LESSONS FROM HISTORY FOR SUCCESSFUL DISINFLATION

ONLINE APPENDIX C:
NEWS REPORTS ON COMMITMENT IN DISINFLATIONARY EPISODES

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As described in Section 5 of the paper, this appendix presents episode-by-episode summaries of the information that readers of the *New York Times* would have had about the Federal Reserve's commitment to reducing inflation when it embarked on attempts at disinflation in the postwar period.

To find the relevant information in the *New York Times*, we search over an extended period encompassing the policy shift for articles containing "Federal," "Reserve," and the last name of the Federal Reserve Chair, and then examine each article. For subperiods when it appeared the search might have missed important items (such as extended stretches with few articles, or periods for which later articles alluded to potentially relevant developments that were not captured by our initial search), we also search for articles containing "Federal Reserve" and either "inflation" or "inflationary." Finally, for the period August 10, 1978—November 5, 1978, the *New York Times* is missing from all the websites we examined (including the newspaper's online archive). For these dates, we therefore search the *Wall Street Journal* instead.

In reading the news articles, we examine the same indicators of commitment we investigated in the internal policy records. Do the articles suggest monetary policymakers have a clear goal of reducing inflation, rather than just slowing it down? Do they suggest policymakers are willing to accept significant output losses to bring disinflation about, or are the losses highly circumscribed? Do the reports suggest monetary policymakers believe they can bring about disinflation on their own, or are their abilities limited?

October 1947. As discussed in Online Appendix B, monetary policymakers' public statements in this episode about their ability to reduce inflation using their existing tools were quite pessimistic, perhaps because they were lobbying for additional powers. As a result, the public would have perceived very low Federal Reserve commitment to reducing inflation. In September 1947, for example, the *Times* reported, "Marriner S. Eccles, chairman of the Federal Reserve Board, said today the country faces danger of 'economic collapse' if inflation continues unchecked"; it went on to report that he advocated for a range of nonmonetary measures to address the challenge, but with regard to monetary policy, said only, "he suggested that … [b]rakes should be applied to bank expansion of private credit, and the Federal Reserve Board should be given more power to do the job" (9/26/1947, p. 3).[1] In a front-page story in November headlined "Eccles Gives Plan to Curb Inflation by New Bank Rule," the *Times* reported, "Eccles asked for [new] authority" in order to be able to pursue "a Federal Reserve Board anti-inflation program … which he said would go to the roots of the problem rather than dealing merely with its effects" (11/26/1947, p. 1). The following March, it reported, "The Federal Reserve Board said tonight that the economic outlook points to a further increase in bank lending that will 'contribute to a resumption of the general price rise,'" and, the Federal Reserve "suggested that the board could check expansion of credit and could control the situation if given new powers" (3/19/1948, p. 35). Thus, the public would have had little reason to expect the Federal Reserve to be successful in this episode.

August 1955. Readers of the *New York Times* would have perceived only mild Federal Reserve commitment to reducing inflation in this period. Monetary policy was regularly described using such terms as "mild restraint" (8/7/1955, p. F1), "relatively 'tight' money" (10/15/1955, p. 1), "intended to guard against inflationary pressures" (8/25/1955, p. 31), and "aimed against possible development of inflation" (9/10/1955, p. 23). Perhaps the strongest reports in the months

[1] All quotations in this appendix are from the *New York Times* unless otherwise specified.

following the monetary policy shift were: a headline stating, "Federal Reserve Lifts Loan Rates to Curb Inflation," with the accompanying article saying the purpose of the shift was to "diminish" one "source of inflationary pressure" (8/4/1955, p. 1); "The Federal Reserve has every intention of supplying enough reserves to keep the economy moving upward—gently. … The key question confronting authorities is … whether the money supply can be kept in hand … without creating too severe a pinch and perhaps setting off a dip in the economy" (9/26/1955, p. 13); and in an article about a discount rate increase, a subheadline saying, "Advance … Aimed at Curbing Credit to Halt Inflation," with the article explaining that the change was "part of the Reserve Board's effort to tighten credit to keep the boom in the economy from 'running away' into inflation" (11/18/1955, p. 1). With the exception of the reference to the effort "to halt inflation," none of these clearly referred to reducing inflation rather than preventing it from rising. An article in November mentioned that Federal Reserve Chairman Martin "has been conspicuous for his absence from the speaker's platform of late" (11/23/1955, p. 31), suggesting the monetary policymakers were not actively trying to communicate strong commitment.

September 1958. The Federal Reserve's strong commitment to eliminate inflation in this episode received considerable attention. An article two days after a front-page story reporting on an increase in the discount rate said: "The 'Fed' took its action for one simple reason: It was telling the business world and the labor world that it was not going to tolerate another case of recovery from recession turning into inflation. If necessary, it was saying between the lines, we will even check the pace of recovery and permit undesirably high levels of unemployment for a while. We will do so because we are convinced that by far the most serious threat facing the American economy is the emergence of a feeling that inflation is inevitable"—though the article did go on to caution, "it might not work" (8/17/1958, p. E10). Two months later, the *Times* said of "those who control the Federal Reserve System and the Treasury" that "[t]heir common objective is to convince the American public, and especially the American investor, that the prospect in this country is for price stability, not eternal 'creeping inflation.'" It also said, "Tight money in the 1955–57 boom did not stop inflation. The natural conclusion is that in the next boom money must be even tighter." But again there was caution, with the article noting, "No one knows … what its outcome may be" (10/7/1958, p. 51). Multiple other articles reported similar themes (8/15/1958, p. 1; 8/17/1958, p. F1; 9/18/1958, p. 51; 9/21/1958, p. F8; and 10/18/1958, p. 29). Given these reports, readers would likely have perceived that the Federal Reserve was highly committed to disinflation in this episode.

***December* 1968.** The *Times* gave mixed messages about whether monetary policymakers' focus was on reducing inflation or preventing it from rising. A good illustration is provided by the coverage of the December discount rate increase (which was the event that most resembled an announcement of the shift in policy). The first story emphasized preventing inflation from rising: one subheadline was "Inflation Danger Cited," and the article, quoting the Federal Reserve's statement, said the move was taken "'in furtherance of a policy of restraint' on the booming economy" and "'in light of the resurgence of inflationary expectations'" (12/18/1968, p. 1). But a story the next day said the increase was "being interpreted by bankers as a sign that the monetary authorities are prepared to take on the job of bringing inflation to a halt" (12/19/1968, p. 1). And a slightly later analysis took a middle ground: "the Fed means business and is determined to dampen demand and inflationary expectations" (12/29/1968, p. F1).

Although the FOMC was described as willing to accept output costs, there was considerable emphasis on its desire to avoid a recession. The *Times* repeatedly quoted Martin's statement that the goal was to "disinflate without deflating" (2/27/1969, p. 1; "without deflating" was interpreted as meaning avoiding a recession—see for example 6/1/1969, p. E11). Only a few articles provided evidence of a willingness on the part of monetary policymakers to risk significant output costs (1/14/1969, p. 55, and 2/27/1969, p. 1). And when numbers were given for their expectation of the rise in unemployment, they were small (1/14/1969, p. 55; 2/27/1969, p. 55).[2] Given these reports, readers of the *Times* would likely have perceived mild to medium Federal Reserve commitment to disinflation.

April 1974. Readers would have perceived some, but noticeably limited, Federal Reserve commitment to disinflation in this episode—indeed, somewhat less than in the 1968 one. They would have learned that monetary policy was viewed as tight, that monetary policymakers were very concerned about inflation and probably that they wanted to reduce it, and that they were willing to accept output costs to address it. Representative milder statements included "a somewhat greater resolve by the Federal Reserve to bring inflation under control through diminished credit expansion" (5/5/1974, p. F1), and "the Federal Reserve Board's avowed intention to pursue a relatively restrictive monetary policy 'to fight inflation'" (4/24/1974, p. 53). Representative stronger ones included a report that Federal Reserve Chairman "Burns … indicated an iron-willed determination to come to grips with the inflation problem" (4/28/1974, Business and Finance, p. 23), and an editorial saying that monetary policymakers "are seeking to make clear to the world that they intend to bring United States inflation under control," and to do so "no matter what the pain for housing or any other particular sector" (4/26/1974, p. 36).

However, statements like those about bringing "inflation under control" or "com[ing] to grips" with inflation only implied that the goal was reducing inflation rather than preventing it from rising further. In addition, there were no reports of a specific ultimate objective for inflation, and only scattered vague references to restoring price stability (for example, an article 7/31/1974, p. 41, quoting Burns saying the current "rate of [money] growth is still too high for stability of average prices over the longer term"). The strongest indications of the Federal Reserve's willingness to stick with its policy were the general references to "iron-willed determination" and "no matter what the pain" noted above.

Importantly, readers would have also learned that the Federal Reserve did not have broad support for its policies and that there were concerns about financial stability. For example, a lead story in September had a three-column headline, "Leading Economists Feel Federal Reserve Needs to Ease Monetary Policy," reporting that the economists told the President at a White House meeting that the Federal Reserve should ease policy moderately even "[t]hough inflation will continue" (9/6/1974, p. 1); and an analysis in May said, "A highly visible corporate failure, one that might again undermine confidence in the financial system, could result in losing the war against inflation" (5/5/1974, p. F1).

Based on these reports, readers of the *New York Times* would likely have perceived only mild commitment to genuinely lowering inflation in this episode. Relative to the 1955 episode, the language used to describe the Federal Reserve's intentions was stronger in the 1974 episode, but the reports about the limited political support and the risks to financial stability in 1974 did not have parallels in the earlier episode. Thus on net *New York Times* readers would have perceived overall commitment as quite similar in the two episodes, though perhaps as a hair stronger in 1974.

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[2] An article in March 1969 described the Federal Reserve's goal as "a soft landing" (3/16/1969, p. F1). This is the earliest use of this term in the context of reducing inflation we are aware of.

August 1978. The news reports suggested little Federal Reserve commitment to disinflation in this episode—even less than in 1955 and 1974. In the months before the policy shift, there were reports that the Federal Reserve might take strong steps to reduce inflation. For example, an editorial said that Federal Reserve Chairman Miller "has made it clear that if the White House does not lead the fight against inflation, the Fed will ... do the job in the only way it can—through tight money and high interest, meaning an induced recession" (4/3/1978, p. A22). But such discussions largely disappeared once policy actually shifted. Perhaps the strongest was an analysis reporting, "The Federal Reserve System apparently has adopted a 'get-tough' attitude to combat excessive money growth and inflation, a sharp change" from its previous "cautious, gradualistic approach," and quoting an observer saying: "It now appears the Fed is willing to push the economy close to recession in order to reduce inflation pressures" (*Wall Street Journal*, 9/25/1978, p. 36).[3] But more typical were an article about Miller discussing various measures to deal with inflation with almost no mention of monetary policy (*Wall Street Journal*, 8/25/1978, p. 3); and an article reporting that "Miller was emphatic in rebutting suggestions that the American economy was headed for a deep depression or even a mild recession because of the present high level of interest rates," and that he said that "Government would be wise to try to keep real economic growth in a range of 3 to 4 percent a year for the next six years" (11/21/1978, p. D13). Based on these reports, readers would have likely perceived very low Federal Reserve commitment to disinflation in this episode.

October 1979. In this episode, readers of the *New York Times* would have had substantial but not overwhelming grounds for believing that monetary policymakers would pursue anti-inflationary policy in the face of obstacles. Some of the evidence of strong commitment included Federal Reserve Chairman Volcker being described shortly after his appointment as "perhaps at the forefront of those who would weight inflation to the exclusion of most everything else" (8/26/1979, p. E5); a report quoting Volcker proclaiming "a very strong and united commitment by the Fed to stay the course" of moderate money growth, and reporting that he said that "[w]e have 'begun to lay the foundation for a sustained inflation fight'" (10/16/1979, p. D1); a report in late October that Volcker "said he had no intention of backing down on his program to restrain growth in the money supply" (10/29/1979, p. D5); and a report in January that Volcker "pledged today to maintain a 'steady-as-you-go' course in fighting inflation by slowing growth in the nation's money supply," and quoting him calling inflation "the No. 1 economic problem we face" (1/23/1980, p. D7).

Two features of the news reports tempered this evidence of high commitment, however. First, there was little indication of the long-run objective beyond such phrases as "bringing inflation under control" (10/7/1979, p. 1), or "bringing down the rate of inflation" (11/28/1979, p. D2); a rare exception was a report quoting Volcker saying, "What we have to work toward over a period of time is getting back to a noninflationary situation, and that is what we intend to do" (10/29/1979, p. D5). Second, there were repeated, prominent references to the possibility that political pressures, undercutting fiscal actions, or internal dissension might prevent the Federal Reserve from seeing its policy through. As examples, an analysis at the time of the October 1979 policy shift said, "both Administration and outside economists worry about the difficulty of maintaining monetary and fiscal restraint over the several years needed to lick inflation" (10/7/1979, p. F1); an article on corporate executives' reaction to the shift had the subheadline, "Fear Political Pressure to Ease High Loan Rates" (10/15/1979, p. D1); and an analysis reported, "Another challenge facing Mr. Volcker is in holding the support of the other members of the Open

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[3] Recall that our source for the period August 10, 1978—November 5, 1978 is the *Wall Street Journal*.

Market Committee" (1/6/1980, Section 12, p. 12). Based on these reports, readers would likely have perceived high, but not extreme, Federal Reserve commitment to disinflation in this episode.

May 1981. The news reports in this episode suggest that Federal Reserve commitment to disinflation in 1981 was quite strong, and stronger than in 1979. However, the news appeared gradually rather than in a short, clearly defined period.

As in the previous episode, reports about the ultimate objective for inflation were rare and at best oblique. For example, one of the few hints of the long-run goal was a reference to "the principle that there should be a gradual reduction of money and credit growth until the money supply rises with real output" (3/30/1981, p. D2). This feature of the 1981 episode, together with the more gradual appearance of the news, points to public perception of slightly weaker commitment in this episode than in 1958.

There were two important differences from the 1979 episode. First, the administration was described as highly supportive. For example, the *Times* reported that "Reagan's call for the Federal Reserve to reduce the growth of the nation's money supply gradually" (which it described as "not out of line with current Fed policy") "has reinforced the expectations of many credit market analysts that inflation will ease in future years" (2/23/1981, p. D10). Perhaps as a result, although there were numerous reports of criticism, they rarely suggested it would lead to changes in policy.

Second, the 1981 effort was explicitly described as stronger than the 1979 one. This happened in two waves. The sharp fall in interest rates in response to the rapid downturn in early 1980 had led to reports of monetary policymakers' commitment to reduce inflation becoming less frequent and somewhat pro forma (see, for example, 6/13/1980, p. A1). The first wave of reports of redoubled commitment came in late 1980 and early 1981. The *Times* quoted Volcker acknowledging that "[t]he underlying inflation rate today appears at least as high, and probably higher, than a year ago" (1/8/1981, p. D1), but reported that monetary policymakers "said that the lack of improvement in the prospects for curbing inflation had renewed their conviction that the Federal Reserve should maintain a tight monetary policy in the absence of a dramatic shift in the economic outlook" (1/5/1981, p. A1). It also said, "The Federal Reserve's ever-tightening grip on the nation's monetary valves is a signal that the central bank is determined to squeeze the worst of inflation out of the economy—even if it produces a hair-curling recession next year" (12/14/1980, p. E5).

The second wave of news reports suggesting that the Federal Reserve's commitment in 1981 was stronger than in 1979 came in May and June 1981, after several articles in late April and early May described continuing doubts (for example, 4/20/1981, p. D6, and 5/3/1981, p. F1). A front-page story in early May cited one reason for an increase in the discount rate as being "to signal to the financial community that it will redouble its efforts to hold down growth of the money supply" (5/5/1981, p. A1). A week later, the *Times* reported, "the Federal Reserve Board is making a most aggressive effort to throttle growth of the money supply," and, "the Fed has indicated that it will now act more quickly and forcefully to control the money supply" (5/13/1981, p. D1). An article quoted Volcker saying, "I think we have to do what we have to do," and, "I don't see any reason for deviating, irrespective of what happens in fiscal policy" (6/6/1981, p. 30). Another quoted an analyst saying: "Forget about October '79. This is much tighter" (6/28/1981, p. F1).[4]

Based on the reports in the *New York Times*, readers would have perceived the Federal Reserve as extremely committed to disinflation in this episode.

December 1988. As in the 1968 episode, the *Times* provided mixed messages about the strength of the Federal Reserve's commitment to disinflation in this episode. After a long period when the focus was on whether inflation might rise, there were prominent reports in January 1989 that monetary policymakers wanted to reduce it. The lead story on January 25, referring to the Federal Reserve Chairman, bore the headline, "Greenspan Calls Inflation Too High and Vows Action," with the subheadline, "His Goal Is Stable Prices" (1/25/1989, p. A1; see also 1/15/1989, Sunday Magazine, p. 18). In addition, Greenspan had a somewhat clear ultimate objective, which he was quoted repeatedly as expressing in various forms—for example, "'price levels sufficiently stable so that expectations of change do not become major factors in key economic decisions'" (1/25/1989, p. A1). And there were scattered references to "perseverance," "commitment," and "resolve" (for examples, see 1/30/1989, p. D7, 2/22/1989, p. D1, and 2/26/1989, p. F1, respectively).

But there were multiple signs in the news reports that the Federal Reserve's commitment to disinflation was limited. Articles often focused just on whether policy would prevent inflation from rising, or mixed together the issues of preventing it from rising and reducing it. For example, an article reported that Greenspan said that "recent signs of accelerating inflation … '[are] troubling, especially with inflation already at a level that would be unsatisfactory if it persisted'" (2/24/1989, p. D1). Similarly, policy actions were largely described as efforts to keep inflation from rising, rather than active steps to reduce it. For example, a lead story on an increase in the discount rate was headlined "Federal Reserve Raises Loan Costs to Slow Inflation," and began, "Intensifying its drive to halt rising inflation," with no mention of a desire to reduce inflation (2/25/1989, p. 1). An article a few days earlier quoted an analyst saying: "To get inflation down … would have required a much tighter monetary policy" (2/22/1989, p. D16).

Relatedly, although there were some comments that monetary policy risked causing a recession (for example, 3/21/1989, p. D2), policymakers were generally portrayed as wanting to steer well clear of recession and to bring inflation down quite slowly. One story referred to "[t]he slowing to a 2 percent-plus level of growth that the Fed seeks" (3/22/1989, p. D1), and another noted that the Federal Reserve's recent monetary policy report said that "'a prudent effort to restore price stability over time' could co-exist with a slightly higher inflation rate in 1989" (2/26/1989, p. F1). In addition, there was speculation that pressure from the Administration to not follow very tight policy was affecting Federal Reserve decisions. For example, one article reported, "Many financial market experts … said that Mr. Greenspan has been more willing to accommodate the Administration's views of the economy than some former Fed chairmen have" (2/17/1989, p. D1). Finally, we found no reports in this episode of monetary policymakers having close to a "whatever it takes" approach to reducing inflation.

Based on these news reports, the public would have perceived at most medium commitment on the part of the Federal Reserve to reducing inflation—similar to, but probably slightly stronger than, what it would have perceived in the 1968 episode.

[4] Further reinforcing the view in Romer and Romer (2023) that an important part of the shift occurred in May 1981, later articles, including one on the release of the minutes of the May FOMC meeting, cited May as a date of a significant shift in policy (7/20/1981, p. D3, and 8/31/1981, p. D3).

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