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Friedman, Milton (3)

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#999

Friedman upset about
stalled money growth. Note

December 13, 1971

Dr. Arthur F. Burns reference to 1960 election,
Board of Governors
Federal Reserve System
Washington, D. C.

Dear Arthur:

What in God's name is happening? Despite your repeated assurances that the recent cessation of monetary growth is a temporary departure from a longer-run path of moderate growth, the figures show no sign of a return to such a path. There was some justification for offsetting the earlier unduly rapid growth. But this has by now been carried too far too long.

In early 1960, you correctly warned Mr. Nixon of the danger of recession, arising at least partly from a sharp monetary slowdown, and you urged the Fed, as I did also from my much more junior position, to reverse course. The Fed did not do so until June, 1960, by which time it was too late to prevent a recession.

In 1971, you are at the head of the Fed, and a far sharper slowdown has occurred in monetary growth than in 1959. The slowdown has now continued for over four months. It may already presage at least a pause in the rate of economic recovery next spring -- as a similar short-lived monetary slowdown in 1962 produced a pause in late 1962 and early 1963. But whether it does or not, continuation of the slowdown for many more months would almost certainly abort the revival that is now under way.

The comparison with 1959 is frightening. Then, as in 1971, the slowdown in monetary growth began in July. Here are the rates of change in monetary aggregates for 1971 and for the corresponding periods in 1959-60.

4 weeks ending		4 weeks ending		ANNUAL RATE OF CHANGE		
				M ₁	M ₂	Monetary Base
1/ 27/ 71	to	7/28/71		10.8	18.0	9.3
7/28/71	to	12/1/71		0.4	4.8	3.3
<u>1959-60</u>						
Jan., 1959	to	July, 1959		3.5	3.4	2.4
July, 1959	to	Nov., 1959		-2.9	-1.7	-1.2
Nov., 1959	to	June, 1960		-3.0	-1.4	-1.2

In 1971, the rate of growth was reduced by 10.4 percentage points for M₁; 13.2, for M₂; and 6, for the base. In 1959, the corresponding reductions, for the same months, were 6.4, 5.1, and 3.6. The deceleration this time is something like twice as sharp as the deceleration in 1959.

I remain concerned about the danger of a swing back to the other extreme of an inflationary rate of monetary growth. That danger of over-heating can and should be avoided. But the danger provides no excuse for going to the other extreme and putting the economy in the deep-freeze.

Monetary growth has been more erratic in 1971 than in any year in the past several decades. Try as I may, I find it hard to see any excuse for such an irresponsible policy. The Fed can avoid such wild swings. It must accept full responsibility for them and for their consequences.

Best personal regards to you and Helen. Vermont has been beautiful in its mantle of white, especially these past few days when we have enjoyed bright sunshine.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Milton", written in dark ink.

Milton Friedman

cc. George P. Shultz