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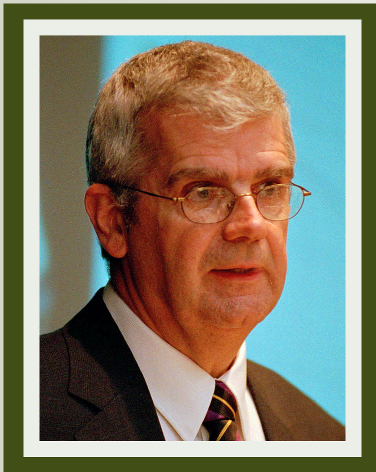

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He has been a leading contributor to the emerging literature on Austrian macroeconomics, the theory of the business cycle in particular. He is an adjunct scholar of the Mises Institute and has written for the *Quarterly Journal of Austrian Economics* and the *Review of Austrian Economics*.

Many of his articles and reviews can be read at **http://www.auburn.edu/~garriro**; he can be reached via email at **garriro@auburn.edu**.

A Report by Roger W. Garrison

LSE's First Hayek Visiting Fellow

IT WAS MY PRIVILEGE to be the first Hayek Visiting Fellow at the London School of Economics. The five-week visit during May/June 2003 was co-sponsored by LSE and the Ludwig von Mises Institute. It was hosted by STICERD (Suntory and Toyota Centers for Economics and Related Disciplines), which occupies the top floor of LSE's Lionel Robbins Building. STICERD Director Tim Besley, together with staff members Angela Swain and Kate Perry provided a comfortable office, office supplies, and essential support. The collaboration was arranged by Toby Baxendale, an LSE alum and London businessman.

My official duties were to conduct three seminars—on successive Tuesdays (May 27, June 3, and June 10)—and to deliver LSE's first Hayek Memorial Lecture on the evening of June 5. Stemming from these activities, however, were a number of other opportunities and developments, including a visit to No. 10 Downing, a meeting with Lord Skidelsky at Westminster's Millbank House, an article in *amagi*, the journal of the LSE Hayek Society, an interview for *Enclave* and for internet outlets, and more. Together the events of these five weeks were a step forward toward regaining the visibility of the Austrian School in an institution where the School once thrived.

PRE-PUBLICITY IN AMA-GI

A few months before my May/June visit, I received a request for an article from Shaun J. Mathew, editor-in-chief of the student-run *ama-gi*, the journal of the LSE Hayek Society. Mr. Mathew emphasized the strategic significance of my having a piece in the spring issue of the journal, which would be in print just before my arrival at LSE. Though the deadline for submission for that issue was fast approaching, I was able to prepare and submit a short article intended to anticipate the message in my Hayek Memorial Lecture, itself still in the preparation stage. I chose the title "F.A. Hayek as 'Mr. Fluctooations': In Defense of Hayek's 'Technical Economics'." Here I was able to give play to the irreverent-yet-endearing nickname by which LSE students in the 1930s knew the premier Austrian business-cycle theorist, while defending the theory that in recent years has come to be dismissively dubbed "Hayek's technical economics."

The group that attended was an enthusiastic one—with participants from other institutions and even from other countries.

THREE SEMINARS

The seminars were held in STICERD's seminar room near the front entrance to its fifth-floor offices. There was no reliable way of anticipating the number of participants and their backgrounds. Accordingly, I delivered a summary statement in my first seminar—using a modified version of my PowerPoint presentation of capital-based macroeconomics. This graphical presentation draws heavily from the core chapters (Chs. 3 and 4) of my *Time and Money: The Macroeconomics of Capital Structure* (Routledge, 2001). I was aware that my late-spring visit coincided with LSE's annual testing period and hence that attendance at all extracurricular events would be limited. The group that did attend, however, was an enthusiastic one—with several participants from other institutions and even from other countries. And I couldn't help but notice that almost every participant came into the seminar room carrying a copy of *Time and Money*. Though gratifying, knowing that they all had read or were reading my book made me wonder just what I could tell them in the seminar.

As it turned out, the presentation was well received, as indicated by the discussion that followed and by the next day's e-mail. Hubert Strecker, who had come from the University of Copenhagen to attend the seminar, wrote that although he had read Chapters 3 and 4 of my book, the seminar gave him some new ideas about capital-based macroeconomics. He returned from Copenhagen for the second and third seminars and visited me in my office after the final lecture to discuss aspects of my book that were of special interest to him. Mr. Strecker had chosen the Austrian theory of the business cycle for his thesis topic.

Another participant, Ms. Krisztina Majoros of the University of Miskolc (Hungary), was doing research on Tibor Scitovsky, who was a student at LSE when Hayek and Keynes (of King's College, Cambridge) were vying for the attention of promising students. I was able to call her attention to an interview with Scitovsky published by David Colander and Harry Landreth in their *The Coming of Keynesianism to America* (Edward Elgar, 1996). Scitovsky's reaction to the Austrian theory was typical: "Hayek was the only member of the faculty to have an explanation for the depression; but his two books on the business cycle seemed too convoluted and confusing to carry conviction." Scitovsky was looking for "an altogether new and different approach" and soon found it in Keynes's *General Theory*.

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The Austrians have always had an uphill battle in conveying ideas about business cycles in a framework that incorporates the capital theory of Eugen von Böhm-Bawerk. Keynesian theory is easier to learn and comes with a full complement of policy prescriptions to boot.

The second seminar attracted the same group plus a few others. The objective in this session was to put Hayek and Keynes head-to-head in such a way that the critical differences in their respective macroeconomic frameworks became transparent. Abba Lerner, in an interview included in the Colander-Landreth volume, had pinpointed early on a key difference in terms of relative movements of consumption and investment: For classical economists [including Hayek], consumption and investment are alternative ways of allocating resources. The two magnitudes move in opposite directions under conditions of binding resource constraints. For Keynes, resource constraints are generally not binding and the two magnitudes move up and down together.

In *Time and Money*, this contrast takes the graphical form of movements along a production possibilities frontier (for Hayek) and movements away from and toward the frontier (for Keynes). Here we have a contrast between an economy that can accommodate changing market conditions and an economy that is inherently dysfunctional in the face of any change. The analytics underlying this contrast entail a capital structure whose temporal profile can be altered (Hayek) and a capital structure for which only the degree of utilization can vary (Keynes).

My two-step graphical exposition consisted of (1) showing how the economy would work under the restrictive and debilitating Keynesian assumptions and then (2) relaxing these assumptions to let the dysfunctional Keynesian economy morph into a fully functional Hayekian economy. The intent was to make the participants wonder why Keynes had omitted from his theory the very market mechanisms that are essential for keeping production activities in line with consumption preferences. So presented, Hayek's theory—with Austrian capital theory in play—does not in the least seem convoluted, while Keynes's theory, with no capital theory at all, seems eviscerated.

The third seminar, which dealt with monetarism and subsequent developments in macroeconomics, gave me an opportunity to respond to questions raised in earlier sessions or submitted to me by e-mail. Andy Denis, a faculty member of London's City University, had wondered if Hayekian theory could properly be considered to be macroeconomics. Citing page 293 of Keynes's *General Theory*, Professor Denis asked if the Austrians reject the conception of macroeconomics as "the Theory of Output and Employment *as a whole*"? Here was a chance to deal with the status of macroeconomics in Austrian economics and to say something about the issue of aggregation. The Austrians use the term macroeconomics to refer to a set of substantive issues—to economywide

> Hayek's theory—with Austrian capital theory in play—does not seem convoluted, while Keynes's theory seems eviscerated.

phenomena such as inflation, deflation, widespread unemployment and business cycles. Keynes's "output as a whole" and the constituent aggregates of consumption and investment had a claim on his attention because of their perverse movements in circumstances of changing market conditions.

For instance, an inclination on the part of income earners to save more sends output and employment spiraling

downward until actual saving is brought into balance with some given level of investment. The economy's one-dimensional measure of performance (output) is at the same time the adjustment mechanism that keeps saving in line with investment. To conceive of macroeconomics as the theory of this measure-of-performance-*cum*-adjustment-mechanism is virtually to build perversity into macroeconomics at the definitional level.

I was pleased to go on record with the story of the origins and subsequent exhumation of Milton Friedman's "plucking model."

Also, the suitability of the chosen macroeconomic aggregates comes into question here. Keynes operated at a level of aggregation where he could see a big problem (the difficulty of coordinating saving and investment) but could not see any nonperverse market solution. As an essential *stratagem* for countering Keynes, the monetarists *increased* the level of aggregation, effectively covering up the problem by giving little or no play to the constituent aggregates of consumption and investment. Consumption (C) and investment (I) were simply combined into aggregate output (Q), which then appears in the monetarists' equation of exchange (MV=PQ). The absence of capital theory in monetarist thinking precluded any satisfactory understanding of the issues raised by Keynes. The Austrians have always insisted on a *decreased* level of aggregation—with the investment aggregate made up of temporally sequenced stages of production. Their aggregation scheme is more appropriate to the problem at hand. It allows them to see both the problem emphasized by Keynes and a nonperverse market solution to that problem.

AN INTERVIEW FOR ENCLAVE

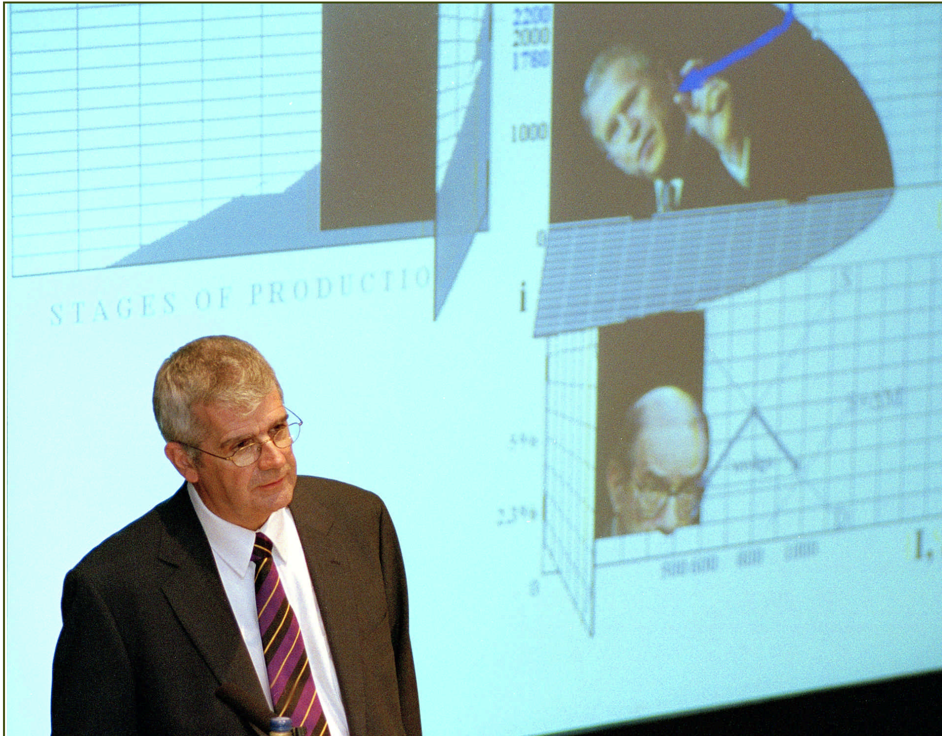
Massimiliano Neri, a Ph.D. student at the University of Madrid, contacted me early in my LSE visit. A native Italian, he is now studying in Madrid under Professor Jesús Huerta de Soto. His background, like mine, is in engineering. (His early academic and work experiences were in computer engineering; mine were in electrical engineering.) By way of introducing himself to me, he indicated that he had read *Time and Money* before taking any coursework in macroeconomics and hence "without being conditioned by the neoclassical approach." In my view, his background, his introduction to macroeconomics, and his academic goals make him a virtual one-of-a-kind reader of my book. Massimiliano flew to London from Madrid for the first seminar after having made arrangements to conduct an interview with me during his short visit. I was all too happy to oblige.

We spent an hour or so in my office. Our question-and-answer session, which I very much enjoyed, was all recorded for later transcription and editing. A week or so later Massimiliano sent me the edited transcription for further editing by me. I was pleased with the result and especially pleased to go on record with the story of the origins and subsequent exhumation of Milton Friedman's "plucking model"—his graphical description of movements in aggregate output and employment which are supposedly telling against the Austrians.

Massimiliano is preparing the interview for posting in both English and Italian on two web sites; US Equity & Macro LAB and Liberanimus Institute and is pleased to have it posted on the Mises Institute's site as well. An Italian translation of selected portions of the interview along with Massimiliano's account of the seminar series will appear in *Enclave*, a prominent Italian libertarian magazine.

LSE'S HAYEK MEMORIAL LECTURE

The Big Event of the five-week visit was the Hayek Memorial Lecture, scheduled for June 5 at 6:00 p.m. in LSE's Old Theatre. I had drafted a text before my departure from Auburn. Advertised as "Hayek's Contributions to Economics," the lecture as originally conceived by me was to survey the range of Hayek's theorizing (about the price system,



capital and interest, and money) and then to discuss in a little more detail his theory of business cycles. Shortly after arriving at LSE, I learned that Willem H. Buiter, of the European Bank for Reconstruction and Development, was to deliver a lecture titled "Deflation: Prevention and Cure" in the Old Theatre. I attended that lecture—not so much to learn about deflation as to see about the theatre. (The "cure," of course, was to print lots of money.) As I had imagined, the Old Theatre was cozy and had character. There was a high stage, a large balcony, and comfortable seating for an audience of about 400. I also noticed that there was quality audiovisual equipment, including a very large screen with rear projection. It would be a shame not to make some use of that.

I began thinking about using some photographs of Hayek, some of which I had taken in the 1970s while Hayek was in residence at the Institute for Humane Studies in Menlo Park, California. A few days later I went to lunch with Tim Besley, Toby Baxendale, and Reggie Simpson. (Reggie, who was from LSE's Office of Development and Alumni Relations, looked after every detail during the planning phase of the June 5 events, which included not only the lecture but also a dinner in the Senior Dining Room with 16 invited guests.) I mentioned to Toby that I had prepared my lecture but that I might want to use the large screen for photographs. Toby seemed a little surprised, saying that surely I would use the screen for the graphical treatment of Hayekian macroeconomics, which forms the core of my book. "That's your contribution, isn't it?"

I had been hesitant to incorporate the graphical exposition into the lecture, thinking that the evening audience might not warm up to the macro-analytics of the business cycle. But with Toby's encouragement, I scrapped most of my prepared lecture and began to rewrite around the graphics. I pared down my PowerPoint file, replacing most all of the explanatory notes with pithy Hayek quotations and paraphrasings. I added some photographs of Hayek—and of Keynes—to help keep the story straight. I left in the few cameo appearances of Clinton, Bush, and Greenspan that had always worked well with Auburn students.

I attended a lecture titled "Deflation: Prevention and Cure" in the Old Theatre. The "cure," of course, was to print lots of money.

Though radically changed, the lecture still fit the title pretty well—since most all of Hayek's contributions to economics come together in the Mises-Hayek theory of the business cycle. I mentioned to several people about how I had changed my lecture plan and was warned by a few not to confront this audience with graphical analysis. But it was too late.

I had to deliver a final copy of the PowerPoint file to the audiovisual people several days before the lecture. At that point there was no scope for changes of any kind.

On the evening of June 5, I arrived at the Old Theatre a little early to meet Tony Giddens, the widely known sociologist and the Director of LSE. He was to do the introduction. I was pleased to see that an audience was arriving, too. Though the lecture was well publicized, none of us had any idea of just how many might actually choose to attend this first Hayek Memorial Lecture. By six o'clock, the auditorium was filling up. Some 300 to 350 people, it turned out, had an interest in hearing about Hayek.

Capital theory, differential interest-rate effects, and real, live entrepreneurs make Keynesianism morph into Austrianism.

Professor Giddens was a gracious host for the evening. In his introductory remarks, he oversold the lecture in a humorous way and then focused the audience's attention to the dispute between Hayek and Keynes, quipping in a muted voice that he would probably come down on the side of Keynes. Unknowingly, he set himself up for a mild chiding: I expressed enthusiasm for being invited to give a lecture on LSE's star professor of the 1930s and 1940s and then complained that the Director had scheduled this Hayek lecture on Keynes birthday! But I couldn't mention that coincidence of dates without also mentioning that Keynes shared his birthday with none other than Adam Smith—which allowed me to segue back to Hayek.

The audiovisual aspects came off without a hitch. And the message was well received. It was not difficult to establish that Keynes saw no way for the market to work. Increased saving would not finance increased investment but rather would send the economy into recession. The attempt to save would be aborted in the face of decreasing incomes. Keynes's paradox of thrift was a profound denial of even the possibility that the market might coordinate the plans of producers with the decisions of savers. Hayek showed just why Keynes "saw no way": he had no capital theory. We have to add Bohm-Bawerk's capital theory, allow for differential interest-rate effects within the capital structure, and acknowledge the existence of real, live entrepreneurs. These are the amendments that make Keynesianism morph into Austrianism.

With this audience, putting the Hayekian graphics through their paces as the story was told had the intended effects. It was easy to come down on the side of Hayek. The economy is sent into recession not by some ill-fated attempt by workers to save more but by an ill-advised attempt of the central bank to stimulate more growth than savers are willing to finance. Further, the central bank's attempts to reignite the boom after the bust has come is more likely to postpone a genuine recovery than to hasten it. If Keynes won the day against Hayek, it was because of the

political popularity of his policy prescriptions and not because of the cogency of his theorizing.

Brief discussions with members of the audience immediately after the lecture were gratifying. The various reactions made me realize just how diverse the audience was. One gentleman wanted to discuss further Keynes's and Hayek's views on interest-rate theory—and we did discuss that issue in a subsequent exchange of e-mails. One woman (I regret not getting her name) expressed great pleasure in hearing my lecture and then told me she was a student of Hayek and Robbins in 1947. One young Hayek enthusiast, who I later learned was Espen Bardsen, a Norwegian professional football player who played 1st class football for the London team Tottenham Hotspurs (Premier League) and played for his country in international competition, handed me a copy of a recent Federal Reserve document titled "Monetary Policy in a Zero-Interest-Rate Economy." It was a strategy paper that addressed the prospects of the Fed's adopting extraordinary means in its efforts to stave off a deflation.

The dinner that followed in the Senior Dining Room was a memorable event for me. The guest list included Ken Minogue, LSE Professor of Politics, and Razeen Sally, LSE Senior Lecturer in International Political Economy. Professor Sally had recently written an article for *ama-gi* on "Hayek and the International Order." Ralph Raico, who wrote under Hayek at the University of Chicago and is now Professor of European History at the State University of New York, had flown to London for the occasion. Also in attendance was Sven Folkesson, President of the LSE Hayek Society. Tony Giddens moderated a lively discussion among the diners, and I was made to feel that Hayekian ideas were back in the air at LSE.

A VISIT AT NO. 10 DOWNING

On the day after the Hayek Memorial Lecture, I received a number of e-mails, some with questions about Hayek's macroeconomics and some just expressing appreciation. Most surprising and gratifying, however, was a message from Derek Scott, who had listened to the lecture from the balcony. Mr. Scott is an LSE alum and now economic advisor to Tony Blair. I was unaware that he was in the audience. He was clearly taken by the Hayekian ideas, describing the lecture as "a breath of fresh air." "I only wish that more people looked at the world through similar eyes," he wrote. The Prime Minister's advisor inquired about further lectures in the same vein and about the possibility of meeting with me at LSE. As an alternative, he invited me to pay a visit to No. 10 Downing. I phoned him immediately and arranged for a meeting on the following Thursday morning. As plans developed, Toby Baxendale was included in the visit.

Toby and I arrived at the Whitehall gate to Downing Street just before ten o'clock on the morning of June 12. We were admitted through the gate and then passed through a security checkpoint. Walking from security toward No. 10, we noticed a rather large gathering of photographers positioned just opposite the Prime Minister's front door. The presence of the media reminded Toby that June 12 was the day of Blair's cabinet "reshuffle"—which added a little excitement to our visit and, as things turned out, marked a significant change in the organization of the British government (see sidebar on page 9).

> I received an invitation from Derek Scott, LSE alum and economic advisor to Tony Blair.

Just inside the shiny black door, we waited for our host to come and collect us. He appeared shortly and led

us to a spacious room on the second floor. There Mr. Scott served coffee and the three of us talked for the better part of an hour. The primary focus was on current economic conditions in the US and the aggressiveness of the Federal Reserve. The artificial quality of the Fed-led boom that characterized the late 1990s had been made clear in my lecture at LSE. But what was the Federal Reserve doing now? And what would be the likely consequences?

Hangovers are not cured by the imbibing of more spirits. Hence, it does no good to provide more spirits at bargain-basement prices.

I had said in my lecture that trying to reignite an artificial boom is not a winning strategy. The US economy is still trying to recover from the excesses of the previous expansion. Some needed liquidation has taken place; more liquidation is undoubtedly in order. But the Federal Reserve's interest-rate aggressiveness retards the liquidation process: If a business firm has expanded its operation or otherwise committed capital to a venture that in retrospect seems marginal or even submarginal, why should it actually liquidate the investment if there is the option of carrying the investment forward at exceedingly low interest rates? The small interest costs may be more than offset by hopes—even by slim hopes—for improved market conditions. Toby could easily supply a reinforcing perspective from the business world: "Many businesses are overextended and just trying to hold on."

Given the uncertainty about future market conditions and the compounding uncertainty about Federal Reserve policy, business firms are unlikely to commit themselves to still more investment projects. Keynes's idea that businessmen don't respond to a reduction in the interest rate, though not a general truth, is actually true during a period of liquidation. Hangovers are not cured by the imbibing of more spirits. Hence, it does no good to provide more spirits at bargain-basement prices. The injections of credit by the Federal Reserve, not surprisingly, are stimulating consumption spending instead of investment spending. Cheap credit in the current circumstances also bolsters the demand for housing, creating a bubble in real estate. Homeowners refinance their mortgages and spend the windfall largely on consumption goods.

(Ironically, some critics of the Mises-Hayek theory have seen this development as evidence against the Austrian view—since it seems to be consumption and not long-term investment that's getting a boost from low interest rates. Of course, the consumption binge, induced by the Federal Reserve in vain hopes of reigniting the boom, is neither a refutation of Hayek nor a symptom of genuine recovery.)

What struck me during the visit at No. 10—and I hope it struck Mr. Scott, too—is that the story as told by an academic economist and as told by a real live entrepreneur/businessman were in perfect harmony. I've become aware over the years that this is a characteristic of Austrian economics that cannot be matched by other schools of macroeconomic thought. Hayek's ideas ring true in the financial and business community in ways that the "rational expectations" of new classicism or the "menu costs" of new Keynesianism do not. Credit expansion gives us an artificial boom. Rock-bottom interest rates after the bust forestall a genuine recovery. The Federal Reserve's near-phobic resistance to any price or wage decreases reflects its resolve not to repeat the blunders of the 1930s. But avoiding a deep depression has gotten translated into precluding a timely correction. The Fed, in effect,

is trading depth for duration. The shallow recession drags on.

We made it clear that in the final analysis the Austrian theory suggests banking reform and not just some alternative policy prescription for adjusting interest rates. The reform measure currently on the table in Britain would be a dramatic one. Britain could join the Eurosystem, the Bank of England relinquishing key powers to the European Central Bank. Mr. Scott put into perspective for us the recent choice by Tony Blair to postpone for now making any decision to abandon the pound for the euro. The implications of Austrian theory about the advisability of Britain's adopting the euro are mixed. Generally, Austrian economists favor reform in the direction of decentralization. Clearly, expanding the Eurosystem to include Britain would be a move in the opposite direction.

But, Austrian economists also favor putting monetary decisions in the hands of those least likely to use it for narrow political purposes. In recent years, the Bank of England has constrained itself to rule-following behavior—certainly more so than has the Federal Reserve. But in the past it has not been above using its discretionary powers to serve the interests of an incumbent administration. Nor is there any firm institutional check against such politicization in the future. It is worth pointing out that relinquishing control of monetary matters to the European Central Bank would effectively eliminate political business cycles—or, at least, ones with British origins. And without an accommodating central bank, the British treasury, like the treasuries

SIDEBAR: BLAIR'S CABINET RESHUFFLE

Coincident with our visit at No. 10 Downing was the arrival —in their ministerial cars—of virtually every member of the government. They had come for a Cabinet "reshuffle" meeting, during which the Prime Minister reshapes the government, hiring and firing Cabinet Ministers as he sees fit. Streaming through the door immediately behind us were the Deputy Prime Minister, John Prescott; the Foreign Secretary, Jack Straw; the Chancellor of the Exchequer, Gordon Brown; and the Lord Chancellor, Lord Irvine. Toby could easily recognize them all.

I remembered seeing recent coverage in a TV news segment of the Foreign Secretary together with Colin Powell, his US counterpart. We encountered these officials and others again as we walked with our host through a ground-floor reception area on our way to our meeting room on the second floor.

Just as we were concluding our meeting, a staff member appeared and announced that the Prime Minister would be using the room to conduct the reshuffle. As we exited down the stairs we observed the cabinet ministers all lined up like schoolboys to see head master. Later that day, we learned that Lord Irvine, The Lord Chancellor, was one of the casualties of the reshuffle and that, in fact, his whole office was abolished. The historical significance of this reform, pointed out to me by Toby, is amplified by the fact that the Lord Chancellor's office is the oldest in the United Kingdom.

The Lord Chancellor is the person who sits as head of the legislative branch and the judicial branches of the Crown. He is the highest paid member of the government, even higher paid than the Prime Minister. The only position of power he does not hold is that of head of the executive, which is held, of course, by the Prime Minister. The Lord Chancellor, however, sits in the Cabinet of the Executive, making for an ever-politicized judiciary.

The Lord Chancellor's office, 1,400 years old and the most powerful constitutional position in the state, was simply abolished on this June 12. It has always been assumed that the UK had a good separation of powers. In reality, however, the head of the judiciary and most senior legislative officer sat at the heart of government and in recent years was entirely a political appointee.

In one fell swoop, the Prime Minister struck down 14 centuries of constitutional history and tradition, replacing the office with a judiciary that sits entirely independent of politics. "Fair play Tony Blair," Toby opined, "a movement in the right direction for Liberty."

of the other euro-using countries, would be put on a shorter leash.

The downside of Britain's adopting the euro is the inherent problems of centralization. As is well known by seasoned Fed watchers, blunders committed by a central bank can have dramatic and far-reaching consequences. So, while the European Central bank is relatively well insulated from the narrow political interests of its euro-using members, those member nations are continuously exposed to the potential ineptness or miscalculation that tends to characterize any organization not subject to the discipline of the marketplace. In the end, this consideration, an implication of socialist-calculation debate, may be an overriding one.

Blunders committed by a central bank can have dramatic and far-reaching consequences.

A breakfast meeting between Toby Baxendale and Derek Scott subsequent to our June 12 meeting at No. 10 and after I had departed for the United States evidenced a continuing interest in Hayekian ideas and their implications for policy prescription and institutional reform.

A MEETING WITH LORD SKIDELSKY AT WESTMINSTER'S MILLBANK HOUSE

Macroconomists who take their cue from F.A. Hayek learn early on that they have to come to grips with J.M. Keynes. Robert Skidelsky, Professor of Political Economy at Warwick University (and currently on extended leave), has provided a great service to Austrian-oriented macroeconomists by bringing the original Keynes into sharp relief. His three-volume biography of Keynes is untainted by the potted versions of Keynesianism that have dominated the textbooks for decades—or by the new versions that trade on Keynes's name without incorporating any of his ideas. The reader of this biography and especially of the second volume, which deals with the *General Theory*, will feel it in his bones that Skidelsky gets Keynes straight. (We can only wonder if it helped that Skidelsky wrote the biography while living in Keynes's house at Tilton.)

High on my "must-do" list was a meeting with Professor Skidelsky. I was convinced that my own graphical rendition of Keynes's analytical framework in *Time and Money* is truer to Keynes than is the conventional IS-LM model or the Aggregate-Supply/Aggregate-Demand construction. My confidence in this judgment was bolstered when I read the second volume of Skidelsky's biography. My pictures go well with his story.

Near the end of my stay at LSE, I e-mailed Professor Skidelsky, hoping to make a quick trip to Cambridge for a visit. He replied promptly and indicated that he would be spending the following week in London and that he would be pleased to see me at the Millbank House. As instructed, I phoned his assistant and made arrangements for the visit.

Westminster's Millbank House, an ornate red-brick office building, overlooks Victoria Tower Gardens, which are adjacent to the Parliament building. I arrived there for my visit mid-morning on June 17. I was announced and was soon greeted in the lobby by Lord Skidelsky. We walked to a nearby dining room where we could have coffee and visit. Lord Skidelsky had been immersed in the study of the Russian language but was happy to take a break to talk macroeconomics.

I was pleasantly surprised to learn that he had read key portions of my *Time and Money*. And we seemed to be in substantial agreement about the fundamental differences between Keynes and Hayek. Lord Skidelsky

was able to add a human touch—maybe just a good biographer's touch—to the lingering question of why Hayek didn't review the *General Theory*: "He just wasn't up for another mauling by the Keynesians." By the time the 1936 book was in print, Keynes's coterie of disciples was well formed and ready to do battle with any and all nay-sayers. The vitriolic attacks that had been provoked by Hayek's earlier review essay on Keynes's *Treatise on Money* would undoubtedly have been replayed in spades. Keynes's far-reaching influence in both academic and political circles together with the politically attractive policy implication of his theory made the contest between Keynes and Hayek a very lopsided one.

I have always believed that understanding Keynes's views on the economy requires that we understand Keynes's view of himself. In his biography, Lord Skidelsky found it almost too obvious to mention that the title of Keynes's book was cribbed from Einstein. Calling it *The General Theory* was not intended to suggest, as some Keynesian scholars would have us believe, that the book is mostly about theory and not really about policy. Nor did the title signal an abandonment of Marshallian partial-equilibrium analysis in favor of some Walrasian or Casselian general-equilibrium analysis. Rather, it not-too-cryptically suggested just where the author of the *General Theory* stood in relationship to all other economists, living and dead.

When I returned to LSE, and with our discussion of Keynes and Einstein still on my mind, I pulled a copy of Skidelsky's *Volume II* from the shelf to remind myself that the significance of Keynes's title was actually well known at the time the book came out. Skidelsky quotes from Cecil Pigou's 1937 review: "Einstein actually did for Physics what Mr. Keynes believes himself to have done for Economics." Skidelsky has provided a double service here: A long-forgotten but telling insight has been revived, and the enduring value of keeping the history of economic thought alive has once again been demonstrated.

A FULL FIVE WEEKS

With an office on the top floor the building that also housed LSE's library, I was never at a loss for things to do—or at least for things to read. But I ventured out on the Lionel Robbins Building on many occasions. I attended a seminar conducted by Geoffrey C. Harcourt, a major player in the Cambridge Capital Controversies of the 1960s. I paid a visit to the Institute for Economic Affairs to renew a long-standing friendship with John and Christine Blundell and to hear IEA's Hayek Memorial Lecture, which was delivered this year by Bill Emmott, editor-in-chief of *The Economist*. And I made a pilgrimage to the British Science Museum in South Kensington to see the Phillips machine—a hydraulic analogue computer designed and built by A.W. Phillips in the late 1940s to demonstrate the economy's (Keynesian) response to parametric changes and policy actions. (STICERD had rescued this neglected Keynesian artifact from a basement at LSE, restored it, and donated it to the museum in the mid 1990s.)

I hope that in Austrian circles the year 2003 will be remembered as the year that Hayekian economics returned to LSE. Keynesianism there, like elsewhere, has become splintered into subschools, and mainstream macroeconomics in general seems to have no cutting edge. But LSE has good students, and it has an unequaled reputation for placing graduates in influential positions around the world. Other Hayek Visiting Fellows in the years ahead and possibly an ongoing Hayek program can turn the 2003 visit into the start of something grand. AEN

> "Einstein actually did for Physics what Mr. Keynes believes himself to have done for Economics."
> Cecil Pigou