> other elements and the causes antecedent to them, but exerts no control over them.[2]

In this proposition the word "normally" is important: for Professor Fisher admits that "*to a limited extent during transition periods, or during a passing season* (e.g. *the fall*)" the "price level is an independent cause of changes" in other magnitudes in the equation.[3]

What, then, are "transition periods," and what fraction do they make of time? Professor Fisher's answer begins as follows:

> The change which constitutes a transition may be a change in the quantity of money, or in any other factor of the equation of exchange, or in all.[4]

The discussion of transition periods, thus introduced, gives him occasion to expound a theory of "credit cycles," which stresses the lag in the adjustment of interest rates to changes in the price level. And

[2] *The Purchasing Power of Money*, p. 172. Italics as in original.

Through a most ingenious statistical study, of which some account will be given in the next chapter, Professor Fisher has recently come to the "conclusion that changes in price level almost completely explain fluctuations in trade, for the period 1915-23," and that they "dominate" fluctuations in trade from 1877 to 1924. See "Our Unstable Dollar and the So-called Business Cycle," *Journal of the American Statistical Association*, June, 1925, vol. xx, pp. 191 and 201.

Without inquiring for the moment into the significance of Professor Fisher's statistical researches, it is pertinent to ask whether his two conclusions (1) that the price level is normally "absolutely passive" and "exerts no control over" other elements in the equation of exchange, and (2) that changes in the price level "dominate" fluctuations in the volume of trade, are consistent with each other.

The two conclusions can be reconciled formally by putting a strict construction upon the word "normal." My understanding is that Professor Fisher draws a sharp line between what is normally true and what is historically true. What is normally true is that which would happen under certain hypothetical conditions which are never fulfilled absolutely. What is historically true is that which actually happens under conditions which combine the factors represented in the theorist's imaginary case with a continually changing host of other factors. Hence relations which hold normally may never be realized historically.

Granted the logical validity of this distinction, the question remains how an investigator should choose the hypothetical conditions to be assumed in his theorizing. One who is interested in pure theory for its own sake may choose any hypothetical conditions which provide the basis of an interesting argument, whether that argument will illuminate experience or not. But I take it Professor Fisher is not interested in pure theory for its own sake; he desires that his theorizing shall give insight into actual experience. On this interpretation, it seems doubtful whether hypothetical assumptions are well chosen for his purposes when they lead to conclusions concerning what is normally true which run counter over long periods to the results of his statistical studies of historical processes. By altering the assumptions underlying his theorizing about the relations among the factors in the equation of exchange, Professor Fisher might draw a different set of conclusions concerning what is normally true which would harmonize better with his version of historical truth.

[3] *The Purchasing Power of Money*, p. 169. Italics as in the original.

[4] The same, p. 55.