

## BOOK REVIEWS

### Selected Essays of Gottfried Haberler

Edited by Anthony Y. C. Koo

Cambridge: MIT Press, 1985, 652 pp.

Gottfried Haberler is one of the true giants of economic thought in the 20th century. Indeed, it is hard to understand why he has not yet been awarded the Nobel prize for his many fundamental contributions to macroeconomics and international economic theory and policy analysis. With the publication of this set of his articles, the magnitude and diversity of his contributions can be much more conveniently appreciated. While one can always second-guess the precise composition of the set included, Anthony Y. C. Koo has done an excellent job in his selection.

When combined with his two classic books, *The Theory of International Trade and Prosperity and Depression*, this collection offers an excellent overview of Haberler's contributions to modern economic analysis. The value of these three volumes is by no means limited to those interested in the history of modern economic thought. It is remarkable how relevant to the major economic issues of the day a high proportion of Haberler's work remains. Indeed, as he nears 90, Haberler continues to contribute to the clarification of contemporary policy debates with his traditional combination of insight, common sense, and graceful exposition. I was pleased that several of his more recent contributions to policy debates have been included in this book.

The volume is divided into five parts reflecting Haberler's major contributions: international trade, international finance, economic development, inflation and business cycles, and monetary theory. The placement of particular articles seems somewhat arbitrary; one of Haberler's greatest strengths has been his attention to the interrelationships among topics that had been traditionally segregated—for example, his emphasis on the role of trade in development and on the international aspects of domestic inflation and macroeconomic policies.

So much of what Haberler has contributed has become incorporated into mainstream macroeconomics and international economic analysis without attribution that many younger scholars do not know how much of a debt they owe him.<sup>1</sup> This volume can help correct that oversight. It can also serve as a model for those wishing to learn how to do economic research fruitfully. While the mathematical sophistication of today's young economists far exceeds that of the tools used by Haberler, in his earlier days Haberler made numerous contributions to the development

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<sup>1</sup>For a convenient set of summaries and evaluations of Haberler's contributions to the analysis of international trade, economic development, international finance, and macroeconomics, see the essays by Robert Baldwin, Lawrence Officer, and Thomas D. Willett in *The Quarterly Journal of Economics* 97 (February 1982): 139–69.

of technical economics. What young scholars can gain today from reading theoretical contributions is an appreciation of how one should go about creating policy-relevant economic theory. Haberler has not been an empirical scholar in the modern sense of the term; but he has been a keen student of history and of contemporary events, and his theoretical contributions have been heavily informed by his sense of real-world relevance. No degree of mathematical virtuosity can make up for a lack of such a sense in terms of producing theory that is useful to scholars and to policymakers.

Haberler is perhaps at his best in bringing his strong theoretical intuition to bear on the analysis of current policy issues. It is impressive to see how frequently he gives us crucial insights on various domestic and international policy debates by pointing out important conceptual distinctions and reminding us of relevant theoretical analysis and/or historical facts. His critiques of and contributions to policy debates take on questionable aspects of fashionable thinking from both the academic and policy communities. From the standpoint of the economics profession, it is somewhat disquieting to see how frequently his gentle reminders of basic economic principles are aimed at well-known academic economists, as well as policy commentators unschooled in economics. His critiques of fellow economists are a forceful reminder that technical brilliance and basic common sense do not always go hand in hand.

I can hardly claim to be an unbiased reviewer of Haberler's work. I have had the privilege of knowing him well, and his analytic but eclectic approach has heavily influenced my own thinking and research. I cannot help but conclude, however, that the evolving operations of the U.S. and the world economies continue to support the essential correctness of his approach. Neither a Keynesian nor a monetarist, he has paid serious attention to both schools and forged his own synthesis based on what he saw as more nearly correct in each set of doctrines. While never overlooking the importance of money, he did not believe it was all that mattered. (See, for example, his insightful analysis of the Great Depression in essays 16 through 18.) Neither did he accept an ultra-Keynesian approach to incomes policy, but like Keynesians, he did believe that the institutional environment could have an important influence on wage and price decisions that, in turn, could importantly affect the inflation and unemployment options facing an economy. His distinction between market- and controls-oriented incomes policies (see essays 12 and 15) made an important contribution to the debate on this subject.

His insightfulness and intellectual honesty led him toward realistic appraisals of policy alternatives. He was a major member of the small group of leading economists (such as Milton Friedman and Fritz Machlup) who, in the 1950s and 1960s, began to swing the opinions of academic economists in favor of flexible exchange rates, but he never saw them as a panacea. He was quite cognizant of the many problems

that floating rates would not solve; indeed, Haberler continually stressed that in his judgment they were a second-best solution necessitated by wage and price stickiness and by the lack of political willingness of national monetary authorities to conduct policies in a manner that would allow fixed exchange rates to be maintained without controls (see essay 11). Though a leader in emphasizing the importance of international considerations for domestic macroeconomic analysis, Haberler did not succumb to the belief of global monetarists (e.g., Arthur Laffer, Ronald McKinnon, and Robert Mundell) that international developments dominate the behavior of the domestic economy (see essays 10, 11, 13, and 14).

I would strongly urge younger economists not familiar with Haberler's contributions to macroeconomics to sample his short concluding essay, "Rational and Irrational Expectations." In only 15 pages this friendly critique of rational expectations analysis ranges from the psychological theories of expectational mistakes developed by Pigou and Keynes to William Fellner's credibility hypothesis put forward as a softer and, Haberler believes, more plausible formulation of the basic insights of the rational expectations approach. While certainly no champion of economic analysis based on assumptions of irrationality, Haberler argues that "cyclical swings are too irregular and the government's policy reactions too uncertain to warrant the conclusion that all market participants, or the great majority, are likely to draw the same—correct—conclusions for the future. Thus, errors of optimism and pessimism continue to be made" (p. 604). Likewise, Haberler argues that the initial rational expectations literature made "a drastic simplification to divide government actions into just two sharply distinct categories—systematic fully predictable policies and unsystematic entirely unpredictable shocks. In reality, government policies are spread out over the whole range between the two extremes. In other words, it is a question of more or less predictability and not one of either-or" (p. 608). This is a good example of the insight and common sense Haberler brings to his economic analysis. It is pleasing to be able to note that some of the more recent modeling of rational expectations has, in fact, been moving in the direction suggested by Haberler.

In summary, this is a wonderful book honoring a great economist. Other economists can learn a great deal about how to do economics from studying the progression of Haberler's contributions, and all those interested in the problems facing our domestic and international economies can benefit from reading the substantial number of policy essays included in this volume. If those who are not already familiar with Haberler's work will take the short time necessary to read the last essay in this volume, I confidently predict that a high proportion will be stimulated to read further.

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