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## CONCLUSION ON DEFINITION

ON A STRICTLY ABSTRACT LEVEL, it makes no difference how money is defined. Different definitions can be accommodated by changing the equations that simultaneously determine the equilibrium values of the variables. If, for example, money is defined simply as currency, variables describing the terms on which demand deposits, time deposits, etc., can be acquired will enter the demand function for money (equal to currency). If money is defined to include demand deposits, some of these variables will instead enter the function defining the fraction of money (equal to currency plus demand deposits) demanded in the form of currency.

More generally, the notion of a "stable" demand function, which has played so large a role in our examination of the empirical magnitude that it is best to term "money," is meaningless unless something is specified about the variables included in the function. The "instability" of a particular function can always be interpreted as the result of omitting some relevant variables. The existence of a stable function for anything can never be contradicted if the number of variables included is permitted to be indefinitely large. Implicitly, therefore, the term "stability" used in empirical discussions always means "relative" stability of a function of a "small number of variables." And the terms in quotation marks are not capable of specification on a strictly abstract level.

In empirical work, it makes a great deal of difference how money is defined. The reason is the costs involved—intellectual even more than computational—in handling a large number of variables. The chief goal in empirical work is to find a way of organizing experience so that it yields "simple" yet highly dependable relationships. And one of the major devices that has proved successful in achieving this goal has been

the use of carefully chosen, "right" levels of aggregation of different items, as in such a construct as "money," "income," "consumption," etc.; of different decision units, as in aggregates for households versus business enterprises; or of different geographical or political areas, as in aggregates for nations.

This choice, as we have emphasized, is one that cannot be made by any single set of hard and fast rules. It is a question of judgment on the basis of criteria that are inevitably incomplete and often unformulated. The test of the choice is in the results, that is, in the usefulness of the definitions selected in uncovering dependable and reproducible empirical regularities. The test of our own decision is to be found in the use we have made of our definition of money in the other books of this set (see *Preface*).

While it makes a great deal of difference empirically how money is defined, the unimportance of definitions on an abstract level also has an empirical counterpart. The purpose of a definition is to facilitate organizing the data in a useful way, not to prejudge conclusions. With the definition we have selected—currency held by the public plus all adjusted deposits at commercial banks, demand and time—the behavior of commercial bank deposits relative to currency, or of time deposits relative to demand deposits, becomes a question of the relative composition of the money stock, and we have analyzed it as such. The behavior of savings deposits and of savings and loan shares becomes a question of the behavior of these "near-moneys" relative to the total we have labeled money, and we have analyzed it as such.

We have not carried out parallel analyses in all cases for alternative definitions—that would negate the empirical usefulness of selecting one definition. But wherever there was reason to suspect that a particular conclusion might be especially sensitive to the definition used, we have tried to ascertain whether it is. As a result, we believe, as stated in the introduction to this part, that the definition we have adopted has served mainly to organize our analysis rather than to determine its content.