Notes

Chapter 1

1. Used in recent years to describe policies that enrich the affluent immediately but are expected eventually to benefit the broad lower levels of society.

2. Quoted by Gilbert C. Fite in appendix to "Election of 1896," in *History of American Presidential Elections 1789–1968*, Vol. II, ed. Arthur M. Schlesinger, Jr. (New York: Chelsea House in association with McGraw–Hill, 1971), pp. 1849–1850.

3. Ibid., p. 1828.

4. Ibid., p. 1863.

5. Ibid., p. 1833.

6. "Nominalist and Realist" (1844), in Ralph Waldo Emerson, *Essays, First and Second Series* (New York: Macmillan, 1926), p. 350.

7. *The Purchasing Power of Money* (New York: Macmillan, 1911), p. 323.

8. Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States 1867–1960,* a study by the National Bureau of Economic Research (Princeton: Princeton University Press, 1963), pp. 37–42, 94, 96, 135, 137. Scattered excerpts reprinted with permission of Princeton University Press.

9. This formal differentiation between money and deposits meant little to the general public. "The bank customer, however, thinks of his deposit claim as money, and it really serves him all the purposes of money. The right to have the money when desired is as good as the actual money, is more convenient, and is as readily and as serviceably transferred." Herbert Joseph Davenport, *The Economics of Enterprise* (New York: Macmillan, (1913), 1936), p. 262.

10. "The spirit of free banking is evident in the liberal opportunities available to private banks and to trust companies. Non-national institutions flourished by meeting the various needs which national banks were prevented from fulfilling—needs for small-scale country banking, for mortgage loans, for trust services." Paul B. Trescott, *Financing American Enterprise* (New York: Harper and Row, 1963), p. 266.

11. *The American Crisis,* No. 1, 1776 (London: Daniel Isaac Eaton, n.d.), p. 20.

12. Frederick Lewis Allen, *The Great Pierpont Morgan* (New York: Harper and Brothers, 1949), p. 266.

13. Ibid., p. 265.

14. Friedman and Schwartz, op. cit., p. 167.

15. Edwin R. A. Seligman, "Introduction —The Crisis of 1907 in the Light of History," in *The Currency Problem and the Present Financial Situation* (New York: Columbia University Press, 1908), pp. xix–xx.

16. Frank A. Vanderlip, "The Modern Bank," in *The Currency Problem and the Present Financial Situation* (New York: Columbia University Press, 1908), p. 3.

17. Ibid., p. 14.

18. *The ABC of the Federal Reserve System,* 7th edition (Princeton: Princeton University Press, 1928), p. 2.

19. Friedman and Schwartz, op. cit., p. 169.

20. "It is generally recognized that the collapse of bank credit brought about by loss of confidence is the essential fact of every crisis, be the cause of the loss of confidence what it may." Irving Fisher, *The Purchasing Power of Money,* op. cit., p. 66.

21. Edwin Walter Kemmerer, *The ABC of the Federal Reserve System,* op. cit., p. 11.

22. *The Purchasing Power of Money,* op. cit., p. 296.

23. Mark Blaug, *Economic Theory in Retrospect,* 3rd edition (Cambridge: Cambridge University Press, 1978), p. 645.

24. Joseph A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), p. 872. Milton Friedman concurs, calling Fisher America's greatest economist by far.

25. Maurice Allais, "Irving Fisher," in *International Encyclopedia of the Social Sciences,* Vol. 10 ed. David L. Sills (New York: Macmillan and Free Press, 1968), p. 478.

26. Irving Fisher, *The Purchasing Power of Money,* op. cit., p. 71.

27. Ibid., p. 56.

28. Ibid., p. 63–64.

29. Paul M. Warburg, *The Federal Reserve System, Its Origin and Growth,* Vol. 1 (New York: Macmillan, 1930), p. 16.

30. Robert Craig West, *Banking Reform and the Federal Reserve 1863–1923* (Ithaca: Cornell University Press, 1977), p. 138. My discussion of the real bills doctrine draws on this source.

31. Warburg, op. cit., pp. 18–19.

Chapter 2

1. Lester V. Chandler, *Benjamin Strong, Central Banker* (Washington, D.C.: The Brookings Institution, 1958), p. 14.

2. Op. cit., p. 10.

3. Following the establishment of the Federal Reserve System, data for demand deposits separate from time deposits became available, thereby permitting the money stock to be measured as the sum of currency (coin and paper money) plus the public's demand deposits in commercial banks.
4. Friedman and Schwartz, op. cit., p. 193.
5. Ibid., pp. 194–196.
6. Quoted by Chandler, op. cit., p. 105.
7. Ibid., p. 112.
8. Friedman and Schwartz, op. cit., pp. 218–219.
9. Ibid., p. 239.
10. West, op. cit., p. 194.
11. John Kenneth Galbraith, *Money* (Boston: Houghton Mifflin, 1975), p. 169. Professor Galbraith holds the view that central bankers seldom pay for the mistakes they make as long as they conform to orthodox thinking and behavior.
12. Roy F. Harrod, *The Dollar* (New York: Harcourt, Brace, 1954), p. 43.

Chapter 3

1. *Financing American Enterprise,* op. cit., p. 193.
2. Chandler, op. cit., p. 205.
3. Ibid., pp. 238–239.
4. The Conference of Governors was formed after the Federal Reserve Banks were established, for the purpose of coordinating the policies of the reserve banks. The Federal Reserve Board viewed it as a threat to its authority.
5. Chandler, op. cit., p. 188.
6. Thirty years later, Roy Harrod described the *Tenth Annual Report* as "one of the most important documents in world monetary history. . . . [i]t presented a new philosophy of central bank management which was destined to be the background, and to supply the implicit pre-conceptions, of all future discussions of policy." Harrod praised the *Report* for its clear statement that the Federal Reserve would carefully monitor the economy for indications of overexpansion or depression and would seek to maintain steady credit conditions to achieve steady economic growth. Harrod, op. cit., pp. 49–53.
7. Friedman and Schwartz, op. cit., p. 240.
8. John Maynard Keynes, *A Tract on Monetary Reform,* in *The Collected Writings of John Maynard Keynes,* Vol. IV (London: Macmillan St. Martin's Press for the Royal Economic Society, 1971), pp. 137–138.
9. Director's preface to Charles O. Hardy, *Credit Policies of the Federal Reserve System* (Washington, D.C.: The Brookings Institution, 1932), ix.
10. Galbraith, op. cit., p. 174.
11. Benjamin M. Anderson, *Economics and the Public Welfare* (Indianapolis: Liberty Press, 1979), p. 189. (Originally published by D. Van Nostrand Company, Inc., 1949.) Anderson was editor of the *Chase Economic Bulletin* (Chase National Bank, New York) from 1920 to 1937. Later he was professor of economics at the University of California at Los Angeles.

12. Ibid.

13. John Kenneth Galbraith, *The Great Crash* (Boston: Houghton Mifflin, 1954), p. 16; Friedman and Schwartz, op. cit., p. 291; Galbraith, *Money,* op. cit., pp. 173, 178.

14. Frederick Lewis Allen, *The Lords of Creation* (New York: Harper and Brothers, 1935), p. 315.

15. Friedman and Schwartz, op. cit., p. 255.

16. Elmus R. Wicker, *Federal Reserve Monetary Policy 1917–1933* (New York: Random House, 1966), p. 117.

17. Galbraith, *The Great Crash,* op. cit., p. 75.

18. Warburg, op. cit., pp. 823–824.

19. Friedman and Schwartz, op. cit., p. 291.

20. Chandler, op. cit., p. 479.

21. "Judged by the standards that Federal Reserve officials accepted during the period—standards approved by many of their contemporaries and sanctioned at least implicitly by the Federal Reserve Act and accepted prewar central banking practices—Federal Reserve policy during this period of deflation was a success. It did, after all, succeed in maintaining gold payments and in avoiding financial crisis and 'disorderly' liquidation. But the old standards were soon to be rejected, partly because of this painful experience." Chandler, op. cit., p. 187.

22. Ibid., pp. 197–198.

23. "Governor Strong had no fundamental grasp of the problems of central banking. His statements in private discussion regarding his policies indicated that they were short-run policies and, at times, contradictory." Anderson, op. cit., p. 129.

24. Ibid.

25. Galbraith, *The Great Crash,* op. cit., pp. 32–33.

Chapter 4

1. *Growing Up* (New York: Congdon and Weed, 1982), p. 67.

2. *America's Greatest Depression 1929–1941* (New York: Harper and Row, 1970), p. 31.

3. Charles P. Kindleberger, *The World in Depression 1929–1939* (Berkeley and Los Angeles: University of California Press, 1973), p. 128.

4. Friedman and Schwartz, op. cit., p. 167.

5. Gerald Epstein and Thomas Ferguson, "Monetary Policy, Loan Liquidation, and Industrial Conflict: The Federal Reserve and the Open Market Operations of 1932," *The Journal of Economic History* XLIV:4 (December 1984), p. 981.

6. Ibid,. pp. 969–977.

7. Friedman and Schwartz, op. cit., p. 493; Lester V. Chandler, *America's Greatest Depression, 1929–1941,* op. cit., pp. 3–4.

8. Jesse H. Jones, with Edward Angly, *Fifty Billion Dollars* (New York: Macmillan, 1951), pp. 45–46; Arthur M. Schlesinger, Jr., *The Coming of the New Deal* (Boston: Houghton Mifflin, 1959), p. 443.

9. Friedman and Schwartz, op. cit., p. 474.

10. Schlesinger, op. cit., p. 229. One account of Pittman's escapades has him sitting naked in a pantry sink at Claridge's in London while regarding himself as a statue in a fountain. Galbraith, *Money,* op. cit., p. 203.

11. Chandler, *America's Greatest Depression,* op. cit., p. 140.

12. E. Cary Brown, "Fiscal Policy in the 'Thirties: A Reappraisal," *American Economic Review* XLVI (December 1956), p. 863.

13. "Comments and Observations," *History of Political Economy* 10:4 (Winter 1978), p. 542. Reprinted with permission.

14. "Money: Quantity Theory," in *International Encyclopedia of the Social Sciences,* Vol. 10 (New York: Macmillan and Free Press, 1968), p. 438.

15. *The Economist,* June 4, 1983, p. 17. Reprinted with permission.

16. *The New York Times,* May 29, 1983, sec. 3, pp. 1, 6. Copyright© 1983 by The New York Times Company. Reprinted by permission.

17. *The Economist,* op. cit., pp. 17, 19. Reprinted with permission.

18. Blaug, op. cit., p. 646.

19. John Maynard Keynes, *The General Theory of Employment Interest and Money* (London: Macmillan, 1936), p. 293.

20. Keynes, *A Tract on Monetary Reform,* op. cit., pp. 61, 64–65.

21. Blaug, op. cit., p. 646.

22. Richard T. Selden, "Monetarism," Chapter 13 in *Modern Economic Thought,* ed. Sidney Weintraub, (Philadelphia: University of Pennsylvania Press, 1977), p. 255.

23. A. D. Bain, *The Control of the Money Supply,* 3rd edition (Harmondsworth, England: Penguin, 1980), pp. 79–80.

24. Milton Friedman, *The Counter-revolution in Monetary Theory.* First Wincott Memorial Lecture. Occasional Paper 33. (London: The Institute of Economic Affairs, 1970), p. 10. Copyright 1970 by the Wincott Foundation. Reprinted by permission.

25. The discussion of Eccles's role is based mainly on Sidney Hyman, *Marriner S. Eccles* (Stanford: Graduate School of Business, Stanford University, 1976).

26. Ibid., p. 110.

27. Friedman and Schwartz, op. cit., p. 526.

28. Hyman, op. cit., pp. 235–238.

29. Byrd L. Jones, "Launchlin Currie, Pump Priming, and New Deal Fiscal Policy, 1934–1936," *History of Political Economy* 10 (Winter 1978), pp. 509–524; Launchlin Currie, "Comments and Observations," op. cit., pp. 541–548; Byrd L. Jones, "Launchlin Currie and the Causes of the 1937 Recession," *History of Political Economy* 12 (Fall 1980), pp. 303–315; Launchlin Currie, "Causes of the Recession (1938)," *History of Political Economy* 12 (Fall 1980), pp. 316–335.

30. "From the time of the publication of *The General Theory* forward, the center of Keynesian evangelism in Washington was the Board of Governors of the Federal Reserve System." Galbraith, *Money,* op. cit., p. 229. According to Galbraith, central banks are not likely points of entry for new ideas into government. His study of American banking led him to conclude that economists have generally treated the Federal Reserve System with excessive respect.

31. Friedman and Schwartz, op. cit.; Kindleberger, op. cit.; Peter Temin, *Did*

Monetary Forces Cause the Great Depression? (New York: W.W. Norton, 1976); Karl Brunner, ed., *The Great Depression Revisited* (Boston: Martinus Nijhoff, 1981).

32. Friedman and Schwartz, op. cit., p. 695.

33. Temin, op. cit., p. 178.

34. Donald F. Gordon, Review of Peter Temin, *Did Monetary Forces Cause the Great Depression?* in *Journal of Economic Literature* XVI (March 1978), pp. 118–119; Arthur E. Gandolfi and James R. Lothian, Review of Peter Temin, *Did Monetary Forces . . .*, in *Journal of Money, Credit and Banking* IX (November 1977), pp. 679–691.

35. Karl Brunner, "Epilogue: Understanding the Great Depression," in Brunner, op. cit., chapter 17.

36. Charles P. Kindleberger, Review of Karl Brunner, *The Great Depression Revisited,* in *Journal of Economic Literature* XIX (December 1981), p. 1586.

Chapter 5

1. *American Monetary Policy* (New York: McGraw–Hill, 1951), p. 186.

2. Jules I. Bogen, "The Federal Reserve System Since 1940," in *The Federal Reserve System,* ed. Herbert Prochnow (New York: Harper and Brothers, 1960), pp. 338–339; Lester V. Chandler, *Inflation in the United States 1940–1948* (New York: Harper and Brothers, 1951), pp. 183–186.

3. Earlier, at the end of 1940, the board, the presidents of the Federal Reserve Banks, and the Federal Advisory Council joined in asking that the maximum permissible reserve requirement percentages be doubled so that excess reserves could readily be absorbed, but Congress turned a deaf ear to this appeal.

4. *Federal Reserve Bulletin* 28:1 (January 1942), p. 2.

5. Bogen, op. cit., p. 341.

6. A. Jerome Clifford, *The Independence of the Federal Reserve System* (Philadelphia: University of Pennsylvania Press, 1965), p. 178.

7. Chandler, *Inflation,* op. cit., p. 61.

8. Goldenweiser, op. cit., pp. 184–185.

9. Ibid.

10. Clifford, op. cit., pp. 175–176.

11. Chandler, *Inflation,* op. cit., pp. 194–196.

12. Friedman and Schwartz, op. cit., pp. 564–565.

13. Ibid., p. 548.

14. Chandler, *Inflation,* op. cit., p. 6

Chapter 6

1. 15 U.S.C. 1021.

2. Chandler, *Inflation,* op. cit., p. 217.

3. A number of econometric models failed to forecast accurately the economic events immediately following the war. Among the errant prognosticators was the

young Paul Samuelson, who predicted that unemployment would be a serious problem when peace returned. This experience on the part of an acknowledged brilliant mathematical economist demonstrated the vulnerability of the forecasting models.

4. Chandler, *Inflation,* op. cit., p. 216.

5. In 1943 and 1944 personal saving was some 25 percent of disposable personal income, compared with 4.5 percent in 1940 and 3.1 percent in 1947. *Economic Report of the President 1983,* p. 190.

6. Friedman and Schwartz, op. cit., p. 577.

7. Ibid., pp. 581–584.

8. The discussion in this section draws on A. Jerome Clifford, op. cit., chapters VII and VIII.

9. Friedman and Schwartz, op. cit., p. 578.

10. After the war, Marriner Eccles suffered a loss of influence. He supported proposals by the Board of Governors to Congress (which were denied in 1947) for increased reserve requirement limits and permanent direct control over consumer credit, but he placed the blame for the urgent need for restrictive monetary/credit policies on the administration's fiscal program. After being denied reappointment as chairman of the Board of Governors by President Truman in 1948—McCabe succeeded him on April 15, 1948—Eccles continued as a board member until July 1951.

11. As quoted in Clifford, op. cit., pp. 233–234.

12. As quoted in Clifford, op. cit., p. 248.

13. As quoted in Clifford, op. cit., p. 230.

Chapter 7

1. Galbraith, *Money,* op. cit., p. 253.

2. Marshall I. Goldman, *U.S.S.R. in Crisis* (New York: W. W. Norton, 1983), p. 1.

3. William McChesney Martin, "The Transition to Free Markets," *Federal Reserve Bulletin* XXXIX (April, 1953), p. 333.

4. Exceptions were made on three occasions, in 1955, 1958, and 1960. In each case the Fed bought securities other than bills to deal with a problem, that is, stringent money market conditions when the Treasury was engaged in a refunding operation, disorderly market conditions, and an outflow of gold.

5. Daniel S. Ahearn, *Federal Reserve Policy Reappraised, 1951–1959* (New York: Columbia University Press, 1963), p. 62. This is a comprehensive examination of Federal Reserve policy during the 1950s.

6. In fact, the degree of market linkage was shown to be far from perfect.

7. Ahearn, op. cit., pp. 108–109.

8. *Federal Reserve Bulletin* XLVII (February, 1961), p. 165. Although the Fed abandoned the "bills only" doctrine, the bulk of its open-market operations are nevertheless conducted in short-term securities.

9. Friedman and Schwartz, op. cit., p. 634.

10. With the end of the Fed's pegging policy, the banks began to go to the Fed once again for loans. This involved a learning (or relearning) experience on the part

of commercial bankers and Federal Reserve officials alike, since discounting had vanished for seventeen years.

11. Walter Heller, Gardner Ackley, and Arthur Okun, who served in turn as chairmen of the Council of Economic Advisers in the 1960s, were all prominent and influential in this regard.

12. The distinction between demand-pull and cost-push and its implications for policy were summarized in a paper entitled "Wage-Push Inflation" by Professor Walter A. Morton, given at the American Economic Association convention in Chicago in December, 1958 (mimeographed).

13. "All economic interests must be forced to live within the ambit of a stable monetary unit." Ibid., p. 13.

14. Martin Bronfenbrenner and Franklyn D. Holzman, "Survey of Inflation Theory," *American Economic Review* LIII (September 1963), pp. 613–614, 626.

15. *The Conquest of Mexico,* vol. 2 (Philadelphia: Lippincott, 1873), p. 51.

16. Walter W. Heller, *New Dimensions of Political Economy* (New York: W. W. Norton, 1967), pp. 1–2.

17. Arthur M. Okun, *The Political Economy of Prosperity* (New York: W. W. Norton, 1970), pp. 31, 59. The enhanced status of economics at this time is reflected in the establishment of the Nobel Memorial Prize in Economics by the Central Bank of Sweden in 1968. Prizes have been awarded annually since 1969.

18. President Kennedy sent a special tax reduction message to Congress on January 24, 1963, which resulted in the enactment of legislation in 1964 following his assassination on November 22, 1963. The tax cut was considered a bold step because the federal deficit was rising at the time and the economy was on the upswing. It was an application of Keynesian economics, to which the president had become a convert, with emphasis on maintaining economic growth.

19. Heller, op. cit., p. 61.

20. G. L. Bach, *Making Monetary and Fiscal Policy* (Washington, D.C.: The Brookings Institution, 1971), pp. 101, 117, 121.

21. "Federal Reserve policy in 1961–1963 was not like that of 1952–1960. At the early stages of recovery in the 1950s, the Federal Reserve, overly sensitive to inflationary dangers, aborted recoveries. Whether the explanation was a growing conviction that inflation was no longer a threat, or whether it was an awareness that the Kennedy administration would not tolerate stifling monetary policies, the Federal Reserve made no serious attempts to deflate the economy after 1960. In fact, in 1963, Mr. Martin boasted of the large contributions made to expansion." Seymour E. Harris, *Economics of the Kennedy Years* (New York: Harper and Row, 1964), p. 121.

22. Franco Modigliani and Richard Sutch, "Innovations in Interest Rate Policy," *American Economic Review* LVI (May 1966), pp. 178–197.

23. *Commercial Banking in the Economy,* 3rd edition (New York: Random House, 1979), p. 142.

24. This is not to deny that historically bankers have participated in speculative excesses from time to time.

25. The prime rate charged by banks rose from about 3 percent in 1954 to 5

percent in 1959; the rate on three-month Treasury bills rose from approximately 1 percent to 3.4 percent between those years.

26. This is true for the large and medium-sized banks that are responsible for the bulk of the banking business.

27. Walter Wriston of First National City Bank in New York (Citibank) apparently was chiefly responsible for the CD breakthrough. First National City interested the dealers in government securities in making a secondary market for the instruments. Martin Mayer, *The Bankers* (New York: Weybright and Talley, 1974), p. 192.

28. Bruce J. Summers, "Negotiable Certificates of Deposits," *Instruments of the Money Market,* 5th edition (Richmond: Federal Reserve Bank of Richmond, 1981), pp. 75, 78.

29. Paul S. Nadler, *Commercial Banking in the Economy,* op. cit., pp. 142–145. The power of attracting funds from afar by interest rates recalls an old City (of London) saying, in the days of the gold standard before World War I: "Seven percent will bring gold from the moon." Cited in P. T. Ellsworth, *The International Economy* (New York: Macmillan, 1950), p. 316.

Chapter 8

1. *The Economy: Old Myths and New Realities* (New York: W.W. Norton, 1976), p. 196.

2. "What Vietnam Did to the American Economy," *The New York Times,* January 28, 1973, sec. 3, p. 1, as quoted in Arthur M. Johnson, *The American Economy* (New York: Free Press, 1974), p. 97. Excerpt copyright © 1973 by The New York Times Company. Reprinted by permission.

3. Edwin L. Dale, Jr., ibid., p. 98.

4. Gardner Ackley states that President Johnson realized that a tax increase was needed, but was convinced after widespread consultations that it was politically impossible to enact it. Congress is thus implicated in the blame. Johnson hoped either that the need for it would evaporate or that influential persons would soon see that it was necessary. Ackley adds that some of his political advisers may well have discouraged the idea of a tax increase because even as early as 1966 the war was unpopular. Gardner Ackley, "International Inflation," in *Economic Policies of the 1970's,* ed. Alfred K. Ho (Ann Arbor: Bureau of Business Research, Graduate School of Business Administration, The University of Michigan, 1971) as reprinted in Johnson, ibid., p. 92.

5. *The Political Economy of Prosperity* (New York: W.W. Norton, 1970), p. 81.

6. Some observers considered the stand taken by the central bank at this time as "the Fed's finest hour" for asserting its independence in the face of President Johnson's vigorous opposition. Chairman Martin was summoned to the presidential ranch in Texas for barbecued steaks (presumably smothered in blandishments), but was not persuaded to change his mind. Roger Leroy Miller and Raburn M. Williams, *The New Economics of Richard Nixon* (San Francisco: Canfield Press, 1972), p. 5.

7. Sherman J. Maisel, *Managing the Dollar* (New York: W.W. Norton, 1973), pp. 71–77, 89. The author is an academic economist who served as a member of the Board of Governors of the Federal Reserve System from 1965 to 1972. The book provides an extremely valuable inside view of Federal Reserve policy making.

8. Chairman Martin was widely praised by some and blamed by others for the tight money policy of mid–1966. But things are not always what they seem. Actually Martin was recuperating from an operation throughout the period, and the board did not request his advice until he was ready to return in the autumn. Bach, op. cit., p. 130.

9. *Annual Report,* Federal Reserve Bank of New York, 1966, 1967, p. 8.

10. The erroneous forecasts, like those near the end of World War II, underestimated the strength of aggregate demand.

11. The term *monetarism* began to appear in the late sixties. It was used by Karl Brunner in an article in the *Federal Reserve Bank of St. Louis Review,* July 1968. Thomas Mayer refers to monetarists in his *Monetary Policy in the United States* (New York: Random House, 1968), the preface of which is dated October 1967.

12. "However, the experience of 1968 indicates how difficult it is to slow an economy in which inflationary price and wage expectations are a major driving force. These expectations must change if the economy is to return to a pattern of sustainable growth, but they are now so firmly entrenched that this is likely to prove a difficult task." *Annual Report,* Federal Reserve Bank of New York, 1968, 1969, p. 8.

13. *Managing the Dollar,* op. cit., pp. 62–63.

14. This discussion draws on Gordon H. Sellon, Jr. and Ronald L. Teigen, "The Choice of Short-Run Targets for Monetary Policy," *Economic Review,* Federal Reserve Bank of Kansas City (May 1981), pp. 3–9.

15. Maisel, *Managing the Dollar,* op. cit., p. 78.

16. *Free reserves* are the difference between excess reserves held by the banks and total borrowing by the banks from the Fed. Net free reserves result when excess reserves exceed borrowing. *Net borrowed reserves* means that bank borrowing exceeds the excess reserves.

17. On a week-to-week basis, not over a long period of time.

18. Maisel, op. cit., p. 81.

19. Ibid., p. 86.

20. Ralph C. Bryant, *Controlling Money* (Washington, D.C.: The Brookings Institution, 1983), pp. 67–68.

Chapter 9

1. *Economic Policy and the Great Stagflation* (New York: Academic Press, 1979), p. 2.

2. "Uniting Against Inflation," *The Brookings Bulletin* 16:3 (Winter 1980), p. 1.

3. *The Bankers* (New York: Weybright and Talley, 1974), pp. 421–422.

4. As Assistant Secretary of the Treasury, Martin negotiated with the man he

succeeded as chairman at the Fed, Thomas McCabe, concerning the accord. Indeed Martin was the "chief architect" of the accord. Bach, op. cit., p. 83.

5. When Martin took over at the Fed in the wake of the accord, the question of Federal Reserve independence was of great interest. One writer's view of what happened is unequivocal. "Handling President Eisenhower and Congressional committees with equal Missouri suavity, Martin established for the Fed an independence of political direction that was one of the wonders of American government—he was even able to force a policy of economic restraint in an election year, which almost certainly cost Richard Nixon the 1960 election and saddled the incoming Kennedy administration with 7 percent unemployment." Martin Mayer, op. cit., p. 188.

6. Sherman Maisel found Martin to be either on the side of expansion or in the middle of the spectrum of the FOMC during most of the sixties, and that Martin favored maximum growth with a compatible financial structure. Maisel, op. cit., p. 119.

7. The editor of *The Wall Street Journal* witnessed Nixon's praise of Burns at a White House dinner early in Burns's term at the Fed. Reflecting on the fact that it was not long before they crossed swords, he observed later that "Once in that post with its fixed term, Federal Reserve chairmen are as unpredictable in performance as Supreme Court judges." Vermont Royster, *My Own, My Country's Time* (Chapel Hill: Algonquin Books, 1983), p. 256.

8. *Reflections of an Economic Policy Maker* (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1978), pp. 110–111.

9. Maisel, op. cit., p. 9.

10. "Empirical Evidence on Fiscal and Monetary Models," in *Issues in Fiscal and Monetary Policy*, ed. James J. Diamond (Chicago: De Paul University, 1971), p. 35.

11. "Monetarism: A Historic–Theoretic Perspective," *The Journal of Economic Literature* XV:2 (June 1977), p. 470. Reprinted with permission.

12. From the 1950s through the 1970s, the major macroeconomic controversy involved alternative ways of specifying aggregate demand. Keynesians explained aggregate demand by the addition of consumption, investment, and government spending on output, whereas monetarists retained the traditional multiplication of M times V from the equation of exchange. In policy terms, the debate concerned how much monetary policy really mattered, and then how much fiscal policy really mattered. By the end of the 1970s, the debate had subsided considerably with a recognition that both approaches have explanatory value and that aggregate demand responds to both fiscal policy and monetary policy. If at times the debate was marred by rigidity, extremism, and ill-feeling, the observations of Schumpeter on the nineteenth-century German Battle of Methods (*Methodenstreit*) may apply. He observed that much mutual misunderstanding enters into controversies between scientific parties and that "we must never forget that genuine schools are sociological realities—living beings. They have their structures—relations between leaders and followers—their flags, their battle cries, their moods, their all-too-human interests. Their antagonisms come within the general sociology of group antagonisms and of party warfare. Victory and conquest, defeat and loss of ground, are in themselves values for such schools and part of their very existence." Schumpeter, op. cit., p. 815.

13. Milton Friedman and Walter W. Heller, *Monetary vs. Fiscal Policy* Arthur K. Salomon Lecture, New York University Graduate School of Business Administration (New York: W. W. Norton, 1969).

14. For example: Change in the money supply is the only systematic factor determining nominal income, affecting output in the short-run and prices in the long-run.

15. For a decade beginning in 1943 "Warburton truly stood alone against the profession in advocating the monetarist position." Thomas F. Cargill, "Clark Warburton and the Development of Monetarism Since the Great Depression," *History of Political Economy* 11:3 (Fall 1979), pp. 427–428; reprinted with permission. This article is the basis of the present paragraph.

16. "The times were simply not conducive to an examination of old ideas like the quantity theory of money. The Great Depression convinced almost everyone that money and monetary policy played minor roles in determining the level of economic activity." ibid., p. 446.

17. Leland B. Yeager, "Clark Warburton, 1896–1979," *History of Political Economy* 13:2 (Summer 1981), p. 284. In this appreciation of his contribution, Warburton is described as a liberal in the New Deal sense of the term. It seems unlikely that he would have been comfortable with the Chicago monetarists.

18. Friedman and Schwartz, op. cit., p. xxii. Friedman and Schwartz express their indebtedness to many persons in the preface but "owe an especially heavy debt to Clark Warburton." At three other places in this book they express their indebtedness to him again, and the index lists fifteen references to Warburton.

19. Leonard Silk, *The Economists* (New York: Basic Books, 1976), pp. 45, 79.

20. Friedman's eminence is beyond dispute. He has been president of the American Economic Association (1967) and Nobel Laureate (1976). "It can be said by one man: 'Monetarism, that's me.' That man, of course, is Milton Friedman." Paul A. Samuelson, "Reflections on the Merits and Demerits of Monetarism," in *Issues in Fiscal and Monetary Policy,* op. cit.

21. Friedman, *Counter-revolution,* op. cit., pp. 10–22. Friedman cautions that this is a summary of main points and not a complete explanation with all of the qualifications that would be required for a full understanding.

22. Ibid., pp. 8, 17.

23. Ibid., pp. 22–24.

24. In December 1971 Friedman discussed the response to the monetary slowdown of January 1969 to February 1970 and found that inflation did not respond as rapidly as he had expected. Feeling "chastened," he reexamined the data for the postwar period and decided that the typical time lag between changes in M and the subsequent changes in P was considerably longer (eleven to thirty-one months) than he had thought. Milton Friedman, "Have Monetary Policies Failed?" *The American Economic Review* LXII: 2 (May 1972), p. 14.

25. *Reflections of an Economic Policy Maker,* op. cit., pp. 118, 127.

26. Consumer prices rose by 6 percent in 1969, 5.5 percent in 1970, and 3.7 percent per annum in the first eight months of 1971.

27. After the election Mr. Nixon was quoted as saying "I am now a Keynesian" to indicate acceptance of budget deficits when the economy is below full employment.

This discussion relies in part on Leonard Silk, *Nixonomics,* 2nd edition (New York: Praeger, 1972).

28. Drawn from Arthur F. Burns, *Reflections,* op. cit.

29. The decision was certainly "historic" in that it was the first time in our national history that wage–price controls were adopted in peacetime. Public opinion as measured by the Gallup Poll showed clear support for controls for about four years before they were instituted, and continued to favor them even after they lapsed in 1974.

30. Miller and Williams, op. cit., p. 20.

31. The August 1971 package contained some fiscal stimulants.

32. Arthur Okun's invention, a discomfort index, combines the unemployment rate and the rate of change of consumer prices. In 1974 this index easily set a post–World War II record, reaching 17.8. But worse was to come in 1979 and 1980 when the index exceeded 19.

33. This paragraph draws on Paul Lewis, "Challenging the Olympian Fed," *The New York Times,* August 18, 1974, Sec. 3.

34. An attempt was made by the industrial nations to restore fixed rates in December 1971 at the Smithsonian conference, but by early 1973 this arrangement collapsed. It has been plausibly argued that governments in most of the industrial world responded to the release from the fixed exchange rate system by overly expansive monetary policies in 1972–1973.

35. "Selecting Monetary Targets in a Changing Financial Environment." In *Monetary Policy Issues in the 1980s* (Kansas City: Federal Reserve Bank of Kansas City, 1982), p. 189. Scattered excerpts reprinted by permission of the author.

36. Edward J. Kane, ibid., p. 182. The changes in operating procedures that we are concerned with are changes in the priority given to different intermediate targets as the Fed moved toward greater reliance on monetary aggregates and away from money market conditions. The intermediate targets are now usually divided into two groups which Kane has labeled intermediate target #1 and intermediate target #2. His graphic description depicts a policy instrument as a cannon that "aims proximately through the center of an intermediate-target tube that [tracks] a heat-seeking missile (intermediate target #2), which itself follows the tiny goal variable (more accurately, the current flock of goal variables) as it wings through the clouds." Thus, for example, the Fed decides on a certain desired rate of GNP growth, sets the target range for money growth that is expected to generate the GNP growth, sets the target ranges for the growth in reserves and federal funds rate (money market conditions) expected to bring the desired money growth, and uses its open-market operations and discount policy to control the money-market conditions. The money market target(s) is(are) intermediate target #1 and the money target is intermediate target #2 using this nomenclature. Alternative terminology limits the intermediate target to one type of target, the growth of money (or monetary aggregate); money-market conditions would then be called the operating target or guide.

37. The intended shift from emphasis on stable money-market conditions to control of the monetary aggregates was subsequently tested mathematically by a money-market model that indicated "strong evidence that there was a shift in monetary policy toward placing more emphasis on controlling the money supply," and

that "an ancillary interest in stabilizing money-market conditions remains." Edgar L. Feige and Robert McGee, "Has the Federal Reserve Shifted from a Policy of Interest Rate Targets to a Policy of Monetary Aggregate Targets?" *Journal of Money, Credit and Banking* XI:4 (November 1979), p. 396.

38. The change in policy was presented in characteristically bland Federal Reserve language. "In 1970 monetary aggregates came to play a more prominent role in the phrasing of the second paragraph, and references were made to the money supply as well as to bank credit." "[T]he Committee stated more directly its desires with respect to the aggregates rather than referring to them in the form of a proviso clause." *Federal Reserve Bulletin,* February 1971, p. 83.

39. This explanation is derived from the firsthand account of Sherman Maisel, who served as chairman of the Committee on the Directive. Maisel, op. cit., pp. 230, 249–254, 301.

40. Sellon and Teigen, op. cit., p. 10.

41. Friedman and Schwartz, op. cit., p. 629.

42. Ibid., pp. 628–632.

43. Quoted in Bach, op. cit., p. 139.

44. Ibid., p. 140.

45. *62nd Annual Report of the Board of Governors of the Federal Reserve System 1975,* 1976, pp. 260–261.

46. *64th Annual Report of the Board of Governors of the Federal Reserve System 1977,* 1978, p. 397.

47. *65th Annual Report of the Board of Governors of the Federal Reserve System 1978,* 1979, pp. 339–340.

48. Alan S. Blinder, *Economic Policy and the Great Stagflation,* op. cit., p. 4. An excellent analysis and summary of the 1970s.

49. Ibid.

50. According to Blinder, price controls were "the stagflationary shock *par excellence:* their imposition in 1971 and removal in 1974 added an unwanted element of variability to the inflation rate without having much effect on the average inflation rate, and the ill-timed demise of controls helped cause the Great Recession. In sum, and with a degree of discernment that admittedly can be obtained only after the fact, the 1971–1974 controls program constituted a remarkable act of national self-flagellation." Ibid., p. 132.

51. More precisely, the expansion of real GNP went on for fifty-eight months, from March 1975 to January 1980.

52. There are some background similarities between William Miller and the former chairman, William Martin: Miller had been only 35 when he became president of the conglomerate Textron, and he too came from midcontinent (Oklahoma). He exchanged a $380,000 annual salary at Textron for $57,500 at the Fed.

53. "Selecting Monetary Targets in a Changing Financial Environment," in *Monetary Policy Issues of the 1980s* (Kansas City: Federal Reserve Bank of Kansas City, 1982), p. 189.

54. Thomas Mayer, James S. Duesenberry, and Robert Z. Aliber, *Money, Banking, and the Economy,* 2nd edition (New York: W. W. Norton, 1984), p. 465.

55. It also led to spot shortages of gasoline and long lines at gasoline service

stations. The sharply higher price of gasoline brought a change in its retail marketing as self-service became widespread for the first time.

56. "Record of Policy Actions of the Federal Open Market Committee," in *66th Annual Report of the Board of Governors of the Federal Reserve System 1979*, 1980, pp. 202–203.

57. The title of an article by Nicholas von Hoffman in *The New York Times Magazine*, December 2, 1979, p. 57. Copyright © 1979 by The New York Times Company; reprinted by permission. It is observed here that "it almost seems as though Paul Volcker has spent most of his life preparing for the Fed chairmanship." After graduate study at Harvard and the London School of Economics, and early work at the Treasury, Federal Reserve Bank of New York, and The Chase Manhattan Bank, he held high level Treasury positions in the Kennedy and Nixon administrations and was president of the Federal Reserve Bank of New York immediately before his appointment as chairman of the Board of Governors in July 1979 by President Carter. (In taking over the chairmanship of the board he took a cut in pay from $110,000 to $57,500 a year). President Reagan re-appointed him chairman in 1983. In serving under Kennedy, Nixon, Carter, and Reagan, it would seem that Volcker has truly been a monetary man for all seasons.

58. *The Economist*, December 15, 1979, p. 30.

59. Donald D. Hester, "Innovations and Monetary Control," *Brookings Papers on Economic Activity* 1:1981, p. 162. This is a careful examination and evaluation of financial innovation from 1960 to 1980. The author considers the innovations laudable for providing improved efficiency of the money and capital markets by enabling "savers and investors to have a greater opportunity to lend and borrow at a rate close to the real rate of interest" (p. 167). On the other hand he found them to be so disruptive to a monetary policy which tries to control monetary aggregates that he advocates the renunciation of monetary aggregate targets (p. 183).

60. Ibid., p. 183.

Chapter 10

1. *Financial Reform in the 1980s* (Stanford, California: Hoover Institution Press, 1985), p. 2. Reprinted with permission.

2. October 8, 1981, p. 1. Reprinted by permission of *The Wall Street Journal*, © Dow Jones & Company, Inc., 1981. All rights reserved.

3. Jack Kemp, Arthur B. Laffer, Robert Mundell, Paul Craig Roberts, Norman B. Ture, and Jude Wanniski were prominent.

4. In an article in *The Wall Street Journal* of March 19, 1980 (p. 24), Herbert Stein, chairman of the Council of Economic Advisers in the Nixon and Ford administrations, made a "plea for modesty" in discussing supply-side economics as a means of combating inflation. Rather than ideological matters, he considered the propositions of supply-side economics to be "matters of arithmetic" that had been exaggerated by overenthusiastic advocates.

5. George Macesich, *The Politics of Monetarism* (Totawa, New Jersey: Rowman & Allanheld, 1984), p. 82.

6. Martin Feldstein makes the point that while the rational expectations view is logically sound, it is based on the presumption of universal and complete belief in future monetary contraction in making price and wage decisions. Since the conditions required for painless disinflation are not realistic, "the theory is essentially untestable by experience." Martin Feldstein, "Monetarism: Open-eyed Pragmatism," *The Economist,* May 18, 1985, p. 18.

7. Isabel V. Sawhill, and Charles F. Stone, "The Economy: The Key to Success," chapter 3 in *The Reagan Record,* ed. John L. Palmer and Isabel V. Sawhill (Cambridge, Mass.: Ballinger, 1984), pp. 73–78.

8. "When I say that post–Keynesianism has received some vindications from experience, I am also saying that some of the standard hypotheses of neoclassical microeconomics have been borne out by experience. Thus, good-sense supply-side economics would expect that tax reductions which reduce the wedge between pre-tax and post-tax returns might well strengthen investment demand, *ceteris paribus.* The record, I think, bears this out. Adjusting for cyclical factors and for the height of real interest rates, we do seem to observe stronger demands for equipment than past regressions would call for. The Reagan tax cuts, I would suppose, do explain part of this story." Paul A. Samuelson, "Evaluating Reaganomics," *Challenge* 27:5 (November/December 1984), p. 11. Published by M.E. Sharpe, Inc., Armonk, New York. Reprinted by permission.

9. "Why and How to Cut the Deficit," *The Brookings Review* 2:4 (Summer 1984), p. 3.

10. James Tobin, "The Fiscal Revolution: Disturbing Prospects," *Challenge* 27:6 (January/February 1985), p. 13. Published by M.E. Sharpe, Inc., Armonk, New York; excerpt reprinted by permission. The author is Sterling Professor of Economics at Yale University and was a Nobel prizewinner in 1981.

11. Rivlin, "Why and How to Cut the Deficit," op. cit., p. 4.

12. The observations of several prominent financial forecasters on this point are cited in an article in *The Wall Street Journal* by Alfred L. Malabre, Jr., September 20, 1985, p. 6.

13. A clear discussion of these issues based on both economic theory and empirical evidence is presented in Craig S. Hakkio and Bryon Higgins, "Is the United States Too Dependent on Foreign Capital?" *Economics Review,* Federal Reserve Bank of Kansas City 70:6 (June 1985). The authors conclude that "the increased net capital inflow and associated growing dependence on foreign capital could pose serious risks for the U.S. and world economies. . . . Empirical evidence implies that high government budget deficits have been a major factor contributing to large U.S. net capital inflows. As a consequence, reducing budget deficits would reduce the troublesome U.S. dependence on foreign capital" (p. 36).

14. *Economic Report of the President, 1985,* p. 106.

15. Ibid., pp. 67, 71.

16. Perhaps there is a tendency to take the dubious advice given in Thornton Wilder's play *The Skin of Our Teeth* in 1942 to "just enjoy the ice cream while it's on your plate."

17. David Stockman, director of the Office of Management and Budget from 1981 until mid–1985, made the following statement on June 5, 1985, a month before

it was announced that he would leave his government post to join a Wall Street firm. "The basic fact is that we are violating badly, even wantonly, the cardinal rule of sound public finance: Governments must extract from the people in taxes what they dispense in benefits, services and protections . . . indeed, if the [Securities and Exchange Commission] had jurisdiction over the executive and legislative branches, many of us would be in jail." Quoted in Daniel Patrick Moynihan, "Reagan's Inflate-the-Deficit Game," *The New York Times,* July 21, 1985, sec. 4, p. 21. Copyright © 1985 by The New York Times Company. Reprinted by permission.

Friedrich von Hayek, the prominent conservative (Austrian School) economist, Nobel laureate, and "guru of Reaganomics," wrote in March 1985 that "Reagan thinks it is impossible to persuade Congress that expenditures must be reduced unless one creates deficits so large that absolutely everyone becomes convinced that no more money can be spent." Quoted in Tom Wicker, "A Deliberate Deficit." *The Chattanooga Times,* July 20, 1985. Copyright © 1985 by The New York Times Company. Reprinted by permission.

18. *Economic Report of the President, 1981,* p. 6.

19. *Economic Report of the President, 1983,* p. 6. By 1985 President Reagan maintained that regulatory reform had continued, but at too slow a pace, and complained about the failure of Congress to adopt proposals of his administration for further deregulation of banking.

20. There is a certain piquancy to the term *omnibus* in this context given the fact that the word derives from "Omnes' bus." In 1828 a certain Monsieur Omnes from Nantes initiated in Paris the service of a carriage for all, or omnibus. A host of reform measures had accumulated to board the 1980 legislative "bus" when at last it passed through Congress.

21. Adapted from Cargill and Garcia, op. cit., pp. 57–62.

22. The three-month Treasury bill rate fell from about 16 percent in March 1980 to about 8 percent over the next three months, but went back up to 16 percent by the end of the year, falling gradually after mid–1981 but not reaching single-digit territory until the second half of 1982.

23. Adapted from Cargill and Garcia, op. cit., pp. 67–70.

24. The minimum denomination on MMDAs and SNOWs was reduced to $1,000 as of January 1, 1985, and eliminated entirely on January 1, 1986.

25. Cargill and Garcia, op. cit., p. 70.

26. Henry C. Wallich, "Whither American Banking Reform?" *Challenge* 28:4 (September/October 1985), p. 43. Dr. Wallich was a member of the Board of Governors of the Federal Reserve System when he made this statement.

27. Adapted primarily from David D. Whitehead, "Interstate Banking: Probability or Reality?" *Economic Review,* Federal Reserve Bank of Atlanta (March 1985), pp. 6–17.

28. A study released by the FDIC late in 1985 found that this experience had caught the attention of the Tennessee legislature and the financial community sufficiently to bring about reforms making banks stronger. It was pointed out that banks in the Knoxville area now require good collateral before making loans.

29. The book *Belly Up* by Phillip L. Zweig (Crown, 1985), a study of Penn Square, has been recommended for bankers, bank examiners, and business school

students by a Wall Street investment counselor as a mental inoculation against depravity. See review by John Train, *The Wall Street Journal,* November 4, 1985, p. 22.

30. The number of banks on the FDIC's "problem list" rose steadily from a level of 200 in 1981 to 1,100 in 1985.

31. Finance ministers who had been solicited eagerly by bankers urging them to take more loans later found it extremely difficult to service them. A description by an international financial journalist of the annual meetings of the International Monetary Fund and World Bank circa 1980 has the flavor of a salesmen's convention or "trade fair" as bankers sought clients. "As they pursue their prey down the escalators, up the elevators, along the upstairs corridors into the suites, they cannot conceal their anxiety to do business. For these men who look as if they might have been trained to say No from their childhood are actually trying to sell *loans.* 'I've got good news for you,' I heard one eager contact man telling a group of American bankers: 'I think they'll be able to take your money.' " Anthony Sampson, *The Money Lenders* (New York: Viking, 1981), p. 12. A similarity to the international lending practices of some American banks in the 1920s is evident.

32. During expansionary periods in the 1970s some bankers liked to talk about being "aggressive." The idea refers to making loans faster than their rivals do, so as to outgrow the competition. Since financial rewards and prestige are related to rapid growth, there is a tendency to lower banking standards. This "go for it" psychology may also contain a macho element.

33. The notion that money managers should act to police the banking system is flawed on the practical grounds that they would have a hard time getting the knowledge necessary to judge bank loans, and would violate the law if they did obtain such confidential information.

34. *The Wall Street Journal,* October 30, 1985, p. 60.

35. E. Gerald Corrigan, "A Look at the Economy and Some Banking Issues," *Federal Reserve Bank of New York Quarterly Review* 10:1 (Spring 1985), p. 5.

36. *Federal Reserve Bulletin* 71:7 (July 1985), pp. 517–519.

37. Corrigan, op. cit., p. 1.

38. In 1960, in order to provide a more refined measure of money for analytical purposes, M1 began to be based on averages of daily figures instead of monthly data as of a single date.

39. Frank E. Morris, "Monetarism without Money," *New England Economic Review* (March/April 1983), pp. 5–6.

40. The average *growth* rate in the velocity of M1 from 1960 through 1981 was 2.8 percent. "In 1982, velocity fell sharply at a 4.7 percent rate. This decline is over 3 standard deviations from the average and represents highly unusual behavior for the series." John P. Judd, "The Recent Decline in Velocity: Instability in Money Demand or Inflation?" *Economic Review,* Federal Reserve Bank of San Francisco (Spring 1983), p. 13.

41. *69th Annual Report of the Board of Governors of the Federal Reserve System 1982,* 1983, p. 14.

42. *70th Annual Report of the Board of Governors of the Federal Reserve System 1983,* 1984, pp. 15, 17.

43. *71st Annual Report of the Board of Governors of the Federal Reserve System 1984,* 1985, p. 12.

44. For all of 1985 the growth rate of M1 was 11.7 percent, or almost 50 percent above the upper limit of the target range.

45. Judd, op. cit., pp. 16, 18.

46. Lawrence J. Radecki, and John Wenninger, "Recent Instability in M1's Velocity," *Federal Reserve Bank of New York Quarterly Review* 10:3 (Autumn 1985), p. 22.

47. Richard W. Kopcke, "Bank Funding Strategy and the Money Stock," *New England Economic Review* (Jan./Feb. 1985), p. 14. The author is vice president and economist at the Federal Reserve Bank of Boston.

48. Nicholas Kaldor, *The Scourge of Monetarism* (New York: Oxford University Press, 1982), p. xi.

49. James Tobin, "Monetarism: An ebbing tide?" *The Economist,* April 27, 1985, p. 25. Reprinted with permission.

50. "It is high time to give monetarism the decent burial it so richly deserves." Robert Kuttner in *Business Week,* August 19, 1985, p. 16.

51. *The Wall Street Journal,* December 4, 1985, p. 30. Reprinted by permission, Copyright © Dow Jones & Company, Inc., 1985. All rights reserved.

52. Milton Friedman, "The Case for Overhauling the Federal Reserve," *Challenge* 28:3 (July/August 1985), pp. 5–7.

53. In an editorial page article in *The Wall Street Journal,* September 1, 1983, Friedman, after discussing reasons for velocity changes, made the following statement. "In short, excessive monetary growth over the past year means that we are facing the near-certainty of an overheated economy for the next few quarters at least, which will almost certainly mean a subsequent acceleration of inflation, probably in middle or late 1984." By the end of 1986, no surge of inflation had appeared. Excerpt reprinted by permission of *The Wall Street Journal,* copyright © Dow Jones & Company, Inc., 1983. All rights reserved.

54. *Economic Report of the President, 1983,* p. 25. This statement reflects the position of the Council of Economic Advisers under the chairmanship of Martin Feldstein.

55. Frank E. Morris, "Rules plus Discretion in Monetary Policy—An Appraisal of Our Experience since October 1979," *New England Economic Review* (Sept./Oct. 1985), p. 4.

Chapter 11

1. Kenneth E. Boulding, *Evolutionary Economics* (Beverly Hills: Sage Publications, 1981), p. 121.

2. Ibid., p. 17.

3. Ibid., p. 44.

4. Alexander Solzhenitsyn, trans. by Michael Glenny, *August 1914* (London: The Bodley Head, 1972), p. 430.