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Comments

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I

In their (1982) paper "The Real-Bills Doctrine versus the Quantity Theory: A Reconsideration," Sargent and Wallace develop certain properties of Samuelson's (1958) overlapping-generations-consumption-loan model under alternative monetary policy regimes. They argue that their analysis casts new light on the well-known debate to which they refer in their title, claiming that their results call for "something of a rehabilitation of the real-bills doctrine" (p. 1214). Their analysis per se has all the characteristics we have come to expect from these authors: it is elegant and rigorous, yielding conclusions provocatively strong to the point of being paradoxical. However, Sargent and Wallace's attempted rehabilitation of the real-bills doctrine suffers from the following deficiencies: (1) the conclusions on whose basis they seek to rehabilitate the real-bills doctrine would have been anathema to its proponents; (2) what they refer to as the real-bills doctrine is not the real-bills doctrine; and (3) their interpretation of Adam Smith's analysis of the social productivity of banking is quite misconceived. I shall take up these points in turn.

II

Sargent and Wallace show that what they call a "free-banking or real-bills regime" (p. 1214) will lead to a fluctuating and perhaps indeter-

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