

DOCUMENTS OF THE GENERAL FACULTY

**REPORT OF THE MEMORIAL RESOLUTION COMMITTEE FOR
SCOTT FREEMAN**

The special committee of the General Faculty to prepare a memorial resolution for Scott Freeman, professor, economics, has filed with the secretary of the General Faculty the following report.

Sue Alexander Greninger, Secretary
The General Faculty

**IN MEMORIAM
SCOTT FREEMAN**

Scott Freeman, a renowned monetary economist and brilliant teacher, died on July 23, 2004, at the age of 50, after a long and courageous battle with amyotrophic lateral sclerosis (ALS or Lou Gehrig's disease). Scott was well known for his research in monetary economics. Beginning with his dissertation and throughout his career, he was interested in understanding the roles that money and monetary policy play in the economy. He held very high standards of intellectual integrity, which always led him to turn to model environments that combined important institutional details with the rigor of general equilibrium analysis. In these theoretical models he asked questions such as, "What determines the optimal quantity of money and the optimal conduct of monetary policy?", "How should the payment system be designed and what role should the Federal Reserve play in smoothing out its natural fluctuations?", "Should bank reserves earn interest?", and "Should private banks be allowed to issue bank notes?"

Scott was born on June 9, 1954, and grew up in West Bend, Wisconsin. He was the oldest of three children. His parents, Robert and Ethel Freeman, instilled in Scott a love of learning, discovery, and teaching. Scott graduated from West Bend High School, where his father was a teacher for many years, before attending the University of Wisconsin at Madison. After graduating with a B.A. in economics in 1976, Scott joined the Peace Corps and spent two years teaching in Zaire. Upon returning to the United States, Scott enrolled in the Ph.D. program in economics at the University of Minnesota. It was here that Scott worked with Neil Wallace, who had a profound influence on his career, and where he became friends with Bruce Champ, who would later become Scott's co-author for a textbook on monetary economics, *Modeling Monetary Economies*.

Scott's academic career began as an assistant professor at Boston College (1982-88), where he was awarded tenure. It was during this time that Scott spent a year as a visiting assistant professor at the University of Western Ontario. During his year in London, Ontario, Scott developed a number of friendships that would last throughout the remainder of his life, most notably with R. Preston McAfee. In 1988, Scott left Boston for the University of California at Santa Barbara, where he spent three years, before moving to The University of Texas at Austin. At UT, Scott was promoted to professor, and in 2000, he was named the Rex A. and Dorothy B. Sebastian Centennial Professor in Economics. Scott remained active in the economics department, as a teacher and scholar, years after he was diagnosed with ALS. His courage, dedication, and unwavering determination to teach others, in spite of his struggle with his disease, was an inspiration to all faculty, students, and staff at UT. In Texas, Scott developed a working relationship with scholars affiliated with the Federal Reserve Bank of Dallas, including future Nobel Prize winner Finn Kydland. Although Scott did not live to see his friend win the Nobel Prize, Kydland featured their joint work prominently in his acceptance speech in Stockholm. Finn showed the audience photographs of Scott, described their pioneering work [23], and mentioned that Scott was one of two people (including Kydland's father) who Finn deeply regretted were unable to be present for the ceremony.

Scott's research always confronted the question of what distinguishes money from other assets before he could use these models for asking the real questions that he was interested in. In the Minnesota tradition, he could not sidestep this issue with some "ad hoc" assumption about how fiat money facilitates transactions. He invented numerous clever environments in which information asymmetries and frictions built into the setup provided the microfoundation for the role of money [1, 6, 18]. He also advocated the importance of understanding the

banking system for understanding money [4, 7, 18, 9] – perhaps an obvious requirement from the perspective of non-economists but actually rarely acted upon by economists.

Some of Scott's papers contain forerunners of ideas that later became widely accepted theories. His work on search and the exchange process [6] foreshadows the Kiyotaki-Wright line of research on the transactions role of currency. His paper on transaction costs and the optimal quantity of money [1] models the difference between privately issued IOUs and central bank money as a moral hazard problem on the part of private agents well before the literature on contract enforcement became mainstream. His work on the optimality of nominal contracts [19] points out a connection to risk-sharing and insurance, which is not widely recognized yet but promises to grow in importance.

Scott believed that high quality research in monetary economics could be explained to undergraduates. He was not satisfied with feeding young minds on traditional theories that had been rejected by scholars working at the frontier of monetary research. So he enlisted Bruce Champ to co-author a book, *Modeling Monetary Economies* [24], in which they explained in an accessible way the major developments in monetary economics that grew out of the general paradigm shift in macroeconomics, known as the "rational expectations revolution." Anyone who reads that textbook will be struck by Scott's intellectual depth and his phenomenal ability to communicate the main point simply but without compromising accuracy.

Throughout his career, Scott was interested in one of the classic questions of monetary economics: the relationship between money and output and the question of whether monetary policy can influence real economic activity. The papers he wrote on the subject with various co-authors [9, 23] show that much of the apparent correlation between the nominal and the real side of the economy is due to the endogenous response of money created by banks to fluctuations in real activity. Once the role of deposit banks in the monetary system is taken seriously, not much is left to be explained. The implication is the influence on the economy of the central bank, or of money created by the central bank, is smaller than most economists believe.

It is perhaps not an oversimplification to say that most monetary theories are expounded in one of two general equilibrium environments: the so called "representative agent" model or the "overlapping generations" model. It turns out that the predictions of the two classes of models can be quite different for some important questions. Scott's exposition of the reasons for these differences [12] is one of the fine examples of how he always sought intellectual clarity. Interestingly, he understood these differences because he thought hard about other applications of these models in macroeconomics. In particular, Scott was very interested in a seemingly unrelated topic, the distribution of resources between people [14]. Scott understood clearly and explained eloquently that the way society values the well-being of different generations affects the desirability of alternative policies, including alternative ways of conducting monetary policy.

Scott Freeman is a hero to his colleagues and friends. Before his illness, he was well liked and respected. He was always ready to engage in intellectual discourse about his research and yours, and he was often ready to go to a local music venue after work to enjoy a few beers and Austin blues. (See www.scottfreeman.us for the remarkable story of his life.) After his illness, we saw the full dimensions of his character. Scott did not flinch as his body progressively declined. He continued to teach his courses, conduct his research, and supervise his graduate students – all with extraordinary clarity and vigor. There simply was no "quit" in him. We could barely hear his voice towards the end, but he was speaking to us in loud clear ways about human dignity and purpose. He was a rare individual who left a lasting light.

This memorial resolution was prepared by a special committee consisting of Professors Stephen Bronars (chair), Vince Geraci, and Beatrix Pal.

Distributed to the dean of the College of Liberal Arts, the executive vice president and provost, and the president on September 8, 2005. Copies are available on request from the Office of the General Faculty, WMB 2.102, F9500. This resolution is posted under "Memorials" at: <http://www.utexas.edu/faculty/council/>.

THE PUBLISHED WORK OF SCOTT FREEMAN

Journal articles

- [1] "Transaction Costs and the Optimal Quantity of Money," *Journal of Political Economy*, February 1985.
- [2] "The Optimal Quantity of Money: A Reconciliation," *Economics Letters*, 1985, Vol. 4.
- [3] "Inside Money, Monetary Contractions and Welfare," *Canadian Journal of Economics*, February 1986.
- [4] "Reserve Requirements and Optimal Seigniorage," *Journal of Monetary Economics*, March 1987.
- [5] "Banking as the Provision of Liquidity," *Journal of Business*, January 1988.
- [6] "Fiat Money as a Medium of Exchange," *International Economic Review*, February 1989.
- [7] "Inside Money and the Open Economy," *Journal of International Economics*, February 1989 (with Robert Murphy).
- [8] "Money, Output, and the Nominal National Debt," *American Economic Review*, June 1990 (with Bruce Champ).
- [9] "Inside Money, Output, and Causality," *International Economic Review*, August 1991 (with Gregory Huffman).
- [10] "Knowledge-Based Growth," *Journal of Monetary Economics*, October 1992 (with Stephen Polasky).
- [11] "Money and Output: Correlation or Causality?" *Economic Review Federal Reserve Bank of Dallas*, Third Quarter 1992.
- [12] "Resolving Differences over the Optimal Quantity of Money," *Journal of Money, Credit, and Banking*, November 1993.
- [13] "Should Bank Reserves Earn Interest?" *Economic Review Federal Reserve Bank of Dallas*, Fourth Quarter 1995 (with Joseph Haslag).
- [14] "Equilibrium Income Inequality among Identical Agents," *Journal of Political Economy*, October 1996.
- [15] "On the Optimality of Interest-Bearing Reserves in Economies of Overlapping Generations," *Economic Theory*, 1996 (with Joseph Haslag).
- [16] "The Spatial Concentration of Crime," *Journal of Urban Economics*, 1996, Vol. 40, (with Jeffrey Grogger and Jon Sonstelie).
- [17] "Clearinghouse Banks and Banknote Over-issue," *Journal of Monetary Economics*, August 1996.
- [18] "The Payments System, Liquidity, and Rediscounting," *American Economic Review*, December 1996.
- [19] "The Optimality of Nominal Contracts," *Economic Theory*, May 1998, (with Guido Tabellini).
- [20] "Rediscounting under Aggregate Risk," *Journal of Monetary Economics*, February 1999.
- [21] "Endogenous Cycles and Growth with Indivisible Technological Developments," *Review of Economic Dynamics*, April 1999 (with Dan Peled and Dong-Pyo Hong).
- [22] "Redemption Costs and Interest Rates under the U.S. Banking System," *Journal of Money, Credit and Banking*, August 1999, Part 2, (with Bruce Champ and Warren Weber).
- [23] "Monetary Aggregates and Output," *American Economic Review*, December 2000, (with Finn Kydland).

Book

- [24] *Modeling Monetary Economies* Wiley, 1994; Second Edition, Cambridge University Press 2001, (with Bruce Champ).