Monetary and real factors affecting economic stability. A critique of certain tendencies in modern economic theory

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Abstract

The article begins with a critical review of the principal explanations given by modern economic theory of cyclical movements in the volume of output and employment. The author then presents his own view concerning the appropriate distribution of emphasis between real and monetary factors. The current popularity of almost purely “real” models of the cycle has, he believes, led to an undervaluation of the significance of monetary factors. Extending this view to the field of policy, he concludes that if, by appropriate institutional reforms and a skilful monetary policy, the “monetary complications” which affect cyclical movements could be avoided, the “real” cycle by itself would not reach serious proportions. The final section reiterates the view that the role of the monetary factor in causing or preventing economic instability may be a decisive one, with the qualification that the real factors and the monetary factors reinforce each other, and that the former may often create the “impulse” to a cumulative process which the “propagation” is largely dependent on the latter.

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Modern economic theory, cyclical movements, output, employment, real factors, monetary factors, policy, economic instability

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