of this conflict between the claims of *passive automatic* and *active discretionary* monetary policy must ultimately be decided by reference to the available evidence. The issue is primary an empirical one and the Chicago School's position cannot be vitiated by appealing to the tautological equations of Keynes *Treatise on Money*.

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G. K. SHAW

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St. Andrews

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REPLY

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I am very pleased to read that Professor G. K. Shaw " would agree with... [my] conclusion that conformity with the conditions of parallelism as inferred from the equation of exchange would be an insufficient guarantee for price stability". And it seems to me superfluous to add that I am well aware:

(a) that "Friedman's proposal rests not upon the claim that it will guarantee perfect price stability..." as Friedman himself decidedly reaffirmed in his " conclusions " of the lecture to which I referred;

(b) that " the resolution of the conflict between the claims of *passive automatic* and *active discretionary* monetary policy must ultimately be decided by reference to the available evidence".

I would like in addition to emphasize that while the conflict between the opposing claims of monetary policy cannot be resolved "by appealing to the tautological equation of Keynes *Treatise on Money*", from which is derived the condition of equilibrium between savings and investment, least of all can it be resolved by appealing to the equally tautological equation of exchange from which is derived the condition of parallelism between the growth of real income and that of the quantity of money. My view is that if there is to be a tendency towards price stability, then both of these conditions must be met simultaneously. It is for this reason that I described as the " Achille's Heel of Professor Friedman's Counter-Revolution " his contention that inflation "... can be determined *only* by an increase in the quantity of money more rapid than that in production" (as stressed in section 4, footnote 17 of my article), for in this way he did not take into account the condition of equilibrium between savings and investment.

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AMEDEO GAMBINO

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