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**INFLUENCE (OR THE LACK OF IT) IN THE ECONOMICS PROFESSION:
THE CASE OF LUCIEN ALBERT HAHN***

History of Political Economy

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Influence

1.Introduction

Boudreaux and Selgin's (1990) fascinating discussion of L. Albert Hahn - "a precursor of Keynesianism *and* the monetarist counter-revolution" - deserves the attention of economists. Hahn had been a banker, an honorary Professor at the University of Frankfurt, and an influential inter-war monetary theorist (Ellis 1934, 220). In 1941 he joined that remarkable trans-Atlantic migration of German-speaking talent (von Mises, Hayek, Machlup, Haberler etc.). Until 1953, he taught at the New School for Social Research in New York, which from its inception (1919) had been a magnet for European exiles, and for refugees from Columbia University.¹

In the third edition (1930) of his *Volkswirtschaftliche Theorie des Bankkredits*, Hahn renounced the thesis contained in the first edition (1920), which he described as "a 'credit expansion theory of employment' very similar to that of Keynes" in *The General Theory*. This put him in "a somewhat peculiar position" (Hahn 1945, 28-9). As Hayek and Haberler noted, Hahn had invoked Malthus' analysis of effective demand to argue against the validity of Say's Law; and he developed a liquidity preference approach to explain the determination of interest rates, in opposition to the Quantity Theory and loanable funds approach. Relying on the notion of forced savings, rather than money illusion, he also believed that credit expansion (even with "leakages") could promote an ongoing increase in employment.

Just when Keynesian thinking had become standard fare, Hahn began to develop ideas that would become standard in the 1970s: a "natural rate" of output, an emphasis on voluntary unemployment, and a belief that entrepreneurs will usually predict the future more successfully than economic theorists (Boudreaux and Selgin 1990).

The purpose of this note is to add some further information about Hahn's influence (section 2): to highlight a similarity between Hahn and Bill Phillips and to question whether Hahn can

accurately be described as a "proto-monetarist" (section 3); and to provoke some discussion about the sociology of knowledge in the economics profession (section 4).

2. Was Hahn's work ignored in the post-war period?

Boudreaux and Selgin concluded that few theorists have taken note of Hahn's work (1990, 261): he produced no school, and "is today virtually forgotten" (1990, 262); and his proto-monetarism was largely ignored in the 1940s, 1950s and 1960s (1990, 277). The first two conclusions are largely correct; the third less so. Hahn's work was cited by at least one important source in what Gottfried Haberler (of Harvard University) called "the last great debate on inflation in the 1950s" (1972, 133). The 'great debate' in the 1970s was over the Phillips curve trade-off. In the 1950s, Sumner H. Slichter (also of Harvard University) - "undoubtedly the best known economist of his day to the American community generally..." (Dunlop 1961, xxi), and "perhaps our best economic forecaster" (Samuelson 1961, 24) - advocated the proposition that creeping inflation could be permanently tolerated. The context was the Delphic Oracular quality of the 1946 United States Employment Act, and the apparent incompatibility of the pursuit of 'full' employment with price stability (Leeson 1997).

For the last seven years of his life, Slichter was involved in an ongoing dispute with the editor of *The Journal of Commerce*. In the 1950s, this publication rivalled *The Wall Street Journal* in terms of influence;² and was one of the forums for the debate about inflation. Slichter offered a ten year prediction, which connects almost exactly with Milton Friedman's famous 1967 American Economic Association Presidential prediction of stagflation. In a letter to the editor on February 27, 1957, Slichter suggested a ten year comparative prediction between his views and the views of "*The Journal of Commerce* and the views of many economists in the United States and Europe who declare that creeping inflation must become galloping inflation and end in collapse. A backward look ... would be an appropriate editorial for the first issue of *The Journal of Commerce* in January 1967". Slichter's letter had been in response to an editorial on

February 13 1957, which had concluded that "creeping inflation will not lead to additional employment but will ultimately cause a decline in employment". The authority cited by this editorial was "L. Albert Hahn, successful Swiss banker-economist, whose book 'Common Sense Economics', translated into English, was published in this country just a week or so ago".

Although Hahn's rejection of mainstream Keynesian analysis made it increasingly difficult for him to publish his views in professional outlets, his few academic journal publications also appear to have played an important part in early post-war discussions on monetary policy (Kaufman 1969, 195-6). He published a lengthy article in the *American Economic Review* (1945) and three of his works were cited in the AEA Selected *Readings in Monetary Theory* (1956, 466, 471, 495). In the United Kingdom, his arguments were seen (in the *Economic Journal*) as "scor[ing] some undeniable hits" (Croome 1957, 717), and the *Economist* cited him as the author of "a searching attack on the recent policies of the German Federal Bank" (24 August 1957, 602). He was also regarded as a leading opponent of the Bretton Woods system of fixed exchange rates (Lipfert 1966; Yeager 1958, 429; Yeager 1959, 356; Bernholz 1979, 10). But since he was regarded as "one of the foremost living anti-Keynesians" (Hein 1962, 507; Oanh 1960, 97), his influence was limited.

3.Hahn, Phillips and the Monetarist \$ Model.

Hahn clearly made an important theoretical contribution to the "last great debate on inflation", and it is worthwhile to compare this contribution to later developments. But the similarity between Hahn and monetarism seems over-stretched in at least two areas. First, under the section headed "Hahn as proto-monetarist", Boudreaux and Selgin (1990, 273) point out that Hahn "observed that at the end of the inflationary boom, when 'compensating reactions' are taking place, the rate of inflation declines, but not by as much as the decline in employment caused by the higher real wages being bargained for by labour". Milton Friedman (1968), however, revolutionised macroeconomics by predicting that the inflationary boom would be

followed by stagflation - *increasing* rates of inflation and unemployment. Hahn's work seems closer in spirit to Phillips' seminal empirical article. Phillips (1958, Fig. 2 - Fig. 7, 286-9) found that in a succession of trade cycles, the inflationary boom was always followed by an increase in unemployment (and usually accompanied by a reduction in inflation).

Secondly, under the same section, Boudreaux and Selgin (1990, 276) note that "Hahn believed that reductions in demand that occur as the economy rids itself of maladjustments can lead to disequilibrating declines in income by causing the demand for speculative money balances to increase. He called this a 'deflationary depression' ".

But the monetarist mechanism is an equilibrating story which can be described, in inflation-unemployment space, using the analogy of a \$ (or an 'S' spiked by a vertical natural-rate of unemployment). The macrosystem is constrained to move along this 'S' shaped trajectory. Along the top half of the 'S', a Keynesian fall in the price of money can only be temporary - an inflationary boom can only dissipate itself, as Keynesian money turns 'dishonest'. Along the bottom half of the 'S', a monetarist rise in the price of money will dissipate itself by inducing self-destructing delusions about inflationary expectations (the short-run Phillips curve will shift inwards as unemployment increases). Monetarist money becomes 'honest', as the rate of inflation is forced down by the reduced rate of growth of the money supply. Monetary discipline, tied to accommodating wage behaviour, can be relied upon to produce permanent reductions in both inflation and unemployment.

But weak or non-existent equilibrating tendencies make policy-induced disinflation (with recession as an undesirable side-effect) a somewhat dubious tool. The possibility of a prolonged 'deflationary depression' would tend to suggest that recessions should be viewed as something other than a temporary side-effect of the monetary contraction cure.³ This type of analysis is closer in spirit to hysteresis-type models than to the orthodox Natural-Rate

Expectations Augmented Phillips (N-REAP) curve approach.⁴

4. Influence and economists

We lack a systematic study of *influence* (or the lack of it) in the economics profession - especially when it comes to those who dissent from orthodoxy. Hahn and his like, were largely rolled over by the Keynesian juggernaut. We lack a systematic study of what happened to people like Hahn in their three decades in the anti-Keynesian wilderness.

As a self-confessed "collector of intellectual schools", Milton Friedman - the most influential sociologist of knowledge of his generation of economists - has reflected on the New York environment in which Hahn and von Mises propagated their views: "One of the great economists of all time, Ludwig von Mises ... was barely tolerated for years in a peripheral academic position at New York University ... Had my career been in New York ... I would have been regarded as a 'kook' and no doubt would have begun to act like one even earlier than I did" (1974, 11, 16). As for Hahn, the "reverse process" of his relationship with orthodoxy made him appear to a British observer as a "curiosity"; an eccentric courting the same destiny as Major Douglas, despite having "his finger on certain weak points of the current economic creed" (Croome 1957, 716, 718).

Age must also have been a factor: anti-Keynesians tended to be pre-Keynesians of an older vintage. Ill-temper may be another feature (Gordon 1949). Friedman, the most successful anti-Keynesian of them all, remains refreshingly free of the spleen that seems to have marred the chances for influence of some of his fellow-travellers. Hahn, in his disappointment, may have fallen into this trap - see his reference to "the tendency of economists 'to swing pendulum-like' from one set of 'noxious extremes to another' " (cited by Boudreaux and Selgin 1990, 274-5).

Hahn (1889-1968) did not quite live long enough to see the publication of the sixth volume of

his collected writings (1920, 1925, 1929, 1949, 1960 and 1969); which had been intended to honour his eightieth birthday (Montaner 1970; Hein 1962; Boudreaux and Selgin 1990, 261). He had problems getting some of his work published: "his dissenting voice had little chance of being heard. He accepted this.⁵ In 1949 he wrote, 'Life has taught me that men, including economists, are influenced chiefly by their latest experience' " (Boudreaux and Selgin 1990, 277). And therein lies one of the primary balancing functions of historians of thought.

NOTES

*This note has benefited from comments from George Selgin and an anonymous referee.

1.The Frankfurt School also had its origins in the inter-war proliferation of social science research institutes; and after the war, Marcuse, Horkheimer and Neumann founded a Frankfurt School in exile at Columbia University.

2.I am grateful to the referee for alerting me to the importance of the *Journal of Commerce* in the 1950s.

3.George Selgin has noted that "your point concerning the difference between Hahn and monetarists is well-taken; Hahn's discussion of 'deflationary depression' differs from that of later monetarists. It is, perhaps, more akin to arguments of certain pre-Keynesian quantity theorists, like Irving Fisher" (correspondence 17 April, 1995).

4.If disinflation is more perilous than the N-REAP model suggests, then this, of course, remains one of the strongest reasons for preventing the outbreak of inflation in the first place.

5.In contrast, Friedman never accepted the role of a Cassandra.

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