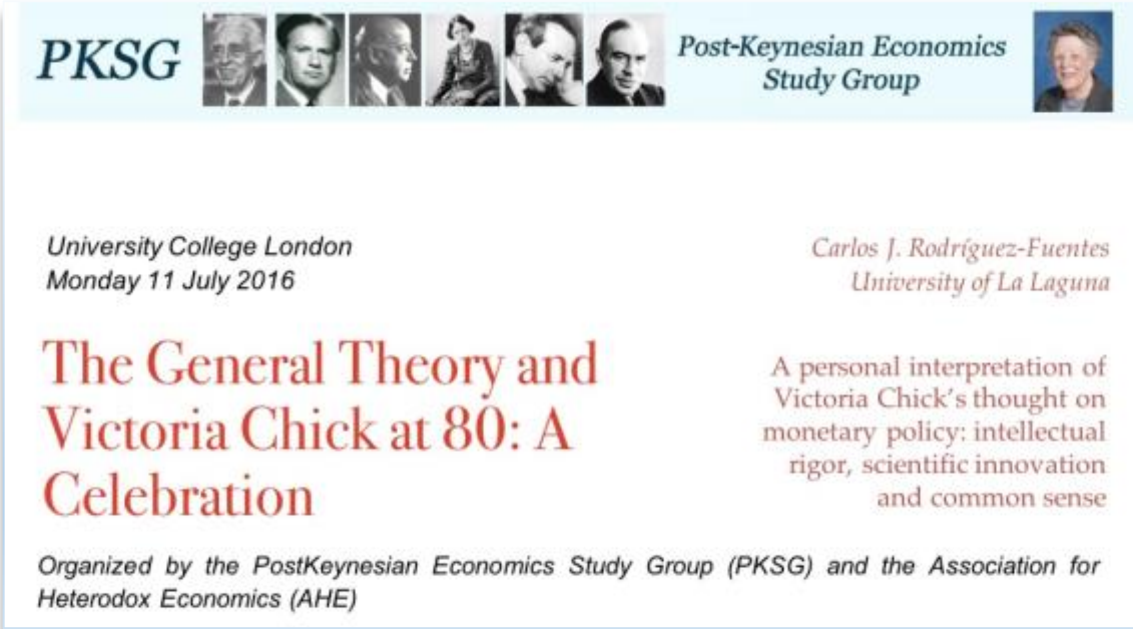


I would like to start my presentation* making clear my purpose: I am not presenting a research paper, but some very personal reflections on Victoria Chick monetary thought.

I will concentrate my attention on two particular issues which are simple but powerful, and have been an important input on my education as an Economist.

For that reason, I would like to express today my sincere gratitude to Vicky. Thanks Vicky for your intellectual rigor, strong commitment, passion and coherence, curiosity, creativity, altruism … and sincere friendship.

I think this motto, which stands at Cowell College, University of California at Santa Cruz, is one of your favourite's, Vicky. I use it today because I think it suits you perfectly.

"THE PURSUIT OF TRUTH IN THE COMPANY OF FRIENDS"

(Cowell College - University of California at Santa Cruz)

You wrote this long time ago:

> Keynes once said that "Economics is the art of cutting the Gordian knot, having tied it up oneself"
>
> (V. Chick 1993: 71)

* This text corresponds to the presenter-notes of the author at the conference and should be understood as a companion to the Power Point slides.

And more recently you reminded us what a real economist should be.

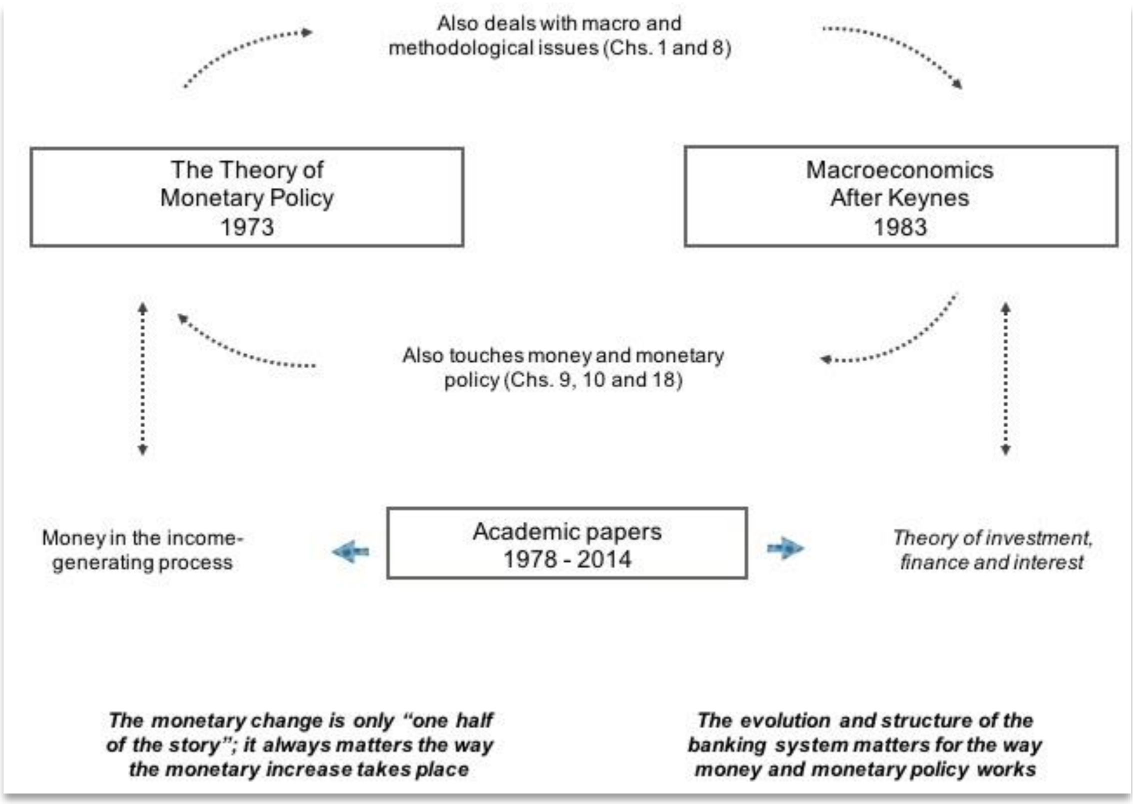
> "Real economists are those who know what their values are and put them forward for public debate"
>
> (V. Chick, *The Guardian*, 18 November, 2011)

Before I start with my brief presentation, I want to tell you that for me you are a super real economist; an economist that has cut many Gordian knots, and made lots of friends!

Let's now go back to my presentation. The two issues I want to address in my presentation are these: a) the monetary change is only one half of the story and b) the development, structure and evolution of the banking matters for the way monetary policy works and the banking systems promotes (or not) economic development.

Where do these ideas come from? It is difficult to say since (I think) these two ideas are present, to some extent, in any of Vicky's works (Figure 1).

Figure 1: Chick on money in the economy process and the theory of investment, finance and interest



So the origin of these two ideas is not to be found in a particular publication but in her academic concerns, which she has expressed as follows.

> "Most of us use theory […] without much thought about their institutional background and implicit assumptions"
>
> (V. Chick 1995: 55)

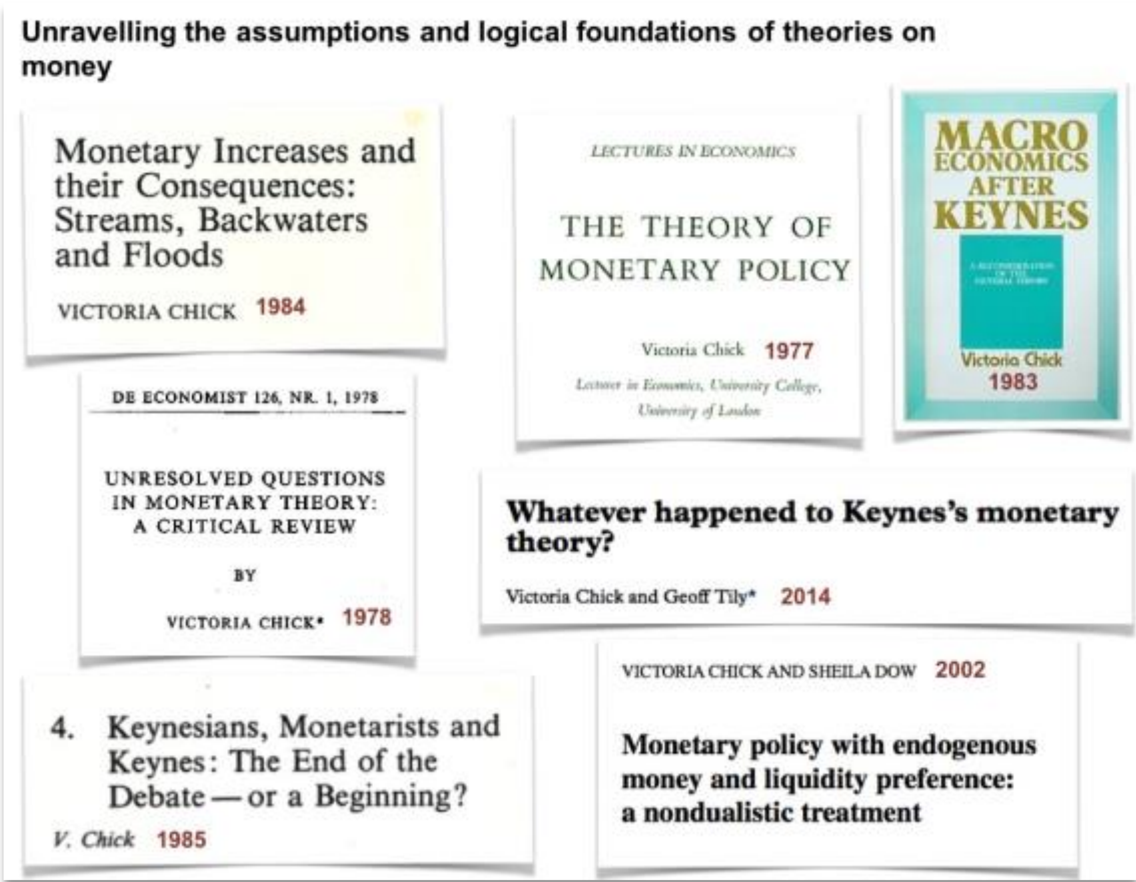
These concerns explain why Vicky has spent a lot of time to "unravelling the assumptions and logical foundations of theories", and thanks to this I think we now have a better knowledge of the monetary transmission mechanism.

On the other hand, her searching for the historical and institutional particularities of theory has contributed, with the help of prof. Sheila Dow, to the consolidation of the Post Keynesian regional finance literature.

I will now explore these two ideas further in my presentation.

The first idea has been developed by Vicky in the following papers, ranging from 1977 to 2014 (Figure 2).

Figure 2: Selected publications on "the monetary change is only one half of the story"



The ideas I have learnt from these papers are summed up in the following table. I will mention four ideas (Figure 3).

Figure 3: Some relevant implications of "the monetary change is only one half of the story"

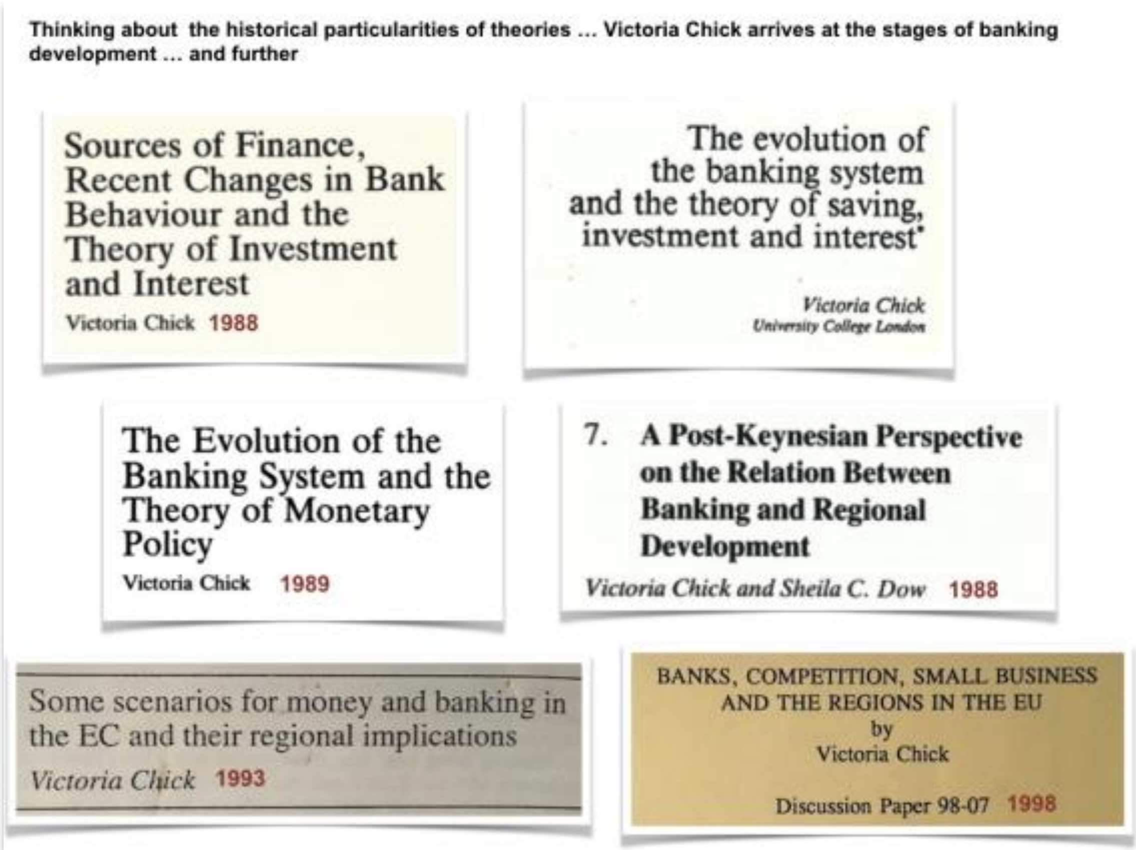
A better understanding of the "monetary change"

Conventional	Victoria Chick
Keynesian and Monetarist assume that the mode of introduction of new money is **a matter of indifference**	Money **always comes in exchange for something else**, as a counterpart of an income-generating expenditure (whether investment, government expenditure or credit-financier consumption)
	A monetary change is **"only one half of the process"** and can be **originated by very different ways** ... **with relevant implications for the final outcome**
The main theme [in monetary policy] is **the effects** on the economy of **a change** in the quantity of money and the study of the transmission mechanism	It is **non-sense to discuss about the monetary transmission divorced from the type of monetary change** being considered Chick (1985: 96). "**Keynesians theory lost track of the sources of monetary increases Keynes had in mind** ... and propose an interest-rate consequence of ALL monetary changes (Chick 1988: 11)
	The effect of **the monetary change depends on how people behave** [...] on which there is no widely accepted presumptions of behavior. The final effect is contingent upon the state of the economy at the time of the change and upon **who issues the money** and **in exchange for what**. The first is familiar [...] the second is denied. (Chick 1978: 160)
	The **interrelatedness of fiscal and monetary policy** arises for the fiscal stimulus (when it is financed by new money) can be one the counterparts of the monetary change.
Excess money is **always inflationary**	Whether the new money (or newly active money) is necessary inflationary ... depends on technology and competition for resources ... **it is not a monetary problem really** (Chick 1984)

1. Whereas for the mainstream the monetary change is simply a change in the statistics, Victoria says this only reveals 50% of the true story since money always comes in exchange for something ... and "this something" needs to be known in order to understand its many potential consequences.
2. As a conclusion of the former, Vicky points out the following: "there is non-sense to discuss the monetary transmission divorced from the type of monetary change being considered".
3. Another important remark Vicky makes is that "the effect (of any monetary change) depends on how people behave" ... "who issues the money and in exchange for what".
4. And finally, two important (and quite "to date") conclusions: "monetary and fiscal policies are interrelated ... and inflation might have nothing to do with excess money.

For the second question I would mention the following contributions.

Figure 4: Selected publications on "stages of banking development"



The relevance of these contributions are summed in the following paragraphs

1. Vicky's stages of banking development "intensifies the subordinate position of saving with regard to investment" (Chick 1986: 124), so it reverts the causality between saving and investment, questioning the validity of the Loanable Funds Theory, as we all know.
2. It also questions the convention of considering the transmission mechanism "as a purely theoretical matter, independently of institutional context" (Chick 1988)
3. It also provides a "framework to explain why the relevant monetary theory might change according to changes in the institutional setting" Chick (1988: 17)
4. Another important point is that thanks to its combination with Sheila's Dow work on regional finance, Vicky's theory provides a framework to explore the contribution of money and banks to regional development; a framework which goes beyond the narrower conventional Keynesian regional credit-rationing literature (based on the Loanable Funds Theory).

5. These implications are well known, I think. But there is one (less known I think) which arises when one reads between lines. This conclusion is about the many risks attached to a high degree of banking development, which Vicky expressed as follows:

    a) "The proposition that investment evokes the necessary saving feels hopeful and progressive. It is far less attractive to say that speculation [in City property] evokes the necessary saving to finance it" (Chick 1986: 121)

I find the last point (5.a) made by Victoria Chick quite interesting for, in my opinion, it might be interpreted as a recognition that the banking development might also bring "bad news", for it may lead to higher financial instability, lower banking functionality … and financialization?

Finally, I would like to finish my presentation by making one last remark, which she knows I owe her since year 2000, at least, when we had a conversation in my office about the relevance of her stages of baking development. In that occasion, she asked me: "Can you proved that?"; and I said: "Not yet, but I will try". I would like to take this opportunity not to prove, but rather persuade all of you of the relevance of her contribution.

When Victoria Chick presented (in Berlin) the paper "The evolution of the Banking system and the Theory of Monetary Policy", in year 1988, she wrote this (emphasis added):

> "The object of this papers is to trace certain development in the co-evolution of the British banking system and the theory and methods of monetary policy" […] **I do not claim to have a new, relevant theory of monetary policy** […] I wish only to expose hidden assumptions of existing theories"
>
> (V. Chick 1988: pages 1-3).

I have to say that I completely disagree with Vicky in this respect. This is one of the very few (rare) occasions when I can say she is wrong (and I am right). For this purpose, let's see what J. Stiglitz and B. Greenwald wrote (emphasis added) about this issue … 15 years after Vicky presented her paper in Berlin!

> "**Existing theoretical models**, largely institutional independent, **provide** little or **no guidance for assessing the effect these [institutional] changes on monetary policy**"
>
> (J. Stiglitz and B. Greenwald 2003: 4)

> "**There are market differences in the effectiveness of monetary policy in different countries, and similarly marked differences in their institutional structures. We** [Joseph Stiglitz and Bruce Greenwald] **argue that the changes in**

the monetary relations over time and differences across countries can be linked to institutional variations in the banking system"

(J. Stiglitz and B. Greenwald 2003: 4)

J. Stiglitz and B. Greenwald proposed in 2003 something which was already put forward by Victoria Chick … 15 years earlier. It is clear to me that your contribution, Vicky, was quite relevant, and the colleagues and friends present today, and also those who wrongly made this claim, deserve knowing that <u>it was you who "cut this Gordian knot" in the late eighties</u>, and we all thank you for this.