

represent a quantity, a price, or a set of nonprice terms and conditions. The principal issue must lie, of course, between quantity and price indicators, although there is a subsidiary one between the quantities of money and of credit.

Quantity indicators have in their favor one simple circumstance: when the economy is growing at a steady rate (with no economies of scale), they must grow at the same rate as the GNP. This supplies a benchmark for sustainable rates of change that price indicators lack. It is the plausible assumption of a stable long-term growth rate of the economy that led Federal Reserve statistician Carl Snyder, in 1930, to propose increasing the money supply by 4% per year as a means of stabilizing the price level.² It would be difficult to match the intuitive appeal of this proposition with an analogous one concerning the interest rate, Keynes' apprehensions concerning the stickiness of the long-term rate at some conventional level notwithstanding.

Interest rates have in their favor a high degree of visibility. This primitive advantage must not be underrated in a world that everybody agrees is very complex and that almost everybody nevertheless seeks to explain in terms of one variable. Money supply data until recently were quite nebulous, being published late and containing a great deal of "noise" due to lack of weekly or monthly averaging and inadequate seasonal adjustment. Nevertheless, once good money supply data became available, this spurious advantage of the price indicator vanished. There are too many interest rates, and they do not always move harmoniously. The marginal efficiency of investment, moreover, as well as the cost of capital, the relation between which presumably determines the demand for investment, is in any event not observable. The expansiveness or restrictiveness of any visible interest rate therefore remains in doubt. The intuitive appeal of a quantity target gains under these circumstances.

The theoretical foundations of the relation between money and output are not agreed, however. Two related but separable aspects are at issue. How is the demand for money determined? And given a difference between the amount of money supplied and demanded, how is the effect transmitted to the real sector?

² Carl Snyder, "New Measures of the Relations of Credit and Trade," *Proceedings of the Academy of Political Science*, January 1930, particularly p. 29.