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# Money in Historical Perspective



**A National Bureau  
of Economic Research  
Monograph**

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# Money in Historical Perspective

Anna J. Schwartz

with an Introduction by  
Michael D. Bordo and  
Milton Friedman



The University of Chicago Press

*Chicago and London*

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ANNA J. SCHWARTZ is research associate emerita with the National Bureau of Economic Research. MICHAEL D. BORDO is professor of economics at the University of South Carolina and a research associate at the National Bureau of Economic Research. MILTON FRIEDMAN is a senior research fellow at the Hoover Institution.

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*(Resolution adopted October 25, 1926, as revised through September 30, 1974)*

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# Preface

It is a pleasure to issue this collection of articles by Anna Jacobson Schwartz. For more than five decades, Anna has contributed to our understanding of the economy. Her studies of monetary policy, banking, and the gold standard have added significantly to our knowledge of these important topics. It is indeed fortunate for NBER that she has been associated with us since 1941.

These articles were presented to Anna at a conference held in her honor in New York City on October 6, 1987. They maintain the high level of scholarship all Bureau publications hope to achieve. In one important respect, however, some of these articles depart from the Bureau's firm tradition of avoiding policy recommendations. Other NBER publications must confine themselves to analyzing the effects of policies and strictly eschew recommending one course of action over another. Some of the papers in this volume were originally written for other purposes and do take policy positions. Rather than omit any of these papers, we decided instead to make an exception to the Bureau's rule.

I would like to thank Michael D. Bordo and Milton Friedman for selecting these articles and for organizing the conference honoring Anna. Without their initiative and hard work, this volume would not have been published. Mark Fitz-Patrick of NBER gave valuable guidance in preparing the manuscript and able research assistance was provided by Ivan Marcotte. I would also like to thank the Alex C. Walker Educational and Charitable Foundation and the Earhart Foundation for their generous financial support of the conference and the publication.

Martin Feldstein

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Chapter 15. "Alternative Monetary Regimes: The Gold Standard," in *Alternative Monetary Regimes*, ed. C. Campbell and W. Dougan, 1986. Copyright 1986 by Johns Hopkins University. Reprinted by permission of the Johns Hopkins University Press.

Chapter 16. "Lessons of the Gold Standard Era and the Bretton Woods System for the Prospects of an International Monetary System Constitution." Presented at the July 1986 meeting of the Western Economic Association, San Francisco.

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# Introduction

Michael D. Bordo and Milton Friedman

## **Background**

Our collaboration with Anna Jacobson Schwartz has been a rare and wonderful experience—spanning more than three decades for Friedman, over a decade for Bordo.

As an economic historian and monetary economist, Anna is dedicated to accuracy, precision, and thoroughness—qualities present even in the earliest of her papers reprinted in this volume, a fascinating account of the beginning of competitive banking in Philadelphia (Chapter 1). That dedication, repeatedly demonstrated during the course of our collaboration, has guaranteed a solid scholarly foundation for our joint publications.

As a friend and colleague, Anna is a thoughtful, considerate, uniformly helpful, and warm human being with firm principles and wide-ranging tolerance—as demonstrated by the remarkable fact that we cannot recall any episode involving acrimony in our many years of collaboration. Disagreement, frank criticism, discussion, strongly held views, yes; acrimony, personal recrimination, pettiness, never. That has been the common experience of the several persons of widely different temperaments and personalities who have been privileged to collaborate with her closely at one time or another.

Born Anna Jacobson on November 11, 1915, in New York City, Anna received a B.A. from Barnard College in 1934, an M.A. and Ph.D.

Michael D. Bordo is professor of economics at the College of Business Administration, University of South Carolina, and a research associate of the National Bureau of Economic Research.

Milton Friedman is a Senior Research Fellow at the Hoover Institution on War, Revolution and Peace, Stanford University.

from Columbia University in 1936 and 1964, respectively. Married to Isaac Schwartz in 1936, she did not let her marriage, or the loving care she and Isaac lavished on their four children, all now grown and living independently, interfere with the pursuit of a demanding professional career, devoted primarily to research, though with occasional forays into teaching (at Brooklyn College 1952, Baruch College 1959–60, Hunter College 1967–68, and New York University 1969–70).

A year at the U.S. Department of Agriculture in 1936 was followed by five years at Columbia University's Social Science Research Council, where she collaborated with A. D. Gayer and W. W. Rostow on a study of *The Growth and Fluctuation of the British Economy, 1790–1850*, published in 1953 in two volumes under that title. Although the study has become something of a classic in British economic history, and was republished in a second edition in 1975, Anna's later work led her to revise her views on the role of monetary forces in British economic history, as she explains in a new preface to the second edition. Anna's interest in and profound understanding of British institutions and British economic history have continued ever since. Two examples are the papers on secular price change and on British interest rates that are reprinted in Chapters 3 and 5 of this book. So also, on a larger scale, is her contribution to *Monetary Trends in the United States and the United Kingdom*, authored jointly with Friedman (1982).

In 1941, Anna joined the National Bureau of Economic Research and has remained with the bureau ever since, becoming an emeritus research associate in 1985.

In 1981–82, Anna performed a major public service when she served as staff director of the U.S. Gold Commission, in which capacity she wrote volume 1 of the Report of the Gold Commission. Once again, her scientific and personal qualities stood her in good stead. Despite the controversy surrounding the role of gold, and the highly political nature of the commission, Anna was able to work effectively and congenially with all the members of the commission to gain their respect and trust and to produce a report that will long serve as an invaluable source document for anyone interested in the gold standard. Her interest in the gold standard also led to an NBER conference that she helped to organize in 1982, and her "Introduction" to the resulting volume, *A Retrospective on the Classical Gold Standard, 1921–1931* (1984).

Anna has served at various times as a member of the Board of Editors of the *American Economic Review*, the *Journal of Money, Credit, and Banking*, and the *Journal of Monetary Economics*. She has been a regular participant in the Carnegie Rochester Conference Series on Public Policy and is a founding member of the Shadow Open Market

Committee. She is currently an Honorary Visiting Professor at the City University, London Business School, and will be president of the Western Economic Association in 1987–88.

### **Scholarly Work**

Anna's major scholarly contributions are contained in the impressive body of work that she has written in collaboration with others: the book authored jointly with Gayer and Rostow; the series of books and articles that developed out of her long collaboration with Friedman on the National Bureau of Economic Research's money and business cycle project; her participation with Michael Darby, James Lothian, and others on a bureau study of the international transmission of inflation; her collaboration with Phillip Cagan on two articles on monetary policy; and a series of articles jointly authored with Bordo. (Appendix 1 contains a complete bibliography of her writings.)

Anna's contributions to these publications, as well as to those that she has authored alone or jointly with still other collaborators, are in four related areas: economic statistics, particularly monetary statistics; economic history, particularly monetary history; monetary theory and policy; and international monetary arrangements.

### **Statistics**

The meticulous care she has expended on constructing basic statistical series is exemplified in the British share price index and commodity price index developed in the Gayer-Rostow study; in the monthly estimates of currency holdings in the United States from 1917 to 1944, published jointly with Emma Oliver (1947); in monthly estimates of gross dividends and interest payments by all corporations in the United States in the nineteenth century (1960); and, above all, in the massive collection of monetary and economic statistics for the United States and the United Kingdom contained in three Friedman-Schwartz books (*Monetary History of the United States* [1963], *Monetary Statistics of the United States* [1970], and *Monetary Trends in the United States and the United Kingdom* [1982]). Most of these series have by now become the common stock in trade of economists and historians.

### **Economic History**

A characteristic feature of Anna's work on economic history is its strong quantitative base. Never a compiler of statistical data for its own sake, she has sought to test her interpretations of historical episodes not only with qualitative data but also, whenever possible, with numerical data. The interweaving of descriptive history, economic anal-



ysis, and quantitative evidence is characteristic of all her historical work, whether in the early Gayer-Rostow-Schwartz book on British history, the later Friedman-Schwartz *Monetary History*, or the articles reprinted here in Part I.

In the process, she has helped to construct a sound factual and analytical base for later students of related topics.

### Monetary Policy

The historical evidence linking economic instability to erratic monetary growth, in turn largely a product of discretionary monetary management, has persuaded Anna of the importance of stable money and of the case for a constant money growth rule. As a consequence, she has devoted much attention in the past two decades to the study of monetary policy in the United States and other countries.

As a founding member of the Shadow Open Market Committee, organized by Allan Meltzer and Karl Brunner in 1971, Anna has been engaged in continuous critical evaluation of the Federal Reserve's performance.

This aspect of her work is reflected in Part II of this book, which reprints seven articles published over a seventeen-year span, dealing with a variety of basic issues of monetary policy.

### International Monetary Arrangements

Anna's interest in international monetary arrangements began with her collaboration with Michael Darby, James Lothian, and others on a study of the international transmission of inflation, leading, as noted earlier, to her organizing with Bordo a conference on the Gold Standard, and culminating in her role as staff director of the U.S. Gold Commission. Her contribution to the Darby-Lothian study assessing post-war international monetary arrangements is reprinted in Part III as Chapter 14. Her reflections on the Gold Commission Report are summarized in Chapter 13. The final two articles reprinted in Part III provide a wide-ranging survey of the historical development of the gold standard (Chapter 15), and of the lessons that can be drawn from current policy from past attempts at constructing international monetary constitutions (Chapter 16).

### Conclusion

These brief comments only scratch the surface of a body of work, impressive alike for its scope, its quality, and its adherence to the highest standards of scholarly care and objectivity. The reader who dips further into this collection of essays will enjoy contact with a

subtle mind of wide learning and rare judgment. Unfortunately, he or she will not be able to share our experience of close collaboration with a modest, unassuming, remarkable human being.

**Michael D. Bordo**  
**Milton Friedman**

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