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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.”¹ 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.

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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,

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.

I also owe a large debt of gratitude to Stephanie Hu for skillful and thorough research assistance including an uncanny ability to find the unfindable, and to Will McClure and Shirley Ren for helping a man who needed help to produce the many graphs in this volume—often under time pressure. Overseeing all this, my wonderful longtime assistant, Kathleen Hurley, watched every detail carefully, saved me from numerous errors, produced the references and captions

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

Writing this book took longer than it should have because of the COVID-19 pandemic. Through it all, I benefited from release time from Princeton University, financial support from Princeton’s School of Public and International Affairs, and research support from the Griswold Center for Economic Policy Studies. I thank them all.

Once the manuscript was near completion, it went into the capable hands of the folks at Princeton University Press, led by Joe Jackson (Senior Editor) and Josh Drake (Editorial Associate) and including Karl Spurzem (cover design), Carmina Alvarez (design), and James Schneider (publicity). PUP staff were accommodating and efficient at every stage, making my job easier, not harder. The people at Westchester Publishing Services, who processed the manuscript, impressed me with their skill, speed, and responsiveness. I thank, especially, Christine Marra, Yvette Ramsey, JodieAnne Sclafani, and Theresa Carcaldi. I am a fussy author who is often at war with his copyeditors. Not so with Christine and Yvette, who were a pleasure to work with.

But most deeply of all, I thank my wife and life companion, Madeline Blinder. We have been married for almost as long as the six decades covered in this book. Not only has Madeline been a loving partner, she was instrumental in several crucial decisions that account for the firsthand nature of parts of this book. Much of my personal involvement in the *Monetary and Fiscal History of the United States, 1961–2021* is due to her. “Thank you” is far too weak a phrase.

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