

Teach American History Course
Final Project 3 different lesson plans from a unit on the Great Depression
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The information we studied on the Great Depression will fit beautifully into a unit on that time period. As part of this project I am submitting several lessons that coincide with many of the topics discussed in our summer session.

I found lots of videos and other information for this unit on the internet. I even found segments of Paul Dickson's "March of the Bonus Army" on YouTube so that I could use it in class. It would be great if we could have a copy of that video.

When I began this course the material did not apply to the classes I was teaching but I knew that in the past I had taught United States History II and that I would at some point in the future teach it again. I am fortunate this year to have two college preparatory classes of United States History II and I am looking forward to sharing these lesson and some of the other great information that I have gained from this course.

It was really exciting to be in a somewhat classroom environment again. I particularly enjoyed the summer sessions even if they were long and tedious days. The speakers were all amazing. Paul Dickenson was very inspiring with his curious nature about so many different subjects that have led him to compose so many books and assist in the development of a few films. It was so fun to listen to him talk about all his projects, he was so personally excited. Klarman was so amazing in his depth of knowledge on so many cases and his ability to process and move from case to case and topic to topic and he spoke so quickly! I was just floored and felt so simple minded while listening to him. It was also interesting to hear his reflections on the way the judges baited and taunted each other. Shulman and Lydle were also fabulous. I believe that I will be able to incorporate many pieces of information from each of their lectures and the readings into my future classes. I really like Lydle's writing exercise and plan to use that exercise in my class, I felt that was a really ingenious and creative way to help students develop a five paragraph essay.

Lesson Plan for Teach American History Course

Nancy Christie, Nantucket High School

Unit: The Great Depression

Lesson: The Dust Bowl and its effects on the people and the environment

Objectives:

- 1) Students will be able to discuss the causes of the Dust Bowl.
- 2) Students will be able to express the types of hardships faced by plains families before, during and after leaving the Dust Bowl.

State Standards:

US II. 11	Describe the various causes and consequences of the global depression of the 1930's, and analyze how Americans responded to the Great Depression. <ol style="list-style-type: none">a. restrictive monetary policiesb. unemploymentc. support for political and economic reformd. the influence of the ideas of John M. Keynes, and the critique of centralized planning and management by Ludwig von Mises, Fredrich von Hayek and Milton Friedman.
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Procedures:

- 1) **Activator:** Project picture of Dust Bowl homestead about to over run by the storm onto front screen. Have students write a Diary entry as if they were in the next house down the road and watching the storm approach and overcome a friend's house. (Copy of picture on next page.)
- 2) **Review:** Students will have read *The Americans*, Chapter 22 section 2 the night before. Review the information the text provided on causes and results of the Dust Bowl and list on the board. Students putting list in to note books under Diary entry.
- 3) **View:** Plow that Broke the Plains(1935) downloaded from www.havefunwithhistory.com/movies/plow.html, video is a documentary made in 1935 that although dry and repetitive displays the history of the plains settlement and the causes of the Dust Bowl. (26 minutes long)
- 4) **Review:** After viewing video revisit the list of causes of the Dust Bowl and refine it using information from the video adding any new information to the list.
- 5) **Discuss** the social emotional effects on the farmer and the family as a result of these storms. Why did the farmer stay if there was no water? Why did the farmer continue plow more land if there was a drought? What did many farm families end up doing? How did they feel as a result of their decisions? How were they treated by others? Why did this happen in the first place? What environmental concerns were there during that time period? How did the dust storms effect the people physically, mentally, socially? Record responses on board and in notebook.

- 6) **Summation/Assessment:** Students will write a brief, a few short paragraphs, newspaper report from a Dust Bowl community documenting a recent storm and its effect on the community. Project image of homestead ahead of the storm again so they have a visual to guide them.

Dust Bowl homestead ahead of the storm. <http://iaanhughes.files.wordpress.com/2009/03/dust-bowl2.jpg?w=469&h=306>



Lesson Plan for Teach American History Course

Nancy Christie, Nantucket High School

Unit: The Great Depression

Lesson: The Great Depression: How President Hoover responds

Objectives:

- 1) Students will be able to identify popular economic theories/ philosophies on how to deal with economic downturns.
- 2) Students will be able to identify President Hoover's reactions to the economic tragedy and their results positive or negative.

State Standards:

US II. 11	Describe the various causes and consequences of the global depression of the 1930's, and analyze how Americans responded to the Great Depression. e. restrictive monetary policies f. unemployment g. support for political and economic reform h. the influence of the ideas of John M. Keynes, and the critique of centralized planning and management by Ludwig von Mises, Fredrich von Hayek and Milton Friedman.
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Procedures:

- 3) **Activator:** Students will listen and read Ch14 (pages 295-302) from *Only Yesterday* by Frederick Lewis Allen. Ask students after listening to record what actions President Hoover took according to the reading.
- 4) **Review:** Students will have read *The Americans*, Chapter 22 section 3 the night before. Review the information the text provided on Hoover's action plan. Students putting list in to note books.
- 5) **Introduce:** Economists John M. Keynes, Ludwig von Mises, Friedrich von Hayek, and Milton Friedman. Provide a brief biography of each economist and summary of their economic beliefs and ideas.
- 6) **Synthesize:** Question to students: Based on economic theories presented, which one do you think best represents Hoover's philosophy on how to deal with the economic crisis? Why do you think that? (Students should first answer this question in their notebook and then we can discuss as a group)
- 7) **Discuss:** As a whole group discuss President Hoover's actions and the various economic theories. Hypothesize how utilizing a different approach to the problem might have affected the depression differently.
- 8) **Summation/Assessment:** Students will write a brief, a few short paragraphs, statement to President Hoover providing advice on which path he should take in solving the economic problems quickly and efficiently based on their understanding of the different economic theories and available information.

Lesson Plan for Teach American History Course

Nancy Christie, Nantucket High School

Unit: The Great Depression

Lesson: The Great Depression: The Bonus Army

Objectives:

- 1) Students will be able to express the goals of the Bonus Army and the methods they employed to reach their goals.
- 2) Students will be able to identify President Hoover's reactions to the Bonus Army's presence and the effects of his actions at the time and in the future.

State Standards:

US II. 11	Describe the various causes and consequences of the global depression of the 1930's, and analyze how Americans responded to the Great Depression. <ol style="list-style-type: none">i. restrictive monetary policiesj. unemploymentk. support for political and economic reforml. the influence of the ideas of John M. Keynes, and the critique of centralized planning and management by Ludwig von Mises, Fredrich von Hayek and Milton Friedman.
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Procedures:

- 3) **Activator:** Reading from www.eyewitnesstohistory.com, The Bonus Army. (attached below) Write: What is your immediate reaction to this reading?
- 4) **Review:** Students will have read *The Americans*, Chapter 22 section 3 the night before. Review the information the text provided on the Bonus Army's presence in Washington D.C. Have students respond to the following questions in their notebooks for review and discussion after a short video. What was their purpose in being there? Did they have any successes? How did they handle disappointments? How did President Hoover react? Is there any evidence of disrespect toward the President and if so by whom? How has this issue changed the way the government "deals" with returning veterans of war? Students putting thoughts into note books.
- 5) **View:** "March of the Bonus Army" Part one, two and three on YouTube (same as the PBS video but on Youtube and not a complete version.)
- 6) **Synthesize:** After viewing have students respond to the same questions from the review section.
- 7) **Discuss:** Review each of the questions and then ask them: How do students feel about this incident? Do they feel it was fair treatment of veterans? Do they feel that the government treated them well for their service? Are there similar issues to this in history? How does this particular event/issue effect our country emotionally, socially, and politically? Who is betrayed here and by whom?
- 8) **Summation/Assessment:** How does the treatment of veterans today differ from this? Is the treatment better or worse?

The Bonus Army

In 1924, a grateful Congress voted to give a bonus to World War I veterans - \$1.25 for each day served overseas, \$1.00 for each day served in the States. The catch was that payment would not be made until 1945. However, by 1932 the nation had slipped into the dark days of the Depression and the unemployed veterans wanted their money immediately.

In May of that year, some 15,000 veterans, many unemployed and destitute, descended on Washington, D.C. to demand immediate payment of their bonus. They proclaimed themselves the Bonus Expeditionary Force but the public dubbed them the "Bonus Army." Raising ramshackle camps at various places around the city, they waited.

The veterans made their largest camp at Anacostia Flats across the river from the Capitol. Approximately 10,000 veterans, women and children lived in the shelters built from materials dragged out of a junk pile nearby - old lumber, packing boxes and scrap tin covered with roofs of thatched straw.

Discipline in the camp was good, despite the fears of many city residents who spread unfounded "Red Scare" rumors. Streets were laid out, latrines dug, and formations held daily. Newcomers were required to register and prove they were bonafide veterans who had been honorably discharged. Their leader, Walter Waters, stated, "We're here for the duration and we're not going to starve. We're going to keep ourselves a simon-pure veteran's organization. If the Bonus is paid it will relieve to a large extent the deplorable economic condition."

June 17 was described by a local newspaper as "the tensest day in the capital since the war." The Senate was voting on the bill already passed by the House to immediately give the vets their bonus money. By dusk, 10,000 marchers crowded the Capitol grounds expectantly awaiting the outcome. Walter Waters, leader of the Bonus Expeditionary Force, appeared with bad news. The Senate had defeated the bill by a vote of 62 to 18. The crowd reacted with stunned silence. "Sing America and go back to your billets" he commanded, and they did. A silent "Death March" began in front of the Capitol and lasted until July 17, when Congress adjourned.

A month later, on July 28, Attorney General Mitchell ordered the evacuation of the veterans from all government property. Entrusted with the job, the Washington police met with resistance, shots were fired and two marchers killed. Learning of the shooting at lunch, President Hoover ordered the army to clear out the veterans. Infantry and cavalry supported by six tanks were dispatched with Chief of Staff General Douglas MacArthur in command. Major Dwight D. Eisenhower served as his

liaison with Washington police and Major George Patton led the cavalry.

By 4:45 P.M. the troops were massed on Pennsylvania Ave. below the Capitol. Thousands of Civil Service employees spilled out of work and lined the streets to watch. The veterans, assuming the military display was in their honor, cheered. Suddenly Patton's troopers turned and charged. "Shame, Shame" the spectators cried. Soldiers with fixed bayonets followed, hurling tear gas into the crowd.

By nightfall the BEF had retreated across the Anacostia River where Hoover ordered MacArthur to stop. Ignoring the command, the general led his infantry to the main camp. By early morning the 10,000 inhabitants were routed and the camp in flames. Two babies died and nearby hospitals overwhelmed with casualties. Eisenhower later wrote, "the whole scene was pitiful. The veterans were ragged, ill-fed, and felt themselves badly abused. To suddenly see the whole encampment going up in flames just added to the pity."

References:

Bartlett, John Henry, *The Bonus March and the New Deal* (1937); Daniels, Roger, *The Bonus March; an Episode of the Great Depression* (1971).

How To Cite This Article:
"The Bonus Army" EyeWitness to History, www.eyewitnesstohistory.com (2000).

The following is information to on the Economists and their theories. This will be used to create a summary for the students. This information was obtained from <http://www.econlib.org/library/Enc/bios/Mises.html>.

Ludwig von Mises was one of the last members of the original [AUSTRIAN SCHOOL OF ECONOMICS](#). He earned his doctorate in [LAW AND ECONOMICS](#) from the University of Vienna in 1906. One of his best works, *[The Theory of Money and Credit](#)*, was published in 1912 and was used as a money and banking textbook for the next two decades. In it Mises extended Austrian marginal utility theory to money, which, noted Mises, is demanded for its usefulness in purchasing other goods rather than for its own sake.

In that same book Mises also argued that [BUSINESS CYCLES](#) are caused by the uncontrolled expansion of bank credit. In 1926 Mises founded the Austrian Institute for Business Cycle Research. His most influential student, [FRIEDRICH HAYEK](#), later developed Mises's business cycle theories.

Another of Mises's notable contributions is his claim that [SOCIALISM](#) must fail economically. In a 1920 article, Mises argued that a socialist government could not make the economic calculations required to organize a complex economy efficiently. Although socialist economists [OSKAR LANGE](#) and [ABBA LERNER](#) disagreed with him, modern economists agree that Mises's argument, combined with Hayek's elaboration of it, is correct (see [SOCIALISM](#)).

Mises believed that economic truths are derived from self-evident axioms and cannot be empirically tested. He laid out his view in his magnum opus, *[Human Action](#)*, and in other publications, although he failed to persuade many economists outside the Austrian school. Mises was also a strong proponent of laissez-faire; he advocated that the government not intervene anywhere in the economy. Interestingly, though, even Mises made some striking exceptions to this view. For example, he believed that military [CONSCRIPTION](#) could be justified in wartime.

From 1913 to 1934 Mises was an unpaid professor at the University of Vienna while working as an economist for the Vienna Chamber of Commerce, in which capacity he served as the principal economic adviser to the Austrian government. To avoid the Nazi influence in his Austrian homeland, in 1934 Mises left for Geneva, where he was a professor at the Graduate Institute of International Studies until he emigrated to New York City in 1940. He was a visiting professor at New York University from 1945 until he retired in 1969.

Mises's ideas—on economic reasoning and on economic policy—were out of fashion during the Keynesian revolution that took over American economic thinking from the mid-1930s to the 1960s. Mises's upset at the Keynesian revolution and at Hitler's earlier destruction of his homeland made Mises bitter from the late 1940s on. The contrast between his early view of himself as a mainstream member of his profession and his later view of himself as an outcast shows up starkly in *The Theory of Money and Credit*. The first section, written in 1912, is calmly argued; the last section, added in the 1940s, is strident.

If any twentieth-century economist was a Renaissance man, it was **Friedrich Hayek**. He made fundamental contributions in political theory, psychology, and economics. In a field in which the relevance of ideas often is eclipsed by expansions on an initial theory, many of his contributions are so remarkable that people still read them more than fifty years after they were written. Many graduate economics students today, for example, study his articles from the 1930s and 1940s on economics and knowledge, deriving insights that some of their elders in the economics profession still do not totally understand. It would not be surprising if a substantial minority of economists still read and learn from his articles in the year 2050. In his book *Commanding Heights*, Daniel Yergin called Hayek the "preeminent" economist of the last half of the twentieth century.

Hayek was the best-known advocate of what is now called [AUSTRIAN ECONOMICS](#). He was, in fact, the only major recent member of the Austrian school who was actually born and raised in Austria. After World War I, Hayek earned his doctorates in law and political science at the University of Vienna. Afterward he, together with other young economists Gottfried Haberler, [FRITZ MACHLUP](#), and [OSKAR MORGENSTERN](#), joined [LUDWIG VON MISES](#)'s private seminar—the Austrian equivalent of [JOHN MAYNARD KEYNES](#)'s "Cambridge Circus." In 1927 Hayek became the director of the newly formed Austrian Institute for Business Cycle Research. In the early 1930s, at the invitation of [LIONEL ROBBINS](#), he moved to the faculty of the London School of Economics, where he stayed for eighteen years. He became a British citizen in 1938.

Most of Hayek's work from the 1920s through the 1930s was in the Austrian theory of [BUSINESS CYCLES](#), capital theory, and monetary theory. Hayek saw a connection among all three. The major problem for any economy, he argued, is how people's actions are coordinated. He noticed, as [ADAM SMITH](#) had, that the price system—free markets—did a remarkable job of coordinating people's actions, even though that coordination was not part of anyone's intent. The market, said Hayek, was a spontaneous order. By spontaneous Hayek meant unplanned—the market was not designed by anyone but evolved slowly as the

result of human actions. But the market does not work perfectly. What causes the market, asked Hayek, to fail to coordinate people's plans, so that at times large numbers of people are unemployed?

One cause, he said, was increases in the [MONEY SUPPLY](#) by the central bank. Such increases, he argued in *Prices and Production*, would drive down [INTEREST RATES](#), making credit artificially cheap. Businessmen would then make capital investments that they would not have made had they understood that they were getting a distorted price signal from the credit market. But capital investments are not homogeneous. Long-term investments are more sensitive to interest rates than short-term ones, just as long-term [BONDS](#) are more interest-sensitive than treasury bills. Therefore, he concluded, artificially low interest rates not only cause [INVESTMENT](#) to be artificially high, but also cause "malinvestment"—too much investment in long-term projects relative to short-term ones, and the boom turns into a bust. Hayek saw the bust as a healthy and necessary readjustment. The way to avoid the busts, he argued, is to avoid the booms that cause them.

Hayek and Keynes were building their models of the world at the same time. They were familiar with each other's views and battled over their differences. Most economists believe that Keynes's *General Theory of Employment, Interest and Money* (1936) won the war. Hayek, until his dying day, never believed that, and neither do other members of the Austrian school. Hayek believed that Keynesian policies to combat [UNEMPLOYMENT](#) would inevitably cause [INFLATION](#), and that to keep unemployment low, the central bank would have to increase the money supply faster and faster, causing inflation to get higher and higher. Hayek's thought, which he expressed as early as 1958, is now accepted by mainstream economists (see [PHILLIPS CURVE](#)).

In the late 1930s and early 1940s, Hayek turned to the debate about whether socialist planning could work. He argued that it could not. The reason socialist economists thought central planning could work, argued Hayek, was that they thought planners could take the given economic data and allocate resources accordingly. But Hayek pointed out that the data are not "given." The data do not exist, and cannot exist, in any one mind or small number of minds. Rather, each individual has knowledge about particular resources and potential opportunities for using these resources that a central planner can never have. The virtue of the [FREE MARKET](#), argued Hayek, is that it gives the maximum latitude for people to use [INFORMATION](#) that only they have. In short, the market process generates the data. Without markets, data are almost nonexistent.

Mainstream economists and even many socialist economists (see [SOCIALISM](#)) now accept Hayek's argument. Columbia University economist Jeffrey Sachs noted: "If you ask an economist where's a good place to invest, which industries are going to grow, where the specialization is going to occur, the track record is pretty miserable. Economists don't collect the on-the-ground information businessmen do. Every time Poland asks, Well, what are we going to be able to produce? I say I don't know."¹

In 1944 Hayek also attacked socialism from a very different angle. From his vantage point in Austria, Hayek had observed Germany very closely in the 1920s and early 1930s. After he moved to Britain, he noticed that many British socialists were advocating some of the same policies for government control of people's lives that he had seen advocated in Germany in the 1920s. He had also seen that the Nazis really were National Socialists; that is, they were nationalists and socialists. So Hayek wrote *The Road to Serfdom* to warn his fellow British citizens of the dangers of socialism. His basic argument was that government control of our economic lives amounts to totalitarianism. "Economic control is not merely control of a sector of human life which can be separated from the rest," he wrote, "it is the control of the means for all our ends."

To the surprise of some, John Maynard Keynes praised the book highly. On the book's cover, Keynes is quoted as saying: "In my opinion it is a grand book.... Morally and philosophically I find myself in agreement with virtually the whole of it; and not only in agreement with it, but in deeply moved agreement."

Although Hayek had intended *The Road to Serfdom* only for a British audience, it also sold well in the United States. Indeed, *Reader's Digest* condensed it. With that book Hayek established himself as the world's leading classical liberal; today he would be called a libertarian or market liberal. A few years later, along with [MILTON FRIEDMAN](#), [GEORGE STIGLER](#), and others, he formed the Mont Pelerin Society so that classical liberals could meet every two years and give each other moral support in what appeared to be a losing cause.

In 1950 Hayek became professor of social and moral sciences at the University of Chicago, where he stayed until 1962. During that time he worked on methodology, psychology, and political theory. In methodology Hayek attacked "scientism"—the imitation in social science of the methods of the physical sciences. His argument was that because social science, including economics, studies people and not objects, it can do so only by paying attention to human purposes. The Austrian school in the 1870s had already shown that the value of an

item derives from its ability to fulfill human purposes. Hayek was arguing that social scientists more generally should take account of human purposes. His thoughts on the matter are in *The Counter-Revolution of Science: Studies in the Abuse of Reason*. In psychology Hayek wrote *The Sensory Order: An Inquiry into the Foundations of Theoretical Psychology*.

In political theory Hayek gave his view of the proper role of government in his book *The Constitution of Liberty*. It is actually a more expansive view of the proper role of government than many of his fellow classical liberals hold. He discussed the principles of freedom and based his policy proposals on those principles. His main objection to progressive [TAXATION](#), for example, was not that it causes inefficiency but that it violates equality before the law. In the book's postscript, "Why I Am Not a Conservative," Hayek distinguished his classical liberalism from conservatism. Among his grounds for rejecting conservatism were that moral and religious ideals are not "proper objects of coercion" and that conservatism is hostile to internationalism and prone to a strident nationalism.

In 1962 Hayek returned to Europe as professor of economic policy at the University of Freiburg in Breisgau, West Germany, and stayed there until 1968. He then taught at the University of Salzburg in Austria until his retirement nine years later. His publications slowed substantially in the early 1970s. In 1974 he shared the Nobel Prize with [GUNNAR MYRDAL](#) "for their pioneering work in the theory of money and economic fluctuations and for their penetrating analysis of the interdependence of economic, social and institutional phenomena." This award seemed to breathe new life into him, and he began publishing again, both in economics and in politics.

Many people get more conservative as they age. Hayek became more radical. Although he had favored central banking for most of his life, in the 1970s he began advocating denationalizing money. Private enterprises that issued distinct currencies, he argued, would have an incentive to maintain their currency's purchasing power. Customers could choose from among competing currencies. Whether they would revert to a [GOLD STANDARD](#) was a question that Hayek was too much of a believer in spontaneous order to predict. With the collapse of [COMMUNISM](#) in Eastern Europe, some economic consultants have considered Hayek's currency system as a replacement for fixed-rate currencies.

Hayek was still publishing at age eighty-nine. In his book *The Fatal Conceit*, he laid out some profound insights to explain the intellectuals' attraction to socialism and then refuted the basis for their beliefs.

Milton Friedman was the twentieth century's most prominent advocate of free markets. Born in 1912 to Jewish immigrants in New York City, he attended Rutgers University, where he earned his B.A. at the age of twenty. He went on to earn his M.A. from the University of Chicago in 1933 and his Ph.D. from Columbia University in 1946. In 1951 Friedman received the John Bates Clark Medal honoring economists under age forty for outstanding achievement. In 1976 he was awarded the Nobel Prize in economics for "his achievements in the field of consumption analysis, monetary history and theory, and for his demonstration of the complexity of stabilization policy." Before that time he had served as an adviser to President Richard Nixon and was president of the American Economic Association in 1967. After retiring from the University of Chicago in 1977, Friedman became a senior research fellow at the Hoover Institution at Stanford University.

Friedman established himself in 1945 with *Income from Independent Professional Practice*, coauthored with Simon Kuznets. In it he argued that state licensing procedures limited entry into the medical profession, thereby allowing doctors to charge higher fees than they would be able to do if [COMPETITION](#) were more open.

His landmark 1957 work, *A Theory of the Consumption Function*, took on the [KEYNESIAN](#) view that individuals and households adjust their expenditures on consumption to reflect their current income. Friedman showed that, instead, people's annual consumption is a function of their "permanent income," a term he introduced as a measure of the average income people expect over a few years.

In *Capitalism and Freedom*, Friedman wrote arguably the most important economics book of the 1960s, making a case for relatively free markets to a general audience. He argued for, among other things, a volunteer army, freely floating exchange rates, abolition of licensing of doctors, a negative income tax, and [EDUCATION](#) vouchers. (Friedman was a passionate foe of the military draft: he once stated that the abolition of the draft was almost the only issue on which he had personally lobbied Congress.) Many of the young people who read it were encouraged to study economics themselves. His ideas spread worldwide with *Free to Choose* (coauthored with his wife, Rose Friedman), the best-selling nonfiction book of 1980, written to accompany a TV series on the Public Broadcasting System. This book made Milton Friedman a household name.

Although much of his trailblazing work was done on price theory—the theory that explains how prices are determined in individual markets—Friedman is popularly recognized for [MONETARISM](#). Defying Keynes and most of the academic establishment of the time, Friedman presented evidence to resurrect the quantity theory of money—the idea that the price level depends on the [MONEY SUPPLY](#). In *Studies in the Quantity Theory of Money*, published in 1956, Friedman stated that in the long run, increased monetary growth increases prices but has little or no effect on output. In the short run, he argued, increases in money supply growth cause employment and output to increase, and decreases in money supply growth have the opposite effect.

Friedman's solution to the problems of [INFLATION](#) and short-run fluctuations in employment and real GNP was a so-called money-supply rule. If the Federal Reserve Board were required to increase the money supply at the same rate as real GNP increased, he argued, inflation would disappear. Friedman's monetarism came to the forefront when, in 1963, he and Anna Schwartz coauthored *Monetary History of the United States, 1867–1960*, which contends that the [GREAT DEPRESSION](#) was the result of the Federal Reserve's ill-conceived monetary policies. Upon receipt of the unpublished manuscript submitted by the authors, the Federal Reserve Board responded internally with a lengthy critical review. Such was their agitation that the Fed governors discontinued their policy of releasing minutes from the board's meetings to the public. Additionally, they commissioned a counterhistory to be written (by Elmus R. Wicker) in the hope of detracting from *Monetary History*.

Friedman's book has had a substantial influence on the economics profession. One measure of that influence is the change in the treatment of [MONETARY POLICY](#) given by MIT Keynesian [PAUL SAMUELSON](#) in his best-selling textbook, *Economics*. In the 1948 edition Samuelson wrote dismissively that "few economists regard Federal Reserve monetary policy as a panacea for controlling the business cycle." But in 1967 Samuelson said that monetary policy had "an important influence" on total spending. The 1985 edition, coauthored with Yale's William Nordhaus, states, "Money is the most powerful and useful tool that macroeconomic policymakers have," adding that the Fed "is the most important factor" in making policy.

Throughout the 1960s, Keynesians—and mainstream economists generally—had believed that the government faced a stable long-run trade-off between [UNEMPLOYMENT](#) and inflation—the so-called [PHILLIPS CURVE](#). In this view the government could, by increasing the [DEMAND](#) for goods and services, permanently reduce unemployment by accepting a higher

inflation rate. But in the late 1960s, Friedman (and Columbia University's Edmund Phelps) challenged this view. Friedman argued that once people adjusted to the higher inflation rate, unemployment would creep back up. To keep unemployment permanently lower, he said, would require not just a higher, but a permanently accelerating inflation rate (see Phillips curve).

The stagflation of the 1970s—rising inflation combined with rising unemployment—gave strong evidence for the Friedman-Phelps view and swayed most economists, including many Keynesians. Again, Samuelson's text is a barometer of the change in economists' thinking. The 1967 edition indicates that policymakers faced a trade-off between inflation and unemployment. The 1980 edition says there was less of a trade-off in the long run than in the short run. The 1985 edition says there is no long-run trade-off.

So influential was **John Maynard Keynes** in the middle third of the twentieth century that an entire school of modern thought bears his name. Many of his ideas were revolutionary; almost all were controversial. [KEYNESIAN ECONOMICS](#) serves as a sort of yardstick that can define virtually all economists who came after him.

Keynes was born in Cambridge and attended King's College, Cambridge, where he earned his degree in mathematics in 1905. He remained there for another year to study under [ALFRED MARSHALL](#) and [ARTHUR PIGOU](#), whose scholarship on the quantity theory of money led to **Keynes's** *Tract on Monetary Reform* many years later. After leaving Cambridge, **Keynes** took a position with the civil service in Britain. While there, he collected the material for his first book in economics, *Indian Currency and Finance*, in which he described the workings of India's monetary system. He returned to Cambridge in 1908 as a lecturer, then took a leave of absence to work for the British Treasury. He worked his way up quickly through the bureaucracy and by 1919 was the Treasury's principal representative at the peace conference at Versailles. He resigned because he thought the Treaty of Versailles was overly burdensome for the Germans.

After resigning, he returned to Cambridge to resume teaching. A prominent journalist and speaker, **Keynes** was one of the famous Bloomsbury Group of literary greats, which also included Virginia Woolf and Bertrand Russell. At the 1944 Bretton Woods Conference, where the International Monetary Fund was established, **Keynes** was one of the architects of the postwar system of fixed exchange rates (see [FOREIGN EXCHANGE](#)). In 1925 he married the Russian ballet dancer Lydia Lopokova. He was made a lord in 1942. **Keynes** died on April 21, 1946, survived by his father, John Neville **Keynes**, also a renowned economist in his day.

Keynes became a celebrity before becoming one of the most respected economists of the century when his eloquent book [*The Economic Consequences of the Peace*](#) was published in 1919. Keynes wrote it to object to the punitive reparations payments imposed on Germany by the Allied countries after World War I. The amounts demanded by the Allies were so large, he wrote, that a Germany that tried to pay them would stay perpetually poor and, therefore, politically unstable. We now know that Keynes was right. Besides its excellent economic analysis of reparations, Keynes's book contains an insightful analysis of the Council of Four (Georges Clemenceau of France, Prime Minister David Lloyd George of Britain, President Woodrow Wilson of the United States, and Vittorio Orlando of Italy).

Keynes wrote: "The Council of Four paid no attention to these issues [which included making Germany and Austro-Hungary into good neighbors], being preoccupied with others—Clemenceau to crush the economic life of his enemy, Lloyd George to do a deal and bring home something which would pass muster for a week, the President to do nothing that was not just and right" ([chap. 6, para. 2](#)).

In the 1920s Keynes was a believer in the quantity theory of money (today called [MONETARISM](#)). His writings on the topic were essentially built on the principles he had learned from his mentors, Marshall and Pigou. In 1923 he wrote *Tract on Monetary Reform*, and later he published *Treatise on Money*, both on [MONETARY POLICY](#). His major policy view was that the way to stabilize the economy is to stabilize the price level, and that to do that the government's central bank must lower [INTEREST RATES](#) when prices tend to rise and raise them when prices tend to fall.

Keynes's ideas took a dramatic change, however, as [UNEMPLOYMENT](#) in Britain dragged on during the interwar period, reaching levels as high as 20 percent. Keynes investigated other causes of Britain's economic woes, and *The General Theory of Employment, Interest and Money* was the result.

Keynes's *General Theory* revolutionized the way economists think about economics. It was pathbreaking in several ways, in particular because it introduced the notion of aggregate demand as the sum of consumption, [INVESTMENT](#), and government spending; and because it showed (or purported to show) that full employment could be maintained only with the help of government spending. Economists still argue about what Keynes thought caused high unemployment. Some think he attributed it to wages that take a long time to fall. But Keynes actually wanted wages not to fall, and in fact advocated in the *General Theory* that

wages be kept stable. A general cut in wages, he argued, would decrease income, consumption, and aggregate demand. This would offset any benefits to output that the lower price of labor might have contributed.

Why shouldn't government, thought Keynes, fill the shoes of business by investing in public works and hiring the unemployed? *The General Theory* advocated deficit spending during economic downturns to maintain full employment. Keynes's conclusion initially met with opposition. At the time, balanced budgets were standard practice with the government. But the idea soon took hold and the U.S. government put people back to work on public works projects. Of course, once policymakers had taken deficit spending to heart, they did not let it go.

Contrary to some of his critics' assertions, Keynes was a relatively strong advocate of free markets. It was Keynes, not [ADAM SMITH](#), who said, "There is no objection to be raised against the classical analysis of the manner in which private self-interest will determine what in particular is produced, in what proportions the factors of production will be combined to produce it, and how the value of the final product will be distributed between them."¹ Keynes believed that once full employment had been achieved by [FISCAL POLICY](#) measures, the market mechanism could then operate freely. "Thus," continued Keynes, "apart from the necessity of central controls to bring about an adjustment between the propensity to consume and the inducement to invest, there is no more reason to socialise economic life than there was before" (p. 379).

Little of Keynes's original work survives in modern economic theory. His ideas have been endlessly revised, expanded, and critiqued. Keynesian economics today, while having its roots in *The General Theory*, is chiefly the product of work by subsequent economists including [JOHN HICKS](#), [JAMES TOBIN](#), [PAUL SAMUELSON](#), Alan Blinder, [ROBERT SOLOW](#), William Nordhaus, Charles Schultze, [WALTER HELLER](#), and [ARTHUR OKUN](#). The study of econometrics was created, in large part, to empirically explain Keynes's macroeconomic models. Yet the fact that Keynes is the wellspring for so many outstanding economists is testament to the magnitude and influence of his ideas.

<http://www.econlib.org/library/Enc/bios/Mises.html>, 2010.