APPENDIX TO CHRISTINA D. ROMER AND DAVID H. ROMER, "THE MOST DANGEROUS IDEA IN FEDERAL RESERVE HISTORY: MONETARY POLICY DOESN'T MATTER"

SOURCES

This appendix documents the sources of the quotations and data in the paper. The structure of the appendix is that each relevant passage from the paper is followed by the associated documentation.

I. The 1930s

> in 1929–33, when the money stock fell 26 percent, the price level declined 25 percent, and output decreased 27 percent.

The data on the money stock are annual averages of monthly data on M1 from Friedman and Schwartz (1963, Table A-1, column 7, pp. 712–14). The data on the price level and real GDP are from the National Income and Product Accounts, Tables 1.1.4 and 1.1.3. http://www.bea.gov/iTable/index_nipa.cfm.

> "With credit cheap and redundant we do not believe that business recovery will be accelerated by making credit cheaper and more redundant."

Board of Governors of the Federal Reserve System, 1956, "Open Market Investment Policy: Excerpts, 1929–Mid-1931," p. 471. http://fraser.stlouisfed.org/docs/historical/openmarket/OMPC/OMIC1929_1931.pdf.

> "the fruitlessness and unwisdom of attempting to depress still further the abnormally low interest rates now prevailing."

Quoted in Friedman and Schwartz (1963), p. 372.

> "The consequences of … an economic debauch are inevitable. We are now suffering them.
>
> "Can they be corrected or removed by cheap money? We do not believe that they can. … there is no short cut or panacea for the rectification of existing conditions."

Board of Governors of the Federal Reserve System, 1956, "Open Market Investment Policy: Excerpts, 1929–Mid-1931," p. 503. http://fraser.stlouisfed.org/docs/historical/openmarket/OMPC/OMIC1929_1931.pdf.

> "[With] an abundance of funds in the market, … it should be the policy of the Federal Reserve System to maintain a position of strength, in readiness to meet future demands, as and when they arise, rather than to put reserve funds into the market when not needed."

Quoted in Friedman and Schwartz (1963), p. 371.

> "Cheap money is a stimulant, … but a headache will follow if the dose is large enough, and persisted in. It encourages over-borrowing."

Board of Governors of the Federal Reserve System, 1956, "Open Market Investment Policy: Excerpts, 1929–Mid-1931," p. 504. http://fraser.stlouisfed.org/docs/historical/openmarket/OMPC/OMIC1929_1931.pdf.

> "When the figures of member bank reserves are sufficiently high …, we shall probably have done our part. If the commercial banks can't or don't use the credit which we provide, that is another problem."

Harrison Papers. Columbia University Rare Book and Manuscript Library. "Memorandum: Meeting of Board of Directors," 5/12/1932, p. 218.

> "It was thought best … not to use our ammunition until the chances of effective response from the banking and business community would favor the success of our undertaking."

Harrison Papers. Columbia University Rare Book and Manuscript Library. "Memorandum: Meeting of Board of Directors," 6/30/1932, p. 246.

> "one cannot push a string"

U.S. House of Representatives, Committee on Banking and Currency, *Banking Act of 1935*, Corrected Print (Washington, D.C.: Government Printing Office, 1935), p. 377. http://fraser.stlouisfed.org/docs/historical/congressional/1935hr_ba1935.pdf.

> the Federal Open Market Committee (FOMC) believed that "the existing volume of excess reserves and of supplies of private capital is abundant at this time at low rates," and therefore that "effective action to meet and overcome the present business recession should be taken outside the field of the System's various monetary powers."

FOMC, Minutes, 12/1/1937, p. 2. http://www.federalreserve.gov/monetarypolicy/files/FOMChistmin19371201.pdf.

> "might well add unwise stimulus to the inflation of prices"

FOMC, Minutes, 3/15/1937, p. 9. http://www.federalreserve.gov/monetarypolicy/files/FOMChistmin19370315.pdf.

> "a further increase in excess reserves of member banks might give added impetus to existing inflationary tendencies."

FOMC, Executive Committee, Minutes, 3/23/1937, pp. 3–4. http://www.federalreserve.gov/monetarypolicy/files/FOMChminec119370323.pdf.

> Policymakers believed that banks' excess reserves could "create an injurious credit expansion," and therefore "decided to lock up this part of the present volume of member bank reserves as a measure of prevention."

Record of Policy Actions—Board of Governors, 7/14/1936. In *Twenty-Third Annual Report of the Board of Governors of the Federal Reserve System, Covering Operations for the Year 1936* (Washington, D.C.: Board of Governors of the Federal Reserve System, 1937), p. 217. http://fraser.stlouisfed.org/docs/publications/arfr/1930s/arfr_1936.pdf.

II. The 1970s

> in the late 1960s and the 1970s, when inflation rose erratically from low levels to near 10 percent.

This pattern is displayed by both the overall price index for Personal Consumption Expenditures (PCE) and by the price index for PCE expenditures excluding food and energy. The data are from the National Income and Product Accounts, Table 2.3.4, lines 1 and 25.
http://www.bea.gov/iTable/index_nipa.cfm.

> "[O]f late one found that at a time when unemployment was increasing prices continued to advance at an undiminished pace and wages rose at an increasing pace. …
>
> In his judgment a much higher rate of unemployment produced by monetary policy would not moderate [wage-cost] pressures appreciably."

FOMC, Memorandum of Discussion, 6/8/1971, pp. 50–51.
http://www.federalreserve.gov/monetarypolicy/files/fomcmod19710608.pdf.

> "even a long stretch of high and rising unemployment may not suffice to check the inflationary process."

Congressional testimony, 7/23/1971. In *Federal Reserve Bulletin* 57(8): 656.
http://fraser.stlouisfed.org/docs/publications/FRB/1970s/frb_081971.pdf.

> "The question is whether monetary policy could or should do anything to combat a persisting residual rate of inflation …. The answer, I think, is negative. … It seems to me that we should regard continuing cost increases as a structural problem not amenable to macro-economic measures."

FOMC, Memorandum of Discussion, 5/11/1971, p. 29.
http://www.federalreserve.gov/monetarypolicy/files/fomcmod19710511.pdf.

> "[A] substantial increase of unemployment has failed to check the rapidity of wage advances or to moderate appreciably the rise of the general price level.
>
> With increasing conviction, I have therefore come to believe that our Nation must supplement monetary and fiscal policy with specific policies to moderate wage and price increases."

Congressional testimony, 6/30/1971. In *Federal Reserve Bulletin* 57(7): 596. http://fraser.stlouisfed.org/docs/publications/FRB/1970s/frb_071971.pdf.

> "He thought the Administration had been much too slow to recognize the need for an effective incomes policy. He had urged that action be taken in that area and intended to continue doing so."

FOMC, Memorandum of Discussion, 6/8/1971, p. 49. http://www.federalreserve.gov/monetarypolicy/files/fomcmod19710608.pdf.

> "Our attempts to restrain inflation by using conventional stabilization techniques have been less than satisfactory. Three years of high unemployment and underutilized capital stock have been costly in terms both of lost production and of the denial to many of the dignity that comes from holding a productive job. Yet, despite this period of substantial slack in the economy, we still have a serious inflation problem."

Congressional testimony, 3/15/78. In *Federal Reserve Bulletin* 64(3): 193. http://fraser.stlouisfed.org/docs/publications/FRB/1970s/frb_031978.pdf.

> "We also have evidence that inflation in the American economy is much less variable than it is in other countries and is, therefore, much harder to bring down."

FOMC, Transcript, 5/22/1979, p. 21. http://www.federalreserve.gov/monetarypolicy/files/FOMC19790522meeting.pdf.

> "we expect that rising unemployment will do little to damp inflation"

FOMC, Presentation Materials, 7/11/79, Zeisel presentation, p. 7. http://www.federalreserve.gov/monetarypolicy/files/FOMC19790711material.pdf.

> "[f]or monetary policy alone there seems to be little in the way of policy options which would yield substantially improved results during the next year or two."

FOMC, Presentation Materials, 7/11/79, second Kichline presentation, p. 3. http://www.federalreserve.gov/monetarypolicy/files/FOMC19790711material.pdf.

> "we wouldn't expect to get the same price response from very weak markets"

FOMC, Transcript, 7/11/1979, p. 7. http://www.federalreserve.gov/monetarypolicy/files/FOMC19790711meeting.pdf.

> "Real interest rates … still appear to remain low by historical standards and thus continue to facilitate an expansion of overall demands."

Congressional testimony, 2/22/1979. In *Federal Reserve Bulletin* 65(3): 227. http://fraser.stlouisfed.org/docs/publications/FRB/1970s/frb_031979.pdf .

> "take some more believable steps in fighting inflation …, inflation is going to be left to the Federal Reserve and that's going to be bad news."

FOMC, Transcript, 3/21/1978, p. 33. http://www.federalreserve.gov/monetarypolicy/files/FOMC19780321meeting.pdf.

> "It was noted that an effective program to reduce the rate of inflation had to extend beyond monetary policy."

FOMC, Record of Policy Actions, 3/21/1978, p. 16. http://www.federalreserve.gov/monetarypolicy/files/fomcropa19780321.pdf.

> "need to be complemented by programs designed to enhance competition and to correct structural problems."

Congressional testimony, 3/15/1978. In *Federal Reserve Bulletin* 64(3): 193. http://fraser.stlouisfed.org/docs/publications/FRB/1970s/frb_031978.pdf.

III. The Past Few Years

Items referred to as "Speech" are ones listed on the "Speeches" page of the website of the Board of Governors of the Federal Reserve http://www.federalreserve.gov/newsevents/speech/2012speech.htm.

> unemployment has remained very high, and has consistently been projected to remain so for years. And … the high unemployment has occurred at a time of low inflation, with core inflation and the Federal Reserve's inflation forecasts generally below its inflation target.

These patterns are apparent, for example, in the FOMC's "Summary of Economic Projections" for June of each year starting in 2009:
http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20090624.pdf.
http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20100623.pdf.
http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20110622.pdf.
http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20120620.pdf.

> "Why would the Fed provision to shovel billions in additional liquidity into the economy's boiler when so much is presently lying fallow?"

Richard Fisher, "Comments to the Harvard Club of New York City on Monetary Policy (with Reference to Tommy Tune, Nicole Parent, the FOMC, Velcro, Drunken Sailors and Congress)," speech in New York, New York, 9/19/2012, p. 2. http://www.dallasfed.org/news/speeches/fisher/2012/fs120919.cfm.

> “a zero-rate policy increases the risk of misallocating real resources, creating a new set of imbalances or possibly a new set of bubbles.”

Thomas M. Hoenig, “Statement before the House Subcommittee on Domestic Monetary Policy and Technology, United States House of Representatives,” 7/26/2011, p. 1. http://www.kansascityfed.org/publicat/speeches/072611hoenig.pdf.

> “the supply of bank reserves is already large enough to support the economic recovery”

Jeffrey M. Lacker, “Economic Outlook, December 2012,” speech in Charlotte, North Carolina, 12/17/2012, p. 3. http://www.richmondfed.org/press_room/speeches/president_jeff_lacker/2012/pdf/lacker_speech_20121217.pdf.

> “further monetary stimulus runs the risk of raising inflation in a way that threatens the stability of inflation expectations.”

Jeffrey M. Lacker, “Maximum Employment and Monetary Policy,” speech in New York, New York, 9/18/2012, p. 5. http://www.richmondfed.org/press_room/speeches/president_jeff_lacker/2012/pdf/lacker_speech_20120918.pdf.

> “Most of the existing unemployment represents mismatch that is not readily amenable to monetary policy.”

Narayana Kocherlakota, “Inside the FOMC,” speech in Marquette, Michigan, 8/17/2010, p. 6. http://www.minneapolisfed.org/news_events/pres/kocherlakota_speech_08172010.pdf.

> “You can’t change the carpenter into a nurse easily …. Eventually … [p]eople will be retrained and they’ll find jobs in other industries. But monetary policy can’t retrain people. Monetary policy can’t fix those problems.”

Charles Plosser, quoted in Mary Anastasia O'Grady, “The Fed’s Easy Money Skeptic,” *Wall Street Journal*, 2/12/2011. http://online.wsj.com/article/SB10001424052748704709304576124132413782592.html.

> “we expect our policies to provide meaningful help to the economy,” but that “monetary policy is not a panacea” for “tackl[ing],” among other things, “the near-term shortfall in aggregate demand.”

Speech, 10/14/2012, pp. 3–4. http://www.federalreserve.gov/newsevents/speech/bernanke20121014a.pdf.

> after identifying “a dearth of aggregate demand,” Federal Reserve vice-chair Janet Yellen also said that “monetary policy is not a panacea.”

Speech, 11/29/2011, pp. 1, 11.
http://www.federalreserve.gov/newsevents/speech/yellen20111129a1.pdf.

> "although a stimulative monetary policy is essential for recovery, it may not be sufficient."

William C. Dudley, "Securing the Recovery and Building for the Future," speech in West Point, New York, 11/17/2011, p. 2.
http://www.newyorkfed.org/newsevents/speeches/2011/dud111117.html.

> "could impair the functioning of securities markets," "reduce public confidence in the Fed's ability to exit smoothly from its accommodative policies," create "risks to financial stability," and cause "the possibility that the Federal Reserve could incur financial losses."

Speech, 8/31/2012, pp. 12, 13, 14.
http://www.federalreserve.gov/newsevents/speech/bernanke20120831a.htm.

> "the costs of nontraditional tools, when considered carefully, appear manageable"

Speech, 8/31/2012, p. 14.
http://www.federalreserve.gov/newsevents/speech/bernanke20120831a.htm.

> Dudley said in November 2011 that nontraditional tools entail "costs as well as ... benefits," and went on to detail the costs he perceived.

William C. Dudley, "Securing the Recovery and Building for the Future," speech in West Point, New York, 11/17/2011, p. 5.
http://www.newyorkfed.org/newsevents/speeches/2011/dud111117.html.

> "the Federal Reserve has generally employed a high hurdle for using"

Speech, 10/14/2012, p. 4.
http://www.federalreserve.gov/newsevents/speech/bernanke20121014a.pdf.

> "The FOMC's unconventional policy actions …, in my judgment, have not entirely compensated for the zero-bound constraint."

Speech, 4/11/2012, p. 17.
http://www.federalreserve.gov/newsevents/speech/yellen20120411a.pdf.

> after saying that monetary policy "is not a panacea" for addressing tight financial conditions and high unemployment, Bernanke said, "We're looking for policymakers in other areas to do their part."

Transcript of press conference, 9/13/2012, pp. 7–8.

http://www.federalreserve.gov/monetarypolicy/fomcpresconf20120913.htm.

> "it is essential for other policymakers to also do their part."

Speech, 11/29/2011, p. 11.
http://www.federalreserve.gov/newsevents/speech/yellen20111129a1.pdf.

> the Federal Reserve sent Congressional leaders a white paper discussing "current conditions and policy considerations" concerning the housing market and housing policy.

"The U.S. Housing Market: Current Conditions and Policy Considerations," Board of Governors of the Federal Reserve, 1/4/2012.
http://www.federalreserve.gov/publications/other-reports/files/housing-white-paper-20120104.pdf.

> the Summary of Economic Projections in September 2012, when the FOMC decided to make greater use of the tools, involved a considerably lower level of unemployment, and a similar rate of decline in unemployment and a similar path for inflation, than the projections in November 2011

The projections are from the FOMC meetings of 11/1–2/2011 and 9/12–13/2012.
http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20111102.pdf and
http://www.federalreserve.gov/monetarypolicy/files/fomcminutes20120913.pdf.

IV. Conclusion

> "I don't think we have any substitute for seeking an answer to our problems in the context of monetary discipline."

U.S. Senate, Committee on Banking, Housing, and Urban Affairs, *Nomination of Paul A. Volcker* (Washington, D.C.: U.S. Government Printing Office, 1979), 7/30/1979, p. 5.
http://hdl.handle.net/2027/mdp.39015083086606.