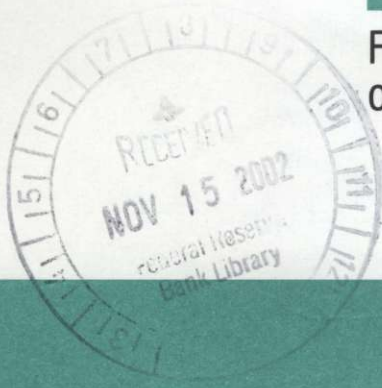


Federal Reserve Bank  
of Minneapolis



Fall 2002

# Quarterly Review

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## *In This Issue*

This issue of the *Quarterly Review* is dedicated to Bruce D. Smith, our close friend and colleague, who died of colon cancer on July 9, 2002, at the age of 47. Bruce spent about five years early in his professional career as an economist in the Research Department of the Federal Reserve Bank of Minneapolis. He left us in the mid-1980s, to teach and do research at, among other places, Carnegie-Mellon University, the University of Western Ontario, Cornell University, and the University of Texas in Austin. Over the last 15 years, however, Bruce often returned to the Minneapolis Fed to present his work and contribute to the work of others.

Most of us laboring in the field of economics with Bruce knew that he was an accomplished theorist, that he was a voracious reader with a remarkable command of the literature, even that he was usually writing several papers at a time. Nevertheless, only now, as we step back from the whirlwind of activity that always surrounded Bruce, do we realize what a remarkable contributor he was to our profession.

Bruce's published work includes nearly 100 research articles contributing to his areas of special interest: macroeconomic theory, monetary theory, applications of the theory of private information, monetary history, and financial intermediation and growth. (See the list of his published work at the end of this issue.)

But Bruce's contribution is only partially captured by those professional publications. As 2 of at least 30 collaborators with Bruce, we can attest that his contribution includes an enormous amount of interaction with his coauthors along with frequent, in-depth discussions with his students and colleagues and with researchers around the world. Bruce was not only eager to present his own research; he enthusiastically encouraged others to present theirs, and he helped make that possible, by regularly organizing seminars and conferences.

A relatively small but not trivial part of Bruce's legacy is his research we published in the *Federal Reserve Bank of Minneapolis Quarterly Review*. In this issue, we are reprinting three of his articles that suggest the breadth and quality of his work.

In "Money and Inflation in Colonial Massachusetts" (p. 3, first published in 1984), Bruce applies a contemporary development in monetary economics to the history of inflation in colonial Massachusetts. He provides historical evidence that the conventional view of the quantity

theory of money is incomplete. He argues that the predictions of the quantity theory must be conditioned by prevailing fiscal policy. In the process, he also makes a persuasive case that economic theory is a useful device for understanding economic history.

Shortly after this article appeared, Bruce produced several more papers on inflation in the North American colonies, providing more evidence on the failure of the conventional view of the quantity theory. Not surprisingly, this work drew criticism from many scholars. Bruce responds to this criticism in "The Relationship Between Money and Prices: Some Historical Evidence Reconsidered" (p. 17, first published in 1988). Bruce shows here that specie flows in the colonies of Virginia, New York, and Pennsylvania—which had particularly large changes in the amount of circulating paper money—were not large enough to overturn his results, and he dismisses the assertion that the colonies were operating under a fixed exchange rate regime.

Finally, in an article coauthored with us, Bruce uses economic theory to illuminate a different period of U.S. history. "Lessons From a Laissez-Faire Payments System: The Suffolk Banking System (1825–58)" (p. 32, first published in 1998) began as a simple exploration of the economic facts underlying the profitability of the Suffolk Bank's note-clearing system in 19th century New England. The work became more than that because of Bruce. With typical intensity and determination, he insisted that we use economic theory to organize the facts. And he used his knowledge of the literature on game theory to help explain why the Suffolk Banking System maintained a profitable monopoly for so many years.

With the death of Bruce D. Smith, the economics profession has lost a major force. We in Minneapolis have also lost a good friend. While Bruce's tremendous intellectual energy is recorded in his many publications, his remarkable generosity as a scholar and a person will live on in his many students and colleagues and friends.

Arthur J. Rolnick  
Editor

Warren E. Weber  
Associate Editor