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THE ECONOMISTS OF THE LOST CAUSE AND THE MONETARY EDUCATION OF JOHN R. COMMONS

BY
J. DENNIS CHASSE

Wild price swings following World War I motivated some economists and their allies to start a stable money campaign. John R. Commons joined this campaign, and the story of his participation opens a window into an historical learning episode in which the campaign, though it failed, sparked intellectual efforts and interacted with events in ways that changed beliefs about relations between central bank actions, on the one hand, and unemployment, inflation, and economic growth, on the other. The paper dwells on Commons' role and on the long learning experience that led participants to conclusions they could not have anticipated when they embarked on their campaign.

I. INTRODUCTION

> "For all future time the period through which we are now living will come to form one of the most important chapters in monetary history, and it will likewise offer the richest materials on which to draw for studying the question of the effects of a misguided monetary policy." (Cassel 1972, p. v)

When he wrote these words, Gustav Cassel could not have known how prophetic they were. He knew that war had forced Western democracies off the gold standard, that post-war accommodation to treasury borrowing had sparked inflation, and that overreaction to inflation had resulted in deflation. He understood problems caused by French insistence on German reparations and by American intransigence on allied debts. But Cassel could not have imagined the turmoil of the next ten years. What he

School of Business Administration and Economics, State University of New York at Brockport, USA. Email: jchasse@brockport.edu

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knew, though, was enough to enlist him in the campaign to make price stability a goal for the world's central banks. The campaign faced stout opposition.

Central bankers disliked political interference. They did not hold themselves accountable for general price levels, which, in their minds, depended almost entirely on non-monetary events such as wars, trade imbalances, or droughts. Tradition dictated that central banks should respond passively to market events, by discounting self-liquidating paper, adjusting discount rates to gold flows, and lending freely at high rates in financial panics (Chandler 1958, pp. 182–183). Tradition also prescribed deflation both as the proper response to negative trade balances and as the beneficial result of technical progress. Tradition prevailed, and stable money became a lost cause.

But the campaign's failure stimulated "the fourth great monetary discussion" (Skidelsky 1994, p. 169). Along with Cassel's name, those of Knut Wicksell, Ralph Hawtrey, John Maynard Keynes, and Irving Fisher are associated with the failed campaign and the monetary discussion that, in interaction with unforeseen events, overturned not only orthodox doctrines but also habitual assumptions of the campaigners themselves.

The name of John R. Commons is not usually associated with this campaign. But he was drawn into it, and the story of his participation reflects a larger story of interactions between ideas, events, and crises. By placing Commons in the larger context of the stable money campaign and associating him with others in the lost cause, this story complements the works of Charles Whalen and Eric Tymoigne. Whalen (1992, 1993) called attention to Commons' theory of money and credit and demonstrated its consistency with Commons' labor economics and with contemporary Post-Keynesian theories. Tymoigne (2003) compared Commons and Keynes as monetary theorists, in their definitions of money, in their accounts of its origin, and in their analyses of its role in the economy's operation and in its crises.

This paper pays more attention to the history within which these ideas emerged. Commons may have overstated the case when he asserted that improvements in central bank operations "did not come about on general principles of philosophy or on theories of economics ... [but] … after many failures in a vain scurry to ward off further collapses" (Commons 1950, p. 242). But he had a point—supported, perhaps, by the record of his participation in the lost cause.

At first, like his fellow campaigners, Commons advocated stable prices and forgiveness of sovereign debt, but, as he pleaded the cause of Western farmers, interacted with bankers, and responded to the challenges of the Great Depression, he modified his habitual assumptions, proposed policies that he could not have foreseen, and incorporated what he had learned into his larger goal of supplementing standard economic theory by emphasizing the role of collective action in the evolution of economic events.

The paper starts with Commons and the stable money campaign, noting the support he received from Cassel, Fisher, Keynes, and Reginald McKenna. It moves to his collaboration with Benjamin Strong in designing a bill to set goals for the Federal Reserve System. It notes his response to the events of the Great Depression and summarizes the monetary views in two of his subsequent works. A conclusion suggests that the learning process has not ended, and that it could gain from Commons' unappreciated insight into the value of instituting democratic processes in credit administration.

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II. THE CAUSE

In August 1893, President Grover Cleveland called a special session of Congress to repeal the Sherman Silver Purchase Act. Albert Shaw, editor of the *Review of Reviews,* asked Commons and eleven other economists to suggest a correct monetary policy. In his response and in a longer explanation in the *Annals*, Commons proposed a committee that would buy or sell silver with the goal of maintaining stable prices as measured by a price index (1893a). If prices were falling, the committee would buy silver and issue silver certificates. The treasury would stand ready to redeem the certificates—not at a fixed ratio to gold, but at the market price of silver. If prices were rising, the committee would sell silver and redeem the silver certificates. In a later article, he suggested construction of a price index to guide the committee (1893b).[1] In 1898, Commons read Knut Wicksell's *Interest and Prices*, and in 1900 he created a price index for George Shibley, a silver advocate (Dorfman 1949, pp. 179–180; Commons 1934a, pp. 63–66, 190).

But Commons became deeply involved in monetary policy only after Irving Fisher promoted a stable money organization. The organization went through name changes and reorganizations until 1922, when, permanently titled the National Monetary Association, it reached its final form with Norman Lombard as its energetic executive secretary and with Commons as president (Fisher 1934, pp. 104–107; Commons 1934a, pp. 189–190).[2]

Association members visited Fed officials and lobbied Congress. They wrote papers, intending to publish a series of pamphlets (Rorty 1923). Commons wrote three papers, citing the monetary history of 1919–20 as evidence that central bank policies do, in fact, affect prices (1923a, b, c). For example, he pointed to the "enormous inflation" that followed the sale of US treasuries at below market interest rates in 1919 (Commons 1923a, p. 5).

On a theoretical level, Commons tried to answer the objection that interest rates cannot affect firm behavior because interest expense is a small fraction of total cost. To respond, he emphasized the effect of Fed actions on expectations. If the Fed lowers discount rates, managers anticipate rising prices and profits, and they borrow for expansion. On the other hand, if the Fed raises the discount rate, managers expect harder times, and they reduce borrowing. Commons adapted the terms "futurity" and "timeliness" to describe the relation between market psychology and central bank policies.

> Here, however the factor of timeliness is all important. In a boom period when everybody is buying and holding on, and many commitments have been made, it would require a tremendous increase in the discount rate to shock the rise in prices.

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[1]Commons was already departing from Populist positions. His friend, the political historian James A. Woodburn (1893), had argued that dependence only on gold would unnecessarily restrict the money supply, and increase both dependence on credit and the likelihood of recurrent panics. Woodburn wanted paper money.

[2]The belief that Commons, Mitchell, and Malcolm Rorty founded the National Bureau of Economic Research is not entirely accurate. Rorty and N. I. Stone came up with the idea and then sought economists to serve on an executive board. Commons and Mitchell served on that board as well as others. Mitchell was the first director of research, but, to be historically accurate, the credit for establishing the NBER should go to Stone and Rorty (Stone 1945).

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> The increase would not have its effect at once, but in a few months there would be a collapse.
>
> The opposite is true in a period of depression and hopelessness. At such a time a decrease in the rate to the zero point would have no immediate effect in stimulating business.
>
> But in a "normal" period when all labor is just about fully employed … a very slight increase in the rate might have a very immediate and considerable effect on prices. (Commons 1923a, pp. 8, 9)

During the 1925 convention of the American Economic Association, Commons participated in a panel discussion of monetary policy. He praised the board of governors for a 1923 regulation dictating that open market policy should be guided by the goal of accommodating commerce, business, and general credit conditions, and he then interpreted this to mean maintaining stable prices. He reviewed the post-war history and criticized the American Bankers' Association for passing resolutions that condemned open market operations as unfair competition with member banks: "But these resolutions overlook the public purpose of the federal reserve system [sic] as contemplated in the act of 1913 and make that system subordinate to the private profits of the member banks" (Commons 1925, p. 49). He condemned the United States for its "short-sighted greedy attitude toward our former allies," which had resulted in huge gold imports effectively neutralizing the equilibrating effects of the international gold standard (Commons 1925, p. 51)

III. THE FIRST STRONG BILL: TESTIMONY AND OPPOSITION

Commons was drawn further into the stable money campaign in 1926 when Congressman James G. Strong introduced a bill to make price stability a statutory goal of the Federal Reserve System (Meltzer 2003, p. 183).[3] In 1927 Strong asked Commons to testify in favor of his bill (Fisher 1934, p. 170). In addition, Irving Fisher and other members of the stable money association also testified for the bill.

All Federal Reserve officials opposed it—but for different reasons. Adolph Miller, the only academic member of the board of governors, read into the record sections of a 1923 annual report (U.S. House of Representatives 1927, pp. 633–734, 791–906).[4] The report admitted that international events were forcing the Fed into managed rather

[3]James G. Strong (unrelated to Benjamin Strong) worked in law, real estate, and telecommunications. In 1919 he was elected to Congress from Kansas's 66th district. He held that post until 1933 when President Roosevelt appointed him Secretary of the Homeowners' Loan Corporation, a position he held until his death.

[4]As one of the reviewers suspected, Walter Stewart wrote, with Adolph Miller's support, the report that Miller used in his testimony (Yohe 1982, pp. 593–594; Meltzer 2003, p. 154). The title of William Yohe's article does not reflect anything mysterious about Stewart, but it refers to the mystery that such an influential figure should have disappeared from the history of monetary policy. Stewart is generally considered a quantitative institutionalist, a colleague of Wesley Clair Mitchell and Walton Hamilton. It is interesting that institutionalists were on opposite sides of this issue. Although Stewart left the Fed in 1926 to work for a Wall Street firm, he testified against the Strong Bill (U.S House of Representatives 1927, pp. 735–790). He proposed an alternate interpretation for the same price data that Commons would later use to show that Fed policies did influence the general price level. Stewart marshaled evidence to support the position that the real economy, not Fed policies, had influenced those price gyrations.

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than pure gold policies. But it strongly rejected arguments that those policies should be guided by their anticipated effects on general price levels. Rather, it proposed two sets of rules, one for credit quality and the other for credit quantity. The rules for quality tried to limit credit to productive activities. The rules for quantity stipulated that the total quantity of credit should be monitored by a large number of indicators, such as production indexes, interest rates, stock prices, and so forth. In response to questions from committee members, Miller argued that prices respond to influences outside central bank control and that price indexes are poor policy guides, because their weights and components are matters of judgment, and because they measure past prices, not current needs of commerce and industry. A rigid, stable price goal would prevent Fed officials from responding intuitively to these current needs.

But Benjamin Strong, governor of the New York Fed and the country's *de facto* central banker, had drifted from orthodoxy (Chandler 1958, pp. 50–51, 199). The plight of farmers in the 1919–20 deflation had troubled him more than he admitted. Massive gold inflows had forced him into sterilization measures. Member bank treasury holdings and the fungibility of funds rendered real bills doctrines inoperable. By December 13, 1922, Strong had implicitly accepted the goal of price stability (Chandler 1958, pp. 199–201).

Still, he objected to the bill (U.S. House of Representatives 1927, pp. 290–379, 421–580; Meltzer 2003, pp. 184–185). He feared that people would blame the Fed for relative price changes. He was particularly adamant in rejecting responsibility for the farm prices that were falling at the time.[5] To achieve the goal of price stability, Benjamin Strong placed his faith in the universal adoption of a free gold system. Commons testified last, and his testimony impressed everyone (Lombard to Commons 2/10/27, Commons 1982 microfilm reel 4). He reorganized his testimony in three magazine articles: the first linked Fed policies to general price levels; the last two addressed farm prices.

Commons on the First Strong Bill: Price Instability

Commons used the chart in Figure 1 to establish the link between Fed actions and wholesale prices. He focused on four curves, beginning in the middle of 1921. Curve B follows Federal Reserve holdings of securities; curve D, member bank borrowing; curve E, reserve bank earning assets; and curve J, the wholesale price level.

In the final months of 1921, all twelve reserve banks independently bought treasury securities in order to increase their earnings. By May 1922, their security holdings had increased by $400 million. The hump in curve B represents these increased security holdings. But, corresponding to the hump in curve B, there are valleys in curves D and E. As security holdings increased, rediscounts decreased, and—paradoxically—total earning assets decreased, just as reserve banks were trying to increase them.

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[5]Benjamin Strong's fears seem justified. Consider the following exchange between Commons and Representative Charles Brand of Ohio.

MR BRAND. "Can they [the Fed] by adopting a certain policy, for instance, inflate or deflate the prices of corn, cotton, and wheat?"

DOCTOR COMMONS. "Only as it contributes to the general average of the 400 commodities."

MR BRAND. "Well, the Secretary of Agriculture, testifying before this committee, at one time answered that question in the affirmative. He said they could. Governor Strong was present at the time and he vehemently denied it. Now, what is your judgment?"

DOCTOR COMMONS. "I agree with Governor Strong" (U.S. House 1927, p. 1080).

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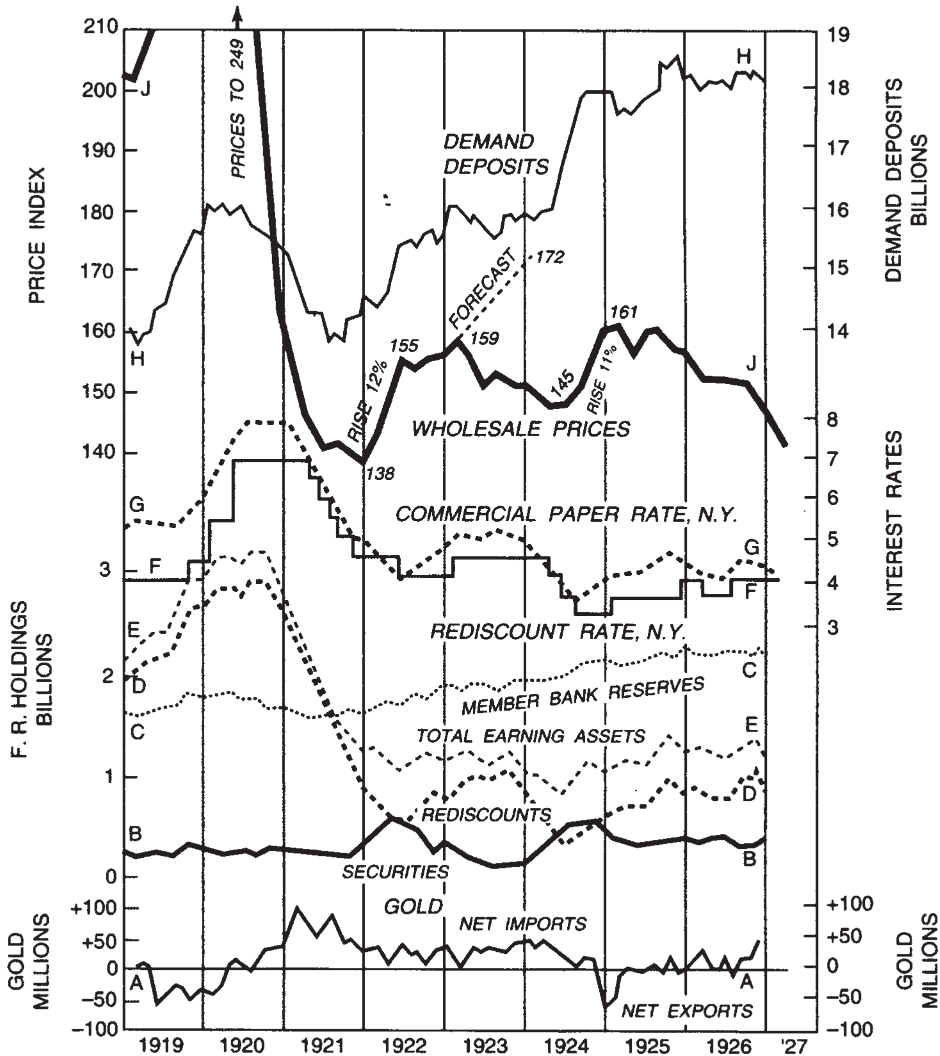

FIGURE 1. Federal Reserve Actions and Price Levels.
Commons's chart (1927, p. 459), as reprinted in Malcolm Rutherford and Warren Samuels, eds., *John R. Commons: Selected Essays* (New York: Routledge, 1996), vol. 2, p. 387. Also in U.S. House of Representatives (1927, p. 1077).

Commons explained the paradox with his notion of working rules. Member banks could increase their reserves by discounting bills at the Fed, and, since the system could loan out a multiple of individual bank reserves, member banks could increase profits this way. In a sense, the gold at the Fed constituted a form of collective action, a common pool of potential reserves. Member banks could draw upon this common pool by borrowing from regional reserve banks. But a working rule prevented each bank from drawing so much that it drained the common pool. Section 4 of the Federal Reserve Act allowed officials to investigate banks that were in debt to the Fed.

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This rule was meant for weak banks, but, to avoid the possibility of an investigation, most banks kept borrowing to a minimum.

On the other hand, since banks could borrow in emergencies, they no longer needed large excess reserves. Thus, the Fed's creation changed customs. Bankers now felt safe making loans right up to the limit of their reserve requirement.

When reserve banks bought securities, dealers deposited the proceeds of their sales in the commercial banks, reducing the banks' need to borrow from reserve banks—even as the new reserves increased their lending ability. Increased lending drove down interest rates. Discount rates followed. The decline in member bank borrowing reduced the assets of the reserve banks. Falling discount rates reduced returns on the bills that were discounted. Curve J in Figure 1 records the effect on wholesale prices of the increase in member bank lending that resulted from this accidental open market policy.

When officials figured out what was happening, they established an open market committee to coordinate regional bank purchases. They also adopted a rule that security purchases should be guided by their "effect on general credit conditions" rather than by their effects on reserve bank profits. The new open market committee overcompensated for the inflation, sold securities, and induced the deflation of 1923. When farm banks started failing, the committee reversed course and overcorrected again, producing the inflation of 1924–25. In a final overcorrection, they generated the relatively stable, but slowly falling, price level that continued to the end of the chart. Commons concluded: "Thus the Reserve System since the war has conducted three cycles of inflation and deflation—the extreme cycle of 1919–1921, before they knew what they were doing; the cycle of 1921–1923, while they were learning what they were doing; and the cycle of 1924–1927 after they knew what they were doing" (Commons 1927, pp. 393–394).[6] In each case, the wholesale price index responded to Federal Reserve decisions. In these cases, at least, central bank actions had affected the general price level.

Commons argued that the only explicit goal of the Fed—to accommodate "general credit conditions"—was too vague. It left the board free to focus on any of a number of conditions—stock prices, wages, farm production, and so forth—without any priorities. This lack of priorities made the Fed unpredictable, increasing uncertainty for forecasters and managers—hampering their ability to make decisions. (The dotted line rising from the wholesale price line [J] between 1922 and 1923 represented the consensus forecast before the Fed thrust open market policy into reverse.) A public and easily understood primary objective would reduce uncertainty. Commons argued that the Fed's primary objective should be stabilization of wholesale prices because price anticipations affect so many decisions.

Commons on the First Strong Bill: The Farm Problem

Commons addressed falling farm prices in two issues of the *North American Review*.[7] He agreed with Benjamin Strong's contention that the Fed had no responsibility for

[6]In his testimony, Commons emphasized the influence of Fed actions on price more than he did in the *Annalist* article. He had a large chart, and, from the transcript, one gets the impression that he was pointing to the lines and emphasizing the price relation. He also implied that Fed officials gave gold standard issues priority over all other goals, a priority with which he disagreed.

[7]While everything in the *Annalist* article can be found in Commons' testimony, this is not true of the farm articles, which expand on shorter remarks he made before the committee.

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relative prices. But he argued that deflation hurt farmers more than other producers, and, in seeking solutions for the tragic farm deflation of the twenties, Commons went beyond stable money (Commons 1928a, 1928b).

He argued that price instability hurt farmers more than other producers because other producers had more economic power than farmers. Manufacturers and industrialists could access forms of collective action that permitted them to restrict production and maintain prices. Farmers could not restrict production or hold goods off the market because "they must feed their families." Unorganized and scattered across the land, farmers were incapable of such tactics as price leadership. Consequently, general price volatility affected farmers more than other producers. The economic power of the banking industry also worked against farmers. The Fed had become an instrument of collective action for bankers because it was more attentive, by default, to their interests. Bankers worried more about inflation than about deflation, but farmers suffered more from deflation.

Commons also blamed sovereign debt policies for falling farm prices. In analyzing the refusal of the United States to grant lenient terms of debt repayment to former allies and the allied insistence on reparations from Germany, Commons distinguished war debts from reconstruction debts (Commons 1928b, p. 201). Reconstruction debts generate surpluses that enable loan repayments with interest. War debts do not. To repay war debts, Europeans had to tax their people, and the tax burden reduced their ability to buy American farm products.

The inflation–deflation cycle of 1919–20 aggravated the debt problem (Commons 1928b, p. 202). Loans incurred during war and post-war inflations came due after prices had fallen. So, like farmers, Europeans had to repay their debts with sales at deflated prices—leaving less income to buy US farm products.

Finally, the Fordney–McCumber Tariff reduced foreign access to the dollars needed to buy American farm products.

With these arguments as background, Commons analyzed solutions to the farm problem. Even though he had emphasized that US farmers, unlike manufacturers, could not maintain prices by holding goods off the market, Commons rejected proposals for government marketing boards that would buy surplus agricultural products in good years and either stockpile them for release when harvests were poor or sell them abroad.[8] And, he rejected permanently low interest rates. Both proposals, he argued, ignored the basic problem: price instability. In rejecting permanently low interest rates, Commons revealed his Wicksellian roots. If natural rates fluctuate, then constant market rates are inconsistent with price stability: "We cannot have both a stable price of gold and a stable rate of discount. We can have *either* one *or* the other, not both together" (Commons 1928b, p. 207).

Like the Farmers' Alliance, Commons rejected excess-supply explanations for falling farm prices.

[8]The bill, introduced by Oregon Senator Charles N. McNary and Iowa Congressman Gilbert N. Haugen, would have created a government marketing board to buy surplus agricultural products in good years and either stockpile them for release when harvests were poor or sell them abroad (Commons 1928b). President Coolidge vetoed the bill in 1927. Another bill, proposed by Secretary of Commerce Herbert Hoover, became the Agriculture Marketing Act of 1929. This act established the Federal Farm Board to buy surplus products and make low interest loans to farmers.

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> Again explanations are given for the fall of prices since 1925, similar to the explanations for the rise in 1919. It is now a world surplus of goods, which is said to have caused falling prices, especially of agricultural products, as it was then said to be a world shortage of goods that caused rising prices. Here, again, only one-half the story is told. There are, indeed, as we have seen wide fluctuations in the *volume* of crops. But the *values* of the crops do not respond, because there are also changes in the value of gold through which the crops are converted into other commodities. (Commons 1928b, p. 205)

Commons proposed three actions. *First*, departing from his habitual high tariff position, he argued that Congress should reduce the Fordney–McCumber tariffs (Commons 1908; Ramstad 1987): "A lower American tariff would help feed and clothe impoverished and unemployed Europe whose very impoverishment and unemployment are an important cause of American farmers' reduced markets" (Commons 1928b, p. 197). *Second*, central banks of the world must hold gold prices steady: "A tariff reduction would be useless if prices fell. It is not true that no one would be worse off if all prices fell. Farmers incur relatively large debts in sowing seasons, and they repay them when crops are sold. If prices should fall after they borrowed and before they sold their crops, they would pay higher commodity prices for debts fixed in terms of gold" (Commons 1928b, p. 199). *Third*, the United States must forgive European war debts. Then, European governments would no longer need to tax their people to pay these debts. As a result of lower taxes, European disposable incomes would increase and these higher disposable incomes would enable Europeans to buy more US farm products.

Commons related his principle of timeliness to the need for representation of farm interests in central bank decisions. Discount rate and open market decisions must be made at the "right time," be of the "right magnitude," and be in the "right place" (Commons 1928b, p. 208). Timeliness requires technical skill, but technical skill is not enough; decisions must be made with awareness of their impact on the people affected by the decisions—people in agriculture as well as in commerce and banking. To achieve this awareness, bank officials must give farmers a voice.

Support from the Troops

Commons sent copies of the *Annalist* article to Gustav Cassel, John Maynard Keynes, and Reginald McKenna, requesting comments (Commons to Cassel, April 7, 1927; Commons to Keynes, April 7, 1927; Commons to McKenna, April 27, 1927, Commons 1982 microfilm reel 4).[9] The request drew approval from all and the well-known

[9]McKenna had been Chancellor of the Exchequer during World War I when Keynes worked in the Treasury. Because he could not stand Lloyd George, McKenna resigned in 1919 and became president of the Midland Bank. McKenna belonged to the Tuesday Club, at which Keynes and other like minds debated policy. Of all the witnesses before the Chamberlain–Bradbury Committee, only McKenna and Keynes argued against the proposal to peg sterling at its pre-war gold price (Kindleberger 1984, pp. 336–337). Irving Fisher praised McKenna's *Midland Bank Review* (to which Commons subscribed) as a "veritable textbook on stabilization, critical but constructive" (Fisher 1936, p. 136). McKenna later collected his addresses on stabilization in a book (McKenna 1928). Keynes, McKenna, and Cassel all agreed with Commons's policy prescriptions.

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response from Keynes: "I should very much like to have some conversations with you on this and other matters. Judging from limited evidence and at great distance, there seems to me to be no other economist with whose general way of thinking I feel myself in such genuine accord" (Keynes to Commons, April 26, 1927, Commons 1982 microfilm reel 4).[10]

Cassel sent him the latest edition of his *Social Economics* and mentioned his development of a new analytical tool: purchasing power parity (Cassel to Commons, April 24, 1927, Commons 1982 microfilm reel 4).

IV. THE SECOND STRONG BILL

Even though he opposed the bill as it was written, Benjamin Strong sympathized with its objectives, and he offered some hope to the bill's advocates.

> If I could find it possible to frame language which would accomplish this very desirable purpose that you have described, and which I stated at the first hearing by saying I thoroughly agreed with, I would not hesitate to do it, and with the approval of my associates, because I am simply one element in the system—one bank—I would not hesitate to do it, and I do not know but what it may be possible to devise some language. Frankly, I would avoid the use of the words 'inflation' and 'deflation.' 'Stability' is a less objectionable word from my point of view. We all want stability of prices and conditions of all kinds, and I wish I might be able to write the words. I will try if you would like to have me. (U.S. House 1927, p. 553; cited in Fisher 1934, p. 165)

So, negotiations for a second Strong Bill replaced the first Strong Bill. An anonymous donor contacted Norman Lombard, executive secretary of the National Monetary Association, offering financial support if Commons would spend the five months of the spring semester helping Congressman Strong write the new bill (Lombard to Commons, October 24, 1927, Commons 1982 microfilm reel 4). Commons never learned the donor's identity (Commons 1964, p. 183), but that donor was Irving Fisher (Meltzer 2003, p. 289, n2).

Commons accepted the offer, came to Washington, and worked on the second Strong bill. He took full advantage of Benjamin Strong's offer. He visited the New York Fed. He consulted members of the Federal Reserve Board in Washington. In the final rewriting of the bill, Commons added provisions reflecting his belief that Fed deliberations should be public and that its processes should include feedback and revision. He also qualified the goal of price stability with the hope of responding to Benjamin Strong's objections to the original bill. Commons and the congressman took the penultimate draft of the bill to the central banker and allowed him to mark it up

[10]Charles Whalen, in a nice piece of detective work, traced the Commons–Keynes connection to two places in which Keynes cited three epochs of economic history as portrayed by Commons (Moggridge 1981, vol 9, pp. 303–311; and vol. 19, pp. 438–445). Then, by comparing the wording, he reached the conclusion that Commons had sent Keynes an early draft of one of his many drafts on reasonable value. I want to thank a reviewer for pointing out that there actually is a letter in the folder "reasonable value" showing that Commons sent a copy to Keynes and that Keynes read it.

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(Fisher and Cohrssen 1934, pp. 170–171). Strong praised the sections that Commons added and left them intact, but he marked up the section of the bill dealing with price stabilization.

To see what Commons learned from the great central banker, compare Commons's draft with Strong's revision. Here is Commons's draft:

> (f) The Federal Reserve Board and the Federal Reserve Banks and all committees, commissions, boards, agents and servants under their directions, supervision or control, shall use all of the powers and activities granted or authorized by the Federal Reserve Act and subsequent acts or amendments thereto, including open market operations and all other activities in so far as they have an effect thereto with a view of regulating the volume of credit, currency, and money in circulation so as to prevent as far as may be inflation and deflation and thereby to stabilize the average purchasing power of the dollar in terms of commodities in general; but nothing herein shall be construed as enlarging or extending the existing powers of the Federal Reserve Board in this respect or as interfering with the natural tendency of prices of specific commodities or groups of commodities to vary among themselves under the influence of demand and supply. (Commons 1982 microfilm reel 11)

Here is Benjamin Strong's revision:

> (g) The term 'Federal Reserve System' as used in this act shall mean Federal Reserve Board and the Federal Reserve Banks and all committees, commissions, boards, agents and servants under their directions, supervision or control,
> (h) The Federal Reserve System shall use all the powers and authority now or hereafter possessed by it to maintain a stable gold standard; to promote the stability of commerce, industry, agriculture and employment; and a more stable purchasing power of the dollar, so far as such purposes may be accomplished by monetary and credit policy. Relations and transactions with foreign banks shall not be inconsistent with the purposes expressed in this amendment.... (U.S. House of Representatives 1928, p. 1)

In addition to rephrasing language that bothered him, Benjamin Strong had added other objectives—employment and general economic conditions—and he safeguarded his priority on re-establishing an international free gold system. To verify Strong's hand here, consider this passage from one of Strong's speeches.

> Just as credit is *one* of the influences upon the price level, so the price level should be *one* of the influences in guiding our credit policy. There are other influences which affect prices, and so there must be other influences which affect credit policy.… Is labor fully employed? Are stocks of goods increasing or decreasing? Is production to the country's capacity? Are transportation facilities fully taxed? Is speculation creeping into productive and distribution processes? Are orders being booked much ahead? Are bills being promptly paid? Are people spending wastefully? Is credit expanding? Are market rates above or below Reserve bank rates? (Strong 1930, p. 233, cited in Fisher 1934, pp. 227–228)

Strong had warned that he could not publicly support the bill if the Federal Reserve Board opposed it. Since the governor, Roy A. Young, announced the board's opposition, Strong testified against the bill (U.S. House 1928, pp.12–21). He was able to do so honestly. He rejected the quantity theory, with which he honestly disagreed.

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He repeated his belief in an international free gold standard. Finally, he expressed fear that some committee might change the bill's wording, to which the chairman of the house committee commented that Strong must be thinking of the Senate. Laughter followed (U.S. House 1928, p. 17).

Gustav Cassel testified in favor of the bill (U.S. House 1928, pp. 366–384). As evidence that central banks could influence prices, Cassel cited their ability to maintain the gold prices of their currencies. But gold, he said, was an uncertain yardstick, its price subject to changes in demand or supply. Whenever they buy or sell gold or change reserve requirements, central banks themselves influence supply and demand—and so change the yardstick by which they are measuring. Cassel contended that the world's central banks must cooperate to stabilize the commodity price of gold.

The second Strong bill did not pass.

It was a tragic time. Commons's beloved wife, Nell, had died just before he left for Washington. While in Washington, Commons was laid so low by a pulmonary infection that Norman Lombard feared for his survival (Lombard to Commons 6/20/28, Commons 1982 reel 4). Benjamin Strong suffered from pneumonia during the time he testified, and, on October 16, 1928, he died. Friedman and Schwartz (1963, pp. 413–416) claimed that if Strong had lived, the Fed would have responded more appropriately to the events of the Great Depression. "There was no individual board member with Strong's stature in the financial system or with comparable experience, personal force, or demonstrated courage" (Friedman and Schwartz 1963, p. 416). Meltzer was less certain (2003, pp. 274–275). On the other hand, Meltzer's opinion of the second Strong bill was unequivocal.

> It is an understatement to say that it was a missed opportunity. If the mandate for price stability had been passed and followed, the Federal Reserve could not have permitted deflation during the Great Depression of 1929–33 or the inflation of 1965–80. Possibly a recession would have occurred in 1929, but the United States would have avoided the deflationary policy and its consequences. (Meltzer 2003, p. 192)

V. THE GREAT DEPRESSION

Whatever its actual origins and causes, the Great Depression started emotionally in the United States with the stock market crash of October 29, 1929. The resulting withdrawal of US funds from Europe contributed to turmoil there and to the bankruptcy of the Creditanstalt on May 31, 1931. The French balked when other central bankers tried to organize a collective rescue. Frustrated, Norman Montagu ordered the Bank of England to send Austria 100 million schillings. In July 1931, the Darmstadter and Nationaler banks in Germany folded. These collapses frightened the financial community, which began a run on Britain's gold. Britain left the gold standard on September 21, 1931 (Fisher 1932, pp. 98–99; Kindleberger 1984, p. 374; Eichengreen 1992, p. 222). Seven days later, the Riksdag, after consulting with Gustav Cassel and Eli Hecksher, left gold, and instructed the Riksbank to use all available means to stabilize the Krona in terms of commodities (Berg and Jonung 1998). Speculators turned to the dollar.

To protect American gold, the New York Fed, on October 9, 1931, raised the discount rate from 1½% to 2½%. On October 16th, it raised it another percentage point.

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According to Friedman and Schwartz (1963, p. 317), these were the mistakes that turned a recession into the Great Depression.[11]

At the end of 1931, Commons was still trying to save the gold standard.

> If France and America do not come to the aid of Germany in February, when her three billion dollars of short-time foreign debts are due, then Germany may be forced off the gold standard. This will be the finishing stroke added to some fifteen other nations already off the gold standard. If this should happen and if the Federal Reserve banks and the banking community do not come to the aid of the big banks that might otherwise suspend, then these foreign suspensions may fully cause a bank crash and a run on gold in this country and France for hoarding, thus forcing us also off the gold basis. Meanwhile the gold prices of commodities and securities the world over may go down still further. If, however, Germany can be saved, and if France and America with practically two-thirds of the world's monetary gold, can find a way to work together to save the rest of the world, then a fresh start and a new confidence may gradually reduce unemployment and slowly restore world prosperity and prices during the year 1932. (Commons to *Capital Times,* December 30, 1931, Commons 1982 microfilm reel 4)

But, by April 15, 1932, Commons had concluded that the United States should leave the gold standard and restore prices to 1926 levels. "This is based on the now well-known theory of central banking adopted by England and Sweden when they left the gold standard, that central banks can control inflation or even bring on deflation, on a paper money basis through control of discounts and open market operations" (Commons to Pettengill, April 5, 1932, Commons papers microfilm reel 4).[12]

A string of bank failures in 1933 alarmed Herbert Hoover—the lame duck president until F. D. R.'s inauguration. Roosevelt rebuffed Hoover's appeal for coordinated action, and, instead, polled a number of economists (Barber 1996, pp. 24–25). Irving Fisher urged him to leave the gold standard and establish a managed currency. If this proved politically impossible, Fisher advised halving the gold price of the dollar. Commons and George Warren of Cornell agreed with Fisher.

VI. LESSONS: INSTITUTIONAL ECONOMICS

Monetary policy played a minor role in Commons's major works, and his overall purpose in each of those works influenced his approach to monetary theory, but so did the events and the intellectual ferment of the twenties and thirties. Commons wrote *Institutional Economics* "to derive a theory of the part played by collective action in control of individual action," to continue his inquiry into reasonable value, and to draw

[11]Subsequent commentators blamed easy money policy for the excessive speculation that led to overreaction and the bust of 1929. Barry Eichengreen, however, pointed out that industrial production was already declining in 1927, serious strains on sterling were threatening the international system, and the outflow of American gold helped reduce those strains (Eichengreen 1992, pp. 210–214).

[12]Commons was one of a number of economists polled by Congressman Samuel Pettengill of Indiana. For a complete discussion of Pettengill's memo and its significance, particularly for fiscal policy, see Davis (1971).

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lessons from his "experiments in collective action" (Commons 1924, p. vi; 1934b, p. 1). His participation in the stable money campaign was one of those "experiments."

To place that campaign within his "theory of the part played by collective action," Commons adopted Georg Knapp's notion of a "pay community" (Knapp 1973; Commons 1934b, p. 457). According to Knapp, money originated when the state—the pay community—chose a legal tender acceptable for paying taxes and liquidating state debts. By this choice, the state created a unit of account acceptable for release from all debts. Commons expanded Knapp's concept of pay community from states to any group that established "instruments and performances that carry signs of release from debt" (Commons 1934b, p. 461).

Following Wicksell, Commons took this expansion all the way to a "World Pay Community" in which the world's central banks set interest rates collaboratively to prevent funds from deserting states with low interest rates. For principles to set world rates, Commons turned to Henry Thornton and Knut Wicksell (Commons 1934b, pp. 590–612). Thornton related bank rates to commercial profit rates. Market rates below commercial rates encourage increased spending and rising prices. Market rates above these rates discourage spending and depress prices. According to Wicksell, market rates bear similar relations to "natural rates" equal to the marginal products of capital. Commons estimated versions of both Thornton's commercial rate and Wicksell's natural rate, and he used those estimates to explain the 1922 and 1929 deflations.

He extensively analyzed the "margin of profit": gross sales minus taxes, interest, and operating costs (1934b, pp. 560–590). The ratio of this margin to gross profits became his measure of commercial profit. Forecasts of this ratio determine the ability of corporations to finance operating expenditures. If forecasts put the ratio in negative territory, banks will call in loans, firms will be unable to borrow, and bankruptcies will follow. Commons estimated this profit ratio for each year between 1918 and 1929. His estimates varied from negative numbers to about 7%. These estimates gave him a second answer to the objection he had faced in 1922: that interest rate changes cannot affect firm behavior because interest rates are a small percentage of total cost. At that time, he had invoked the effect of Fed decisions on expectations. He now had another answer: interest rates may seem small compared to total costs, but they loom large when compared to profit margins. Commons concluded that, in 1922 and 1929, market interest rates above 7% had driven expected profit margins toward or below zero, inducing banks to withhold credit and resulting in bankruptcies and deflation.[13]

Unable to find a way to measure the marginal product of capital, Commons modified Wicksell's natural rate of interest (Commons 1934b, pp. 590–608).[14] He reasoned

[13]Commons worked out an early version of these ideas, which he sent to Paul H. Douglas, who responded: "I quite agree with you in your analysis.… I only wish that I might have a chance to work out in more detail the general effect of the fall in the price level on margin of profit and on employment and production" (Douglas to Commons, February 2, 1931, Commons Papers microfilm reel 4).

[14]Wicksell had argued that there was no need to estimate the marginal product of capital (Wicksell 1962, p. 189). If prices were rising, market rates would be below the natural rate. If prices were falling, market rates would be above the natural rate, so central banks could set rates by observing price trends. Erik Tymoigne (2003, pp. 535–539) developed Commons's reasoning here at much greater length. Tymoigne concluded that, because he included expectations and (without naming it) liquidity preference, Commons had actually advanced beyond Keynes of the *Treatise*, anticipating ideas that Keynes reached only in the *General Theory*. But Commons did not seem to appreciate the significance of what he had done.

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as follows. At any time, managers are making plans based on their expected profits. Bank officials are deciding on loan requests, based on the same expected profits. There is a discount rate that reflects the expectations of both sets. Commons looked for a published statistic that might approximate this discount rate. He settled on an "average capital yield" derived from both stock and bond indexes. Between 1919 and 1933, this figure fluctuated between 4% and 7%. Commons again concluded that the Fed caused deflations in 1922 and 1929 when it drove market rates above 7%.

But the lessons of the Great War, the Great Depression, and the writings of Irving Fisher induced Commons to further modify Wicksell's theory (Fisher 1932, p. 82; Fisher and Cohrsson 1934; Commons 1934b, pp. 510–526). In periods of distress selling, Fisher's "risk discounts" could rise so high that investors hold their funds idle at interest rates below Wicksell's natural rate. Even a zero rate might fail to induce enough borrowing to reflate prices (Commons 1934b, pp. 608–610). Because of this risk discount, central banks can control inflations better than deflations.

Commons also questioned Wicksell's assumption of a world at peace in which central banks cooperate to maintain stable prices and economic growth. Given his "Malthusian" view of human nature, Commons assumed that wars would continue to punctuate history, inciting cycles of inflation and deflation that require active central bank crisis control (Commons 1934b, pp. 610–611).

Recalling, perhaps, Benjamin Strong's caution that price stability should not be the only goal of central bank policy, Commons criticized Britain and Sweden for temporarily holding the bank rate above 7% after they left the gold standard. They had stabilized prices, he complained, but they left unemployment unacceptably high (Commons 1934b, p. 610). He argued that when risk discounts are so high that private lenders and borrowers will not respond to low interest rates, the state must create money.

> The purchasing power of all classes, whether expended as savings or expended for consumption, furnishes the same employment of labor, barring temporary difficulties of adjustment. In order to increase the purchasing power of labor the unemployed must be put to work by *creation of new money,* and not by *transferring* the existing power of taxpayers to laborers, as Malthus proposed, nor by borrowing money by government which *transfers* investments but does not augment them.
>
> The new money cannot be created and issued by bankers, either in commercial investment or central banks, because in a period of depression, the margins of profit have disappeared, and there are no business borrowers willing to cooperate with bankers in creating new money. In order to create the *consumer demand,* on which business depends for sales, the government itself must create new money and go completely over the head of the banking system by paying it out to the unemployed, either as relief or for the construction of public works, as it does in times of war. Besides, this new money must also go to farmers, the business establishments, and practically all enterprises, as well as to wage-earners, for it is all of them together that make up the total consumer demand. (Commons 1934b, pp. 589–590, italics in the original).

Later, he proposed an ethical argument for price stability (Commons 1934b, pp. 789–805). He disputed the position that deflation should be the reasonable result of technical progress. First, he called attention to the effects of deflation on farmers and on European countries after the Great War. Then, he proposed consideration of a two-sector economy: agriculture and manufacturing. All participants in this economy

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are both producers and consumers. If consumers in general gain from efficiency through lower prices, then some workers will lose their jobs as producers.

He went further. With a lengthy example in which all people are both consumers and producers, he demonstrated that falling prices transfer productivity gains from producers to consumers, and that constant prices allow producers to keep the gains. In his *Legal Foundations of Capitalism,* he had argued that the evolution of common law generates criteria for reasonableness because court decisions endorse practices believed to contribute to public purposes (Commons 1924, pp. 315–388). Judges support their decisions in writing. Previous decisions are cited, criticized, endorsed, or overthrown, resulting in a consensus over centuries about what constitutes a contribution to the public purpose. This process produced patent laws, laws against stealing trade secrets, and laws protecting good will. All these laws allow producers to benefit for a time from increased productivity, but only stable prices permit producers to so benefit. Thus, common law traditions support the reasonableness of stable general price levels.

Commons modified this stable price goal, calling it an "ideal type" that must be adjusted to other goals—particularly the goal of full employment.

> A rapidly rising price level in 1919 and again in 1923 quickly restored full employment. The rapidly falling price levels of 1920–21 and 1929–33 greatly increased unemployment. This is because industry operates on narrow margins of profit, and a slightly rising price level all along the line has a multiplied effect in enlarging the margins for profit and therefore increasing demand, while a fall in the price margin reduces the demand for labor.
>
> But if the level of prices is allowed to rise beyond the level of full employment, as in 1919, then it is mere inflation of prices and wages because there can be no possible increase of employment by production except reduction in hours of work when all are fully employed. Full employment is the reasonable limit of inflation. (Commons 1934b, p. 805)[15]

VII: LESSONS: THE ECONOMICS OF COLLECTIVE ACTION

In *The Economics of Collective Action,* Commons summarized his earlier thoughts more simply, and he emphasized his "device of collective bargaining." For Commons, this "device" was not just an arrangement for bargaining between workers and employers. It was also an institutional innovation designed to increase voice and countervailing power in public decision making.

> These are the subject matters set forth for investigation in this book. The assumption is that whatever is "reasonable" is constitutional and that reasonableness is best ascertained in practice when representatives of conflicting organized economic interests, instead of politicians or lawyers, agree voluntarily on the working rules of collective action in control of individual action. (Commons 1950, p. 25)

[15]It should be noted that Commons, like other advocates of stable prices, was thinking of price targeting rather than inflation targeting, as in the Taylor equation. See Kahn (2009) for a discussion of the difference.

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The model for this "device of collective bargaining," the Industrial Commission of Wisconsin, brought together representatives appointed by labor, industry, and insurance organizations to hammer out rules for industrial safety.

In his chapter on agricultural administration, Commons implicitly backed away from his previous rejection of marketing boards or other efforts to control agricultural production (Commons 1950, pp. 209–238). He defended the Agricultural Adjustment Act, which was designed precisely for that objective.

Commons started his chapter on credit administration with elementary explanations of the instruments of monetary control (Commons 1950, pp. 239–260). He described Irving Fisher's proposal for 100% reserves, explained how it was supposed to work, and objected that Fisher's system would not solve the problem of timeliness. Monetary difficulties of the twenties and thirties did not result from the system of fractional reserves, but from the Fed's late response, as in 1929, or its overresponse, as when it doubled the reserve requirement in 1937. Fisher's system would still require timeliness in its implementation. In addition, Commons objected that the quantity theory—on which Fisher based his solution—ignored the ability of "business men and bankers" to create and restrict credit independently of the central bank (Commons 1950, p. 254). With that exception, Commons did not advance beyond his earlier theoretical positions. For more complete theories, he simply referred readers to Clark Warburton and Keynes (Commons 1950, p. 259). And, he argued for application to monetary policy of his "device of collective bargaining."

He complained that the Federal Reserve System was guided, not by the public purposes of price stability and full employment, but by the private purposes of bankers (Commons 1950, p. 259). To correct this problem, he proposed an advisory council with members chosen by business, labor, and farm organizations, rather than by politicians (Commons 1950, p. 257). The council would have subpoena power and a technically competent staff, permitting its members to initiate investigations and publicize the results. The commission would derive most of its power from its ability to gather and publicize information and to propose legislation. Representatives of affected interests debating with each other and voicing their concerns would increase the likelihood that the actions of public officials would be guided by public purposes rather than by private purposes of bankers.

Commons closed his discussion of credit administration with a reference to the past.

> Just the opposite, but negative action in favor of private control was taken by the congressional committee under the influence of bankers in the year 1928 when they rejected the bill introduced by Congressman Strong of Kansas instructing the Federal Reserve Board to use its instruments of control for the public purpose of stabilizing the general price level, on which the present writer made arguments as a witness before the congressional committee in charge of money and banking. (Commons 1950, p. 260)

VIII. CONCLUSIONS

The Strong bills on which Commons "made arguments" symbolize a larger story and the role that Commons played in it. The larger story is one of a failed campaign

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for stable money that expanded into a "monetary discussion," and transformed orthodox doctrines of fiscal and monetary policy, even as events upended habitual assumptions of the original campaigners and brought them to conclusions they had not anticipated. For Commons, the story began much earlier—when Gresham's law frustrated the intent of the Sherman silver purchase act, and when Commons first entered the stable money debates. His most notable performance came in 1927. The 1100 pages of testimony on the first Strong bill contain a compendium of arguments on all sides of the stable money issue. Commons concluded that testimony with a presentation that won the approval of Irving Fisher, Gustav Cassel, John Maynard Keynes, and Reginald McKenna. The second Strong bill, at the insistence of Benjamin Strong, added full employment and control of speculation to the goals of the central bank. As a result, the second Strong bill enunciated monetary objectives not enshrined in United States law until the Humphrey–Hawkins bill of 1978. The second bill also incorporated Benjamin Strong's faith in free gold, a faith that Commons did not completely share. Then, the Great Depression came. Had Benjamin Strong lived, he might have found his faith in free gold undermined by the recovery of Britain and Sweden after they left the gold standard. That recovery certainly undermined Commons's faith in managed gold. The Depression forced deeper questioning and more anxious analyses. In the section of *Institutional Economics* devoted to money and credit, Commons reflected, in condensed fashion, considerations more extensively treated by Keynes, Cassel, and Fisher. But he developed a theory that was more than respectable for the time (somewhere between Keynes's *Treatise* and his *General Theory*, as Erik Tymoigne put it). Commons rejected the quantity theory, but he modified Wicksell's interest rate theory with Fisher's risk discount, and concluded that when risk discounts prevent borrowing even at zero interest rates, the state must create money to finance unemployment compensation and public works. Moreover, he gave full employment priority over price stability. Commons represented a near academic consensus on policy—if not on theory (Davis 1971). Commons's participation, then, illustrates a dialectic between inquiry and events—a learning process that subsequent events have shown to be still incomplete—though they illustrate the relevance of the seemingly odd emphasis in *The Economics of Collective Action* on wisdom and "the device of collective bargaining."

As for the incompleteness of the dialectic between inquiry and events, consider the difference between Commons, on the one hand, and Adolph Miller and Carter Glass, on the other. Commons, with his eye on the price level, had consistently rejected calls for the Fed to pay attention to the 1928 run up in stock prices, arguing that the stock market would, by itself, return to an equilibrium that rested on fundamentals. Miller and Glass attributed the Great Depression to the Fed's failure to deflate the stock bubble at its inception. This belief motivated Depression reforms that included the Glass–Steagall Act. Over time, most economists moved toward the position that Commons had held—that the Fed should focus on general price levels and aggregate employment—leaving market forces to handle speculation. Many would have agreed that the Glass–Steagall Act was a tragic mistake that "took more than sixty years to reverse" (Meltzer 2003, p. 412). The 2008 recession forced a serious rethinking of that position (Baumol 2010; Feldstein 2010).

Ironically, though, events tend to support a neglected, unique, and odd emphasis in *The Economics of Collective Action*: its emphasis on the need for some "device of

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collective action" in the making of monetary policy. Commons disputed the position that, in the case of monetary affairs, the machinery of representative democracy should be neutralized in order to free decisions of disinterested experts from the distorting pressures of partisan politics. Commons objected that experts have their own blind spots, that the best decisions are made when all the evidence is considered from all points of view, that representative democracy, when it operates well, brings all points of view to bear on decisions, and that the organization of the Fed made its officers more sensitive to the private purposes of bankers than to the public purposes of the commonwealth.

On the other hand, he recognized the problems of subjecting monetary policy to the vagaries of real-world, short-term partisan politics. His "device of collective bargaining" was designed to maintain the strengths of representative democracy while neutralizing the dangers of short-term partisan political maneuvers. To find evidence for some general form of his proposal, consider criticisms leveled against Fed policies in the stagflation of the seventies and in the more recent "Great Recession."[16]

By the end of the seventies, the world's treasury and central bank officials had reached agreement that they should mount a credible attack on inflationary expectations. On October 6, 1979, the Fed attacked. To describe what that attack wrought, William Greider used Thorstein Veblen's phrase "the slaughter of the innocents" (1987, pp. 450–494). The disinflation affected Midwestern farmers in the same way that deflation had affected farmers in the twenties—driving them into poverty and bankruptcy. Land and equipment of bankrupt farmers were auctioned at bargain prices to large corporations. And, though the effect of this policy on the deindustrialization of the Midwest is hard to isolate, the recession combined with exchange rate changes certainly did not help. Fed chair Paul Volker was the ideal Platonic "guardian"—intelligent, courageous, respected in financial markets, of unquestioned personal integrity, devoted to the public interest. But his idea of the public interest reflected what Commons called "the bias of the expert."[17] Congressional representatives and other observers claimed that Volker "did not grasp the depth of the economic destruction that was unfolding" as a result of his policy (Greider 1987, p. 527).

And more recently, in the wake of the Great recession, the issue that Commons had raised—about excessive banker influence on Fed conduct—returned (Johnson 2012). The suggestion for some "device of collective bargaining" was the last contribution that

[16]I want to thank the reviewer who pointed out that the Bank of Israel had such an advisory board between 1950 and 2010. I have been unable to find out whether it survived the restructuring of 2010, though, in addition to its Monetary Commission, the Bank of Israel has a Supervisory Council chaired by Mr. Dan Proper, the chairman of the board of Osem industries, but I haven't been able to find out much more about it.

[17]"The Federal Reserve Act commanded that the President when selecting governors 'shall have due regard to a fair representation of the financial, agricultural, industrial and commercial interests and geographical divisions of the country.' But there were now no farmers, manufacturers, small-business, or labor leaders on the board. With only scattered exceptions, the Fed governors were drawn from two disciplines—financial economics and banking. In the case of the Federal Reserve Board, the American meritocracy allowed capable people to rise to the top, but it also screened them carefully. There were no radical thinkers or original theorists among them. No one with unorthodox opinions would be chosen.… The institution encouraged its own consensus and conformity. Individual governors were dependent on the senior staff for technical data and professional advice. Inevitably, this tended to narrow the range of opinions on any given issue, and it took a strong-willed governor to stand alone and argue for competing analysis" (Greider 1987, p. 7).

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Commons made to the lost cause of reasonable monetary policy. Counterfactuals may be vain, but it can be interesting to contemplate on what the course of history might have been if all of Commons' suggestions, starting in 1927, had been implemented.[18]

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[18]One of the reviewers asked about Commons's involvement with monetary issues in the thirties. There is some correspondence in his files with senators asking for fiscal policy advice, and there may have been more, since many of his papers were lost. But the major focus of the Wisconsin School during the Depression was on unemployment insurance, social security, and health insurance. Moreover, Commons suffered a breakdown in 1934–35. His son, who had been sent with an ill-fated expedition to Siberia during World War I, returned with what we would now call 'post-traumatic stress disorder.' One day in the thirties, he took the family car, drove off, and disappeared. Commons's daughter died; students suspected suicide. And his sister died in an auto accident. In 1936, students took up a collection and bought him an Airstream trailer. He went to a trailer camp in Fort Lauderdale, Florida, where he wrote *Collective Action*. In 1944, a Wisconsin colleague attending a conference in New Haven spotted his son Jack, and they were reunited shortly after. In 1945, Commons moved to Raleigh, North Carolina, to live with his son and his sister, and he died there on May 11th.

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