

Fisher and Phillips

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Just before the start of the Monetarist decade, the *Journal of Political Economy* (1973, 496-502) republished Irving Fisher's 1926 article on "A Statistical Relation Between Unemployment and Price Changes", under the title "I Discovered the Phillips Curve". Immediately, Milton Friedman (1976 [1974], 215, 232) used this archaeological discovery to assault his somewhat dazed Keynesian opponents: "The discussion of the Phillips curve started with truth in 1926, proceeded through error some thirty years later, and by now has returned back to 1926 and to the original truth. That is about fifty years for a complete circuit. You can see how technological development has speeded up the process of both producing and dissipating ignorance ... there is essentially no economist any longer who believes in the naive Phillips curve of the kind originally proposed".

There are several other overlaps between Fisher, the first President of the Econometric Society, and Phillips.¹ The Fisher effect provided the first systematic analysis of the effects of expected inflation on interest rates (Howitt 1992, 123); and Phillips pioneered the introduction of adaptive inflationary expectations into what became known as Phillips curve analysis (Leeson 1994). Phillips (1950) was not the first to build a physical macroeconomic model (he was a sociology undergraduate at the time); Fisher had built an hydraulic-mechanical analogue model in the 1920s - regrettably now lost (Tobin 1992, 165). Fortunately Phillips' Machine, or Moniac, has survived; one model of which is displayed next to a display about Babbage, in the Science Museum in London.

Both have been massively cited (often erroneously) - Fisher was "not fully appreciated by his contemporaries" (Tobin 1992, 162), and Phillips' work has been misunderstood and misapplied, in particular in relation to the notion that ongoing inflation would purchase sustainable reductions in rates of unemployment. Both Fisher and Phillips emphasised the importance of money in macroeconomic analysis; Fisher asserted the quantity theory "as earnestly and persuasively as Milton Friedman" (Tobin 1992, 171). Whilst no quantity theorist, Phillips' theoretical analysis of what became known as the Phillips curve (1953, 1954), plus his famous Machine (1950), were largely based on monetary dynamics. Both were strong zero inflation advocates. Fisher was the pioneer of the Stable Money League; Phillips' stabilisation exercises were concerned to minimise the deviations of macroeconomic system from the position of stable prices (Leeson 1994, 1996a).

On 15 October 1929, Fisher made a prediction about rising stock prices: "I expect to see the stock market a good deal higher than it is today within a few months" (cited by Galbraith 1973, 99). There followed the chain of events which led to the most prolonged episode of (western) unemployment in world history. In the 1960s, Phillips' name was associated with a prediction and a recommendation, that an ongoing inflation of 4 or 5 per cent per annum "would seem to be the necessary cost of high production and employment in the years immediately ahead" (Samuelson and Solow 1960, 192). What followed was one of the worst inflationary episode in world history, accompanied by rising levels of unemployment. But Fisher's reputation survived, despite this predictive failure, and his work was central to the positive economics of the Monetarist Counter-Revolution. Phillips' reputation went into decline, following the predictive failure of the inflation-unemployment trade-off. Textbooks often tend to elevate the convenient over the realistic, and injustices such as the Keynes-Classical dichotomy will, perhaps, never lose their pedagogical

irresistibility. It will be interesting to see if the textbooks begin to distance Phillips from the trade-off misinterpretation of his curve, which led to the demise of Old Keynesian economics.

Note

1. Irving Fisher died on 29 April 1947, and was writing until the end (Tobin 1992). The London School of Economics examination term begins just after Easter, and so at the time of Fisher's death, Phillips would have been undertaking the first year examinations that would lead to his Pass degree in Sociology. Fisher had been taught by the sociologist (and economist) William Graham Sumner, and by Arthur Twining Hadley, a pioneer of what is now called Industrial Organisation (Tobin 1992, 163). Phillips came to Economics, indirectly, via curiosity about industrial psychology: "I know also that his employment, when he first came to London before the war, as the supervisor of a gang laying electrical cables, confronted his always active and inquiring mind with issues of industrial psychology" (correspondence from Henry Phelps Brown 3 November 1992).

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