

David Laidler's Contributions to Economics

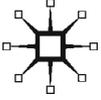
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David Laidler's Contributions to Economics

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Preface

On 18–20 August 2006, a group of economists and policy makers from North America, Europe, and Australia gathered at the University of Western Ontario (U.W.O.) to reflect on and to celebrate David Laidler's contributions to economics. A small Festschrift conference had initially been planned, but the numbers grew as news of the conference spread: such is the esteem in which David is held. The conference was sponsored by the Economic Policy Research Institute, the Department of Economics, and the Faculty of Social Science at U.W.O. Paul Davenport (President of U.W.O.), and Brian Timney (Dean of Social Science, U.W.O.) opened the conference; we thank them for this and for their support and encouragement. Thanks are also due to Al Slivinski, Chair of the U.W.O. Department of Economics, for his valuable help, and to Chantal Collins and Leslie Kostal for their excellent administrative assistance.

The conference had many inspiring and enlightening moments. One highlight that must be singled out was the presentation by David's former teacher Milton Friedman, of one of his final academic papers. (See <http://economics.uwo.ca/centres/epri/LaidlerFestschrift/LaidlerFestschriftProgram.html> for this videoed talk and John Taylor's response.) All the Festschrift participants were deeply saddened at the news of Professor Friedman's death, which came a few weeks after this event.

These chapters were written by monetary economists, historians of economic thought, central bankers, think tank directors, a political scientist, and others. The breadth and scope of the papers reflect the range of David's intellectual contributions and achievements, as well as the impact he has had on so many people in so many areas. During the conference there were also many opportunities to reflect on David's generosity towards his colleagues and correspondents. As these essays were about to be published, David was chosen as the 2009 Distinguished Fellow of the History of Economics Society.

To David, his wife Antje and daughter Nicole, from David's students and colleagues, this volume is an expression of gratitude for their patience and generosity and for David's contributions to our careers and to our discipline.

JAMES DAVIES AND ROBERT LEESON
May 2009

Foreword

Otmar Issing

David Laidler's oeuvre comprises publications of rigorous theory as well as those which show that he is a master of the "rhetoric" in economics. He is an expert in the field of history of economic thought and at the same time has done research at the frontier on current issues. He has been a successful teacher in economics with world-wide experience as well as an advisor, directly and indirectly, to central banks. What a rare combination!

It is not my objective to present a laudatio of his work. Instead, I would like to concentrate on my personal experience with David's contribution to economics which covers the field of academia as well as the world of central banking. For me as a young professor, but still a student of monetary economics, David's various publications greatly helped me to better understand the debate in the heyday of the controversy on the monetarist revolution. In the list of recommended reading in my textbook *Introduction to Monetary Theory* (14th ed., 2007) his publications still rank high. This is especially true for his book *The Demand for Money: Theories, Evidence, and Problems*, undoubtedly a classic in this field. I think the title of this book neatly summarizes his approach: bring theory and empirical evidence together, but never forget about the problems which remain in spite of all progress in research.

Another good example in this respect is his preeminent work on the quantity theory of money. His book *The Golden Age of the Quantity Theory* is a masterpiece on the development of theory and an important contribution to the history of economic thought. And the title of his article "The Quantity Theory is Always and Everywhere Controversial – Why?" inherently indicates a general problem in economics: Even such an empirically well-founded theory continues to be controversially discussed.

My academic background turned out to be essential in my (unexpected) later life as a central banker. Economic theory has to guide you through the uncertainties with which policymakers are confronted. For instance, the Lucas critique particularly needs to be respected in times of regime shifts such as German unification or even to a greater extent when a new currency is introduced. David's work on money in all its aspects clearly is among those guideposts. Again I will just quote a title chosen by David in various contributions which asks "to take money seriously". I wished that there were no longer such a need nowadays for this reminder.

David, thanks for your outstanding contributions to our discipline and personally for all that I have been able to learn from you.

Axel Leijonhufvud

David Laidler's teaching career stretches back to the early 1960s, to a time when Keynesian economics (of a sort) was still in its heyday. Macroeconomics and

monetary theory have gone through a number of metamorphoses since that time. Later in that decade Keynesianism began to wane as monetarism gained adherents and influence. However, monetarism soon mutated into a New Classical form which proved to have no staying power. Its demise put Real Business Cycle theory in the forefront. More recently, monetary theory and policy is making a comeback by returning to the pre-Keynesian ideas of Wicksell in (needless to say) technically modernized form.

If you have lived through all these shifts in the worldviews of economists (and I have), you come to particularly value those rare colleagues who, while keeping abreast of developments, make up their own minds and chart a course of their own. These are the people whose writings you ponder over and whose judgments you take seriously. Always generous in acknowledging what he has learned from others, David has nonetheless been one of these intellectual independents throughout his long career.

In the nature of the case, the independent stance is not always popular. Bringing the outlandish message that “inflation is always and everywhere a monetary phenomenon” did not meet with general acclaim in Britain in the early 1970s. But as a monetarist he was a bit of a deviationist as well, stressing the role of the interest rate in the money demand function and being rather too open-minded about reverse causation. Later, after due consideration, he let the Rational Expectation bandwagon pass him by.

If David has kept his distance vis-à-vis Dynamic Stochastic General Equilibrium economics it is because he has thought more deeply than anyone else about the fundamental role that money and monetary institutions perform in actual economies and, therefore, what is missed by relying on Walrasian constructions that have no room for them. This work of Laidler’s involves no formal modeling or statistical inference, but it is his most subtle theoretical contribution and I wish it were more widely known.

It is natural that someone, who has participated for decades in a field undergoing so many changes, would come to reflect on its development, and the history of monetary economics has become his main preoccupation in recent years. History also calls for the exercise of judgment rather than for cleverness at deduction and the balance of a man’s talents is apt to shift towards the former with age. David is now the unchallenged champion of the history of our field and this work of his mature years displays the admirable characteristics one fondly remembers from countless conferences over the years – it is clear, forceful, balanced, measured.

Most people who take money very seriously do so in order to get more of it. Some forty years of “taking money seriously” has not earned David Laidler great wealth. But it has earned him the respect and affection of the extraordinary group of contributors who pay him homage in this volume – and of a great many students and other friends besides.

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