

ON NONNEUTRAL RELATIVE PRICE EFFECTS IN MONETARIST THOUGHT: SOME AUSTRIAN MISCONCEPTIONS*

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The resurgence of monetarism has been one of the more celebrated developments in postwar macroeconomic thought. Since Milton Friedman's influential 1956 restatement of the quantity theory of money [5], monetarism has become increasingly prominent in policy deliberations and academic theorizing alike. Matching this rise has been a corresponding revival of interest in the monetarist view of the monetary transmission mechanism-i.e., the mechanism or process that links money to nominal income and through which the economy adjusts to, monetary changes.

This article deals with the monetarist version of the monetary mechanism as expounded by Friedman and his late-19th and 20th century American quantity theory predecessors; in particular, it deals with a key misconception concerning that view. More precisely, it examines the Austrian School's contention that monetarists invariably ignore relative price and real output effects in the monetary mechanism. The term Austrian here of course refers to those modern followers of the monetary overinvestment business cycle theories of Ludwig von Mises and Friedrich A. Hayek. Those theories explain how monetary-induced declines in the rate of interest from its real equilibrium level stimulate overinvestment of capital in projects that prove unsustainable once the rate returns to equilibrium.

'Austrians' Antimonetarist Critique

According to at least three modern Austrians, monetarists concentrate solely or largely on money's long-run neutral equilibrium impact on the general price level and neglect or ignore the temporary non-neutral real-sector effects of monetary changes. This allegation, which has its historical roots in von Mises'

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and Hayek's criticism of the quantity theory of money, has received its most recent statement in Norman P. Barry's article on "Austrian Economists on Money and Society" in the May 1981 issue of the *National Westminster Bank Quarterly Review*. Says Barry :

Orthodox monetarists concentrate on changes in the general price level brought about by monetary expansion or contraction; all prices are assumed to move up. or down uniformly. This is maintained partly because holistic magnitudes such as the general price level are easily observable, and partly because money is always assumed to be neutral (that is an economy is more or less in equilibrium so that the effect of monetary disturbance is not on the structure of relative prices). [1 ; p. 23]

By contrast, Austrians, according to Barry, do not neglect nonneutralities or relative price effects of monetary shocks. On the contrary they emphasize such effects and the resulting disruption of real activity.

For the Austrians, however, the change in the structure of relative prices is crucial and monetary disturbance produces discoordination throughout the economy. [1; p. 23]

Barry's remarks are echoed by Gerald O'Driscoll and Sudha Shenoy, who argue that monetarists, unlike Austrians,

... ignore, the real side of the economy and hence the real maladjustments brought about by a monetary policy that interferes with the coordination of economic activities. [They] implicitly assume that the real side of the economy is always in some sort of long-term equilibrium, in which money influences only the price level or money income and not the structure of relative prices or the composition of real output [M]onetarists appear to be unaware of the real effects of money on the economic system-money's effect on individual prices and price interrelationships and hence on the whole structure of outputs and employments. [9; pp. 185, 193]

In short, according to O'Driscoll and Shenoy, monetarists (1) ignore "the structure of production and

the influence of prices on production,” (2) neglect “the microeconomics of business cycles,” and (3) adhere exclusively to a Walrasian general equilibrium model that fails “to find any place for money in the pricing process” and that gives money “no role in determining relative prices” [9; pp. 193, 194].

The purpose of this paper is to suggest (1) that the foregoing views are mistaken, (2) that monetarists do *not* neglect nonneutral relative price or real economic effects of monetary shocks, (3) that, on the contrary, they (or at least some of them) fully incorporate these elements into their analysis of the monetary transmission mechanism, (4) that, in fact, their concern for these effects is what motivates their advocacy of stable monetary policy (indeed, why would they care about sharp swings in the money stock if those swings had no real output and employment effects), (5) that, if anything, they may recognize an even greater number of relative prices or relative yields than do the Austrians, (6) that, with the possible exception of a singular Austrian concern for the *composition* (as opposed to *level*) of real output, there is little difference between the two views of the monetary mechanism, and (7) that, consequently, the notion that the Austrian view is unique is a myth. In order to document these points, the paragraphs below examine the writings of six prominent American monetarists or quantity theorists—namely Alexander Del Mar, Irving Fisher, Clark Warburton, Milton Friedman, Karl Brunner, and Allan Meltzer—to show what they had to say about nonneutralities and relative price effects of monetary disturbances.

Before doing so, however, it should be noted that the preceding assertions are in no way intended to belittle Austrian views of the working of the monetary mechanism. Rather the purpose is to suggest that many of those views—notably the notions of the first-round injection effects of monetary disturbances, of the misleading price signals produced by an artificial money-induced lowering of the interest rate, of the consequent overinvestment of capital and unsustainable increase in the capital intensity of production, and of the necessity of a depression to work off the excess capital stock—have their exact counterparts in at least some monetarists’ versions of the monetary mechanism. With this in mind, let us proceed to the first monetarist to be considered, namely Alexander Del Mar, the first director of the U.S. Bureau of Labor Statistics and author of several important late 19th century writings on monetary theory and history.

Alexander Del Mar (1836-1926)¹

The notion that quantity theorists invariably overlook or abstract from the real effects of monetary changes is quickly dispelled by a glance at Del Mar’s 1896 volume *The Science of Money*. In that book he expounded at least five ideas that constitute the hallmarks of both the Austrian and monetarist views of the monetary mechanism.

He distinguished, first, between *static equilibrium analysis* (in which all prices vary equiproportionally with money so that neutrality prevails) and *dynamic disequilibrium analysis* (in which individual prices adjust nonuniformly such that money exerts a temporary nonneutral impact on real variables). Static equilibrium analysis, he said, teaches that “a doubling of the sum of money will result in a doubling of price” such that neutrality holds [2; p. 185]. By contrast, dynamic disequilibrium analysis reveals that when the money stock alters,

prices do not move together, and the change from a large to a small currency, or vice versa, is by far the most important economical circumstance that can influence the [real] affairs of a nation. [2; p. 177]

That is, monetary causes, via their differential effect on individual prices, can have real consequences.

Second, having asserted the real significance of money-induced nonuniform price movements, he attempted to specify the exact sequence in which individual prices adjust to a monetary shock. Specifically, he argued that prices adjust in the following order :

1. Bullion.
2. Stocks and bonds.
3. Shares of incorporated companies.
4. “Staples,” or crude and imperishable commodities.
5. Merchandise, including perishable commodities, crude articles of subsistence, etc.
6. Fabric[ated goods], such as machinery, manufactured food, articles for wear, etc.
7. Landed property, or real estate.
8. Skilled labour, or artisans’ wages.
9. Unskilled labour, or the wages of labourers, soldiers, seamen, etc.
10. Professional services, or the emolument of authors, inventors, lawyers, engineers, clergymen, accountants, and other professional and clerical classes.

[2; p. 186]

In short, he argued that asset prices adjust faster than raw material prices, raw material prices faster than final product prices, and the latter faster than the prices of productive factors.

Third, he pointed out that, because prices do not adjust uniformly, monetary shocks necessarily distort

¹On Del Mar, see Tavlas [10].

the structure of relative prices and thereby disrupt production and discoordinate economic activity. As he put it,

to increase money, or permit it to increase, is not merely to enhance all prices simultaneously: it is to enhance the price of some things in point of time before others . . . [The result] is to derange and throw into disorder all the varied and complicated interests of society. [2; p. 188]

Similarly, to contract the money supply

is to depress the prices of certain commodities sooner than others, and to occasion a derangement of affairs even more perilous to society; for . . . a [nonuniform] fall of prices hinders commerce and depresses production, and thus deprives labour of employment or tangible existence. [2; p. 188]

Here, contrary to Austrian contentions, is one early monetarist's recognition of the relative price/real output effects of monetary disturbances. To prevent these disturbances, he recommended that money's growth be stabilized at a constant rate equal to the trend growth rate of real output, estimated by him to be 3.3 percent per year [10; p. 18].

Finally, although he did not (like the Austrians) discuss how monetary expansion alters the time structure of production and leads to an overinvestment of capital, he did state that the new money causes the real rate of interest temporarily to fall below its equilibrium level, thereby lowering the real cost of borrowing relative to final product prices and the expected return on investment. The resulting rise in actual and anticipated profit, he said, induces a corresponding rise in the demand for loans to finance new investment projects. Eventually the rise in loan demand bids the real rate into equilibrium, but not before additional new investment projects have been started. Here is Del Mar's recognition that the monetary mechanism embodies an interest rate-investment channel-the same channel emphasized in the Austrian approach.

Irving Fisher (1867-1 947)

The next monetarist to be considered is Irving Fisher, the famous monetary reformer, pioneer econometrician, and America's foremost quantity theorist. A careful reading of his work reveals that he did not neglect the relative price and resource allocation effects of monetary changes. On the contrary, he asserted that such effects always occur during transitional adjustment periods, periods in which individual "prices never do move in perfect unison" with each other or with the money stock [3; p. 184].

Thus in Chapter 9 of his famous *The Purchasing*

Power of Money (1911)-a chapter devoted to a discussion of "the dispersion of prices"-he argues that the existence of such inhibiting factors as contractual restraints, legal prohibitions, and the inertia of custom render individual prices sticky such that they adjust at different speeds to monetary shocks. The result, he noted, is to alter the structure of relative prices and therefore the pattern of real output. Distinguishing between the long-run neutrality and short-run nonneutrality of monetary changes, Fisher states that

The chief conclusion of our previous study is that an increase of money, other things equal, causes a proportional increase in the level of prices. In other words, the p's in the sum EpQ tend to rise in proportion to the increase in money. It was noted, however, that the adjustment is not necessarily uniform, and that if some p's do not rise as much as in this proportion, others must rise more. In this connection, we observe that some prices cannot adjust themselves at once, and some not at all. This latter is true, for instance, of prices fixed by contract. A price so fixed cannot be affected by any change coming into operation between the date of the contract and that of its fulfillment. Even in the absence of explicit contracts, prices may be kept from adjustment by implied understandings and by the mere inertia of custom. Besides these restrictions on the free movement of prices, there are often legal restrictions; as, for example, when railroads are prohibited from charging over two cents per passenger per mile, or when street railways are limited to five-cent or three-cent fares.

Whatever the causes of nonadjustment, the result is that the prices which do change will have to change in a greater ratio than would be the case were there no prices which do not change. Just as an obstruction put across one half of a stream causes an increase in current in the other half, so any deficiency in the movement of some prices must cause an excess in the movement of others. [3; p. 184, 185]

The resulting change in relative prices stemming from these differential individual price movements alters the composition of real output. For,

as each p changes, the "Q connected with it will change also; this, because usually any influence affecting the [relative] price of a commodity will also affect the consumption of it. [3; p. 194]

This alteration in the output mix, Fisher noted,

introduces a new complication. We have in many of our previous discussions been assuming, as was admissible theoretically, that all the Q's remain unchanged while we investigate the changes in the p's due to changes in the currency or in velocities of circulation. But practically we can never get an opportunity to study such a case. [3; p. 194]

In other words, monetary shocks invariably entail relative price and real output effects. These effects cannot be disregarded by the analyst. Austrians could hardly put it more convincingly.

Real Wage/Employment Effects : Fisher's Phillips Curve Analysis

Of the relative prices affected by monetary shocks, Fisher emphasized two, namely real wage rates (i.e., nominal wages deflated by commodity prices) and *real interest rates* (i.e., nominal yields corrected for inflation). In his seminal 1926 *International Labour Review* article entitled "A Statistical Relation Between Unemployment and Price Changes"—now recognized as the first rigorous statistical analysis of the Phillips curve tradeoff between unemployment and inflation,² he argued as follows regarding the real wage effects of monetary changes. He noted first that nominal wages ("which are fixed sometimes either by contract or custom, for at least a number of months") tend to adjust to monetary changes less rapidly than do product prices. Thus real wages fall when money and prices are increasing and rise when money and prices are falling. Assuming that employers' demand for labor (hiring) varies inversely with real wages, it follows that monetary expansion temporarily stimulates employment and monetary contraction temporarily depresses it. In other words, according to Fisher,

the ups and downs of employment are the effects, in large measure, of the rises and falls of prices, due in turn to the inflation and deflation of money and credit. [4; p. 502]

Here is Fisher's recognition of one important non-neutrality (namely the employment effect) of money. This emphasis on the short-run nonneutrality of money is even more pronounced in his treatment of the real interest rate effects of monetary changes, effects which constitute the core of his theory of the business cycle.

Real Interest Rate Effects

With respect to these real interest rate effects he argued as follows: Suppose the money supply increases, thereby putting upward pressure on prices. Suppose further that the price rise is initially unanticipated and therefore is not immediately incorporated into nominal rates. Because sluggish nominal interest rates do not at first rise as fast as product prices, real rates fall below their equilibrium level (the expected profit rate on new capital investment). Businessmen, desiring to take advantage of this rate disparity, step up their real loan demands. Assuming

² Indeed, Fisher's paper has been reprinted in the March/April 1973 issue of the *Journal of Political Economy* under the title "I Discovered the Phillips Curve."

banks accommodate these loan demands and that the increased real loans are used to finance new real projects made possible by the inflation-induced over-employment of labor and other resources, it follows that real output rises. In Fisher's words, "Trade (the Q's) will be stimulated by the easy terms for loans" [3 ; p. 61]. This is the expansion phase of the cycle.

According to Fisher, the expansion ends when the sluggish nominal rate finally adjusts completely to the rate of price increase and the real rate returns to its equilibrium level. The economy, however, does not stabilize at this point. Instead, the rise in the real rate precipitates a wave of business bankruptcies that trigger fears of the soundness of banks. These fears in turn prompt a run on banks, a drain of cash reserves, a financial crisis, and ultimately a collapse of the money supply. Fisher explains :

With the rise of interest, those who have counted on renewing their loans at the former rates and for the former amounts are unable to do so. It follows that some of them are destined to fail. The failure (or prospect of failure) of firms that have borrowed heavily from banks induces fear on the part of many depositors that the banks will not be able to realize on these loans. Hence the banks themselves fall under suspicion, and for this reason depositors demand cash. Then occur "runs on the banks," which deplete the bank reserves at the very moment they are most needed. Being short of reserves, the banks have to curtail their loans. It is then that the rate of interest rises to a panic figure. Those enterprisers who are caught *must* have currency to liquidate their obligations, and to get it are willing to pay high interest. Some of them are destined to become bankrupt, and, with their failure, the demand for loans is correspondingly reduced. This culmination of an upward price movement is what is called a crisis,—a condition characterized by bankruptcies, and the bankruptcies being due to a lack of cash when it is most needed. [3; pp. 65-66]

As a result of this crisis and the drain of bank reserves, the money stock falls, prices fall, and (because the nominal rate does not adjust as fast as product prices) real rates rise above their equilibrium level. The result is a decline in the real demand for loans and the level of real activity financed by those loans. The cycle enters its depression phase, a phase triggered by the preceding crisis and its panic-induced shrinkage of the money stock.

Fisher and Austrian Business Cycle Theory

Fisher's analysis, appearing as it did in his 1911 *The Purchasing Power of Money* fully one year before von Mises' *The Theory of Money and Credit*, presaged much of the Austrian theory of the trade

cycle. That this is so and that Fisher (as well as Del Mar) deserves credit for anticipating some of the essentials of the Austrian approach is evident from a comparison of the two views. For, contrary to the Austrians' contentions, such comparison reveals that Fisher's monetarist theory of the cycle is virtually the same as the Austrian theory in several key respects. Not only did he, like the Austrians, see monetary disturbances as the dominant cause of the business cycle, but, like them, he also viewed the cycle as the outcome of real reactions to the purely monetary shocks. And like them, he emphasized the relative price and real output effects of monetary changes.

In particular, like the Austrians, he highlighted the role of a disequilibrium real interest rate as a transmitter of misinformation and a discoordinator of production. Specifically, he argued that when an inflationary monetary injection pushes the real rate below its equilibrium level, the result is a misleading price signal that directs too many resources into capital-intensive projects, projects that would not be justified at the equilibrium rate. He even uses the same terminology as the Austrians, speaking of "mal-adjustments in the rate of interest" that "beguile" business borrowers to "overinvest" [3; p. 66]. Like his Austrian counterparts, he recognized that depression is the necessary and inevitable outcome of the capital overinvestment of the preceding boom.

Also, like the Austrians, Fisher recognized how interest rate changes can alter the time structure of production and thus the composition (mix) of output. He did so when he stated that a money-induced "movement of interest will tend to make the prices," and hence real quantities, "of different [goods] vary in different directions or to different extents" depending upon their relative, capital intensities [3; p. 193].

Finally, like the Austrians, Fisher maintained that although the economy is always tending toward steady-state equilibrium, it rarely attains it before fresh shocks occur. Consequently, dynamic disequilibrium is the normal state of affairs. For,

While the pendulum is continually seeking a stable position, practically there is almost always some occurrence to prevent perfect equilibrium. Oscillations are set up which, though tending to be self-corrective, are continually perpetuated by fresh disturbances. [3; p. 70]

It follows that :

Since periods of transition are the rule and those of equilibrium the exception, the [monetary] mechanism . . . is almost always in a dynamic rather than a static condition. [3; p. 71]

Although a monetarist, Fisher here exhibits two characteristics of the Austrian School: first, a belief that the economy is virtually always out of steady-state equilibrium, and second, an emphasis on equilibrating processes rather than equilibrium positions per se.

These similarities make it difficult to distinguish Fisher's cycle theory from the Austrians'. Moreover, they hardly support the notion of a unique Austrian view of the monetary mechanism.

Clark Warburton (1896-1979)

Fisher was neither the first nor the last monetarist to stress the nonneutral relative price effects of monetary changes: he was followed in the 1940s and 1950s by Clark Warburton. It was Warburton who, almost singlehandedly, revived and continued to use the quantity theory of money throughout the heyday of the Keynesian revolution at a time when research on monetary factors was all but dead: That he fully recognized money's temporary relative price effects is evident in his statement that a monetary-induced

change in the level of prices is a process which takes a period of time, and affects prices of various items sequentially rather than simultaneously. [This sequential adjustment occurs because] some prices are greatly influenced by custom or contract and move less readily than other prices; specifically, wages and contractual elements in business costs tend to be sluggish relative to price of output. [The result is that] the process of adjustment to the new price level required by the changed quantity of money . . . produces price differentials, which increase or reduce the profitability [and hence production incentives] of business. [11; pp. 28, 86]

In other words, due to the lag of wages and other costs behind prices and the resulting impact on profits, monetary changes have real effects. Specifically,

monetary deficiency . . . is the major cause of business depression and declining employment. Monetary expansion at a more rapid rate than economic progress, on the other hand; is the major cause of business recovery and increasing employment. . . . [11; p. 87]

This statement hardly indicates a disregard of the short-run nonneutrality of money. To prevent such nonneutralities and their underlying monetary causes, Warburton favored stabilizing money's growth at a constant rate equal to the differential growth rate between output and velocity.

Warburton on Monetary Injection Effects

Warburton likewise stands exonerated from the particular charge that monetarists ignore the non-

neutral first-round injection effects of monetary disturbances (i.e., the initial real-sector effects stemming directly from the way new money enters into the circulation). This charge stems from the Austrians' allegation that monetarists unanimously assume that new money is distributed equiproportionally (and therefore neutrally) across cashholders as if by helicopter drop. By contrast, Austrians contend that new money in fact enters the economy at a specific point and thereby temporarily raises prices at that point relative to prices elsewhere. That Warburton, although a monetarist, adhered to this latter Austrian view is evident from his discussion of injection effects. Monetary injections, he said,

are felt, first, in some particular part of the economy and spread from that part to the rest of the economy through the medium of price differentials created at each stage of adjustment. [11; p. 85]

Evidently Austrians are mistaken in holding that monetarists invariably adhere to the helicopter model.

Milton Friedman

The preceding has documented that earlier generations of monetarists did not ignore temporary non-neutral relative price and real output effects of monetary changes. Still, the view persists (especially among some Austrians) that the current generation of monetarists overlook these effects. Indeed, O'Driscoll and Shenoy characterize Milton Friedman's view of the monetary mechanism as one that "entirely ignores the microeconomic pricing process" and that totally neglects "money's effect on individual prices and price interrelationships" [9; pp. 191, 192].

This charge, however, is refuted by Friedman's own portfolio-adjustment explanation of the transmission mechanism, an explanation that stresses how substitution out of excess money holdings into a broad spectrum of financial and real assets changes the relative yields of those assets and their prices relative to the price of new output. Tracing a chain of causation from increasing money to rising real balances to a fall in the implicit convenience and security yield on holdings of those real balances and thence to cashholders' attempts to switch into higher yielding nonmoney assets, he argued that the result will be a rise in the prices (fall in yields) of those assets relative to the cost (yield) of producing them new. This differential, in turn, will stimulate spending to produce real output of those assets. Says Friedman of these relative price and real output effects:

An increased rate of monetary growth . . . raises the amount of cash that people and businesses have relative to other assets. The holders of the now excess cash will try to adjust their portfolios by buying other assets However, as people *attempt* to change their cash balances, the effect spreads from one asset to another. This tends to raise the prices of assets and to reduce interest rates, which encourages spending to produce new assets and also encourages spending on current services rather than on purchasing existing assets. That is how the initial effect on balance-sheets gets translated into an effect on income and spending. [7; pp. 24-25]

Thus, far from neglecting relative prices or yields, Friedman recognizes a myriad of them—far more than are recognized by Keynesians (who also employ a portfolio-adjustment model) and probably more than are recognized by the Austrians. Indeed he points out that the main difference between Keynesian and monetarist analyses of the transmission mechanism is in the range of assets and interest rates considered.

The difference in this area between the monetarists and the Keynesians is not on the nature of the process, but on the range of assets considered. The Keynesians tend to concentrate on a narrow range of marketable assets and recorded interest rates. The monetarists insist that a far wider range of assets and of interest rates must be taken into account. They give importance to such assets as durable and even semi-durable consumer goods, structures and other real property. As a result, they regard the market interest rates stressed by the Keynesians as only a small part of the total spectrum of rates that are relevant. [7; p. 25]

Friedman's stress on a whole host of relative prices makes him comparable to the Austrians, who also stress these components. It should be noted, however, that Friedman also stresses one additional relative price effect largely ignored by Austrians, namely a real wage/employment effect. Thus, in his famous 1967 presidential address to the American Economic Association [6], he points out how, owing to workers' misperceptions of inflation and the resulting lag of nominal wages behind prices, an unanticipated monetary change can temporarily alter real wages and thus the level of employment. In sum, far from ignoring relative prices in the monetary mechanism, Friedman recognizes more of them than do the Austrians.

Karl Brunner and Allan Meltzer

Other well-known modern monetarists who, like Friedman, emphasize nonneutral relative price effects in the monetary mechanism include Karl Brunner and Allan Meltzer. Their contributions have recently

been summarized by David Laidler. He states that Brunner and Meltzer

. . . had already developed a view of the transmission of monetary impulses in asset markets that stressed the role of relative prices as signalling devices, and found it easy enough to extend that line of reasoning to the markets for output and labor services as well. [8; p. 10]

More precisely, Brunner and Meltzer argue (1) that a monetary expansion initially lowers the implicit convenience and security yield on real cash balances relative to the yields on other assets, (2) that this fall in money's relative yield induces a substitution out of cash balances into a broad range of noncash assets, (3) that the resulting increased demand for those assets lowers their yields and raises their prices, (4) that, in particular, such substitution raises the prices of existing real capital assets and consumer durable goods relative to the costs of producing them new, and finally, (5) that this price-cost differential encourages production of those real assets. In this way, monetary impulses spread sequentially across a heterogeneous array of assets, temporarily affecting relative asset prices as well as the prices of those items relative to the prices of newly produced goods. This view, with its emphasis on money-induced changes in the structure of prices and thus-the composition of demand, is remarkably similar to its Austrian counterpart, which likewise stresses these effects.

Conclusion

The preceding paragraphs have documented that, contrary to the contention of some Austrian writers, monetarists did not neglect nonneutralities and relative price effects in their analysis of the monetary mechanism. On the contrary, monetarists, like Austrians, stressed these effects. Moreover, as documented above, monetarist and Austrian theories of the business cycle share many of the same or similar characteristics. Because of this, the two approaches should be seen as complementary rather than as competing. The similarity between the two views also casts doubt on the notion of a unique Austrian view of the monetary mechanism.

Whatever their similarities or differences, the two views yield the same policy insight, namely that monetary disturbances are capable of producing severe disruptions to the real economy and for that reason should be avoided. True, the two schools differ over how monetary stability is to be achieved. Monetarists, with their disapproval of discretionary intervention and monetary fine-tuning, generally

advocate some form of a constant monetary growth rate rule. By contrast, Austrians, with their desire to transfer monetary control from the government to the private sector, advocate the abolition of central banks in favor of either strict adherence to a gold or other commodity standard or reliance on a regime of freely competing private fiat currencies. Apart from these and other important differences (such as the Austrians' desire for swift monetary deceleration versus the monetarists' policy of gradualism), both schools agree that money must be stabilized and that the pursuit of active (discretionary) countercyclical monetary policy by unconstrained central banks is **not** the way to do it. On this fundamental point, as on the importance of relative price effects in the monetary mechanism, the two schools are in concurrence.

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