Fed Chair Agonistes
Amity Shlaes

A sure bet in 2020 is that President Donald Trump will bully Fed Chairman Jerome Powell, pressuring Chairman Powell and the Open Market Committee to set interest rates lower than Fed wants them. Chairman Powell wants them. In fact, the only dispute is how brash President Trump will be. After all, the President already got out a few zingers last year. “China is not our problem, the Federal Reserve is,” President Donald Trump said after Mr. Powell led his board in lowering interest rates 25 basis points, a smaller increment than the President desired. Last summer the President suggested that Mr. Powell’s interest rates were so high that they were preventing the economy from zooming forward “like a rocket ship.”

Such audacity feels uniquely Trumpian. It isn’t. Though our modern political culture holds that the Federal Reserve is independent, other postwar Presidents have bullied Fed chairmen, whether directly or through loyal proxies. The names of the bullies include Lyndon Johnson and Ronald Reagan. At this event, we are mourning Paul Volcker, the Fed chairman with the greatest fortitude. Volcker didn’t complain loudly about Reagan at the time. But he wrote a memoir before he passed away. In that memoir Volcker details the level of the pressure placed upon him. In the summer of 1984 Treasury Secretary James Baker summoned Volcker to the White House. "The president is ordering you not to raise interest rates before the election," Baker told Volcker. The worst example of Fed bullying however is President Richard Nixon’s successful campaign to coerce “his” Fed chairman, Arthur
Burns, into leading the Fed in policy that guaranteed devastating inflation.

The story of Burns at the Fed is worth reviewing, because it provides us with a reminder of how politics and personality prevail over character and trade. For if anyone seemed likely to withstand the pressure from Richard Nixon, it was Arthur Frank Burns. In the 1950s, when Nixon was a young vice president, the older Burns chaired the Council of Economic Advisors, winning the admiration of young politicians, including Nixon, for his professionalism. In 1960, when Nixon ran for president the first time, it was the pipe-puffing Arthur from whom Nixon took counsel. Burns warned Nixon that unless Congress and the Fed moved taxes and interest rates down substantially, voters would turn away from the Republican Party and elect John F. Kennedy. The taxes and interest rates did not come down dramatically, and Nixon did lose. But Burns had supplied Nixon with that gift most precious to politicians: a plausible explanation of why the politician’s defeat was not the politician’s fault. The grateful Nixon never forgot, and in turn gave Burns a gift just as precious, at least to a proud professional: Nixon listened to him. Burns was sure Nixon liked him, and wrote in his diary at one point that he considered himself Nixon’s “best friend.”

Outsiders placed confidence in Burns for another reason: the high respect paid him by the guild of professional economists. Early on, Burns had won has his peers’ approval as a star data cruncher and wizard forecaster. It was said that Burns predicted the strength of the 1955 recovery by the thickness of the cigarette smoke in the General Motors salesrooms. Burns’ work on inflation was hawkish, and included a monograph, “Prosperity Without Inflation.” He appeared admirably independent, contradicting colleagues with an
early and genuinely prophetic determination that corruption in the Soviet regime would kill the Russian economy. Nixon’s decision to bring Burns into his administration in 1969 was regarded as a sign of the integrity of both men. People commented that men like Burns with his retro, center-parted, hair and pipe seemed like grownups, a welcome shift from the whiz-kid hires of Johnson and Kennedy.

But after Nixon moved Burns Burns over to the Fed in 1970, Burns found his friend suddenly cooler. Nixon wanted lower interest rates. After a time Burns and his board did lower rates, but as Mr. Powell and colleagues today, the Burns Fed moved in modest increments of 25 basis points. Burns believed he could convince Nixon of the merit of gradualism if he could get the president’s ear. Yet this time he could not. Instead Nixon dispatched emissaries such as John Ehrlichman to deliver threats: “The president will take on the Fed publicly if its Open Market Committee retaliates.” Or: “responsibility for a recession is directly on the Fed.”

By early 1971 Nixon was introducing yet another blocker, this time the new Treasury Secretary, John Connally. Connally was a Democrat, an unorthodox choice for a president, but the real sin in the nomination from Burns’ point of view was that Connally was no economist, not even a banker, just, as Burns put it, “a most smooth politician.” The offense of the Connally hire was compounded when Connally took a crash course in monetary theory not from Burns but from his predecessor, William McChesney Martin. Connally ordered all White House hands to follow White House policy—and included Burns as a “hand.”
Far from making an exception of Burns, the now hardening Nixon simply watched the torture of Burns with amusement. Bullies look for vulnerability. Burns’ vulnerability, Nixon thought, was his Jewish background. “You know I think Connally is anti-Semitic,” Nixon rambled to Ehrlichman. “It probably troubles him to deal with Herbert Stein and Arthur Burns and Henry Kissinger and [speechwriter William] Safire. Too bad.” “The government is full of Jews,” Nixon told another aide, H.R. Haldeman. There was “a Jewish cabal” in government. “And they all only talk to Jews.” In Burns’ case, this was hardly so. The person Burns wanted to talk to was Nixon.

As the year 1971 progressed, economic news did not improve sufficiently to please the White House, and Nixon and his men continued to give Burns the treatment. Burns goosed the money supply, irritating Milton Friedman, but not enough to please the insatiable Nixon. Later, Ehrlichman would record the standard scolding he was sent to deliver: “The President made you chairman of the Fed, Arthur,” Ehrlichman would say. “You are deeply in his debt. He expects you to be loyal.” No move was too petty for Nixon. In those days White House Sunday church services provided a chance for presidential access. Nixon’s staff moved to block Burns’ attendance: “keep him off Church,” read one memo.

By June of 1971 the consumer price index was increasing at an annualized 6% rate, and Burns was desperate. Though a free marketeer, Burns wanted the approbation of his peers. Let someone else – anybody else – deal with the inflation problem. Burns therefore told Nixon that inflation, or its appearance, would abate for a time if Nixon and Congress placed some government restraints on wages and prices. If they didn’t, Burns would have to raise interest rates and further irritate his chief executive. Come
July, Burns finally and momentarily heeded conscience and colleagues and led the Fed in raising the discount rate 25 basis points. The President retaliated by allowing his aides to sneak a smear story—adumbration of Watergate!-- in *The Wall Street Journal*. The story included a leak suggesting that Burns was demanding that his own salary be raised 50%. This was false. The story also announced that the “furious” president was considering legislation that would “specifically would bring the Federal Reserve into the executive branch.” Burns saw, as he wrote in his diary, that “I would be accepted in the future only if I suppressed my will…” Here Burns had a choice. He could do what the economy needed, or he could, as he put it, “suppress his will.” Burns suppressed his will.

What came next, over the summer of 1971, demonstrated the extent of that suppression. For Nixon had indeed absorbed the 1960 lesson, perhaps better than Burns liked. His eye now firmly on the 1972 election, the president mooted a preposterously incoherent stimulus plan: tariffs, a wage-and-price freeze, targeted tax cuts, and closing the gold window, the last vestige of the gold standard. Burns might have lived with individual components, but taken together the plan was professional anathema. Yet when Nixon invited Burns to join the economic team for a Camp David retreat to formalize the plan, Burns was so relieved to be included that after a pro-forma protest against one move – the gold standard suspension – the Fed chairman simply went along. The president, Burns told speechwriter William Safire, had his “wholehearted support.”

What followed, too many Americans still remember. For Burns, a momentary elation: the Fed chairman was back in his president’s good graces. For Nixon, a political victory – the measures masked
the inflation and goosed growth that reelected Nixon in 1972. But
great lows followed these short-term highs. Nixon’s imperiousness
cost him the presidency. It cost the U.S. its economy. A storm of
inflation followed when the price controls ended. The 4.5%, 5% or
6% interest rates that Burns in his denial told himself were high
even proved nowhere near the level needed to stop the
inflation, which within a few years would surpass 10%. The
tragedy was practically Grecian: Burns, the prophet who had spent
a career warning of inflation, had promulgated policy that caused
it.

The Nixon-Burns story is a saga of personal vanity and human
ambition. But it also reflects a political cycle common to nations
the world over. Voters reward politicians who give them good
times. Presidents want Congress to supply those good times, by
voting into laws tax cuts or new entitlement programs. But
sometimes – in Nixon’s era – Congress doesn’t want to cooperate.
After all, spending more now makes it even harder for the
government to meet long-term commitments – Social Security
payments, Medicare – later. So Presidents in their frustration turn
to the Fed, knowing that dumping money into the economy will
supply those good times – short term, before the inflation kicks in.
Since Burns’ day, a change in our monetary laws has made it even
easier for the Fed chairman to succumb to president’s demands
that they help the general economy. The Humphrey-Hawkins Act
made the Fed’s responsibility for the entire economy more explicit
by requiring that the Fed pursue, along with the goals of stable
money and low interest rates, maximum employment.

What can a meeting of MPS make of all this? We cannot change
human nature. Paul Volcker, the Fed chairman who made the right
choice, is mourned almost to the point of deification by both
citizens who support both political parties. But Volcker was that exceptional benign dictator familiar from history books. What stories like that of Johnson, Nixon and Burns generally show is that leadership at the Fed cannot be conducted with true integrity without more rules governing Fed operation – the kind John Taylor has advocated – so that the Fed does not operate ad hoc. New statute is necessary to remove the employment and growth component of Fed policy. The Burns of 1970 thought he was in charge of the whole economy, a kind of vainglory. But the general assumption then was that the Fed was responsible, and that reinforced the arrogance of an otherwise thoughtful man.

Limiting inflation’s likelihood in the future would be easier if the Fed’s assignment were more modest: not rocketship captain, but perhaps engineer, assigned to watch meters and monitor money. As a young scholar wrote six decades ago, “all that may be reasonably expected of the federal reserve system is that it will do everything, within its limited powers, to keep the price level from rising further.” That scholar’s name was Arthur Burns.
AMITY SHLAES
CALVIN COOLIDGE PRESIDENTIAL FOUNDATION

Amity Shlaes chairs the board of the Calvin Coolidge Presidential Foundation, based in Plymouth Notch, Vermont, the birthplace of the thirtieth US president, with an office in the Georgetown area of Washington, DC. The Coolidge Foundation is the sponsor of the popular Coolidge Scholarship, a full college scholarship for academic merit, and the Coolidge Senators program, which exposes gifted students to the values of President Coolidge.

Her newest book is The Great Society: A New History (November 2019, Harper Collins). Shlaes is the author of five previous books, four of which are New York Times bestsellers: Germany: The Empire Within; The Greedy Hand: Why Taxes Drive Americans Crazy; The Forgotten Man: A New History of the Great Depression; Coolidge; and The Forgotten Man Graphic Edition. She was a syndicated columnist for ten years, first at the Financial Times, then Bloomberg.

Prior to that, Shlaes served as editorial board member of the Wall Street Journal. Over the decades she has published in periodicals, including the New Republic, the New Yorker, the Spectator (London), the New York Times, the Washington Post, and the National Review. For the past five years she has chaired the jury of the Hayek Prize, the Manhattan Institute’s book prize. She also serves as presidential scholar at the King’s College in New York.
# TABLE OF CONTENTS

**PAST AS PROLOGUE TO THE FUTURE**

## An Opening Conversation

Chapter 1. Why Choose Economic Freedom?..........................................................................................................6  
*George P. Shultz and John B. Taylor*

## Free to Choose: 1980 to 2020 and the Network

Chapter 2. Introduction to Free to Choose 1980 to 2020 and the Network.............................................................14  
*Robert Chatfield*

Chapter 3. Milton, Rose, me and Poetry.................................................................................................................16  
*Robert Chitester*

## Removing Obstacles on the Road to Economic Freedom: 1947 to 1980

Chapter 4. Removing Obstacles on the Road to Economic Freedom........................................................................24  
*Eamonn Butler*

Chapter 5. Milton Friedman: The Early Years.......................................................................................................26  
*Jennifer Burns*

Chapter 6. Mont Pelerin 1947................................................................................................................................32  
*Bruce Caldwell*

Chapter 7. The Road Not Taken of “Nuovo liberalismo”.......................................................................................85  
*Alberto Mingardi*

## Spread of Free-Market Ideas in the 1980s

Chapter 8. The Reception of Free to Choose and the Problem of Tacit Presuppositions of Political Economy.................................................................................................................................102  
*Peter Boettke*

Chapter 9. The Spread of Free-Market Ideas in the 1980s (With a Nod to the Late 1970s)..................131  
*David Henderson*

Chapter 10. Ideas of Freedom and Their Role in Active Policymaking...............................................................142  
*Condoleezza Rice*
# Table of Contents

**Lessons Learned from History for the Future of Freedom**

Chapter 11. Assaults on Freedom and Citizenship..........................................................147  
*Victor Davis Hanson*

Chapter 12. Fed Chair Agonistes.....................................................................................152  
*Amity Shlaes*

Chapter 13. Keynes v Hayek: The Four Buts.................................................................160  
*Robert Skidelsky*

**Ideas for a Free Society**

**The Role of Law as Protector of Liberty**

Chapter 14. Capitalism, Socialism and Nationalism: Lessons from History..................168  
*Niall Ferguson*

Chapter 15. Magna Carta, the rule of law, and the limits on government.........................200  
*Jesús Fernández-Villaverde*

Chapter 16. The Commerce Clause, the Takings Clause, and Due Process....................208  
*Douglas Ginsburg*

**How to Deal with the Reemergence of Socialism**

Chapter 17. The rise and fall of environmental socialism: Smashing the watermelon....221  
*Jeff Bennett*

Chapter 18. Understanding the left................................................................................226  
*John Cochrane*

Chapter 19. Economic systems between socialism and liberalism and the new threats of neo-interventionism...............................................................233  
*Lars Peder Nordbakken*

**Measures of Economic Freedom**

Chapter 20. Economic Freedom Matters & Charts.........................................................248  
*Anthony Kim*
Fred McMahon

Chapter 22. The World Bank’s Doing Business Indicators................................................................................310
Valeria Perotti

Restraining Expansions of Government

Chapter 23. Common Sense Approach to Addressing America’s Entitlement Challenge.................................318
John Cogan

Chapter 24. Key Milestones in Regulation..........................................................................................................339
Susan Dudley

Chapter 25. A Quest for Fiscal Rules...................................................................................................................343
Lars Feld

ACTIONS FOR A FREE SOCIETY

Taking Ideas to Action around the World

Chapter 26. Turning Freedom into Action: Some Reflections on Reforming Higher Education.........................371
Ayaan Hirsi Ali

Chapter 27. Culture and the Free Society..........................................................................................................380
Samuel Gregg

Chapter 28. Taking Ideas to Action Around the World..........................................................................................394
Bridgett Wagner

What Happened in Chile?

Introduction...............................................................................................................................................................402

Chapter 29. Presentation I....................................................................................................................................403
Axel Kaiser

Chapter 30. Presentation II...................................................................................................................................406
Ernesto Silva

Chapter 31. Presentation III..................................................................................................................................409
Arnold Harberger
# Table of Contents

**Taking Ideas to Action: Making the Case for Freedom**

Chapter 32. Restoring Liberty for American Indians.................................................................411
   *Terry Anderson*

Chapter 33. The Effect of Economic Freedom on Labor Market Efficiency and Performance.........434
   *Lee Ohanian*

Chapter 34. Making the Case for Liberty..............................................................................466
   *Russell Roberts*

**Taking Ideas to Action in the Private Sector**

Chapter 35. Brexit: Taking a Good Idea into Action..............................................................473
   *Jamie Borwick*

Chapter 36. Taking Ideas to Action in Central Governments—The US Case..........................476
   *Tyler Goodspeed*

Chapter 37. Ideas and Actions for a Free Society..................................................................487
   *Ruth Richardson*

**Taking Ideas to Action in the Private Sector**

Chapter 38. Public Policy, Private Actor...............................................................................491
   *Dominique Lazanski*

Chapter 39. Libertarianism is Dysfunctional but Liberty is Great..........................................508
   *Joe Lonsdale*

Chapter 40. The False Promise of Medicare for All.............................................................514
   *Sally Pipes*

**A Closing Conversation**

Chapter 41. China, Globalization, Capitalism, Silicon Valley, Political Correctness, and Exceptionalism.................................................................527
   *Peter Thiel and Peter Robinson*