The Failure to Heed The Past
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Today we hear that the gap between the top 1% and the bottom 99% in the U.S. is as wide as it's been in nearly 100 years. This hardly comes as a surprise since no one has wanted to heed the lessons learned in the 1920s. At the time the inequality of wealth was nearly what we see today

Structural weaknesses in the economy, especially in agriculture and “sick industries” such as coal, textiles, shipping, and railroads, made the economy vulnerable to a crisis in the financial markets. These had suffered setbacks in the 1920s. The same has been true since the 1990s.

See Foreword to Charting 20th Century Monetary policy

In today's America the delegation of monetary policy making to the peculiar complex of governmental and private institutions known as the Federal Reserve System appears at long last to be paying substantial dividends. Under the unifying leadership of Alan Greenspan, the "Fed" has largely displaced the Office of Management and Budget and the Council of Economic Advisers as the nation's major instrument of economic fine tuning, has received credit for the "soft landings," sustained economic growth, and remarkable price stability of recent years, and seems to have all but silenced calls for equipping the country with new economic planning and monetary management institutions. At last, it seems, a combination of piecemeal reform, economic learning, and institutional evolution has produced something approaching what the system's champions have long envisioned for it. At least it was winning the kind of accolades that had been notably absent during much of its history.

That history, however, deserves fuller and more detailed study, both to help us explain why such success was so long deferred and as an aid to understanding the tensions within and pressures upon the system that may eventually reemerge and prevent it from taking the actions required for continuing economic stability. It is only in recent years that historians of the system have begun viewing its policy output as a product of interest group and bureaucratic interaction rather than decisions generated by the search of disinterested and independent experts for a socio-economic optimum. And while it has become clear that its history has been a troubled one, involving periods of marginalization and domination by outside agencies as well as factional strife and protracted struggles for liberation from its would-be masters, we still know relatively little about these periods and struggles or about the external pressures, internal dynamics, and individual policy makers that have shaped the course of events. A new history of the system, in which its changing fortunes and efforts to serve different masters are more fully explored and accounted for, is clearly needed.

What is true of the system's history as a whole, moreover, is even more true of its history during the 1920s. Although customarily skipped over as a "quiet period" during which little of significance occurred, the decade was actually one in which the system's structural weaknesses and difficulties in achieving policy coherence were highlighted and in which its future struggles for liberation, both against the Treasury and against the New York banking establishment, were anticipated. In addition, one can find in the period the beginnings of three kinds of institutional reform initiatives that would continue to threaten the system's status as an independent agency, one coming from the heirs of an agrarian populism, a second from believers in the subordination of monetary to fiscal policy, and a third from would-be subordinators of monetary action to the development of a new capitalism managed through expert commissions and public-spirited associations. These would become greater threats during the New Deal era, when the Fed's glaring failure as an economic manager led not only to internal structural changes but also to support for subordinating it to designs stressing currency manipulation, compensatory public spending, and detailed codes of fair competition. And in its later history threats of this sort, leading to intermittent calls for new monetary, fiscal, and industrial policy agencies, continued to play a role. In them one can discern a pattern of challenge and response about which we know too little and the origins of which have remained particularly murky.

In the study that follows, Silvano Wueschner makes an important contribution to the fuller and more politically oriented history now needed if we are to understand the workings and capabilities of what has become our central institution of macroeconomic management. Focusing on particular aspects of Federal Reserve policy making in the 1920s, his study highlights not only the system's structural peculiarities and their early consequences but also the emergence and maneuvering of rival factions having differing priorities and goals, the responsiveness -of policy makers to special interests and encroaching bureaucratic domains, the persisting disagreements concerning the system's regulatory and administrative capacities, and the resulting failure to arrive at a coherent policy capable of meeting both international and domestic needs. It tells a story that says much about why the system initially failed to meet the expectations of its creators and how the stage was set for its woeful failures, diminished standing, and subordination to other agencies of economic management in the 1930s and 1940s.

In addition, the study sheds much new light on the debates that swirled around the system's international actions and the "easy money" policy that it adopted to facilitate and sustain them. And by focusing on Benjamin Strong and Herbert Hoover, it highlights the system's need for and failure to find a unifying leader and brings out, much more fully and clearly than others have done, the extent to which Hoover's vision of a progressive capitalism differed from Strong's and the ways in which the former tried to bring monetary policy into line with his efforts to turn the Department of Commerce into the nation's center for economic development and management. These years, Professor Wueschner argues, were anything but "quiet years." They were noisy and filled with portentous events, and a fuller knowledge and understanding of them can enhance our understanding of the Federal Reserve System as a political entity and help us to explain both its subsequent history and its current achievements and vulnerabilities.

Some may also be intrigued by the striking parallels between certain developments today and those of the period upon which Professor Wueschner has focused. Again there are those who hail the coming of a "new era," ushered in by technological and organizational advances that have rendered invalid our established wisdom concerning overpriced stocks, inflationary wage levels, maximum employment, and cyclical fluctuations. Again there is concern with the "demon" of irrational speculation and the consequences that it could have for the economic system as a whole. Again the difficulties and conflicting pressures inherent in achieving both international and domestic stabilization are apparent. And again, if the current success story has an unhappy ending, there is a potential for shifting managerial duties to other agencies and toppling the tool of monetary policy from the high perch it now enjoys.

Whether fuller study of policy making and implementation in the earlier period can help us to avoid its major errors seems debatable. But it can provide much food for thought. And in any event, a study that moves us closer to the history needed for assessing a bureaucratic complex now entrusted with immense power and accorded great deference is a welcome addition to the available literature.

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Iowa City, Iowa
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