

MONEY AND INCOME

Few things fascinate mankind as much as money. And one thing that seems almost invariably true is that, at least from the standpoint of the individual, the supply of money is seldom as plentiful as the supply of theories about it. Since even a simple theory may give significant insights into the workings of the economy and of the monetary system, it has been beneficial to have so many. I hope we will never cease to have new theories nor tire of examining the old ones along with the new.

In the course of these examinations, however, we ought to remember the warning given every beginning student of economics: stay on guard against oversimplification, especially when it is proposed that a theory be used as the basis for determining a policy that is to be applied in practice.

For purposes of study, in furtherance of the understanding of particular processes, oversimplification may be positively helpful--as when we assume "all other things remain unchanged," even though in fact they do not.

For policy purposes, however, particular theories may have marked deficiencies. They may apply only in the long run, and not at all in the short. They may describe mainly underlying tendencies and touch upon only a segment of reality. When used for policy proposals without these factors being taken into account, they may lead to prescriptions that would do more harm than good.