

Preface

This book explains how the American monetary system has developed since the turn of the century. An outgrowth of many years of teaching money and banking to undergraduate liberal arts students, it seeks to enhance the relevance and appeal of the subject by placing it in a larger framework of economic issues and developments than is typically done in money and banking textbooks. I have tried to achieve this by showing how the monetary system is integrated with recent history and how it has evolved.

The treatment is integrated in the sense that it discusses the banking and monetary system of the United States in relation to important events, theories, and policies of the twentieth century. It undertakes to show how monetary theory and policy interact with the broader economic problems of the country. It also recognizes the roles played by leading figures such as Paul M. Warburg, J.P. Morgan, Benjamin Strong, J.M. Keynes, Marriner Eccles, Milton Friedman, Arthur Burns, and Paul Volcker.

The treatment is evolutionary in outlook, following the lead of the distinguished economist and social philosopher Kenneth Boulding. A cardinal feature of the work is the adoption of this perspective and the demonstration of pronounced evolutionary changes over the past ninety years. I am convinced that an appreciation of these changes is essential to an informed interpretation of monetary matters, but that they have been largely neglected in favor of technical analysis and short-term policy discussion.

Dealing with the development of one subset of economics, the monetary system, as it interacts with a variety of other subsets, including economic history, macroeconomics, and international economics, necessarily raises questions of selectivity. Here the writer must make his judgments, knowing that others would almost certainly make somewhat different choices, and that he can make no claim of being uniquely correct. My general guide was to bring in topics from related fields when I thought that they were essential to the main story. For example, the gold standard is discussed at various points where it seemed vital to do so. I do not, however, attempt to delineate or compare different international payments arrangements, such as managed fixed exchange rate systems and flexible exchange rates. Similarly, while macroeconomic concepts are introduced, there is no attempt to provide an account of the microfoundations of macromodels. Only when the central theme, the evolution of the domestic monetary system of the United States,

demanded did I reach into the adjacent territories of international economics and macroeconomics. Other fields drawn upon selectively at various places where they seemed particularly helpful in illuminating the "plot" include fiscal policy, developments in banking, political influences, and history of economic thought.

In attempting to explain how the American monetary system has evolved I have extracted essentials from the extensive literature in the field. The result resembles a small-scale map that shows the main features of a large terrain. It is intended to provide a context for understanding current and future monetary issues. A question that is certain to be raised is the degree of objectivity exercised in selecting and presenting the theories, developments, interpretations, and so forth that comprise the book. It would be foolish to claim complete objectivity, but it is not too much to assert, as I do, that I have conscientiously tried to write an account that professional opinion in the field of money and banking would consider essentially fair, reliable, and consistent with generally accepted understanding and interpretation.

The book is addressed primarily to two groups of readers. One group consists chiefly of undergraduate money and banking students who would read it as a supplement to their basic textbooks. In writing I have had my students over many years at The University of the South very much in mind. Because the approach taken is not narrowly focused but quite wide-ranging, the book may be deemed appropriate for other courses also, such as U.S. economic history, finance, and political science courses that deal with public policy. A second group of potential readers consists of persons who have some interest in and familiarity with economics in general and monetary policy in particular as a result perhaps of having taken one or more courses at an earlier time or by virtue of their careers. The subject is fascinating to me and I hope that some of the fascination has entered the pages that follow.

This project was undertaken while on sabbatical leave in the spring of 1983. The support of Dean W. Brown Patterson and the Sabbatical Leave Committee of the College of Arts and Sciences of The University of the South is gratefully acknowledged.