

Recenzió

A Monetary and Fiscal History of the United States, 1961–2021 – Alan S. Blinder’s reviewed by James L. Caton

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In the realm of economics, fostering debates and embracing diverse opinions is paramount for driving innovation and achieving optimal outcomes. Alan S. Blinder’s seminal work, “A Monetary and Fiscal History of the United States, 1961-2021,” published in October 2022, exemplifies this ethos. Blinder, a renowned economist and Professor at Princeton University, draws from his extensive experience, including roles as Vice Chairman of the Federal Reserve Board and a member of President Clinton’s Council of Economic Advisers, to offer a unique perspective rooted in Keynesian economics. Through his book, Blinder not only enhances our comprehension of various economic concepts but also underscores the significance of critical thinking and vigorous debate in shaping public research.

Introduction

In 2023, James L. Caton’s review of Blinder’s monumental work provides invaluable insights, offering a comprehensive analysis of its key arguments and insights. Caton’s review streamlines the understanding of Blinder’s book, saving time by providing a succinct overview of its main points and critiques. Moreover, Caton’s perspective adds depth to our interpretation, enriching our grasp of the book’s content. Summarizing Caton’s review also nurtures critical thinking skills by necessitating the evaluation and synthesis of complex ideas into concise points. This synthesis of Blinder’s work and Caton’s review serves as a valuable resource for understanding a breadth of economic concepts and honing critical thinking skills essential for engaging in scholarly debates.

The book main highlights

A Monetary and Fiscal History of the United States, 1961-2021 by Alan S. Blinder, reviewed by James L. Caton, sheds light on ongoing debates and controversies within among economists, especially relevant when considering the current debates surrounding the post-COVID high inflation period and energy crisis, which center on questions of how much intervention is necessary to stabilize the economy, address inflationary pressures, and mitigate the impacts of energy shortages. Whether the government should intervene in the economy or let markets work on their own. It presents a critical examination of Blinder's arguments, highlighting strengths and weaknesses in his analysis. Caton suggests Blinders' writing is particularly competent at spotting and highlighting inconsistencies or contradictions between political leaders' economic policy discourse and the actual challenges of establishing and implementing such policies.

The reviewed book mainly highlights its focus on the interplay between monetary and fiscal policy in the United States over a significant period, while discusses on the role of government intervention in managing economic cycles, particularly through fiscal policy.

Inflation

Blinder's argument that the victory of monetarism, controlling the money supply to manage inflation in the 1970s was based on a misunderstanding of the true causes of inflation. Blinder thinks that negative supply shocks rather than excess demand drove high and volatile inflation throughout this period, but he acknowledges the challenge of interpreting the long-term inflation pattern this way. He suggests that the conventional explanation attributes the high inflation and unemployment during this period to a shift in inflation expectations, which occurred as monetary policy was eased for political reasons. This easing of monetary policy involved an increase in the rate of growth of the quantity of circulating currency. Blinder highlights a strong correlation between the rate of growth of the quantity of currency in circulation and the rate of inflation during the period from 1965 to 1982. After 1982, when countercyclical interest rate policy anchored inflation expectations and generated countercyclical currency expansion, this association broke down.

Caton implies that Blinder's explanation, which attributes persistently high inflation to inertia in the inflation process, does not fully explain why inflation kept going up when the money supply was increasing so much during this time. This idea is seen as complementing, rather than replacing, the traditional monetarist interpretation, as it fails to fully account for the role of monetary policy in driving inflation.

Central Bank independence

Blinder acknowledges that the high inflation experienced in the 1970s played a significant role in the increasing demand for central bank independence as political influence on monetary policy often led to bad outcomes like high inflation. By the early 1980s, monetary theorists realized that an aggressive monetary policy without clear rules led to unpredictable consequences and costly market responses. This realization prompted a shift towards advocating for rules-based monetary policy, where clear guidelines constrain the actions of the central bank, making policy outcomes more predictable and stable. Blinder highlights Milton Friedman's stance on monetary policy, noting that although Friedman opposed central bank independence, he did not advocate for an activist monetary policy either. Instead, Friedman emphasized the importance of having stable and predictable monetary policy to anchor expectations about future policy decisions.

Caton emphasizes his criticism of Blinder for placing Friedman in the same camp as James Tobin on two occasions. However, Caton fails to clearly specify the occasions and their contexts, which represents a notable absence in his criticism.

Reassessing Keynesian economic theory

For Caton, Blinder's identification as a Keynesian economist, trying to defend Keynesian economic theory in the context of the positive outcomes seen during the Clinton administration is really interesting. Despite his Keynesian policymakers, Bill Clinton managed to cut the budget deficit, reduced national debt in 1998. This unexpected outcome prompts economists like Blinder to reassess traditional Keynesian ideas that reducing expected future budget deficits can boost current aggregate demand. However, Blinder and Janet Yellen suggest that such a scenario may require a prior period of fiscal irresponsibility that results in a large debt and higher interest rates, motivating policymakers to enact credible deficit reduction measures.

Caton seems to be pointing out that Blinder covers economic crises and fiscal and monetary stimulus measures, but not contractionary policies' possible drawbacks. Blinders emphasizes that during the financial stress of 2008 and the COVID-19 pandemic in 2020, policymakers shifted their stance towards fiscal and monetary stimulus. His data shows increase in the federal debt raises concerns about its sustainability and the implications for future fiscal policy. It highlights the challenges facing Congress in managing the federal debt, suggesting the need to address these growing obligations to prevent a significant increase in the federal debt since failure to address the growing federal debt could lead to increased concern from investors, which may raise interest rates.

Evolving perspectives on Monetarism

Blinder is depicted as dismissing the idea that monetarism still holds sway, both in academic circles and in policymaking. He suggests that after the success in combating inflation in the 1980s, policymakers, led by figures like Paul Volcker at the Federal Reserve, moved away from the monetarist approach. However, Caton argues that monetarism has not entirely disappeared but has evolved in various forms even if it is not as dominant as before.

Caton feels that it is pity to see that Blinder does not include Friedman's Monetary Theory of Nominal Income. Milton Friedman's contributions to monetarism that the demand for money is influenced by interest rates, which reflect expected returns on investments allows for the integration of monetarist ideas with the Keynesian IS-LM model, which bridges the gap between monetarist and Keynesian perspectives on the economy. Caton criticizes Blinder for not citing Friedman's "Monetary Theory of Nominal Income," which is essential for understanding Friedman's nuanced views on monetary policy. This omission suggests a lack of thoroughness in Blinder's analysis. Even though Alan Blinder acknowledges some parts of Monetarism, he might not fully understand how Monetarist ideas have evolved over time. Milton Friedman's ideas have grown beyond just talking about how much money is in circulation. They have adapted to new challenges and are still influential today, especially in ideas like market monetarism, which focuses on using monetary policy to stabilize the economy.

Conclusion

In summary, Caton's review of Blinder's "A Monetary and Fiscal History of the United States, 1961–2021" emphasizes the book's focus on monetary and fiscal policy and government intervention in economic cycles. Blinder's ability to spot political rhetoric and economic policy differences impresses Caton. Blinder's argument for 1970s high inflation ignores monetary policy. He shows appreciation for central bank independence, but may not understand monetarist views' continuous significance and progress. Caton also points out Blinder's oversight in not adequately citing Milton Friedman's work, indicating a lack of thoroughness in his analysis. Overall, the review underscores the ongoing debate between Keynesian and monetarist perspectives in understanding and managing economic policy.

References

Caton, J.E. (2023) A monetary and fiscal history of the United States, 1961-2021/ A review of the monograph of A. Blinder/. *The Independent Review – a Journal of Political Economy*, vol.28. no.1/spring/OA [online]. Available at: <https://www.independent.org/publications/tir/article.asp?id=1856> (Accessed: April 26th, 2024)