CHICAGO JOURNALS

Misconceptions about the Real-Bills Doctrine: A Comment on Sargent and Wallace

David Laidler

More

Comments

Misconceptions about the Real-Bills Doctrine: A Comment on Sargent and Wallace

David Laidler

University of Western Ontario

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-

I am grateful to Robert Barro, Peter Howitt, Michael Parkin, George Stigler, Lawrence H. White, and two anonymous referees for helpful comments on earlier versions of this essay.

[*Journal of Political Economy*, 1984, vol. 92, no. 1]
© 1984 by The University of Chicago. All rights reserved. 0022-3808/84/9201-0003$01.50

THE UNIVERSITY OF CHICAGO PRESS JOURNALS

The University of Chicago Press Books

Chicago Distribution Center

The University of Chicago

Accessibility

Open access at Chicago

Permissions

Statement of Publication Ethics

The Pillars of Diversity and Inclusion at the University of Chicago Press

Contact us

Terms and Conditions

Privacy Notice

Media and advertising requests