Of course economists, who presumably regard themselves as intellectuals, are deeply divided on the issue of government regulation. Coase himself believes that more often than not regulation fails to achieve its objectives, and does more harm than good in the process, though he is not dogmatic in this claim. Here, as elsewhere, his detached view of economics is one of his great assets attributable in part, so he avers, to the fact that he was not trained as an economist, and had therefore not been taught what to think and what not to think. (Two other Nobel prize winners, Maurice Allais and James Buchanan have made a somewhat similar claim.) Coase cannot be defined as an outsider, though he is more appropriately viewed as a new institutional economist rather than a neoclassicist. In many important respects he is deeply critical of contemporary economics, including: the predilection for "blackboard economics"; excessive mathematization; Friedman's methodology, with its defense of unrealistic assumptions; the reliance on the concept of utility maximization; economics imperialism, which emphasizes the one-way influence of economics on contiguous disciplines and neglects the possibilities of trade in the reverse direction; and the profession's willful refusal to undertake careful empirical studies of how the economy and its institutions actually work in practice.

Despite this formidable indictment, Coase is a modest man—except with regard to the future of research in law and economics. He has been aptly depicted as (like James Meade) an exemplar of the British tradition of lone scholarship in economics. Unfortunately the supreme accolade he deserved came very late in life. One can only wish him many years to relish it.

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B Methodology and History of Economic Thought

The quantity theory of money: From Locke to Keynes and Friedman. By MARK BLAUG, WALTER ELTIS, DENIS O'BRIEN, DON PATINKIN, ROBERT SKIDELSKY, AND GEOFFREY E. WOOD. Aldershot, U.K.: Elgar; distributed in the U.S. by Ashgate, Brookfield, Vt., 1995. Pp. ix, 139. $63.95. ISBN 1–85898–177–8. *JEL 95–1423*

The essays in this conference volume should interest anyone concerned with monetary theory and policy, though historians of monetary thought will be the most intensely interested. As Mark Blaug (p. 1) rightly remarks,

> whether we like it or not, the views we take of current economic issues influence our interpretation of the history of economic thought—and of course, vice versa.

Blaug (p. 29) usefully defines the quantity theory of money as the combination of three propositions: (1) causality runs from an exogenous change in the nominal quantity of money to an endogenous (equilibrating) change in prices, (2) the desired ratio of money balances to transactions or income is determined by real factors, independent of the nominal quantity of money, and (3) the real volume of transactions or income is determined by real factors, independent of the nominal quantity of money. With Milton Friedman (1987, p. 249), one might add a proviso to (2) and (3): except for the transitory effects of money supply disturbances. From these propositions follows the ceteris paribus proportionality of the price level to the nominal quantity of money.

Walter Eltis provides an informative overview of John Locke's writings on money. In Locke we see the correct application of the quantity theory to a specie standard: proportionality holds between the nominal quantity of money and the price level when the bullion content of nominal coin is redefined. Minting more (and lighter) shillings from the same mass of silver will raise shilling prices proportionally. Holding the bullion content of the monetary unit constant, however, Locke (quoted, p. 11) recognized that for an open economy participating in an international commodity standard "there must be a certain proportion between their *Money* and *Trade*," and that the economy adjusts toward that proportion through international specie flows. For such a regime the domestic quantity of money is *not* exogenous. Instead it is governed by the demand for money—or the "needs of trade," to use a much-misunderstood nineteenth century phrase. For the world as a whole, the quantity of money is ultimately governed by the precious-metal mining industry.

The title of Mark Blaug's essay emphasizes a puzzle created by the fact that the quantity theory thus does not apply to the ordinary workings of the metallic-money regimes that were the main concern of classical economists: "Why is the quantity theory of money the oldest surviving theory in economics?" He answers (p. 43) that it was useful even during the classical era because it accounted very well for the exceptional behavior of the price level in hyperinflations, when metallic standards were off. In fiat money regimes, the quantity theory comes into its own.

Denis O'Brien, writing on the nineteenth century British currency-banking debate, is rightly reluctant to concede too much to the Banking School's anti-quantity theory. But he might have dug a bit deeper to distinguish what was cogent (the needs-of-trade doctrine understood as the endogeneity of the money stock under a commodity standard with decentralized banking) from what was fallacious (the real bills doctrine, John Fullarton's version of the "law of the reflux," the doctrine of the passivity of the Bank of England) in Banking School monetary theory. And he should have more carefully distinguished modern writings "in defence of the free banking school" (p. 59) from David Glasner's (1989) unique reinterpretation of classical monetary theory, the foil for much of O'Brien's discussion. Arguments in favor of free banking can be advanced without reliance on Banking School fallacies—and have been, by both the nineteenth century and the modern *Free* Banking Schools.

Robert Skidelsky offers a helpful account of the tangled evolution of John Maynard Keynes' monetary thought. Keynes began as a reformer who wanted to scrap the gold standard in favor of rational control of the quantity of money, and ended a radical critic of the quantity theory—*The General Theory* rejected Blaug's third proposition—who believed that stabilizing the economy required stronger medicine than appropriate monetary policy. Skidelsky makes Keynes' views clear (though the equations on p. 91 seem to suffer typographical omissions) until the "fundamental equations" of the *Treatise on Money* appear; then suddenly all is murky. Perhaps this is true to Keynes' own thought.

Geoffrey E. Wood defends the continuing policy-relevance of the quantity theory against the view that it was discredited by the seeming instability of money demand in the 1970s and 1980s. Wood's explanation (p. 108) of why equations for estimating real money demand began performing badly, and his suggested remedy, may or may not be right. But the thrust of the essay is the surely correct proposition that the sophisticated quantity theory as developed by Hume, Thornton, and Friedman and Schwartz—central to which is the analysis of factors that cause velocity to change—will survive the failings of mechanical constant-velocity versions of the theory.

The volume concludes with apposite comments on the previous chapters by the late Don Patinkin. As Patinkin (p. 130) observes, the issues discussed in the volume "will undoubtedly continue to be a major concern of monetary economics."

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