BOOK REVIEW:

“IRVING FISHER” BY ROBERT W. DIMAND

REVIEWED BY

MICHAËL ASSOUS*

* Faculté des sciences économiques et de gestion, Université Lumière Lyon 2 – Triangle.
Contact: michael.assous@univ-lyon2.fr

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Six years after the publication of a monograph on James Tobin in the series on the Great thinkers in Economics (Dimand 2014), Dimand is committing to the study of another Yale economist, Irving Fisher.

The book comprises 10 chapters. Each chapter - except chapter 1 which is mostly devoted to giving an overview of the book - is centered on one of Fisher's major achievements - Fisher's failures are mentioned too - in relation to specific episodes of his professional and private life. Clearly, the book reflects well the depth and scope of Fisher's thought.

Chapter 2 is centered on Fisher's contribution to general equilibrium analysis. As a Yale undergraduate and graduate student, Fisher studied mathematics with J. Willard Gibbs who, along with William Graham Sumner, co-supervised his doctoral dissertation. The chapter provides interesting hints on the influence of Gibbs, which, Dimand argues, help grasp the specificity of Fisher's approach as compared with the works of Leon Walras and Francis Ysidro Edgeworth. Because Fisher was trained in Gibbsian physics and applied mathematics, one in particular understand how he was led to construct a specific mechanism likely to simulate the determination of equilibrium prices and quantities that he eventually managed - under the encouragement of Edgeworth as editor of the *Economic Journal* - to encapsulate into a hydraulic machine.

Chapter 3 examines Fisher's pioneering contribution to macroeconomics. Endorsing J. Bradford DeLong's claim that "The story of 20th century macroeconomics begins with Irving Fisher" (DeLong 2000, pp. 83, 85), the chapter provides a sharp analysis of how, from *Appreciation and Interest* (1886) to the *Purchasing Power of Money* (1911), Fisher achieved to make the quantity theory of money an instrument of analysis and prediction of the price level and economic activity.

Surviving a tuberculosis that Fisher's physicians had predicted would kill him in a few months and which kept him away from academics for six years, Fisher became convinced that he had to reform the world and not only when it came to economic issues. From then on, he engaged in several fights which resulted in the publication of several books opposing the repeal of Prohibition, a life guide - Fisher's greatest best-seller - or in papers in favor of eugenics. This did not however prevent him from addressing issues of economic theory. Chapter 4 shows how, once back on his feet, Fisher reformulated the neoclassical theory of interest. On the basis of *The Rate of interest* (1907), the chapter gives a good summary of his main achievements whose eponym diagram depicting the terms of trade between consumption in two periods is certainly

its most perfect expression and elaborates on how Fisher draws on the foundational work of John Rae, Eugen von Böhm-Bawerk, Anne Robert Jacques Turgot and Adolphe Landry.

Chapter 5 examines Fisher's view of the business cycle that he considered to be a "myth". Movements of the economy, in his view, were more comparable to a "dance" driven by monetary shocks and slow adjustments of expectations of inflation than to any regular sinusoid. If economic instability lies in incomplete short-run adjustment of the nominal interest rate to expected inflation, Fisher concluded, grasping the evil by the root meant fighting money illusion. For that very reason, he urged governments to stabilize the price level and designed several plans from his "compensated dollar" proposal through his 100% Money proposal to insulate the medium of exchange from risky financial intermediation. Meanwhile, Fisher strove to educate the public and to design the right price index. In chapter 6, Dimand examines this quest, which involved not only choosing the ideal index number but also, for thirteen years, producing a weekly number from an Index Number Institute in the basement of Fisher's home, with a weekly syndicated newspaper article discussing how prices had changed that week.

In Chapter 7, appropriately entitled "Hubris, Nemesis and Analysis", Dimand pays attention to the consequences of Fisher's 1929 prediction that stock prices had reached a "permanently high plateau". As is well shown, that mistake took him his audience and fortune and made him a figure of ridicule for several decades. Though, huge mistakes are sometimes an opportunity for great achievements. As Fisher struggled to understand what had happened from 1929, he came with new insights. Chapter 8 gives a precise account of Fisher's debt-deflation theory published in 1932 and 1933, which though barely studied in the 1930s, attracted renewed interest with the works of Hyman Minsky and Tobin in the 1970s and later shaped the view of Ben Bernanke and Mervyn King in their responses as central bankers during the Global Financial Crisis of 2008.

Chapter 9 "Changing economics" shows Fisher the institution-builder and pays attention to its leading role in creating the Econometric Society and the Cowles Commission for Research in Economics. Both institutions proved effective in promoting new approaches based on mathematics, statistics and economic theory. They were also instrumental, as Dimand shows, in providing Fisher with a sympathetic and knowledgeable audience in the 1930s, which he had lost in his university or in the wider economic profession in the United States, let alone among the public.

Finally, endorsing Schumpeter's view that Fisher's works are similar to "the pillars and arches of a temple that was never built" but whose majesty would remain "visible long after the sands will have smothered much that commands the scene of today", chapter 10 concludes on Fisher's legacy and his lasting impact on economics.

If the book does well in presenting each part of Fisher's works and how each, almost independently, represents a towering achievement, it lets the reader crave for more as regards their fragmentary nature. Certainly lest he provides a caricatural presentation of Fisher's thought, Dimand too often refrains in building a narrative in which Fisher's choices, options, hesitations and struggles would have played a bigger role. At the end of the day, without falling into the trap of hagiography, the book does not help much in identifying divided lines and going a step further than Schumpeter in understanding how Fisher himself dealt with the problem of unification of the different parts of his work. Two aspects of his thought would in particular have specifically gained in being considered more closely along that line.

As we have noted, Fisher addressed general equilibrium analysis from a Gibbsian perspective and felt confident about the possibility to model the world. As times goes on, one however feels that he was less and less inclined to go in that direction. One has only to see how he discussed Moore's cycle approach based on the theory of forced oscillations to get an impression of his reluctance to stick to a unique framework as well as the way Fisher introduced his theory of debt-deflation in his 1933 *Econometrica* by sticking to a literary approach. In a way, his work was a real challenge for his fellow European economists of the Econometric Society. Economists like Frisch (1933), Jan Tinbergen (1935), Ludwig Hamburger (1931) among others accepted the challenge and regularly referred to the possibility of building models on Fisher's insights¹. Frisch and Tinbergen suggested that mixed difference and differential equations could provide a natural habitat to Fisher's ideas. Hamburger, for his part, pleaded for the use of the Van der Pol equation. Very likely, Fisher did not share their optimism and distanced himself from these works. Clearly, the book would have definitely gained in saying more on that dimension of Fisher's connection to the Econometric Society.

With the help of Tobin's (1975) model, Dimand points out in chapter 8 key elements that may help in understanding Fisher's debt deflation theory. The model helps in particular

¹ Among his fellows of the Econometric Society, Tinbergen was certainly the one who sought the most to encapsulate Fisher's arguments into a model. See Assous and Carret 2020 on Tinbergen early attempts.

reconstructing Fisher's analysis spread over several publications. The reconstruction provided by Dimand works well. Nevertheless, Dimand miss the opportunity of that reconstruction to highlight and discuss a possible evolution of Fisher's vision. Clearly, from the *Purchasing Power of Money* (1911) to his debt deflation theory of the 1930s, Fisher moved from a vision of a world "dancing" around an economic equilibrium to a vision of a world likely to collapse - as in the metaphor of the ship tipping point in Fisher's 1933 *Econometrica* article - once shocked too violently (see Assous 2013). Maybe, Fisher's lack of enthusiasm for part of the models of his fellows of the Econometric Society is due to the fact that none of their models, at that time, had managed to show it. Frisch's impulse-propagation problems or the self-sustained oscillation approach of Hamburger seem of little use here. Very likely, putting more emphasis on that issue might have helped to highlight Fisher's take on policy. The need for policies that may help avoiding an economic collapse is in particular not the same as in a world in which economies are assumed to "dance" around their stationary state.

At the end of the day, if the book does not always provide keys for making sense of all the pieces that one may find in Fisher's works, it successfully helps in navigating into the mind of that great economist.

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