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regarded the balance as a Treasury responsibility. They saw their role as, at most, supportive of Treasury policy. Bordo and Eichengreen agree with that in part at least.

Academic economists shared, even sponsored, many of these views about inflation. Polling data suggests that until 1979, the public rarely gave much weight to inflation when asked about its concerns.

During the Kennedy and Johnson administrations, international payments called for two types of action. They put restrictions on mainly private spending whenever there was an apparent crisis. These included the Interest Equalization Tax, limits on foreign lending by banks and on foreign investment by corporations, requirements to ship in US flag carriers, and several other controls. The other policy action was a series of meetings to get agreement on Special Drawing Rights.

In 1969, Paul Volcker became Treasury under secretary for Monetary Affairs. In his first six weeks in office, he prepared a memo for the secretary and later the president. For the first time, his memo discussed exchange rate adjustment. Volcker proposed that this administration give two years to discussing exchange rate adjustment with other countries. After that time would run out, the gold stock would decline, and the United States would have to act unilaterally. His judgment was correct. A bit more than two years after he wrote, President Nixon closed the gold window.

The end of fixed exchange rates in 1973 did not eliminate either inflation or the balance-of-payments deficit. Until 1976, the government's estimate of the equilibrium unemployment rate remained at 4 percent. As Orphanides has ably shown, the Phillips curve continued to underestimate the inflation rate much of the time.

Inflation ended after the public told the pollsters that inflation was the most important problem they saw. Probably they mixed the increased relative price of oil with inflation.

President Carter appointed Paul Volcker. In his interview Volcker told the president he would work to reduce inflation. President Carter replied, "Good, that's what I want." Volcker changed the weights on inflation and unemployment in the Fed's objective function and restored independence. Concern for independence and credibility lasted until recently, and so did low inflation.

Discussion

Anna Schwartz had issues with two parts of the chapter. The chapter does not mention the Gold Standard Act of 1934. It appointed the secretary of the Treasury as the manager of the foreign exchange value of the dollar. The secretary needed the approval of the president for any actions he wanted to take, but once he had the approval no one inside or outside of the government could challenge him. So how could the Federal Reserve before 1965 believe that it was managing for the foreign exchange value of the dollar, and how it could it believe after 1965 that it could delegate that responsibility to the Treasury? Also, it seemed to Schwartz that even though the authors did not comment on whether the positions of the Federal Reserve were anomalous, should they have tried to verify that these positions were maintained? Look at the annual reports of the secretary of the Treasury. Was there any discussion in these reports about negotiations between the Federal Reserve and the Treasury about who should manage the foreign exchange value? If there was no such discussion, should the chapter have stated that one could not verify the Federal Reserve held those views?

Bennett McCallum felt the international aspects were important in thinking about crucial breaks in the historical record. You cannot have the Great Inflation if you are maintaining a metallic standard. The Bretton Woods system was designed to be a metallic standard. While other countries pegged their exchange rate to the dollar, the United States bought and sold gold at \$35 an ounce only to other central banks. This was a huge restriction. There is reason to think why people at the time did not believe the United States was on a metallic standard, but the Bretton Woods system was set up to be one. When did the gold standard break down? Being on such a standard requires that you conduct monetary policy so as to keep the market price of the gold at \$35 an ounce. But the United States was not really willing to discipline monetary policy so as to keep the price of gold at \$35 an ounce, and this was revealed by the formation of the gold pool in 1961. By 1961, and probably even earlier, it was implicitly revealed that the United States was not going to stick to the Bretton Woods system unless monetary policy was conducted more strictly.

Marvin Goodfriend had issues with the authors' use of a Taylor rule in the 1960s. It gives the impression that policy was tighter than the Taylor rule would predict. It is crucial to realize that the country was on the gold standard, which created a constraint on US monetary policy. What was the inflation target used to get the results in the chapter? Was the gold standard a restriction if the inflation target in the Taylor Rule was zero? Goodfriend referred back to statements made by Paul Samuelson, Robert Solow, and James Tobin blasting the Federal Reserve and saying that staying on the gold standard was inconsistent with sustainable domestic stabilization policy. To Goodfriend, this undermined in an intellectual way the institutions that were established under the Gold Standard Act and Bretton Woods. The chapter should go back further and ask key questions. Is there really something inconsistent about the gold standard and doing the right thing domestically? Goodfriend continued with historical evidence. In 1951, the Congress was on the side of the Federal Reserve and good monetary policy. Senator Stephen Douglas was leading Congress to support independent monetary policy and inflation stabilization, which went against the administration at the time. Something drastic happened when the Federal Reserve went from pro-Congress and anti-president to anti-Congress and pro-president in 1965. What happened to undermine Congress's commitment to the Federal Reserve? It was a complete loss of belief in the institutional structure. Goodfriend also mentioned Chairman Martin's democratization of the Federal Reserve. While he felt it was a good thing, it may have undermined the Federal Reserve Bank of New York to make monetary policy and the commitment of the Federal Reserve to the gold standard and US institutions. Lastly, Goodfriend wanted to stress the ideas view of Christina Romer. Institutions are at play, and the United States had the right institutions. There needs to be commitment, but all the institutional agreements collapsed. Why?

Athanasios Orphanides felt that the fixed exchange rate regime somewhat helped the containment of inflation in the United States, and he focused on what happened in December of 1965. His interpretation of what really mattered was the encroachment of new ideas by academics in Washington, DC, to pressure monetary policy to work on better outcomes toward price stability. The pressure got so big that Chairman Martin in the fourth quarter of 1965 allowed the Federal Reserve staff for the first time to incorporate forecasts in the models of monetary policy decisions. The economy was approaching full employment, and he was stressing the need to tighten monetary policy and really wanted the support of the administration. But he gave a speech and said that he did not have the support of the secretary of the Treasury or the Council of Economic Advisors and regretted that. In December of 1965, the forecast for unemployment was 4.2 percent. Within a couple of months, the forecasts said it would drop below 4 percent. Orphanides referred to an earlier discussion about the famous split decision to raise the discount rate in December of 1965. Ten days after the meeting, there was a hearing where Congress dropped members of the Board of Governors, and made all members at the time explain why they made their decisions. What Orphanides found fascinating was that the explanations for support of the decision were all on domestic economic grounds, and the differences in outlooks for employment, growth, and the risks to inflation were driving the decisions. Even Chairman Martin stated that the critical forces at play that would determine price movements for the next several months were the expansion of total demand, potential output, expectations, and the success of the president's price-wage controls. Most projections of demand and supply available at the time when the Board of Governors made its decisions did not see the impending high inflation. What went wrong?

Eichengreen had several comments. As an economic historian, no one could argue that one should look at a longer period, but the authors were asked to consider the time right around the Great Inflation. Second, Bordo and Eichengreen did not see the balance of payments problem as the full explanation for the Great Inflation. It was a crucial element, but not the entire story. What about the timing of the shift around Bretton Woods? This chapter puts it on September 23, 1965, and there is a pronounced change in which the frequency of balance-of-payments considerations is involved. There was a tendency for the Treasury to unroll a caravan of policies designed to the deal with the balance-of-payments issue. In terms of the Taylor rule evidence reference by Goodfriend, Eichengreen stressed that if you just perform a mechanical Taylor rule analysis, policy looks unusually tight in the first half of the 1960s. One possible explanation is consideration of other issues, and another possible explanation is a lower inflation target. Are these two separate issues, or one in the same? The Federal Reserve internalized the balance-of-payments problem more before 1965 than after, but there was no evidence on them shifting their target level of inflation. Allan Meltzer often referenced that Alfred Hayes of the Federal Reserve Bank of New York was the dominant voice of the FOMC at the time, and did that add more punch? Goodfriend recognized Schwartz's comments, but quibbles with her questions of how the Federal Reserve believed it was responsible for managing the balance of payments given the Gold Standard Act. The authors are not arguing that the Federal Reserve was not solely responsible, but rather it was a shared responsibility with the Treasury, a sharing that began to shift over time as the Treasury assumed more of a role.