B"H

Dedicated to the memory of my sister, Esther,

for teaching me how to read

and for bringing me to these shores;

to the memory of my parents, my father Henoch for his wisdom

and my mother, Sara, for giving birth to me—twice;

to my children Naomi and Avi

their spouses Marc and Tova;

to my grandchildren,

Elki and Chaim, Batya, Chanoch, Devorah and Nachum,

Ephraim, Ayala, Jacob,

and to my great-grandchildren,

Chanoch and Fegila

To my wife, Miriam;

And to the righteous German officer who took my immediate

family to a hiding place just days before the last transport to

Auschwitz, where most of my family perished.

—M.S.

To my wife, Noreena, my kids,

Devi, Shanti, Hari, and Rani, and my grandchildren,

Brian and Sabrina. I will love them forever.

—L.R.

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Foreword

The trajectory of the history of economic thought is not a happy one. What was once a robust field of research and publication is now of marginal interest to just a few economists. When I began graduate work in 1950 at Columbia University, history of economic thought was a well established field of concentration. The faculty included Joseph Dorfman, author of a five volume work, *The Economic Mind in American Civilization* (1946-1959), and Wesley Claire Mitchell, who taught and wrote about *Types of Economic Theory: From Mercantilism to Institutionalism* (1967). Most significantly, George Stigler, winner of the Nobel Prize in Economics in 1982, was on the faculty. Stigler's PhD thesis at the University of Chicago, *Production and Distribution Theories* (1941), was just the first of his many contributions to the history of economic thought, contributions that, for the subjects covered, have been deemed "unmatched by any other historian of economic thought" (T. Sowell, in *The new Palgrave, A dictionary of economics*, J. Eatwell, M. Milgate, & P. Newman [Eds.] [London: The Macmillan Press, 1987]: vol. 4, 498).

Despite having regularly offered a course on the history of thought, even Stigler finally acknowledged that "the history of economics is no longer a major academic subject; it is not taught at a professional level at most great universities" (*Memoirs of an unregulated economist* [New York: Basic Books, 1988]: 207). As David Colander has written, "The profession has far too little knowledge of its past and of how past theory and discussion relate to current theory, models, and problems" (Review of *The economic crisis in retrospect: Explanations by great economists*, G. P. West III & R. M. Whayles [Eds.], in *Journal of Economic Literature*, LII[3] [September, 2014]: 864).

Enter our hero, Michael Szenberg. Sometimes alone, sometimes with Lall Ramrattan as a collaborator, Szenberg has devoted a significant portion of his career to editing and authoring books that, in the words of one reviewer, will be most useful to "historians of thought interested in recent history" (A. M. Diamond, Review of *Reflections of eminent economists*, M. Szenberg & L. Ramrattan [Eds.]. [Cheltenham, UK: Edward Elgar, 2004]).

Szenberg served as editor-in-chief of *The American Economist* from 1972 to 2011. During that period he invited leading economists to contribute essays on their "philosophy of life." These essays and others invited by Szenberg that had not appeared in the journal were collected and edited by him and published as *Eminent Economists* (Cambridge University Press, 1982). In reviewing this work, I wrote that it "provides a rare opportunity to sit down with an Arrow, a Samuelson, or a Tinbergen and learn that there is more to economics (and economists) than the world of theorems and econometric models."

The success of *Eminent Economists*—it was translated into seven foreign languages—led Szenberg (with Ramrattan) to conceive, assemble, and edit numerous other collections of invited papers including *Passion and Craft, Economists at Work* (1999), *Reflections of Eminent Economists* (2004), *Samuelson Economics and the 21st Century* (2006), and *Eminent Economists II* (2013).

In addition to editing the works of other economists, Szenberg has authored books that also contribute to understanding economics and economists of the past century. Most notable is an excellent comprehensive biography of Franco Modigliani (2008) and an equally fine but more focused one on Paul A. Samuelson (2006).

Intellectual Journeys of Recent, Mostly "Defunct" Economists is the work of Szenberg and Ramrattan, not a collection of papers written by other economists. It brings together in one volume their thoughts, most of which have been previously published in diverse outlets. They discuss the work of fifteen economists, ranging alphabetically from Allais to Samuelson and historically from Keynes to Stanley Fischer. It is not a book to be consumed in one gulp or even a few sittings. Neither is it a reference work that takes the place of a dictionary or an encylopedia. Rather the reader should approach it as a rich, varied intellectual buffet about leading economists to be sampled as interest and need dictate. Readers who believe they already know as much about

Samuelson as they desire are unlikely to feel the same way about Adolph Lowe or Robert Heilbroner, two luminaries of the New School.

In this book, as in all his many volumes over more than two decades, Szenberg has provided a service for future economists. Just as journalism is said to be the first draft of history, so Szenberg and his collaborators can be said to have provided valuable material for future historians of economic thought.

Victor R. Fuchs

Preface and Acknowledgements

No book emerges *ex nihilo*. An ideal setting was presented by Touro College Press under the leadership of editors Dr. Michael Shmidman and Dr. Simcha Fishbane. This is our first book under their guidance. In fact, they are our Cicerone, being aware of our long-term interest in biographical aspects of scientists.

The book's contents reflect our conviction that constructing a biographical inventory of the most creative minds among economists is important in advancing the frontiers of economics and allied sciences. As the 1972 Nobel laureate Kenneth Arrow noted in his Foreword to our *Reflections of Eminent Economists*, "it provides material for the future historian of economic thought." The collection of essays, some written specifically for this volume, offers us personal and scientific data about wise and accomplished lives, and will serve as a source for deepening our understanding of the social history of economics. In a very important way, we expand our own lives by studying the lives of other scientists. Thus, we follow the wisdom in Voltaire's *Candide* (1759), whose protagonist urged, "*Infant cultivar notre jardin*"—we must cultivate our own garden.

We are most grateful to Drs. Michael Shmidman and Simcha Fishbane for giving birth to this volume, their support along the way, and for making this publication possible. Dr. Herb Basser provided his insightful and critical comments with speed and precision. Their enthusiastic guidance and editorial sensibility made this a better book.

We also owe great thanks to Leah Pollack Epshteyn for her exceptional organizational and editorial assistance on this project, as well as her warmth, attention to detail, and friendship. Meghan Vicks, Acquisitions Editor at Academic Studies Press, graciously responded to our queries and provided able assistance.

My intellectual debt continues with the members of the executive board of Omicron Delta Epsilon, the international honor society in economics, for being an important source of inspiration, encouragement, and support. Many thanks to Professors Mary Ellen Benedict, Joseph Santos, Kathryn A. Nantz, Alan Grant, Stacey Jones, Ali H. M. Zadeh, Ihsuan Li, Subarna Samanta, Farhang Niroomand, and Paul Grimes. For their enduring support and deep friendship, I wish to thank Professors Iuliana Ismailescu and Oscar Camargo. Thanks also to Shari Schwartz for her remarkable literary gifts. I must also mention Sadia Afridi, Ester Robbins Budek, Lisa Ferraro, Laura Garcia, Yelena Glantz, Jennifer Loftus, Larisa Parkhomovskaya, Andrea Pascarelli, Sandra Shpilberg, Marina Slavina, Janet Ulman, Aleena Wee, and Lisa Youel—my past talented and devoted graduate research assistants who have helped directly and indirectly in more ways than I can list to make this book the offspring of our partnership.

Thanks also to my most important champion, Dr. Victor R. Fuchs, past president of the American Economic Association and Henry J. Kaiser, Jr. Professor Emeritus at Stanford University. I know that my life would have been less without him. He has extended to us many kindnesses in the past, and unhesitatingly agreed to pen the Foreword to this volume.

Special thanks to Touro's Vice Presidents, Stanley Boylan and Robert Goldschmidt, and Deans Barry Bressler, Sabra Brock, Moshe Sokol, and Marian Stoltz-Loike, for their ongoing support and commitment to scholarly endeavors, and helping me navigate Touro's waters.

My deepest gratitude goes to Dr. Alan Kadish, President of Touro College and University System, for his extraordinary leadership, dedication to excellence, kindness, cheerfulness, and inspiration.

The process of bringing these essays together was all joy for Lall and me. We hope this panoramic book will prove to be a useful supplementary reading in various courses in money and banking, as well as courses in national income analysis where considerable emphasis is placed on issues of economic policy. The work of the economists we researched contains elements characteristic of great literature—pathos and wit that provoke an itch to seize the secrets of their creative power.

General Introduction

The essays in this volume span approximately twenty years of collaboration by the authors of this book. They are, however, classified not by the time during which they were written, but rather by the schools of economics in which each author shows most specialization. The purpose of this introduction is to provide some background on the authors' works and make them easier for readers to follow.

Some entries have been written especially for this collection. These include the essays about the contributions of Robert Aumann, Gary Becker, and Adolph Lowe. Robert Aumann pushed cooperative game theory to its logical limit. Gary Becker masterfully applied and extended microeconomics to social capital. Adolph Lowe extended the Marxian sectorial model to explain growth under capitalism and socialism. All exemplify creative thinking in economics, and it was imperative that they be included in this collection. But the works of the new entrants alone are not sufficient to illustrate creative activities in economics. While not an exhaustive list of sub-disciplines, the other entries cover the broader subject areas such as macroeconomics, microeconomics, monetary economics, Keynesian economics, and Decision theories.

Each piece in this collection is structured to bring out the main contributions of the economists discussed. For some, this includes multiple achievements, which leads to further subdivision of their work. We discuss their main thoughts with the backdrop of some prerequisite information to enable at least an essential understanding of their theories. In some cases, mostly for the Nobel Laureates, some knowledge of their contributions is already in the public domain. But many of the authors, because of the fields in which they specialized or the time in which they wrote, have to be discovered for their contributions.

Readers may observe that the lengths of the entries are uneven. The shorter pieces were the result of limitations of space or time. Some sources limited the number of words, and others required the input be made with a very short deadline. Thus, the comprehensiveness of each entry is not uniform throughout this volume.

As a prelude to the main works below, we provide some related materials as to the publication of each piece.

Part I: John M. Keynes (1883-1946), Franco Modigliani (1918-2003), and Stanley Fischer (1943-)

Part I of the collection begins with John Maynard Keynes, the dominant economic thinker of the twentieth century, whose ideas have profoundly affected the theory and practice of modern macroeconomics. The version we present here spans his important works. A version of it was published in Thomas Cate's book *Keynes's General Theory: Seventy-five Years Later* (Cheltenham Glos: Edward Elgar, 2012).

The next entry in Part I centers on the Nobel Laureate Franco Modigliani. We have had occasion to write several pieces about Modigliani, who was a professor at the MIT Sloan School of Management and MIT Department of Economics. The work presented here was first published in *The American Economist*, 48(1) (Spring 2004): 3-8.

The last entry in Part I focuses on Stanley Fischer. He brings new insights of Keynesian economics to the debate between New Keynesians and New Classical economics. His views maintain the Keynesian wage rigidity perspective over the price stickiness debate in the literature. This piece was published in *An Encyclopedia of Keynesian Economics,* 2nd edition, edited by Thomas Cate (Cheltenham Glos: Edward Elgar, 2013), 194-200.

Part II: Paul A. Samuelson (1915-2009)

Part II represents the work of the 1970 Nobel laureate Paul Anthony Samuelson, who won the prize for his scientific works in economics. Samuelson had a hand in directing the evolution of economics in the latter half of the twentieth century. For the fruits of his work, he is widely regarded as the leader of neoclassical economics. This piece was published in *The American Economist*, 55(2) (Fall 2010), 67-82.

Part III: Milton Friedman (1912-2006)

Milton Friedman is a household name, perhaps due to his popular public television show *Free to Choose*. He was the most influential leader of the monetarist school. But his most scientific work was done on the consumption function, where he advocated the permanent income hypothesis. In 1976, Friedman won the Nobel Prize for his achievements in the field of "consumption analysis, monetary history and theory, and for his demonstration of the complexity of stabilization policy." This entry was published in *The American Economist*, 52(1) (Spring 2008), 23-38.

Part IV: John Kenneth Galbraith (1908-2006)

John Kenneth Galbraith was an American ambassador during the Kennedy Administration, as well as a leading institutional economist. He was a prolific author and wrote four dozen books, including several novels, and published more than a thousand articles and essays on various subjects. Among his most famous works was a popular trilogy on economics, *American Capitalism* (1952), *The Affluent Society* (1958), and *The New Industrial State* (1967). Galbraith's books on economic topics were bestsellers from the 1950s through the 2000s. The piece included here is from *The American Economist*, 55(1) (Spring 2010), 31-45. It was incorporated in *John Kenneth Galbraith: The Economic Legacy, Volume IV*, edited by Stephen Dunn (London: Routledge, 2012).

Part V: Adolph Lowe (1893-1995)

Adolph Lowe represents the Marxian school. The piece included here was specifically written for this work. Because of his vast contribution to methodology, sociology, and economics, we survey only Lowe's work on business cycles, economic growth, and his much-lauded exposition of Adam Smith's economics system.

Part VI: Lawrence Klein (1920-2013)

After his dissertation on the Keynesian Revolution, Lawrence Klein set to work on the application of the Keynesian system using the tools of econometrics. Klein received the Nobel Prize for economics in 1980 for "the creation of economic models and their application to the analysis of economic fluctuations and economic policies." The piece included here is taken from *An Encyclopedia of Keynesian Economics* (London and New York: Edward Elgar, 2013), 372-378.

Part VII: Gerard Debreu (1921-2004), John Hicks (1904-1989), and Maurice Allais (1911-2010)

Gerard Debreu received the Nobel Prize in 1983 for his contributions to general equilibrium economics. He brought his influence of Bourbaki mathematics to economics, creating a long-lasting research program in that area. The piece included in this volume is from *The American Economist*, 49(1) (2005), 3-15.

John Hicks straddles the economics of Leon Walras and John Maynard Keynes. Hicks received the Nobel Prize in economics in 1972 for his contributions to general equilibrium theory and welfare economics. The piece included in this volume is from *The International Encyclopedia of Social Sciences,* 2nd Edition (London and New York: Macmillan Reference, 2007).

Maurice Allais received the Nobel Prize in economics in 1988 for his "pioneering contributions to the theory of markets and efficient utilization of resources." He is also known for the Allais paradox in utility, preference, and probability theory. His writings were translated later into English, which perhaps delayed his recognition in the English-speaking world. The entry here is from *The American Economist*, 56(1) (2011), 104-122.

Part VIII: Gary Becker (1930-2014)

Gary Becker established economics on a strong sociological foundation. Expanding standard microeconomics to include social capital, he made the family the atomic structure of economics. From this he made logical developments in the areas of discrimination and human capital. He received the Nobel Prize in 1992 "for having extended the domain of microeconomic analysis to a wide range of human behavior and interaction, including nonmarket behavior." This essay was written specifically for this volume.

Part IX: Robert Aumann (1930-)

Robert Aumann received the Nobel Prize for his contributions to game theory. In particular, his award was in the area of cooperative game theory, which embraces the dictum that if you want peace, you must prepare for war. Aumann is a professor at the Center for the Study of Rationality in the Hebrew University of Jerusalem in Israel. This essay was written specifically for this volume.

Part X: Robert Heilbroner (1919-2005)

Robert Heilbroner was influenced by Joseph Schumpeter and later by Adolph Lowe. Like so many economists, he stood on the ground of classical thought, including Marxism. He is best known for his work *The Worldly Philosophers: The Lives, Times and Ideas of the Great Economic Thinkers* (7th ed.) (New York: Simon & Schuster, 1999), a bestselling introduction to classical economic thought. The entry in this book is from *The American Economist*, 49(2) (2005), 16-32.

Part XI: Abram Bergson (1914-2003)

Abram Bergson's place in the history of economic thought is in the area of welfare economics. He did pioneering work that revolves around constructing a social welfare function, which is supposed to aggregate benefits of individuals to the whole society. Such work is welcomed by researchers who wish to measure economic benefits and optimal performance of an economy. The entry in this text is taken from *The American Economist*, 7(2) (2003), 3-5.

PART I

KEYNESIAN ECONOMICS

John Maynard Keynes, Franco Modigliani, Stanley Fischer

John Maynard Keynes

John Maynard Keynes (1883-1946) was the eldest son to Florence Ada and John Neville Keynes. His siblings were Gotfriey and Margret. Keynes went to an all-boys school, Eton College, and then to King's College Cambridge, where he graduated in mathematics. At Cambridge, he started studying economics under Alfred Marshall. Scoring very low on the Civil Service Exam, he was not hired by the British Treasury, so he settled for his first job in the Revenue, Statistics and Commerce Department of the India Office.

Introduction

Keynes's views evolved over time, maturing into the Keynesian framework of *The General Theory of Employment Interest and Money* (*GT*) (Keynes, 1936). To study the impact of his views on economic theories and policies, we need to peek through the various windows of his major works in order to cope with the novelties of the general theory. A panoramic view of the impact of Keynes' economic theories and policies started with his defense of the gold-exchange standard in his first book, *Indian Currency and Finance* (*ICF*) (Keynes, 1913) and culminated with his arguments for the Bretton Woods system in 1944. In this chapter, we first briefly summarize some essential works of Keynes in order to discuss the impact of his theories and polices.

Economics of Indian Currency and Finance

In the *ICF*, Keynes gave "a discussion of currency evolution in general" (Keynes, 1913: 11). His position in the *ICF* was that gold itself has become a managed currency, implying that the role of the monetary authority was to ensure an adequate amount of gold supply to match the currencies outstanding. This was not a problem when gold discovery was common in the first half of the nineteenth century, but as new discoveries became scarce, countries found it necessary to economize on gold, which is an idea that Keynes credited to "[David] Ricardo, who pointed out that a currency is in is most perfect state, when it consists of cheap material, but of an equal value with the gold it professes to represent" (Keynes, 1971: vol. XV, 70).

In the *ICF*, Keynes was discussing the evolution of the gold standard theory to a gold-exchange standard. In a typical gold-exchange standard, one country's currency is tied to gold, and the other countries' currencies are tied to that gold backed currency (Sawyer & Sprinkle, 2008). This yields a fixed exchange rate between the currencies, for if 1 ounce of gold = $20 in the US, and £5 in the UK, then the exchange rate will be fixed at $4 = £1.

To be sure, the idea of economizing on gold was fathered by Adam Smith, who compared gold and silver to a road that grows nothing, which farmers use to transport goods to the market. Replacing gold with notes is like converting the road to a field, making it productive (Smith, *Wealth of Nations*, Cannan ed., vol. 2 [1930], 28, 78, cited in von Mises, 1980: 332). J. B. Say summarized the issue this way: "The celebrated Ricardo, has . . . proposed an ingenious plan, making the Bank or corporate body, invested with the privilege of issuing the paper-money, liable to pay in bullion for its notes on demand. A note, actually convertible on demand into so much gold or silver bullion, cannot fall in value below the value of the bullion it purports to represent . . . so long as the issues of the paper do not exceed the wants of circulation, the holder will have no inducement to present it for conversion, because the bullion, when obtained, would not answer the purposes of circulation" (Say, 1880: 260).

Keynes also leaned on the works of Walter Bagehot in evolving the gold-exchange theory (Keynes, 1913: 22, 115, 125). He praised Bagehot for "the doctrine, namely, that in a time of panic the reserves of the Bank of England must, at a suitably high rate, be placed at the disposal of the public without stint and without delay" (Keynes, 1971 [1913]: 115). "Bagehot's rule was to raise Bank Rate to stem an external gold drain and to lend freely in response to an internal drain; in the event of both internal and external drains, the Bank was to raise its discount rate to high levels but to continue to provide liquidity" (Eichengreen, 1985: 14).