

CONTEMPORARY MONETARY THEORY

*Studies of Some Recent Theories of
Money, Prices and Production*

BY

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PREFACE

THE main purpose of this study is to summarize and to examine the theories of four of the outstanding recent writers on monetary and business cycle problems: R. G. Hawtrey, D. H. Robertson, F. A. von Hayek, and J. M. Keynes. The emphasis throughout is on the concepts and analytical procedures which are involved in the different theoretical systems. Because it is no longer possible to distinguish clearly between monetary theory and business cycle theory, the problems relevant to both of these branches of economic study are dealt with as one. It is likewise impossible to criticize the concepts of theory without taking account of the proposals for stabilizing economic activity which the various writers have advanced. For this reason each of the writers concerned is studied not only with respect to the analytical procedures which he utilizes but also with respect to his end conclusions as to appropriate monetary policy.

Because there are considerable differences between the systems of ideas that are brought under examination, it is not possible to develop each of the four sections of this work on the same general scheme. There are, however, certain common elements in the four main divisions of this volume. In each of the separate studies we have dealt with (a) the general nature of the theoretical approach, (b) the important terminology of the theory, (c) the main concepts and analytical devices which are used, (d) the theory of price movements, (e) the explanation of the "cycle" which is advanced and (f) the relation between the particular analytical method and the control program which is sponsored.

The materials that have been used are the published books and journal articles of the four writers and also those of other writers who have directly or indirectly developed criticisms of the theories with which we are concerned. It has not been necessary to cover the whole literature in order to satisfy the

aims of this work. Only the more important ideas and lines of reasoning have been examined. A selected bibliography of the material in this field is found in Appendix A.

The order in which the different theoretical systems are discussed was suggested mainly by the chronological development of ideas in this field. R. G. Hawtrey is discussed first because his *Currency and Credit* is, in a certain sense, the first of the "modern" books on the theory of money. It is true, of course, that what we know about the history of monetary theory indicates that theories now current have rather long histories. Nevertheless, the treatment of money from the credit point of view and the consideration of the theory of credit expansion and contraction, which is the major concern of present-day monetary theory, owes much to Hawtrey's early work. The order in which the other writers are discussed raises, I believe, no special questions. That Robertson's *Banking Policy and the Price Level*, which carries on into the field of monetary theory the intellectual apparatus developed by Alfred Marshall, claims a place of high distinction in the history of monetary and business cycle theory is a proposition not, it seems to me, open to debate. His analysis of the operation of non-monetary and monetary forces and their influence on the process of capital formation constitute what appear to me to be his greatest contributions and in these matters his priority seems unquestionable. That body of theory developed by F. A. von Hayek, which is, as he indicates, a further development of Böhm-Bawerk's capital theory, is concerned with the same general problem of capital formation and the relation between money and the operation of the whole economic system. J. M. Keynes is discussed last because we concern ourselves mainly with the *General Theory of Employment, Interest and Money*. A different order of treatment, on a chronological basis, would be required were we to discuss his earlier *Treatise on Money*. As I have tried to show in discussing Keynes's theory, his main interest is in effecting the reformulation of general economic theory which he believes to be neces-

sary in order to enable one to discuss adequately the relation of money to the economic system. This is the aspect of Keynes's work to which I have given most attention and the one which seems to me to be the most important.

The difficulties of making a study of this kind are quite apparent. Ideas in this branch of economics are many and diverse, and the important ones seem to be regularly the most difficult to comprehend. Furthermore, not only does the exposition of the ideas leave much to be desired but also the principal writers are currently producing new ideas or variations upon older concepts. The former situation might, perhaps, have been avoided, but the latter is inescapable in a field of study that is in process of development.

Because of these major difficulties I do not feel at all sure that the interpretations which I have made are correct in all instances or that the comments which I have made on the various ideas are in all cases valid. But if such errors have been committed they are inadvertent.

This task of tracing some of the more important developments in contemporary monetary theory was undertaken at the suggestion of Professor James W. Angell of Columbia University and was carried out under his guidance. The acknowledgment I owe and gratefully make to Professor Angell is due both for his constant critical appraisal of ideas and for his kind and generous personal attitude. To my early teachers, Professor Harry M. Fife of Middlebury College and Professor Lloyd L. Shaulis of Tufts College, I owe great intellectual debts. Among my former teachers and present colleagues at Columbia University there are many to whom I wish to express special thanks. Professors W. C. Mitchell, J. M. Clark, B. H. Beckhart and A. D. Gayer and Dr. Harold Barger have read the typescript in whole or in part and have given me the benefit of their criticisms. I want especially to express my gratitude to Prof. B. H. Beckhart for his indispensable aid in connection with the work of publication. To my friend and colleague Professor Horace Taylor I owe a profound debt for assistance

with many of the points of interpretation and appraisal that have been raised in the course of this study and for his constant personal encouragement. Without the aid and sympathetic support of these and many others this work could not have been completed. However, for the interpretations and criticisms advanced in this volume I am solely responsible.

The following firms have very kindly permitted me to make quotations from books published by them: Jonathan Cape, Ltd., Harcourt, Brace and Co., P. S. King and Son, Ltd., Longmans, Green and Co., Macmillan Co., McGraw-Hill Book Co., National Bureau of Economic Research, Inc., Oxford University Press (Royal Institute of International Affairs) and George Routledge and Sons, Ltd.

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