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Language and Inflation

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Chapter 6
LANGUAGE AND INFLATION

6.I Introduction
Macroeconomic controversy is largely a tale of three cities - Chicago and the two Cambridges - or more accurately a tale of the cultures and policy prescriptions associated with those cities. In the four decades between the *General Theory* and the monetarist counter-revolution, economists were 'normally' distributed around orthodoxy (the Keynesian Neoclassical Synthesis, the ISLM model etc.) with the Chicago version of the Quantity Theory two standard deviations from the mean in the right tail, and the 'true believers' in Cambridge England an equal distance from the mean in the left tail. The preferred method of orthodox research involved 'formalist' tools (a label that can be stretched to include econometrics and Walrasian equations). Penetrating the veil of macroeconomics reveals some successful language revolutions at work.[1]

At the front of the formalist 'manifesto' is the statement that 'Mathematics is a Language' (Samuelson 1947, 1998); a sentiment echoed by Robert Solow (1954, 373-4): "an immensely powerful and efficient device or vocabulary for thinking about certain kinds of problems". Solow proposed a Darwinian survival procedure to supervise this language revolution: "the profession (or Natural Selection or Supply and Demand) will judge". The Chicago counter-revolutionaries also found a Darwinian "survivor technique" useful: "if I wish to know whether a tiger or a panther is the stronger animal, I put them in the same cage and return after a few hours" (Stigler 1988b, 108). They were also conscious of the language dimension:[2] in his seminal essay on methodology, Friedman (1953, 7) wrote that economic theory is, in part, "a language designed to promote systematic and organised methods of reasoning"; citing the authority of Alfred Marshall to strengthen the argument. Friedman's

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[1]. Sometimes economists are sloppy with their language - the *term* Non Accelerating Inflation Rate of Unemployment (NAIRU) has slipped a derivative - it is the price *level* which is supposedly non-accelerating; while inflation is merely non-increasing (Nickell 1990, 427, n27). It is surprising, in the formalist era, that such a confusion between a first and a second derivative should persist.

[2]. George Stigler - a perceptive Chicago sociologist of economic knowledge and the author of *The Economist as Preacher* - noted that "The attention to monopoly grew between the wars ... the word changed its meaning" (1988a, 92-4); he also made insinuations about the kinked demand curve - referring to it as 'The Kinky Oligopoly Demand Curve' (1947).

essay was "a marketing masterpiece" (Caldwell 1982, 173) and was "greeted with a sense of liberation" by empirical economists (Boylan and O'Gorman 1995, 17); it provided legitimacy for the project of focusing on the output - not the input - side of economic knowledge, a highly fruitful vehicle for research.

The sociologist Max Weber noted the tendency for intellectual opponents to avoid "the other's terminology as though it were his toothbrush" (cited by Haberler 1961, 40); Friedman was introduced to Weber through Frank Knight's seminars (Shils 1981, 181, 184). One of the reasons for Friedman's successful assault on orthodoxy was his determination to construct his arguments in the *language* of his opponents; although the word "cause" did not figure in his studies of the relationship between money and prices: "In my technical scientific writings I have to the best of my ability tried to avoid using the word"; preferring instead to use what he called "weasel words" such as "substantial", "rapid" and "roughly corresponding" (Friedman, cited by Hammond 1996, 3, 212). The contest between the radio stations, AM versus FM (Ando and Modigliani versus Friedman and Meiselman) involved torrents of econometric evidence which, if the R^2 was high enough, enabled both groups of partisans to claim that one variable *explained* another, thus settling macroeconomic controversy in "a strikingly one-sided way" (Friedman 1963b, 8; Desai 1981, 203). Friedman's disinflation rhetoric gradually became convincing to policy-makers, in part because of his polemical ability to combine it with a somewhat mythical 'oral tradition'. His ex-Chicago colleague Don Patinkin (1972, 884; 1969) began a *Journal of Political Economy* essay on 'Friedman on the Quantity Theory and Keynesian Economics' with those famous words from Humpty Dumpty: "When *I* use a word it means just what I choose it to mean - neither more nor less ... The question is which is to be master - that's all".

Friedman skilfully blended this oral tradition with orthodox and high-status language (income-expenditure, IS-LM, money demand, econometrics and Walrasian equations); despite being sceptical about the relationship between that language and the underlying structure of the economy. As a prelude, Friedman, with his "Ruthless Concentration", influenced the "talk" of economists before he influenced their language: "Although only a small minority of the profession is persuaded by his opinions, around any academic lunch table on any given day, the talk is more likely to be about Milton Friedman than about any other economist" (Solow 1964, 710-1).[3]

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[3]. It wasn't just 'Nutters' who were influenced by this "peculiar Chicago madness" (Desai 1981, 2); but Warren Nutter (who had been Friedman's first dissertation student) en route to a seminar at Rochester, changed the title of his paper from 'The Fallacy of the Coase Theorem' to 'A New Proof of the Coase Theorem', solely because of the persuasiveness of the arguments presented by his travelling companion, Milton Friedman (Stigler 1983, 227; Rose Friedman 1976 (9), 28).

Many Chicago economists objected to the words 'macroeconomics' and 'microeconomics', preferring instead the language of monetary and value theory (Stigler and Friedland 1975, 478, n1). National Bureau of Economic Research methods had twice been the "foil" for econometric revolutionaries; first the Cowles Commission, later Hendry's British econometrics (Hammond 1996, 207; Hendry and Ericsson 1991). Friedman had earlier been a persistent and observant critic of the Cowles Commission project during its stay at Chicago. The influence was two way - the 'Friedman critique' contributed to the 'retreat from structure' at Cowles; in 'The Probability Approach to Econometrics', Haavelmo (1944, 43) argued that the question "is not whether probabilities exist or not, but whether - if we proceed *as if* they existed - we are able to make statements about real phenomenon that are correct for practical purposes" [emphasis added]. Friedman (1950, 489) defended the NBER-Mitchell research strategy by arguing that it was a matter of "language rather than substance ... [Mitchell's] theoretical discussion can readily be translated into current jargon".

After 1956, Friedman led the revolt against Keynesian orthodoxy; organised around the twin themes of the *natural* - a highly persuasive word - rate of unemployment, ground out by the Walrasian equations; and the *historic* - that is, highly persuasive - and exploitable relationship between money and prices. This money-prices nexus was a universal, inter-temporal, pan-cultural constant: a uniformity stronger than any other in the science of economics, possibly "of the same order as many of the uniformities that form the basis of the physical sciences" (1969, 67).[4] Accused by Harry Johnson (1971) - whose alcohol consumption was legendary - of "scholarly chicanery" in the process of promoting his counter-revolution, Friedman (1975 [1973], 3) invested the natural rate of unemployment with the mantle of sobriety. Only a temporary alcohol-like euphoria could be purchased below the natural rate; followed inevitably by the unpleasant 'hang over' of disinflation, as unemployment had to be elevated above the natural rate to effect a 'drying out' cure.

According to Stigler (1988a, 33-4, 154), Friedman "dominated the work in macroeconomics between 1960-1975 ... His attacks on the Keynesian system ... were the centre of controversy among economists ... he controlled the Cambridge universities and Yale. They were devoting much of their efforts to seeking to refute what he had recently written ... he is quite talented in outraging his intellectual opponents, who have accordingly devoted much energy and

4. This was the "day of the rationally designed econometric studies" (Solow 1957, 312), and later, mark-two monetarists would add *rational* expectations; inviting their opponents to embrace irrationality. There is also appeal in a *real* theory of the business cycle and a *real* Phillips curve.

knowledge to advertising his work".[5] The word "monetarism" became an evocative (almost Manichean) label: the British "majority view bases itself on the axiom 'monetarism' = Milton Friedman = 'the Treasury View' = utter nonsense; in the same circles, incidentally, the corollary is 'Keynesianism' = incomes policy" (Johnson 1978, 126). Friedman (1968, 15), a Marshallian, used the general equilibrium equations of the Walrasian system to argue that unemployment targeting is "like a space vehicle that has taken a fix on the wrong star. No matter how sensitive and sophisticated its guiding apparatus the space vehicle will go astray".

Partly because of Friedman's crusade, it is probably the case that more macroeconomic ink has been spilt over the origins of inflation than virtually any other topic. But one of the prime causes of inflation is reasonably straight-forward - its toleration by politicians, policy-makers and advisers. For reasons that are perfectly understandable, a group of (mainly) Western Cambridge Keynesian economists became convinced that inflation could be tolerated because it was perceived to be associated with sustainably low rates of unemployment. Invoking the name and authority of Phillips (the designer and builder of possibly the first physical macroeconomic model), a brilliant collection of economists (including five future Nobel prize winners, Paul Samuelson, Robert Solow, James Tobin, Lawrence Klein and Franco Modigliani) constructed and popularised the Keynesian Phillips curve, which in many ways was a misinterpretation of the work of both Keynes and Phillips (Leeson 1997a, 1997b).
The two economists most closely associated with the 'precursor' to the Phillips curve trade-off were Alvin Hansen and Sumner Slichter (Leeson 1997d, 1997e). Both were highly influential Professors at Harvard; Hansen was the 'American Keynes' and the populariser of the IS-LM model; Slichter's *Modern Economic Society* was the first year textbook at both Harvard and Chicago (Samuelson 1996, 147); he also achieved great influence through his journalism.[6] Both objected to the implications of the *word* 'inflation'.

In the same year as Phillips' famous curve, the Committee for Economic Development asked a variety of academic economists and industrialists to address the 'Most Important Problems' facing the United States. Hansen (1958, 110), Slichter (1958, 83) and Samuelson (1958, 63) made almost identical predictions: inflation was unlikely to be a problem over the following two decades. In contrast, Friedman (1958, 87) made a contrary prediction, and Hayek used his understanding of inflationary expectations to predict that "those who believe that we have solved the problem of permanent full employment are in for a bad disillusionment" (1958,

[5]. Stigler (1962, 71) objected to the term 'Chicago School', preferring instead to describe Friedman as "the leader of the Berkeley-Cambridge axis".

[6]. Hansen was ranked 20th, and Slichter 39th, in the list of most frequently cited economists, 1925-1969 (Stigler and Friedland 1979, 12).

53-4; see also Jacoby 1958; Haberler 1958). The retired Chairman of Inland Steel described his own personal experiences of "the whole mad process" of inflation: "It is little wonder that professional economists are baffled by its impact ... the man who runs the factory knows the truth". This became in part a linguistic argument: "The outward manifestation of what is wrong with our economy is expressed by the word inflation" (Randall 1958, 57-8).

In contrast, Samuelson (1958, 63-4) in a subsection on 'The Irrelevance of Galloping Inflation', thought it "almost a play on words" to discuss these types of inflation in the same breath as other types of inflation. Samuelson acknowledged 'natural rate' forces: "after the inflation has been going on so long as to be obvious to everyone, many of its possibly beneficial effects - expansionary pressure on physical output and employment etc. - tend to disappear as people make adjustments to it"; he also highlighted what he regarded as the paradox of contemporary policy choice: "to increase the now-negligible probability that American adults will within their lifetime experience hyper-inflation, you would have to preach extreme fiscal and economic orthodoxy - whose future consequences might then set the stage for a breakdown of American society and for an ensuing galloping inflation ... I fear inflation. And I fear the fear of inflation".

Two decades after the Hansen-Slichter-Samuelson prediction, another word, 'Stagflation' was added to the language. It coincided with public perceptions about the competence of economists which were, to put it mildly, inflamed. This essay provides an unusual perspective on this issue. It seeks to contribute to the project of unravelling the process by which this judgement became influential amongst economists and policy-makers; and to provide insights into the reasons for the demise of Old Keynesian economics. Section 6.2 offers a brief background discussion of the sociology of economic knowledge literature. Section 6.3 examines the rhetoric of inflation, and concluding remarks are provided in section 6.4.

6.2 The Sociology of Economic Knowledge

All the Nobel Laureates mentioned above are, in one way or another, Charles River economists: Samuelson, Solow and Modigliani are at MIT; Klein's Ph.D, *The Keynesian Revolution*, was supervised by Samuelson; and Tobin was a student and staff member at Harvard. All were closely involved with the development of the Keynesian Neoclassical Synthesis and the trade-off interpretation of the Phillips curve. The Great Depression of the 1930s spawned a new sub-discipline, macroeconomics; the Great Inflation of the 1970s became the 'King Charles' head' of a professional civil war and ended the Old Keynesian era. It delivered policy influence to Friedman and his associates; virtually creating a new sub-discipline in economics - the sociology of scientific knowledge (Hands 1994, 75; Boylan and

O'Gorman 1995, 9). Methodological disputes were not altogether uncommon before that time, but they were given a great boost by the disrepute into which economic forecasts (often derived from Phillips curves) had fallen.

Those who seek influence among economists have always, by necessity, developed a keen awareness of the nature of knowledge creation and dissemination. This was, I think, the reason Keynes opposed econometrics - he thought it would have a bad influence on the way economists was manufactured. Individual economists, most notably A. W. Coats (1993), have devoted substantial portions of their professional lives to these sociological themes; and it may be as a sociologist of economic knowledge that Harry Johnson is remembered long after his other contributions have ceased to arose professional interest (see Johnson and Johnson 1978).[7] But it apparently required the 'paradigmatic crisis' engendered by the inflation of the 1970s, to stimulate the appearance of what can genuinely be called a sub-discipline within economics.

The 'rhetoric revolution' has been seminal (see, for example, Backhouse 1994; Boylan and O'Gorman 1995) and it is now academically respectable for economists to analyse *Economics as Literature* (Henderson 1995). McCloskey's (1986, xi, 8-9, 4, 7, 18-19) work was inspired by the years (1968-1980) he spent at Chicago (years which overlapped with the successful period of the monetarist counter-revolution), and by his despair over the "unreasonable dogmatism of both sides of any debate involving Chicago". Modernism and scientism were, in part, derived from the Chicago School, and the arguments of Friedman's methodology "come readily to [the] lips" of American economists. But this modernist "crusading faith" had "hardened into ceremony", producing "many crippled economists". The "official" formalist modernist methodology was oppressive; besides, the anti-Keynesian revolution was a "nonmodernist victory for monetarism".

Thomas Kuhn (1970 [1962], xi) figures prominently in the early development of this literature; as does Western Cambridge: "It was James B. Conant, then President of Harvard University, who first introduced me to the history of science and thus initiated the transformation in my conception of the nature of scientific advance". In his *Guide to Keynes*, Alvin Hansen (1953, 6) cited from James B. Conant's (1947) *Understanding Science*: "As

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[7]. Just before his death, Johnson was working on 'The Role of Networks of Economists in International Monetary Reform' (Kindleberger 1978, 26). In a letter to the editor of *Minerva* accompanying what may have been his final paper, 'The Shadow of Keynes', he wrote that he was "getting into something deep - the causes of the decline of academic departments" (1977, 202); "I am really after something complex - what causes the decay of academic excellence" (Shils 1977, 85).

Professor Conant has aptly put it: 'It takes a new conceptual scheme to cause the abandonment of an old one'. Men strive desperately 'to modify an old idea to make it accord with new experiments'. Facts alone will not destroy a theory".[8] Conant (1970, 440-1) was also placed under pressure during the McCarthy period by those in the business community for whom Keynes' name was "the proverbial red rag ... to accuse a professor of being a Keynesian was almost equivalent to branding him a subversive agent". The Cold War, and the Nixon-McCarthy threat were an important backdrop to the process by which economists began to see merits in ongoing inflation (Leeson 1997d).

Hansen was a self-conscious revolutionary: "often called the American Keynes. But the title does not do him justice" (Samuelson 1975a, 43). As Tobin (1976, 32) put it, "no American economist was more important for the historic redirection of United States macroeconomic policy from 1935-1965 ... the principal intellectual leader of the Keynesian conquest". Tobin also noted that "The channels of Hansen's influence were indirect". So too did Samuelson (1975b): "It is no exaggeration to say that his disciples dominated the World War 11 Washington ideology in economics. We live in the world Hansen helped create" - a world perceived in and through language.

6.3 Keynes and Western Cambridge

Keynes' influence rested, in part, on his highly persuasive literary ability: he complained that H. Stanley Jevons' use of words was "hardly to be excused even by a prolonged residence in Australia" (JMK XI [1910], 508). He warned the Macmillan Committee that "it is very short-sighted to use words which are supposed to have an abusive flavour, like 'inflation', for something which is the remedy for deflation - you can only begin to use the word 'inflation' in an opprobrious sense when you have got back to equilibrium and are thinking of financing an artificial boom by giving businessmen abnormal profits at the expense of the consumers, and financing your boom out of those abnormal profits" (JMK XX [1930], 131; XXI [1937], 404).

Keynes was the author of some of the most famous (and probably fictitious) words ever written about inflation: "Lenin is said to have declared that the best way to destroy the capitalist system is to debauch the currency ... Lenin was certainly right". Inflation made the world "so credulous of the unveracities of politicians ... [it has] made us lose all sense of number and magnitude in matters of finance ... the man in the street is now prepared to believe anything which is told him with some show of authority, and the larger the figure the more readily he swallows it" (JMK IX [1919], 57, 11; Fetter 1977). In Chicago, this dubious

[8]. Schumpeter made similar 'Kuhnian' observations in 1935-7 (Samuelson 1996, 163).

attribution to Lenin was repeated, without acknowledgement, to Keynes (Friedman 1962b, 39). In Western Cambridge, similar apocryphal words were invoked by the doyen of Keynesian to reduce the fear of inflation: "An elder statesman once said, 'Inflation is worse than Stalin'. The neo-classical synthesis, which insists upon the potency of monetary and fiscal programs, suggests that any inflationary pressures resulting from our needed defence *can* be offset - if there is a will to do so" [emphasis in text] (Samuelson 1958, 749). It was this confidence in the easy reversibility of the high inflation Phillips curve trade-off (and perhaps faith in the wisdom of the policy-makers) that undermined Old Keynesian economics.

The rhetorical debate about inflation was not new. The Treasury copy of Lloyd George's *We Can Conquer Unemployment* was defaced with the words, 'Extravagance, Inflation, Bankruptcy' (Clarke 1988, frontispiece). Ralph Hawtrey is associated with the inter-war Treasury View, against which Pigou and Keynes *et al.* campaigned. In his *Trade and Credit* Hawtrey (1928, 64) wrote that inflationism was "a derogatory term thrown at a school of thought by their opponents, as the term Christian was by the people of Antioch at a new sect ... The inflationist dog has been given a bad name". Richard Kahn (1933, 170), in his American multiplier article on 'Public Works and Inflation', noted that "as soon as recourse to the banking system is alluded to, the cry of 'inflation' is raised and fears are expressed as to the 'safety of the currency'; and the policy is probably doomed". Abba P. Lerner (1958, 258) advised the Joint Economic Committee that the use of the "condemnatory word inflation" could be extended to include "Repressed inflation ... a blacker name, and this seemed harmless even though it was something like calling an anti-Communist a certain kind of Communist". Keynes (JMK XXII [1939], 77) noted that one of the first acts of the wartime Ministry of Information was to ban the word 'inflation' from the popular press; and at least one economist sought to ban the word from academic discourse: "it seems wicked to use the word inflation ... to mean any rise in the price level ... It is respectfully suggested that economic scientists quietly or publicly drop the use of the word inflation" (Gifford 1962, 65, 73).

Robert Solow also used rhetorical analogies to reduce the general sense of apprehension about inflation. The reduction of unemployment, Solow (1964, 51) argued, needed "a policy of determined expansion". With respect to those who saw structural, rather than demand deficient unemployment Solow continued: "Like any fireman, when you are trying to put out a fire, you are not much helped by people who go around claiming that it is not really a fire but only the end of the world". Solow's (1970, 95) judgement was that "the current inflation has been inflated as a social problem". Paul Samuelson (1974 [1971], 378, 380), a self-confessed "Friedman watcher", informed the Joint Economic Committee that Friedman had failed to persuade the economics profession of the validity of his explanation of inflation: "one man and an untruth constitutes a crank". Manditory controls, Samuelson argued, could "help the inflation burn itself out".

Later, as the Keynesian View was burning itself out in the conflagration of inflation, Solow (1975, 31, 56, 62, 66) reflected that "inflation is a *substantial, sustained increase in the general level of prices* [emphasis in text]. The intrinsic vagueness of 'substantial' is harmless. One would not want to use a heavyweight word to describe a trivial rise in the price level; granted, it will never be perfectly clear where to draw the line, but neither can it be important *since only a word is at stake* [emphasis added]". The "trade-off school" had a reply to the "monetary school ... Is there something qualitatively different about 'double digit' inflation? By any algebraic standards, of course, the difference between nine and 10 is no larger than the difference between eight and nine ... There is no abyss, just potholes ... Inflation is their [the mixed capitalist economies] way of adapting to change. The unusually rapid rise in prices during the past year and a half may simply reflect the fact that the world has been called upon to absorb some unusually large changes. In that case, it will burn itself out".

James Tobin (1966, viii) also analysed the *rhetoric* of the dispute over inflation: "It is amazing how many reasons can be found to justify ... waste: fears of inflation, balance-of-payments deficits, unbalanced budgets, excessive national debt, loss of confidence in the dollar, etc., etc. This catalogue of financial shibboleths and taboos scares the confused layman out of a commonsense, pragmatic approach to economic policy ... Perhaps price stability, fixed exchange rates, balanced budgets, and the like can be justified as means to achieving and sustaining high employment, production, and consumption. Too often the means are accorded precedence over the end, and I am led to take up my pen to defend the basic objective of economic policy against it's spurious rivals". In an article entitled 'Growth Through Taxation', Tobin (1966 [1960], 87) advocated an unemployment target of not higher than 3 per cent.

In an obituary of his mentor, Alvin Hansen, Tobin (1976, 35) wrote that, "Hansen must have found irony in the 'new economics' label attached to the 1961-1965 revival of his central ideas, but he certainly rejoiced in the substance". It is illuminating to follow this trail back. In "The Generalised General Theory", John Hicks (1937, 159) concluded that "one cannot escape the impression that there may be other conditions [apart from the Slump Economics with which Mr. Keynes is largely concerned] when expectations are tinder, when a slightly inflationary tendency lights them up very easily". Alvin Hansen (1960, iv, 66, 25, 31, 23), the populariser of the IS-LM analysis argued, in his autumn 1959 Phillips Lectures, that the post-war average of unemployment of 5.1 per cent was "intolerably high". He warned against "the bugaboo of inflation". In earlier time periods, "the word 'inflation' was virtually unknown. Words, phrases, play a not inconsiderable role in popular psychology. You cannot frighten people out of their boots with the phrase 'high cost of living' ... 'Inflation' implies that something is about to blow up. And in fact much of the current discussion partakes, I fear, of something unpleasantly akin to hysteria ... We should stop trying to scare the wits out of people about the inflation issue. Fortunately the public puts little stock in this alarmist talk about the 'tinder of inflation lying all around us'. The inflation problem can be made and is being made into a powerful propaganda argument against increases in government expenditures ... ".

Hansen (1960, 4) had seen a draft of the "Samuelson-Solow schedule" prior to the 1959 American Economic Association meeting, and it was these two Cambridge economists - a generation younger than the septuagenarian Hansen - who launched the Phillips curve trade-off which appeared to imply that ongoing inflation could be tolerated. Hansen's Lectures were entitled *Economic Issues for the 1960s,* and by the end of that decade, inflation had become a central issue in the debates between Keynesians and Monetarists. But Alvin Hansen was quite legitimately analysing the use of language, or rhetoric, in a way that Donald McCloskey - a quarter of a century later - would recommend as an antidote to the sometimes 'Nasty Tone' of the (apparently) modernist Keynesian-Monetarist debate.

1948, or thereabouts, was a watershed year for perceptions about inflation, at least for a few highly-placed economists at Harvard and MIT. Before that time it was almost universally accepted that inflation was an unmitigated evil. As Raymond J. Saulnier (1963, 21-2, 27) - harking back to lost certainties - put it, "there is no alternative to anti-inflationary policy. Anti-inflationism is the first imperative of economic policy. No other policy will work. No other policy is viable". The reason that the 1946 Employment Act did not include price stability as a separate goal of economic policy was that it "was too obvious to have commanded special attention". The reason for this emphasis on anti-inflation was that as "an inflationary psychology spreads and deepens ... employment declines; unemployment rises; incomes are reduced". Saulnier was describing the prevailing consensus in the economics profession prior to the late 1940s; in addition to offering a Cassandra-like warning of what was in store only a few years after he wrote.

Other economists in the 1950s, were, with the best of intentions, forming different judgements. It seems that these perceptions were incubated largely in Cambridge, USA. John Lewis (1959, 312, 172-3, 163), for example, who would later be a member of President Kennedy's Council of Economic Advisors (and who had been trained at Harvard) wrote that inflation "is emphatically not the most critical national problem of our time ... There is no need at all, in short, to assume that ... the problem [of inflation] is going to explode in our faces ... the alarmist posture seems like the responsible, tough minded one. More and more, however, I am drawn to Professor Slichter's conclusion that we are conjuring up unnecessary nightmares when we take this line". Richard Musgrave (1996, 194) was at Harvard between 1934-81;[9] but he learnt about inflation as a child after World War One: "it was so drastic that any later inflation seemed hardly worthy of the name".

Keynes and almost all leading academic economists in the inter-war period advocated *re*flation to mitigate the Great Depression; he was a consistent opponent of ongoing *in*flation. But Keynes perceived of what can be described as a positively sloped 'Phillips curve', as inflation took off (Leeson 1999b). But the Keynesian Phillips curve trade-off implied otherwise. This enabled Friedman (1970, 209-210) to complain that Keynes paid only "lip service" to the problems of inflation: "At 'full' employment, [Keynes] shifted to the quantity-theory model and asserted that all the adjustment would be in price - he designated this a situation of 'true inflation'. However, Keynes paid no more than lip service to this possibility, and his disciples have done the same ...". It was the *perception* that inflation had, for Keynesians, become merely a word to frighten the cautious, therefore requiring only "lip service", which ended the Old Keynesian era.[10]

6.4 Concluding Remarks

Those who advocated that there would be benefits associated with creeping inflation were self-conscious of the *rhetoric* conjured up by the image of inflation (although Samuelson, Solow, Tobin, Hansen etc. were leaders of the modernist-formalist revolution - the dominance and pretensions of which would be a prime target for the leaders of the 'rhetoric revolution'). A parallel debate about language and inflation in the inter-war period provides another link to Keynes and the formalist revolution: "The quality common to the Mandarins was inflation ... it was this inflation which made an inevitable reaction against them ... The mass attack on the New Mandarins was launched in the late twenties. By that time these had squandered their cultural inheritance for their inflationary period coincided with the Boom and their adversaries came into their own with the Slump ... deflationary activities of the Cambridge critics ... had replaced the inflationism of Bloomsbury" (Connolly 1983 [1938], 55, 58, 73). Inflation and language had become entwined in a *literary* dispute between the Cambridge deflationists (including F.R. Leavis) and the inflationary Mandarins of Bloomsbury.

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[9]. With a 17 year gap between 1948-65.

[10]. This perception is grossly unfair to Keynes, and somewhat unfair to the Old Keynesians.

Keynes was, of course, intimately connected with both Eastern Cambridge and Bloomsbury (Mini 1991). One of his biographers wrote that Keynes "was linked to modernism through his membership of Bloomsbury ... Bloomsbury's aesthetic theory - in so far as it was expressed in the writings of Roger Fry and Clive Bell - located beauty not in the subject matter or 'narrative' of a work of art, but in its formal structure, intuitively apprehended; the shift from flow of narrative to flow of thought is the distinctive mark of Virginia Woolf's novels. A parallel shift towards formalism, or model building, was taking place in economics" (Skidelsky 1992, 407). Keynes, like Friedman, was an opponent of the modernist-formalist revolution that was sweeping the newly formed sub-discipline of macroeconomics; in his final posthumously published article, he bemoaned how much "modernist stuff, gone wrong and turned sour and silly is circulating" (1946, 177).

Keynes' personal magnetism was based, in part, on his "bewitching voice" (Hayek 1972 [1966], 99);[11] "an infectious semi-stammer" (Plumptre 1947, 367); "the incomparable sense of the fitness of words ... pure genius" (Robbins cited by Harrod 1951, 576). Those listening to his lectures were "excited beyond belief. There were a couple of points that he made in the second year that stuck with me. I can still feel the funny prickling-in-the-back-of-your-neck feeling when he mentioned them ... I figured, after Keynes, why should I bother reading things which were clearly wrong. I *had* [emphasis in text] to read some of Pigou's *Theory of Employment* [sic] because I knew it would be asked about on the Tripos, but I couldn't get myself interested in it, except to find stupidities" (Tarshis 1996, 60). An unnamed senior opponent (cited by Austin Robinson 1947, 67; 1972, 546) bemoaned that "The worst of it is that Keynes' voice can persuade me of anything, however wrong-headed I believe it to be".

Keynes brought to the Wartime Treasury "his gift for prose, surely among the highest ranges of our persuasive writing ... when we came back to the Treasury after Maynard's death, the drab corridors were grey and silent, the files were strangely heavy and lifeless" (Eady 1951, 903, 920). In his study of *Intellectuals*, Paul Johnson (1989, 76) complained that historians paid insufficient attention to the persuasive power of an individual's humour; Keynes' "flashes of humour" during his final years at the Treasury, "were not merely irrepressible ... You cannot go on disapproving of a man who has made you laugh" (Eady 1951, 920). Similar humorous forces were also present in Friedman's and Stigler's Chicago.[12]

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[11]. Cairncross (1996, 87) recalled that Keynes had "a resonant and melodious voice".

[12]. McCann and Perlman (1993, 994) described Stigler's powerful wit as "mordant". According to Shils (1977, 87), Harry Johnson considered leaving Chicago, in part, because he found Stigler's jocularity not to his liking (he then settled down into the most creative and productive part of his career). Anyone who has spoken to Milton Friedman rapidly becomes aware of his delightful and mischievous humour. With a few exceptions (including the *Guardian* newspaper reporting of the Hendry and Ericsson paper) he remains apparently

Elizabeth Johnson (1977, 95) was one of the editors of Keynes' *Collected Writings*. Her essay on "Keynes as a literary craftsman" was written during the inflationary period when few industries were booming as much as the anti-Keynesian industry: "So a con man typically snows his victims ... was he [Keynes] a con man or do you prefer to look on him as a conjurer - a conjurer of words?" Her husband made similar accusations about his Chicago colleague, Milton Friedman (Johnson 1971). But what Harry Johnson, Maynard Keynes and Milton Friedman all had in common was an extraordinary influence over their fellow economists, based, in part, on their insightful understanding of the sociology of economic knowledge construction, and in part, on the wizardry of their prose and persuasive style - a quality which too often goes without systematic investigation. The purpose of this chapter has been to contribute towards such an investigation.

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unaffected by his (self-chosen) role as butt of Keynesian and left wing animosity.

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