INTRODUCTION
A PROPERTY RIGHTS VIEW OF THE DEBT CRISIS

James A. Dorn

As interest rates begin to edge upward and rescheduling pushes the debt burdens of Brazil, Mexico, Argentina, and other large debtor nations into the future, it is of the utmost importance to rethink the whole subject of international lending and the role of official agencies such as the International Monetary Fund (IMF). Unless we understand the origins and the development of the present debt crisis, we will not be able to offer rational policy alternatives to resolve the issue.

With this in mind, the Cato Institute held its second annual monetary conference, on "World Debt and the Monetary Order," January 20–21, 1984, in Washington, D.C. The proceedings of that conference, along with an edited version of Robert E. Weintraub's monograph *International Debt: Crisis and Challenge* (1983a), form the contents of this issue of the *Cato Journal*.[1]

The international debt problem offers an interesting opportunity to apply property rights theory and the theory of public choice to an important policy issue. The literature on the economics of property rights has identified important relationships among the existing property rights structure, incentives, and individual behavior affecting

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[1]Weintraub's monograph played an important role in the legislative debate over increasing U.S. assistance to the IMF. He argued that the failure to increase IMF funding would not result in the collapse of the U.S. banking system, provided the Federal Reserve acted to prevent a contraction of the money supply (pp. 25–26). In the *Wall Street Journal* (16 May 1983c), he stated: "The IMF can play a constructive role in the rescheduling process. It can mediate differences. It doesn't need to give money to debtors to do this."

the use of scarce resources.[2] The theory of public choice, meanwhile, has added to our understanding of nonmarket decision making, and has helped to explain why the government typically fails to bring about an efficient use of society's resources. Together these disciplines suggest that a better understanding of the debt crisis can be obtained by looking at the underlying rights structure and incentives confronting the relevant actors in the world debt drama: government officials in less developed countries (LDCs), private and central bankers in industrialized-creditor nations, government officials in developed countries, and decision makers in multinational lending agencies, particularly the IMF.

A careful study of the costs and benefits facing these different individuals will help explain why we are in the present fix, with major debtor nations piling debt upon debt and threatening to default if the creditor nations and multinational lending agencies do not cooperate in rescheduling debt payments. All the parties involved, of course, are working in their (or their organization's) own best interest. But given the existing institutional framework, the pursuit of self-interest is not necessarily furthering the public good. Thus there is the danger that some of the debtor nations may default, and that the large U.S. banks may then turn to Congress (that is, the taxpayers) for relief. The recent increase in the U.S. quota to the IMF is, some people believe, a step in that direction.[3]

The papers in this volume examine the property rights framework under which the various parties in the debt crisis operate. The incentives confronting the critical debtor countries (Argentina, Brazil, and Mexico, or ABM) make it unlikely that they will fully repay their debts. Thus some policy measures have to be proposed that will

[2]For a survey of that literature, see Furubotn and Pejovich (1972) and De Alessi (1980). A useful book of readings in the theory of property rights has been provided by Manne (1975). In this paper, the term "property rights" refers to an individual's effective rights to use resources and to capture the consequent rewards or bear the losses. In this general sense, property is a bundle of rights and can be viewed as the institutional constraints that help shape an individual's opportunity set. Changes in the configuration of effective property rights will therefore affect incentives and individual behavior. See McKean (1972, p. 177) and Furubotn and Pejovich (1972, p. 1139).

[3]Others, of course, will argue that the IMF funding increase was in the public interest and that without such an increase, disaster would surely have followed. There is no doubt that some banks and some debtor countries would have to make costly adjustments in the event IMF funding dried up. But mistakes unfortunately have to be paid for, and the longer the adjustment process is postponed, the greater the long-run adjustment costs will be. Thus the real question is: Who should pay? Those who initiated the crisis and prolonged it or taxpayers in general? These are important questions and are dealt with in this volume. (The papers by Jordan, De Grauwe and Fratianni, and Smith pay close attention to the public choice aspects of the debt crisis.)

allow the necessary adjustment process to occur, one that will enable these countries to achieve steady economic growth and service their debts. Are IMF conditionality agreeements the solution? What about converting ABM debt into equity or writing debts down to their true market values? Which of these options is the most efficient? Which is the most equitable? These are significant questions and are treated in detail in this volume. Meltzer, for example, thinks that an immediate move to revalue LDC debt at its true market value would make sound economic sense.

What is the proper role of the IMF? Should it merely act to smooth the adjustment process by providing better information to lenders and borrowers? Or should it take a more active lending role? Property rights and public choice theory will help one answer these difficult questions. The present institutional structure, within which the debt crisis has emerged, is characterized by subsidized federal deposit insurance, a Federal Reserve Board that is not constrained by any effective monetary rule, a Congress that is subject to rent-seeking activity by domestic producers seeking protection from LDC exports and bankers seeking bail-outs and favorable regulations, official lending agencies such as the IMF and World Bank that are not guided by market criteria, and government planners in the LDCs who believe that state-owned enterprises can be made efficient. As long as these institutional arrangements and the incentives they generate persist, it is unlikely that the provision of "better information" to lenders and borrowers will improve the international allocation of funds.[4]

Should the IMF act as a lender of last resort (LLR) or should this function be reserved for the Federal Reserve? Will defaults by some of the large debtors, say Brazil and Mexico, cripple the banking system and result in another Great Depression? Critical questions, but ones best addressed by rigorous analysis instead of the emotionalism often encountered in the popular press.

Humphrey and Keleher show that under the present system in which the dollar is the key currency and floating rates are managed, the IMF has no LLR function. For the IMF to acquire such a function, we would have to move to a new world monetary order in which the IMF acts as a world central bank.[5] Is such a movement desirable if

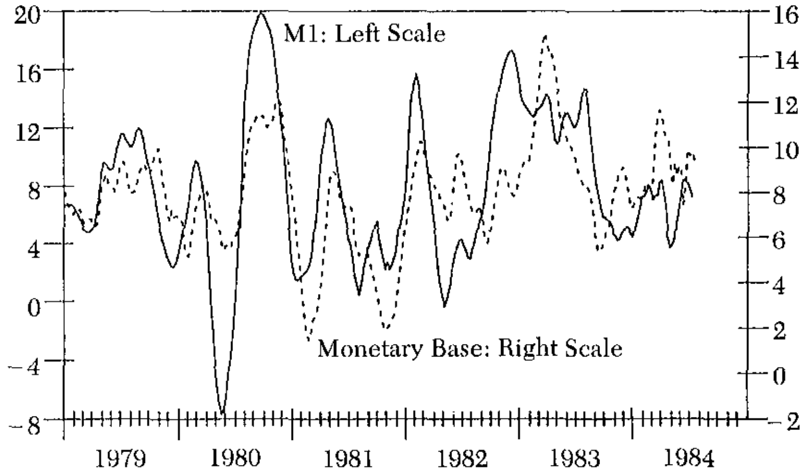
[4]The idea that giving individuals better information will not necessarily improve their efficiency has been clearly stated by McKean (1972). His conclusion is that "in trying to invent improved devices or institutional changes, or in launching new programs, we should keep the impacts on rights and opportunity sets in the forefront of our minds, and not just assume that good intentions pave the road to economic efficiency" (p. 186).

[5]Mundell (1983, pp. 207–9) has proposed "a trillion-dollar World Central Bank (WCB)" *in addition to* the IMF.

we want to achieve a more stable monetary order? Or would a more efficient route to stable money be to stay with floating rates and limit the Fed to a noninflationary path for M1 growth?

Weintraub has argued that the latter path would put us on a steady course of stable prices and economic growth.[6] If the Fed would limit the growth of M1 to a range of 0 to 2 percent and keep it there *indefinitely*, the certainty achieved would help reduce interest rates and promote world trade. The Fed's actual policy, however, has never approached this target range. Indeed, the Fed has never been subject to a monetary rule—there is no penalty for failing to hold the money supply to a noninflationary growth path. Figure 1 illustrates just how far the Fed is from achieving stable money; that is, from

FIGURE 1
GROWTH IN M1 AND THE MONETARY BASE[a]



[a]Growth is the annualized rate over 13 weeks ago; data are 4-week moving averages; and the latest data were plotted 9 July 1984.

SOURCE: Office of Monetary Policy Analysis, U.S. Department of Treasury.

[6]For a discussion of Weintraub's monetary rule, see 1983a, p. 49, where he argues for a 0 to 2 percent target range for M1, and 1983b pp. 180–81. A complete list of Weintraub's monetary writings can be found in the *Congressional Record*-Senate, 21 September 1983, pp. S12626-27.

keeping the variability of money growth, whether measured by the monetary base or M1, in a noninflationary range.[7]

The importance of stable money and various institutional arrangements that could be used to achieve it was the subject of last year's monetary conference.[8] That topic is still important and must be addressed if the present debt crisis is to be resolved. The contention that in the absence of increased IMF funding there will be major defaults, leading to widespread bank failures and depression, is contested by a number of authors in this volume.[9] In particular, Brunner, Weintraub, and Vaubel emphasize that if the Fed does not let the money supply actually contract, as it did in the 1930s, then there is virtually no chance of banks "falling like ninepins."

From the viewpoint of the debtor nations, we see high and variable interest rates in the United States, growing government and deficits, increased protectionist measures against Third World products, and the same interventionist disease that plagues many of the debtor nations. We then, oddly enough, have policy makers in the free world telling the LDCs to "bite the bullet" and move toward liberal trade policies. What are the debtor nations to think? A look at the papers by Ayau, Langoni, and Tumlir will provide some revealing insights here.

Other questions arise in reading the papers in this volume. Is the IMF necessary to reduce transactions costs and coordinate lending to the LDCs? Is there a "market failure" in international lending, so that the IMF must internalize the externalities generated in the lending process? Or can the failures in the present system of international lending be attributed to government intervention? The papers

[7]Whether one agrees with Weintraub's particular monetary rule is not the issue here. The point is that the Fed has never been subject to a money supply rule and that without such a constraint, we are bound to experience erratic monetary policy (see SOMC 1984, especially pp. 6–7). Such a policy, of course, will distort rational economic calculation (see Dorn 1983). The fact that the Fed has never committed itself to a monetary rule was recently made in an interesting paper by Hetzel (1984). For a summary of Hetzel's paper, see Clark (1984).

[8]See "The Search for Stable Money," *Cato Journal* 3 (Spring 1983).

[9]An instructive example of a banker who apparently felt quite strongly about the importance of increasing the IMF funding, and the adverse consequences of denying it, is provided by New York Fed President Anthony M. Solomon's remarks before the Economic Club of New York last summer (1983, p. 2):

> Frankly, I find it baffling that there are elements in this country, and especially in our Congress, who can ignore the catastrophic effects that would result from not acting now to make resources available to the IMF quickly. Without the IMF at the pivot, the whole debt restructuring effort would be undermined, and needed new credits would be blocked. Outright defaults could actually happen. In the longer run, the consequences could also be grave.

in this volume are by no means in total agreement about the answers to these and to the other questions we have presented. It is clear, however, that if we are to answer these questions, we must not ignore the underlying property rights structure.

Looking for ways to solve policy disputes by enlarging private property rights—and thus expanding opportunities for mutually beneficial exchanges—has long occupied economists. Nevertheless, many economic policy makers appear to undermine the importance of private property rights and the market-exchange process. Moreover, they fail to keep simple economic principles in mind when making policy decisions (see Buchanan 1979, chaps. 1,2,4; Krieger 1983). Ayau reinforces this point when he discusses the failure of economic education in the debtor-problem countries (DPCs).

A wider understanding of the institutional requirements for a smoothly functioning market economy—notably, private property, freedom of contract, and stable money—may not be a sufficient condition for resolving the debt crisis and stemming the rising protectionist tide, but it is certainly a necessary condition. Without such an understanding, it is unlikely that a majority of voters will be willing to accept the constitutional limits on the size and scope of government that are necessary to safeguard the freedoms essential to the market economy. The danger to democratic constitutions inherent in the protectionist policies of late is cited in Tumlir's paper.[10]

In conclusion, by considering the role of property rights, broadly speaking, we can enhance our understanding of the origins of the debt crisis and help construct viable solutions. As Vaubel (1983) has shown, the incentive structure confronting IMF officials creates a climate for overlending to high-risk LDCs. By subsidizing loans and holding out the promise of rescheduling, the IMF encourages high-risk LDCs to accumulate debts that they would otherwise not incur. In a similar manner, O'Driscoll and Short have shown that the existence of subsidized federal deposit insurance and the Federal Reserve's role as lender of last resort tend to increase the risk-taking activity of U.S. banks (see their paper in this volume). Likewise, the paper by Meigs illustrates the adverse effects regulations can have on the resiliency of the international financial system to adjust to the constant changes of the marketplace. In his opinion, additional regulation of international lending would only hamper the market adjustment process and lead to an inefficient allocation of scarce capital. More important, the use of coercion in renegotiating debt, according

[10]For a further discussion of issues in what Buchanan has called "constitutional economics," see McKenzie (1984).

to Meigs, would seriously undermine freedom of contract, an essential component of private property.

Even if one disagrees about the impact regulation has had on international lending and the debt crisis, there remains the erratic nature of Federal Reserve policy, which many observers consider to be of prime importance in explaining the debt problems of the LDCs. This too is a problem of property rights. Federal Reserve officials do not fully bear the costs of their policy decisions; for example, they are not penalized for high and variable inflation rates. Without monetary discipline, risk and uncertainty are increased and prudent lending decisions are made more difficult (see Schwartz's paper).

In addition to overregulation and excessive rates of monetary growth, U.S. economic policy has been characterized by continuous budget deficits. The persistence of federal deficits in the neighborhood of $200 billion will no doubt put further pressure on the Fed to monetize part of the domestic debt. If interest rates rise as a result, this would add fuel to the debt crisis. It is no longer possible to blame OPEC for the LDC's debt problems—a point Burnham brings out well in his paper. We must put our own house in order before advising others. A more stable U.S. macroeconomic policy, says Mussa, would benefit both the United States and the world economy.

The danger that lies before us, according to Weintraub, is that the Fed will get back on the inflationary roller coaster. The reflation will then simply put off the day of reckoning for the debtor and creditor countries. It seems fitting to end with his advice (1983a, p. 39):

> Reflation would be a quick fix, but only a temporary one. In time, accelerated inflation would raise interest rates and recession would follow. The debt problem would return bigger than ever. The economy would still be on a roller coaster. Reflation must be avoided.
>
> The challenge is to define the policies that will defuse the present debt crisis without doing more harm than good.

This volume attempts to meet that challenge.

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EDITOR'S NOTE

This issue of the *Cato Journal* is dedicated in memory of Robert E. Weintraub, senior economist for the Joint Economic Committee of Congress, who died September 12, 1984 in Washington, D.C. His passing marks the end of a distinguished career as a teacher, researcher, and policy adviser. One of Bob's final contributions was to help organize the Cato Institute's conference on "World Debt and the Monetary Order," upon which this volume is based.

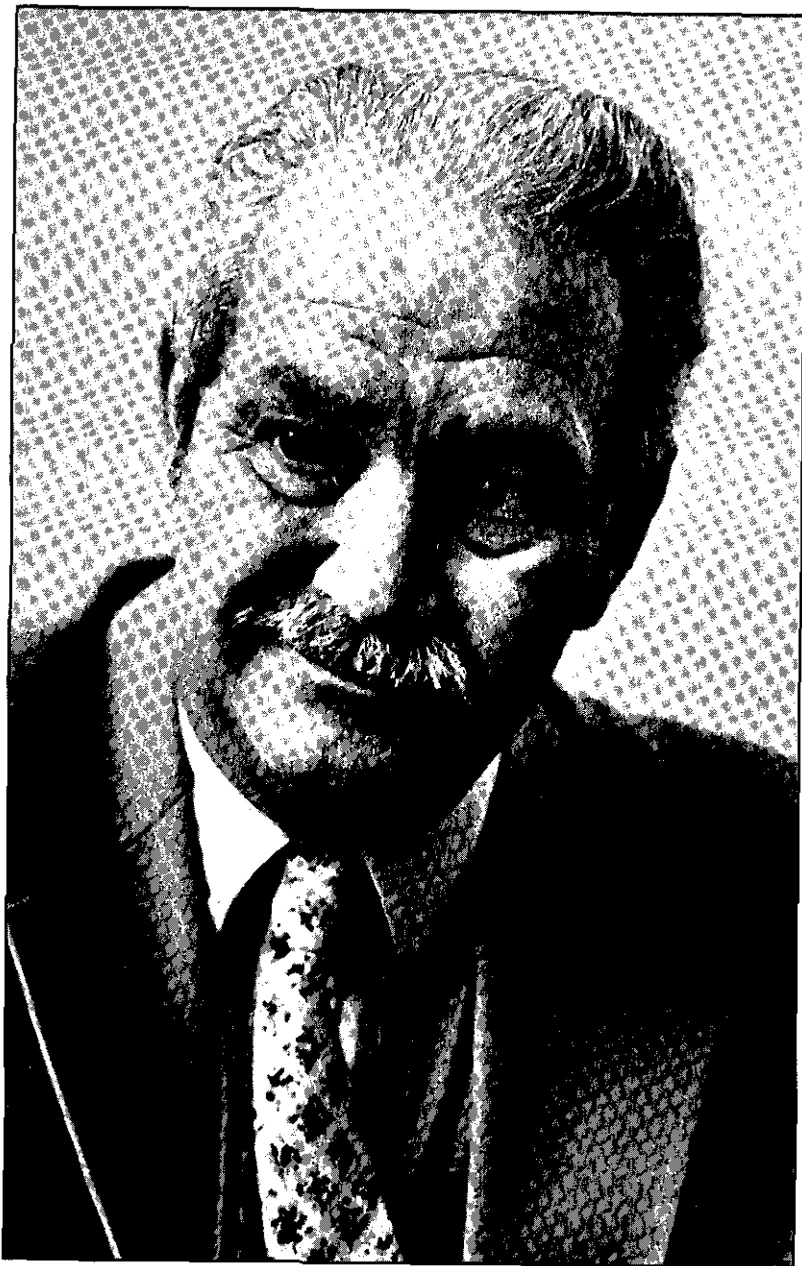
Bob Weintraub saw an important relationship between domestic monetary policy and international financial stability. In his monograph *International Debt: Crisis and Challenge* (1983, p. 9), he argued that "The inflationary surge of the late 1970s to 1981 is legitimately viewed as the underlying cause of the present debt crisis." Thus he thought that any lasting solution to the international debt problem would require the United States and other developed nations to control inflation.

Those who continue to fight for monetary sanity owe much to Bob Weintraub. His legacy—in his writing and the hundreds of individuals he personally influenced—lives on as a vital force in this historic conflict. In a final tribute, Senator Roger W. Jepsen, for whom Bob worked during the last two and one-half years of his life, said:

> Bob's enthusiasm for his job, his candid manner of calling right "right" and wrong "wrong" and the sense of duty to and pride in his family—all of these qualities made him a standout in an uncertain world.
>
> I'll miss Bob's genius for explaining difficult economic theories in a relaxed and clear manner. I'll miss the certainty that he showed about who he was. I'll miss his friendship and his quick sense of humor. [Personal Letter, 21 September 1983]

I am sure that all those who knew Bob would agree with Senator Jepsen's assessment. They would certainly agree with Congressman Jerry Lewis' remark that "The passing of Bob Weintraub leaves a

vacuum in the economics community and in Congress which will be difficult to fill" (*Congressional Record*, 14 September 1983). It is an honor to dedicate this issue of the *Cato Journal* to Bob's memory and to reprint his excellent monograph cited above.



Robert E. Weintraub
1925–1983

IN MEMORY OF ROBERT E. WEINTRAUB

It is difficult to speak to you this evening in memory of our dear friend and colleague, Bob Weintraub—especially in words appropriate to his life, his spirit, his uniqueness, his accomplishments, and the void that has been left by his untimely death.

Bob was so close to so much of my own life for so long, since we were both graduate students at the University of Chicago more than 30 years ago, that, as life goes on, I find it difficult to believe that Bob is no longer with us. Yet, like many of you, I am reminded of Bob almost every day.

For years we saw each other frequently and we spoke almost daily, as Bob, with some puzzle and dismay, would tell me about the latest monetary statistics and the most recent Federal Reserve rationalization for why they were doing the best possible and much better than an ungrateful, wayward country deserved, or new research results, or an old idea that took on new and richer meaning, or Bob's struggle to convert good economics and an understanding of and a dedication to free markets and political liberty into effective and acceptable legislation, or Bob's great joy and pleasure he shared with his wife Sue at a family celebration, a visit with one of their children, an afternoon at the racetrack, an evening at the theater, or a trip to Europe, or Bob's outrage and disappointment at craven or misguided behavior and attitudes in and out of government, or his counsel, sometimes on the money, sometimes not, about the bond market or commodity futures, or about discussing and sharing so much in our working and personal lives.

For Bob, there was no clear distinction between his work and the rest of his life, a reflection of the fact that he was such a whole, such

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Remarks delivered by David I. Meiselman at a banquet in memory of Robert E. Weintraub, Senior Economist for the Joint Economic Committee of Congress, who died in Washington, D.C., on 12 September 1983. The banquet was held at the Cato Institute's conference on "World Debt and the Monetary Order," 20 January 1984, in Washington, D.C.

an integrated, such a complete person, what his forebears would call a mensch. He represented so well what, in another age would have been proudly labeled as the republican (small r) virtues of a good citizen of the republic, the virtues of wisdom, prudence, of generosity, of learning, of compassion, of responsibility, of fidelity—and for Bob an extra portion of fun and zest.

It is a great tribute to this country and to the American system of liberty that a man like Bob Weintraub was able to achieve so much and in so doing to contribute so much to the rest of us. Bob grew up in the Bronx and attended public schools, all under quite ordinary circumstances for the time and place. His parents were not far removed in time from the Pale of Eastern European Jewry. His father was a small businessman in the garment industry, first as a traveling salesman selling dresses. Later he opened a small dress shop in New York City. Bob's two brothers went into different businesses.

Bob started college at Williams College, and he and Williams chose each other almost by accident. Bob was surprised that he ever went to Williams, and Williams must have been surprised at having a freshman like him, with his gutsy street smarts that characterized Bob all through his life. He started college in the first year of our direct involvement in World War II. Like so many other college students, Bob signed up in the Navy V-12 program. At the end of his freshman year Bob was called to active duty and was sent to a V-12 unit at Dartmouth. After a heated dispute with one of his instructors, Bob left Dartmouth and became a Marine infantryman.

Bob spent the rest of the war in the South Pacific, landing and fighting with Marine amphibious and infantry units of the Marine Third Division on their bloody road from Guadalcanal to Iwo Jima. It was typical of Bob that, against the odds, he survived both the fighting itself and the bitterness and hatred that war breeds that poison the lives of victors as well as vanquished. I recall speaking with Bob after a trip to Japan he and Sue took a few years ago that he enjoyed immensely. He told me of the pleasure and the special interest he found in his contacts with the Japanese people. I knew some of Bob's war experiences and how deeply he felt about them, so I asked how he felt about Japan and the Japanese people in light of all the suffering, death, and destruction he had personally experienced. Bob turned to me and wisely said that war is essentially impersonal, that when it was over it had best be over, and that it serves no useful purpose to dote on old wrongs and old wounds. He was a fighter, he did not forget, but he was not a prisoner of old battles once the war was over, which is one reason he was able to work so successfully on Capitol Hill.

After the war Bob returned to Williams, received his B.A. in 1948, and then went on to graduate school at the University of Chicago. At Chicago he started serious study of economics, but like many of us returning veterans, he had no immediate or career goal of becoming either a professor or a professional economist. Also, like most of us, he started out not much different from the conventional New Deal liberal statist that dominated American universities at that time. It was Milton Friedman and the rest of the University of Chicago who shook him up and opened his eyes and his mind to the virtues and problems of free markets and free men. Although Bob later went on to achieve deserved fame for his studies in the field of monetary economics, he first specialized in labor economics. His Ph.D. dissertation, "The Productive Capacity of Rural and Urban Labor," was summarized in an article in *The Journal of Political Economy*. To help gather material for his research, and to help gather money to live on, Bob worked in the Ford assembly plant in South Chicago.

Bob's first professional job was at the National Bureau of Economic Research in New York, where, under the direction of Al Reese, he worked with Donald Jacobs, now Dean of the Graduate School of Management at Northwestern University, on re-estimating the consumer price index for the early years of this century. Their research showed that the old estimates were in error and that the correctly measured price index was significantly lower than originally estimated. Among other things, the revised price statistics eliminated an apparent earlier puzzle—why, in spite of substantial economic growth, there was little or no measured growth of real wages in the United States in the decade or so before World War I.

Bob continued in the labor economics area. He taught at Northwestern for a year before spending a decade, from the mid-1950s to the mid-1960s, teaching at City College of New York, where he had an unusually large number of outstanding students such as Sam Peltzman, Bette Mahoney, Dave O'Neil, and Alan Fechter. He wrote papers on wages, unemployment, and labor productivity, and was one of the first economists since Malthus to rigorously analyze birth rates and population trends.

Bob entered the field of monetary economics, almost by accident. I believe that I have some responsibility for that, and to some extent so does Allan Meltzer.

In 1963 Wright Patman finally attained the chairmanship of the Banking and Currency Committee of the House of Representatives. One of his first acts was to initiate an extensive study of the Federal Reserve, the first such congressional study in the then 50-year history of the Federal Reserve. He turned to Allan Meltzer for help in setting

up and staffing the study. I was then at the Treasury working for Paul Volcker, which pleased neither of us. Allan suggested that Patman hire me to help initiate the study. Soon after, Bob was also hired to spend two days a week working for the Banking Committee while he continued teaching at City College. Five or six months later I left the Banking Committee to teach at Johns Hopkins. Bob assumed more and more responsibility for the Federal Reserve study, and became its senior author and supervisor. The extensive hearings and the study as a whole, especially the pathbreaking paper by Karl Brunner and Allan Meltzer, made an important contribution to lifting some of the mystery surrounding the process, the content, and the effects of monetary policies. The study also helped to initiate the application of positive economics to the analysis of how the Fed, in fact, carried out its monetary policy requirements.

Even after Bob moved to the West Coast to teach at the University of California, Santa Barbara, he maintained contacts with the Banking Committee as he started to write extensively in his new field of monetary economics, including a well received college text. In 1973, he was asked to return to the House Banking Committee on a full-time basis as senior economist with primary staff responsibility for monetary policy questions but involved also with other Banking Committee concerns.

For the next decade, Bob mainly worked on Capitol Hill. For a brief period in 1975 he left the House Banking Committee for the Treasury where he was chiefly involved in the New York City financial crisis. The experience left Bob even more skeptical about the feasibility and merit of government bail-outs and interventions in financial and other markets. On this score I recall Bob's telling me about the time he had phoned William Isaac, chairman of the Federal Deposit Insurance Corporation to congratulate him because, after the failure of the Penn Square Bank, the FDIC had agreed to guarantee only those deposits it had insured rather than, as the FDIC had usually done, bailing out all of the deposits and depositors. Bob then returned to Capitol Hill and became senior economist for the Senate Banking Committee. He later returned to the House Banking Committee before shifting to the Joint Economic Committee staff.

For some years Bob had been aware of the serious damage done by the Federal Reserve's discretionary policies—by money growth that was too high, leading to inflation; by unstable money growth, which was the primary cause of short-run economic instability; and by the costly and maddening consequences of the avoidable uncertainty generated by the Fed's erratic monetary policy. Bob was also convinced that, as in the 1930s, much of the explosive growth of

government was a response to many of the consequences of poor monetary policy, and that little progress could be made in taming Leviathan until there was either a marked improvement in the Fed's performance under existing institutional arrangements or the adoption of a better set of monetary arrangements. As if still more evidence was needed, Bob would point to the inability of the Reagan administration to shrink government, or even to slow its growth significantly, once the Fed-induced recession started in mid-1981, six months after the new administration took office.

To improve the management of monetary policy that would be acceptable to Congress, which has the constitutional authority over monetary policy and the Federal Reserve, Bob developed the idea of monetary targets. Under his proposal, the Federal Reserve would be required to present to Congress a plan for M1 growth for the next year, linked to a procedure for what he believed would be effective congressional oversight.

In March 1975 Congress passed House Concurrent Resolution 133 that incorporated Bob's ideas. The resolution required that the Fed report targets for money growth and then report to Congress on the achievement of those targets. Bob, and many others, were optimistic that the targets would be a significant step toward the achievement of noninflationary, steady, and predictable money growth. Even though Congress did not mandate specific numerical targets for money growth, Congress did require that the Fed adopt a target. The clear sense of Congress was that the Federal Reserve would then take seriously hitting the target. Bob, and by Bob's account to me, such Capitol Hill veterans as Senator Proxmire, one of the supporters of the targets, never considered that the Fed would attempt to flout the intent of Congress and then succeed in doing so. Although Bob had a keen sense of Capitol Hill realities, it also came as a great and unpleasant surprise and a bitter disappointment that Congress, itself, would be so unmoved and unresponsive when the Federal Reserve, first under Arthur Burns, and then under Paul Volcker, turned the targets exercise into a disgraceful sham.

Bob felt deeply about the utter failure of the monetary targets he had fathered and the fact that, after all the research, after all of the conferences, after all of the congressional hearings, and after the legislation, itself, there had been essentially no improvement in Federal Reserve performance or in Federal Reserve accountability for their actions. And on Capitol Hill there had been little or no change in the longstanding failure of Congress to monitor the Fed effectively or to exercise its constitutional responsibility for monetary policy. In recent years Bob would often repeat Mike Hamburger's

rhetorical question about the absence of significant structural change and the economic policies of both the Federal Reserve and the Reagan administration when Mike noted, "How can you expect things to be different when nothing has changed?"

We often discussed the fact, especially disquieting to students of Milton Friedman, that knowledge itself is rarely enough to ensure better public policies. We came to understand that rules determine, or at least fundamentally shape, results. Therefore, to achieve better results it was necessary to use knowledge to shape effective rules. Although Bob was generally a confirmed and cockeyed optimist, his optimism did not extend to the future conduct or results of monetary policy under current arrangements. Until his death five months ago, he continued to do research on workable monetary rules mandated by law.

During the years on the Hill, Bob was always engaged in serious economic research, mainly in monetary economics, in addition to the applied economics he practiced as a congressional staff economist and counselor. In this decade alone his work resulted in more than 30 publications. To the best of my knowledge, among the hundreds of congressional staffers Bob's research and publications were unique. His contributions have an important place in the growing body of research and analysis about the economic and political role of money and the conduct of monetary policy. I briefly note his research, now cited so widely, on the lagged connections between money and prices and on the political economy of Fed policies.

I note also Bob's imaginative plan presented to the Gold Commission in 1981 to restore the gold certificate reserve requirement as a means for achieving slow and stable money growth. Unfortunately, it failed to convince the Commission. It was not pure enough for the gold bugs, who also had other agendas; it was too threatening for supporters of the current flawed monetary arrangements. There are also the two studies he completed in the past year, "International Debt: Crisis and Challenge," and "International Lending by U.S. Banks: Practices, Problems and Policies," which, in my judgment, place in proper perspective the serious international debt problems being discussed at this conference.

And, during most of this decade Bob continued to teach in Virginia Tech's Graduate Economics Program in Northern Virginia to the delight of a new generation of grateful students.

Bob's lengthy and impressive bibliography does not adequately reflect his unique role on the Hill, in Washington, and in the economics profession. In a city much given to sham and to shameless self-serving abuse of the public trust and the powers of government,

and in an area of economics and economic policy much given to illusion and profound ignorance, Bob consistently added an unusual note of unfailing dedication as well as refreshing candor and realism.

Yet, he was able to work with a wide range of people of differing political and economic persuasions and affiliations without compromising his own intellectual integrity and his dedication to liberty and the rule of law—even in the conduct of monetary policy. His advice, counsel, and strong shoulders were widely sought out and frequently employed. Some of the results of his work contained, in part, in the Monetary Control Act of 1980, are now seen in the systematic deregulation of the banking system and financial markets.

So, while we join Sue, their five children and the Weintraub family in mourning Bob's untimely death, both for their loss and ours, and as we try to understand better what shaped this man, we cannot help but celebrate the roots and the system that made possible such a full, vital, and memorable life that sets such a good example and standard for all of us and for our children. We thank God for Bob Weintraub's life and we are grateful for the many blessings Bob Weintraub bestowed upon us and upon the country he loved, whose essence he understood and which he always served with uncommon fidelity.