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Volume Author/Editor: Michael D. Bordo and Athanasios Orphanides, editors

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Panel Session II Discussion

Allan Meltzer opened up the discussion: You should keep it simple, don't always state what you know, and tell them when you are going to deviate. The only thing missing from the papers presented at the conference, and it came up in the first panel discussion, was the fact that politics, certainly in the United States, play an enormous role. Chairmen Martin and Burns were not free agents. Chairman Volcker was more of a free agent, but he is an exception. Even Chairman Greenspan was sort of an exception. But, most Federal Reserve chairmen get called to Congress and are told over and over again what to do as an agent of the Congress.

Anna Schwartz felt that one lesson of the Great Inflation from a social welfare viewpoint is that the Federal Reserve assigned entirely too much weight to job loss that disinflation would impose and not enough weight on the losses that inflation imposed on households and firms, as well as on lenders who accepted loans when the price level was lower than when the loans were repaid. The irony is, of course, that finding reasons for not responding earlier to the evidence of inflation means that when the central bank finally took action to curb the inflation, the loss ratio was much greater for a disinflation than it would have been if it had been taken at a more timely point.