1-1-1990

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Published version. "Clark A. Warburton (1896-1979)," in *Banking and Finance 1913-1989*. Ed. Larry Schweikart. New York: Facts on File (Infobase Learning Imprint), 1990: 451-453. Publisher Link.

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Archives:

The papers of Paul M. Warburg are at Yale University Library.

Clark A. Warburton

(January 27, 1896 - September 18, 1979)

by John B. Davis

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CAREER: U.S. Army (1917-1919); lecturer, University of Allahabad, India (1921-1924); instructor, Rice Institute [later Rice University] (1925-1928); associate professor, Emory University (1929-1932); member, Brookings Institution (1932-1934); researcher, chief administrator, Banking and Business Section, Division of Research and Statistics, Federal Deposit Insurance Corporation (1934-1966).

Clark Abram Warburton, economist, educator, and public administrator, was the author of more than 50 scholarly articles concerning the nature of fiscal and monetary policy in the United States. His practical experience came from working for more than three decades in the Federal Deposit Insurance Corporation, where he developed his lifelong interest in the relationship of banking and monetary policy to business fluctuations. Beginning in the Great Depression of the 1930s, Warburton entered into a study of the role of the money supply in episodes of depression and inflation. That ultimately led him to conclude that monetary authorities in the United States had consistently failed to provide sufficient stability, at an appropriate rate of growth, in the supply of money available to the nation's people and its business enterprises. In those conclusions, Warburton was later credited for pioneering the Quantity Theory of Money and cited as a forerunner of the economist Milton Friedman.

Warburton was born in Shady Cove in upstate New York on January 27, 1896, the son of Melvin Eugene Warburton, a clergyman, and Florence Vough Warburton. He originally enrolled at Houghton College in Houghton, New York, in 1915, but with the U.S. entry into World War I he left school in 1917 to join the American Expeditionary Forces. After serving two years in France from 1918 to 1919, Warburton returned to the United States to attend Cornell University in Ithaca, New York, where he received his B.A. in 1921.

Warburton took his first academic position as a lecturer in economics at the University of Allahabad in Allahabad, India, where he taught until 1924. In his final two years in India he served as the managing editor of the *Indian Journal of Economics* and thus obtained an acquaintance with the standards and practices of scholarly publishing. He returned to the United States in 1925 to take a position as an instructor in economics at Rice Institute (later known as Rice University) in Houston, Texas, and he remained at Rice until 1928, when he received an M.A. from Cornell. He married Amber Arthun on July 5, 1929, and accepted a position as associate professor of economics at Emory University in Atlanta, Georgia. In 1932 Warburton received his Ph.D. from Columbia University. His dissertation, *The Economic Results of Prohibition*, was published by Columbia University Press that same year.

Warburton did not return to academia but instead elected to devote his time and efforts to economic and financial research. He took a position in 1932 as a member of the research staff at the nonprofit Brookings Institution in Washington, D.C. There he was among the first economists to work on the newly conceived national income accounts, which summed total annual economic activity. In 1934 Warburton left the Brookings Institution to join the recently established Federal Deposit Insurance Corporation (FDIC). As a result of the bank failures and national financial panic of the early 1930s, the FDIC had been created by a provision of the Glass-Steagall Act of June 1933 to guarantee small deposits in the banking system. Banks paid the cost of the insurance in the form of a fee based on the size of their deposits. Thus, first as a researcher and then later as chief of the Banking and Business Section of the Division of Research and Statistics, Warburton acquired firsthand knowledge of commercial banking operations in a fashion never before enjoyed by students of the American financial system. He remained at the FDIC until he retired from government service in 1966.

Upon retirement Warburton briefly was made a visiting professor of economics at the University of California at Davis through the efforts of Professor Thomas Mayer. In poor health, which prevented him from assuming a full teaching load, he conducted small weekly seminars for a few students investigating economic history (notably Thomas F. Cargill). Though he had often encountered frustration from an economics profession less concerned with monetary phenomena than with Keynesian expenditure concepts, Warburton lived to see his ideas gain broad acceptance among an emerging monetarist school of economics. He died at eighty-three on September 18, 1979, in Fairfax, Virginia.

Along with Carl Snyder, Lionel Edie, Lauchlin Currie, James Angell, and Arthur Marget, Warburton was recognized by 1989 as one of the pioneering voices of monetarism–the doctrine stating that changes in the quantity of money are the dominant independent determinant of cyclical changes in economic activity. His special talent involved empirical investigation into the relationship between money and economic activity, and it was on that basis that he anticipated many of the conclusions of later monetarists. However, despite his painstakingly careful examination of economic data, and because he did his most extensive publishing during the height of the Keynesian revolution in the 1940s and 1950s, his work went largely unappreciated until the 1960s, when, through the leadership of Friedman, monetarism received attention from large numbers of economists. Warburton's professional recognition was thus belated, and the full nature of his contribution to an understanding of monetary phenomena has accordingly only begun to gain the notice it will likely receive in future years.

Warburton first developed his understanding of the relationship between the quantity of money in the economy and economic activity as a result of research carried out at the FDIC in the 1930s to determine the required insurance premium for bank deposits. He initially had to develop a reasonably detailed analysis of the regional distribution of bank failures and deposit contractions over the period from 1930 to 1935. He also needed to carry out a thorough evaluation of Federal Reserve operations during the same period. The results of those studies transformed Warburton's views. Despite his earlier adherence to a real theory of the business cycle, whereby investment and production decisions accounted for economic fluctuations, Warburton came to believe that money and monetary policy played the fundamental role in determining the level of economic activity.

Warburton accordingly went on to challenge Keynesianism, which was dominant at the time not so much in terms of its logical consistency as in terms of its empirical relevance. By the early 1940s, after having comprehensively examined the annual tabulations of bank deposits from 1920 to 1935 from country to country, he had concluded that money quantity was indisputably the central factor in the Great Depression downturn. By the late 1940s and early 1950s he felt confident in blaming the Federal Reserve and "an erratic money supply as the chief originating factor in business recessions and not merely an intensifying force in the case of severe depressions." Indeed, his 1951 paper, "The Misplaced Emphasis in Contemporary Business Fluctuations Theory"–perhaps his best known and often considered his single most important contribution to economic thought–argued against the view of Keynes and his followers that an imbalance in the savings-investment relationship alone provided a sufficient explanation of business fluctuations, precisely because of a conviction that the historical record placed the chief blame for business fluctuations on the discretionary monetary policy of the Federal Reserve.

Warburton's work has influenced present-day monetarists in many respects. Most important, in the course of his writings he developed an empirically useful version of the Quantity Theory of Money, distinguishing between the long-run or equilibrium version of the theory and the short-run or disequilibrium version. Adapting Irving Fisher's Equation of Exchange, which related an economy's volume of money and velocity to output and prices, Warburton tested the relationship between money and prices across key periods in American economic history. In addition, he also provided evidence that the lag in the effect of monetary policy was both long and variable, which led him to conclude that a discretionary monetary policy was undependable and that the most appropriate strategy for the monetary authority to pursue was that of a steady growth in the money supply. Finally, Warburton also argued that because the Keynesians had misjudged the role of the Federal Reserve in the Great Depression by emphasizing the use of interest rates as a guide to monetary policy, they were insufficiently sensitive to the potentially inflationary effects of deficit fiscal policies.

In 1953 Warburton abruptly suspended his studies and his professional activities, apparently because of pressure exerted by the Department of the Treasury after the Eisenhower administration came into office to restrict independent research by individuals at the FDIC. He resumed his research after 1962, when he was briefly employed by the House Banking and Currency Committee. The development of new interest in monetary theory among professional economists, combined with the recognition by the early 1960s that many economists had neglected the seriousness of the problem of inflation, likely stimulated the continuation of his work.

By the early 1960s economic historians had begun to draw attention to Warburton's work. In the preface to their monumental *A Monetary History of the United States, 1867-1960* (1963), Friedman and Anna J. Schwartz acknowledged Warburton's anticipation of many of their ideas concerning the history of monetary policy and the quantity theory of money as well as his early monetarist interpretation of the Great Depression. More recently, Cargill has brought Warburton to the attention of historians of economic thought, generating debates over the respective contributions of the forerunners of contemporary monetarism. Finally, in 1966 the Johns Hopkins Press collected and published many of Warburton's more important post-World War II papers as *Depression, Inflation, and Monetary Policy, 1945-1953*.

That Warburton failed to have a significant impact upon his colleagues during his most active years as an economist can best be explained by his intellectual isolation in the immediate postwar period. Keynesian economics was dominant in the period from the end of the war until the early 1960s, and Warburton found himself devoting more space to arguing against the Keynesian focus than to presenting the results of his own research. Further, Warburton's absence from academia left him without the resources and connections available to economists in universities.

Nonetheless, Warburton's talent as an empirically minded economist has guaranteed him a place in the history of economic thought. With the relatively recent emergence of sophisticated econometric tools, Warburton's conclusions have gained increased plausibility. Many economists now regard money quantity as an important variable in the economy, and few believe any longer that increases in output and employment can occur unattended by inflation.

Selected Publications:

"The Misplaced Emphasis in Contemporary Business Fluctuation Theory," in *Readings in Monetary Theory* (Philadelphia: Blackiston, 1951);

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