

Monetarism: Economic Analysis or Weltanschauung?

Economic doctrines such as monetarism, or Keynesianism, constitute both economic analysis and a Weltanschauung or ideology. In this paper I want primarily to separate the components of monetarism into those that are economic analysis and those that represent a broader Weltanschauung. I am using the rather ponderous term Weltanschauung instead of the, for present purposes, equivalent term, "ideology" because of the strongly negative emotional charge carried by the word "ideology." Such a negative charge is not warranted here because an ideological component is an inevitable attribute of both monetarism, and of its rival, Keynesianism. While in the future it may become possible to discuss economic policy solely on the basis of rigorous analysis and empirically verified hypotheses, our knowledge is certainly not sufficient for this at present.

Although the main focus of this paper is on the dichotomy of economics and much broader Weltanschauung, it is useful to separate the economic issues into two classes. One, which I shall call issues of narrow economic analysis, encompasses those issues on which the dispute arises only, or largely, with respect to the debate between Keynesians and monetarists. But many components of the monetarist-Keynesian debate are ones that feature prominently in many other debates in economics and might be called a purely economic Weltanschauung. For want of a better term I shall call them "suppositions." An example of such a supposition is the view that prices are inflexible downwards, while an example of a narrow issue of economic analysis is the proposition that it is difficult to define the term "money," or that we have no adequate way of measuring the expected real rate of interest. One characteristic of a supposition is that it usually is more difficult to do meaningful research on it than is true for narrow

issues of economic analysis. This is not surprising because if it were no more difficult to answer questions which have broad implications rather than narrow ones, much more of the profession's research would deal with these broad suppositions, and we should then know much more about them than we do about narrow issues. Hence, I will treat as one characteristic of suppositions that they are issues on which we have little usable information.

Returning to the concept of *Weltanschauung*, one can think of an economic doctrine as consisting of a central core of rigorous "scientific" analysis, supported by a series of philosophical, sociological and political opinions. One obvious characteristic that distinguishes a *Weltanschauung* from economic analysis is that it involves in an important way, controversial value judgments. Since these value judgments differ sharply from those made by opponents of this *Weltanschauung*, some of the debate is the result of these divergent value judgments. By contrast, while economic analysis may also involve explicit or implicit value judgments, these value judgments are much more likely to be innocuous ones that are generally accepted by both sides of the debate, so that the controversy centers on other questions.

The second distinguishing characteristic of a *Weltanschauung* is that it contains much more than economic hypotheses and value judgments. It includes explicitly, or often implicitly, controversial judgments about sociological or political issues. A substantial part of the notorious disagreement among economists about economic policy is probably due at least as much to divergent views about the political feasibility of various measures as to disagreements about substantive economic issues.¹

A third characteristic that distinguishes a *Weltanschauung* from economic analysis is that much of it deals with issues about which very little is known. If we lack the underlying theory or the empir-

¹ To illustrate with one of the main issues in the monetarist debate, Milton Friedman wrote: "The real argument for a steady rate of monetary growth is at least as much political as it is economic." (FRANCO MODIGLIANI and MILTON FRIEDMAN, "The Monetarist Controversy," Federal Reserve Bank of San Francisco, *Economic Review*, Spring 1977, *Supplement*, p. 18.) Beyond this it is probable that much of the proverbial disagreement among economists is due to the fact that economists, unlike physical scientists, have a tradition of trying to answer all policy questions in their field, almost regardless of how little is known about them. Currently, when physical scientists are called upon to answer practical questions such as those about the greenhouse effect of increased carbon dioxide, or the effect of SST planes on the ozone layer, they seem to disagree just as economists do.

ical data that are needed to decide an issue, then we are likely to make a decision on grounds other than those of economic analysis, for example, by following the lead of those with whom we agree on other economic issues, or whose value judgements and political judgements we share.

The distinction between economic analysis and *Weltanschauung* is, of course, a matter of degree; there is a continuum rather than a dichotomy in the importance of value judgments and political judgments, and in the limitations of our knowledge. Moreover, any attempt to classify certain monetarist propositions as economic analysis or as *Weltanschauung* cannot be purged of subjective elements and is to some extent arbitrary.

Despite this, separating the disagreements about various monetarist propositions into issues of economic analysis, suppositions and issues of *Weltanschauung* is useful because it sorts out those issues on which economists can make a claim to special expertise from those for which this claim is not justified. Moreover, distinguishing disagreements about economic analysis from other disagreements should help to calm the debate by eliminating from what are essentially debates over technical issues of economic analysis, the emotions that usually come into play when we dispute value judgments. Specifically, it should reduce the tendency of protagonists on both sides of the debate to reject — on the basis of guilt by association — technical propositions of economic analysis.

In classifying the various monetarist propositions one should focus on the characteristics of the arguments mustered in their support, and not classify them by their implications. A clearly scientific proposition can have ideological implications, but that does not make it ideological. For example, the discovery that many chemical processes used in industry cause cancer, has some obvious ideological implications, even if only on an emotive level, but that does not warrant calling the specific biochemical studies ideological. Furthermore, if there exist powerful scientific arguments for a particular monetarist proposition one should classify this proposition as a scientific one even though there exist ideological arguments too.

I will take twelve propositions that characterize American domestic monetarism and discuss the extent to which each one has the characteristics of a *Weltanschauung* rather than of an economic supposition or an issue of narrow economic analysis. I will not discuss

international monetarism since this is clearly a debate about technical economic issues. These twelve propositions are:²

1. Changes in nominal income are primarily the result of changes in the nominal quantity of money, and further, except in the short run, changes in the money stock leave output unaffected.
2. The validity of a particular monetarist model of the transmission process.
3. The private sector is inherently stable.
4. Allocative detail is unimportant in explaining short run changes in nominal income, and the capital market is relatively fluid.
5. Small reduced form econometric models are preferable to large structural models.
6. One should try to explain the price level as a unit rather than as a combination of individual prices.
7. The reserve base, or some other reserve measure, is the proper indicator of monetary policy.
8. The correct target of monetary policy is the money stock.
9. A stable monetary growth rate rule is preferable to discretionary monetary policy.
10. There exists no usable trade-off between inflation and unemployment.
11. Inflation is a more serious problem for public policy than is unemployment.
12. Government intervention in the economy should be minimized.

Money and Income

To what extent is the first of these propositions the product of economic analysis rather than of a more general *Weltanschauung*? One way of formulating the critical issues that compose the question

² For a discussion of these characteristics and their interrelations see Thomas Mayer *et al.*, *The Structure of Monetarism*, New York, W. W. Norton, 1978, previously published in *Kredit und Kapital*, 1975-1978.

of whether changes in the money stock dominate changes in nominal income is to ask whether these two variables are highly correlated, and further whether causation runs from money to income or *vice-versa* or from a third variable (e.g., wage pressures) to both. Alternatively, one can formulate the issue in terms of the functional stability of velocity and of the behaviour of the arguments in the velocity function. In either case, one is dealing with questions of positive economics. Value judgments enter here no more than they do in questions in the hard sciences. Furthermore, one does not have to introduce sociological or political considerations. Moreover, while our knowledge about the relation of money and income is still far from complete, there exists an extensive volume of economic theory and empirical research bearing on it. Hence, one does not have to seek refuge in such arguments as "X believes that changes in money dominate income. I dislike X's political views, hence in the absence of any reliable information I believe that changes in the money stock are not the predominant explanation of changes in nominal income." It is therefore not surprising that the mainstream of Keynesian economics, at least in the United States, now attributes to changes in the money stock a much greater role in determining changes in nominal income than it did, say, twenty years ago, while still maintaining an overall Keynesian *Weltanschauung*.³

Admittedly, the question of whether changes in the nominal money stock are the central cause of changes in nominal income is not purely a technical one, but involves some elements of a *Weltanschauung*. Monetarists believe that under modern conditions, particularly with flexible exchange rates, the central bank can control the money stock so that this variable is exogenous. Some Keynesians, on the other hand, believe that the central bank is not an independent actor, and that it is therefore superficial to take changes in the money stock as "given." Instead, the central bank *has* to supply the additional money that is required to maintain adequate employment while meeting union wage demands. Hence, changes in the money stock are only a superficial, rather than in any sense a basic, cause of changes in nominal income. This approach is a matter of *Weltanschauung* rather than of economic analysis. But note that this argument does not necessarily deny that fluctuations in nominal income

³ See, for instance, FRANCO MODIGLIANI, "The Monetarist Controversy, or Should We Forsake Stabilization Policies?" *American Economic Review*, vol. 67, March 1967, pp. 1-19.

are dominated by fluctuations in the money stock; it merely disagrees with the monetarists about where it is convenient to stop in tracing the chain of causation.

The second part of the first proposition, that is, that changes in the money stock affect output only in the short run, is also a matter of narrow economic analysis. Keynesians agree with all of it, except for the word "only" because they attach much more importance to the short run than do monetarists.⁴ In part this is because Keynesians think that since prices are inflexible the short-run lasts a long time. As Franco Modigliani has remarked, "Monetarism is the non-monetarist world in which lags disappear."⁵ In part it also reflects what is probably a temperamental difference; monetarists appear to heed long-run effects much more seriously than Keynesians do, and hence, their analysis tends to focus on long run effects.

The Monetarist Transmission Process

Given the ease with which nonsense correlations can be produced in economics, monetarists cannot rest their case on the correlation of changes in the money stock and in income, even if it were not for the problem of reverse causation. They have to show that the hypothesized relationship between money and income is supported by economic theory. In seeing how monetarists go about this task one must distinguish between the approaches of the Friedman and the Brunner-Meltzer wings of the monetarist camp because monetarists are not a unified school.

Friedman and other Chicago economists provide relatively little information on the process by which changes in the money stock generate changes in income. Friedman and Schwartz describe it as a portfolio adjustment process that appears to be broadly similar to the Keynesian transmission process, though they do provide a sketch of the mechanism by which this process can generate fluctuations.⁶ This de-emphasis of the transmission process can be justified in two

⁴ See the very perceptive discussion of ROBERT GORDON, "Comments on Modigliani and Ando," in Jerome Stein (ed.), *Monetarism*, Amsterdam, North-Holland Publishing Company, 1976, pp. 55-58.

⁵ FRANCO MODIGLIANI and MILTON FRIEDMAN, "The Monetarist Controversy," *op. cit.*, p. 20.

⁶ See ARTHUR OKUN, "Comments," in *Review of Economics and Statistics*, vol. 44, February 1963, *Supplement*, p. 74.

ways. The first is that in general terms microeconomic theory already provides us with our transmission process. Suppose that in a two commodity world the endowment of apples (money) is increased. The price of nuts (goods) in terms of apples (the price level) will then rise. Conversely, if the supply of apples (money) is reduced, and the suppliers of nuts refuse to reduce their prices in terms of apples (the price level) there will be unemployment. On this general level the charge of "black box economics" that is so often levied at Friedman is totally unjustified.

Second, Friedman believes that money affects income through many more and varied channels than we can measure with our data, so that an attempt to trace the effect of money on income by looking at particular channels of influence would miss a substantial part of the impact of money on income. This is connected with Friedman's belief that we know much less about how the economy functions than Keynesians often claim. Moreover, Friedman's de-emphasis of the transmission process also fits his methodological approach of testing a theory by its implications rather than by its assumptions. However, one should beware of overstressing this last consideration. Friedman is hardly a naive empiricist who wishes to dispense with theory. Furthermore, presenting the channels by which money affects income would be entirely consistent with testing by implications since it would provide many more implications that could then be tested. Hence, what is involved in Friedman's treatment of the transmission process is primarily a matter of narrow economic analysis rather than of methodology.

In contrast to Friedman and other members of the Chicago school, Brunner and Meltzer present a very detailed and elaborate description of their transmission process, a description that differs substantially from Friedman's sketch of his transmission process.⁷ This Brunner-Meltzer process is primarily a matter of economic analysis and clearly not a Weltanschauung, though it also involves monetarist suppositions. The extent to which their transmission process is technical economic analysis, rather than a Weltanschauung, is brought out by the fact that in their *formal* analysis fiscal policy can have just as large an effect, or even a larger effect, than monetary policy. To generate monetarist conclusions they have to bring in empirical evidence, which is exogenous to their theoretical model.

⁷ See, for instance, KARL BRUNNER and ALLAN MELTZER, "An Aggregative Theory for a Closed Economy," in Jerome Stein (ed.), *Monetarism*, *op. cit.*, pp. 69-103.

There is, however, one way in which a *Weltanschauung* underlies the monetarist transmission process in both its versions. This is that it focuses on the (positive or negative) excess demand for money, and takes expenditure motives, such as the marginal efficiency of investment as stable. By contrast, in the Keynesian world, expenditure motives are not that stable and have to be analyzed. (To a very considerable extent monetarist theory is a gamble on expenditure motives being stable functions so that one need not pay much attention to them and can confine oneself to analyzing the supply and demand for money instead.) And this brings us to the next monetarist proposition.

The Stability of the Private Sector

Monetarists accept the hypothesis that the private sector is inherently stable by which they mean, or should mean, either that, apart from government intervention, the economy is subjected to very few shocks, or that if subjected to a shock the economy returns to a position of full (or high) employment, with relatively stable prices fairly quickly. An economy that eventually reaches full employment, but only after suffering, say, 10 percent unemployment for a decade should not be called stable. Note, however, that monetarists do not mean that the private sector is stable in the sense that in the absence of government intervention there would be no, or almost no, fluctuations, but only that the economy would then be significantly stabler than is our present mixed economy. Keynesians, of course, deny that the private sector is stable. Indeed the central "message" of the *General Theory* is that this is not so.

The belief in the inherent stability — or instability — of the private sector should be classified as a supposition for two reasons. First, it is a very broad and basic issue, and second, we have so little evidence on this issue that our views on it are more a matter of faith than of confirmed knowledge. Hence, arguments about it have largely taken the form of assertion and counter-assertion. Thus in the *General Theory* Keynes's evidence for the instability of the private sector consists of the assertions that the volume of investment is governed by "animal spirits," and hence subject to erratic changes, while at the same time, the private sector has no adequate stabilizing mechanism. But Keynes had merely brushed the neoclassical theory

of a stabilizing mechanism aside, and the subsequent discussions of the real balance effect reinstated it.

Post-Keynesian theory combined the multiplier and the accelerator mechanism, and showed that certain quite plausible values of their coefficients imply substantial fluctuations. But insofar as consumption depends, not only on current income, but also on longer run income and on wealth and the liquidity of household balance sheets, the system is stabler. This is so not only because the marginal propensity to consume out of current income is reduced, but also because a rise in income, by raising interest rates, and thereby reducing the current market value of wealth, reduces consumption. Moreover, if, as the evidence suggests, investment depends on long run sales rather than on current sales, the accelerator coefficient relating to current income is reduced. Furthermore, even if the interaction of the multiplier and the accelerator could result in an unstable economy, automatic stabilizers, such as the procyclical behaviour of interest rates could offset this.

Since a priori theory therefore can tell us little about the inherent stability of the private sector the solution may seem to lie in empirical tests. But they too provide no solution. Thus, econometric models do not speak in unison; the Federal Reserve's MPS model shows that the private sector is less stable than the private and public sectors combined, while the DRI model shows the opposite.⁸ Other empirical tests also fail to answer this question.

At the same time, it would be unwarranted to classify belief in the stability or instability of the private sector as a *Weltanschauung* since it requires neither value judgments nor political or sociological judgments. Hence, it should be classified as an economic supposition.

The Unimportance of Allocative Detail and the Assumption of a Relatively Fluid Capital Market

Monetarists predict changes in aggregate demand by looking at changes in the quantity of money. They are therefore not concerned, at least in the first instance, with the incentives to spend in various sectors. To the monetarist these incentives determine relative prices

⁸ See FRANCO MODIGLIANI, "The Monetarist Controversy," *op. cit.*, p. 12, and OTTO ECKSTEIN, "Instability of the Private and Public Sectors," *Swedish Journal of Economics*, March 1973.

and relative outputs, but have little, if any, effect on aggregate demand. By contrast, Keynesians determine aggregate demand by adding up (with due allowance for interactive relationships) spending incentives in various sectors. Hence, unlike the monetarists, they are concerned with factors such as, for example, the level of inventories and the availability of mortgage funds for housing. This difference between monetarists and Keynesians is a reflection of disagreements about the stability of the private sector, and disagreements about research strategy. It is therefore a dispute about suppositions.

Reliance on Small Rather than Large Econometric Models

The difference in research strategy just discussed is also a major reason why monetarists — unlike most Keynesians — favor small econometric models. The Keynesian needs to know the developments in many sectors to forecast demand, and hence the more detail he knows the more confident is he in his prediction. But to the monetarist such detail is irrelevant for predicting aggregate demand. Thus, this dispute too is the result of different suppositions about correct research strategy. But an issue of econometrics, is involved too. This is the advisability of using a single stage least square approach as opposed to a simultaneous equations approach. This too is a matter of suppositions since it has ramification for much econometric work apart from the Keynesian-monetarist debate.

In addition it is, of course, the case that the small St. Louis model did produce monetarist conclusions — a fact that *may* have influenced both monetarists and Keynesians in their preference for small or large models.

Focus on the Price Level as a Unit

Monetarists and Keynesians differ sharply in their conceptions of how the price level is determined. Monetarists stress the distinction between absolute and relative prices, and believe that one must explain the price level as a single unit rather than as an aggregation of individual prices. Suppose for example, that the price of steel rises while the quantity of money is kept fixed. As a first approximation monetarists would say that the price level will then be unaffected, that the rise in the price of steel, by reducing real balances,

will generate compensating downward pressure on other prices. Keynesians on the other hand believe that prices are relatively inflexible downward so that the rise in the price of steel is not, to a significant degree, offset by other prices falling. As real balances decline it is primarily output and not other prices that fall. This question of how flexible prices actually are should be classified as a supposition rather than as an issue of narrow economic analysis. It is basic to many questions in economics and represents two rival ways of looking at the economy.

Use of the Reserve Base or Similar Measure as an Indicator

Monetarists gauge the central bank's policy by the behaviour of some measure of bank reserves. Many Keynesians, on the other hand, use the short term interest rate as their indicator of central bank policy. This dispute has many sources. One is that monetarists use as their *target* of monetary policy the money stock, while Keynesians frequently use the long term interest rate. But this connection is rather loose, because it is possible that the short term interest rate is a better predictor of short-run changes in the money stock than is the reserve base, while, given the weaknesses of term structure equations, the money stock *may* predict long term interest rates better than the short term interest rate does. Another source of the dispute is the degree to which the short term rate, rather than the long term rate is itself a target of monetary policy, since it affects flows into financial intermediaries.

Finally, there is the very important question of the extent to which the short term interest rate and the reserve base are endogenous to the central bank, so that their movements can tell us what it is that the central bank itself is doing. Insofar as either is strongly affected by changes in income rather than by the central bank's action, it is obviously an inadequate indicator of the central bank's policy. All of these are clearly narrow technical issues. Thus a Keynesian can select a reserve measure as his indicator because he believes, for example, that changes in the short term interest rate are primarily the result, not of central bank policy, but of changes in income, and hence in the demand for money. Conversely, a monetarist could believe that the short term interest rate is a better predictor of very short run changes in the money stock than is the reserve base.

Money Stock or Interest Rate as the Target

Monetarists obviously believe that it is the money stock, and not the interest rate, that is the proper target of central bank policy, while Keynesians frequently believe the opposite. This debate turns on several issues. One is the extent to which we can measure either variable accurately, because a central bank must be able to measure its target in order to attain it. Both the money stock and the interest rate present serious measurement problems.

The second issue turns on the relative predictability of the expenditure functions and the money demand function. This is shown easiest by using the Cambridge equation, $M = kY$, where M is money, k the desired ratio of money holdings to income and Y is nominal income. Assume that the central bank wishes to keep Y stable (the argument can be easily generalized to other cases), and that it observes an unanticipated rise in the interest rate, but does not yet have data on income. What should it do? If it believes that the rise in the interest rate is due to a rise in income it should keep the money stock constant — in other words, it should have a money stock target — and let the rise in the interest rate choke off some of the expansion. On the other hand, if the rise in interest rates is due to an upward shift of the liquidity preference function, that is a rise in k , it should keep the interest rate constant, and supply the additional money that is demanded, thus using an interest rate target. A central issue in this debate is therefore whether most unanticipated changes in the interest rate are due to shifts of the expenditure functions or to shifts in the liquidity preference function.

The third issue is one that, so far, has received very little attention. In selecting a rule that a central bank should follow one should select one that will be moderately useful even if the central bank applies it only imperfectly. Thus, one might object to an interest rate rule, at least in the American context, because the Federal Reserve system has a strong tendency to confuse a stable rate with an appropriate rate, and to keep the interest rate stable when it should be changing it. If, as seems likely, this tendency is exacerbated by an interest rate rule, then here is an argument for a money stock rule.

How should we classify these issues? The question of whether the money stock or the interest rate can be better measured is surely

a narrow technical one. And the same is true, though to a lesser extent, of the question of whether there are more unpredictable shifts in the expenditure functions or the liquidity preference function. In part this depends upon the stability of velocity, and hence brings in the broader question of the relation between changes in the money stock and income, as well as the basic Keynesian supposition that expenditure motives are quite unstable. But note that a Keynesian might readily agree with a monetarist on this issue because there is nothing in Keynesian theory that tells us that the expenditure functions are less predictable than the liquidity preference function. Similarly, the question of whether the central bank actually confuses appropriate with stable interest rates is also a narrow technical one. Furthermore, while on all of these questions our knowledge is still very imperfect, on the first two of them there is an extensive technical literature, so that we do not have to rely on broad generalizations about our vision of how the economy works. Hence, this dispute too should be classified as one of narrow economic analysis.

Belief in a Stable Money Growth Rate Rule

This is the most dramatic of all monetarist propositions, and perhaps the central thesis of hard-core monetarism. The monetarist case for stable money growth is multifaceted. First, as Friedman has shown, if the central bank does not know the distributed lag between its actions and their impact on the economy, its actions can very easily destabilize, rather than stabilize, income.⁹ This is clearly a matter of technical economic analysis, as is highlighted by the fact that a staunch Keynesian, A. W. Phillips, came to the same conclusion as Friedman.¹⁰ A second, much newer argument for a monetary growth rate rule is that if people behave rationally, and adjust their prices as soon as new information becomes available, they will respond to an expansionary policy by raising prices and wages correspondingly, so that output and unemployment are unaffected. This argument can perhaps be classified as narrowly technical, too, though one could also argue that the underlying notion of such highly rational

⁹ See MILTON FRIEDMAN, "The Effects of a Full-Employment Policy on Economic Stabilization: A Formal Analysis," reprinted in his *Essays on Positive Economics*, Chicago, University of Chicago Press, 1953, pp. 117-132.

¹⁰ "Some Notes on the Estimation of Time-Forms of Reactions in Interdependent Dynamic Systems," *Economica*, vol. 23, May 1956, pp. 99-113.

behavior has broad enough implications to make it a supposition. A third case for the monetary rule is a supposition already discussed, that is, that the private sector is inherently stable.

Finally, there is the argument that the government, and the central bank specifically, are too inefficient, or too subject to political pressures, to manage a successful stabilization policy. As already mentioned, Friedman believes that the argument for a monetary rule is at least as much political as it is economic. Hence, the debate about a monetary rule goes well beyond the conventional boundaries of economics, and involves a *Weltanschauung*.

Thus, the monetarist proposition that we should follow a stable money growth rate rule is based on all three types of arguments, narrow technical ones, suppositions and *Weltanschauung*. And it does little good to ask which one predominates. Some monetarists may advocate the stable money growth rate rule solely on the narrow technical argument that the lags of monetary policy are long and variable, while others may base their support on a *Weltanschauung*

Denial of an Unemployment-Inflation Trade-Off

Monetarists believe that, except in the short run, the Phillips curve is determined in real terms and not in nominal terms. Hence, we cannot, for a reasonable period, "buy" full employment by paying the price of higher inflation. Keynesians, on the other hand, believe that, at least for a substantial period of time (and perhaps to a limited extent permanently), we can trade off unemployment against inflation.

This is essentially a technical issue of economic analysis since it deals with the questions of how short is the short run. One hesitates to call it a narrow issue though, since it has important implications for questions such as the extent of price flexibility, and it is perhaps best classified as a supposition.

Relative Concern about Inflation and Unemployment

In the United States this divergence between Keynesians and monetarists is, to some extent, a matter of *Weltanschauung*. One element in the dispute, insofar as the long run Phillips curve is not

completely vertical, involves the interpersonal comparison of the welfare losses suffered by the unemployed with the welfare losses of those who lose by inflation. Another important element involves political judgments. At least some Keynesians believe that large scale unemployment would have dangerous political consequences, while some monetarists probably believe that continual inflation would weaken the social fabric even more. Moreover, a very important aspect of the debate is whether tolerating some inflation now would lead to substantial jumps in the inflation rate in the future, since "he who fights and runs away, lives to *run* another day." Obviously these are broad political questions rather than matters of economic analysis or even economic suppositions. But technical issues of economic analysis are involved too, such as the correct interpretation of the unemployment figures and the extent to which inflation creates inefficiencies and redistributes income.

In Britain, the debate has taken a different tack. As David Laidler has pointed out, British monetarists have a macroeconomic theory of inflation and a microeconomic theory of unemployment since their explanation of unemployment focuses on imperfections in the labor market. By contrast, Keynesians have a microeconomic theory of inflation, stressing the behavior of individual markets, and a macroeconomic theory of unemployment.¹¹ But these technical issues do not compose the whole debate since many Keynesians, unlike monetarists, conclude that creating enough unemployment to check inflation would lead to political upheavals. This conclusion involves a supposition, the amount of unemployment required to stop inflation, but it also requires a judgment about the political consequences of allowing that much unemployment. Moreover, many Keynesians, unlike monetarists, believe that incomes policy can be effective. This too, is partially an economic judgment, and partially a political one relating to the degree of social cohesion. Hence, the debate on inflation vs. unemployment turns partially on narrow issues of economic analysis (e.g., the interpretation of the unemployment figures), partially on economic suppositions (e.g., the future effects of tolerating some inflation now) and partially on *Weltanschauung* (e.g., the political consequences of unemployment).

¹¹ See DAVID LAIDLER, "Mayer on Monetarism: Comments from a British Point of View," in Thomas Mayer, *op. cit.*

Objection to Government Intervention

Objection to government intervention, and a preference for free market processes, obviously involves many issues of economic analysis, since economic analysis is an indispensable ingredient in evaluating the workings both of the free market and of government intervention. But the issues raised by this topic are so broad that we are clearly dealing in part with suppositions and with *Weltanschauung*.

Monetarism and Conservatism

If, as Table 1 suggests, so many monetarist propositions are technical rather than ideological issues, why is it that monetarists are generally conservative, or putting it differently, why is opposition to government intervention one of the twelve above-listed monetarist propositions? One answer is that this proposition is linked to certain other monetarist propositions such as, the belief in the limited effectiveness of fiscal policy, the fear of inflation, the belief that there exists no workable trade-off between inflation and unemployment, the views that the private sector is stable and that prices are sufficiently flexible.¹² But beyond these specific connections there is at least one, more general, connection. This is the length of the time horizon.

Anyone who focuses on the long run is likely to be more critical of government intervention than someone who looks primarily at short run effects. This is so first, because many, probably most interventionist devices work better in the short run than in the long run. Eventually, the market learns to outwit controls or to capture the controlling agency, and appeals to patriotism and moral rectitude fade in their effectiveness. Second, many interventionist proposals are intended to solve here-and-now problems, such as unemployment, which the market would itself solve but only in the long run.

But this does not mean that a monetarist must necessarily be a conservative. A radical may agree with the monetarists that under capitalism changes in nominal income are dominated by changes in the money stock, he may accept the monetarist transmission process

¹² See Thomas Mayer, *loc. cit.*

and consider allocative detail to be unimportant in explaining income movements, he may also believe that under capitalism the central bank is so inefficient or corrupt that a monetary rule is superior to discretion, that capitalism cannot avoid large scale unemployment even at the cost of inflation, and that inflation by hiding the true nature of class conflict is even worse than unemployment, etc. The proposition that the private sector is inherently stable is less likely to be accepted by a radical, but one can favor the abolition of capitalism on grounds other than its instability.

FIGURE 1
CLASSIFICATION OF ISSUES
IN THE MONETARIST-KEYNESIAN DEBATE

	Issue of Narrow Technical Economic Analysis	Supposition	<i>Weltanschauung</i>
1. Money and Income	X		
2. Monetarist Transmission Process	X	X ^a	X
3. Stability of the Private Sector		X	
4. Unimportance of Allocative Detail		X	
5. Small vs. Large Economic Models		X	
6. Focus on the Price Level as a Unit		X	
7. Reserves as Monetary Indicator	X		
8. Choice of Target Variable	X		
9. Stable Monetary Growth Rule	X	X	X
10. Existence of Unemployment-Inflation Trade-Off		X	
11. Relative Concern about Inflation and Unemployment	X	X	X
12. Objection to Government Intervention	X	X	X

^a Brunner-Meltzer version, but not Friedman version.

Conclusion

Figure 1 summarizes the conclusions drawn here. It shows that some of the issues in the dispute are narrow technical ones. On these it should be possible to reach agreement while still disagreeing about the other issues of the monetarist counterrevolution. Not surprisingly many issues involve broad suppositions that reflect economists' divergent outlooks on the basic questions of how the economy functions. But only one-third involve a basic Weltanschauung that extends beyond the narrow frontiers of economics.

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