

WHY A *MONETARY HISTORY* HAS HAD A LONG LIFE

Anna J. Schwartz

I doubt that those who were present at the publication of *A Monetary History* would have predicted that it would still attract readers after 40 years. I can think of two reasons for this unexpected occurrence. One reason is that the book has been a seedbed of ideas for research that began soon after its appearance and shows no sign of ending. The second reason for the book's longevity is that Milton Friedman has been tireless in informing a wider public than the research community of the main themes of the book.

I shall fill in some details on each of these points. With respect to research emanating from *A Monetary History*, it is interesting that among the earliest papers were two by Karl Brunner and Allan Meltzer in 1968 on the Great Depression and on liquidity traps. In 2003 there were two papers in the pipeline on the way to publication by other authors: one, an investigation of the claim that there was a liquidity trap in the 1933–37 recovery; the other, a study of the 1932 open market purchase.

It is not only the number of papers and books that have appeared since 1963 that is remarkable, but also the variety of subjects discussed in *A Monetary History* that has inspired this output. The research has disputed the book's views, or modified them, or presented additional evidence supporting them. Even footnotes have provoked papers. Two that come to mind are a footnote on Gresham's Law and one on the failure of the Bank of United States. New statistical techniques have been introduced in some of the studies.

Cato Journal, Vol. 23, No. 3 (Winter 2004). Copyright © Cato Institute. All rights reserved.

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Research Prompted by *A Monetary History*

The research on the greenback period from 1862 to 1878 deals with the conditions required for resumption in 1879. Another subject is whether fundamentals or fiscal news and military events determined the premium on gold.

Research on the national banking era has centered on the analysis in *A Monetary History* of banking panics, clearing houses, restrictions of convertibility, the under-issue of national bank notes, silver agitation in the last decades of the 19th century, and the Belmont-Morgan syndicate operations to replenish Treasury gold reserves.

Research on the founding of the Fed has centered on its effect on interest rate seasonality, the role of real bills, domestic versus gold standard constraints as determinants of policy, and the importance of Benjamin Strong.

The subject that has aroused the most controversy is the treatment of the Great Depression and the many episodes in its development: the onset of monetary contraction; the stock market crash; the decline in consumer spending; the Smoot-Hawley tariff; whether policy was unchanged after 1929; the number of banking panics and their severity; Fed inaction and free gold reserves; transmission of money collapse to the real economy; whether deflation was anticipated; the decline in financial intermediation; and gold standard rules rather than U.S. monetary policy as propelling the spread of depression.

The recovery episode from 1933 to 1937 generated research on Fed behavior and Treasury dominance, the gold sterilization program, deposit insurance, the increase in reserve requirements, and excess reserves as evidence of a liquidity trap or a shift in bank liquidity preferences.

Friedman's Contribution

I conclude this review of research prompted by *A Monetary History* by mentioning two final topics: the World War II bond-support program and the behavior of velocity, each of which was the subject of a book.

Now I turn to Milton's contribution to extending the life of *A Monetary History*. No forum in which he has participated or his various published works, whether one of his books, newspaper columns, op-ed pieces, congressional testimony, public debates, or seminal journal articles has omitted references to the message of the

book. A vast multitude has learned the message. Some may have bought the paperback and even read it. Others have simply absorbed ideas about the importance of money from having heard him speak or read *Capitalism and Freedom* or *Free to Choose*. Even before the publication of *A Monetary History*, when economists were unwilling to accept the message, Milton was persistent in arguing its validity.

So I think the combination of research based on the book and Milton's persuasive forays are two reasons for its long-term influence.