOLCKER



THE MAKING OF A FINANCIAL LEGEND

JOSEPH B. TREASTER

Prize-Winning Journalist for *The New York Times*

FOREWORD BY ARTHUR LEVITT

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Paul Volcker is a living legend of finance. He has established himself as one of the world's most influential economic thinkers and is regarded as both a figure of integrity and an instinctive leader who—throughout his career—has invariably done what he has thought was right, regardless of the consequences. Volcker is that rare financial titan who never sought to amass great personal wealth. Throughout his career, it is evident that he had no greater goal than doing the best job he could in the public interest, leading organizations from both the public and private sector to seek out his advice when crises of confidence arose.

Written by award-winning *New York Times* journalist Joseph B. Treaster, *Paul Volcker: The Making of a Financial Legend* takes you through the most compelling moments of Volcker's fifty years in finance and public service—documenting his days as one of the most powerful voices in America as chairman of the Federal Reserve, as well as his more recent endeavors, including a mission to revive the Arthur Andersen accounting firm and efforts to recover billions in lost savings of Holocaust victims from Swiss banks.

From public politics to private business, this masterful book examines the ethical, economic, and moral dilemmas Volcker faced at every turn. Compelling moments captured within these pages include Volcker's:

- Early days as a young Treasury Department official during the Nixon years and his leading role as Treasury Department undersecretary in ending the Bretton Woods system
- Appointment as president of the New York Federal Reserve Bank
- Tenure as chairman of the Federal Reserve from 1979 to 1987—through the Carter and Reagan administrations

(continued on back flap)





Additional Praise for *Paul Volcker:*
The Making of a Financial Legend

“As Joseph Treaster’s quite wonderful biography makes clear, Paul Volcker is a rare gift to the nation. Read this book and be reminded anew of the extraordinary integrity and intellectual firepower Volcker has made synonymous with his service to the Republic. You may not think you care about the role of the Federal Reserve, but after you read *Paul Volcker: The Making of a Financial Legend*, you will.”

–**Hodding Carter III,**
State Department Spokesman
in the Carter Administration
and currently President of the John S.
and James L. Knight Foundation

“I remember well when Paul Volcker became chairman of the Fed and vowed to break inflation. Not many believed him, but he did it, almost single-handedly. The story of this great financial strategist will help you understand today’s economy and what lies ahead.”

–**Jim Rogers, international investor**
and author of the bestselling books,
Adventure Capitalist
and *Investment Biker*

“Through five decades of competence and integrity in both the public and private sectors, Paul Volcker has gained the respect of the world’s financial leaders while never forgetting those in America who needed a helping hand. He has been the voice of calm in times of financial crisis and of innovation in times of opportunity. Above all he has been candid in a world where candor often takes second place to public relations and spin. Treaster’s compelling book about an extraordinary American is long overdue.”

–**Former Senator Bill Bradley**



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*To Barbara and Chloe,
my true loves*





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Foreword

Without Paul Volcker's toughness and guts, we may never have broken the grip of rising inflation and declining productivity that plagued the United States during the 1970s. And we surely would not have been positioned to enjoy record economic growth in the 1990s. It would have been amazing to think in 1982, but now inflation barely registers as a concern in the United States. For that, Americans have to thank Paul Volcker.

At the start of the 1980s, America was suffering through its greatest economic crisis since I was a young boy during the Great Depression. In March of 1982, as Chairman of the American Stock Exchange, I put forward Wall Street's perspective on President Reagan's economic policies in an address at the National Press Club in Washington, buttressing my remarks with data from a poll of 400 leaders in the financial community. The results of the poll, conducted by the Exchange, were clear: Business leaders were losing enthusiasm for the president's economic plans, but they overwhelmingly supported Paul Volcker's stewardship of monetary policy at the Federal Reserve Board.

At the time, that was not an opinion shared by most Americans. As Joseph Treaster vividly describes in the following pages, Volcker was under intense pressure to reverse

his policy of monetary restraint. At the time, it was hard for a lot of people to see that Volcker was administering the medicine that our ailing economy sorely needed. But I believed that he was. That is why at the end of that talk at the National Press Club, I told the reporters there that Volcker “may be the only voice of sanity left in Washington. We respect him for his toughness and guts.” My comments elicited a small storm of controversy, but I stood by them then, and I stand by them now.

Having gotten to know Paul over the years, I can say that this courage is a manifestation of how he has lived his personal and professional life. He has always stood for what he believes is right, regardless of the political consequences.

After Volcker left the Fed, he undertook the difficult task of chairing a joint committee of Jewish groups and Swiss banks to bring resolution to the question of unclaimed accounts of Holocaust victims. It was a situation fraught with emotion and acrimony, one in which the chance for failure was high. Yet Volcker took on the task, oversaw a massive accounting of Swiss bank records, and helped force a \$1.25 billion agreement.

As that process was winding down in 2002, Volcker answered the call at Arthur Andersen, agreeing to chair an independent oversight committee at the height of that accounting firm’s problems concerning the Enron collapse. It was a total no-win situation. The public was outraged at the firm’s role in this massive corporate scandal, and the accounting industry had a history of obstinacy toward reform.

But Volcker truly believed that it was important to the future of accounting and to the future of our market system.

for him to help turn Arthur Andersen into a model for the entire field. Unfortunately, Volcker's reorganization plan was never implemented, as criminal indictments quickly doomed the future of Arthur Andersen. Yet many of the recommendations that Volcker made—such as restrictions on nonaudit work and the rotation of auditors—became part of the groundbreaking Sarbanes-Oxley Act passed by Congress later that year.

Finally, I saw Volcker's courage up close as a fellow member of the Conference Board's Blue-Ribbon Commission on Public Trust and Private Enterprise. When everyone else in this august group of business leaders was talking about the right formula to treat stock options as an expense—an important move to realign the interests of management and shareholders—Volcker took the practical, principled, and bold stand that these options should be banned outright.

What motivates Volcker to take these principled stands is engagingly detailed in the following chapters. Joseph Treaster's book paints an encompassing portrait of one of the great economic minds and financial leaders of our time, detailing his professional triumphs as well as the personal side of the man, from his upbringing in New Jersey to his struggles in caring for his wife and family.

Reading this book, one also learns the story of a now rare breed: the private sector leader who takes his public obligations seriously.

In an era in which business leaders are celebrated on magazine covers for acquiring a company in one stroke of the pen, firing tens of thousands of employees in another stroke, and in yet another, selling off the enterprise years