Journal of Economic Perspectives—Volume 20, Number 4—Fall 2006—Pages 177–188

How Richard Nixon Pressured Arthur Burns: Evidence from the Nixon Tapes

Burton A. Abrams

In 1969, President Richard Nixon nominated Arthur F. Burns as the chairman of the Federal Reserve, and Burns took office on February 1, 1970. Burns was a respected economist with years of experience and impressive credentials: Professor of Economics at Columbia University, President of the National Bureau of Economic Research from 1957 to 1967, and Chairman of the Council of Economic Advisors under President Eisenhower from 1953 to 1957. He was an authority on business cycles and published extensively with Wesley C. Mitchell.

Although Arthur Burns was an eminent economist, Nixon was probably more impressed that he was a sympathetic Republican loyalist. In Nixon's 1962 (p. 309–310) book, *Six Crises,* he recounts that Arthur Burns called on him in March 1960 to warn him that the economy was likely to dip before the November election. Nixon writes that Burns "urged strongly that everything possible be done to avert this development. He urgently recommended that two steps be taken immediately: by loosening up on credit and, where justifiable, by increasing spending for national security." But when then–Vice President Nixon took this recommendation to the Eisenhower Cabinet, "there was strong sentiment against using the spending and credit powers of the Federal Government to affect the economy, unless and until conditions clearly indicated a major recession in prospect." Nixon sums up: "Unfortunately Arthur Burns turned out to be a good prophet." Herbert Stein (1995, p. 96), who was a member of the Council of Economic Advisers from the start of Nixon's term and became chairman at the start of 1972, confirms that Nixon blamed a modest rise in the unemployment rate as one of the reasons he lost the 1960 election.

During Richard Nixon's first term as president, the economy faced another

■ *Burton A. Abrams is Professor of Economics, University of Delaware, Newark, Delaware. His e-mail address is ⟨abramsb@lerner.udel.edu⟩.*

Table 1
Key Interest Rates and the Civilian Unemployment Rate

Date	Federal funds[a]	10-year Treasury[b]	Discount rate	Unemployment rate
1-1-70	8.71%	7.88%	6.0%	3.9%
7-1-70	7.23%	7.64%	6.0%	5.0%
1-1-71	4.82%	6.50%	5.5%	5.9%
7-1-71	5.07%	6.69%	4.75%	6.0%
1-1-72	4.05%	5.94%	4.5%	5.8%
7-1-72	4.49%	6.15%	4.5%	5.6%
11-1-72	5.06%	6.30%	4.5%	5.3%

[a]Previous week average with date ending closest to indicated date.
[b]Rate on date closest to indicated date.
Sources: Federal Reserve Bank of St. Louis website at http://research.stlouisfed.org/fred2/ and author's calculations.

unemployment problem. The economy was coming out of a recession that had started in December 1969 and ended in November 1970. But unemployment, which is usually a lagging indicator in the business cycle, continued to rise into 1971, as shown in the last column of Table 1. Evidence from the Nixon tapes, recently made available to researchers, clearly reveals that President Nixon pressured Burns, both directly and indirectly through Office of Management and Budget Director George Shultz, to engage in expansionary monetary policies prior to the 1972 election. The relevant taped conversations used in this study usually involved only two or three persons. While Nixon knew of the tapings, his remarks are remarkably forthright, as though he had forgotten that the tapes were running. The Nixon tapes used here begin in October 1971. Official transcripts do not exist for the conversations reported below. I have done my best to transcribe the relevant parts of conversations, but many of the recordings are of poor quality with garbled words due to factors like background noises and simultaneous speaking. The telephone conversations are very clear and offer some of the most interesting conversations. The Nixon tapes are now accessible to all researchers at the National Archives and Records Administration, College Park, Maryland.

Richard Nixon demanded and Arthur Burns supplied an expansionary monetary policy and a growing economy in the run-up to the 1972 election. Table 2 provides information on the growth rates for M1, M2, and real GDP for 1970 through 1972. M1 growth increased in each of the three years, starting at approximately 4.5 percent growth in 1970 and ending at slightly over 7.5 percent annualized growth over the first half of 1972. M2 growth expanded even faster. Real growth in the economy was accelerating, too. In 1972, real GDP grew 7.7 percent and certainly helped Nixon in the election.

Table 1, showing some important interest rates, further supports the view that the Fed became highly expansionary with its monetary policy in 1971 and 1972. The discount rate started at 6.0 percent on January 1, 1970, and was lowered to

Table 2

Growth Rates for M1, M2, and Real GDP

Year	*M1 Growth*	*M2 Growth*	*Real GDP growth rate*
1970	4.51%	7.36%	2.8%
1971	6.77%	13.38%	3.5%
1972	7.56%[a]	11.65%[a]	7.7%

[a]Growth rate for the first half of the year at an annualized rate.
Sources: Federal Reserve of St. Louis website at http://research.stlouisfed.org/fred2/ and author's calculations.

Table 3

Consumer Price Index Inflation Rate

Year	*Inflation rate*
1969	6.2%
1970	5.3%
1971	3.3% (wage and price controls initiated in August 1971)
1972	3.6% (wage and price controls in effect for full year)
1973	9.6% (wage and price controls removed in stages during 1973)
1974	11.8%
1975	6.7%

Sources: Federal Reserve of St. Louis website at http://research.stlouisfed.org/fred2/ and author's calculations.

4.5 percent over the next two years. The discount rate played a more important role in monetary policy in 1971 than it did in recent times and usually was set below the federal funds rate. Between January 1970 and July 1972, the federal funds rate dropped by over 4 percentage points and the 10-year Treasury rate dropped by 2.6 percentage points. Additional evidence of an excessive monetary ease in 1971 and 1972 comes from inflation statistics for the years following the Burns–Nixon pre-election monetary expansion, shown in Table 3. The Consumer Price Index inflation rate was 9.6 percent in 1973, 11.8 percent in 1974, and 6.7 percent in 1975.

Thus, a monetary stimulus helped to boost the economy in time for the 1972 election, helping to deliver Nixon's landslide victory. However, the excessive aggregate demand stimulation prior to the election created serious problems for the economy that took nearly a decade to resolve. The remaining question, which will be discussed at the end of this paper, is whether Arthur Burns acceded to this unwise policy because of the political pressure from Richard Nixon that is manifested in the taped recordings or whether Burns independently reached the conclusion that additional monetary stimulus was needed to get the economy back on track.

October 10, 1971 (Conversation No. 607-11)

Nixon, Burns, and an unknown person who does not speak are in the Oval Office. Nixon, speaking to Burns, expresses his concern about the economy: "I don't want to go out of town fast," he said, apparently referring to the possibility of losing his upcoming reelection bid. Nixon tells Burns that "this will be the last Conservative administration in Washington," perhaps seeking to raise Burns's concerns that Nixon might lose the election. Nixon claims that the "liquidity problem," by which he seems to mean the problem of too much liquidity in the system, is "just bullshit." Burns states that monetary policy has produced "lots of liquidity" in the banking sector, suggesting that there may be a problem of too much liquidity. Burns discusses the various critics of the Fed's monetary policies, whose views of those policies range from too tight to "gone wild." Burns seems to side with not needing much change in monetary policy: "I don't want to see interest rates exploding on the next . . . [garbled]. I could lose control of my Board." "Does this mean we're stuck then with a recession next year?" asks Nixon. "No, I predict recovery," replies Burns.

While Burns never explicitly defines "liquidity" in this conversation, he is probably referring to the availability of loanable funds in the banking sector or some monetary aggregate. Burns sees lots of liquidity in the banking sector and fears a rapid rise in interest rates coming from a rise in inflationary expectations if monetary policy is judged to have "gone wild." Nixon, on the other hand, is perturbed that liquidity isn't growing fast enough. Over the previous year from October 1, 1970, to October 1, 1971, the money supply had grown at a relatively expansionary 6.7 percent, but the increase had been slower in the second half of 1971. The money supply had increased at a 4.25 annual rate over the previous two months from August 1 to October 1, 1971.

November 10, 1971 (Conversation No. 14-10)

About twelve months before the 1972 election, Burns and Nixon have a private telephone conversation. Burns tells Nixon, "Look, I wanted you to know that we are reducing the discount rate today." The Board had reduced the discount rate 25 basis points to 4.75 percent. Burns goes on to say that this move should help Nixon in his forthcoming meeting with Congressman Wright Patman (D-Texas) to argue against using fiscal policy to boost the economy. Burns warns that an expansionary fiscal policy would cause interest rates to move up and "lenders will become more cautious."

At the time of this conversation, the federal funds rate had dropped to 4.93 percent from the rate of 5.32 percent a month earlier. Burns seems to be advocating a mildly more expansionary monetary policy, while also indicating his opinion that additional demand from fiscal policy was unwarranted, which suggests that he feared over-stimulating the economy.

December 10, 1971 (Conversation No. 16-82)

With fewer than eleven months until the election and four days until the next meeting of the Federal Open Market Committee, Burns and Nixon have a private telephone conversation. Burns states that "I wanted you to know that we lowered the discount rate . . . got it down to 4.5 percent." "Good, good, good," replies Nixon. Burns indicates that the announcement of the discount rate reduction would be accompanied by the usual statement that it was done in order to bring the rate into line with market conditions, but with an added statement that it was done to "also further economic expansion." Burns exclaims that he also lowered the rate to "put them [the Federal Open Market Committee] on notice that through this action that I want more aggressive steps taken by that committee on next Tuesday." "Great. Great," replies Nixon. "You can lead 'em. You can lead 'em. You always have, now. Just kick 'em in the rump a little." Burns urges the president to do something about the Pay Board and the Cost of Living Council, who, in his opinion, are "holding back recovery" by squeezing businesses by restraining price increases relative to wage increases. Burns adds adamantly: "Time is getting short. We want to get this economy going."

Burns is no longer reiterating his prediction of economic recovery made two months earlier, but instead is now emphasizing that in the lead-up to the election, it's time to get the economy going. What changed his mind? The unemployment rate rose to 6.0 percent, up from 5.8 percent the previous month. The increase in the unemployment rate likely was viewed with some urgency by Nixon, by bringing back memories of his 1960 defeat. There is evidence that George Shultz, director of the Office of Management and Budget and confidante to President Nixon, spoke directly to Burns. During these conversations, Shultz was likely to have voiced the president's strong desire for the Federal Reserve to pursue a more expansionary policy (see Conversation 670-5 below).

The reference to the Pay Board and the Cost of Living Council refer to the wage and price controls that were adopted in August 1971 and which began with a 90-day freeze on wages and prices. Burns had been a strong advocate of these controls since May 1970. With these wage and price controls in place, Burns may have felt a sense of freedom to worry less about inflation and more about getting the economy going. Whatever the reason, monetary policy becomes increasingly expansionary. The federal funds rate has dropped in the month before this conversation to 4.59 percent from 4.93 percent, and the 10-year Treasury rate was down to 6.34 percent from 7.06 percent.

The Minutes of Action and *Memorandum of Discussion* from the Federal Open Market Committee (FOMC) meeting of December 14, 1971, confirms that a more expansionary monetary policy was adopted by a unanimous vote, but with some controversy (Board of Governors of the Federal Reserve System, 1971). George H. Clay, President of the Kansas City Fed, voted "reluctantly" for the proposal. Board member J. L. Robertson voted favorably, but with "considerable reluctance" and "serious doubts." Mr. Alfred Hayes, Vice Chairman of the FOMC and President of the New York Fed, reviewed economic conditions and concluded: "All of this suggests the need for great caution in moving in the direction of any greater monetary ease." Mr. Hayes also voiced his "surprise" at the Board's discount rate reduction announced four days earlier. The minutes record: "Procedurally, he [Mr. Hayes] had felt that there was a great deal to be said for taking advantage of today's meeting to exchange views on the discount rate before any action was taken" and that Mr. Hayes "was inclined to recommend to his directors that the New York Bank stay with its present discount rate until further clarification of the outlook." While the Board of Governors reviews and determines the discount rate, each of the twelve Federal Reserve Banks "establishes" the rate. At the time of this FOMC meeting, only four of the twelve regional Federal Reserve banks had implemented the lower discount rates recommended by the Board, which suggests that there were widespread doubts about the desirability of engaging in a more expansionary monetary policy at this time.

December 24, 1971 (Conversation 17-5)

In a telephone conversation between Nixon and George Shultz, Nixon said to Shultz, "Do you feel, as far as Arthur [Burns] and the money supply, we got that about as far as we can turn it right now, have we? I mean as far as my influence on him, that's what I'm really asking."

Shultz: "Yeah. Well, you know he said that he, that they voted to increase it [the money supply]."

Nixon: "I know. And he said, 'I . . .' What was his view, his words?"

Shultz: "'And I'm on the line on that.'"

Nixon: "Well, you watch it and remind me. If I have to talk to him again, I'll do it. Next time I'll just bring him in."

Shultz: "I'm sure we'll have to keep after him on it, but I think you hit it just about right, the other day. He was heading for the Virgin Islands [Nixon laughs] and wasn't going to do any good anyway to . . . because he wasn't going back to his Board at all."

Nixon: "Right."

Shultz: "I think it was good to have that discussion about the procedures for appointment [to the Board] so that he sees that he doesn't have complete control."

Nixon: "Well, he's just got to realize that it's, uh, like it is with [Supreme Court Chief Justice Warren] Burger . . . I'm not going to let him name his people."

Later, at the end of the conversation Shultz concludes: "Well, it's been quite a year, Mr. President."

In this conversation, Nixon and Shultz indicate that they have obtained a commitment from Burns to increase the growth of the money supply. But they are still planning to monitor him closely and "bring him in" if the money supply doesn't grow as planned. Also, in a show of power, Nixon has made it clear to Burns that any appointments to the Board are the president's decision.

February 14, 1972 (Conversation 670-5)

It is now less than nine months until the November 1972 election and over two months since Nixon and Burns have had a private (recorded) conversation. This meeting in the Oval Office includes Nixon, John Ehrlichman (who was Assistant to the President for Domestic Affairs), and George Shultz. Burns is not present.

George Shultz reports that the "money supply is beginning to move." Shultz adds, "The economy *has* to be good, strong expanding economy this year. So much at stake on that." Shultz implies having had other unrecorded communications with Burns by stating: "He [Burns] recognizes that [the need for a strong, expanding economy] and he needs to do everything that he can do." Shultz exclaims: "Why worry about interest rates going down? . . . We want low interest rates. What's the problem there? So, we don't have a return flow of money from Europe? So what? Keep the money supply going up!"

Shultz reports that Burns is quite optimistic about the economy. Nixon views Burns's optimism with suspicion: "Another defense he's building up for *not* raising the money supply . . . I'd rather he weren't so optimistic . . ." Shultz and Nixon conclude that Burns is not expansionary enough with monetary policy. Nixon becomes very critical of Burns. "This is the last time I want to see him . . . [garbled] or get the hell out of here. War is going to be declared if he doesn't come around some." Nixon notes further that Burns is "talking to the Jewish press."

Shultz recounts a story. At Burns's swearing-in ceremony, Robert C. Holland, Secretary of the Board of Governors, commented that Frederic V. Malek would make a good addition to the Board. Shultz claims that Burns, upon hearing this suggestion, "glowed because that is the guy he wants to see on the Board. He will control him, just absolutely." Shultz goes on to say that Burns also "would like to get [Andrew] Brimmer off the Board."

The emerging picture is that Nixon and Shultz fear that Burns is insufficiently enthusiastic about expanding the money supply, despite Burns's earlier explicit statements. Indeed, Nixon seems paranoid concerning Burns's loyalty. The economic data supports the view that the Federal Reserve had already become decidedly more expansionary as Burns had promised, and that Shultz and Nixon's suspicions about Burns were unwarranted. The federal funds rate had dropped in just over two months to 3.43 percent on a weekly average from its 4.59 percent weekly average ending on December 10. The 10-year Treasury rate had fallen to 6.08 percent from its rate of 6.34 percent on December 10. The money supply was now growing rapidly. Over the two months before this conversation, M1 grew an annualized rate of 10 percent and M2 at an annualized rate of 12.8 percent.

Additional evidence of Nixon's distrust of Burns comes from the fact that Malek, apparently Burns's top choice for the open Governor's position on the Board, was never nominated by Nixon. As Nixon had stated earlier (Conversation 17-5), he was not going to let Burns "name his people." Brimmer left the Board in 1974 after serving eight and one-half years.

February 14, 1972 (Conversation 670-7)

Nixon and Burns have a conversation that almost immediately follows the conversation above. Ehrlichman is reportedly present, but never speaks.

Nixon: "You say it's coming along, and we had this six-month period of an awful dry spell, and I guess I'm not sure we may have hurt us irreparably."

Burns: "No."

Nixon: "You don't think so?"

Burns: "Ah, no. How could it Mr. President?"

Nixon: "Well, as my memory . . . [garbled]. You know the problem with it; you've always spoken of that time lag."

Burns: "No, but you see, uh . . ."

Nixon: "I don't much, I really don't care what you do in April, but between now and April . . . [garbled] that can hurt us . . . [garbled] in November."

Burns later goes on to say that "banks are just loaded down looking for customers," an apparent reference to the available liquidity in the banking sector due to the Fed's expansionary monetary policy stance. Burns also reports that Milton Friedman in his most recent paper concludes that "M2 is more important than M1." Nixon responds with "Hmm."

Much of this conversation is garbled, but several points seem clear. Nixon is aware of the "long and variable lags" associated with monetary policy. The "awful dry spell" is a reference to the second half of 1971. While M1 growth for all of 1971 was a relatively expansionary 6.8 percent, the annualized growth rate for the last six months was only 4.6 percent. Nixon worried that the lag from this less-expansionary monetary policy would slow down economic activity prior to the election. Nixon is also letting Burns know that he is free to follow his own desired monetary policy after April 1972. Actions taken in April, given the lag presumed to be associated with monetary policy, wouldn't have an effect on the economy until after the November election.

The report by Burns that M2 might be more relevant than M1 as a monetary policy indicator is important. Prior to this time, most economists, and probably Nixon and Shultz as well, were focusing on M1. As noted above, M2 growth was now exploding in 1971. Had Nixon and Shultz relied more on M2 as an indicator, then the White House distrust of Burns and the corresponding pressure on him to expand the money supply might have been reduced.

September 29, 1972 (Conversation No. 788-5)

In their last recorded private conversation between Nixon and Burns prior to the November election, Burns reports on his recent IMF meeting where U.S. economic successes were widely heralded. In Burns' words, "We are doing much better than they are [other IMF members] . . . We are the hope of the world . . . If we succeed, it's easier for them." It is apparent that the two men are confident of

Nixon's reelection as Burns' international travel schedule following the election is discussed. Importantly, no mention of monetary policy occurs. The unemployment rate, a lagging indicator, had dropped from its February 1, 1972, level of 5.7 percent to 5.3 percent at the time of this conversation. A rising unemployment rate had hurt Nixon in 1960, but would not do so in 1972. The election was only five weeks away. Nixon was set for a landslide victory.

Discussion

The fact that President Nixon pressured Arthur Burns to run an expansionary monetary policy in the run-up to the 1972 election is well-known (for example, Tufte, 1978, pp. 45–50). As another example, John Ehrlichman (1982, pp. 248–49) describes a meeting between Nixon and Burns on October 23, 1969, just after Burns's nomination to the Fed had been announced.

> "My relations with the Fed," Nixon said, "will be different than they were with [previous Federal Reserve chairman] Bill Martin there. He was always six months too late doing anything. I'm counting on you, Arthur, to keep us out of a recession."
>
> "Yes, Mr. President," Burns said, lighting his pipe. "I don't like to be late."
>
> Nixon continued. "The Fed and the money supply are more important than anything the Bureau of the Budget does."
>
> Burns nodded.
>
> "Arthur, I want you to come over and see me privately anytime . . ."
>
> "Thank you, Mr. President," Burns said.
>
> "I know there's the myth of the autonomous Fed . . ." Nixon barked a quick laugh. ". . . and when you go up for confirmation some Senator may ask you about your friendship with the President. Appearances are going to be important, so you can call Ehrlichman to get messages to me, and he'll call you."

In his memoir *After the Fall,* William Safire (1975, pp. 491–95), who was a speechwriter for Nixon during this time, recounts how the Nixon administration kept up a steady stream of anonymous leaks to pressure Burns, including floating one proposal to expand the size of the Federal Reserve (so that Nixon could appoint a majority of the new members) and another proposal to give the White House more control over the Fed, while planting a false story that Burns was requesting a large pay raise, when in fact Burns had suggested taking a pay cut. The taped conversations reported here illustrate further how political pressure is exerted at high levels.

Numerous researchers have searched for evidence of a political monetary cycle: that is, the deliberate manipulation of monetary policy to stimulate the economy prior to an important election (Beck, 1987; Allen and McCrickard, 1991;

Leertouwer and Maier, 2001; Price, 1997). Most empirical studies of the behavior of the Federal Reserve prior to presidential elections have not uncovered evidence of a political monetary cycle, which has supported the view that the Fed is independent. However, Abrams and Iossifov (forthcoming) suggest that a political monetary cycle does exist in the United States, but only when the president and the chairman of the Federal Reserve share party allegiance—and Burns was very much a Republican party loyalist.

Without invoking political pressure, the surge of expansionary monetary policy leading up to the 1972 election seems hard to explain. After all, Arthur Burns knew better than to run a heavily expansive monetary policy after the recession had ended in November 1970 and in an already-inflationary environment. Burns wrote in his 1957 book *Prosperity without Inflation* (p. 15), "There can be no danger of a galloping or runaway inflation in the reckonable future unless our monetary and fiscal policies become utterly reckless. I see no reason for expecting this to happen. The money supply has been under tight control since 1951. It increased a mere 4 percent between the end of 1954 and the end of 1956." Burns (pp. 21–22) continued: "They [great numbers of citizens] know that even a gradual inflation distorts the calculation of profits and therefore can impair the growth of business on which they depend for their livelihood or advancement. They know that, without giving notice, a gradual inflation may stop being gradual, gather momentum, and eventually lead to depression and unemployment. Most importantly of all, they know that inflation is not an act of God, and they believe that a mature people should be able to conduct their private and public affairs so as to avoid depression and inflation."

It is hard to understand how a man of Arthur Burns's experience, intellect, and political know-how could be pressured into abandoning his better judgment. An alternative explanation of Burns's actions holds that even though Nixon was suspicious and hectoring and paranoid toward Burns, Burns was nonetheless setting monetary policy according to his best judgment in a tumultuous macroeconomic time.

The recession that began in December 1969 and ended in November 1970 had done little to restrain inflation (as shown earlier in Table 3). In August 1971, Burns testified before Congress (as quoted in Romer and Romer, 2004, p. 140): "A year or two ago it was generally expected that extensive slack in resource use, such as we have been experiencing, would lead to significant moderation in the inflationary spiral. This has not happened, either here or abroad. The rules of economics are not working in quite the way they used to." De Long (1997) writes: "Thus there is a very real sense in which monetary policy did not contain inflation in the early 1970s because it was not tried. And it was not tried because the Chairman of the Federal Reserve did not believe it would work."

As an alternative approach to monetary restraint to combat inflation, Burns had started to advocate in May 1970 an "incomes policy"—that is, a policy of wage and price controls. Burns's advocacy of this policy shows that he retained considerable political independence, since such a policy was at first strongly opposed by Nixon's team at the

Council of Economic Advisers, headed by Herb Stein, and also originally opposed by Nixon (De Long, 1997). In effect, Burns turned over management of inflation to wage and price controls, at least for a time after they were first enacted in August 1971, which left him free to focus monetary policy on reducing unemployment. Further, many reputable economists argued that the unemployment rate, which was hovering around 6 percent, indicated that there was considerable slack in the economy (DeLong, 1997). A more sympathetic interpretation of Burns' push for monetary ease in 1971–72 is that, with wage and price controls restraining both prices and inflationary expectations, he believed that monetary stimulus could return the economy to full employment with little inflationary cost.

Whether Burns responded to political pressure or out of personal economic convictions to return the economy quickly to full employment may never be definitively determined. Yet, one wonders, had there been no political connection between Burns and Nixon, would Burns have been so eager to run an expansionary monetary policy in late 1971 and into 1972? Without the political connection, might Burns instead have sided with his Vice Chairman Alfred Hayes in arguing against greater monetary ease?

Regardless of the ultimate source of Arthur Burns's motivation, his actions as Federal Reserve chair helped to trigger an extremely costly inflationary boom–bust cycle. By Election Day in 1972, the Fed had already started its monetary tightening. The federal funds rate had risen from 4.49 percent in July 1972 to 5.06 percent by Election Day. As Nixon had told Burns in February 1972, "I really don't care what you do in [or after] April." One year after the election, in November 1973, the Federal Reserve had hit the monetary policy brakes in earnest. In the year since the November 1972 election, the discount rate had been increased from 4.5 percent in July 1972 to 7.5 percent. The federal funds rate, which had been 4.49 percent in July 1972, jumped to 9.71 percent. But the civilian unemployment rate, as usual a lagging indicator, continued to plummet, falling to 4.8 percent in November 1973. The Nixon–Burns boom–bust cycle was underway.

The eventual elimination of wage and price controls in 1973 and the excessively aggressive monetary policy of 1971–72 produced an inflationary boom. The inflation rate measured by the change in the Consumer Price Index for 1973 was 9.6 percent (as shown in Table 3). In response to the post-election Federal Reserve tightening, the economy swung into a recession in November 1973, one year after the election. The recession lasted until March 1975, but even this recession was insufficient to stop inflationary pressures. The inflation rate for 1975 was 6.7 percent—higher than the rate that precipitated the earlier wage and price controls. It was not until Paul Volcker became chairman of the Federal Reserve in 1979 and the 1980–82 recessions occurred that inflation was finally brought under control. During those recessions, the federal funds rate hit a record 15.61 percent (weekly average) and the unemployment rate rose to over 10 percent for ten months. Inflation was finally defeated, but at huge economic cost.

This episode of Richard Nixon and Arthur Burns in the run-up to the 1972 election illustrates the danger of permitting too much discretion in the implementation of monetary policy. It is time to consider an explicit rule for monetary policy, whether that rule targets only inflation or some mixture of inflation and output or unemployment. Monetary policy is too important to be left to the discretion of central bankers, who may be subject to errors in economic judgment or to manipulation by politicians.

■ *The author extends thanks for helpful comments to Joanne Abrams, Dave Black, James Butkiewicz, Farley Grubb, Saul Hoffman, the editors of this journal, and to managing editor Timothy Taylor.*

References

Abrams, Burton A. and Plamen Iossifov. (Forthcoming.) "Does the Fed Contribute to the Political Business Cycle?" *Public Choice.*

Allen, Stuart D. and Donald L. McCrickard. 1991. "The Influence of Elections on Federal Reserve Behavior." *Economic Letters.* 37:1, pp. 51–55.

Beck, Nathaniel. 1987. "Elections and the Fed: Is there a Political Business Cycle." *American Journal of Political Science.* 31:1, pp. 194–216.

Board of Governors of the Federal Reserve System. 1971. Meeting of the Federal Open Market Committee, December 14, 1971. Minutes of Actions and Memorandum of Discussion.

Burns, Arthur F. 1957. *Prosperity without Inflation.* Garden City, NY: Smith, Keynes and Marshall.

DeLong, J. Bradford. 1997. "America's Peacetime Inflation: The 1970s," in *Reducing Inflation: Motivation and Strategy.* Christina Romer and David Romer, eds. Chicago: University of Chicago Press.

Ehrlichman, John. 1982. *Witness to Power.* New York, NY: Simon and Schuster.

Leertouwer, Erik and Philipp Maier. 2001, "Who Creates Political Business Cycles: Should Central Banks Be Blamed?" *European Journal of Political Economy.* 17:3, pp. 445-63.

National Archives and Records Administration. Nixon Presidential Materials, The White House Tapes. College Park, Maryland.

Nixon, Richard. 1962. *Six Crises.* NY: Doubleday.

Price, Simon. 1997. "Political Business Cycles and Macroeconomic Credibility: A Survey." *Public Choice.* 92: 3–4, pp. 407–427.

Romer, David and Christina Romer. 2004. "Choosing the Federal Reserve Chair: Lessons from History." *Journal of Economic Perspectives.* Winter, 18:1, pp. 129–62.

Safire, William. 1975. *After the Fall.* Garden City, NY: Doubleday.

Stein, Herbert. 1995. *On the Other Hand . . . Essays on Economics, Economists, and Politics.* Washington, D.C.: American Enterprise Institute.

Tufte, Edward. 1978. *Political Control of the Economy.* Princeton, N.J.: Princeton University Press.