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Are we all Monetarists now? an empirical inquiry

INTRODUCTION

Not long ago, it seemed that "we are all Keynesians now." But as soon as this was pronounced; a serious contender emerged, Monetarism. A significant part of its message has since been accepted by researchers and integrated into textbooks (e.g., Gordon, 1978).

Question: "Are we all Monetarists now?"

This paper considers the possible ways of dealing with this question and adopts a survey approach.

How to decide the question?

The question whether "we are all Monetarists now" can be answered in various ways. The economist's natural inclination is to consider *revealed behavior*, to assess what economists advise, or what policy-makers actually do, and to derive therefrom the underlying "preferences," i.e., whether the basic views are Keynesian or Monetarist. Such an approach has to surmount the difficult problem of separating the constraints (which may vary over time and between countries) from the preferences.¹

Quite another way to answer the question is to consider what

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¹ See, in particular, the vast literature on reaction functions initiated by Dewald and Johnson (1963). The problems faced by this approach are discussed in Makin (1976).

economists say (or write) *themselves* to the question posed. One possibility would be to examine what is published in professional journals or in textbooks and teaching. Yet another possibility is to devise *surveys* that may induce economists to reveal whether they adhere to Monetarism.

This approach is used in our paper. Two thousand seventy-two professional economists, from five different countries and various occupational positions, were sent a written survey containing a number of propositions on Monetarism to which they could respond by "generally agreeing," by "agreeing with provisions," and by "generally disagreeing." Nine hundred thirty-one complete responses were usable. The countries were Austria, France, the Federal Republic of Germany, Switzerland, and the United States.² The sample includes (in every country) full professors of economics and economists in other occupations (such as in public employment or in private business). No general analysis of the subtleties of such surveys is intended here. The authors were aware of the possible incentives to answer strategically or not seriously but were unable to find any strong evidence for such behavior.³

The results

In order to find out whether the professional economists surveyed are "Monetarists,"⁴ the reaction to three types of propositions is analyzed:

- (1) *positive* propositions inquiring whether the economy really appears as Monetarists claim;
- (2) *instrumental* propositions inquiring whether the instruments suggested by Monetarists really work as claimed;

²The exact details and the results of the individual country studies have been published in the respective language and country; see Pommerehne, Schneider, and Frey (1983); Bobe and Etchegoyen (1981); Schneider, Pommerehne, and Frey (1982); Frey, Pommerehne, Schneider and Weck (1982); Kearn, Pope, Whiting, and Wimmer (1979). We are grateful to the authors of the French and American studies for the opportunity to use the data.

³This accords well with the recent findings in quite another area, natural environment, where it was found that the survey approach is a valid method for determining the value of public goods (see Brookshire, Thayer, Schulze, and d'Arge, 1982).

⁴We do not want to enter into a philosophical discussion of what Monetarism is. For a very useful analysis, see Mayer (1978).

(3) *normative* propositions inquiring whether a Monetarist policy should be undertaken.

The results of the reactions to these three types of propositions are discussed in the following subsections.

Positive propositions

One of the most basic tenets of Monetarism, often propounded by Friedman, is that "inflation is primarily a monetary phenomenon." If economists really are Monetarists, we would find an overwhelming majority of them to "generally agree" to this proposition. One might at least expect that professors share this view today.

Table 1 gives the percentage distribution of the responses given by all the economists surveyed and broken down according to countries. It also compares the answers of full professors with those of the economists in all other occupations.

The results presented in Table 1 indicate that the economists surveyed can certainly *not* be considered Monetarists: almost 50 percent state that they "generally disagree" with the view that inflation is primarily a monetary phenomenon. Less than one-quarter of them "generally agree." The hypothesis that at least the full professors are Monetarists must also be rejected; there is practically no difference in the distribution of answers between the

Table 1

Inflation as a monetary phenomenon (percent)

Sample	Further specification	Generally agree	Agree with provision	Generally disagree
All countries	all occupations	23	30	47
	full professors	24	28	48
	all other economists	23	30	47
Individual countries	Austria	14	28	58
	France	11	19	70
	Germany	25	31	44
	Switzerland	32	36	33
	United States	27	30	43

full professors and economists in other occupations.

In Austria and France the Monetarist view finds very little full support (11-14 percent) and a particularly strong opposition (58-70 percent). In Germany, Switzerland, and the United States we find a considerably higher support for Monetarism (one-third to one-quarter of respondents "generally agree"), and the opposition is somewhat smaller (33-44 percent). It may be noted that Monetarism, which was created and propagated in the United States, is fully supported by only 27 percent of American economists, while 43 percent reject it. Swiss economists are by far the most Monetarist; their full-support-to-rejection ratio is 32 to 33 percent. However, even in this case it would be difficult to argue that economists share the Monetarists' view of inflation as a monetary phenomenon.

Instrumental propositions

Two propositions dealing with the question of whether the instruments suggested by Monetarism are working as claimed were submitted. The first is: "The money supply is a more important target than interest rates for monetary policy." Table 2 shows the answer of the whole set of respondents and a breakdown according to countries.⁵ It may be seen that, contrary to the last proposition,

Table 2

The money supply as target (percent)

Sample	Further specification	Generally agree	Agree with provision	Generally disagree
All countries	all occupations	47	31	22
Individual countries	Austria	28	41	31
	France	46	29	25
	Germany	42	36	22
	Switzerland	64	26	10
	United States	48	24	28

⁵ No breakdown according to full professors and other occupations is given here, or in the following tables, because the differences in replies are so small as to be statistically insignificant.

economists are quite ready to support this instrumental proposition. Almost half of all economists "generally agree," and less than one-quarter of them reject it.

As in the case of inflation's being a monetary phenomenon (Table 1), the Austrian economists have a particularly high share of disagreement (over 30 percent). The French, German, and American economists form a second group, which has a much higher share of agreement with this instrumental Monetarist proposition. Again, the Swiss have by far the largest rate of support (64 percent) and the smallest one of rejection (10 percent). In the United States economists seem to have somewhat divided views: almost 50 percent fully support the proposition, but about 30 percent equally fully reject it.

The second instrumental proposition deals with the possibilities of the monetary authorities: "The central bank (the Federal Reserve) has the capacity to achieve a constant rate of growth of the money supply if it is so desired." Table 3 lists the responses. The result is similar to the previous instrumental proposition (Table 2) insofar as it is rejected by a relatively small share of respondents (less than 30 percent). There is, however, less outright support for this proposition (one one-quarter of the respondents). Almost half of the economists agree to it only with provisions.

In Austria, France, and Germany this proposition is not strongly supported (15-20 percent), and there is a relatively large share of opponents (from 30 to over 40 percent). The proposition finds al-

Table 3

The central bank can fix the growth of money supply (percent)

Sample	Further specification	Generally agree	Agree with provision	Generally disagree
All countries	all occupations	25	47	29
Individual countries	Austria	15	42	43
	France	15	43	42
	Germany	19	50	31
	Switzerland	34	52	14
	United States	36	42	23

most double the rate of clear supporters in the United States and Switzerland (around 35 percent). The Swiss economists are revealed again to be the most Monetarist, only 14 percent (against 23 percent in the United States) rejecting the proposition.

Normative propositions

"The central bank (Federal Reserve) should be instructed to increase the money supply at a fixed rate." According to Mayer (1978, p. 245), "this is the most dramatic of all monetarist propositions, and perhaps the central thesis of hard-core monetarism."

Table 4 shows the distribution of responses to this proposition. Fifty-four percent of all economists surveyed reject the money growth rule, by far the highest rejection rate of all four Monetarist propositions discussed in this paper. Less than one-fifth of all respondents could be considered outspoken Monetarists. The highest share of rejections is found in Austria (with more than 70 percent), Germany, and also in the United States, where more than 60 percent of economists do not think that the Federal Reserve should follow the monetary rule. French economists have a more than twice as high share of acceptance (35 percent) as any of the other countries, and the share of rejection is much smaller than anywhere else. This result is rather puzzling, since we have found (see Table 3) that only 15 percent of the French economists are convinced that the central bank has the capacity to control the money supply. The French (in the aggregate) thus suggest that the central

Table 4

The central bank should fix the growth of money supply (percent)

Sample	Further specification	Generally agree	Agree with provision	Generally disagree
All countries	all occupations	16	30	54
Individual countries	Austria	5	25	70
	France	35	35	30
	Germany	10	27	63
	Switzerland	16	37	47
	United States	14	25	61

bank *should* undertake a policy which they themselves are not convinced *can* successfully be undertaken. The position of the American economists is exactly the opposite (and more logical): According to Table 3, almost 40 percent are fully convinced (and almost 80 percent agree at least with provisions) that the growth of the money supply *can* be controlled. But only 14 percent fully support that such a policy *should* be undertaken.

Conclusions

"Are we all Monetarists now?" The answer is clearly *no* if Friedman's (and other Monetarists') basic propositions are considered. Almost one-half of the economists surveyed *reject* a Monetarist interpretation of inflation, and more than half reject the Monetarist *fixed growth money supply rule*. The economists are somewhat more favorable to the instrumental aspects of Monetarism. That the money supply and not interest rates are the appropriate targets of monetary policy is rejected by only somewhat more than one-fifth; that a fixed money growth rule is possible is rejected by about one-third.

The country by far most Monetarist is Switzerland. A clear majority of those questioned "generally agrees" or "agrees with provisions" to all four propositions. The instrumental propositions even receive the general or provisional support of roughly nine-tenths of Swiss respondents. This positive view toward Monetarism may be attributed to the great success of a "Monetarist policy" in bringing down the rate of inflation from around 10 percent in 1974 to around 2 percent in 1976 (the cost in terms of unemployment was not borne by the Swiss but rather by the foreign workers who had to leave the country).

It is difficult to say whether the Austrian or French economists are the most anti-Monetarist. While more French reject the Monetarist view of inflation, many more Austrians reject that a fixed money supply rule is desirable (70 percent in Austria against 30 percent in France). As the views are similar with respect to the instrumental proposition, the "prize" should perhaps go to the Austrian economists.

The views of American economists are located somewhere in the middle of the spectrum of other countries. They are certainly not the main adherents of Monetarism, nor are they the main op-

ponents. The Monetarist interpretation of inflation finds some support among economists in the United States, and the possibility of pursuing a monetary rule is (at least with provisions) accepted by almost four out of five American economists. However, they can certainly not be said to accept this *Weltanschauung* since three out of five reject the basic Monetarist conclusion of a fixed money supply policy.

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