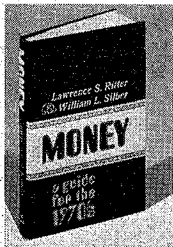
Money: what the argument's about

Some of the reputation of economics as the "dismal science" doubtless stems from the forbidding way in which most economists write. Professors Ritter and Silber in their small volume show pretty convincingly that economists need not be depressing writers. Drawing their text from Maimonides' (1135-1204) *A Guide for the Perplexed*, the authors find room for a slight disquisition on the real income of Babe Ruth vs. Willie Mays, an adaptation of the Marciano (Rocky, that is) Principle, and a contribution by George Bernard Shaw. One of their italicized conclusions, "*And Congressman Patman is right*" is bound to generate a certain amount of excitement among bankers.



Now, it would be a mistake to think all this makes *Money* the kind of book

Money
Lawrence Ritter and William Silber
Basic Books $5.95

you can read while taking in Rowan and Martin's *Laugh-In*. It demands a good deal of the reader as it ranges in thoughtful fashion over virtually all the key economic policy issues of the day. It is a serious analysis, but the authors have felt no obligation to be dull.

The book must be read, of course, against the background of the raging professional dispute over whether fiscal policy (Keynes, Samuelson, et al.) or monetary policy (Friedman) is the key to economic stabilization. The former view is now undergoing transition. It has held that, compared with government spending and taxing measures, money didn't really matter. The latter view has held that nothing else did.

Though they are far from devout Friedmanites, Ritter and Silber make it quite clear that money does matter. They hasten to add, however, that money is not omnipotent, that other forces are important in shaping the course of the economy. But if the money supply increases by more than, say, 4% annually (the long-run growth capability of the U.S. economy), does inflation result? Not necessarily. As good economists, they point out that if there is slack in the economy, a relatively large increase in the supply of money will tend to boost employment and output rather than prices. Moreover, if liquidity has been depleted, a rapid advance in the money supply will only induce the replenishing of cash balances held by the public; i.e., velocity—the rate of money turnover—having been abnormally high, will decline. However, if a fully employed economy is expanding in step with growth in its resources and productivity, and the ratio of liquidity to economic activity is approximately normal, an excessive rate of increase in the money supply will almost certainly result in inflation. Finally, over the longer run, inflation will peter out unless money-supply growth finances the climb in prices.

If the Federal Reserve authorities are to conduct monetary policy in a way that stabilizes the economy without help from other stabilization devices, it is essential, the authors assert, that velocity be stable or predictable, as the Monetarists hold it is. But since evidence suggests to them that velocity has been neither reliably stable nor completely predictable, monetary policy should not be relied upon to face the stabilization task alone.

The authors' judgment is that the Nixon Administration occupies a midpoint in the spectrum between the Monetarists and the Keynesians. That judgment would appear to be right. The President is getting, and apparently taking, advice from a crew of economic and financial advisers who have duly noted the limitations of fiscal policy from the triple failure of the last half of the 60s: A President failed to call for fiscal action in time, a Congress failed to respond in timely fashion when a Presidential request finally came, and, in the end, fiscal action seemed not to work when ultimately taken.

The skepticism of fiscal fine-tuning exhibited by Nixon's men is underscored by the conclusion of Professor Otto Eckstein, a member of the President's Council of Economic Advisers in the heyday of the New Economics, who has said of the 60s, "Discretionary policies did as much harm as good—or more."

The present emphasis upon trying to shift from a high-pressure to a high-level economy and upon the need to use both monetary and fiscal policy in a steady-as-you-go fashion has about it the cast of Solomonic wisdom, if not go-go activism.

Ritter and Silber's book is an admirable *vademecum* for the intelligent layman seeking to find his way through the money muddle. Despite their and other efforts, however, we still perceive only dimly the linkage between money and financial factors on the one hand and the real economy on the other. The state of the art today is not unlike that of trying to psychoanalyze a rogue elephant. However, with economists now in general agreement that money matters, it is probably fair to predict that important progress will be made during the years ahead in the field of monetary economics. That could be a critical breakthrough for the future of public policy. *Money* helps pave the way for a wide interest in such exploration.

—Gabriel Hauge

Now president of Manufacturers Hanover Trust Co., Gabriel Hauge served as administrative assistant and as special assistant for economic affairs to President Eisenhower from 1953 to 1958.

Why should not old men be mad?

Somewhere between John W. Aldridge's brilliant attack and William O. Douglas' impassioned defense lies the truth about those who will decide America's future. Probably no social revolution has been so swiftly and successfully waged as the sudden assault by the young upon our cultural battlements. They have already loosened our morals, lengthened our hair, and variously abbreviated, elaborated, and eliminated our clothing. Doubtless, victory in the political arena is next. Time, the vote, and the delayed impact of the postwar population explosion are clearly on their side.

The older generation has let it all happen with barely a murmur of disapproval. A few of us have hit the roof or the bottle, but most, says Aldridge, have accepted the phenomenon philosophically.

Before we capitulate completely, however, Aldridge urges a critical examination of just where our progeny

In the Country of the Young
John W. Aldridge
Harper & Row $5

are heading. And under his wise, witty, and coruscating gaze, the promised land turns out to be no more than an antiseptic version of the wasteland in which we all are wandering.

Past critics of American society, he points out, also railed against our intolerance, false values, and environmental squalor, but they did so in the name of culture and individual vision. Today's pubescent revolutionaries are less concerned with the quality of life than with the egalitarian distribution