If control over the total money supply is all that is needed, as the money supply theorists suppose it to be, the composition of the total must be of no consequence. But if the total alone is important, there must be some unifying purpose in holding all the assets included in the total. If time deposits are included, the motive cannot be transactions. It must have to do with liquidity or some other measure. If the measure were broadened so that all interest rate effects were internalized, the relationship to income might be more stable. But broadening theory to such a measure is to eliminate the control of the Federal Reserve.

Statistical Studies

At times over-exuberant believers in the money supply theory seem to be stating that there is little use quibbling over the theory because the facts have been proved statistically, and that there is an empirical if not necessarily a theoretically valid law justifying the policy of constant growth of money supply. When we examine all the many studies in this sphere and the relevant debates, it becomes clear that no such certainty exists.

We face, of course, the typical problem of drawing conclusions about an extremely complex system from partial statistics. Looking at post-Korean data, we can correlate about half of quarterly changes in the GNP with changes in various definitions of the money stock. (Total member bank deposits or credit seem to do best.) The models giving such correlations contain lagged distributions for three to five quarters.