

Economic history is full of theories that have attempted to prove that if the supply of money or credit could be made to behave in accordance with certain simple criteria, nearly all economic problems would be solved. Since scarcely anything could be more attractive or convenient, it is not surprising that the perennial search for such single, simple solutions is still in progress--and perhaps in full cry, to judge by the samples carried daily in the press of simplistic monetary proposals or policies advocated by some of our most eminent professional economists, by generally well-informed political leaders, and by well-trained financial writers.

Today I would like to discuss some of the reasons why I think that theories that accept or overemphasize (in my judgment) the money supply as the major determinant of income would serve poorly as the basis for formulating monetary policy, in contrast to those that stress the need to consider the interactions of non-monetary together with all monetary causes of shifts in income and spending.

For ease of exposition, I will use the terms "money supply theory" or "money supply only" for propositions that put most stress on changes in the money supply as the prime determinant of economic activity, and "money-income-expenditure" theory for those which stress the need to look at a broader list of variables. (While I have gone over the literature carefully and have tried to be representative in statements of views, an individual believer in either theory may well object that his views are not fairly represented. Almost anybody who has written in either area could almost