BOOK REVIEW:

“EXPECTATIONS. THEORY AND APPLICATION FROM HISTORICAL PERSPECTIVE”

EDITED BY ARIE ARNON, WARREN YOUNG AND KARINE VAN DER BEEK

REVIEWED BY

FRANCESCO SERGI*

* Université Paris Est Créteil, LIPHA. Contact: francesco.sergi@u-pec.fr

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Expectations. Theory and Application from Historical Perspective is a collective volume, gathering the contributions presented at the fourth Thomas Guggenheim Conference in the History of Economics, held in December 2017 at Ben Gurion University (Israel). The book consists of a very short introduction by the three editors and twelve chapters regrouped in three parts. Each part of the book, in the logic of the editors, provides a different perspective on the role and place of expectations in economics. Part I (which actually consists of one single paper by Duncan Foley) gives an economist' viewpoint on the issue; Part II (the most substantial part of the book, featuring eight chapters) consists of contributions by historians of the economic thought; Part III consists of three chapters in economic history, analyzing four economic events or periods where the role of expectations is deemed important.

As it is often the case with published proceedings, consistency is not the distinctive characteristic of the present book. It is even less so since the topic ("Expectations") has been left intentionally open to very broad interpretation—as for the time span covered, as for the domains of application, and as for the very meaning of the concept of "expectations" (which here encompasses here also "beliefs", "conjectures", and the like). Consequently—and somehow naturally given pre-existing literature—most chapters address expectations in macroeconomics, from John Maynard Keynes to Milton Friedman. Exceptions (besides the papers in economic history of Part III) are Amos Witztum's re-reading of expectations in Adam Smith and Classical Economics (Chapter 2) and Foley's reconstruction of his own personal "intellectual history" through the lens of the topic of expectations (Chapter 1).

The core of the book, comprising six chapters on expectations in macroeconomics, from Keynes to Friedman, is henceforth the part that is more likely to draw the readers' attention.

Maria Cristina Marcuzzo (Chapter 3) and Mauro Boianovsky (Chapter 4) both focused on expectations within the interwar Cambridge (UK) approach. Marcuzzo illustrates how Marshall, Keynes, and Kahn shared a "mode of inquiry" on expectations, "in which the expectations are not conceptualized or modelled on the basis of a probability distribution" (55). Boianovsky's chapter investigates the work of a less-known Cambridge economist, David G. Champernowne, who was a student of Keynes and Arthur Pigou's teaching assistant.

Boianovsky describes how, in 1936, few months after the publication of the *General Theory*, Champernowne attempted to provide a theoretical synthesis between Keynes' and Pigou's depiction of the labor supply. The chapter illustrates how Champernowne suggested that Keynes's point about workers' focus on money wages was actually a generalization of Pigou's view that workers were "most of the time" concerned with real wages—henceforth "sometimes" concerned with money wages. From this reading, Champernowne developed a model where the different focus (on real or money wages) was explained by workers' expectations on the cost of living, embedded in wage contracts. From this hypothesis Champernowne developed a specific category of unemployment ("monetary unemployment"), which, Boianovsky points out, is original with respect to both Pigou and Keynes (and further interpretations of Keynes, notably John Hicks's). It is fascinating to learn that Champernowne's synthesis went un-noticed, starting from his contemporaries at Cambridge; in the last section of the paper, Boianovsky provides some considerations about the reasons for this neglect.

Sylvie Rivot (Chapter 5) and Rober Dimand (Chapter 6) shift the focus on later debates. Rivot provides a comparison between Keynes' and Friedman's interpretations of the Great Depression. According to Rivot, both authors introduced in their explanation a notion of "expectations mismatches" (short-term nominal expectations in Friedman's, long-term expectations in Keynes). Section 3 of this chapter is particularly original since it tracks down "in real time" Keynes' reaction to the events of the Great Depression, relying on Keynes' statement to the Economic Advisory Council and Keynes' lectures in the US held in 1931 (98-99).

Dimand (Chapter 6) discusses the origins of James Tobin's "q theory of investment," notably Keynes and Irving Fisher. The role granted by Tobin to expectations (expectations of asset returns and expectations of inflation) in determining macroeconomic stability is highlighted clearly and convincingly. I have found particularly interesting Section 4 of this chapter, in which Dimand discusses Tobin's defense of his work as "Keynesian"—as a reaction to criticisms made against Tobin by Hyman Minsky and James Crotty. Debates between "post-Keynesian" and "Keynesian" in the US context are, I feel, an understudied topic, and this part of Dimand's chapter provides a novel contribution in assessing the stakes of such debates.

Michael Assous et Muriel Dal Pont Legrand (Chapter 7) investigate expectations in growth macroeconomics, contrasting Harrod's approach with the Neoclassical (Solow-Swann-Meade) growth model. Assous and Dal Pont Legrand ask a clear question ("How did

expectations come to be ignored [by growth theory] and what have been the consequences for analyses of growth stability?”, 122) and provide a clear answer (“[not incorporating expectations] led [growth theory] to examine economic dynamics under the hypothesis of full employment and ultimately to admit that the saving-investment coordination problem could be rule out in the context of the long run”, 128). The paper relies on a very brief (although convincing) investigation about the reason for this neglect of expectations by growth theories—that is, the difficulty in building a satisfying investment function incorporating expectations (125-128).

Finally, Harald Hagemann (Chapter 8) provides a very short review of different expectations hypothesis applied to the Phillips Curve and their historical origins. This is a useful summary, nicely framing the evolution of both the different expectational hypothesis and the current state of historiography on the Phillips Curve; however, it would bear little information to those already familiar with the issue.

It will perhaps surprise some readers (like the author of this review) that a book with such an ambitious title does not feature any contribution providing a substantial historical perspective on rational expectations. And yet, in nearly all chapters, rational expectations are invariantly mentioned and often criticized (sometimes uncharitably, in my opinion)—in any case, rational expectations are held as a breakthrough. Maybe it would have been a task for the editors (in their introduction) to frame the historical stakes of such a breakthrough. More recent strains of the literature on expectations (notably those beyond macroeconomics, for instance in behavioral economics) are also cryingly absent from the book. Finally, one could also regret that, besides Boianovsky’s piece on Champernowne, the historical focus has been put yet again on a handful of “useful suspects,” i.e., those “canonical” or “great” authors, on whom much scholarship has been produced already.

Francesco Sergi
Université Paris Est Créteil, LIPHA