

CHAPTER 10

Quantity Theory and Quantity Policy

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When Irving Fisher, in 1911, undertook what he called a “restatement and amplification of the old quantity theory,” he was moved to say, in his introduction, “it has seemed to me a scandal that academic economists have, through outside clamor, been led into disagreements over the fundamental propositions concerning money.” This condition, Fisher thought, was due to “the confusion in which the subject has been thrown by reason of the political controversies with which it has become entangled The attempts by promoters of unsound money to make an improper use of the quantity theory—as in the first Bryan campaign—led many sound money men to the utter repudiation of the quantity theory. The consequence has been that, especially in America, the quantity theory needs to be reintroduced into general knowledge.”

Since Fisher’s restatement, the quantity theory has experienced another repudiation, although with party lines somewhat redrawn, and another restatement. Today it is coming back strongly.

Monetary Policy Trends

The “rediscovery of money” that began in the United States around 1950 and in continental Europe a little earlier has been followed, on this side of the Atlantic, by an increasingly vigorous revival of quantity theory propositions. At a theoretical level, this re-statement of the quantity theory has been marked by a high degree of sophistication, supported by ingenious and imaginative empirical work. For much of this we are indebted to Professor Milton Friedman. At the policy level, a highly simplified version of

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¹ Irving Fisher, *The Purchasing Power of Money*, New York, Macmillan, Second Edition, 1913, Preface to the First Edition, p. viii.