

## CONTENTS

- Introduction 1
- 1** Fiscal Policy on the New Frontier 7
- 2** Inflation and the Rise of Monetarism 27
- 3** The Phillips Curve Becomes Vertical 45
- 4** Nixon, Burns, and the Political Business Cycle 59
- 5** Stagflation and Its Aftermath 75
- 6** Inflation and the Rational Expectations Revolution 94
- 7** Carter, Volcker, and the Conquest of Inflation 109
- 8** Reaganomics and the Clash between Monetary and Fiscal Policy 133
- 9** The Long Expansion of the 1980s 152
- 10** Deficits Crowd Out Fiscal Policy, 1982–1998 173
- 11** The Long Boom of the 1990s 198
- 12** The 2000s: The Job-Loss Recovery and the Bubbles 227
- 13** The Financial Crisis and the Great Recession 246
- 14** All Together Now: The Fed and the Treasury Join Hands 268

vi CONTENTS

<b>15</b>	The Aftermath and the Backlash	294
<b>16</b>	The Record Expansion of the 2010s	312
<b>17</b>	Trumponomics before the Pandemic	330
<b>18</b>	Responding to the Great Pandemic	344
<b>19</b>	Sixty Years of Monetary and Fiscal Policy: What's Changed?	369
	References	393
	Index	415

## Introduction

*Those who cannot remember the past are condemned to repeat it.*

—GEORGE SANTAYANA

These famous words have been repeated so many times since George Santayana wrote them in 1905 that they have become a cliché. But remember, clichés often capture important grains of truth. Mark Twain was probably more accurate when he (allegedly) asserted that “history doesn’t repeat itself, but it often rhymes.”<sup>1</sup> Sad to say, many economists and policy makers are not very skilled at picking up rhyming schemes. This book is intended to help.

During fifty-plus years as an academic economist, one thing I have learned is that my fellow economists have a remarkable propensity for forgetting or ignoring the past. Such lapses of memory may not be terribly problematic in the world of pure theory. After all, scientific progress is rarely made by looking backward, the most reliable route to academic success is jumping onto the latest bandwagon, economic theory runs in fads, and many fads don’t last long. But forgetfulness in the world of policy can lead to errors, maybe even

1. It is not clear that Twain ever wrote those exact words, but he penned similar thoughts.

## 2 INTRODUCTION

to grievous errors with serious consequences, which, I suppose, is what Santayana had in mind when he chose the verb *condemned*.

Policy makers and their economic advisers must resist fads. But they must also avoid getting trapped in the past. Walking that fine line is one of the key ways in which the *science* of economics merges into the *art* of economics. Sometimes the merger works well, but often it doesn't. And that's part of the story I tell in these pages.

This book is light on economic theory, and equations are rarer than dodo birds. However, a number of the theoretical and empirical controversies that have surrounded—and sometimes enveloped—monetary and fiscal policy find natural homes here. Furthermore, part of the evolution of thought on macroeconomic policy involves or was even spurred by developments in theory. So, several aspects of macroeconomic theory necessarily play roles in the historical narrative.

That said, this book is a work of *history*, not of *theory*, so I studiously avoid sojourns into theory for its own sake. Rather, I limit myself to theoretical developments that had serious bearings on policy making. So, for example, you will find much in these pages about monetarism, rational expectations, and even supply-side economics but little about such popular (among academic economists!) topics as Ricardian equivalence, time inconsistency, and the fiscal theory of the price level. As far as I can tell, those (and other) topics had little or no bearing on actual policy making.

The worlds of ideas and policy have always interacted strongly, and the sixty-year period covered in this volume is no exception. Developments in the world of ideas (usually coming from academia) *sometimes* have major impacts on the world of policy. Developments in the world of events (including policy events) *sometimes* have major impacts on thinking in the academy. This two-way interaction is a natural and necessary subtheme of this book, and so is its opposite: cases in which policy makers resisted sensible ideas and academics ignored reality.

A second, more important, subtheme is the interaction between policy and *politics*. In the realm of monetary policy, where the Federal Reserve normally sets short-term interest rates and its other

policy instruments independently, politics has mostly been a sidebar issue—though with some notable exceptions (e.g., Richard Nixon and Arthur Burns). Technocrats, mostly economists, make the policy decisions.

But in the realm of fiscal policy, where publicly debated budget issues are at the forefront, politics rules the roost. Fiscal policy decisions are made by elected politicians, though hopefully informed by facts and by sound economic thinking. These politicians are guided by forms of logic that are alien to economists—I’ve called them *political logic* to distinguish them from Aristotelian logic (Blinder 2018). Nonetheless, no history of fiscal policy can avoid delving, sometimes deeply, into the politics of the day. Writing a history of fiscal policy in America that ignored the politics would be leaving out of the play not just the Prince of Denmark but also Ophelia, Laertes, and Polonius.

So, you will find substantial political discussion of fiscal policy in these pages, though I emphasize the economics far more than the politics. In that regard, I should level with the reader by stating right up front that I have long been a center-left Democrat. However, in writing this book (unlike in writing my op-ed columns) I have tried hard to relegate my personal political views to second or third fiddle. Where there were controversies in policy making, I don’t shy away from the issues. Instead, I try to give the reader a sense of the arguments on both sides—though without hiding my own views.

The book is designed to serve two audiences. One is my fellow economists or at least those of them who wish to learn some of the lessons of history, lessons that their graduate educations probably did not teach them and that they, in turn, probably don’t teach to their students. Such readers may browse selected portions of the book and then place the volume on their bookshelves for future reference.

The other audience is the general reader who is interested in economic policy, or at least in *macroeconomic* policy. How does the past shape today’s attitudes, options, and debates over monetary and fiscal policy? What worked and what didn’t—and *why*? For those readers especially, the book is arranged chronologically, not thematically,

#### 4 INTRODUCTION

starting in 1961 and continuing to the end of 2021. It is meant to be read as one continuous story, a *nonfiction* story to be sure.

The title is not accidental but rather an intentional homage to Milton Friedman's and Anna Schwartz's monumental *A Monetary History of the United States, 1867–1960* (Princeton University Press, 1963), from which the doctrine of monetarism and our current view of the Great Depression, among other things, derives. Two changes from their title are obvious. First, I pick up the story exactly where they left off—in 1961. Although I am far from a monetarist, I have no desire to engage in debate with the ghosts of Friedman and Schwartz. This work is in no sense a sequel to theirs.

Second and much more important, inserting the words “and Fiscal” into the title reflects a major change in focus. This volume tells the sixty-year story of monetary *and* fiscal policy as those two types of stabilization policy struggled—sometimes cooperatively, sometimes combatively—to fight recessions, unemployment, and inflation in the United States. One can argue that there was no such thing as “fiscal policy” in the United States prior to 1961 anyway, but I'm not going to engage in that argument. There certainly has been lots of fiscal policy since then. And it has mattered.

Old age offers precious few advantages—except in writing history. I began studying economics as a Princeton University freshman in the fall of 1963, which means I have lived through virtually all the events recounted here—not just lived through them but also *observed* them and sometimes even *participated* in them. I have also been writing about economic policy ever since I penned my first op-ed over forty years ago (Blinder 1981a). I have served as an informal adviser to many U.S. policy makers, including several presidential candidates, for decades and intensely so as a member of President Bill Clinton's original Council of Economic Advisers in 1993–1994. Following that stint of about a year and a half, I briefly became an actual policy maker as vice chair of the Federal Reserve Board in 1994–1996. And I have kept in pretty close touch with many Federal Reserve policy makers and with economists in Democratic (and even some Republican!) administrations ever since. So, some portions of the history recounted in this book are based on

firsthand experience, and a great deal is based on close secondhand knowledge.

Finally, while it's an overused and sometimes abused adjective, my macroeconomic framework is decidedly *Keynesian*. How could it be otherwise if you want to make sense of history? Rival doctrines to Keynesianism have come and gone over the decades covered in this volume: monetarism, new classical economics, supply-side economics, and others. But only one survived. The competitors to Keynesian economics all either fell of their own weight (e.g., monetarism) or saw their most useful aspects incorporated into the Keynesian tradition (e.g., rational expectations). Keynesian economics circa 2021 differs in many ways from the theory originated by John Maynard Keynes in 1936, but the family resemblance remains. As Mark Twain might have said, it rhymes.

## Acknowledgments

This book represents a life's journey through macroeconomics, and as such my first debts of gratitude go to the dozens of teachers, scores of colleagues, thousands of students, and even some journalists who have helped sharpen my thinking on these matters. Teaching helps you learn. As this manuscript was taking shape, I benefited enormously from helpful comments and suggestions on earlier drafts from my friends Ben Bernanke, Michael Bordo, William Dudley, Barry Eichengreen, Philip Friedman, and Robert Solow, plus three fine anonymous reviewers arranged by Princeton University Press. I know that some of these readers disagree in part with what I have written, which is probably inevitable and certainly healthy. They should not be implicated in my opinions.

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for the figures, and generally kept the proverbial trains running on time—as she always does.

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## INDEX

NOTE: Page numbers in *italics* refer to figures and tables and associated captions.  
Note information is indicated by n following the page reference.

- Abrams, Burton, 64–65  
ABS (asset-backed securities) markets, 282, 285–86, 356  
Ackley, Gardner, 12, 20, 33  
activist monetary stabilization policy, 39  
Affordable Care Act (“Obamacare”), 314, 315–16, 331, 337  
Afghanistan war, 236, 237, 385  
“After Keynesian Macroeconomics” (Lucas and Sargent), 104  
*After the Music Stopped* (Blinder), 240, 246nl  
*Agenda, The* (Woodward), 187, 188  
aggregate demand: budget effects on, 190, 195; chronic shortage of, 316; demand shocks, 79, 79; economic stimulus effect on, 302, 303, 382 (*see also* economic stimulus); fiscal policy to move, 22, 27, 372, 383; full-employment, inflation and, 46, 118–19, 332; oil supply shock and, 81; real GDP fluctuations and, 62  
aggregate supply: backward L-shaped, 46, 46; supply shocks, 79, 79–80. *See also* supply  
AIG (American International Group), 264, 269, 271, 285  
airline industry bailouts, 349  
Akerlof, George, 327  
Aldrich Commission, 34  
*American Business Cycle: Continuity and Change, The* (Gordon), 184  
American Families Plan, 366–67  
American International Group (AIG), 264, 269, 271, 285  
American Jobs Plan, 366–67  
American Reinvestment and Recovery Act (ARRA), 295–98, 310  
American Rescue Plan (ARP), 328, 348, 362–63, 366, 378  
AMLF (Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility), 283–84, 288  
Andersen, Leonall, 35–36  
Anderson, Martin, 135  
Ando, Albert, 34  
Angell, Wayne, 161  
ARP (American Rescue Plan), 328, 348, 362–63, 366, 378  
ARRA (American Reinvestment and Recovery Act), 295–98, 310  
Arrow, Kenneth, 16  
Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), 283–84, 288  
asset-backed securities (ABS) markets, 282, 285–86, 356  
automatic (de)stabilization, 178, 236, 238, 305  
autonomous expenditure, 34  
Bagehot, Walter, 256, 259  
Baker, James, 160, 161–62, 166, 222  
Balanced Budget Act of 1997, 215  
Balanced Budget and Emergency Deficit Control Act of 1985, 177–79  
Balanced Budget and Emergency Deficit Control Reaffirmation Act, 179  
Bank of America, 265, 291  
Bank of Canada, 42  
Bank of England, 105n8, 223  
Bank of Japan, 223–24  
bank reserves, 123, 307–10, 308, 311  
bankruptcies, 106, 262, 349. *See also* Lehman Brothers

416 INDEX

- bank stress test initiative, 289–92, 293  
Bank War, 20  
Barclays, 254  
Barro, Robert, 100, 184  
Bear Stearns, 252, 254, 260–61, 262, 269, 271, 285  
Beckner, Steven, 119  
Begala, Paul, 188  
Bentsen, Lloyd, 187–88, 206, 210  
Bernanke, Ben: expansion of the 2010s under, 317–18, 321–24; Federal Reserve role of, 32, 245, 246–47, 257, 258–59, 265, 269–72, 274–76, 280, 282, 284, 286–88, 302, 305, 309–10, 317–18, 321–24, 376–77, 382, 389; financial crisis 2007–2009 response of, 246–47, 257, 258–59, 265, 269–72, 274–76, 280, 282, 284, 286–88, 302, 305, 309–10, 376–77, 389; on fiscal cliff, 315, 316; on Great Moderation, 152n2; on housing prices, 240; as Keynesian, 38; on monetarism, 43, 309; profile of, 288; on supply shocks, 82; transparency of, 321; Yellen and, 321–24  
Biddle, Nicholas, 20  
Biden, Joe: 2020 election of, 351, 362; budget deficits under, 367, 370, 387; COVID-19 pandemic response, 334, 348, 351, 361, 362–68, 378, 387; fiscal policy under, 362–64, 366–68, 378; monetary policy under, 361, 363–66, 367–68; Powell and, 361; tax policy under, 366; Yellen and, 328  
Blanchard, Olivier, 195  
Blinder, Alan, *After the Music Stopped* (2013), 240, 241 247n2, 270n2; on balanced budget, 176; ON 2011 budget deficit, 303; on Case-Shiller index, 248, 253; on Clintonomics, 195; on core vs. headline inflation, 87, 88; on debating Friedman, 40n17; on error in CPI, 119n11; exchange with Anderson, 135–6; exchange with Palin, 287; Federal Reserve forbearance, 217, 219, 220; on financial crisis 2007–2009 response and, 270n2, 287; on fiscal policy vs politics, 3; on Gramm-Rudman-Hollings, 179; Greenspan policies and, 217–18, 219, 247n4; on housing prices, 240, 241, 247n2, 248n5, 253n9; on monetarist debate, 35n7; on OPEC1 vs GDP, 81, 81n2, 117; on PAYGO, 182, 183; on Phillips curve, 148; on price controls vs inflation, 66, 67; on rational expectations (Lucas critique), 56, 100n5, 102, 103, 105n7; on Revenue and Expenditure Control Act of 1968, 30; on Santelli/Chicago Mercantile Exchange, 299; on supply shocks, 77n1, 81, 87–8, 92, 116–8, 116n8; on supply-side economics, 135–6; on tax reform, 155; on temporary taxes, 23n19, 31, 91n8; on Volcker, 125; with Zandi, 303.  
Blumenthal, W. Michael, 110–11, 113, 120  
BNP Paribas, 254, 266  
Boehner, John, 272, 295, 314  
bonds: bond market bubble, 247–48, 250–55; bond market budget effects, 188–89, 190–92, 195, 207–8, 215, 374–75; bond market tax cut response, 335; COVID-19 pandemic market effects, 353–55, 354, 363–64; foreign currency denominated, 114; junk, 252, 353, 354; lending facilities to support market for, 356–57; real Treasury bond rate (1979–1989), 146  
Booking.com, 229  
boom of 1990s: overview of, 198, 224–26; 1990–1991 recession and, 198, 199–201, 224–25; 1998 financial crisis and, 213; budget battles and, 203–9, 213–15, 225; central bank independence and, 220–24, 225–26; as “Clinton boom,” 198; fiscal policy and, 213–15, 225; interest rates and, 206–9, 211–13, 217–19, 225; productivity growth and, 215–20, 216, 220, 225; White House-Fed relationship and, 201–3, 206–11, 225  
Bordo, Michael, 68n10, 118n9, 129n19  
Boskin, Mike, 202  
Bouey, Gerald, 42  
Bowles, Erskine, 304  
*Bowsher v. Synar* (1986), 179  
Bradley, Bill, 157  
Brady, Nicholas, 201–2  
Brown, Edmund “Pat,” 60  
Brunner, Karl, 36, 37n11, 39, 40  
BTU taxes, 191, 204  
budget deficits: 1948–1993 overview, 141, 141; 1950–1980 overview, 174, 175; 1982–1998 overview, 174, 176; 1990 budget agreement on, 180–84, 381; 1997–2002 actual and projected, 216; attitudes toward, 384–87; Biden era, 367, 370, 387; Bush (George H. W.) era, 150, 180–84, 187, 196, 381, 385; Bush (George W.) era, 136, 150, 196, 234, 238, 244, 302, 303, 311, 334, 370, 385; caps on spending to reduce, 181–82; Carter era, 139, 384; catastrophe

- fears with, 194–95; Clinton transition of, 150, 151n10, 173, 183, 184–94, 196–97, 203–9, 213–15, 216, 225, 231, 374–75, 381, 385; economic stimulus and, 111, 190, 225, 302–3, 349–50, 367, 386–87; employment growth by reduction of, 192–93, 215, 374, 381; fiscal policy and, 173–97, 226, 302–3, 370, 372, 374–75, 382, 385–87; Gramm-Rudman-Hollings on, 177–79, 196, 381; interest rates and, 140, 175, 183, 184, 188–89, 192–93, 195, 206–9; Kennedy era, 10, 13–14, 370, 372, 384; monetarism on, 37, 39; Nixon era, 384; Obama era, 302–5, 310–11, 314, 316, 370, 382, 386; politics and, 173–94, 203–5, 207, 213–15, 302–3, 310–11, 336–37, 370, 382, 384–87; Reagan era, 133, 136, 139–41, 140, 149–50, 151, 154, 173–74, 176–79, 185, 196, 303, 370, 374, 380–81, 385; recessions and, 177, 182, 183–84, 188; S&L debacle increasing, 165, 182; target rates for, 178–79, 187–88, 190, 196; taxes and, 10, 13–14, 17, 133, 136, 139, 174–77, 181–83, 191, 196, 204, 234, 332, 333–35, 380–81, 383, 384–85; Trump era, 136, 332–37, 341–42, 349–50, 367, 370, 386–87
- Budget Enforcement Act of 1990, 178, 181–83, 196, 235
- budgets: balanced budget ideology, 8, 13–14, 61, 111, 231, 385; deficits in (*see* budget deficits); reconciliation procedure, 362; surpluses in, 150, 183, 184, 231, 234, 244, 381, 383, 385
- Buffet, Warren, 276n6
- Build Back Better program, 334, 366–67
- Bureau of Labor Statistics, 119–20
- Burns, Arthur: background of, 59, 73; Federal Reserve under, 61, 63, 64–65, 68, 69–70, 71–73, 85, 89, 119, 373, 380, 388; Friedman and, 40, 72, 73; on inflation, 68, 69–70, 71–74; legacy of, 71–73, 85; on monetarism, 39; monetary policy under, 3, 57, 61, 63–65, 68, 69–70, 71–74, 85, 89, 119, 373, 380, 388; Nixon relationship with, 59–60, 61, 64–65, 68, 71, 74, 85, 373, 388; on policy ineffectiveness, 380; profile of, 73; on recession, 59–60; supply shock response, 89
- Bush, George H. W.: 1988 election of, 164, 180; 1992 election loss by, 170–71, 185, 189, 199–201, 225; boom of 1990s under, 199 (*see also* boom of 1990s); budget deficits under, 150, 180–84, 187, 196, 381, 385; financial crisis under (*see* financial crisis (2007–2009)); Greenspan conflict with, 201–3, 222, 225; interest rates under, 201–3, 225; monetary policy under, 169–71, 201–3; Persian Gulf War under, 170, 180, 203; Powell and, 361; recession under, 182, 183–84, 189, 198, 199–201, 224–25, 374; S&L debacle under, 164–65, 182; supply shocks under, 169–71, 172, 199; tax policy under, 150, 180, 181–82, 196, 199, 204, 381; unemployment under, 170, 189, 200–201
- Bush, George W.: 2000 election of, 231–33, 381; Bernanke and, 288; budget deficits under, 136, 150, 196, 234, 238, 244, 302, 303, 311, 334, 370, 385; Council of Economic Advisers for, 240, 288; employment under, 236–37, 237, 239, 241; financial crisis 2007–2009 under (*see* financial crisis (2007–2009)); fiscal policy under, 232–36, 237–38, 244, 261, 268–77, 294–95, 375–76, 381–82 (*see also* under financial crisis (2007–2009)); *tax policy subentry*); Greenspan and, 234–35, 244, 375–76; house-price bubble under, 239–44, 247–52, 253; interest rates under, 235, 236, 238–45; monetary policy under, 235, 236, 238–45, 294–95, 376, 382 (*see also* under financial crisis (2007–2009)); 9/11 attacks and, 235–37; recession under, 230, 233, 236–37, 241, 382 (*see also* Great Recession); regulatory lack under, 246–47, 255, 257, 266, 305; tax policy under, 136, 141, 183, 227, 232–35, 236, 237, 244, 261n11, 304, 315, 334, 375–76, 381–83, 385
- Cain, Herman, 338n7
- Canada: Bank of Canada, 42; inflation in, 68, 72
- capital gains taxes, 82, 134, 156, 214, 235
- Capital Purchase Program (CPP), 276–77
- CARES (Coronavirus Aid, Relief, and Economic Security) Act, 22, 348, 358, 378, 383, 386
- Carter, Jimmy: 1976 election of, 109–10; 1980 election loss by, 133, 384; budget deficits under, 139, 384; Council of Economic Advisers for, 110; credit controls under, 71n16, 127–30, 132; “dollar crisis” under, 113–14; Federal Reserve dual mandate under, 114–16; fiscal policy under, 111–13, 118, 131, 134; inflation under, 109–11, 113–30,

- Carter, Jimmy (*continued*)  
131–32, 388; monetary policy under, 71n16, 113–30, 131–32; political manipulation avoidance by, 70–71; stagflation under, 71, 109; supply shocks under, 116–20, 117, 131; tax policy under, 111–13, 134; unemployment under, 110, 118–19; Volcker and, 71, 120–30, 131–32, 221, 388
- Carville, James, 188, 192, 206
- Case, Charles “Chip,” 248
- Case-Shiller index, 248
- Cayne, Jimmy, 260–61
- CBO. *See* Congressional Budget Office
- CDOs (collateralized debt obligations), 251–52, 254
- central bank independence (CBI), 220–24, 225–26, 370–71, 387–90. *See also* under Federal Reserve
- certificates of deposit, interest rates on (1975–1985), 163, 163
- Cheney, Dick, 149
- Chicago school, 40, 99
- China: COVID-19 pandemic origins in, 344; financial crisis 2007–2009 stimulus in, 382; saving rates in, 159; trade war with, 340, 342
- Cioffi, Ralph, 252
- Citibank, 254
- Citicorp, 276
- Citigroup, 257
- Clarida, Richard, 338
- Clinton, Bill: 1992 election of, 185, 199–201, 225; 1996 election of, 193; on 2010 election, 301–2; boom of 1990s under, 198 (*see also* boom of 1990s); budget deficit to surplus under, 150, 151n10, 173, 183, 184–94, 196–97, 203–9, 213–15, 216, 225, 231, 374–75, 381, 385; Council of Economic Advisers for, 4, 16, 112, 186, 188, 192–93, 322, 327; employment growth under, 192–93, 206, 215, 216, 216–20, 374–75, 381; fiscal policy under, 213–15, 225, 374–75; Geithner and, 298; Greenspan and, 205–11, 217–20, 222, 225, 374–75; interest rates under, 183, 184, 188–89, 192–93, 206–9, 211–13, 217–19, 225; Lewinsky scandal, 193, 231; monetary policy under, 205–11, 217–20, 374–75, 390; productivity growth under, 215–20, 216, 220, 225, 375; tax policy under, 184, 191, 204; unemployment under, 189–90, 193, 212, 216, 216–18, 220, 375; Yellen and, 322, 327
- Clinton, Hillary, 207, 331, 337
- CNBC, 299
- collateralized debt obligations (CDOs), 251–52, 254
- Commercial Paper Funding Facility (CPFF), 284–85, 288, 356n8
- commercial paper market, 265, 283–85, 288, 356
- Commission on Money and Credit, 34
- Committee for Economic Development, 34
- Congressional Budget Office (CBO): on ARRA cost, 297; on budget deficit/surplus, 140–41, 154, 167n6, 181, 215, 231, 305, 316; on recessions, 136; on taxes, 28, 91, 181; on unemployment, 16, 119
- Consumer Price Index (CPI): Biden era, 365; Bush (George H. W.) era, 170; Bush (George W.) era, 239; Carter era, 110, 114, 116–17, 119–20, 130; Clinton era, 212; Eisenhower era, 8; Johnson era, 28n2, 29, 38; Kennedy era, 15; measurement error in, 116n7, 119–20, 130n20; Nixon era, 61, 68; Obama era, 326; PCE inflation rate vs., 364n14; rational expectations revolution and, 98; Reagan era, 148, 169; wage-price controls effect on, 66–67, 67
- consumer spending: COVID-19 pandemic and, 346, 349, 352; credit controls and, 128–29; economic stimulus for, 261–62 (*see also* economic stimulus); monetarism on, 34, 41–42; PCE inflation rate and, 364n14, 365; supply shock effect on, 82
- Coronavirus Aid, Relief, and Economic Security (CARES) Act, 22, 348, 358, 378, 383, 386
- coronavirus pandemic. *See* COVID-19 pandemic
- corporate taxes: Biden era, 366; COVID-19 pandemic policy on, 349; Reagan era, 138, 147n8, 156, 177, 381; Trump era, 333–35, 377
- Council of Economic Advisers: for Bush (George H. W.), 201; for Bush (George W.), 240, 288; for Carter, 110; for Clinton, 4, 16, 112, 186, 188, 192–93, 322, 327; for Eisenhower, 59, 73; establishment of, 115–16, 372; for Ford, 90, 171; for Johnson, 20, 29, 372; for Kennedy, 9–18, 372; for Nixon, 162; for Trump, 333
- COVID-19 pandemic: overview of, 344–46, 367–68; 2020 recession and, 262, 263, 281, 345–46, 352, 367–68; Biden era response to, 334, 348, 351, 361, 362–68, 378, 387; cases and death toll from, 344, 347–48, 366; economic stimulus

- response to, 348–51, 362–64, 367, 378, 383, 386–87; expansion of the 2010s ending with, 312, 313; fiscal policy response to, 346–51, 362–64, 366–68, 377–78, 383, 386–87; inflation and, 44, 360, 363–66, 368; lending facilities as response to, 355–60, 378, 389–90; lockdowns with, 345, 346, 347; monetarism reemergence in, 44; monetary policy response to, 346, 351–61, 363–66, 367–68, 377–78, 383, 386, 389–90; politics and, 349–51, 362–63, 366–67, 386–87; stock and bond market effects, 352–55, 353, 354, 363–64; Trump era response to, 344–61, 367–68, 386–87; unemployment and, 345–46, 348, 359–60, 364; vaccines for, 347
- CPFF (Commercial Paper Funding Facility), 284–85, 288, 356n8
- CPI. *See* Consumer Price Index
- CPP (Capital Purchase Program), 276–77
- credit: credit controls, 71n16, 127–30, 132; credit easing, 60; credit-granting mechanism impairment in financial crisis, 256–57. *See also mortgage-related entries*
- currency swap lines, 258
- Dam, Kenneth, 65n6
- Darman, Richard, 201
- Davis, Michelle, 275
- debt-based bubbles, 243–44. *See also* fixed-income bubble
- defense spending: Bush (G. W.) era, 236, 237; politics and budgets for, 173–74, 180, 214; Reagan era, 139–40, 140, 149; taxes and, 17, 21–22, 28; Vietnam era, 16, 17, 18, 19, 21–22, 25, 28
- deficits: budget (*see* budget deficits); full-employment, 61, 63, 70; trade, 146–47
- deposit insurance fund, 164. *See also* Federal Deposit Insurance Corporation
- Depository Institutions Deregulation and Monetary Control Act of 1980, 23
- Dillon, C. Douglas, 13
- Dimon, Jamie, 260
- Director, Rose, 40
- discount rate: 1960s changes in, 20, 23; 1970s changes in, 64; 1980s changes in, 130, 161; 1990s changes in, 170; Great Moderation and, 161
- disintermediation, 23–24
- Dodd-Frank Act of 2010, 23, 306, 356, 389
- Dole, Bob, 193, 214
- Donne, John, 75
- dot.com bubble, 227, 228–30
- Dow Jones Industrial Average, 82, 165–67, 228, 229
- Draghi, Mario, 355
- Dukakis, Michael, 180
- Eccles, Marriner, 21n16
- “Econometric Policy Evaluation: A Critique” (Lucas), 101
- “Econometric Testing of the Natural Rate Hypothesis” (Lucas), 95–96
- Economic Club of New York, 280n7, 340
- Economic Recovery Tax Act (ERTA) of 1981, 138–39
- Economic Report of the President*, 12, 29, 116, 372
- economic stimulus: budget deficits and, 111, 190, 225, 302–3, 349–50, 367, 386–87; COVID-19 pandemic response via, 348–51, 362–64, 367, 378, 383, 386–87; as financial crisis 2007–2009 response, 238, 261–62, 267, 289, 294, 295–305, 310, 376, 382, 386; fiscal policy for, 7–9, 13, 22, 60, 65, 71, 74, 91, 111–13, 118, 131, 183, 190, 194, 225, 233, 238, 261–62, 267, 289, 294, 295–305, 310, 343, 348–51, 362–64, 367, 376, 377, 378, 382, 383, 386–87; monetary policy for, 63, 65; taxes and, 13, 91, 233, 296–97, 304, 343, 348, 362–63, 367, 377, 382
- Economic Stimulus Act of 2008, 261
- Eichengreen, Barry, 68n12
- Eisenhower, Dwight: budgets under, 8, 370, 384; Council of Economic Advisers for, 59, 73; Federal Reserve relations, 21; fiscal policy under, 8–9, 11, 60; monetary policy under, 60; recessions under, 8–9, 60; tax policy under, 204
- Eisner, Robert, 31
- Eizenstat, Stuart, 113, 120–21, 127–28
- elections: 1960, 9, 60; 1964, 372; 1968, 60–61; 1972, 384; 1976, 109–10; 1980, 133, 137–38, 384; 1984, 143, 374; 1988, 164, 180; 1992, 170–71, 185, 189, 199–201, 225; 1996, 193; 2000, 231–33, 381; 2008, 268, 277–79, 278; 2010, 301–2, 376; 2012, 314; 2016, 330–31; 2020, 351, 362
- Emergency Economic Stabilization Act of 2008, 274
- employment: 1990–1992 overview, 200, 200–201; 1990–2005 overview, 237, 237; 2007–2010 overview, 264, 300; budget deficit reduction and, 192–93, 215, 374, 381; Bush (G. W.) era, 236–37, 237, 239, 241;

- employment (*continued*)  
Clinton era, 192–93, 206, 215, 216, 216–20, 374–75, 381; expansion of the 2010s and, 313, 329, 341, 342; Federal Reserve mandate for maximum, 19, 42, 114–16, 360; fiscal policy effects on, 57, 111–12, 241, 295–96, 300–301, 304, 371–72; full-employment (*see* full-employment); Great Recession effects on, 264, 265, 294, 300–301, 300, 304, 377; monetary policy effects on, 51, 57, 202, 206; productivity growth and, 83, 93, 216, 216–20, 220, 225, 313, 340–41, 342; supply shocks and, 80; tax credit for increased, 112; Trump era, 341, 342; wage inflation and (*see* wage inflation); wage-price controls, 17, 39, 65–67, 67, 71, 74. *See also* unemployment
- Employment Act of 1946, 115–16, 372
- Energy Department, U.S., 120
- energy supply shocks. *See* oil/energy supply shocks
- ERTA (Economic Recovery Tax Act) of 1981, 138–39
- estate taxes, 233, 333
- European Central Bank, 223, 257, 355, 388
- Evans, Charles, 281, 321
- exchange rates: Bretton Woods system, 24, 67–69; “dollar crisis,” 113–14; fiscal-monetary policy mix and, 144–46, 147, 151; floating, 67, 69, 113; gold and, 24–25, 67–69; Great Moderation and, 161; trade-weighted value of U.S. dollar (1978–1988), 147
- Exchange Stabilization Fund, 269, 284
- expansion of the 2010s: overview of, 312–13; 2012 election and, 314; beginning of, 312–13; employment and unemployment in, 313, 314, 316, 321, 323–26, 325, 328, 329, 341, 341, 342; end of, 312, 313; fiscal cliff and, 315–16, 329; forward guidance and, 317, 320–21, 323–24, 329; inflation and, 324–25, 325, 328; monetary policy and, 317–29; Obama era, 312–29; quantitative easing and, 317–19, 319, 323, 324, 329; Trump era, 340–43
- Families First Coronavirus Response Act, 347
- Fannie Mae, 262, 266n14, 286
- Federal Deposit Insurance Corporation, 164n7, 265, 283
- federal funds rate: 1960s rise in, 18, 23, 24, 24, 61; 1970s changes in, 63, 69, 70, 89, 123; 1980s changes in, 168–69, 169, 202–3, 203; 1990s changes in, 170, 203, 209, 211–13, 218–19, 225, 374–75; 2000s changes in, 235, 238–45, 255–56, 257–61, 267, 279–82, 309–10, 376–77, 382; 2010s changes in, 317, 320–21, 324, 325–26, 328, 329, 338–40, 342–43; 2020s changes in, 346, 351–52, 363, 378, 383; Federal Reserve focus shift away from, 123; financial crisis 2007–2009 and, 255–56, 257–61, 267, 279–82, 309–10, 376–77; forward guidance on (*see* forward guidance); Great Moderation and, 160; negative, 280–81, 346n4; zero or near zero, 282, 310, 320, 329, 340, 346, 363, 376–77, 378
- Federal Housing Finance Agency index, 248
- Federal Open Market Committee (FOMC): balance sheet expansion, 280, 282, 317; Burns’ influence on, 64–65, 71; Bush attempts to persuade, 201–2; federal funds rate changes by (*see* federal funds rate); financial crisis 2007–2009 and, 255–61, 279–88, 309–10; gold standard and, 68; inflation rate projections by, 365; monetarism and, 37, 42, 309; monetary policy under (*see* monetary policy); role of, 19
- Federal Reserve: 1960s state of, 18–26, 29; AIG nationalization by, 264, 269, 271, 285; author’s role in, 4; balance sheet expansion, 280, 282, 307–9, 308, 311, 317–18, 363; bank reserves and, 123, 307–10, 311; Burns’ legacy at, 71–73, 85; Bush (G. H. W.) conflict with, 201–3, 222, 225; Clinton administration and, 205–11, 390; COVID-19 pandemic response, 346, 351–61, 363–65, 367–68, 377–78, 383, 386, 389–90; credit controls by, 71n16, 127–30, 132; discount rate of, 20, 23, 64, 130, 161, 170; dual inflation-unemployment mandate for, 19, 42, 114–16, 359–60; expansion of the 2010s and, 317–29; federal funds rate of (*see* federal funds rate); financial crisis 2007–2009 and, 43, 246–47, 255–61, 264–65, 266–67, 269–72, 274–76, 279–93, 294–95, 305–10, 311, 317, 376–77, 389; fiscal policy stance, 29, 234–35; forbearance of, 217–18; forward guidance by, 211, 239, 280–82, 309, 317, 320–21, 323–24, 329; free reserves of, 36; gold standard and, 25, 68–69; Great Depression and policies of, 32–33, 257, 259; independence of, 12–13, 20, 21, 25, 60, 71, 121, 209–11, 220–24, 225–26, 328, 367–68, 370–71,

- 387–90; as lender of last resort, 167; lending facilities of, 355–60, 378, 389–90; monetarism and, 35, 36, 41–44, 85, 106, 127, 307–10, 380; monetary policy under (*see* monetary policy); politics and, 2–3, 29, 64–65, 72, 160–61, 202–3, 287, 305–7, 337–38, 361, 387–90; quantitative easing by, 43, 286–88, 317–19, 323, 324, 329, 346, 359, 365–66, 368; Regulation Q, 23, 42; removal of chair, 328; Senate confirmation of leadership of, 115; stagflation response by, 70, 92–93, 172; stock market crash (1987) response, 165–68, 172; supply shock response, 88–89; term limits in, 322n7; threats against, 123; Treasury Department joint policies with, 268–93, 368, 378, 389; Trump and, 326, 327–28, 337–40, 342–43, 361, 367, 390
- Federal Reserve Act, 19, 42, 221, 274, 284, 306, 356, 357
- Federal Reserve Bank of Boston, 103–4, 339
- Federal Reserve Bank of Chicago, 281, 321
- Federal Reserve Bank of Dallas, 166, 282n9
- Federal Reserve Bank of Kansas City, 43, 309, 339
- Federal Reserve Bank of New York, 120, 270, 278, 280, 294, 298
- Federal Reserve Bank of San Francisco, 322, 327
- Federal Reserve Bank of St. Louis, 35, 41
- Federal Reserve Reform Act of 1977, 114–16, 131
- Federal Savings and Loan Insurance Corporation, 164n7
- Ferguson, Roger, 239
- financial crisis (1998), 213
- financial crisis (2007–2009): overview of, 266–67; beginning of, 253–57; bubble bursts leading to, 247–55, 248; credit-granting mechanism impairment in, 256–57; economic stimulus to counter, 238, 261–62, 267, 289, 294, 295–305, 310, 376, 382, 386; election of 2008 and, 268, 277–79, 278; Federal Reserve, monetary policy, and, 43, 246–47, 255–61, 264–65, 266–67, 269–72, 274–76, 279–93, 294–95, 305–10, 311, 317, 376–77, 389; fiscal policy and, 261–62, 266–67, 268–77, 278–79, 284, 285–86, 289, 292–93, 294–305, 310, 376–77, 382, 386; Great Recession and, 262–66, 294–311, 312–13, 376–77, 382; inflation and, 43, 255, 309–10; liquidity crisis in, 256, 257–60; monetarism and, 307–10, 311; politics and, 270–77, 287, 295–307, 376; regulatory lack and, 246–47, 255, 257, 266, 305
- Financial Institutions Reform, Recovery, and Enforcement Act (1989), 164–65
- fiscal cliff, 304, 315–16, 329, 382
- fiscal policy: Biden era, 362–64, 366–68, 378; budget deficits and, 173–97, 226, 302–3, 370, 372, 374–75, 382, 385–87; Bush (George W.) era, 232–36, 237–38, 244, 261, 375–76, 381–82 (*see also under* financial crisis (2007–2009)); Carter era, 111–13, 118, 131, 134; Clinton era, 213–15, 225, 374–75; COVID-19 pandemic response via, 346–51, 362–64, 366–68, 377–78, 383, 386–87; demand movement with, 22, 27, 372, 383; economic stimulus via, 7–9, 13, 22, 60, 65, 71, 74, 91, 111–13, 118, 131, 183, 190, 194, 225, 233, 238, 261–62, 267, 289, 294, 295–305, 310, 343, 348–51, 362–64, 367, 376, 377, 378, 382, 383, 386–87; Eisenhower era, 8–9, 11, 60; employment effects of, 57, 111–12, 241, 295–96, 300–301, 304, 371–72; expansion of the 2010s and, 315–16, 329, 341–42; financial crisis 2007–2009 and, 261–62, 266–67, 268–77, 278–79, 284, 285–86, 289, 292–93, 294–305, 310, 376–77, 382, 386; fiscal cliff, 304, 315–16, 329, 382; fiscal dominance, 13, 20; Ford era, 71, 89–91, 92; Great Moderation and, 154; historical study of, 4, 369–71; inflation and, 25–26, 27–31, 61, 72, 144, 363–64, 377, 379; Johnson era, 11, 17, 21–23, 25–26, 27–31, 61, 372–73; Kennedy era, 7, 9–18, 27, 372; monetarism and, 35–37, 39, 44; monetary policy reliance vs., 371–78; New Economics and, 7–8, 10–18; Nixon era, 9, 61, 65, 70–71, 74, 373; Obama era, 112, 194, 295–305, 310, 315–16, 329, 376–77, 382, 386; politics and, 3, 22–23, 28–29, 65, 70–71, 74, 141–42, 295–305, 310, 315, 332, 347–51, 362–63, 366–67, 373, 377, 384–87, 390; Reagan era, 133, 141–47, 149–51, 154–58, 373–74, 380–81; recessions and, 8–9, 10–11, 71, 90–91, 130, 183, 294–305, 374, 376–77, 382; revisionist thinking on, 194–95; stagflation challenges for, 77, 92, 373; supply shocks and, 89–91 (*see also* supply shocks); taxes and (*see* taxes); Trump era, 18, 341–43, 346–51, 367–68, 377, 382–83, 386–87. *See also* policy making

422 INDEX

- Fischer, Stanley, 100, 105, 288  
Fisher, Richard, 282n9  
fixed-income bubble, 247–48, 250–55  
Fleming, J. Marcus, 144  
Flexible Average Inflation Targeting, 360  
Foley, Tom, 213  
FOMC. *See* Federal Open Market Committee  
food supply shocks, 57, 76, 78, 116, 117, 131, 373  
forbearance, 217–18  
Ford, Gerald R.: Council of Economic Advisers for, 90, 171; fiscal policy under, 71, 89–91, 92; inflation under, 62, 89–91, 92; Nixon pardon by, 109; political manipulation avoidance by, 70–71; recession under, 71, 90, 373; tax policy under, 90–91, 92, 373  
foreclosures, 250, 273, 276–77, 299–301, 349  
forward guidance, 211, 239, 280–82, 309, 317, 320–21, 323–24, 329  
*Foundations of Economic Analysis* (Samuelson), 99  
Fowler, Henry, 19–20  
France: central bank independence in, 223; exchange rates and, 24, 146; inflation in, 68  
Francis, Darryl, 35  
Frank, Barney, 306  
Freddie Mac, 262, 266n14, 286  
Friedman, Benjamin, 104  
Friedman, Milton: Burns and, 40, 72, 73; on Federal Reserve independence, 221, 388; on inflation, 27, 38–42, 51–52, 72, 85–86, 90, 117–18, 125, 127, 307; on Keynesian economics, 62n3; Lucas and, 99; monetarism and, 31–42, 44, 72, 85–86, 90, 117–18, 122, 125, 127, 307, 379; *A Monetary History of the United States, 1867–1960*, 4, 31–33, 40, 288, 370, 379; as Nobel Prize winner, 40; on Phillips curve, 51–54, 57–58; profile of, 40; “The Relative Stability of Monetary Velocity and the Investment Multiplier in the United States, 1897–1958,” 33–35; on unemployment, 31  
Friedman, Stephen, 210  
Fromer, Kevin, 273  
full-employment: aggregate demand and inflation at, 46, 118–19, 332; defense spending and, 17–18; deficit, 61, 63, 70; Federal Reserve mandate for, 115–16; productivity growth and, 219; surplus, 14; target rate, 31  
Full Employment and Balanced Growth Act (1978), 115–16  
GDP. *See* gross domestic product  
Geithner, Tim, 273, 278, 289–91, 294, 297, 298  
General Electric, 284, 285  
General Motors, 285  
George, Esther, 339–40  
Germany: Bundesbank, 105, 222–23, 388; Burns in, 73; central bank independence in, 222–23, 388; exchange rates and, 146; inflation in, 25, 68, 105, 223; monetarism in, 44  
Gingrich, Newt, 181, 199, 214  
GMAC, 289n13  
gold: exchange rate and, 24–25, 67–69; U.S. sale of, 114; U.S. stock of (1950–1970), 25, 25, 67  
Goldman Sachs, 186, 207, 210, 265, 276, 289n13  
Gordon, Robert: *American Business Cycle: Continuity and Change*, 184; on Phillips curve, 52, 53–54, 55, 103, 104, 148; on rational expectations, 100; on supply shocks, 78–80  
Gore, Al, 190n10, 191, 205, 231–33, 238, 381, 385  
Gore, Tipper, 207  
Gorton, Gary, 253n8  
Gramlich, Ned, 247n2  
Gramm, Phil, 177  
Gramm-Rudman-Hollings I and II, 177–79, 196, 381  
Great Depression, 32–33, 243n13, 257, 259  
Great Disinflation, 147–49  
Great Moderation: overview of, 152–54, 153; beginning of, 172; monetary policy in, 153–54, 159–62; S&L debacle effect on, 162–65; stock market crash (1987) effect on, 165–67  
Great Recession: overview of, 262–66; expansion of the 2010s beginning after, 312–13; Keynesian economics and, 382; programs to combat, 294–311, 376–77. *See also* financial crisis (2007–2009)  
Greece: sovereign debt, 252–53  
Greenspan, Alan: on budget deficits, 187–88; Bush (G. H. W.) conflict with, 201–3, 222, 225; Bush (G. W.) and, 234–35, 244, 375–76; Clinton and, 205–11, 217–20, 222, 225, 374–75; Federal Reserve under, 162, 165–67, 171, 172, 187–88, 201–3, 205–11, 217–20, 222, 225–26, 234–35, 244, 246–47, 321, 324–25, 374–76, 382; on financial crisis, 246–47; on inflation,



- 90, 375; monetarism and, 37–38, 131; on national debt, 231–32, 234; on productivity growth, 171, 217–20, 225, 227, 375; profile of, 171; regulatory lack under, 305; stock market crash (1987) response, 165–67, 172; on tax cuts, 234–35, 375–76
- gross domestic product (GDP): 1947–2109 real, 263, 263; 1949–2019 standard deviation of real, 153; 1965–1970 annualized growth rate of real, 30; 1979–1983 annualized growth rate of real, 128–29, 129; 1981–1989 annualized growth rate of real, 142; 1987–1988 annualized growth rate of real, 168; 1996–2000 real growth of, 216; 1999–2003 annualized growth rate of real, 230, 236; 2003–2007 annualized growth rate of real, 242; 2007–2009 annualized growth rate of real, 264; aggregate demand and fluctuations in real, 62; budget deficits as percentage of, 174, 175, 176, 305, 316; COVID-19 pandemic and, 345, 349; economic stimulus boosting, 65, 303; expansion of the 2010s and, 313, 314, 329, 341, 343; GDP gap, 14, 297; Great Moderation of, 152–54, 153; Great Recession changes in, 263, 264, 265–66, 312–13; growth of potential, 23, 331–32; monetary policy effects on, 202; national debt as percentage of, 141, 174, 175, 176, 303, 333, 335; supply shocks and changes in, 81–82; tax cuts and, 14–15, 335; Trump goals for growth of, 331–32, 340
- growth recessions, 18, 24
- Haldeman, H. R., 69n14
- Hansen, Alvin, 316
- Hansen, Lars, 102n6
- Harris, Kamala, 351, 362, 387
- Hassett, Kevin, 333–34
- Health Care Enhancement Act, 348
- Heller, Walter, 9–14, 16–17, 33, 36, 154, 184, 372, 375, 382
- Hiring Incentives to Restore Employment Act of 2010, 112
- History of the Federal Reserve, A* (Meltzer), 116
- Hoening, Thomas, 43, 309–10
- Hollings, Ernest “Fritz,” 177
- Hopkins, Harry, 185
- housing sector: debt-based bubbles in, 243–44; disintermediation effects in, 23–24; foreclosures in, 250, 273, 276–77, 299–301, 349; house-price bubble, 239–44, 247–52, 248, 253; mortgage loss rates (2000–2012) in, 249, 249; mortgage rates, 119–20, 163, 286; property taxes, 134, 333; S&L debacle with mortgages, 162–64, 163; tax reform of investment in, 158, 164
- HSBC, 254
- Humphrey, Hubert, 17, 61
- Humphrey-Hawkins Act (1978), 115–16
- Hussein, Saddam, 170, 171, 203, 374
- IBM, 284
- Immelt, Jeffrey, 284n10
- income taxes: 2000s era reduction of, 233, 261n11, 304, 315; Biden era, 366; budget deficits and, 191, 204; economic stimulus and, 296, 304, 348; expansion of the 2010s and, 315; supply shocks and, 82; supply-side economics and, 134–36, 137–38, 146, 151; surcharge on, 27–31, 38, 372; tax reform for, 157; temporary vs. permanent changes to, 101; Trump changes to, 333–34, 377
- inflation: 1950–1959 overview, 47; 1960–1969 overview, 15; 1961–1970 overview, 53; 1965–1968 delay in fighting, 28–31; 1965–1985 overview, 76; 1970s rise in, 68, 69–71, 75–76, 109–30; 1981 rise in, 75; 1995–2002 overview, 325; 2014–2018 overview, 325; Bush (George H. W.) era, 170; Bush (George W.) era, 239; Carter era, 109–11, 113–30, 131–32, 388; central bank independence and, 223; Clinton era, 212, 216, 216–20, 375; core vs. headline, 15n10, 75–76, 76, 87–88; COVID-19 pandemic and, 44, 360, 363–66, 368; CPI as measure of (*see* Consumer Price Index); credit controls and, 127–30, 132; crude Keynesian model on, 46, 46; Eisenhower era, 8–9; expansion of the 2010s and, 324–25, 325, 328; Federal Reserve mandate for low, 19, 42, 114–16, 359–60; financial crisis 2007–2009 and, 43, 255, 309–10; fiscal policy and, 25–26, 27–31, 61, 72, 144, 363–64, 377, 379; Ford era, 62, 89–91, 92; gold standard end and, 68; Great Disinflation, 147–49; interest rates and, 121–23, 124; Johnson era, 22–23, 26, 28–31, 29, 38, 61, 332, 372–73; Kennedy era, 15, 15, 16–18; Keynesian economics and, 22, 26, 38–44, 46–48, 52, 62, 103, 106–7, 121–22, 372, 379; monetarism and, 38–44, 52, 72, 85–86, 88–89, 93, 106, 117–18, 121–22, 125–27, 129–32, 307,

- inflation (*continued*)  
372, 379; monetary policy and, 9, 22–23, 25–26, 39, 43, 61, 72–73, 76, 84, 105–8, 118–32, 136–37, 143–47, 168–69, 170, 172, 309, 360, 363–66, 372–73, 388; Nixon era, 38–39, 61, 62, 65–74; Phillips curve and, 47–58, 48, 78, 87–88, 96, 101–4, 106–7, 148, 360, 364; politics and, 50–51, 65–66, 69–71; productivity growth and, 82–85, 218–20; rational expectations revolution and, 94–108, 148; Reagan era, 130–31, 146–49, 151, 168–69; stagnation and (*see* stagflation); supply shocks and, 68, 69–70, 71, 72–73, 75–93, 114, 116–20, 117, 131, 379; supply-side economics and, 146–49; target rate of, 39, 320, 326n9, 360, 364; taxes indexed for, 138; Trump era, 339, 342–43, 377; unemployment and, 324–26, 325 (*see also* *Phillips curve subentry*); Vietnam, 15, 22, 76, 373; wage inflation (*see* wage inflation); wage-price controls and, 17, 39, 65–67, 71, 74
- interest rates: 1978–1983, 124; 1979–1987 Treasury yield, 160; on bank reserves, 308–9; budget deficits and, 140, 175, 183, 184, 188–89, 192–93, 195, 206–9; Bush (George H. W.) era, 201–3, 225; Bush (George W.) era, 235, 236, 238–45; ceiling on, 23; Clinton era, 183, 184, 188–89, 192–93, 206–9, 211–13, 217–19, 225; COVID-19 pandemic effects on, 353–55, 354, 363–64, 367; CPI error including, 119–20; demand for money and, 37; discount rate (*see* discount rate); equilibrium rate, 316; federal fund rate (*see* federal funds rate); fiscal-monetary policy mix and, 143, 144–46, 146, 151; forward guidance on (*see* forward guidance); gold stock and, 25; Great Moderation and, 159–61, 160; inflation and, 121–23, 124; monetarism and, 41–42, 121, 125–26; politics and, 159–60, 202–3; quantitative easing and, 287, 318–19, 319, 324; Reagan era, 143, 144–46, 146, 151, 159–61; S&L debacle and, 162–63, 163; supply shocks and, 82; zero, 282; zero elasticity in, 37
- International Monetary Fund, 114
- internet: dot.com bubble, 227, 228–30; productivity growth with commercialization of, 227
- investment tax credit, 11n4, 91n7, 101
- Iran: hostage crisis, 129; oil supply shocks and, 116
- Iraq: oil supply shocks and, 116, 169, 374; Persian Gulf War, 170, 180, 203; post 9/11 war in, 236, 237, 239, 385
- IS-LM model, 41, 46
- Jackson, Andrew, 20
- Japan: Bank of Japan, 223–24; central bank independence in, 222, 223–24; exchange rates and, 146
- Johnson, Lyndon B.: 1964 election of, 372; Council of Economic Advisers for, 20, 29, 372; Federal Reserve relations with, 12, 19–21, 24, 26, 29, 372–73; fiscal policy under, 11, 17, 21–23, 25–26, 27–31, 61, 372–73 (*see also* *tax policy subentry*); Great Society program of, 21; inflation under, 22–23, 26, 28–31, 29, 38, 61, 332, 372–73; monetary policy under, 18, 22–26, 61, 221, 372–73; tax policy under, 17, 21–23, 27, 28–31, 332, 372, 384
- Johnson, Manuel, 161
- Jones, Homer, 35
- Jordan, Jerry, 35–36
- JP Morgan Chase, 254, 260
- junk bonds, 252, 353, 354
- Kahn, Alfred, 128
- Kaldor, Nicholas, 33
- Kashkari, Neel, 273
- Keating, Charles and Keating Five, 164
- Kemp, Jack, 134, 144
- Kemp-Roth tax cuts, 134, 138
- Kennedy, John F.: 1960 election of, 9, 60; budget deficits under, 10, 13–14, 370, 372, 384; Council of Economic Advisers for, 9–18, 372; Federal Reserve relations, 21; fiscal policy under, 7, 9–18, 27, 372; monetary policy under, 18, 25; tax cut proposed by, 7, 10–15, 17–18, 27, 30, 62, 372, 384
- Kerrey, Bob, 205
- Keynes, John Maynard, 5, 33, 144
- Keynesian economics: budget deficit advocacy in, 384; critics of, 22, 52; crude model of, 46, 46; definition of, 383; financial crisis 2007–2009 and, 382; fiscal policy and, 8, 9–10, 16–17, 22, 25–26, 38, 194, 196–97, 226, 233, 235, 302, 303–4, 310, 372, 379–83; General Theory in, 10; inflation and, 22, 26, 38–44, 46–48, 52, 62, 103, 106–7, 121–22, 372, 379; monetarism debate, 12, 35–44, 379, 380; monetary policy as, 379; new classical economics vs., 5, 96, 107, 108, 379–80, 381–82; Nixon on, 62–63;

- Phillips curve and, 50, 52, 55, 57, 104, 106; politics and, 62–63, 303; presidential standing on, 383; rational expectations and, 5, 103–4, 106–7, 122, 380, 382; repeated rise and fall of, 370, 379–83; stagflation and, 80, 93, 104, 379–80; supply shocks and, 86, 379; unemployment and, 62–63
- Knight, Frank, 40
- Kohn, Don, 275
- Krugman, Paul, 297
- Kydland, Finn, 224
- Laffer, Arthur, 134–36, 335n5
- Laffer curve, 134–35
- Laidler, David, 37n11
- Lance, Bert, 111
- Lehman Brothers, 238, 256, 262, 263–64, 266, 267, 269, 277, 283, 285
- LIBOR (London Interbank Offered Rate), 254–55
- Lipsey, Richard, 49, 53–54
- liquidity trap, 33
- London Interbank Offered Rate (LIBOR), 254–55
- Long, Russell, 111, 112
- Long-Term Capital Management, 213
- Louvre Accord (1987), 161
- Lucas, Robert “Bob,” Jr.: Friedman and, 99; on Keynesian economics, 104; Lucas critique, 55n6, 56, 101–3, 104; Lucas supply function, 97, 98–100; as Nobel Prize winner, 99; on Phillips curve, 52, 56, 96, 104, 148; profile of, 99; on rational expectations, 55n6, 56, 94, 95–104, 107, 148
- M1. *See* money supply
- M2: 1960s state of, 18–19; 1970s growth rate of, 64, 71–72, 89, 125–26, 126; 1980s growth rate of, 125–26, 126; 2008–2014 changes in, 307–10, 308, 311; defined, 18n12; Friedman on, 34; money multiplier, 307–9, 308
- Macleod, Iain, 69n15
- macroeconomic policy. *See* fiscal policy; monetary policy; policy making
- Main Street Lending Program (MSLP), 356n11, 357–58, 389
- Make Work Pay tax credit, 296
- Making Home Affordable plan, 299–300
- Manchin, Joe, 366, 387
- Margolies-Mezvinsky, Marjorie, 205
- market clearing, 105
- Martin, Preston, 161
- Martin, William McChesney “Bill,” 12, 19–21, 29, 61, 221, 372–73, 388
- Marx, Groucho, 54
- MBS (mortgage-backed securities), 250–52, 253–54, 275n4, 282, 286–88, 287, 317
- McCain, John, 222, 268, 277–79, 278, 337
- McCarthy, Kevin, 350, 363
- McConnell, Mitch, 272, 350, 366
- Medicaid, 214, 232, 333
- Medicare: budgets for, 181, 214, 232, 237–38, 333, 385; COVID-19 coverage requirements, 347; Part D (prescription drugs), 237–38, 385
- Meiselman, David, 33–35
- Meltzer, Allan: on Federal Reserve, 12, 310, 389; *A History of the Federal Reserve*, 116; Lucas and, 99; on monetarism, 36, 37n11, 41, 126
- Merkley, Jeff, 323
- Merrill Lynch, 265
- MetLife, 289n13
- Mexico: financial crisis in, 210, 211; Trump claims against, 330, 331
- Meyer, Laurence “Larry,” 217–18, 219
- Miller, G. William, 111, 114, 116, 118–21, 131, 221, 326
- Miller, Marcus, 195
- Mills, Wilbur, 28
- minimum wage, 362
- Mishkin, Frederic, 100
- Mitchell, Daniel, 183
- Mitchell, Wesley Clair, 73
- MMIFF (Money Market Investor Funding Facility), 284, 288, 356n8
- Mnuchin, Steven, 113, 136, 307, 330, 335
- Modigliani, Franco, 33, 34
- Mondale, Walter, 143
- monetarism: birth of, 31–38, 372, 379; credit controls and, 129–30; decline of, 43, 44, 130–31, 132; financial crisis and last gasp of, 307–10, 311; fiscal policy and, 35–37, 39, 44; Friedman and, 31–42, 44, 72, 85–86, 90, 117–18, 122, 125, 127, 307, 379; inflation and, 38–44, 52, 72, 85–86, 88–89, 93, 106, 117–18, 121–22, 125–27, 129–32, 307, 372, 379; Keynesian debate, 12, 35–44, 379, 380; Phillips curve and, 55; principles of, 36, 39; supply shocks response, 85–86, 88–89, 93, 117–18, 379; as term, 36
- Monetary History of the United States, 1867–1960, A* (Friedman and Schwartz), 4, 31–33, 40, 288, 370, 379

- monetary policy: activist monetary stabilization policy, 39; Biden era, 361, 363–66, 367–68; Bush (George H. W.) era, 169–71, 201–3; Bush (George W.) era, 235, 236, 238–45, 294–95, 376, 382 (*see also under* financial crisis (2007–2009)); Carter era, 71n16, 113–30, 131–32; central bank independence of, 220–24, 225–26, 370–71, 387–90 (*see also under* Federal Reserve); Clinton era, 205–11, 217–20, 374–75, 390; COVID-19 pandemic response via, 346, 351–61, 363–66, 367–68, 377–78, 383, 386, 389–90; credit controls as, 71n16, 127–30, 132; credit easing as, 60; demand contraction with, 22; economic stimulus via, 63, 65; Eisenhower era, 60; employment and, 51, 57, 202, 206; expansion of the 2010s and, 317–29; Federal Reserve role in (*see* Federal Reserve); financial crisis 2007–2009 and, 43, 246–47, 255–61, 264–65, 266–67, 269–72, 274–76, 279–93, 294–95, 305–10, 311, 317, 376–77, 389; fiscal multipliers and, 14; fiscal policy reliance vs., 371–78; forward guidance as, 211, 239, 280–82, 309, 317, 320–21, 323–24, 329; gold influence on, 24–25, 67–69; Great Depression and, 32–33; Great Moderation and, 153–54, 159–62; historical study of, 4, 369–71; inflation and, 9, 22–23, 25–26, 39, 43, 61, 72–73, 76, 84, 105–8, 118–32, 136–37, 143–47, 168–69, 170, 172, 309, 360, 363–66, 372–73, 388; interest rate changes (*see* interest rates); Johnson era, 18, 22–26, 61, 221, 372–73; Kennedy era, 18, 25; as Keynesian economics, 379; Nixon era, 3, 57, 61, 63–65, 68–74, 119, 373, 388; Obama era, 289–92, 305–7, 317–29, 376–77; politics and, 2–3, 29, 64–65, 70–72, 74, 160–61, 202–3, 207, 287, 305–7, 337–38, 361, 373, 387–90; quantitative easing as, 43, 286–88, 317–19, 323, 324, 329, 346, 359, 365–66, 368; Reagan era, 136–37, 142–47, 150–51, 159–62, 165–69; recessions and, 106, 130–31, 136–37, 183–84, 241, 352, 376–77; S&L debacle and, 162–65; stagflation challenges for, 69–70, 77, 87, 92, 373; stock market crash (1987) response via, 165–68, 172; supply shocks and, 85–89, 169–71; tax cuts and, 12; Trump era, 337–40, 342–43, 351–61, 367–68, 390; unemployment effects of, 51, 57, 105–6, 359–60. *See also* policy making
- Money Market Investor Funding Facility (MMIFF), 284, 288, 356n8
- money market mutual funds, 265, 269, 283–85
- money supply (M1): 1960s state of, 18; 1970s state of, 63, 64, 71–72, 125–26, 126; 1980s state of, 125–26, 126, 129; bank reserves and, 123; as endogenous, 33, 36n8; Friedman on, 32, 34, 39; interest rates vs., 41–42; k-percent rule for growth of, 39; monetarism on (*see* monetarism); monetary policy to control (*see* monetary policy)
- Moore, Stephen, 181, 338n7
- Morgan Stanley, 265, 289n13
- mortgage-based securities (MBS), 250–52, 253–54, 275n4, 282, 286–88, 287, 317
- mortgage loss rates (2000–2012), 249, 249
- mortgage rates, 119–20, 163, 286
- Moynihan, Daniel Patrick, 157
- MSLP (Main Street Lending Program), 356n11, 357–58, 389
- Mundell, Robert A., 143–45, 147, 148
- Municipal Liquidity Facility, 356n10, 357
- Muth, John, 95, 97, 99
- NAIRU (nonaccelerating inflation rate of unemployment), 83–84, 169, 217, 320
- Nasdaq index, 228–29, 229
- National Bureau of Economic Research, 60, 73, 91, 129, 170, 184, 198, 230, 262, 301, 312
- National Commission on Fiscal Responsibility and Reform, 304
- national debt: budgets and paying down, 136, 185, 231–32, 234, 330, 381; ceiling for, 177, 214, 316, 336; as percentage of GDP, 141, 174, 175, 176, 303, 333, 335; raising intentionally, 342; tax cuts adding to, 334
- National Economic Council, 186, 188, 210, 291, 323
- neutrality of money, 97
- new classical economics, 5, 96, 107, 108, 379–80, 381–82. *See also* rational expectations revolution
- New Economics, 7–8, 10–18
- New Jobs Tax Credit, 112
- Newton, William, 66
- New Zealand: central bank independence, 222, 388; Phillips from, 50
- 9/11 attacks, 235–37
- 1950s. *See* Eisenhower, Dwight; Truman, Harry

- 1960s. *See* Johnson, Lyndon B.; Kennedy, John F.; Nixon, Richard M.
- 1970s. *See* Carter, Jimmy; Ford, Gerald R.; Nixon, Richard M.
- 1980s. *See* Bush, George H. W.; Carter, Jimmy; Reagan, Ronald
- 1990s. *See* boom of 1990s; Bush, George H. W.; Clinton, Bill
- Nixon, Richard M.: 1960 election loss by, 9, 60; 1968 election of, 60–61; 1972 election of, 384; budget deficits under, 384; Burns relationship with, 59–60, 61, 64–65, 68, 71, 74, 85, 373, 388; Council of Economic Advisers for, 162; fiscal policy under, 9, 61, 65, 70–71, 74, 373; gold standard ended by, 25, 67–68; inflation under, 38–39, 61, 62, 65–74; on Keynesian economics, 62–63; monetary policy under, 3, 57, 61, 63–65, 68–74, 119, 373, 388; political business cycle under, 62–63, 70–71, 74; recession under, 24, 61–62, 84; resignation of, 89, 109; unemployment under, 61, 65, 69; Volcker and, 124; wage-price controls by, 39, 65–67, 67, 71, 74; Watergate scandal of, 64, 109
- nonaccelerating inflation rate of unemployment (NAIRU), 83–84, 169, 217, 320
- North American Free Trade Agreement, 206, 331
- Obama, Barack: 2008 election of, 268, 277–79, 278; 2009–2012 approval ratings, 301–302, 301; 2012 election of, 314; Affordable Care Act under, 314, 315–16, 331, 337; budget deficits under, 302–5, 310–11, 314, 316, 370, 382, 386; expansion of the 2010s under (*see* expansion of the 2010s); financial crisis 2007–2009 under (*see* financial crisis (2007–2009)); fiscal policy under, 112, 194, 295–305, 310, 315–16, 329, 376–77, 382, 386; Geithner and, 289, 294, 297, 298; monetary policy under, 289–92, 305–7, 317–29, 376–77; Powell and, 361; tax policy under, 112, 296–97, 304, 315; Volcker and, 125; Yellen and, 322, 323, 327, 329
- Office of Management and Budget, 13n5, 28, 66n7, 111, 179, 186, 191
- oil/energy supply shocks: inflation and, 68n13, 69–70, 71, 76, 77–78, 78, 80–82, 85–89, 92–93, 114, 116–20, 117, 131; monetary policy and, 85–89, 169–71; Phillips curve and, 57, 78, 87–88; recession with, 80, 199, 264, 266, 374; stagflation and, 69–70, 71, 77, 80–82, 87, 92–93, 172, 373
- Okun, Arthur: on Great Depression era policies, 33; Johnson's policies and, 20, 22, 31, 372; Kennedy's policies and, 12–13, 14n7, 16; on monetarism, 37
- Omnibus Budget Reconciliation Act of 1993, 205
- Operation Twist, 287, 317
- Organization of the Petroleum Exporting Countries (OPEC). *See* oil/energy supply shocks
- Ossoff, Jon, 362
- Packwood, Bob, 157–58
- Palin, Sarah, 287
- pandemic. *See* COVID-19 pandemic
- Panetta, Leon, 186–87, 189
- Paul, Ron, 43
- Paulson, Henry “Hank,” 260, 262, 265, 268–77, 278, 286, 292
- Paycheck Protection Program (PPP), 348, 350, 357, 358–59, 360, 389–90
- Paycheck Protection Program Liquidity Facility (PPPLF), 356n11, 358–59
- PAYGO, 182–83, 196, 235, 385. *See also* Budget Enforcement Act of 1990
- PCE (personal consumption expenditure) inflation rate, 364n14, 365
- PDCF (Primary Dealer Credit Facility), 260–61, 283, 288, 356n8
- Pelosi, Nancy, 271, 272, 296, 336, 350
- Pence, Mike, 351
- permanent income hypothesis, 261
- Perot, Ross, 185–86, 206
- Perry, Rick, 287
- Persian Gulf War (1990–1991), 170, 180, 203
- personal consumption expenditure (PCE) inflation rate, 364n14, 365
- Phelps, Edmund, 31, 52, 54, 57–58, 78–80
- Phillips, A. W. “Bill”: 1950s economic situation before work of, 45–47, 47; inflation and theories of, 48–58; Phillips curve of, 47–58, 48, 78, 87–88, 96, 101–4, 106–7, 148, 360, 364; profile of, 50; “The Relation between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861–1957,” 45, 47–48, 50
- Plaza Accord (1985), 146–47, 161
- policy making: politics and, 2–3, 370; rational expectations and, 94–95, 105–8, 380; theory affecting, 2. *See also* fiscal policy; monetary policy

- politics: budget deficits and, 173–94, 203–5, 207, 213–15, 302–3, 310–11, 336–37, 370, 382, 384–87; central bank independence from, 220–24, 225–26, 370–71, 387–90 (*see also under* Federal Reserve); COVID-19 pandemic and, 349–51, 362–63, 366–67, 386–87; financial crisis 2007–2009 response and, 270–77, 287, 295–307, 376; fiscal policy and, 22–23, 28–29, 65, 70–71, 74, 141–42, 295–305, 310, 315, 332, 347–51, 362–63, 366–67, 373, 377, 384–87, 390; inflation and, 50–51, 65–66, 69–71; interest rates and, 159–60, 202–3; Keynesian economics and, 62–63, 303; monetary policy and, 2–3, 29, 64–65, 70–72, 74, 160–61, 202–3, 207, 287, 305–7, 337–38, 361, 373, 387–90; Phillips curve stance and, 50–51; policy making and, 2–3, 370; political business cycle, 62–63, 70–71, 74, 142; political logic in, 3; recessions and, 59–60, 62, 199–200, 295–307; S&L debacle and, 164–65; taxes and, 14, 27, 28, 137–38, 141–42, 150, 155–58, 174–77, 199, 204, 296–97, 332, 366; Tea Party movement, 298–300, 302, 311, 314; unemployment and, 50–51, 69, 200–201; Volcker's monetarism and, 126–27; wage-price controls and, 65–66. *See also* elections
- Poole, William, 41–42, 98, 380
- portfolio insurance, 166–67
- Powell, Jerome “Jay”: COVID-19 pandemic response, 344, 359, 361, 365–66, 368; Federal Reserve role of, 32, 326, 328, 329, 338–40, 342, 344, 359, 361, 365–66, 368, 390; profile of, 361
- PPP (Paycheck Protection Program), 348, 350, 357, 358–59, 360, 389–90
- PPPLF (Paycheck Protection Program Liquidity Facility), 356n11, 358–59
- Prescott, Edward, 99, 224
- Priceline, 229
- prices: demand shocks and, 79, 79; house-price bubble, 239–44, 247–52, 248, 253; inflation of (*see* inflation); supply shocks and (*see* supply shocks); unemployment relationship to, 49, 51, 86; wage-price controls, 17, 39, 65–67, 67, 71, 74
- Primary Dealer Credit Facility (PDCF), 260–61, 283, 288, 356n8
- Primary Market Corporate Credit Facility, 356n9
- Prince, Chuck, 246
- productivity growth: in 2000s, 227; in 2010s, 313, 340–41, 342; Clinton era, 215–20, 216, 220, 225, 375; Greenspan on, 171, 217–20, 225, 227, 375; internet commercialization and, 227; recessions as negative, 381; supply shocks and, 82–85, 93
- property taxes, 134, 333
- Quadriad, 13n5
- quantitative easing (QE): as COVID-19 pandemic response, 346, 359, 365–66, 368; expansion of the 2010s and, 317–19, 319, 323, 324, 329; as financial crisis 2007–2009 response, 286–88, 317; inflation and, 43
- Quarles, Randal, 338
- Rand, Ayn, 246
- “Rational Expectations and the Theory of Price Movements” (Muth), 95
- rational expectations revolution: overview of, 94–95, 107–8; evidence against/critiques of, 100, 102, 104–5; inflation and, 94–108, 148; Keynesian economics and, 5, 103–4, 106–7, 122, 380, 382; market clearing and, 105; origins and development of, 95–105; Phillips curve and, 52, 54–56, 96, 101–4, 106–7, 148; policy ineffectiveness result in, 98–100, 103, 105, 380; policy making and, 94–95, 105–8, 380. *See also* new classical economics
- Reagan, Ronald: 1980 election of, 133, 137–38, 384; 1984 election of, 143, 374; boom-bust cycle under, 142–43; budget deficits under, 133, 136, 139–41, 140, 149–50, 151, 154, 173–74, 176–79, 185, 196, 303, 370, 374, 380–81, 385; Burns' ambassadorship under, 73; exchange rates under, 141, 146–47, 147, 151, 161; fiscal policy under, 133, 141–47, 149–51, 154–58, 373–74, 380–81 (*see also tax policy subentry*); Greenspan and, 162, 165–67, 171; inflation under, 130–31, 146–49, 151, 168–69; interest rates under, 143, 144–46, 146, 151, 159–61; legacy of Reaganomics, 149–50; monetary policy under, 136–37, 142–47, 150–51, 159–62, 165–69; policy mix under, 143–47, 151; Reaganomics, 102, 133–34, 137–43, 147, 149–50; recession under, 77, 130, 132, 136–37, 140, 147, 150, 177; S&L debacle under, 162–64; stock market crash (1987) under, 165–68, 172, 243; supply-side economics and, 135–36, 137–38, 140, 143–45, 146–49, 151, 380; tax policy under, 102, 130, 133, 135–36, 137–45, 146–47, 149–51, 154–58, 164, 176–77,

- 196, 373–74, 380–81; trade balance under, 146–47; Volcker and, 125, 130–31, 136–37, 142–51, 160–62, 222
- real business cycle theory, 381
- real estate sector. *See* housing sector
- recessions: 1953–1954, 8; 1957–1958, 8–9; 1960–1961, 8–9, 60; 1969–1970, 24, 61–62, 84; 1973–1975, 71, 77, 90, 110, 373; 1980, 78, 129–30, 132, 137; 1981–1982, 78, 130, 132, 136–37, 140, 147, 150, 177; 1990–1991, 182, 183–84, 189, 198, 199–201, 224–25, 374; 2001, 230, 233, 236–37, 241, 382; 2007–2009, 262–66, 294–311, 312–13, 376–77, 382; 2020, 262, 263, 281, 345–46, 352, 367–68; fiscal policy and, 8–9, 10–11, 71, 90–91, 130, 183, 294–305, 374, 376–77, 382; Great Recession, 262–66, 294–311, 312–13, 376–77, 382 (*see also* financial crisis (2007–2009)); growth, 18, 24; monetary policy and, 106, 130–31, 136–37, 183–84, 241, 352, 376–77; politics and, 59–60, 62, 199–200, 295–307; supply shocks and, 80, 90, 199, 264, 266, 374. *See also* Great Depression
- record expansion of the 2010s. *See* expansion of the 2010s
- Regan, Donald, 155, 156
- Regulation Q, 23, 42
- Reich, Robert, 188–89
- Reid, Harry, 272
- “Relation between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861–1957, The” (Phillips), 45, 47–48, 50
- “Relative Stability of Monetary Velocity and the Investment Multiplier in the United States, 1897–1958, The” (Friedman and Meiselman), 33–35
- Reserve Primary Fund, 283
- Resolution Trust Corporation (RTC), 164–65
- Reuss, Henry, 198
- Revenue Act of 1964, 14
- Revenue Act of 1978, 112–13
- Revenue and Expenditure Control Act of 1968, 29
- Rivlin, Alice, 186–87
- Robinson, Joan, 33
- Rogers, Will, 203
- Romer, Christina, 297
- Romney, Mitt, 314
- Roosevelt, Franklin, 7, 40, 185
- Roosevelt, Theodore, 185
- Rosengren, Eric, 339–40
- Rostenkowski, Dan, 156–58
- Roth, William, 134
- RTC (Resolution Trust Corporation), 164–65
- Rubin, Robert, 186, 188, 194, 207, 209, 210, 213
- Rudd, Jeremy, 92, 116–17
- Rudman, Warren, 177
- Russia: debt default, 213; Soviet Union collapse, 223; Ukrainian invasion by, 368
- Sachs, Lee, 291
- Samuelson, Paul: Bernanke and, 288; *Foundations of Economic Analysis*, 99; on Great Depression era policies, 33; Kennedy’s policies and, 10, 13, 16; as Keynesian, 38; on monetarism, 35–36; as Nobel Prize winner, 16; on Phillips curve, 49–51, 53; on tax reform, 156
- Santayana, George, 1, 2
- Santelli, Rick, 299–300
- Sargent, Thomas: on Keynesian economics, 104; Lucas and, 99; as Nobel Prize winner, 54; on Phillips curve, 54–56, 58, 101, 104, 148; on rational expectations, 56, 94, 98, 100–101, 102n6, 103–4, 107, 148
- savings, 82, 159, 349, 350
- savings and loan (S&L) debacle, 162–65, 182
- Schauble, Wolfgang, 287
- Scheiber, Noam, 278
- Schlesinger, James, 120
- Schultze, Charles, 110–11, 135, 198, 334, 375
- Schumer, Chuck, 336, 350
- Schwartz, Anna: on inflation, 72; *A Monetary History of the United States, 1867–1960*, 4, 31–33, 40, 288, 370, 379
- Secondary Market Corporate Credit Facility, 356n9
- secular stagnation, 316
- Seger, Martha, 161
- sequestration, 178–79, 196, 315
- Shelton, Judy, 338n7
- Shiller, Robert, 166, 240, 248
- Shultz, George, 65n6, 66n7
- Simons, Henry, 40
- Simpson, Alan, 304
- Small Business Administration, 285, 356, 359, 390
- Social Security, 63, 191, 232, 238, 332–33
- Solow, Robert: Bernanke and, 288; on Great Depression era policies, 33; Johnson’s policies and, 30; Kennedy’s policies and, 10, 16; on Keynesian economics, 52, 104; as Nobel Prize winner, 16, 17; on Phillips curve, 49–51, 53; on rational expectations revolution, 104
- Sorkin, Andrew Ross, 273, 284n10

- sovereign debt instruments, 252–53
- Soviet Union, collapse of, 223
- Spain: central bank independence in, 223
- stabilization policy: automatic (de)stabilization, 178, 236, 238, 305; fiscal policy as, 178, 27, 151, 154, 173, 183–84, 371 (*see also* fiscal policy); hybrid fiscal-monetary policy as, 292–93; monetary policy as, 39, 150, 151, 173, 213, 266, 305, 317, 371, 381 (*see also* monetary policy); rational expectations revolution questioning, 103, 107
- stagflation: Carter era, 71, 109; consumer spending and, 82; fiscal policy for, 77, 92, 373; Keynesian economics and, 80, 93, 104, 379–80; monetary policy for, 69–70, 77, 87, 92, 373; Nixon era, 69–70; productivity growth and, 82–85, 93; supply shocks and, 69–70, 71, 77, 79–85, 87, 91–93, 172, 373; term for, 69, 77
- Standard & Poor's, 248
- Steiger, William, 134
- Stein, Herbert, 8, 38n13
- Stein, Jeremy, 361
- Stephanopoulos, George, 188
- stimulus. *See* economic stimulus
- Stock, James, 152n2, 153
- Stockman, David, 139
- stock market: 1929 crash, 166, 243; 1987 crash, 165–68, 172, 243; 2000–2001 crash, 230, 243; 2007–2009 crisis effects on, 265–66, 274, 282, 289; COVID-19 pandemic effects on, 352–53, 353; dot .com bubble, 227, 228–30; expansion of the 2010s and, 318
- Stress Test* (Geithner), 294
- stress test initiative, 289–92, 293
- Summers, Lawrence “Larry,” 213, 291, 316, 322–23, 363, 364, 365
- supply: backward L-shaped aggregate supply, 46, 46; Lucas supply function, 97, 98–100; money (*see* money supply); supply chain disruptions, 368
- supply shocks: adverse, 56–57, 68, 69–70, 71, 72–73, 75–93, 114, 116–20, 131, 169–71, 172, 199, 264, 266, 373, 374, 379; demand shocks vs., 79, 79; fiscal policy and, 89–91; food, 57, 76, 78, 78, 116, 117, 131, 373; monetarist response, 85–86, 88–89, 93, 117–18, 379; monetary policy and, 85–89, 169–71; oil/energy, 57, 68n13, 69–70, 71, 76, 77–78, 78, 80–82, 85–89, 92–93, 114, 116–20, 117, 131, 169–71, 172, 199, 264, 266, 373, 374; stagflation and, 69–70, 71, 77, 79–85, 87, 91–93, 172, 373
- supply-side economics, 134–36, 137–38, 140, 143–45, 147–49, 151, 332–34, 373–74, 380, 382, 383
- Sweden: fiscal policy in, 7, 37In1
- Switzerland: Swiss National Bank independence, 222–23, 388
- TAF (Term Auction Facility), 258, 283, 288
- TALF (Term Asset-Backed Securities Loan Facility), 282, 285–86, 288, 356
- TARP (Troubled Asset Relief Program), 165, 268–77, 278–79, 285, 289, 290, 292–93, 294, 308, 310
- Tax Cut and Jobs Act of 2017, 333–37
- Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982, 138–39, 177
- taxes: Biden era, 366; BTU, 191, 204; budget deficits and, 10, 13–14, 17, 133, 136, 139, 174–77, 181–83, 191, 196, 204, 234, 332, 333–35, 380–81, 383, 384–85; Bush (George H. W.) era, 150, 180, 181–82, 196, 199, 204, 381; Bush (George W.) era, 136, 141, 183, 227, 232–35, 236, 237, 244, 261n11, 304, 315, 334, 375–76, 381–83, 385; capital gains taxes, 82, 134, 156, 214, 235; Carter era, 111–13, 134; Clinton era, 184, 191, 204; corporate taxes, 138, 147n8, 156, 177, 333–35, 349, 366, 377, 381; defense spending and, 17, 21–22, 28; economic stimulus and, 13, 91, 233, 296–97, 304, 343, 348, 362–63, 367, 377, 382; Eisenhower era, 204; estate taxes, 233, 333; Ford era, 90–91, 92, 373; income taxes (*see* income taxes); indexed for inflation, 138; Johnson era, 17, 21–23, 27, 28–31, 332, 372, 384; Kemp-Roth tax cuts, 134, 138; Kennedy-Johnson tax cut, 7, 10–15, 17–18, 27, 30, 52, 372, 384; Obama era, 112, 296–97, 304, 315; oil supply shock as, 81–82; politics and, 14, 27, 28, 137–38, 141–42, 150, 155–58, 174–77, 199, 204, 296–97, 332, 366; property taxes, 134, 333; Reagan era, 102, 130, 133, 135–36, 137–45, 146–47, 149–51, 154–58, 164, 176–77, 196, 373–74, 380–81; supply-side economics and, 134–36, 137–38, 140, 143–45, 147–49, 151, 332–34, 373–74, 380, 382, 383; surcharge on income tax, 27–31, 38, 372; tax credits, 11n4, 91n7, 101, 111–12, 296, 315, 362; tax rebates, 91, 111, 261, 348, 349, 363; tax reforms, 13–14, 112, 154–58, 164, 333; Trump era, 18, 136, 141, 150, 330, 331–37, 342–43, 377, 382–83, 386
- Tax Reform Act of 1986, 155, 158, 164



- Taylor, John, 100, 105, 241, 303, 310
- Tea Party movement, 298–300, 302, 311, 314
- TEFRA (Tax Equity and Fiscal Responsibility Act) of 1982, 138–39, 177
- Term Asset-Backed Securities Loan Facility (TALF), 282, 285–86, 288, 356
- Term Auction Facility (TAF), 258, 283, 288
- Term Securities Lending Facility (TSLF), 259–60, 283, 288
- terrorist attacks (9/11/2001), 235–37
- Thatcher, Margaret, 105–7, 224, 380, 388
- time inconsistency analysis, 224
- TIPS (Treasury Inflation-Protected Securities) market, 364, 365
- Tobin, James, 10–13, 16, 17, 33, 221, 382, 388
- trade balance, 146
- trade war with China, 340, 342
- Trans-Pacific Partnership, 331
- Treasury Department, U.S.: Federal Reserve independence from, 21; Federal Reserve joint policies with, 268–93, 368, 378, 389; fiscal policy under (*see* fiscal policy); foreign currency denominated bonds of, 114; taxes by/to (*see* taxes)
- Treasury Inflation-Protected Securities (TIPS) market, 364, 365
- Treaty of Maastricht, 223, 388
- Troika, 13n5, 28
- Troubled Asset Relief Program (TARP), 165, 268–77, 278–79, 285, 289, 290, 292–93, 294, 308, 310
- Truman, Harry, 21
- Trump, Donald: 2016 election of, 330–31; 2020 election loss by, 351, 362; Affordable Care Act repeal efforts under, 331, 337; budget deficits under, 136, 332–37, 341–42, 349–50, 367, 370, 386–87; Council of Economic Advisers for, 333; COVID-19 pandemic response, 344–61, 367–68, 386–87; economy pre-recession under, 340–42; on exchange rate, 113; Federal Reserve and Powell relationship with, 326, 327–28, 337–40, 342–43, 361, 367, 390; fiscal policy under, 18, 341–43, 346–51, 367–68, 377, 382–83, 386–87 (*see also tax policy subentry*); monetary policy under, 337–40, 342–43, 351–61, 367–68, 390; political grievances and rise of, 311; recession under, 262, 263, 281, 345–46, 352, 367–68; tax policy under, 18, 136, 141, 150, 330, 331–37, 342–43, 377, 382–83, 386
- TSLF (Term Securities Lending Facility), 259–60, 283, 288
- Turnovsky, Stephen, 195
- Twain, Mark, 1, 5, 152
- 2000s: overview of, 227; 2000 election in, 231–33, 381; 2001 recession in, 230, 233, 236–37, 241, 382; 2007–2009 recession in, 262–66, 294–311, 312–13, 376–77, 382; 2008 election in, 268, 277–79, 278; budget surplus to deficit in, 231, 234, 238, 244; dot.com bubble in, 227, 228–30; employment in, 236–37, 237, 239, 241, 264, 300; financial crisis in (*see* financial crisis (2007–2009)); fiscal policy in, 232–36, 237–38, 244, 261, 266–67, 268–77, 284, 289–92, 294–95, 375–76, 381–82 (*see also tax policy subentry*); fixed-income bubble in, 247–48, 250–55; house-price bubble in, 239–44, 247–52, 248, 253; monetary policy in, 235, 236, 238–45, 255–61, 264–67, 279–88, 309–10, 376–77, 382; 9/11 attacks in, 235–37; productivity growth in, 227; stock market changes in, 230, 243, 265–66, 274, 282, 289; tax policy in, 227, 232–35, 236, 237, 261n11, 304, 315. *See also* Bush, George W.; Clinton, Bill; Obama, Barack
- 2010s. *See* expansion of the 2010s; Obama, Barack; Trump, Donald
- 2020s. *See* Biden, Joe; COVID-19 pandemic; Trump, Donald
- Tyson, Laura, 188, 192
- Ukraine, Russian invasion of, 368
- unemployment: 1960–1969 overview, 15; 1995–2002 overview, 325; 2014–218 overview, 325; Bush (George H. W.) era, 170, 189, 200–201; Carter era, 110, 118–19; Clinton era, 189–90, 193, 212, 216, 216–18, 220, 375; COVID-19 pandemic and, 345–46, 348, 359–60, 364; expansion of the 2010s and, 313, 314, 316, 321, 323–26, 325, 328, 329, 341, 341; Federal Reserve mandate for low, 19, 42, 114–16, 359–60; inflation and, 324–26, 325 (*see also Phillips curve subentry*); insurance/benefits, 178, 315, 347, 348–50; Johnson era, 24, 28, 31; Kennedy era, 15, 15, 16, 18; Keynesian economics and, 62–63; monetary policy effects on, 51, 57, 105–6, 359–60; natural rate of, 16, 31, 51–52, 84, 119, 148, 169, 212; Nixon era, 61, 65, 69; nonaccelerating inflation rate of, 83–84, 169, 217, 320; Obama era, 300–301, 304, 313, 314, 316, 321, 323–26, 328, 332; Phillips curve on wages and, 47–58, 48, 78, 87–88, 96, 101–4, 106–7, 148,

432 INDEX

- unemployment (*continued*)  
360, 364; politics and, 50–51, 69, 200–201; price relationship to, 49, 51, 86; productivity growth and, 83, 216–18, 220; Reagan era, 168; target rate of, 11, 15, 16, 31, 321; Trump era, 18, 341, 341, 345, 364
- United Kingdom: Bank of England, 105n8, 223; central bank independence in, 222, 223, 388; exchange rates and, 146; house-price bubble, 241; inflation/disinflation in, 72, 105–7, 224, 380, 388; monetarism in, 33, 44, 106; Phillips curve data from, 47, 48
- Vietnam War: defense spending for, 16, 17, 18, 19, 21–22, 25, 28; inflation and, 15, 22, 76, 373
- Viner, Jacob, 40
- Volcker, Paul: attempted coup against, 160–61; Carter and, 71, 120–30, 131–32, 221, 388; credit controls by, 71n16, 127–30, 132; Federal Reserve under, 71, 72, 105–7, 120–32, 136–37, 142–51, 160–62, 221, 222, 224, 373, 374, 380, 388; on inflation, 72, 105–7, 109, 120–32, 136–37, 142–43, 146–49, 224, 388; monetarism and, 43, 106, 121–22, 125–27, 129–31, 132; on policy ineffectiveness, 380; profile of, 124–25; Reagan and, 125, 130–31, 136–37, 142–51, 160–62, 222; resignation of, 161–62; threats against, 123
- Wachovia, 265
- wage inflation: budget deficit reduction and, 192–93, 333–34; labor’s share of income, 84; Phillips curve on unemployment and, 47–58, 48, 78, 87–88, 96, 101–4, 106–7, 148, 360, 364; productivity growth and, 83–84, 84; supply shocks and, 86–87
- wage-price controls: Kennedy era, 17; Nixon era, 39, 65–67, 67, 71, 74
- Wallace, Neil, 98, 100, 103
- Waller, Christopher, 338n7
- Wanniski, Jude, 134–35, 144, 150, 174
- Warnock, Raphael, 362
- Warren, Elizabeth, 273
- Washington Mutual, 265
- Watson, Mark, 152n2, 153
- Way the World Works, The* (Wanniski), 135
- Webvan, 229–30
- Wells Fargo, 276
- Wessel, David, 282n9
- Whip Inflation Now (WIN) campaign, 89–90
- Woodward, Bob, 187, 188
- Yellen, Janet: background of, 322, 327–28; on Clintonomics, 195; Federal Reserve under, 21, 281, 317, 321–28, 329, 337, 342, 361; Greenspan policies and, 211–12, 217–18, 219; on PAYGO, 182; profile of, 327–28; Treasury under, 328
- Zandi, Mark, 303