



The Map and the Territory: Risk, Human Nature, and the Future of Forecasting

Alan Greenspan

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Like all of us, though few so visibly, Alan Greenspan was forced by the financial crisis of 2008 to question some fundamental assumptions about risk management and economic forecasting. No one with any meaningful role in economic decision making in the world saw beforehand the storm for what it was. How had our models so utterly failed us? To answer this question, Alan Greenspan embarked on a rigorous and far-reaching multiyear examination of how *Homo economicus* predicts the economic future, and how it can predict it better. Economic risk is a fact of life in every realm, from home to business to government at all levels. Whether we're conscious of it or not, we make wagers on the future virtually every day, one way or another. Very often, however, we're steering by out-of-date maps, when we're not driven by factors entirely beyond our conscious control.

The Map and the Territory is nothing less than an effort to update our forecasting conceptual grid. It integrates the history of economic prediction, the new work of behavioral economists, and the fruits of the author's own remarkable career to offer a thrillingly lucid and empirically based grounding in what we can know about economic forecasting and what we can't. The book explores how culture is and isn't destiny and probes what we can predict about the world's biggest looming challenges, from debt and the reform of the welfare state to natural disasters in an age of global warming.

No map is the territory, but Greenspan's approach, grounded in his trademark rigor, wisdom, and unprecedented context, ensures that this particular map will assist in safe journeys down many different roads, traveled by individuals, businesses, and the state.

The Map and the Territory: Risk, Human Nature, and the Future of Forecasting Details

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From Reader Review The Map and the Territory: Risk, Human Nature, and the Future of Forecasting for online ebook

Uwe Hook says

Unless you are a macroeconomist or monetary policymaker, save your money. Classic example of a very smart man with little common sense for how to communicate. Poor logical flow; poor metaphors (the title is never clearly explained; couldn't he find a better description than "animal spirits"?); stories inserted that had no relation to the point of the chapter; etc. I majored in economics and spent 30 years in the business world at senior levels, yet many sentences were literally unintelligible. Where was the editor? Why did the publisher let this out?

A soft apology for why the Fed missed the big housing bubble. It did not convince me.

Yet Greenspan is right on target with many observations from banks needing more equity capital to the risks with counterparty assurances, the failure to correct "too big to fail," shadow (unregulated) banking, herd behavior, tail risk, GSE's and crony capitalism, and more. He could have written so much more cogently on these important subjects, or had someone assist him with the manuscript.

Smart man; bad book.

Summer says

I like economics, and I like books by practitioners, and I was SORELly disappointed by this book. The book is so disorganized, not edited at all (Exhibit 7.3 appears in Chapter 2), and I kept on getting mad at individual headings and sentences that seemed out-of-place or unsupported. I bet Alan Greenspan just typed this out in one go and knew it would sell, but also knew that his legacy wouldn't be judged on the basis of this book. He may be right, but reading this book made me think less of him.

I'm recycling this book, and waiting for Janet's.

Andrew says

Why I Abandoned this Book - in one sentence: Because I haven't worked in risk analysis for thirty years, though it looked interesting.

I probably would have given it: 3 stars

Follow me on Twitter: @Dr_A_Taubman

Aaron Schlaflay says

First, let me say that I greatly enjoyed "The Age of Turbulence." It was better than I had expected, mixing Alan Greenspan's personal story with an interesting finance story. I gave it five stars, and consider it one of the best books I have read in the genre.

Second, let me say that I am an actuary who is keen on books about finance, economics, etc., so I have a high tolerance for dry or technical books. I like regression analysis.

However, I found this book very tough going. The topics seemed to be more of a grab-bag of topics, and it was not clear what the theme or thesis was, though one or two chapters were able to hit a stride and were good. This is in contrast to "Capital in the Twenty-First Century" by Thomas Piketty, which is more methodical, but brings each point clearly before proceeding to the next topic.

The arrangement of the book (original edition, hardcover) worked against the writing. I found myself frequently flipping back and forth, as most, but not all charts were in the back of the book. There are over 300 endnotes for a book of only 300 pages. These should have been triaged, with asides embedded into the text as parenthetical clauses, useless notes removed, and only the rest included as end-notes.

I am no editor, and I am not usually picky. However, the endnote mess (including footnotes to endnotes, endnotes embedded in graphs at the back, etc.) drove me to distraction, turning what could have been a mediocre book into something more irritating.

Adam says

Not sure what the other reviews are on about, of course it's dry but not THAT dry. It is Alan Greenspan after-all.

Maybe it's because he confirmed my biases, such as being skeptical of China's long term viability economically. And he includes some good scatterplots (from World Bank and IMF research) of Russia (and China) being a corrupt state. About time people like him point out this most basic fact.

Though of course I disagree and or found his constant haranguing about "social welfare payments are bad 'mkay" tiring and unconvincing. Same with his union bashing and tenuous claim that unions are bad for workers and their pay.

The productivity stuff was good.

The publication seems rushed and there are mistakes in placement of Exhibits. No book is worth rushing when it has errors. This book didn't have to meet a deadline. If they fixed the errors would it be a 5 star book? No probably not but that's beside the point. Errors are annoying and detract from the credibility of the author (of which none of us would really doubt) and the publisher Penguin. Leave the shitty workmanship to Kindle book 'authors' and self-publishers.

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If you want the 'Enhanced MarkUps' where I've penciled in page numbers of the EndNotes and highlights then request book # 5100451 if you access RRL books. <https://rrl.nsw.gov.au>

Colby says

I suppose a helpful comment would be to ignore substance and note that triumphs are cast in the first-person singular, while debacles are described in the third-person plural (occasionally, first-person plural).

Andrew Davis says

According to Greenspan we live in an age of entitlement. He asks: What type of society do we wish to live in? One in which self-reliance is the ethos, where government has little role aside from setting the legal conditions for political freedom? Or, a society and government whose primary function is to "entitle" citizens with all forms of income transfers crafted to elevate the least privileged to equality of opportunity? In short, do we wish a society of dependence on government or society based on the self-reliance of individual citizens? Which, if either, given human nature, is the most efficient in serving the society as a whole? This is the root of the political debate between a welfare state and something far short of that. He acknowledges that "The tendency for market prices to seek equilibrium cannot occur if market structure is dysfunctional. The powerful forces of free market adjustments fail. Under such circumstances, the substitution of sovereign credit for private credit is essential to quickly restore market structure. The US equity support of banks and mutual funds were critical in arresting the free fall. All financial markets, however, were functioning again by early 2009.", however, complains that government support went too far. Perhaps not unexpectedly there is no critique of his involvement and "contribution" to 2008 catastrophe in the first place.

He blames government payments towards social security as one of the reasons US economy is in such a bad shape. Instead they should cut taxes and make people more self-reliant. Typical neo-liberal response.

Tyler says

In his first book, Alan Greenspan amazed as the suddenly personable and accessible narrator of our nation's economic history and outlook. But reading *The Age of Turbulence* will not prepare you for this book. It's tedious and inaccessible, and it's never quite clear what the topic is. I still have immense respect for the man, but I felt lost or in plain disagreement through much of this one.

Nancy Mills says

I enjoyed this one as much as *The Age of Turbulence*. While the subject matter is heavy, I find Greenspan's style pleasant and entertaining. This book is just packed with good stuff, and not a lot of filler fluff. I learned so much. All of our elected officials should be required to read this book, as it demonstrates clearly the long term effects of our economic and social policies. Of course we all know politicians are more interested in promoting policies that will make them popular in the short run, but may cause disaster further down the line, Greenspan explains this in concrete terms.

Refreshingly, the author is nonpartisan.

I finished this book convinced that Alan Greenspan is one of the great minds of our time. Because of his involvement in the Federal Reserve and in other government capacities for so many years, his insight is valuable. He also freely admits to not foreseeing the extent or ultimate effects of the recent financial crisis, although one gets the impression that he was aware of the unwise ness of certain governments dictated credit policies. Sometimes stuff sounds good but doesn't work out on paper.

My only complaint is the graphs in the book. For one thing they are all back in the appendix so you have to

constantly flip back and forth. They are so small that even with reading glasses I can't see some of the data. And they are complicated. Apparently you have to understand regression analysis and T factors and a bunch of other statistical concepts. I'm sure they are fascinating....please explain them more explicitly! Also Dr. Greenspan tends to use an awful lot of end notes. They should be changed to footnotes so we don't have to flip back and forth constantly. The book still gets my 5 stars. Very worth reading!

Andy says

short chapters keep this easily accessible to those who are not trained economists or statisticians. Greenspan's ideas and concepts are clearly explained (whether you agree with them or not) and he at least builds logically towards his conclusion, which is well presented.

If like me, you believe that all people are not created equal and some disadvantageous circumstances are sometimes impossible to overcome, then you will not be convinced in the power of free markets to prevent economic misery for those less fortunate.

Morris Yen says

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Marc says

Greenspan is a lazy thinker and a poor writer. This book is full of excuses about why he (and the financial analysts community at large) missed the crash. He takes no responsibility for his actions as one of the most powerful actors in the world in finance. History won't judge him well.

Mohamed Diab Embbya says

Greenspan is a master number cruncher and his commentary on China's post-crisis investment-spending fuelled growth is a prime example of his skill.

However, I take stock with his argument that economies benefit from lower taxes on high-income earners. Greenspan argues that because of their low spending as a percentage of income, their savings are large enough to increase their risk appetite and induce them to finance high risk ventures such as backing startups and disruptive technologies, which are key to growth and economic advancement.

While I agree to the merits of taking high risks by backing such investments, I see him focusing on the supply side and not considering the effects of fiscal policy on demand.

A) If maintaining a balanced budget is key, then lowering the tax burden on the rich will place the burden on low income earners, who spend a higher percentage of their income; this leads to lower consumer demand

for the economy's output.

Additionally, smaller governments mean lower welfare transfers to the poor and low income earners, doubling the burden on this class and reducing consumer demand even further, this will lead to lower corporate investment, as weaker demand reduces the attractiveness of corporate investments and the returns that corporates expect to generate from such investments.

B) In an era characterised by a saving glut, it might be preferable to impose higher income-taxes on the rich to reduce the stock of savings available to the economy, this will increase the expected return on these savings and produce more attractive risk premia on corporate investment, generating more flows to such investments.

To conclude, imposing higher taxes on the rich, while it may lower funds available for VC investments (a significant effect is doubtful however, since VC's aren't only financed by HNW's and family offices), it maintains consumer demand and increases returns on corporate investments, raising the funds flowing to finance CAPEX and R&D and improving the economy's productive capacity and efficiency.

Margaret Lozano says

A lot of excuses, which is understandable since the entire book is pretty much a justification of Greenspan's policies when he was at the Fed. He says exactly what you'd expect him to say - no surprises there.

I enjoyed the biographical details and wish there had been more of them.

Venky says

As a globalized world found itself in a tailspin of malevolence following the unprecedented financial crisis of 2008, economists found themselves being brutally panned for either their inability to predict such a catastrophe or for being the mavens of undying optimism. Accusations of employing mathematical/numerical sophistry to camouflage reality and to view the global economy with rose tinted glasses literally symbolised the ironical title by which the subject of Economics is commonly referred to - The Dismal Science.

One such distinguished economist was Alan Greenspan. Known as the Oracle for his economic wizardry the former Chairman of the Federal Reserve of The United States was caught right in the centre of the eye of the storm. Even the modern day Delphi miserably failed to envisage the cascading financial ruin that brought the global economy to the brink of disaster. In this candid work, Greenspan analyses the cause and consequences of one of the greatest recessions to have visited us. He readily admits that the field of Economics having at its edifice macro and micro forecasting models totally fails to factor into its analysis the famous "animal spirits" of John Maynard Keynes. The animal spirits which inform the behaviour, both rational and irrational of the market participants plays a huge role in setting the directions of an economy. Such a behaviour animates fear and euphoria, herd behaviour, time preference and accumulation of status goods (elucidated in great detail by Thorstein Veblen in 1899). Even though most of the ailments as well as the prescriptions in this book are "America specific", Greenspan dwells upon the challenges posed by the integrated Euro markets and the contradicting behaviour of its various participants.

Of especial interest (at least to me) in the book is the solution offered by Greenspan for obviating the moral hazard created by the "Too Big To Fail (TBTF)" behemoths. These entities with their inextricable link to the global markets and to similar cross border corporations trigger a calamitous collapse in the event of their going bankrupt. Hence the State steps in to do everything possible to prevent such a disastrous outcome. Classic cases in point being the bail outs of AIG, Freddie Mac and Fannie May. Greenspan argues that such state intervention would infuse an element of callousness and recklessness in the behaviour of these huge corporations. As an alternative he proposes measures such as an issuance of Contingent and Collateral Bonds (CoCo) which would ensure that upon a financial risk event being triggered, the debts represented by these bonds automatically get converted into equity. He also envisages the preparation of "living wills" whereby an expeditious means of liquidation is already in place even when a TBTF institution is alive and functioning. He views with a measure of skepticism the provision in the Frank-Dodd legislation which identifies a whopping seventeen institutions as coming within the category of TBTF. Greenspan also bemoans the burgeoning increase in social spending or benefits spending which has a material impact on the gross total savings of an economy.

For the curious who harbour an inquisitiveness to understand the cause behind the near collapse of the Global economic and financial system between 2007 and 2009, "The Map and The Territory" provides an invaluable lesson.
