LAFFER ASSOCIATES
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10-yr T-Note: 2.47%	DJIA: 26,179.13	NASDAQ: 7,848.69	S&P 500: 2,867.24	S&P 500 Undervalued: -119.4%

VOLCKER DID MAKE A BIG SWITCH TOWARDS A PRICE RULE IN 1982

By Brian Domitrovic, Ph.D.[1]

The Volcker Group Remnant: Paul Volcker and Arthur Laffer

Federal Reserve Chairman Paul Volcker all but advocated a price rule for monetary policy beginning in the latter half of 1982. He despaired of the major options to a price-rule, namely quantity and interest-rate targeting, and urged that instead, the exchange value of the dollar be given priority in Fed monetary-policy deliberations. In coming to this conclusion, this reorientation of the Fed's strategy and outlook which occasioned opposition from his board, Volcker sought to reorient monetary policy in anticipation of a major episode of non-inflationary economic growth that appeared to be in the offing as the second year of the Ronald Reagan presidency came to a close.

This account of the events of 1982 wells up from a plain reading of the immense base of documentary sources we have of Fed deliberations over the last year of the stagflation era. This reading is so plain—so obvious—that there would not be reason to recount it, but for an extraordinary counter-narrative of these very events that has emerged in recent days in the effort to discredit President Donald Trump's prospective nominee to the Board of Governors of the Federal Reserve System, Stephen Moore.

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High-level members of the Washington press corps and blogosphere have condemned President's Trump's pick on the grounds that Moore has badly misrepresented the monetary-policy history of the 1980s, 1982 in particular. The work that has been produced in this connection, it must be made clear, is shot through with errors in logic, the use of evidence, and argument, and distorts our understanding of one of the great junctures in American economic and policy history, that of the transition from stagflation to the immense, price-steady boom of the 1980s.

The major entry in this rising counter-narrative is that of *Washington Post* columnist Catherine Rampell, in an article of March 26 titled, "The Op-Ed That Got Stephen Moore His Fed Nomination Is Based on Two Major Falsehoods." Rampell contends that in his recent claims that Volcker employed a monetary-policy price rule, Moore "struggles to remember how the most famous Fed chair in history successfully stamped out inflation." Rampell drew upon a blog post from the Cato Institute's George Selgin, itself now referred to extravagantly in the discussion over the Moore pick. This post concluded that given Moore's characterizations of Volcker's priorities in the 1980s, "should Mr. Moore secure a seat on the Federal Reserve Board, he would be wise to consult other sources on monetary history and, for that matter, how the Fed should or shouldn't conduct monetary policy."

The central issue in question is Moore's account of what guided Volcker's conduct in 1982. As Rampell quoted Moore: "The Fed should stabilize the value of the dollar by adopting the commodity-price rule used successfully by former Fed chief Paul Volcker….Mr. Volcker linked Fed monetary policy to real-time changes in commodity prices. When commodity prices rose, Mr. Volcker saw inflation coming and increased interest rates. When commodities fell in price, he lowered rates." Rampell wrote that she "honestly had no idea what [Moore] was talking about when I read this." She consulted historical Fed minutes and Volcker biographies, finding no evidence of Moore's claim of a commodity-price rule operative at the Fed in the Volcker era. She asked Moore to substantiate it, and he pointed to a *Wall Street Journal* article Arthur Laffer and Charles Kadlec had written in October 1982.

Selgin's post considered Moore's recollection of that 1982 article in Moore's and Laffer's 2010 book *Return to Prosperity*. Selgin quoted from that source: "Following a meeting I [Laffer] had with Chairman Volcker in 1982, I cowrote an article for the editorial page of the *Wall Street Journal*. In this article Charles Kadlec and I outlined in detail Chairman Volcker's vision of a price rule, a vision that is as relevant today as it was in 1982. Volcker essentially said, 'Look, I have no idea what prices are today. Or what inflation is today. And we won't have those data for months. But I do know exactly what the spot prices of commodities are.'

"In short, what Chairman Volcker did," Laffer and Moore continued in 2010, "was to base monetary policy on the secular pattern of spot commodity prices (the market price of a commodity for current delivery)….It's very similar to a gold standard, except that Chairman Volcker was using twenty-five commodities instead of just one. Every quarter from 1982 on, monetary policy has been guided by the spot price of a collection of commodities, save for our present period."

Selgin commented on Laffer and Moore's claims about Volcker's operations in 1982: "It's easy to see why anyone reading this might think (1) that Laffer himself convinced Volcker to target an index of commodity prices; (2) that that is just what Volcker then proceeded to do; and (3) that subsequent Fed chairs, at least up to Bernanke, did the same. To presume that Moore himself understood his friend to be making these claims, and believed them, hardly seems a stretch."

Selgin presented evidence, including subsequent cautionary remarks from Volcker about commodity-price targeting, and submitted that none of the claims he saw in the Laffer/Moore work was valid. Rampell phoned Volcker about the controversy. Through an assistant, Volcker told Rampell that he did "not remember ever establishing a commodity-price rule." The *Post* columnist concluded, "There you have it….But hey, Republican senators still seem keen on [Moore] because 'the establishment' keeps pointing out how inept he is." Print and television media outlets picked up the Rampell story, settling on a conclusion summarized in a Reuters headline: "Trump pick advocates return to a 'rule' that may have never existed."[2]

And yet despite all these dismissive arguments made in the wake of the Moore pick, veneered as they are with the pretenses of expertise and research, it remains an essentially unavoidable historical reality that Volcker did, in fact, take the Fed to the cusp of setting up a price rule at the expense of other options in the latter half of 1982. As the *Wall Street Journal* put it back then, contemplating a series of unusual and arresting moves from Volcker that fall even as the Fed Chair had said in public that nothing was really changing: "Market economists, however, certainly thought they saw a change." The paper cited the rising hedge fund king: "Raymond T. Dalio of Bridgewater Associates claimed to see nothing less than a complete shift of priorities." The task before us, given the prospective Moore appointment and its hounding historically minded critics, is to reconstruct what really happened in 1982.[3]

[2] Catherine Rampell, "The Op-ed That Got Stephen Moore his Fed Nomination is Based on Two Major Falsehoods," *Washington Post*, March 26, 2019; George Selgin, "Stephen Moore's Other Volcker Rule," www.alt-m.org, March 25, 2019; www.reuters.com, March 29, 2019.
[3] Lindley H. Clark Jr., "What is the Fed Doing Now?" *Wall Street Journal*, Oct. 19, 1982.

Discerning Morning in America

In the summer of 1982, the Federal Reserve, for the first time over the long experience of the Great Inflation that wracked the United States and the world throughout the 1970s and into the early 1980s, exhibited the beginnings of confidence that this long, deeply unpleasant and unsettling experience was nearing its conclusion. The 200% increase in prices since 1966, inclusive of double-digit annual rates of inflation in 1974 and the three consecutive years from 1979-82, appeared, that summer, to show signs of having run its course. That July 1, the Fed prepared a statement noting that price-level measures had "risen at a relatively slow rate in the second quarter" when they were not "virtually stable." In addition, "the weighted average value of the dollar against foreign currencies has risen sharply." The Fed proposed, in this statement, that in light of these realities and other business conditions, it might begin to arrange for monetary-quantity levels at the high end of given targets, while leaving open the possibility that it might consider exceeding them, along with pushing through interest-rate floors.[4]

Since August 1979, when Volcker had become Chair after his appointment by President Jimmy Carter, the Fed had been extremely active. It had raised rates, curtailed and expanded money within broad ranges, and acceded to a system of credit controls. Yet the inflation was remorseless, 11% in 1979, 14% in 1980, and 10% in 1981. When these rates abated in early 1982, the development was indescribably welcome, but it was pregnant with a difficult question. Given that a punishing recession was gripping the country—that of 1981-82 was easily the worst of the extended stagflation period, as well as the worst since the Great Depression itself—was not the emergence of price stability, long-in-coming as it was, a consequence, a trade-off of the recession, in which GDP was sinking by 3% and unemployment nearing 11%?

In its July statement, the Fed implied that at last, it could begin to think otherwise in the face of such a question. It could provide money to the economy in full—over the quantity targets, under the interest-rate floors—so as to spur recovery without the collateral effect of inflation. The Fed effectively announced, in July 1982, that it was ready to explore the idea that the dozen-plus-year run of stagflation, in the Carter years generally deemed an insoluble problem, and in the first eighteen months of the President Ronald Reagan administration exacerbated by the horribleness of the recession, was actually in the process of consigning itself to history.

It was quite a position for the Fed to take, given the circumstances. If it turned out to be misguided, a misreading of conditions, the new Fed orientation not only stood to go down in history as one of the most calamitous re-thinkings the Fed had ever taken. It also promised to bring existential challenges to the institution. Both parties in Congress were preparing legislation to strip powers from the Fed should the all-too-familiar status quo of stagflation or any element of it persist.

Over the next several months, one person at the Fed demanded that this risk to the institution be courted. That person was Paul Volcker. The Federal Reserve Board of Governors and Open Market Committee had been steadily reconstituted over the stagflation years such that these groups now harbored within them two main factions. The first was the ascendant and in 1982 more numerous monetarists, the second Keynesians who had kept the faith. The monetarists were determined to conquer inflation, specifically through the Milton Friedman-endorsed method of consistent quantity limitation. The Keynesians were ready to concede the concept of an inflation-unemployment/growth tradeoff and prepared to tolerate the violation of quantity and rate norms crafted in the name of defeating inflation, if there was hope for more jobs.

Volcker adopted a third perspective, that of immediately occasioned non-inflationary growth. Over the course of the open-market committee (FOMC) meetings in the months following June, he made his views known, permitted a robust discussion, and insisted that his guidance be given due weight in the final decisions of the committee. On the basis of multiple, clear instances in his comments at FOMC meetings in July, August, and October 1982, it is apparent that Volcker was keen to exceed quantity targets and fall below interest rate floors, in the name of seizing the emerging opportunity to avert further crisis and depart from stagflation once and for all.

In the several hundred pages of minutes from the FOMC meetings of these three months in 1982, Volcker, it is correct to say, and as Rampell at the *Post* reported, did not mention commodity-price targeting. It is also, however, evident that Volcker named one price target that he would consider all-important in Fed decision-making. This was the dollar. Volcker would not countenance its continuing rise in foreign-exchange value in the absence of dedicated Fed moves attempting to counteract the development. "We'd have a much easier decision," as Volcker told the FOMC in October, "if the dollar were not rising into the wild blue yonder right now."[5]

In the preparatory materials for FOMC meetings written by executive-level staff over these months, the first briefing paper was consistently from the group's international monitor Sam Y. Cross. Cross's briefs emphasized one point over and over.

In August: "Perhaps the most notable feature of the exchange markets in recent weeks is that the dollar has remained in quite strong demand even though U.S. interest rates have declined very sharply….The question is why has the dollar remained so

[4] "Transcript," Federal Open Market Committee, *Federal Open Market Committee Meeting Minutes, Transcripts, and Other Documents* (June 30-July 1, 1982), fraser.stlouisfed.org, 14.

[5] "Minutes of Actions," Federal Open Market Committee, "Meeting, October 5, 1982," *Federal Open Market Committee Meeting Minutes, Transcripts, and Other Documents* (October 5, 1982), fraser.stlouisfed.org, 51.

strong in the face of declining interest rate differentials….On one occasion early this month when upward pressures on the dollar were quite intense, the Trading Desk intervened on behalf of the System and the Treasury to purchase modest amounts of marks and yen. The operation helped quiet the markets and the dollar subsequently eased back. A Treasury spokesman later confirmed publicly that the intervention had taken place, but did not reveal the date or other details."

In October: "The dollar has moved sharply higher against the currencies of Europe and Japan since the Committee's last meeting….The dollar now stands almost 5 percent higher in terms of the German mark and more than 7 percent higher in terms of the Swiss franc and the Japanese yen than on August 24, and against many currencies except the mark is at peak levels not seen for years." Again Cross reported that official remedial action was attempted, from an array of global sources: "Yesterday, however, after the dollar had been bid up *in reaction to publication of larger-than-anticipated money supply figures* [italics added], the central banks of Japan and Germany both intervened in their market in an effort to curb the dollar's rise. Then in New York, the Desk bought $20 million of yen and $30 million of marks." Cross added: "The price of gold, which had surged past $500 in early September in response to worries over LDC debt problems and Middle East conflicts, has now fallen to below $400, with firm U.S. interest rates and the strength of the dollar contributing to the decline."

In November: "The theme of the exchange market continues to be the unremitting strength of the dollar. The dollar has edged higher against most other currencies to levels not recorded since 1976 or earlier; in terms of trade-weighted averages of all major currencies, it has reached peaks never attained since these calculations began in 1970. While there have to be very serious doubts about our competitiveness at present exchange rates, particularly once the world economy starts growing, market psychology toward the dollar is nonetheless exceedingly bullish, in part because traders who bet against the dollar at times this year have been burned repeatedly and are wary of taking short positions."[6]

In his own extended comments before the FOMC in October, Volcker said he had heard that French finance minister Jacques Delors "said that something has to be done because whatever news comes out of the United States the dollar goes up. If it's good news, the dollar goes up; if it's bad news, the dollar goes up." Volcker's assessment was that "that's about right these days. It is very hard to argue that the dollar is not out of line….I can't think of any advantage, really, to the rest of the world of our present situation, partly because it is obviously a factor inhibiting their own monetary policy flexibility….Maybe I ought to put a positive cast on that, but it is a situation that itself is an important distortion in world markets."

In July 1981, the dollar exceeded the highest level it had ever attained since the joint float of global currencies consequent to the collapse of the Bretton Woods system in 1971-73. By November 1982, it had risen to its highest level yet, 16% above the low of the previous December. As Volcker quipped in October, "There's something to Delors' statement that whatever happens, people want to go into dollars." Volcker was realizing that whatever policy the Fed was pursuing regarding the money supply—the top priority of monetarism—world *demand* for the dollar was proving that supply insufficient.[7]

It was difficult to conceive, in this context, that inflation was not losing one of its preconditions for existence. In the 1970s, the inflation rate generally matched, inversely, the movement of the dollar. Now that the dollar was moving strongly into new upper reaches, one could entertain the possibility of expansionary monetary policy that did not occasion a surge in the price level. Quantity rules for monetary policy were becoming obsolete.

The considerable portion of the discussions at the FOMC over the summer and fall of 1982 concerned the new instability in the basic monetary-quality category, M1. A recent development in banking regulations (the permitting of interest-bearing checking accounts) appeared to have swelled M1 with a cascade of money from non-M1 sources. Over and over, the FOMC debated how reliable any comparison with previous entries of that year's M1 figures could be. This talk served to de-prioritize previously established M1 targets for monetary policy, indeed to prioritize completely different kinds of targets.

As for interest rates, Volcker set down his view with all firmness that his would not be high. "Let me clarify my comment," as Volcker said to his FOMC in October. "A 12 percent federal funds rate currently is totally unacceptable to me." Karen Horn of the Cleveland bank sensed unease. "Mr. Chairman," she said, "this indicates your dissatisfaction with the way we handled it last time—that is, to have a target that was sensitive to—"

Volcker interrupted: "Yes, I am totally dissatisfied. What we did last time was unacceptable to me," referring to the Fed's letting interest rates rise care of quantity targets. "I just want to make that plain. I think we made a mistake last time. I think we would not have so difficult a problem psychologically this time if we had not done what we did last time….It's unfortunate that we ended up at this meeting with the federal funds rate and private rates about 1 percentage point higher than they were at the time of the last meeting because we had a high M1 figure in September. That was the only reason it happened." Again, Volcker was arguing that interest rates derived from quantity targets were ruining monetary policy; some other foundation of monetary-policy judgment had to be discovered.

[6] Appendices, Sam Y. Cross, "Notes for FOMC Meeting," Aug. 24 (pp. 1-3), Oct. 5 (pp. 1-3), Nov. 16, 1982 (p.1), *Federal Open Market Committee Meeting Minutes, Transcripts, and Other Documents*, fraser.stlouisfed.org.
[7] "Minutes of Actions," Oct. 5, 1982, 15, 25.

Volcker proceeded to lay out the course he preferred. "I'm not going to cry over last month's decision. All I'm saying is, looking ahead, that I don't want to end up a month from now with a 12 percent federal funds rate. I don't even want to end up with an 11 percent federal funds rate, based upon everything I know about the market situation, the national situation, and the world situation." Having dismissed quantity targets, Volcker was now indicating that interest rates could not function as an independent target either. They had to come down, based on realities beyond the nexus of quantities and rates. "The market situation, the national situation, the world situation" demanded it.

Volcker's monetarist allies were concerned, startled. William Ford at the Atlanta Fed, a leading branch in the monetarist ascendancy, and which had several months before had hosted the first major conference of the theorists and practitioners of supply-side economics, was stunned. Ford's bank represented the Volcker-monetarist split now coming into the open. Milton Friedman monetarists insisted on the primacy of quantity targets. Supply-siders including Laffer and his former University of Chicago colleague Robert A. Mundell, in contrast, held that fiscal incentives to the real economy such as marginal tax cuts transformed the responsibilities of the monetary authorities. Tax-rate cuts could so increase the demand for currency that monetary policy had to relax to finance the expansion.[8]

"What you are saying quite plainly," Ford asked Volcker, "if I hear you correctly, is that you think rates are too high now and you don't want even a tiny increase from the present rate of 10-1/4 percent on the fed funds rate. You don't want it averaging 11 percent. Volcker replied, "I surely do not."

Ford: "You want literally to cap interest rates where they are now, or better yet, to drive them down."

Another FOMC member: "To a 10% top?"

Volcker: "Drive them down? I'd like to see them a little easier, yes, if we can get by with that."

Ford: "I want to say, respectfully, that I'm flatly opposed to this."[9]

And so the battle was joined. Volcker convinced enough of the board, including redoubtable Keynesian Nancy Teeters, that the Fed would respect neither quantity ceilings nor interest rate floors as it pressed ahead. As word of the meeting spread, reactions along the lines of that of Ray Dalio emerged: "nothing less than a complete shift of priorities."

The Emergence of a Price Rule

As of early October 1982, the evidence had mounted that Volcker was eschewing the two standard targets of monetary policy of the modern era. He would give final respect to neither quantity or interest-rate targets. Rampell, Selgin, and the others following in their course in the chase after Moore contend that there is no evidence (other than Laffer's) that Volcker began to pursue a price rule, specifically a commodity-price rule, at this juncture. This *ipso facto* is not a valid claim, taking the form, as it does, of the fallacious argument from a universal negative. It is, however, valid to claim that at this juncture, Volcker severely downgraded the options to price-rule targeting as he insisted upon a focus on the price of the dollar. The evidence pertinent to this proposition exists, and it is exclusive, available, and clear about what conclusions it warrants.

Moreover, the commodity-price indexes, such as existed at the time and which have been developed since, exhibit characteristics consistent with Moore's retelling. In the article that Laffer and Kadlec wrote shortly after the Volcker developments burst on the scene in October 1982, the authors cited the Dow Jones spot commodity index, pointing out how troughs in that index correlated to the breaching of monetary quantity ceilings, and peaks to that of floors. Selgin offered a graph in his post in the interest of proving the indifference of the Fed to commodity prices. The graph, however, showed a divergence between the general price index and commodity indexes only since 2004. Through the first eleven years of the graph, 1992-2003, the two indices run in parallel. Moore may have used shorthand in some of his comments that it was only the "Bernanke" Fed that had departed from a price rule. It has, however, been a commonplace to associate the Age of Greenspan with the classical performance of the Fed prior to the big run-up in gold and oil, not to mention copper and much else in the commodities universe, that began after 2003.

In 1982, Volcker made clear in wrenching debates at his institution that he had despaired of making quantity and interest-rate targets determinative, as he urged his colleagues to take something else seriously, the price of the dollar. In his extended discussions of this topic, Volcker generally mentioned two phenomena as prompting his acute concern. The first was, naturally, the Latin American debt crisis that was unfolding in monstrousness at the time. Volcker understood that the immense dollar-denominated obligations piled up during the era of inflation-devalued borrowing could wreck the financial system if the dollar did nothing but soar. In his tangles with the FOMC, Volcker indicated that he essentially had no choice. The exchange price

[8] Federal Reserve Bank of Atlanta and Emory University Law and Economics Center, *Supply-Side Economics in the 1980s: Conference Proceedings* (Westport, Conn.: Quorum Books, 1982).

[9] "Minutes of Actions," Oct. 5, 1982, 32-33.

of the dollar had to be targeted, lest the intermediation mechanisms of the world banking network seize up and lose all usefulness.

Incidentally, this horrid outcome came to pass not in 1982 but in 2008, when the United States unaccountably ignored the gigantic swings in the dollar-euro exchange rate as the crisis warned of its potential arrival and then came. It is telling that in reflecting on the 2008 episode several years afterward, Mundell lamented that the United States and the European Union had not seen the wisdom of stabilizing the dollar-euro exchange rate in 2008, saying this essentially would have averted the crisis. Volcker was engaged in a Mundell moment in 1982, discarding domestic-oriented verities about the management of monetary policy by letting the global public, through the exchange rate of the dollar, tell the Fed what to do.[10]

The other development that caught Volcker's attention in the summer and fall of 1982 was the accumulation of cash on business balance sheets. Volcker marveled at a FOMC member's comment that the explicit objective of a representative business in his region was "to generate cash." Volcker had garnered the same evidence himself. "At company after company," Volcker said of his sources, "they were all building up cash liquidity. [One executive] was just amazed at the size of their cash balances."[11]

Volcker interpreted this development, in a word he repeatedly employed, as "precautionary." He offered the interpretation that there was such a prospect of an intermediation crisis in the banking system that businesses preferred to diminish their reliance upon and exposure to it. Corporate cash balances therefore both distorted M1 as a category and telegraphed the severity of the impending financial crisis (which never came).[12]

Other members, and executive staff, explored alternative interpretations of the cash balances. The rising dollar forced the reassessment. If the dollar was bent on appreciating, the disbursement of cash threatened real profit accumulations. It was the inverse of the odd phenomenon of the Great Inflation of the 1970s, when businesses held onto inventories because they would appreciate, while the exchange medium, cash, would depreciate. Generating cash on the part of American firms in late 1982 was a rational response not necessarily to any emerging banking crisis, but to the strengthening dollar. Ideas of this nature were central to the "Mundell-Laffer hypothesis," as Jude Wanniski had termed it in 1975, of the supply-side economics in which, as Mundell routinely said, "the only economy is the world economy."[13]

Monetary policy could possibly play a role in breaking the process of rising business cash balances, which clogged the flow of investment and thus recovery. The Fed minutes do not pore over the issue, but the schedule of tax-rate cuts does appear on occasion. In January 1983, the final 10% stage of the 1981 Reagan income-tax-rate cut would activate. At that point, businesses holding cash in the face of the rising dollar would confront a new choice—to use cash to pursue investments now promising a higher after-tax rate of return.

Selgin offered no warranted evidence in his surmise that Laffer suggested that it had been he who tipped off Volcker to the option of price-targeting in 1982. The Laffer/Kadlec piece of October of that year says nothing of the sort. Neither does the ex post facto evidence. Rather, the ex post facto evidence has Laffer recounting the eminently probable history that he periodically met with Volcker, and at a meeting in 1982, Volcker showed him how one might think of using price rules as one vigorously rethought monetary policy that year.

Laffer and Volcker had been meeting regularly since the two had gotten to know each other well in the President Richard M. Nixon administration. Laffer was one of the three members (along with Volcker and Council of Economic Advisers member Hendrik Houthakker) of the rather famous "Volcker Group" on international monetary affairs as the United States prepared its disorderly departure from gold in 1971. Volcker's office routinely, in 1971, issued memos striving to dissuade the Treasury from departing too precipitously from gold and fixed exchange rates. That Laffer and Volcker might have, in 1982, taken up those issues together again, in the new circumstances and in a level of detail appropriate to experienced colleagues, is utterly consistent with historical precedent.[14]

In the 1982 Fed transcripts, Volcker and other members repeatedly warned the FOMC that "legislation" threatened the Fed should it not, at its earliest convenience, prove to be part of a comprehensive solution to stagflation. These were probably references to the Robert Byrd bill stipulating an overemphasis on full employment in the Fed's mandate, and to the Trent Lott-Jack Kemp bill specifying a price rule. Fed leadership may have also kept in mind the March 1982 conclusion of the Jesse Helms-inspired Gold Commission. Its majority report did not recommend a return to the gold, fixed exchange-rate regime only eleven years gone, but did give the impression that if the Fed did not dispatch the Great Inflation with haste in the context of

[10] "Supply-Side Economics: From The Reagan Era to Today, Part III," https://www.youtube.com/watch?v=jLHGMtTD1DA.
[11] "Minutes of Actions," Oct. 5, 1982, 25.
[12] E.g., "Minutes of Actions," Oct. 5, 1982, 53.
[13] Wanniski, "The Mundell-Laffer Hypothesis—A New View of the World Economy," *The Public Interest* 39 (Spring 1975), 31-52.
[14] E.g., "153. Paper Prepared in the Department of Treasury" ("U.S. Negotiating Position on Gold"), May 9, 1971, *Foreign Relations of the United States, 1969–1976, Volume III, Foreign Economic Policy; International Monetary Policy, 1969–1972*, ed. Bruce F. Duncombe (Washington, DC: GPO, 2001), www. history.state.gov.

economic growth and jobs, it had reason to fear for its survival, independence, and dignity. It is conceivable that Volcker confided a big new idea to Laffer in private that he did not refer to in the minutes, which he knew as a matter of convention were published to great scrutiny soon after their composition. Demonstrably in 1982, Volcker was scrambling for new ideas. He might have tried out the commodity tool on Laffer. The conclusion that is inescapable is that Volcker all but imposed a dollar price rule upon the Fed in 1982.[15]

We also know that Volcker had his eye on another outcome as he downgraded quantity and rate targets and accentuated emphasis on the price of the dollar. Volcker's switch was meant not only to stave off crisis, but to call forth an outcome of far greater quality. In the hubbub after the October FOMC meeting, Volcker said to a business conference: "I would also point out again what I have said on a number of occasions before: there is growing evidence that the inflationary momentum has been broken. Indeed, with appropriate policies, the prospects appear good for continuing moderation of inflation in the months and years ahead. Continuing progress toward restoring price stability is an essential part of building a sound base, not just for recovery but for sustaining expansion over a long period." Laffer and Kadlec echoed this view two weeks later as they assessed the consequences of the new Volcker posture they perceived: "It would imply continued growth in the monetary aggregates over the target range, a secular decline in interest rates, an acceleration of economic growth, and gains in equity prices."[16]

The knowingness of the Beltway criticism of Stephen Moore's account of this crucial period in monetary affairs and Federal Reserve history corresponds to its fallaciousness. The piling on Steve Moore in this instance is doing no service to the political-economic intelligence of the nation. In 1982, Paul Volcker was manifestly concerned about a great, classical signal not of the supply of, but of the demand for the dollar—its price in foreign exchange.

The Moore appointment aside, 1982 was one of the greatest transitions in all of American economic history, when this nation shed an exceptionally long period of comprehensive economic degeneration—the stagflation decade-plus. The tremendous growth and jobs boom for the greater portion of a generation in the absence of significant inflation after 1982 reasserted the supremacy of the American free-market model and occasioned prosperous livelihoods for untold millions, domestically and globally. 1982 is serious business. If Steve Moore happens to be homing in on what occurred in that crucial year, instead of bashing him with self-congratulatory journalism, he should be given generous consideration, commended for his effort, and encouraged to keep it up for the good of the nation.

[15] E.g., "Minutes of Actions," Nov 16. 1982, 25.

[16] Board of Governors of the Federal Reserve System (U.S.), 1935- and Volcker, Paul A. "Excerpt from Informal Talk to Business Council at Hot Springs, Va.," October 9, 1982, fraser.stlouisfed.org, 1; Arthur B. Laffer and Charles B. Kadlec, "Has the Fed Already Put Itself on a Price Rule?" *Wall Street Journal*, Oct. 28, 1982.