Allan H. Meltzer, Libertarian Institutionalist

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When I first met Allan Meltzer in December 1988, he was a renowned economist and public intellectual. He had produced pathbreaking research on monetary theory, monetary policy, and political economy, and was just completing, with his collaborator Karl Brunner, a major retrospective volume[1] and an essay collection.[2] Also in league with Brunner, he had been an impresario of illustrious academic conferences and had founded the Shadow Open Market Committee, which had brought monetarist views from the academy to journalists and their readers during the stagflation years of the 1970s and the recovery years of the 1980s. His career spanned thirty years—but, as it turned out, he was only at the half-way mark.

I was president of the American Enterprise Institute, and Allan was coming to the end of a brief stint with President Reagan's Council of Economic Advisers. I wondered whether, having mastered the Pittsburgh-Washington commute, he might find AEI a congenial home for the future. In the back of my mind was a puzzle: how was it that an economist of such distinction had taken a position as a mere "Acting Member" of the CEA, without any official status or public recognition? For example, he supervised the writing and production of the Council's January 1989 Annual Report, but was not among its signatories and received only a passing mention as a CEA consultant.

Our first meeting revealed the answer to that puzzle and several other things about Allan's character and motivations. He was at once completely self-assured and completely lacking in self-importance. His academic work, although often dense, abstract, and technical, was devoted to solving intensely practical problems in government institutions. The Federal Reserve had often made grave errors, causing great economic harms, because its officials had only vague and mistaken notions of what they were doing, which left them prey to transitory enthusiasms and political pressures. He was animated by the conviction that rigorous scholarship could lead to better policies and greater freedom and prosperity.

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[1] *Money and the Economy: Issues in Monetary Analysis*, Cambridge University Press, 1993.
[2] *Monetary Economics*, Basil Blackwell, 1989.

This made it clear why Allan was indifferent to the informality of his CEA position: he cared only for the opportunity to observe and participate at the highest reaches of government, and to roll the drums for the economic finale of a president he greatly admired. And it led naturally to a discussion of AEI. He would be a Visiting Scholar, generally in residence two days a week. It took us perhaps four minutes to settle on business arrangements, sealed with a handshake and never any sort of written contract. Then we spent an hour discussing the roll of think tanks, the methods of advancing serious policy ideas in a city obsessed with power and personalities, and the challenges of sustaining liberal—that is, libertarian—ideals in democratic politics.

Allan's twenty-three years with AEI were stupendously productive. He researched and wrote his landmark *History of the Federal Reserve*;[3] chaired the Meltzer Commission on international financial institutions[4] and promoted its brilliant proposals to a smug IMF-World Bank establishment; contributed many hundreds of essays, articles, lectures, conference presentations, and congressional testimonies; met continuously with government officials high and low; spent countless hours on the telephone with reporters sophisticated and obtuse. All of this in addition to his sacrosanct teaching and other academic responsibilities at Carnegie Mellon.

I would like to think that AEI made important contributions to Allan's work during those years. I know for certain that he made immense contributions to AEI. His role as institutional critic and reformer was not limited to the institutions of government. Of course, he read colleagues' drafts with care and responded with meticulous criticism and suggestions. But he did the same with our *published* work—and directed his evaluations at me. He was flush with praise for our best work, but when we put out something he regarded as faddish, or as opinion parading as scholarship, he would charge into my office and remonstrate emphatically. The first responsibility of the policy scholar, and policy think tank, was to tell difficult truths plainly. For us, the arts of rhetoric and persuasion should be employed within that constraint. Politicians may be forgiven for being specious or bombastic in the never-ending search for alliances and votes. We were in a different line of work—complementary, but different.

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[3] University of Chicago Press, 2003, 2009.

[4] Report of the International Financial Institutions Advisory Commission, March 2000, https://cmu.app.box.com/s/7n7seqqpf1yhxhli4n570rxd0ee2kdf3/file/238896163665.

Allan was equally direct at AEI pow-wows with grandees from government, business, and finance. His interventions would separate sense from nonsense—politely, earnestly, and often to devastating effect. On one occasion, he explained the prospective harms and disunifying consequences of a common European currency with such unassailable clarity that an eminent French leader could only respond with exasperation, "But eet ees a *fact*!"

Allan was that rare and wonderful intellectual avis, the libertarian institutionalist. He was a proud libertarian, but never trucked with the fantasy that human liberty is mana from heaven and a natural, stateless condition. To the contrary, liberty is an artifact of human institutions, from banks to nations to the rule of law. Our institutions may rise and fall through evolutionary trial and error, but they are also subject to human reason, criticism, and purposive reform. This was his calling. He was equally at home at a meeting of the Mont Pelerin Society and a hearing of the Senate Finance Committee.

I was fortunate to be engaged with Allan in what turned out to be his last major academic project—the Hoover Institution's Regulation and the Rule of Law Initiative, which he founded and led with Charles Calomiris and the late Kenneth Scott in 2014 and pursued energetically until shortly before his death last spring. Some found it surprising that a man of Allan's background would suddenly throw himself into a field so specialized, lawyer-dominated, and methodologically unlike what he had done before. In fact, it was a natural outgrowth of his previous work.

Allan, as I have emphasized, was always motivated by real-world problems—and the financial collapse of 2008 and subsequent deep recession were the great economic problems of the day. Loose monetary policies helped set the stage for the collapse, but the decisive cause was an alliance among federal housing agencies, Fannie Mae and Freddie Mac, and private financial institutions that had abolished traditional mortgage standards and generated preposterous degrees of leverage in mortgage and derivative markets. When the collapse came, the Bush administration's rescue measures took egregious liberties with statutory law and committed hundreds of billions of dollars without congressional appropriation. Then the Dodd-Frank Act established vast additional domains of freewheeling executive power, and the Obama years brought unprecedented regulatory expansion and a notably sluggish economic recovery.

Allan was not the only economist to be unsettled by these developments, but he brought a unique perspective to the effort to understand them. From the first, his work on monetary theory and policy had been distinctive for its concern with the role of uncertainty in private economic calculations; this was the source of his emphasis on stable, predictable policy rules. Yet the 2008 rescue measures, and the regulatory sequela that followed, seemed designed to maximize the day-to-day discretion of government officials—thereby introducing harmful uncertainty into private markets, thereby confounding the private investment and risk-taking on which recovery depended.

The parallels ran deep indeed. In money and public finance, the gold standard and the balanced-budget norm had been discarded when the once-strong political consensus behind them broke down. This led to the search for synthetic internal rules—inflation or money-base targeting or the Taylor rule for the Fed, deficit-reduction and budget-process rules for the Congress—but these had proven hard to sustain against pressures for unconstrained discretion. In regulation, the Constitution's long-observed provisions limiting the domain of the federal government, and assigning separated powers to three federal branches, had similarly lost allegiance and been discarded. Here, too, substitute internal rules had been tried—the Administrative Procedure Act, the cost-benefit standard—only to give way to discretionary regulation. Across the board, the trend seemed to be from consensus to rules to ad hoc, improvisational government.

In the Hoover workshops, conferences, and email threads, Allan would listen patiently (well, somewhat patiently) to lawyer's arguments about this judicial doctrine or that line of Supreme Court cases, then insist that we move to big, fundamental questions. Why had clear constitutional rules been abandoned? What led Congress to delegate wide lawmaking discretion to the Executive, and why did the courts go along? If agencies could write, interpret, selectively enforce, and continuously revise laws all on their own, what was left of the "rule of law"? Why didn't the Equal Protection Clause require the government to treat competing business firms equally? Why couldn't citizens enforce the Ninth and Tenth Amendments, whose guarantees applied explicitly to "the people"?

The Hoover initiative produced several original, important studies under Allan's supervision, with no doubt many more to come under Calomiris and Michael McConnell.[5]

[5] The Initiative's website is https://www.hoover.org/regulation-and-rule-law-initiative.

I contributed a paper addressed to Allan's portentous, pertinacious questions.[6] My answer was economic: the growth of incomes, education, leisure time, and communications technologies had produced rising political participation and falling costs of demanding and supplying government interventions. Congress could not respond to the vastly increased demands through its own cumbersome procedures, so it delegated policymaking to more expeditious, increasingly numerous administrative agencies. Courts were institutionally incapable of resisting the new dynamic. Meltzer and Scott F. Richard had explained the growth of democratic government as a function of political aggregation, majority rule, and the expansion of the franchise.[7] Regulatory growth was a new departure—a function of specialization, segmentation of political participation, evasion of majorities, and commandeering private resources rather than taxing and borrowing. The new regime generated large stocks and flows of law while preserving wide discretion in their interpretation and enforcement. It was opaque, uncertain, and prone to the abuses of concentrated power and the errors of insular decision-making.

Allan pronounced himself satisfied—but, of course, "not completely." American culture, he said, has changed in ways that seem independent of the materialistic explanation. As recently as his own youth, schools and civic culture taught the virtues of our constitutional order and aspirations to "liberty and justice for all." Today, they focus on our failures, flaws, and injustices. But Allan was incapable of despair. He was alert to countervailing trends, especially in our still-kicking institutions of federalism and localism. He was optimistic about many of the Trump administration's initial steps in regulatory policy, and confident they would eventually hit upon banking deregulation combined with high capital standards.

Allan Meltzer led a life of complete integrity. He devoted himself to the most difficult and consequential of policy conundrums; subjected them to the highest levels of intellectual scrutiny over sustained periods of time; solved more than a few of them; promoted his solutions with indefatigable zest; and selflessly encouraged the like efforts of many others. It is only fitting that he left us with a few unsolved conundrums to wrestle on our own—along with a shining example of how to go about it.

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[6] "Can the Administrative State Be Tamed?" 8(1) *Journal of Legal Analysis* 121 (Spring 2016).
[7] "A Rational Theory of the Size of Government," 89(5) *Journal of Political Economy* 914 (Oct. 1981).