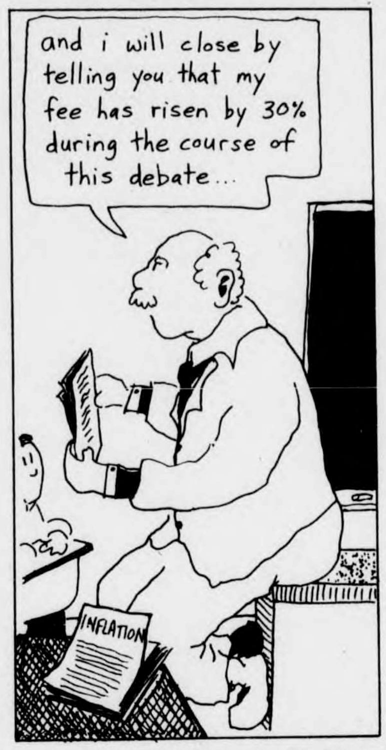
Economists battle over best theories

By ZAHIR ANTIA

Two York professors of opposing schools of economic thought took part in a stimulating debate last Wednesday at 2 pm in the Graduate Lounge. John C. Evans, a graduate of the University of Chicago, represented the "monetarists", and Fred Lazer, who studied at Harvard, the "Keynesians".



The monetarists are best known for their claim that inflation is primarily caused by excessive increases in the money supply and that a steady and moderate rate of monetary growth is required to provide a framework of economic stability.

The use of inflation to solve problems of unemployment and stagnation, they argue, is a short-sighted policy which in the long run creates more problems than it sets out to solve. These problems must be met with specific structural remedies.

The "Keynesians", who are dominant in the universities of North America, dismiss the significance of long run analysis, and favour the use of monetary inflation to solve pressing short run problems.

They believe that price inflation is primarily caused by "real" factors — trade unions, monopolies, oil price hikes, etc. They deny the monetarist claim that there is a fairly stable and predictable relationship between the money supply and the price level.

Evans began by clarifying the dividing lines in the dispute. He emphasized that all economists would like to see full employment, economic growth, and a high standard of living. The disagreements between the monetarists and the "Keynesians" lie in their differing analyses of the objective results of specific economic policies.

Evans was thus careful to distinguish between scientific judgments and judgments of value, which are often not separated in the writings of economists. He said one can accept monetarist analysis without accepting the rather conservative values of such eminent monetarists as Professor Milton Friedman.

The origins of the controversy, Evans explained, lie in the conclusions drawn from the Great Depression of 1929. The "Keynesians" generally believe that the Depression showed the irrelevance of monetary policy — in an extreme statement, that "money doesn't matter".

Careful analysis of the monetary statistics shows, however, that the money supply fell by one third from 1929 to 1933! This would seem to confirm the monetarist view that "money matters much".

Evans claimed that most of today's "Keynesians" do not really follow in the tradition of "the master". Keynes himself, in his General Theory, endorsed the Quantity Theory of Money — the central tenet of monetarism. In fact, as a great body of recent research shows, he was a monetarist all along.

Lazar began by saying that the differences between the two schools are not significant.

He argued against a steady, moderate growth rate for the money supply. In his opinion, monetary policy should be flexible in response to social problems. We should not adopt any rules because we cannot predict the effects of "institutional changes".

It is as if we are walking down a shaking, shifting corridor while trying not to bump against the walls. The monetarists, he said, try to walk a straight line while the "Keynesians" move from side to side to avoid hitting the walls.

A member of the audience said this analogy does not make much sense. You cannot step aside when you see the wall shifting one way, because monetary policy takes effect several months after it has been implemented. By then the wall may be shifting the other way and the result could be a very severe bump, he claimed.

Lazar made continual appeals to the audience's sense of humanitarianism and social justice, without answering the specific points of economic analysis scored by Evans. He belittled the value of specifically economic study, and expressed his desire for a more comprehensive theory of institutional change.

Both combatants were in fine form, and the debate sparkled with witty exchanges throughout.