

a monetary history of the united states 1867 1960 paper milton friedman

A Monetary History of the United States: 1867-1960 by Milton Friedman is a seminal work that provides an in-depth analysis of the monetary policy and economic conditions in the United States over nearly a century. Co-authored with Anna J. Schwartz, this comprehensive study highlights the significant role that money supply and monetary policy have played in influencing economic activity, business cycles, and the broader economic landscape. This article will explore the main themes, findings, and implications of Friedman and Schwartz's work while providing context to the economic events that shaped the United States from 1867 to 1960.

Background of the Authors

Milton Friedman (1912-2006) was a prominent American economist and a leading advocate for free-market capitalism. A recipient of the Nobel Memorial Prize in Economic Sciences in 1976, he made significant contributions to the fields of consumption analysis, monetary history, and the formulation of monetary policy. Anna J. Schwartz (1915-2012) was an economist who collaborated closely with Friedman, particularly on monetary history and policy. Together, their efforts culminated in the publication of "A Monetary History of the United States" in 1963.

Overview of the Monetary History

The book covers a wide range of topics related to monetary policy, banking systems, and economic crises, from the post-Civil War era to the emergence of the modern welfare state. It focuses on the following key themes:

1. The Role of Money Supply

Friedman and Schwartz emphasize the critical role that money supply plays in determining economic activity. They argue that fluctuations in the money supply can lead to significant changes in output and employment levels. Their analysis demonstrates that:

- An increase in money supply generally stimulates economic activity.
- A decrease in money supply can lead to economic contractions and recessions.

The authors present empirical evidence to support their claims, drawing from historical data to illustrate the correlation between money supply changes and economic performance.

2. The Great Depression

One of the most significant contributions of the book is its examination of the Great Depression (1929-1939). Friedman and Schwartz argue that the Federal Reserve's failure to manage the money supply effectively contributed to the severity and duration of the Depression. Key points include:

- The Federal Reserve allowed the money supply to contract sharply, leading to widespread bank failures and deflation.
- The authors contend that a more aggressive monetary policy could have mitigated the economic downturn.

Their analysis challenges the conventional wisdom of the time, which often pointed to external factors or government policies as the main culprits of the economic crisis.

Key Economic Events and Policies

Throughout the period covered in the book, several critical events and policies shaped the monetary landscape of the United States:

1. The Resumption Act of 1875

The Resumption Act aimed to return the U.S. to the gold standard, effectively ending the era of fiat money that had been used during the Civil War. This act had profound implications:

- It established a fixed exchange rate for the dollar, which helped stabilize the economy.
- However, it also restricted the money supply, leading to deflationary pressures.

2. The Panic of 1907

The Panic of 1907 was a crucial financial crisis that exposed the vulnerabilities of the banking system. Friedman and Schwartz highlight the following:

- The crisis was triggered by a lack of liquidity in the banking system and a subsequent loss of public confidence.
- The episode led to calls for banking reform, ultimately resulting in the establishment of the Federal Reserve System in 1913.

3. The Role of the Federal Reserve

Friedman and Schwartz evaluate the Federal Reserve's performance throughout the years, noting several key points:

- The Fed's handling of monetary policy varied significantly across different economic cycles.
- The authors criticize the Federal Reserve for its inconsistent approach to managing the money supply, particularly during economic downturns.

4. World War II and Post-War Economic Policy

The period during and after World War II saw significant changes in monetary policy and economic conditions:

- The war effort led to increased government spending and a temporary suspension of the gold standard.
- Post-war, policymakers faced the challenge of transitioning to a peacetime economy while managing inflationary pressures.

Monetary Policy Framework

Friedman and Schwartz advocate for a systematic approach to monetary policy, emphasizing the importance of rules over discretion. They propose several principles:

- Monetary Rule: The authors argue for a fixed growth rate of the money supply, which would limit the potential for erratic economic fluctuations.
- Transparency: Clear communication of monetary policy goals and actions is essential for managing public expectations and promoting economic stability.
- Independence of the Central Bank: A central bank insulated from political pressures would be better positioned to make sound monetary decisions.

Impact of the Work

"A Monetary History of the United States: 1867-1960" has had a profound impact on both academic research and public policy. The book's findings have influenced various spheres:

1. Economic Policy and Theory

- The work has shaped modern monetary theory and the understanding of the relationship between money supply and economic activity.
- It has been instrumental in the development of monetarism, a school of thought that emphasizes the control of the money supply as the primary tool for managing economic stability.

2. Central Banking Practices

- Central banks around the world have adopted some of the principles outlined by Friedman and Schwartz, particularly regarding the importance of controlling inflation and managing the money supply.
- The Federal Reserve, in particular, has been influenced by the book's arguments, leading to changes in its approach to monetary policy since the 1980s.

3. Continued Relevance

- The themes explored in the book remain relevant today, especially during times of economic uncertainty and financial crises.
- Policymakers and economists continue to draw on the insights provided by Friedman and Schwartz to inform their understanding of monetary policy dynamics.

Conclusion

"A Monetary History of the United States: 1867-1960" by Milton Friedman and Anna J. Schwartz is a landmark work that reshaped the understanding of economic history and monetary policy in the United States. By meticulously analyzing the relationship between money supply and economic activity, the authors have provided invaluable insights that continue to influence economic theory and policy today. The book serves not only as a historical account but also as a guide for future policymakers and economists seeking to navigate the complexities of monetary systems. Through its rigorous analysis and compelling arguments, this work has firmly established itself as a cornerstone of economic literature.

Frequently Asked Questions

What is the main thesis of Milton Friedman's 'A Monetary History of the United States, 1867-1960'?

The main thesis is that variations in the money supply are the primary drivers of economic fluctuations and that poor monetary policy contributed to economic downturns, particularly the Great Depression.

How does Friedman argue that monetary policy affected the Great Depression?

Friedman argues that the Federal Reserve's failure to prevent a collapse in the money supply in the late 1920s and early 1930s exacerbated the severity and duration of the Great Depression.

What role does Friedman assign to the Federal Reserve in his analysis?

Friedman assigns a crucial role to the Federal Reserve, emphasizing its responsibility for managing the money supply and its failures in doing so during critical economic periods.

What methodology did Friedman and Schwartz use in their research?

Friedman and Schwartz employed a historical and econometric analysis of monetary data, focusing on

the relationship between money supply and economic indicators over time.

What impact did 'A Monetary History of the United States' have on economic thought?

The book significantly influenced monetary policy, leading to a reevaluation of the importance of monetary factors in economic theory and policy, and strengthening the case for monetarism.

How did Friedman's views differ from Keynesian economics?

Friedman's views differed from Keynesian economics by emphasizing the role of money supply and rejecting the notion that fiscal policy alone could effectively manage economic cycles.

What evidence did Friedman use to support his claims about the money supply?

Friedman used extensive historical data, including banking records, economic indicators, and case studies of various economic events to illustrate the correlation between money supply changes and economic outcomes.

What criticisms have been made regarding Friedman's conclusions?

Critics argue that Friedman oversimplified the causes of economic events, neglecting other factors such as fiscal policy, international influences, and structural changes in the economy.

How has 'A Monetary History of the United States' influenced modern monetary policy?

The work has influenced modern monetary policy by reinforcing the importance of controlling inflation and managing the money supply, particularly in central banking practices.

What was the significance of the 1963 publication of 'A Monetary History of the United States'?

The 1963 publication marked a turning point in economic literature, establishing a comprehensive framework for understanding the role of monetary policy in economic history and influencing future research and policy debates.

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