Appendix B: Origins of the Monetarist Paradox.

In his critique of Keynes' interest theory, discussed in the next chapter, Sir Dennis Roberston broadly outlined the monetarist paradox

"Further dangers of the Keynesian formulation are brought to light when we pass from considering the situation at a point of time to considering the behavior of the interest rate during a cumulative process of expansion or contraction…Marshall's explanation of the paradox is given in a famous sentence: "the increase of currency increases the willingness of lenders to lend in the first instance, and lowers the rate of discount. But it afterwards raises prices and therefore tends to increase discount. This latter movement is cumulative." (Mr. Keynes and the Rate of Interest, Economic Journal, June 1938)

Much earlier, Irving Fisher in Appreciation and Interest (1896), a precursor to his Theory of Interest, also outlined the phenomenon, and traced its orgins:

"It is an astonishing fact that the connection between the rate of interest and appreciations has been almost overlooked, both in economic theory and in its bearing upon the bimetallic controversy. Of the few writers who have conceived this connection, apparently the earliest was the anonymous author of the remarkable pamphlet entitled "A Discourse Concerning the Currencies of the British Plantations in America, Boston 1740. He writes:

"…it is true that in all countries the increased Quantity of Silver falls the Interest or Use of Money; but large Emissions of paper Money does naturally rise the Interest to make good the sinking Principal. Thus the larger the Emissions, natural Interest becomes the higher; therefore the Advocates for paper Money (who are generally indigent men, and Borrowers) ought not to complain, when they hire Money at a dear nominal Rate."

John Stuart Mill expresses the same view, as do Jacob de Hass and Professor John B Clark. A principle which apparently has been independently discovered by each of these economists and quite possibly by others, is likely to be of some importance. It is the object of the present essay to develop the theory in a quantitative form, to bring it to a statistical test, and to apply it to current problems, and to the theory of interest." (Fisher, American Economic Association, 1896, pg. 3-4)

Post Script: "Things puzzling, contrary, or ironic
Revivify me like a tonic"
(From Verse 5.37, The Golden Gate by Vikram Seth, 1986)