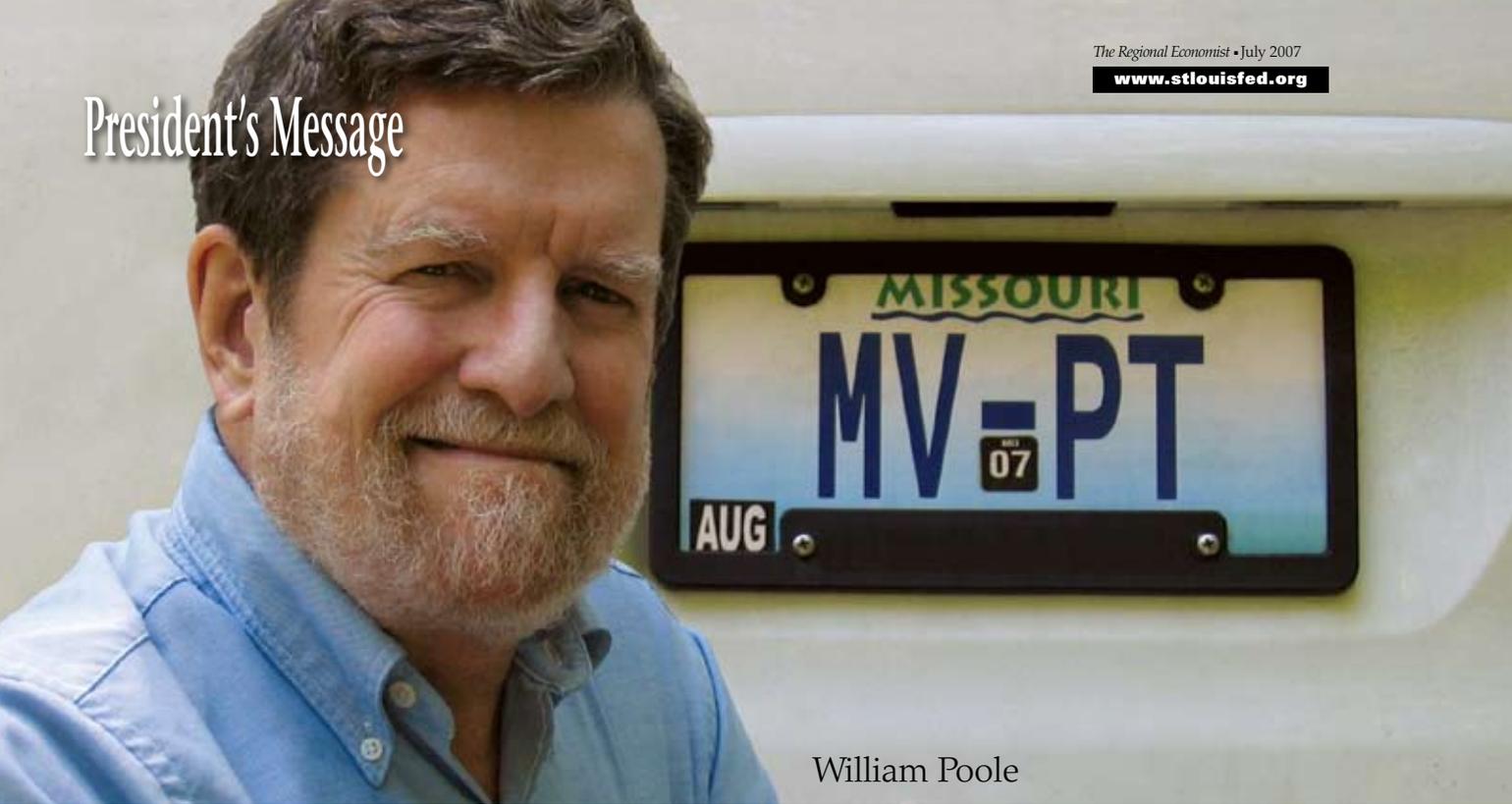


President's Message



William Poole

PRESIDENT AND CEO, FEDERAL RESERVE BANK OF ST. LOUIS

"If vanity plates are supposed to say something about a person, what better plates could I have?"

Driving Home the Responsibilities of a Policymaker

I've often been asked why I chose the equation "MV=PT" as my car license plate number. (Missouri doesn't provide for an "equals" sign on the license plate; so, I have a dash instead.) For those not familiar with the monetarist tradition in economics or its impact on central banking, my plates must seem a mystery. But for me, they represent a constant reminder of my duties and responsibilities as a policymaker, not to mention my profession. I'm sure that more than one economist has smiled when seeing this plate out on the road. (Others probably think it a cute reminder of a strong marriage between Maggie Violet and Peter Thomas. Nice to be part of the "in" crowd now, isn't it?)

MV=PT stems from the quantity theory of money. This theory, in turn, is reflected in the well-known description of inflation—too much money chasing too few goods. In past centuries, during which many major countries adhered to a monetary system based on gold, world gold discoveries led to large increases in national money sup-

plies. Such increases eventually led to large price increases.

Several notable economists, including David Hume (writing in the mid-18th century) and Henry Thornton (in the early 19th century), developed detailed accounts of the channels through which increases in the money supply are translated into higher price levels. Indeed, the basic idea was understood by the ancients.

Irving Fisher, a U.S. economist writing in the first half of the 20th century, formalized these ideas in the "equation of exchange," $MV=PT$. This equation, probably the most famous in economics, states that the quantity of money (M) times its velocity of circulation (V) equals the price level (P) times the quantity of output or transactions in the economy (T). Fisher argued that V is determined by payments customs and technology, such as how long it takes to clear a check. He also argued that T depends on the total size of the real economy—its stock of physical capital and number of workers. Finally, Fisher argued that V and T would be relatively fixed in the short run. The conclusion was that price level changes—infla-

tion—would be driven by changes in the money stock.

In a vigorous revival of interest in monetary economics starting in the 1950s, these basic ideas were greatly refined. The revival was led by the late Milton Friedman, professor at the University of Chicago and Nobel Prize winner in 1976. I studied under Friedman, which is an additional reason for me to have MV=PT plates. Moreover, although I had the same plates on my car in Rhode Island before coming to St. Louis, the St. Louis Fed has long been a leader in research in the monetarist, or Chicago, tradition. It was natural for me to apply for the same plates when I moved to St. Louis.

So, my MV=PT plates represent my graduate training, my profession, my conviction within my profession and my current job. If vanity plates are supposed to say something about a person, what better plates could I have?