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policy shocks to the nonmonetary inflation policy that is the focus of the first part of the chapter. Nonmonetary considerations have no role in the model. Therefore, it is correct to look for them in the residuals. The chapter would benefit, however, from a tighter link between the narrative in the first part of the chapter and the estimates in the second.

Let me close with a criticism of the chapter that applies broadly to a number of the papers in this conference. The story line of the conference is as follows: *Mistakes were made in the conduct of monetary policy from the mid-1960s through the 1970s. Policymakers now know better how to conduct policy.* This chapter, as several others in the conference, makes this point by showing that a modern model fit to the period of the Great Inflation diagnoses policy errors. The chapter connects these residuals to its narrative of nonmonetary factors only by their temporal coincidence. Since the nonmonetary features of policy, so well-documented in the chapter, are not explicitly modeled, the case is circumstantial. More importantly, the authors do not show that policymakers using the model would have done substantially better than the contemporary ones in dealing with the actual shocks the economy faced during the period of the Great Inflation. This chapter does, thankfully, not adopt the tone of self-congratulation of many of the contributions to this volume. Instead, it leaves implicit the “we know better” message that other papers make explicit.

This tone of self-congratulation at the conference was particularly grating given the timing of the conference in September 2008, when the financial system was crumbling. Perhaps monetary policy had nothing to do with the conditions that led to the crisis. I tend to think otherwise. Indeed, I suspect that the chapters in this volume will be fodder for an NBER conference some years from now about the complacency of monetary policy during the great moderation. Sustaining low inflation is, of course, an important goal. Central banks that achieve low inflation deserve commendation. Yet, I expect the message of that future conference will be that judging monetary policy solely by its achievement of low and stable inflation was a serious mistake.

## Reference

Abrams, Burton A. 2006. “How Richard Nixon Pressured Arthur Burns: Evidence from the Nixon Tapes.” *Journal of Economic Perspectives* 20 (4): 177–88.

## Discussion

John Crow emphasized that the United Kingdom is rather exogenous and insular with respect to this issue. Where did the presented views of policy come from, particularly in regards to the Radcliffe Report? The Radcliffe

Report provided a muddy view of monetary policy, but to what extent did it influence policy? Remember that John Maynard Keynes was involved and Phillips was a huge influence. Why did these views persist for so long?

Gregory Hess provided his own story of attending Cambridge and meeting Frank Hahn, who believed that the United Kingdom was full of the best economists of the time, yet the worst economic performance. He attributed it to the Keynesian mentality that pervaded throughout the United Kingdom. There was a dearth of macroeconomics from the United States being sent to the United Kingdom.

Allan Meltzer stressed the upper tail theory of inflation as what is at play here. Inflation is caused by whatever price was rising at that particular point. However, what prevented hyperinflation? Favorable shocks? To comment on Shapiro's discussion, the Kennedy Administration had James Tobin, Paul Samuelson, and Robert Solow, all who wrote a report that said inflation begins before the economy gets to full employment, and therefore price/wage guidelines are needed. It was the Samuelson/Solow Phillips curve that brought this about in the United States. Meltzer continued on with some footnotes, adding that Chairman Arthur Burns criticized the policy of the Council of Economic Advisers in the 1960s, and for unknown reasons he changed his mind when he became chairman of the Federal Reserve. President Richard Nixon was often angry with Chairman Burns, and always believed that no one could lose an election due to inflation, but they could due to high unemployment. Price/wage controls were enacted simply to win the election of 1972. Chairman Burns was stroked by President Nixon many times; Nixon called him the greatest economist that ever lived in an effort to curb the recession that was predicted. Ironically, the entire Board of Governors at the time consisted of appointees of presidents Kennedy and Johnson, and Chairman Burns somehow convinced them to produce rapid money growth, and they made Congress believe it was the right thing to do. Unemployment was the first priority, and always remained the first priority until chairmen Paul Volcker and Alan Greenspan came into office.

Jeremy Rudd provided observations about Chairman Burns. He always seemed to argue that inflation came from fiscal policy, but he did not have a clear distinction of the difference between wage-push shocks and inflation expectations fitting into the picture, which is actually in line with the academic literature at the time. Even Robert Solow in the 1960s fluctuated between talking about wage-push and price expectations. Even as late as 1978, Chairman Burns said that wage-push pressures did not start because of workers' wages, but rather because of policies that brought about excess aggregate demand, like the Vietnam War and the Great Society programs. He clearly argued that monetary policy could affect aggregate demand, raise the unemployment rate, and reduce inflation, but that the cost of reducing inflation was too high. Rudd thought that this all stemmed from Chairman

Burns's misperceptions about the natural rate and slack in the economy. Since the economists who were estimating these animals back then were using techniques still used today, is it worrisome that we may not have learned a lot?

Alan Blinder wanted there to be more discussed of the "stag" part of "stagflation." In many European countries, there was a wage explosion with radical politics. Even from a modern perspective, there are supply shocks, and authorities have to balance this nasty trade-off. That was a big part of both the UK and US stories.

Benjamin Friedman began the discussion about rumors published in *Fortune* magazine some years ago about an FOMC meeting in which Chairman Burns was arguing for a rate cut, yet the rest of the FOMC would not go along. He was rumored to have left the room, called President Nixon, returned to the FOMC, said he had been on the phone with the president, and thus the rest of the FOMC went along with the rate cut. Meltzer was adamant that this rumor was not true, given his own experience interviewing people from the time. For example, George Shultz was around at the time and sat in on meetings when President Nixon was stroking Chairman Burns, but the published rumor is just not true. Meltzer continued by saying that it would have been a stupid thing for Chairman Burns to do, since most of the FOMC were Democrats. It also violates everything the FOMC knows about itself.

William Poole interpreted Chairman Burns's views as if the political process would not stand for unemployment, and that the UK situation might have a lot to do with the UK private sector sharing the same views. Why wasn't there a real explosion in credit markets with people fleeing from fixed-income assets? Interest rates went up, but there was no monetary crisis that one would expect from a standard rational expectations model.

Barry Eichengreen objected to some sources and conclusions from the chapter. He referred to the detailed documentary record on Treasury monetary policy thinking, which is in the public Treasury record files. While it is not a set of minutes, it provides a detailed set of memoranda. There is a thirty-year rule on releasing the documents, but many books have been published as more documents become available. Many of the contemporaries of the time thought there was no stable link between monetary policy and inflation outcomes, and Eichengreen agreed with Nelson's point about the lens through which dominant opinion viewed monetary policy being conducive to the development of inflation. All of the minds of the time were cost-push types. With regards to the conclusion of the chapter, Eichengreen found it wholly implausible to conclude that the balance of payments problems did not influence UK monetary policy. There are three examples. First, the stop-go policies, where you go as fast as you can to achieve a 1 percent unemployment rate, but then stop once you get into a balance of payments problem. Second, the 1964 and 1967 balance of payments crises. Third,

1976, where there was a tightening of policy, a balance of payments crisis, and upheaval in the exchange rate.

Christopher Sims was annoyed that the discussion still revolved around fighting the battles of the 1960s and 1970s by redefining the various orthodoxies of the time. Sims thought that monetarism to Nelson was monetarism without money, and the emphasis on the ability of monetary policy to ultimately control inflation. James Tobin was fiercely antimonetarist, but not because he did not think that monetary policy could ultimately control inflation. He had a sophisticated set of equilibrium views close to what we have in modern times and thought it was ridiculous to tightly control the money stock. There was an L-shaped view of inflation at the time. At low capacity, there is no inflationary pressure. As you kick up capacity, so too do you kick up inflation. The Phillips curve in that context and sort of thinking was a move toward recognizing that as you approach capacity, you would begin to get inflationary pressure and it became a policy in which expectations began to matter. It was actually the route by which Keynesians began to appreciate the possibility that monetary policy was really important. Sims felt it was crucial to recognize that everyone back in those times was confused, and that confusion has been resolved slowly over time.

Martin Feldstein was a graduate student at Oxford in the late 1960s, and he remembered it as a time in which the notion of monetary policy as we think of it today as a mechanism for eliminating aggregate demand and inflation was not taught at the time. The lack of that permeated into the thinking of the Treasury. Recall that soon after, Alan Walters was expressing his views on how policy needed to change, and he later became Margaret Thatcher's advise on the subject. How did he happen upon the subject, given that he was, in all practice, an econometrician?

Andrew Levin recommended reading a biography of William Martin. President Lyndon Johnson exerted a large amount of political pressure on Chairman Martin. Then President Nixon exerted his political influence on Chairman Burns, and President Jimmy Carter even threatened to fire Burns. A positive change in the modern era is the extent to which politicians do not openly criticize the Federal Reserve. Referring to a comment made by Christina Romer, Chairman Burns was raising the real Federal Funds rate to around 5 percent during 1974 to 1975, even during a recession. While Nelson might want to say everything in the United States was repeating itself in the United Kingdom, the British were cutting rates at the time that Chairman Burns was raising them.

Nelson clarified that the 1960s guidepost included Samuelson and Solow thinking that the Phillips curve was symmetric. That is an important distinction, and the United States changed its thinking and began to look at expectations more than the cost-push element. While this chapter did not deal much with the nonmonetary action, Nelson referred to his plethora of previous work on UK monetary policy at the time. In reference to Eichengreen,

Nelson reiterated that he has an insurmountable lead in the amount of sources, and much of the materials that have been disclosed do not impress him. Were there any new revelations? The 1976 crisis caused them to raise interest rates, but they were fearful of cost-push stress again. In reference to Crow's remarks, Nelson recalled Anna Schwartz's description of the Radcliffe Report as the "coup de grâce" in terms of bringing together a lot of the hard-line views of the time. Keynes was not alive in the 1970s, but his associates were. Prewar UK economists had a large influence on the United States, and the reciprocation came later on. Meltzer asked about the lack of a hyperinflation, and Nelson felt there were limits to the extent the United Kingdom wanted to ease because they did not want a positive output gap. Therefore, there was an upper limit. Nelson refused to comment on the arguments made about Chairman Burns. Lastly, Nelson wanted to clarify Sims's belief that he was revising monetarism. In fact, Nelson is simply saying that there are monetarist principles and the United Kingdom did not believe they could be effective in using monetary policy to combat issues.