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INTRODUCTION

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THE period since World War II has seen a major revival of professional interest in money and monetary policy, following the widespread relegation of money to a secondary role when easy money appeared to many to be a failure in inducing recovery from the long depression of the 1930's. In part, this revival of interest in money has come from a growing awareness that fiscal policy has its problems, too. But more important, continued accumulation of quantitative data on the behavior of the economy and analysis of the events of both the postwar and prewar periods have pointed to an important role for money.

It was against this background that a Conference on Monetary Economics was organized by the Universities–National Bureau Committee and held at Carnegie Institute of Technology in April 1962. Its purpose was to reexamine the question: What is the role of money and of monetary policy in economic growth and fluctuations and, more broadly, in the behavior of the economic system as a whole? The first day was devoted to theoretical and empirical papers examining the demand for money and other assets from a portfolio approach, and the role of money in economic growth and fluctuations. The second day was devoted specifically to the report and staff papers of the Commission on Money and Credit, giving attention to both the processes and responses involved in the use of monetary controls and the broader policy questions considered in the Commission's work.

The State of Monetary Economics

Since the main papers at the conference and the comments on them speak for themselves, they need no further introduction. Instead, some brief summary observations on the discussions at the conference may be more useful, though they must be recognized as merely the views of one observer, with which other participants might well not agree.

If the papers and the conference discussion of the seventy-five distinguished economists present may be taken as primary evidence, four propositions may be advanced about the current state of monetary economics.

1. Money is important, considerably more important in explaining the level of income, employment, and prices than many economists have believed over much of the past quarter-century.

2. The rapidly growing body of empirical work on the critical variables and their interactions in the macroeconomic system lends support to the above proposition on the importance of money. The Friedman and Schwartz paper, together with Friedman's other published works, provide the strongest empirical foundation for the proposition that the supply of money is a — probably the — dominant variable in determining the level of total spending on current output. Their conference paper argues the primary role of money in explaining business cycles; previous works have presented evidence on knowledge of the basic role of money for economic decisions without this specific focus on business fluctuations. Many participants felt that Friedman and Schwartz had not completely demonstrated their case and argued that the data are susceptible to varying interpretations and are consistent with other hypotheses. But there was a general willingness to admit that the supply of money does now appear to be an important variable in explaining the level of aggregate spending, and that our growing knowledge of the demand for money suggests enough stability in that relationship to justify placing considerable emphasis on variation in the supply of money as a device for control over the level of income and output. A reawakening of interest in the rules-versus-authorities controversy emerged as a lively, but unsettled, byproduct of the Friedman and Schwartz paper.

3. The three first-day papers (by Duesenberry, Friedman and Schwartz, and Modigliani), together with the conference discussions, suggest that the so-called portfolio

approach to the demand for money and other assets now offers a widely acceptable basis for a rapprochement between the "monetary" and "Keynesian" approaches to macroeconomics. The closing section of the Friedman and Schwartz paper, Modigliani's brief notes, and James Tobin's earlier statements [1] substantially agree on a portfolio approach to analyzing the effect of changes in the supply of money, in which monetary changes — e.g., open market operations — involve not merely a resultant change in the "interest rate" but also changes in the prices of securities of all sorts and of other assets as well (i.e., changes in the implicit interest rates on all other assets). These in turn produce shifts in the composition of asset portfolios of financial institutions, business firms, and households, leading economic units to spend either more or less on capital assets and current services. Duesenberry's paper, and the comments of Minsky, Okun, and several others from the floor, raised questions about this mechanism, and Okun questioned its usefulness compared with more neo-Keynesian models. But the increasing degree of consensus on this mechanism for explaining the role of money in the system was clear, at least at this conference of predominantly monetary economists.

4. There was widespread agreement that, although the portfolio approach appears promising and although increasing empirical evidence supports the importance of money in the model, tests to date do not firmly establish just how important money is under varying circumstances or what are the most important channels through which changes in the money supply affect the economy. There were arguments over the proper definition to use in studying the demand for money, the speed of monetary effects, and the extent to which changes in the money supply have been primarily effect rather than cause of changes in real income and prices. Cagan and Friend in their papers did add some evidence on elements in the demand functions for money and other financial assets. But the consensus was more on the broad outlines of a model than on its details or on the weight of the empirical evidence to date. Friedman's challenge to produce a better test than that used by himself and Anna Schwartz called forth no clear countervailing evidential model. But most agreed that further empirical testing of models combining elements of both the Friedman and the neo-Keynesian models ought to be undertaken promptly to resolve these differences.

[1] "An Essay on Principles of Debt Management," CMC Paper No. 234–B; and "Money, Capital and Other Stores of Value," *American Economic Review*, May 1961.

Commission on Money and Credit Report and Staff Papers

The second day of the conference was focused on the Report of the Commission on Money and Credit and its staff papers. The morning session was concerned primarily with processes and responses in monetary control; the afternoon, primarily with goals, potentialities, and achievements of monetary policy.

The tone of the major papers, and of much of the discussion, was critical of the Commission's report, on the score that it adds little to our knowledge of the role of money and the potentialities and achievements of monetary policy. Bronfenbrenner and Johnson in particular were critical of the report. But several of the commentators defended it on the ground that its goal was not to develop new economics or to illuminate the field for professionals, but rather to present a reasonable consensus of prevailing professional views, which it may well have done.

Johnson, Bronfenbrenner, Lerner, and Stein all pointed to the failure of the Commission to come to grips with the basic problem posed by conflict of policy goals, notably the possible conflict between price-level stability and high-level employment. Johnson urged further that — the Commission's views to the contrary notwithstanding — the present $35 price of gold ought to be considered a possible variable in the policy mix, rather than a basic goal in its own right. There was general agreement that the changing international economic situation calls for reexamination of devices for meshing international and domestic economic goals, and that the traditional proposals of devaluation and more flexible exchange rates deserve consideration among other proposals. But the major thrust of the conference discussion was on domestic policies, and there was no consensus on either the operating international mechanism or policies.

Johnson and Stein also argued that any particular rate of economic growth is not a proper goal of monetary policy, since individual choices, expressed through decisions on saving and the marketplace, can better determine the economy's growth rate. This position was accepted by some, but seemed to others open to attack. Any governmental monetary-fiscal policy must have some impact by its very structure on the rate of growth, so the issue is not whether the government's monetary-fiscal policy has influence, but what this influence will be. Moreover, recent evidence suggests increasingly that investment in human beings and technological advance play major roles in determining the rate of economic growth in the American economy. Certainly the latter of these, and probably the former, is subject to important external economies and may be a proper subject for societal (governmental) decisions as to the desired rate of economic growth. There is little evidence that the profit motive, responding to consumer spending and saving decisions, will produce that amount of basic research which the society may want and be willing to pay for collectively to speed economic growth.

Johnson also produced evidence that the rate of economic growth is not significantly dependent upon the degree of unemployment in an economy; charts are appended to his published paper. A distinction between the improved growth rate temporarily attained by moving up from underemployment to high employment and a longer-run improvement of the growth rate is surely desirable, as Johnson emphasized. But many participants found the evidence in Johnson's scatter diagrams inadequate to substantiate his argument. Moreover, it may be that in some cases (for example, Italy) a substantial unemployment figure covers up wide discrepancies in the economy, where the high growth rate is given largely by the prosperous, fully-employed portion of the economy (North Italy) while the unemployment is concentrated largely in other sectors (the South).

Bronfenbrenner and Bach suggested that a number of the staff papers provided empirical work of value in understanding the relationships between money and the level of total spending, especially on questions of processes and responses in monetary controls. Bach suggested that the staff papers do in fact provide increasing evidence for a renaissance of a modern version of the quantity theory of money. The Brown, Solow, *et al.* paper on lags in monetary and fiscal policy (in the CMC staff papers) suggests a monetary lag much shorter than that suggested by Friedman and considerably less variable, though still too long and variable for comfort. The general tone of the discussion was that the staff papers provided more support for use of monetary policy as a stabilizing device than was utilized by the Commission in its report.

But on the CMC's report and staff papers, as well as in the discussion of the preceding day, a persistent theme recurred. It was the need for integrated empirical work which will provide a reasonable test of alternative hypotheses concerning the role of money in economic growth and fluctuations, using models which combine elements of the traditional or modern quantity theory approach with elements of the neo-Keynesian models.