Influence (or the Lack of It) in the Economics Profession: The Case of Lucien Albert Hahn

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D. J. Boudreaux and G. A. Selgin’s fascinating discussion of L. Albert Hahn—“a precursor of Keynesianism and the monetarist counter-revolution”—deserves the attention of economists. The purpose of this essay is to add some further information about Hahn’s influence, to highlight a similarity between Hahn and A. W. H. Phillips, to question whether Hahn can accurately be described as a “proto-monetarist,” and to provoke some discussion about the sociology of knowledge in the economics profession.

Was Hahn’s Work Ignored in the Postwar Period?

Boudreaux and Selgin conclude that few theorists have taken note of Hahn’s work: he produced no school, and “is today virtually forgotten” (1990, 261–62); and his protomonetarism 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, in some important
circles, fairly central to what Gottfried Haberler 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 of Harvard University—"undoubtedly the best-known economist of his day to the American community generally" (Dunlop 1961, 21), 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.

For the final seven years of his life, Slichter was involved in a dispute with the editor of The Journal of Commerce. 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 27 February 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 13 February 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."

**Stagflation**

Under section 111, headed "Hahn as proto-monetarist," Boudreaux and Selgin 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" (1990, 273). Phillips made a similar point about the trade cycles that he examined (1958, figs. 2–7, 286–89). The inflationary boom was always followed by an increase in unemployment.
A "Proto-Monetarist"?

Under the same section as mentioned above, Boudreaux and Selgin note that "Hahn believed that reductions in demand that occur as the economy rides 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'" (1990, 276). But the monetarist mechanism is an equilibrating story whereby the macrosystem can only move along an S-shaped trajectory, in inflation-unemployment space. 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. But weak or nonexistent equilibrating tendencies make policy-induced recessions a dubious tool. The possibility of a prolonged "deflationary depression" would tend to undermine confidence in the efficiency of policy-induced recessions.\(^1\)

Influence and Economists

We lack a systematic study of influence in the economics profession. 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. Age must have been a factor: anti-Keynesians tended to be pre-Keynesians of an older vintage. Ill-temper may be another feature (Gordon 1949). Hahn may have been adversely affected by this—see his reference to "the tendency of economists 'to swing pendulum-like' from one set of 'noxious extremes to another'" (Boudreaux and Selgin 1990, 274–75). Hahn also had problems getting his work published: "his dissenting voice had little chance of being heard. He accepted this. In 1949 he wrote, "Life has taught me that men, including economists, are influenced chiefly by their latest

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\(^1\) George Selgin has noted that "your point concerning the difference between [L. Albert] 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 quality theorists, like Irving Fisher" (correspondence, 17 April 1995).
experience” (Boudreaux and Selgin 1990, 277). And therein lies one of the primarily balancing functions of historians of thought.

References


