GEM01L (EINSTEIN LONG) — SMALLCAPS = 62252

TRIM: 6 1/8″ × 9 1/4″ **HEAD:** 1/2″ **BACK:** 13/16″ *Updated:* 10/13/1999

TEXT PAGE: *Top of CAP of first text line to bottom of last text line on a normal page.*
TYPE PAGE: *Top of CAP of RHD/FOLIO to bottom of last text line on a normal page.*

KEYMARK	ELEMENT	SPECIFICATION
T	Body Text	10/13 Galliard × 27pi, justified • 41 lines per page • lining figures *(unless otherwise spec'd)* • 1em para indent, none following any head, subheads, text space breaks or to begin chapter text, use ligatures. Pages can run long or short to fix pagination problems. Long preferred.
	Running Heads	*Choice:* See part titles. If you choose to set PTs in CAPS, then the LEFT RHDs that read part title should set CAPS and then the part title on contents page to set CAPS. 26pts b/b from RHD to text below **Left RHD** *(PT sets CAPS):* 9pt Galliard Bold, caps, track 20 Only part titles sets this way, other left RHDs set in spec for recto RHDs *(PT sets C/lc):* 9pt Galliard Bold, c/lc, track 5 **Right RHD** 9 Galliard Bold c/lc track 5 **Folios** 9pt Galliard Bold, track 5 at head, flush outside × 27pi; 9pts space to .5pt vertical rule × 16pts, center by cap height; 9pts space to RHD **Drop Folio** *(only on chapter opener)* 9pt Galliard Bold, 18pts b/b below last line, flush outside × 27pi If chapter opener is a line long or short, to avoid a bad break, the drop folio floats up or down to remain 18pts b/b.
	PART OPENER — *New recto, verso blank.*	
	Part Opener rules	Sink 3pi to 2pt horizontal rule × 27pi Indent 4pi (and touching the horizontal rule) to .5pt vertical rule × 7.5pi
PN	Part Number	18pt Galliard Bold (roman numerals), centered by the first 3pi and 9pts b/b above 2pt horizontal rule
PT PT_CAPS	Part Title	*Choice:* Select the CAPS spec for PT if all part titles, when set in CAPS, can fit on 1 line. *Be sure to select the correct RHD spec to match PT.* **DESIGN EDITOR:** Mark msp for aesthetically planned line breaks *(PT sets CAPS):* 18/22 Galliard Bold CAPS, FLRR, track 20, 26pts b/b from rule above, indent 4pi *(PT sets C/lc):* 18/22 Galliard Bold C/lc, FLRR, 26pts b/b from rule above, indent 4pi
PTD	Date in PT	15pt Galliard Bold, 22pts b/b from PT
	CHAPTER OPENER — *Chapter following part, new recto; thereafter, start recto or verso, or as marked*	
CO	Chapter Opener	30 text lines • with 1 head only 28 text lines • with epigraph text lines will vary. **NOTE:** *Preface or Introduction whether in FM or text, should have a CT set heading with number of text lines below as noted above.*
	Chapter Opener Rules	Same as part rules except, chapter openers that have epigraphs, the vertical rule should extend 12pts beyond the baseline of the last epigraph source.
CN	Chapter Number	18pt Galliard Bold. Same position as PN
CT	Chapter Title	18/22 Galliard Bold C/lc, FLRR. Same position as PT
EP	Epigraph	9/11.5 Galliard × 27pi, FLRR, 32pts b/b below CT; indented 4pi, 23pts b/b between multiple EPs
EPS	Epigraph Source	8.5pt Galliard SMCaps, track 20; *any figures in EPS sets as oldstyle,* 14pts b/b below EP; indent 2ems further than EP, 30-42pts b/b to text below (30 preferred).
	HEADINGS — *Design Editor: mark long heads for aesthetically good breaks*	
1	1 head	10.5/13 Galliard Bold C/lc. FLRR; 31pts b/b above, 21pts b/b below
2	2 head	10.5/13 Galliard Italic C/lc. FLRR; 31pts b/b above, 21pts b/b below

Sink 3pi to 2pt rule x 26.
Vert. rule indents 3pi and sets to a length 30pts
beyond the baseline of author, 12pts to text

The Money Interest and the Public Interest

FM_TP_TITLE

Title: 24/27 Gal. bold, clc, indent 4pi, 36pts rule to base

The Development of American Monetary Thought, 1920–1970

FM_TP_SUBTITLE

Subtitle: 16/22 Gal. bold italic, clc, indent 4pi, 33pts b/b below title

Perry G. Mehrling

FM_TP_AUTHOR

Author: 18/20 Gal. bold, clc, indent 4pi, 50pts b/b below subtitle

11pt Gal. bold, clc, 17pts b/b to text below

.5pt vert. rule 16pts high, ctr. on cap height, en space either side

FM_TP_HUP

FM_TP_ADD

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9.5pt Gal., clc, last line aligns at bottom of regular text page

Anchor tp_add

1. This shows chapters only

ET spec for heading.

Contents

FM_CONT_HD

Chapters: 10.5/12.5 Gal., indent, 3pi, 21pts b/b between, turnovers align under word above. 27pts b/b below FM titles & above EM titles. Chapter numbers set bold 1 em to left of titles (TNT: tab to chapter number, tab to title). Page numbers set 10pt italic, 15pts from end of title (TNT: 2 en spaces and 1 thin space).
Designer/editor: Please watch for bad breaks in titles, prefer to carry at least 2 words onto 2nd line, or break lines aesthetically.

42pts rule to base

FM_CONT_FM

21pts b/b

TNT: Use srt at end of entry.

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FM_CONT_BM1

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Contents

Chapters: 10.5/12.5 Gal., indent, 3pi, 18pts b/b between, turnovers align under word above. 30pts b/b below FM titles & above EM titles. Chapter numbers set 1 en space to left of titles (TNT: tab to chapter number, tab to title). Page numbers set 10pt italic, 15pts from end of title (TNT: 2 en spaces and 1 thin space).
Parts: 11/13 Gal., bold, clc, 3 pi indent, 24pts b/b above to chapter, 18pts b/b below to chapter. Numbers set 1em to left of titles (TNT: tab to number, tab to title).
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3. This shows chapters and 1 heads

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Contents

Chapters: 10.5/12.5 Gal., indent, 3pi, 21pts b/b above to sub heads, turnovers align under word above. 30pts b/b below FM titles & above EM titles. Chapter numbers: set bold 1em space to left of titles (TNT: tab to chapter number, tab to title). Page numbers set 10pt italic, 15pts from end of title (TNT: 2 en spaces and 1 thin space). Sub heads: 9.5/12 Gal., italic, clc, Align under chapters, turnovers indent 1em, 14pts b/b above to chapter. Page numbers set 9.5pt italic, 1em following head. Designer/editor: Please watch for bad breaks in titles, prefer to carry at least 2 words onto 2nd line, or break lines aesthetically.

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Parts: 11/13 Gal., bold, clc, 3 pi indent, 24pts b/b above to chapter, 18pts b/b below to chapter. Numbers set 1em to left of titles (TNT: tab to part number, tab to title).
Sub heads: 9.5/12 Gal., italic, clc, Align under chapters, turnovers indent 1em, 14pts b/b above to chapter. Page numbers set 9.5pt, 1em following head (TNT: tab for indent of sub heads).
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Contents

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Alt 2. This shows parts in caps, (letterspaced) and chapters

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Contents

Chapters: 10.5/12.5 Gal., indent, 3pi, 18pts b/b between, turnovers align under word above. 30pts b/b below FM titles & above EM titles. Chapter numbers set 1 en space to left of titles (TNT: tab to chapter number, tab to title). Page numbers set 10pt italic, 15pts from end of title (TNT: 2 en spaces, 1 thin space).
Parts: 11/13 Gal., bold, all caps, 3 pi indent, 24pts b/b above to chapter, 18pts b/b below to chapter. Numbers set 1em to left of titles (TNT: tab to part number, tab to title).
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Parts: 11/13 Gal., bold, all caps, 3 pi indent, 24pts b/b above to chapter, 18pts b/b below to chapter. Numbers set 1em to left of titles (TNT: tab to part number, tab to title).
Sub heads: 9.5/12 Gal., italic, clc, Align under chapters, turnovers indent 1em, 14pts b/b above to chapter. Page numbers set 9.5pt, 1em following head (TNT: tab for indent of sub heads).
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The Money Interest and the Public Interest

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Halftitle sets 12/16 Gal. bold, clc, sink 5.5pi, 4pi indent
Rule is 7.5pi long, .5pt, sinks 3pi, indents 3pi

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III

EDWARD STONE SHAW
(1908–1994)

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III

The Practice of Rent Extraction Showing Longer Titles

(1908–1994)

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Preface

A reader who has already gone so far as to pick up this volume may be presumed to have some curiosity about its advertised subject. A glance at the table of contents, however, is enough to alert the reader that the book is also a series of intellectual biographies of three professors of economics whose names are most likely unknown to the average reader and perhaps even to many professional economists. This preface is intended to allay the reader's fears that the title is false packaging. The book is indeed about what it says it is about, and the story is indeed told through the biographies of three lives. What then is the link between the two?

As originally conceived, this volume was to be about the development of monetary thought in the United States during the period spanning the intellectual revolution that organized itself around J. M. Keynes' 1936 book, *The General Theory of Employment, Interest, and Money.* It was not to be another book on Keynes, of which there are many and some of very high quality, nor even a book on the American reception of Keynes. Rather I meant to write a book about American monetary thought more generally, taking as my theme the disappearance of a previously rather vigorous monetary discussion at about the time of the Keynesian revolution and the subsequent "rediscovery of money" in the decades after World War II. My interest in understanding this period stemmed from my personal dissatisfaction with the current state of monetary economics, which led me to search the history of economics for alternative roads not taken.

Though unconventional with respect to my tastes in monetary theory, I was at first quite conventional in my conception of the history of economics as simply the history of doctrine. In trying to understand the ideas of dead economists, however, I found it necessary to understand the minds that had produced those ideas and the problems that had spurred those minds into action. As a consequence, rather than surveying the principal professional publications of famous monetary economists, I found myself reading all the publications, and as much of the unpublished writing as I could find, of a select

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Financial Structure and Economic Development With a Third Line

Money in a Theory of Finance was supposed to be the first volume of a multivolume work, the theoretical framework for later volumes on monetary history and particular policy problems. Gurley and Shaw (1961) did sketch the outlines of the history volume, but that was as much as they were able to complete together. Their collaboration had already lasted well beyond its initially projected three years, and after completion of the first volume, both men seem to have felt the need for a change. Shaw wrote to Calkins (in July 1959): "I need the sense of freedom that comes from bearing all the risks, without hazard to a collaborator, of saying something new that may also be foolish." Two years later: "I am floundering in a stage of development somewhat like that of 1952–53 when the first volume was starting to take shape in my mind. . . . At this stage of my work, I am a grouchy lone wolf and an intolerably bad financial risk for any foundation or research institute. I may well fail, and I want nobody else involved in a flop."[1]

What Shaw was beginning to think about was a new project on financial structure in developing economies. In another letter to Calkins, after listing all the issues he might touch upon in the planned second volume, Shaw concluded: "I, for one, expect to spend the rest of my professional life on this range of issues and on the very exciting question of how one starts in a newly developing country to set up a structure of finance that is rational in terms of environment. My suspicion is that technical aid to foreign financial development would do more, in some instances, toward real development than would technical aid in more conventional forms."[2] The second volume never got written, but Shaw did spend the remainder of his active research life gathering evidence and developing arguments to flesh out and back up his early suspicion about the relationship between financial and real development.

In context, Shaw's decision to refocus his attention outside the United States can be seen as abandoning the traditional field of monetary economics, where the increasing Keynesian hegemony left little room for him to con-

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tinue developing his own views. After President Kennedy took office in 1961, the Keynesian dominance spread from academia to government circles, and the subsequent 1963 publication of Friedman and Schwartz' *Monetary History* established monetarism as the loyal opposition to Keynesianism. The intellectual landscape of American monetary thought thus came to be organized around two positions, the Hansen-style Keynesianism associated with Harvard and the Friedman-style monetarism associated with Chicago. It must have been a disappointment to Shaw. Only a to continue developing his own views. After President Kennedy took office few years earlier, in the throes of the Brookings project, he had turned down offers of visiting positions from both Harvard and the University of Chicago, as well as a permanent offer from Chicago.[3] By the time *Money in a Theory of Finance* was complete, both institutions had gone their own way, and the job offers were not repeated. It was the symptom of a changing intellectual climate that had less and less room in it for a man like Shaw.

Throughout the decade of the 1960s, both Keynesians and monetarists focused most of their attention on short-run stabilization, with Keynesians arguing for the superiority of fiscal policy and monetarists arguing for the superiority of monetary policy. In that context, Shaw appeared both Keynesian in that he emphasized the ineffectiveness of monetary policy under the existing institutional regime, and monetarist in that he advocated a constant

Figure 7.3. The rent came to be organized around two positions, the Hansenstyle Keynesianism associated with Harvard and the Friedman-style monetarism associated with Chicago.

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money growth rule. There was simply no room for Shaw's view that it was precisely in the long run that money matters most. In the context of his times, Shaw appeared to his contemporaries as at least eclectic, at worst incoherent and inconsistent. In a longer context, a case could be made that Shaw was continuing the project of Allyn Young to find a middle ground between the quantity theory of Irving Fisher and the anti-quantity theory of Laurence Laughlin. His difficulty in doing so is an indication of how much had changed since Young. It was not so much that the two poles of monetary discourse had hardened into an opposition that allowed no compromise. Quite the opposite, it was the fundamental agreement of Keynesians and monetarists that posed the problem, because it left no room for discussion of fundamentals. Both schools accepted the neoclassical synthesis and only disagreed about the size of certain key parameter values.

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The narrowness of the postwar academic debate mirrored the narrowness of political debate about the role of banks in a democratic society. Young's monetary views had grown out of the debate surrounding the establishment of the Federal Reserve System in 1913, and Hansen's views had grown out of the banking collapse and reconfiguration during the New Deal. Similarly, Shaw thought he was living in an age of monetary reform, and there was evidence to support his conviction. In Britain the Committee on the Working of the Monetary System reported in 1959, and in the United States the Commission on Money and Credit reported in 1961. "Postwar monetary history is culminating in another sweeping review of money's role in this country's development" (Gurley and Shaw 1961, 122). The review happened, but it did not serve as the foundation for sweeping reform. Instead of a beginning, it was an end. After *Money in a Theory of Finance*, there seemed no point in continuing on to write the second and third volumes.

Shaw's decision to go his own way brought with it a new freedom to speak his mind, and his lectures to the SEANZA Central Banking Course in Japan (1962) and Pakistan (1964) are perhaps the most straightforward and comprehensive accounts of Shaw's mature views extant. There, in what might be understood as a repudiation of the New View that claimed the Gurley-Shaw theory as an ancestor, Shaw rejected the Keynesian idea that the effects of money operate largely through their influence on the price of credit, that is, the rate of interest. "The simple chain of causation from money to credit to goods is illusory, and no amount of measuring alleged interest elasticities of

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demand for goods or money will give it thinking that bore the responsibility for monetary policy during World War II. “The blame is theirs for the inflation of 1945–1948, because liquidity trap theory saw no dangers in postwar excess of liquidity” (p. 71). After the war, the dominance of the Keynesians, with their theory of the liquidity trap, was largely to blame for the “period of decadence” (1964b, 24) in monetary theory during which academic economists came to believe that monetary policy was largely irrelevant. Most troubling, the Keynesian cost-push theory of inflation missed the fact that “Inflation is a monetary phenomenon: it could be stopped by the monetary authority” (p. 27).

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Even while he opposed the Keynesian theory, Shaw found no alternative in the traditional quantity theory of money because at its heart was the idea of long-run neutrality, a different kind of triviality of money. Proponents price of credit, that is, the rate of interest. “The simple chain of causation of the quantity theory argued only for short-run non-neutrality, on grounds of price stickiness and other imperfections. By contrast, Shaw believed that money was not neutral in the long run, that “money imposes its influence on growth in output, composition of output, distribution of history was no match for analytics. “With his professional hostility to the notion that changing the number of money units can promote economic welfare, the economist is beguiled by quantity theory for long-run analysis despite the fairy-like character of its premises. He believes that monetary madness can wreak short-term havoc and even that money has a cyclical role, but he is chronically suspicious of money’s real importance in long periods” (1964b, 25). of political debate about the role of banks in a democratic society. Young’s monetary views had grown out of the debate surrounding the establishment of the Federal Reserve System in 1913, and Hansen’s views had grown out of the banking collapse and reconfiguration during the New Deal. Similarly, Shaw thought he was living in an age of monetary reform, and there was evidence to support his conviction. In Britain the Committee on the Working of the Monetary System reported in 1959, and in the United States the Commission on Money and Credit reported in 1961. “Postwar monetary history is culminating in another sweeping review of money’s role in this country’s development” (Gurley and Shaw 1961, 122). The review happened, but it did not serve as the foundation for sweeping reform. Instead of a beginning, it was an end. After *Money in a Theory of Finance,* there seemed no point in

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Financial Structure and Economic Development

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What Shaw was beginning to think about was a new project on financial listing all the issues he might touch upon in the planned second volume, Shaw concluded: "I, for one, expect to spend the rest of my professional life on this range of issues and on the very exciting question of how one starts in a newly developing country to set up a structure of finance that is rational in terms of environment. My suspicion is that technical aid to foreign financial development would do more, in some instances, toward real development than would technical aid in more conventional forms."[2] problem, because it left no room for discussion of fundamentals. Both schools accepted the neoclassical synthesis and only disagreed about the size of certain key parameter values.

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Despite this paean to the market economy, Shaw was no unquestioning supporter of laissez-faire. Markets have their problems too, he recognized. "Markets and their relative prices have innate flaws that can be corrected by tax and subsidy. They tolerate imperfect competition, ignore external economies and neighborhood effects, misinterpret the future, create inequities. 'Market forces' are not always economizing or humanizing" (McKinnon and Shaw 1968, 62). From his earliest writings, Shaw had favored a strong central bank to regulate the money supply, on the grounds of the externalities involved in issuing money. More generally, because of the widespread externalities involved in finance, he thought there tended to be insufficient investment in financial infrastructure, and the solution was for the government to undertake the needed investment. The government might be the problem insofar as it had chosen the path of financial repression, but it was also the solution insofar as it could be persuaded to choose the alternative path of financial reform and deepening.

A Theory for Policymakers

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The main audience Shaw wanted to reach with his message of financial deepening was the finance ministers and central bankers who set policy in the lagging economies. It was not enough to preach the vice of financial repression and the virtue of financial reform, he also had to convince them that virtue could be practically implemented, and here Shaw faced his biggest challenge. The problem was that, far from regarding financial repression as sinful, many actually favored it as a strategy for development. According to their way of thinking, which Shaw called the "Structural Inflation" theory, inflation in lagging economies arose from real causes such as struggle over distributional shares, and so the monetary authority had no real choice but to validate inflation by increasing the money supply in line with prices. Furthermore, inflation was supposed to play a positive role in transferring income from consumers to investors and so helped to overcome the structural shortage of savings in lagging economies. Finally, the ability of the monetary authority to print money amounted to the ability to allocate credit to socially desirable investment projects. In all these ways, inflation was not so much a problem as it was a solution. lagging economies, and there was no hope for getting the prices right unless those reasons were addressed. Financial deepening was necessary but not suffi- cient for economic development, and even financial deepening could not really be achieved without other reforms.

The most important additional area of reform concerned the government's fiscal apparatus. A significant reason for reliance on the inflation tax in lagging economies was the state's inability to gather revenue in any other way.

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Hence fiscal reform is critical for the success of a strategy of financial deepening, and Shaw put his weight behind introduction of a value-added tax (among other measures) on grounds of simplicity (1973a, Chap. 6). Similarly, he saw trade liberalization as an essential complement to a strategy of financial deepening. Because deepening is essentially a strategy for development of a decentralized market economy, it is crucial that domestic relative prices are aligned with world prices in order to send the right message to producers and consumers. If deepening will work less well without trade liberalization, Shaw insisted that trade liberalization would not work at all without deepening because of the inevitable capital flight out of the repressed domestic financial system (1973a, Chap. 7).

A Theory for Policymakers

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It hardly needs to be said that Shaw disagreed profoundly with the structural inflation theory. For him inflation was always a monetary phenomenon, even so-called cost-push inflation. He saw the shortfall of savings in poor countries not as a justification for financial repression but as a consequence of it, insofar as savings was typically punished by negative real interest rates. Nevertheless, he seems to have realized that none of these counterarguments was really decisive for the practical audience he was trying to address. More

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significant was his practical argument that, however well the structural inflation strategy might work for a while, it was doomed to fail in the long run. Basically, the argument was that people inevitably find ways around financial repression and find ways to adjust to inflation. "Capital is so fungible, so slippery for regulation to cope with, that there is a strong tendency to multiply restrictions" (1973a, 92) in order to maintain its effectiveness. Ultimately the proliferation of controls becomes simply unmanageable, and reform becomes necessary. Shaw's most effective argument for financial deepening was that it offered a specific and concrete direction for reform in countries that had already come to feel the need for reform of some kind.

A THEORY FOR POLICYMAKERS The main audience Shaw wanted to reach with his message of financial deepening was the finance ministers and central bankers who set policy in the lagging economies. It was not enough to preach the vice of financial repression and the virtue of financial reform, he also had to convince them that virtue could be practically implemented, and of political debate about the role of banks in a democratic society. Young's monetary views had grown out of the debate surrounding the establishment of the Federal Reserve System in 1913, and Hansen's views had grown out of the banking collapse and reconfiguration during the New Deal. Similarly, Shaw thought he was living in an age of monetary reform, and there was evidence to support his conviction. In Britain the Committee on the Working of the Monetary System reported in 1959, and in the United States the Commission on Money and Credit reported in 1961. "Postwar monetary history is culminating in another sweeping review of money's role in this country's development" (Gurley and Shaw 1961, 122). The review happened, but it did not serve as the foundation for sweeping reform. Instead of a beginning, it was an end. After *Money in a Theory of Finance,* there seemed no point in here Shaw faced his biggest challenge. The problem was that, far from regarding financial repression as sinful, many actually favored it as a strategy for development. According to their way of thinking, which Shaw called the "Structural Inflation" theory, inflation in lagging economies arose from real causes such as struggle over distributional shares, and so the monetary authority had no real choice but to validate inflation by increasing the money supply in line with prices. Furthermore, inflation was supposed to play a positive role in transferring income from consumers to investors and so helped to overcome the structural shortage of savings in lagging economies. Finally, the ability of the monetary authority to print money amounted to the ability to allocate credit to socially desirable investment projects. In all these ways, inflation was not so much a problem as it was a solution. Inflation may cause financial repression indirectly, by serving as a tax on money holding, but that

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was hardly a major concern for to continue developing his own views. After it, insofar as savings was typically punished by negative real interest rates. Nevertheless, he seems to have realized that none of these counterarguments was really decisive for the practical audience he was trying to address. More significant was his practical argument that, was doomed to fail in the long President Kennedy took office authorities willing to repress finance directly by means of direct controls on lending and on interest rates (Shaw 1964b, 1968b).

As secretary of the American Economic Association's Committee A on Academic Freedom and Academic Tenure, Young penned a defense of the scholar's life that reveals what that life meant to him:

> The man who chooses to enter academic work turns his back upon the field of competitive struggle with its chances of golden success. His probationary period successfully passed, he enters upon a career in which there is little chance of large pecuniary reward, but which gives, or ought to give, the fair certainty of a livelihood . . .
>
> Freedom from time-serving, from the necessity of shaping one's work so that there shall be tangible and frequent evidence, no matter how slender, of one's power of scholarly productivity, freedom to plan one's life around some important investigation calling for prolonged and patient research, freedom from any temptation to sycophancy, freedom for true institutional loyalty,—is it not clear that these are large things, and that the possible abuses of security of tenure are, in comparison, small things?[5]

EXT1

It hardly needs to be said that Shaw disagreed profoundly with the structural inflation theory. For him inflation was always a monetary phenomenon, even so-called cost-push inflation. He saw the shortfall of savings in poor countries not as a justification for financial repression but as a consequence of it, insofar as savings was typically punished by negative real interest rates. Nevertheless, he seems to have realized that none of these counterarguments was really decisive for the practical audience he was trying to address. More significant was his practical argument that, was doomed to fail in the long run. Basically, the argument was that people inevitably find ways around financial repression and find ways to adjust to inflation. "Capital is so fungible, so slippery for regulation to cope with, that there is a strong tendency to multiply restrictions" (1973a, 92) in order to maintain its effectiveness. Ultimately the proliferation of controls becomes simply unmanageable, and reform becomes necessary. Shaw's most effective argument for financial deepening was that it offered a specific and concrete direction for reform in countries that had already come to feel the need for reform of some kind.

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A reader who has already gone so far as to pick up this volume may be presumed to have some curiosity about its advertised subject. A glance at the table of contents, however, is enough to alert the reader that the book is also a series of intellectual biographies of three professors of economics whose names are most likely unknown to the average reader and perhaps even to many professional economists. This preface is intended to allay the reader's fears that the title is false packaging. The book is indeed about what it says it is about, and the story is indeed told through the biographies of three lives. What then is the link between the two?

As originally conceived, this volume was to be about the development of monetary thought in the United States during the period spanning the intellectual revolution that organized itself around J. M. Keynes' 1936 book, *The General Theory of Employment, Interest, and Money.* It was not to be another book on Keynes, of which there are many and some of very high quality, nor even a book on the American reception of Keynes. Rather I meant to write a book about American monetary thought more generally, taking as my theme the disappearance of a previously rather vigorous the table of contents, however, is enough to alert the reader that the book is also a series of intellectual biographies of three professors of economics whose names are most likely unknown to the average reader and perhaps even to many professional economists. This preface is intended to allay the reader's fears that the title is false packaging. The book is indeed about the subsequent "rediscovery of money" in the decades after World War II. My interest in understanding this period stemmed from my personal dissatisfaction with the current state of monetary economics, which led me to search the history of economics for alternative roads not taken.

It hardly needs to be said that Shaw disagreed profoundly with the structural inflation theory. For him inflation was always a monetary phenomenon,

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even so-called cost-push inflation. He saw the shortfall of savings in poor countries not as a justification for financial repression but as a consequence of it, insofar as savings was typically punished by negative.

> Mary had a little lamb
> His fleece was white as snow
>
> And everywhere that Mary went
> The Lamb was sure to go

V

The question was, Where to begin? The tradition of English political economy contained two distinct approaches to money, the Banking School and the Currency School. On the U.S. scene, these two approaches were associated with J. Laurence Laughlin at the University of Chicago and Irving Fisher at Yale. The 1903 publication of Laughlin's *Principles of Money,* which was an attack on the quantity theory of money, met strong resistance, notably from Fisher, in the December 1904 meetings of the American Economics Association.[2] The subsequent work of Edwin Kemmerer (1907) and Fisher (1911) sought to restate and defend the quantity theory. This latter would provide grist for Young's mill in the 1916 textbook revision. The 1908 revision, however, showed mainly the influence of Laughlin, as well as that of W. C. Mitchell and Thorstein Veblen (Laughlin's former student and former colleague), respectively. At the time of the 1908 revision, Veblen was at Stanford with Young and Mitchell was close by at Berkeley working on his 1908 *Gold, Prices, and Wages under the Greenback Standard*.

Richard T. Ely was the most important early influence on Young's intellectual development, and that influence continued throughout Young's career. After graduation, Young's help with the revision of Ely's *Labor Movement in America* (1905) led to further work revising Ely's textbook *Outlines of Economics* (1908). Young's criticism and editorial advice also helped shape *Property and Contract* (Ely 1914) which Young considered to be Ely's *magnum opus.* After this contribution Ely finally felt sufficient confidence in Young to pass the torch: "To be frank, I must say that I feel an increasing personal attachment to you and that I have a growing respect for your capacity. I think from Fisher, in the December 1904 meetings of the American Economics Association.[2] The subsequent work of Edwin Kemmerer (1907) and Fisher (1911) sought to restate and defend the quantity theory. This latter would provide grist for Young's mill in the 1916 textbook revision. The 1908 revision, however, showed mainly the influence of Laughlin, as well as that of in our crowd that we all have to look up to you on account of your intellectual gifts."[7] Subsequently, from 1914–1920, Young served as Secretary of the American Economics Association, the professional organization whose for-

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mation Ely had initiated in 1886. For the 1916 textbook revision, Young served as editor-in-chief.

In *The Purchasing Power of Money* (1911), Fisher put forward his famous equation of exchange as a framework for reformulating the quantity theory of money:

$$MV + M'V' = PT.$$

EQ

This equation expresses the idea that all transactions *(T)* at average prices *(P)* involve an exchange of either money *(M)* or a bank deposit *(M')*. The "velocity" multipliers V and V' capture the fact that a given unit of money may change hands more than once in a given period of time. By itself this equation is merely a tautology, a system of accounting, or, as Kemmerer put it, a "truism" (Kemmerer 1907, 13). Fisher, however, used it to argue that changes in the quantity of money on the left side of the equation *cause* changes in the level of prices on the right side. In Fisher's hands, the to continue developing his own views. After President Kennedy took office equation also became a theory of economic fluctuations with the additional idea that rising prices cause trade to boom while falling prices cause trade to stagnate (1911, Chap. 4). Stabilizing the price level would, Fisher claimed, stabilize the economy more generally, and the way to stabilize the price level was to stabilize the quantity of money. It is significant that Fisher's emphasis was on stabilization, not on inflation, as this by itself distinguished his position from that of the cheap money advocates.

1. As an additional measure for stimulating money demand, he recommended raising nominal returns such as bank deposit rates.
2. A typical legacy of inflation in lagging economies was a system of administered interest rates, put in place by the government in an attempt to keep nominal borrowing costs low for favored sectors.
3. In an inflationary environment, caps on nominal interest rates result in low and even negative real interest rates, a price distortion that discourages savings and leads inevitably to rationing as a mechanism for allocating scarce funds.

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For the next fifty years, the Shaw family remained in the dream house they built in 1940 at 525 Los Arboles Street on the Stanford campus. to continue developing his own views. After President Kennedy took office There they lived a quiet, even circumscribed, life. Edward habitually arranged his classes in the morning to leave the rest of the day free for work in his extensive home office. Aside from economics, he spent his leisure hours gardening and listening to music, favorite activities of Bernard as well. On the weekends he played tennis, and Bernard Haley was his favorite partner. It was a quiet life

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that suited him. Given the depression gripping the nation, it was no mean accomplishment to have carved out an oasis of security for himself and his family—a beautiful home surrounded to continue developing his own views. After President Kennedy took by a maturing Japanese garden in idyllic northern California. Shaw's lifelong loyalty to Stanford was no doubt born of appreciation, perhaps even overappreciation, for how much he personally owed to the institution.

Shaw's life at Stanford provided a secure place to watch and reflect on the outside world, a world that seemed perpetually tossed by a Manichaean struggle between good and evil, with the forces of good by no means comfortably in the ascendant.

In his attempt to make sense of the drama outside his window, Shaw followed a single thread, money.

What fascinated him about money and the monetary system was the "mixture of good and evil" in it (1950, vii).

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To him, a bank was never just a bank; it was a pawn in the battle between good and evil. "The banks are torn between the compulsion to take chances . . . and the compulsion to avoid taking chances. . . ." (1950, 205), and left to their own devices they tend to do the wrong thing at surrounded by a maturing Japanese garden in idyllic northern California. the wrong time. Monetary instability was the work of the evil angel whispering in the ear of plodding bankers, simple souls protected only by the good angel of the monthat suited him. Given the depression gripping the nation, it was no mean acetary authority. The young Shaw cast the Federal Reserve in the role of hero, struggling valiantly against the winds of infl- ation (World War I), deflation (the Great Depression), and then inflation again (World War II), struggling to gain control despite "imperfect controls . . . imperfect understanding . . . and uncertainty about the goal" (1950, 425). To appreciate the contribution of the Federal Reserve, that changes in the quantity of money on the left side Monetary instability was the work of the evil angel whispering in the ear of plodding bankers, simple souls protected only by the good angel of the monetary authority. The young Shaw cast the Federal Reserve in the role of hero, of the equation *cause* changes in the level of prices on the right side. In Fisher's hands, the equation also became a theory of economic fluctuations with the additional idea that rising prices cause trade to boom while falling prices cause trade to stagnate (1911, Chap. 4). Stabilizing the price level would, he felt, it was only necessary to look at the international monetary system, where there was no Fed and where things were even worse: "almost a continuous crisis . . . from 1914 to 1939" (1950, 589) followed by world war.

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CES, later called the deletion of these standards, especially the "decency and health" mandate, "the bill's most significant long-range loss."[96] This significance was not lost on members who viewed these provisions as an unprecedented and dangerous intrusion into states' rights and particularly into the South's distinctive, racially structured political economy.

The most vociferous critic of the bill on the grounds that it gave the federal government too much power was Senator Harry F. Byrd of Virginia. On the third day of hearings, Byrd launched into a tirade against Witte, claiming that the bill gave the federal government "dictatorial power . . . over what the State is permitted to do . . . The administrator in Washington is to be the sole judge as to whether or not a State receives any of this appropriation from the Federal Government." A few moments later, Byrd turned up the rhetorical heat, invoking the classic phrases of states' rights:

Senator Byrd: Do I understand, Doctor, that this Administrator has supreme power to deny a sovereign state of this Union any benefits of this pension system at all unless that State complies with the regulations that he makes and thinks are proper.
Mr. Witte: That is putting it in little stronger terms than I would.
Senator Byrd: Is that not the truth under this legislation if it is enacted as it is now?
Mr. Witte: Perhaps, theoretically, so.[97]

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Witte's rather weak and disingenuous response was that although the Social Security Board technically could suspend payments to a state for noncompliance, the idea was that the board would simply review the state *law* establishing the program. Moreover, he pointed out, these provisions were no judge as to whether or not a State receives any of this appropriation from the Federal Government." A few moments later, Byrd turned up the rhetorical different from standards in other federal grant-in-aid laws, which had only rarely resulted in an outright suspension of payments to a state.[98] But as a more recent student of welfare policy has pointed out, "unlike the situation in highway policy . . . public assistance introduces problems of race, of sex, of religion, and of family relationships. It is hard to think of four areas most American politicians would rather avoid."[99]

Byrd was the loudest but not the only congressional critic of the federal control provisions of the bill. Harrison expressed concern about this question several times over the course of the hearings, but so did Hugo Black of Alabama, a New Deal supporter and one of the most perceptive members of the Finance Committee. Black referred to the bill as "federal coercion." The provisions for federal control also provoked opposition from Republicans Allen T. Treadway of Massachusetts, the ranking member of

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As originally conceived, this volume was to be about the development of monetary thought in the United States during the period spanning the intellectual revolution that organized itself around J. M. Keynes' 1936 book, The General Theory of Employment, Interest, and Money. It was not to be another book on Keynes, of which there are many and some of very high quality, nor even a book on the American reception of Keynes. Rather I meant to write a book about American monetary thought more generally, taking as my theme the disappearance of a previously rather vigorous monetary discussion at about the time of the Keynesian revolution the subsequent "rediscovery of money" in the decades after World War II. My interest in understanding this period stemmed from my personal dissatisfaction with the current state of monetary economics, which led me to search the history of economics for alternative roads not

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Table 13.1. Vertical velocity curves from a cable at East Fork River near Boulder, Wyoming, Station 54, 1971, $s = 0.0007$

Date	No. of meter readings	Stage (ft)	Depth, d (ft)	Slope of water surface	Graphed slope,[a] (ft/sec/cycle)
August 10	6	0.12	0.53	0.0003	0.45
June 8	16	2.42	3.2	.00064	1.41
June 9	21	3.18	3.8	.0008	1.45
June 10	22	3.80	4.3	.00095	1.93
June 15	22	4.10	4.7	.00103	1.56
June 17	20	4.41	4.6	.0011	2.10

a. Measured on semilog plot of data.

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Notes
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Notes

Introduction

1. On the continuing legacy of institutionalism, see Rutherford (1995).

1. Intellectual Formation

1. For further details of Young's early life, see Blitch (1983, 1995).
2. Ely Papers. AAY to Richard T. Ely, 11/5/21.
3. Young Papers. AAY to F. Knight, 6/22/25.
4. Ely Papers. AAY to Richard T. Ely, 2/24/07.
5. Ely Papers. Report of Committee A, enclosed in AAY to Richard T. Ely, 1/4/18.
6. Young Papers. T. S. Adams to AAY, 1/4/23.
7. Ely Papers. Richard T. Ely to AAY, 3/16/14.
8. For an account of Ely's life and work, see his autobiography (Ely 1938) and Rader (1966).
9. Lampman (1993) provides a useful history of the Wisconsin economics department.
10. "The Administration of Public Lands by American States, with especial reference to constitutional and legislative provisions delaying the conversion of public property in land to private property," n.d. Ely Papers, Student Research Papers.
11. Young recognized that the social scientist faces a special problem because the values that shape his approach to studying society arise from his own place in society. "The social scientist cannot . . . put himself outside of society, so as to get a view of social processes as a connected whole. His interest, his values, his ends, lie *within* that connected whole" (Young 1927c, 2).
12. Ely Papers. AAY to Richard T. Ely, 11/14/21.
13. Ely Papers. AAY to Richard T. Ely, 5/15/09; AAY to Richard T. Ely, 11/16/13; AAY to Richard T. Ely, 11/3/13.
14. Ely Papers. Richard T. Ely to AAY, 4/10/08. See also Young (1929c, p. 25).
15. Young hired Veblen at Stanford and considered him "a scholar and a genius." Young's treatment of Marx in the 1908 text revision was based on his own contrast with Mill and Jevons. Mitchell's repeated reference to Young's early publications (Young 1911b, 1912) is evidence of Young's influence on Mitchell's article. Whether Mitchell learned to appreciate Bagehot from Young (which seems plausible), or vice versa, the important point is that both men came to see that the

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