Crank or Proto-Monetarist?: J. K. Gifford and the Cost-Push Inflation Fallacy¹

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Abstract: This paper examines the career and contribution of J. K. Gifford (1899–1987), the Foundation Professor of Economics and first Head of the Department of Economics at the University of Queensland, and one of the first in Australia to write an introductory textbook. Gifford's publications were often poorly written and with few references. They focussed mainly on monetary theory and inflation and towards the end of his career concentrated on challenging the notion of a wage-price spiral. Much of his work on the 'cost-push fallacy' seems to have been based on a crude kind of monetarist thinking: governments were prone to allow monetary growth to sustain high profit levels that businesses enjoyed in an inflationary environment. However, his policy proposals were not those of the free-market Right and focussed on safeguarding employees' interests by ensuring that their wages increased at the rate of inflation plus productivity growth, thereby limiting the scope for employers to benefit from inflation. Although he saw the money supply as exogenous and prone to be mismanaged by governments, he did not articulate a model of the demand for money or defend the stability of the velocity of circulation. His most important article, a brief paper in the *Journal of Political Economy* in 1968, came about from his objections to the original Phillips analysis, and argued that correlation does not establish causation. Precisely this argument could also be levelled against the monetarist thinking of Milton Friedman and it was not long before the paper's basic argument was used by Nicholas Kaldor in this way.

1 Introduction

Very few Australian economists have published in the *Journal of Political Economy*; down to 1968 there had been only four of them.² J. K. Gifford's 'Correlationism: A Virulent Disease in Economic Science', which appeared in the 'Miscellany' section of the September–October 1968 issue of the Chicago journal, was therefore a significant personal achievement. This five-page article, which was by far John King Gifford's best published work, was also his last, as the Research Professor and first Head of the Department of Economics at the University of Queensland retired in the following year.³ 'A disease is spreading in economic writing', Gifford began, 'on the subject of inflation of the price level in times of rising output. The disease is the misuse of correlation measures to explain causal relations' (Gifford 1968, p. 1091). He cited three papers on aggregate wage determination as symptoms of the disease: one Australian (Hancock 1966), one using British data (the classic study by Phillips 1958) and one from the US (Eckstein and Wilson 1962). All three claimed that statistical evidence of correlation between money wage growth and unemployment (together with certain other variables) *explained* the rate of wage inflation in their respective three countries. This, Gifford objected, was fallacious. 'It would be quite inappropriate to suggest that a theory of causal relations could be confirmed by a single high

coefficient of determination, obtained by means of a regression equation', which could establish only the 'degree of correspondence' between the variables under review (*ibid.*, pp. 1091-2).

'Some statisticians and economists', Gifford continued, 'when they use the word "explain" in this technical sense, use apologetic quotation marks, but this does not excuse the misleading use of the word in economic science, where explanation usually means revealing relations of cause and effect' (*ibid.*, p. 1093). Taking as an example the popular textbook by M. R. Spiegel (1961), Gifford criticised the way in which statisticians defined the 'coefficient of determination' as the ratio of the 'explained variation' to the 'total variation' in the dependent variable. It would be less misleading, he argued, if r were renamed the 'coefficient of quantitative relation', defined as the ratio of the 'related variation' to the total ('related' plus 'unrelated') variation. Correlation exercises were no substitute for the time-honoured economic principle, 'other things being equal'. But this was denied by 'some economists' (whom Gifford did not name), who:

... argue that science can only measure and predict. They seem to suggest that science is nothing more than a testing of hypotheses by correlation studies and that the hypothesis that can best predict by means of a measure of correlation is the nearest to the truth. *This treacherous suggestion must be resisted by a clear statement that not even perfect correlation can prove a false hypothesis.* (Gifford 1968, p. 1094; original stress)

The harmful disease of correlationism must therefore be resisted, Gifford concluded, by a 'strenuous and continued effort ... through all learned economic societies' (*ibid.*, p. 1093).

Gifford himself was deeply engaged in this effort. 'Correlationism' was in fact the culmination of his ten-year crusade against the theory of cost-push inflation, which he had begun in Australia and then taken to Europe and the United States. John King Gifford's crusade against the fallacy of a wage-price spiral is the subject of this paper. We shall argue that Gifford had an appreciation of monetary theories of inflation before any other Australian economist, but that his understanding of the issues was incomplete and ultimately totally unsatisfactory.

The paper is divided into four parts. The first briefly touches upon the details of Gifford's life and early career, including his exposure to the ideas of the Kiel school in the early 1930s. The second part summarises the macroeconomics of his *Economics for Commerce* (1942). The third and by far the longest part of the paper focusses upon Gifford's 1960s views on wage-push inflation and his long (and unsuccessful) campaign to win publicity for his views on inflation. The fourth part of the paper assesses Gifford's place in the inflation literature and asks whether he really was Australia's first monetarist. We conclude that he was not.

2 Gifford's Early Career

John (Little) King Gifford⁴ was born on 12 March 1899 in New York, where his family had migrated shortly before. However, Gifford's family returned to Wishaw, Scotland, where John spent his formative years. He served with the Royal Flying Corps during the First World War. Always an energetic man, Gifford resumed his studies, completing an MA with first-class honours in economics at the University of Glasgow, where he was taught by W. R. Scott. Gifford undertook some early

research into monetary problems while at Glasgow. He was also adept at French and German. He taught teachers and adults through the Workers' Educational Association and the Reid Stuart Fellowship at Glasgow University.

In 1923 he applied for the post of lecturer in economics and history at Queensland University. Gifford emphasised in his application that he was 'specially qualified to lecture on the practical side of Economics'. It was no idle boast. Gifford was, in every respect, a product of Scotland's then tradition of churning out graduates versed in political economy. Scholars like Scott inculcated in their students the notion that applied work is not inferior to theory and indeed that a focus upon application actually influences and improves upon the theory being constructed. Throughout his life Gifford held that economics was a practical science like engineering and that economists had to observe the world of work. This approach was integral to the political economy tradition Gifford was trained in. It was an approach that upheld the role of history and institutions and emphasised presenting policy-related analysis to policy-makers in accessible form (Dow, Dow and Hutton 2000, p. 194; Dow and Hutton 2006).

Under the watchful eye of Professor Henry Alcock, Gifford took the first-year classes in economics at the University of Queensland, and also lectured in British history. Alcock had replaced Edward Shann, who, along with G. Elton Mayo, had been the first lecturers in the Department of History and Economic Science that was established in 1911 (Kenwood and Loughheed 1997, p. 1). In 1930 Gifford applied for a Rockefeller scholarship and sent his application to the local representative, D.B. Copland, Dean of the Faculty of Commerce at Melbourne University. Copland approved it, given Gifford's expertise in monetary economics and his knowledge of the Australian banking system. Awarded a scholarship in 1930, Gifford, after exploring possibilities with Copland, who had an extensive range of contacts, settled for the Institute for World Economics in Kiel, where he spent nineteen months studying the relationship between the business cycle and the price level.⁵

His mentors in Kiel were Gerhard Colm and Hans Neisser. Colm was already well known as a public finance theorist, while Neisser specialised in monetary economics. In his 1928 PhD thesis on 'The Exchange Value of Money' he took an orthodox Quantity Theory line, and was praised both by Friedrich von Hayek and by John Maynard Keynes in the *Treatise on Money*, which described Neisser as one of the leading neo-Wicksellian monetary theorists (Keynes 1930, p. 178). By 1931, when Neisser published a book on *The Circulation of Money*, his position was more nuanced. Concentrating on the analysis of the velocity of circulation, he now denied any strict separation of the monetary and real sectors of the economy, and argued that causation ran both ways, from money to output and employment, but also in the reverse direction. Distinguishing 'income deposits' from 'business deposits', Neisser now revealed the influence on his thinking of both Karl Marx and Keynes, and showed more interest in the long-run question of the effect of technical progress on the price level than in the short-run problems of the business cycle (Hagemann 1997, pp. 306-9).⁶ Gifford enjoyed the experience of working with Colm and Neisser. He told Copland that he was getting on well with both. Gifford reported that Neisser had just written two 'brilliant' articles on the international money market before the war and that they would 'form an excellent foundation for part of the work I am doing'. Copland was happy to learn that Gifford had found 'a kindred spirit in Dr. Neisser'.⁷

Undoubtedly Gifford was strongly influenced by Neisser, but it is not clear whether it was the simple Quantity Theorist of 1928 or the more sophisticated monetary economist of 1931 who left the stronger mark. When the Nazis took power Gifford's mentors were hounded from their positions, and he himself spent the last months of his two-year sabbatical in Paris and London. Gifford's research focussed on whether the French central bank policy of trying to prevent a rise in the price level during a boom had any effect on the global economy, particularly on debt-laden countries like Australia. Some of that research later appeared as a book on Britain's 1931 devaluation and the advisability of a return to the Gold Standard (Gifford 1934). He acknowledged the assistance of Colm, Neisser, Jacob Marschack and Gerhard Meyer of the Institut für Socialforschung in Geneva. In principle, Gifford argued, fixed exchange rates were best, since they reduced uncertainty. The 1931 devaluation of sterling had been unsuccessful for Britain, since it had provoked competitive depreciation and increased protection in other countries. For the world economy it had been disastrous, intensifying the deflationary pressures in many trading nations. A return to the original parity was, however, impossible, since the deflationary consequences for the British economy would be severe. Gifford therefore recommended a return to the Gold Standard, but at the new, post-devaluation exchange rate. The book was favourably reviewed in the *Economic Journal* (Barger 1934).

When Gifford returned to Australia he recommended a 'moderate credit expansion to stimulate industry and cause the absorption of the unemployed' even if it meant some devaluation of the Australian pound (Gifford 1935, p. 77). The advice was well received by other Australian economists at the time. Equally, when he presented evidence before the Royal Commission on the Money and Banking Systems in 1936, it was inspired by Keynes' *General Theory*. He told the Commission: 'I have been influenced by Mr. Keynes's way of thinking for a number of years and I was very pleased to see the recent development of his theory in his last book'.⁸ In his *Statement* Gifford swept aside the boom-bust trade-cycle views of Hayek and Ludwig von Mises and articulated a hydraulic version of Keynes' new schema and its policy implications. Consequently, Gifford was bolder than both E. R. Walker and W. B. Reddaway in taking the line that the central bank should keep the economy in semi-boom without fomenting inflation. He was, in short, an ardent expansionist, and attracted Commissioner Ben Chifley's attention by advocating massive credit creation to counter a slump (Robinson 1986, p. 133).⁹ A few years later Gifford accused some of his colleagues of being economic Jeremiahs. He was annoyed that a 'boom control' policy, elements of which were apparent in both Australia and America, drove down share prices and made business confidence precarious. The motivation behind this form of economic 'wowsersism', Gifford held, was the fear that some sectors of the economy would over-develop if the boom persisted.¹⁰ Consequently the boom had to be checked because of the inherent imbalances in the economy. Doing this, however, would throw the economy back into depression.

3 Economics for Commerce

Gifford was one of the first Australian economists to prepare a text for first-year students. His textbook *Economics for Commerce*, published in 1942, was a massive (407-page), rambling, long-winded and idiosyncratic text that put great emphasis on monetary problems. For the most part it reflected the sort of political economy

training that Gifford would have received in Glasgow in the early 1920s, and made little reference to subsequent developments in the discipline. Thus, in the eleven chapters (III-XIII) on microeconomics, there is almost no mention of either imperfect or monopolistic competition,¹¹ and no reference to the work of Edward Chamberlin or Joan Robinson, or even to more popular works like the short Cambridge Economic Handbooks written by Dennis Robertson and Austin Robinson. The seven chapters on macroeconomics (II, XV-XX) are notable for their total neglect of Keynes, whose name does not appear in the index.

Instead Gifford states 'the price-level law' in the following terms:

A rise in all prices cannot take place except as a result of a decline in the sales of each commodity or an increase in the flow of money towards it. A rise in the average price level must be due either to a decline in the average volume of goods sold or to an increase in the flow of money; a fall in the average level of prices must be due either to an increase in the average volume of sales, or to a decrease in money flow. (Gifford 1942, p. 275)

Note that it is the *flow* of money expenditure, not the *stock* of money, which does all the work in Gifford's price-level law. This is entirely consistent with a rudimentary (and unstated) Keynesian income-expenditure analysis, and also with an aggregate demand-aggregate supply model of output and inflation. Similarly, Gifford's discussion of 'monetary influences on business activity' is articulated in terms of 'the flow of money' rather than the stock (p. 290). He does, however, state that:

... changes in the total of money payments are likely to be due as a rule to changes in the quantity of active money. If the volume of goods sold remained the same, we should expect the price level to vary in ordinary times very closely in proportion to the changes in the quantity of active money. (*ibid.*, p. 289)

This is (almost) a statement of the Quantity Theory, but with two significant qualifications, both drawn perhaps from his reading of Neisser. The first is the reference to 'ordinary times' and the second is the restriction of the argument to the quantity of 'active money'. Presumably, then, for Gifford the Quantity Theory does *not* apply in *extraordinary* times (a severe depression), when hoarding increases and the proportion of *inactive* money is correspondingly greater. At a stretch all this could be interpreted as an oblique endorsement of Keynes' theory of liquidity preference. A safer conclusion might be that Gifford's thinking on monetary questions was more than a little muddled—or at least his exposition of it was.

On policy questions Gifford was on stronger ground, arguing that an anti-depression or 'boom control' policy was sustainable by systematically varying the flow of money: 'After one depression has been minimized by an anti-depression policy of expanding the flow of money we can confidently try to prolong the following boom as long as possible, relying on an anti-depression policy of maintaining and gradually expanding the flow of money, to minimize any depression which may threaten the future' (*ibid.*, p. 203). His treatment of socialism, government control of industry and the relationship between economics and politics, although very brief, is clear and dispassionate (*ibid.*, pp. 390-2).

As we shall see, Gifford seems to have justified his neglect of contemporary developments by claiming that the new, Keynesian macroeconomics would be too difficult for the average Australian commerce student to understand. This was a very dubious proposition. Simple, non-technical accounts of the

Keynesian system were already available overseas, including James Meade's *Introduction to Economic Analysis and Policy* (1936) and Joan Robinson's *Introduction to the Theory of Employment* (1937), either of which could have served as a model for Gifford to follow. It is not as if he was defending an avowedly anti-Keynesian viewpoint. On the evidence of *Economics for Commerce*, he was simply not very comfortable with any of the recent innovations in economic theory, either micro or macro.

Frank Mauldon, who reviewed the book for the *Economic Record*, described it thus: 'The whole exposition of *Economics for Commerce* finds its focus in the relations between buyers and sellers and in the effects upon economic activity of changes in the supply of money for their transactions'. Mauldon interpreted the latter parts of the book as indicating that fluctuations in the business cycle were entirely monetary in origin. In his review he quoted a passage from Gifford that captured the orientation of the text: 'Not one of the causes which have been assigned for booms, such as good harvests, new inventions, over optimism, etc, could cause a boom if there were no increase in the flow of money. Each one of the causes assigned for the trade depression, such as a shock to business confidence, bad harvests, over-development in certain industries, etc exerts its influence through a decline in the flow of money; if by counteracting means, money flow could be made to rise sufficiently, a general trade depression would not appear'. Mauldon (1942, p. 237) was concerned that, despite Gifford's 'sincerity' in constructing a principles text, he had not 'in the present transitional stage of monetary and cycle theory made his audience aware of the other major divergences in theoretical approach'. By that Mauldon presumably meant Hayek's theory of the business cycle. Mauldon also felt the text would prove too difficult for first-year students, partly because of Gifford's idiosyncratic prose. This was a point made also by George Brown of the University of Chicago in his review in the *Journal of Political Economy*. Brown wrote that students would find it difficult to compare Gifford's text with other intermediate texts because of its practical focus and because of the 'special language' used in the text. Plainly, it was 'not for the uninitiated'. He noted, too, that the text 'reflected the personality of its author' (Brown 1943, p. 366).

Colin Clark, then the Director of the Queensland Bureau of Industry, wrote a glowing review of the book for the Bureau's circular, *Economic News*. Clark felt that Gifford's text was 'among the best' of first-year texts in that it presented economic discourse in a non-technical, non-mathematical way. This was appropriate given that most of those then reading economics were Arts students or came from a business background. Clark noted how Gifford had simplified economics for greater appeal. 'The distinguishing characteristic' of the text, however, according to Clark (1942, p. 2), was its 'tremendous emphasis' upon monetary problems. Gifford apparently wanted to tell students that the sole cure for the global economy's problems lay with monetary policy.

In a subsequent letter to the University of Queensland Registrar, though, written on Gifford's behalf to further his case for promotion to Professor, Clark was far more critical of the textbook and the pedagogical approach it portrayed. Clark wrote that Gifford 'attached particular importance' to 'the Theory of Money'. He reported that Gifford:

... teaches his subject in what appears to me a crude and simple manner – or, shall we say, in the manner in which Lord Keynes would have taught it twenty five years ago. He replies on the

other hand that the average student, and the general public outside, are incapable of understanding present day refinements of monetary theory, and indeed might be led to highly erroneous conclusions from an inadequate study thereof. I am inclined to think that he gives too much attention altogether to the theory of money. On the other hand, he contends that inflation and depression are both extremely burning issues, and that it is better that his students should get some grasp of these problems, even if other aspects of economic science have to be put into the background.

After thus damning him with faint praise Clark recommended him for promotion, given that Gifford had some research capability, was in touch with economists overseas, and was 'a man of wide general culture ... with a mind well rooted in history, literature and kindred branches of knowledge'.¹²

While continuing his university duties, Gifford was recruited in 1942 to work with the Department of War Organisation of Industry on a part-time basis. In 1945 Gifford sought leave to work full-time in the post, which was now concerned with postwar reconstruction. Visiting factories, he argued, allowed him to obtain useful experience in practical economics. He returned to university life in 1946 and was appointed associate professor.

He now pushed the idea of a separate department of economics. Gifford's wishes were granted in 1950 when he became Foundation Professor and the first Head of the Economics Department (Kenwood and Loughheed 1997, p. 7). As the department became more professionalised, more staff were recruited. Helen Hughes was offered a lectureship in economic history in 1961 (Kenwood and Loughheed 1997, p. 12). She left two years later to join the Australian National University, distinctly unimpressed with the leadership provided by Gifford. She told John Lodewijks:

I found Queensland's Department of Economics under John Gifford was umpteenth rate ... I did something useful for the Queensland Economics Department. We managed to have Gifford moved to a research chair and a new head of Department appointed. Jon Pincus was by far the best student the Queensland Economics Department had ever seen. The final honours essay examination was on inflation on which Gifford had very peculiar views. Jon demolished them. George Palmer, Bruce McFarlane and I realised Jon's essay was outstanding, but that if Gifford saw it, he would fail Jon. We sat around wondering what to do. In the end I tore the essay up, threw it into the waste paper basket and suggested that we would say that we had lost it, a frequent occurrence in that shambolic Department. (Lodewijks 2007, p. 437)

Too busy completing his unsupervised honours thesis, Pincus was 'blissfully unaware' of the trouble his exam script caused. He did recall, however, organising a debate within the department on the validity of cost-push inflation—a debate Pincus believes Gifford won by insisting that inflation was a monetary phenomenon ultimately validated by an increase in the supply of money.¹³ Offered a lectureship at the university, Pincus, aware that the department was not at the cutting edge of research, opted for a senior tutorship at Monash. Another young undergraduate at the time, John Stanford, only encountered Gifford in his honours year and found him 'quite odd' and 'old fashioned' in terms of embracing new

monetary theory. Stanford also noted how Gifford was very dogmatic and regarded 'anyone who didn't support his position 100% as an opponent'.¹⁴

After ruling over the department until 1966, when Ronald Gates took over, Gifford was rewarded with a research professorship from which he retired in 1970 after 44 years of service (Kenwood and Loughheed 1997, p. 16). The two-year discrepancy is explained by a short retirement in the late 1950s before Gifford returned to academe with a passion in tow.

4 The Fallacy of Cost-Push Inflation

In the 1960s Gifford embarked upon his last major research project, focussing upon the interplay between wages and productivity under Australia's arbitration system and more generally on the validity of the supposed wage-price spiral. It would be the most fruitful period of his life, but arguably also the most frustrating. He seems to have published nothing of any scholarly significance between 1942 and 1961, when his *Wages, Inflation, Productivity* appeared.¹⁵ All the elements of his crusade are contained in this 163-page book. Its subtitle, 'Adequate adjustment of wages, margins, salaries to inflation, productivity, prosperity',¹⁶ indicates the author's policy proposal, which was to hold constant the labour share in national income by ensuring that money wages increased at the same rate as the productivity growth rate plus the rate of price inflation. This simple steady-state rule of wages policy appears not to have been widely understood in Australia in the early 1960s, and Gifford never really set it out as widely as he might have done. Neither did he consider the modifications that would be necessary outside a steady state, when the prevailing rate of price inflation was deemed to be too high and action was required to reduce it, as for example in the early years of the Accord in the mid-1980s.

Gifford also failed to explain that his policy rule was only very loosely related to the analytical theme of his book, which was a refutation of what he termed 'the wages-prices-spiral fallacy' (Gifford 1961, p. 17). This was a variant of the then fashionable theory of cost-push (or wage-push) inflation, according to which:

- (1) *Wages* rise, consumers have more money to spend and cost of production rises: therefore prices rise. (2) Because of the rise in the cost of living, *wages* rise again, consumers have more money to spend and cost of production rises: therefore prices rise. And so on, in an unending spiral. (*ibid.*, p. 17; original stress)

This was what Gifford termed the 'naive' version of the theory, and it foundered on the objection that 'No long-continued rise in the price level can happen without continued monetary expansion which causes rises in both wages and the prices of goods'. A 'more complicated' version of the fallacy was 'based on the assumption of an "elastic money supply"'. According to 'some economists' (who are not named), 'wage increases lead to an expansion of money spent and to a rise in the price level, which in turn is followed by more wage increases and so on' (*ibid.*, p. 18). Gifford rejected this version of the argument on the grounds that it let the monetary authorities off the hook:

It is a very poor expository device to think of money supply as being entirely passive, when in a modern economy it is one of the parts of a dominating element in the situation, namely government monetary and fiscal policy, and when we can have any one of several kinds of deliberately adopted policy.

Governments which control monetary conditions, are limited in their powers to stimulate production, but their influence on monetary conditions is paramount; they can cause inflation, slow or fast, and they can stabilize the price level. (*ibid.*, p. 19)

There was also a third, 'sophisticated' version of the argument, where the supposed sequence of events was as follows: money wages are raised, which increases unemployment, which induces governments that are committed to full employment to react 'by a further touch of monetary inflation', thereby increasing the money demand for goods and causing a 'wages-monetary inflation-price spiral'. Gifford objected that this version 'still suggests that that one could stop inflation by freezing wages, which is not true' (*ibid.*, p. 20), and it is still much too kind to the monetary authorities:

Governments, at any time, tend to be inflationist in policy because it makes finance so much easier for them. They are being encouraged, however, at the present moment, by those 'political' economists who advocate a rapid rate of capital development and think that it can be helped by gradual inflation. (*ibid.*, p. 21)

It would be tempting to interpret all this, from a twenty-first century perspective, as an impressive early defence of monetarism. After all, Gifford did view inflation as essentially a monetary phenomenon, and he did regard the money supply as an exogenous variable controlled by the monetary authorities. On both counts he was opposed to what would become the anti-monetarist, Post Keynesian position, in which inflation is essentially a labour market phenomenon and the money supply is endogenously determined by the decisions of banks and their customers and cannot be controlled by the authorities (Arestis and Sawyer 2006). This temptation must, however, be resisted. For one thing, Gifford cited none of the relevant literature, and was perversely proud of the fact.¹⁷ More importantly, his own theoretical position was so loosely expressed that it could be interpreted quite fairly as a rather unsatisfactory statement of the orthodox Keynesian version of demand-pull inflation. Gifford's 'monetary method concentrates attention on the totality of the situation, the total amount of money spent versus the total amount of things sold for money'. 'With the help of the monetary method', Gifford wrote, 'it is easy to see that the level of prices is determined not merely by the comparative scarcity or plenty of goods, but to an equal extent by the total amount of money spent' (*ibid.*, p. 13). This is more or less how he had set out his ideas in *Economics for Commerce*, and it is entirely consistent with the aggregate demand-aggregate supply approach that Keynes had used in the early chapters of the *General Theory* and that was a common expository device in many textbook versions of the so-called neoclassical-Keynesian synthesis. There is nothing obviously monetarist about it.

Gifford's analysis of Australian monetary statistics actually pointed him in an anti-monetarist direction. The velocity of circulation had fluctuated sharply after 1938-9, he reported, falling by 1944-5 to 57% of its prewar level before recovering to 116% of that level by 1959-60. As he noted, 'some of the newly created bank money in those years was lying idle waiting for a convenient way of investing it or spending it on consumer goods. The existence of this idle (or hoarded) money was one of the great difficulties facing the government in its attempts to stop inflation' (*ibid.*, p. 16). There is no suggestion here of a stable money demand function à la Milton Friedman (but also no indication from Gifford that he recognised the theoretical, as opposed to the policy, significance of these data).

The remainder of Gifford's career was dedicated to his crusade against the fallacy of cost-push inflation, and academically the 1960s were by far his most productive decade. In 1962 he published only his second paper in the *Economic Record* (it was also to be his last). 'Economic science has been invaded recently', he began the article, 'by a number of new technical terms; it is respectfully suggested that some of them are so confusing that it is reasonable to call them wicked words' (Gifford 1962, p. 63; this was by analogy with the writings of the British humorist A. P. Herbert). The wicked words were the expression of wicked ideas. 'The wicked words are "inflation" used as synonymous with "rise in the price level", "demand inflation", "cost inflation", and "pure cost inflation". The wicked ideas are the "wages-prices spiral" and an "elastic money supply", both of which are associated with fallacious argument' (*ibid.*, p. 63). Once again Gifford cited not a single source and (apart from Herbert) named no names. His argument was exactly the same as that in *Wages, Inflation, Productivity*, but the (implied) anti-monetarism was now even more clearly stated: 'In explaining a rise in the price level, it is better to think usually of "money spent" instead of money supply, because it is money spent, and not money supply, which directly influences the price level' (*ibid.*, p. 65).

Two years later Gifford tried to convince the industrial relations profession of the justice of his case, arguing in the *Journal of Industrial Relations* that the Commonwealth Conciliation and Arbitration Commission had been right to reject the employers' submission in the 1964 basic wage case. If it had been adopted by the Commission, the employers' 'total wage plan' would have disadvantaged employees, since it would have restricted money wage increases to the rate of productivity growth, 'cutting out cost-of-living supplements' (Gifford 1964, p. 264). The plan, Gifford noted, had been supported by a number of prominent economists, including Nicholas Kaldor (1964) and Richard Manning and Joe Isaac (1961), but 'it would certainly be unacceptable to trade unions if appreciable demand inflation took place' (Gifford 1964, p. 265).¹⁸ He set out his own 'prosperity wage and salary plan', which was identical to the one that he had proposed in 1961: in normal circumstances money wages should increase by the sum of productivity growth and price inflation. 'A safe limit can be set to annual general-prosperity increases by adopting the following principle: they should not be raised high enough to cause unemployment' (*ibid.*, p. 267). Implicit in Gifford's proposal—but again not stated explicitly or given any justification—was the concept of a steady-state economy with full employment and constant relative shares of labour and capital. Gifford's plan was almost identical to that put forward by E. A. Russell (1965) and articulated by Wilfred Salter (1959) in his evidence before the Arbitration Court in the 1959 Basic Wage case.

In 1965 Gifford was invited to give the annual lecture endowed by the English, Scottish and Australian Bank, which always assumed some monetary dimension or theme. He used the opportunity to denounce the Commission's recent majority judgment on the basic wage, which 'will become quite a classic example of how policy can be adversely affected by bad theory' (Gifford 1965, p. 1). Despite increasing productivity and low and declining unemployment, the Commission had decided to freeze the basic wage, allowing its real value to fall. The decision reflected a mistaken belief in the fallacious notion of cost-push inflation, and this in turn resulted from a failure to 'understand correctly the working of cause and effect in this field' (*ibid.*, p. 21) and a consequent 'misuse [of] the fundamental tool of economic science, "other things being equal"' (*ibid.*,

p. 21). The seeds of 'Correlationism' can be seen in this lecture, in which Gifford also noted that the Commission's new policy would have a particularly serious adverse effect on public sector workers.

Setting out his argument in ten propositions about wages and inflation, Gifford condemned the 'wage-inflation theorists' for providing unwarranted political support to the employers. Reducing the real value of the basic wage was:

... bound to bring the whole system of wage fixation into disrepute, and will drive the trade unions to abandon arbitration, and to move strongly for price and profit control and the nationalization of many industries. The employers may find they have made a very short-sighted bargain in backing the theory of wage inflation and its associated policy of wage restraint. (*ibid.*, p. 24)

Gifford concluded by saying that 'a world movement' was needed to clarify people's thinking on the theory of wages and bring inflation theory into harmony with the basic principles of demand and supply, the theory of money and the price level. He proposed a two-man public exploratory discussion in an effort to speed up the process of explaining and possibly resolving points of difference among the world's economists on the issue.¹⁹ He would probably have volunteered his own services, telling his students in the early 1960s how he had challenged Paul Samuelson to debate him on the legitimacy of the wages-prices spiral. According to Gifford, Samuelson had written back telling him that the proposed debate would not advance his career.²⁰ Gifford would not let the matter rest, however.

In the following year he published a 56-page pamphlet with the title *Sharing Prosperity Through The Gifford Plan For Annual, General-Prosperity, Wage and Salary Increases by the Commonwealth Conciliation and Arbitration Commission*. The Gifford Plan was intended to restore faith in the arbitration system, which its author believed to be 'dying and likely to be replaced by collective bargaining, with the possibility of disastrous strikes' (Gifford 1966, p. 1). The back cover of the pamphlet informed potential purchasers that it was 'recommended ... for study and public discussion by the Administrative and Clerical Officers' Association of the Commonwealth Public Service', and inside Gifford set out the political implications of the rival theories of inflation:

It is easy to prove, without fear of contradiction, that inflation (while output is increasing) is caused solely by the actions of the Commonwealth Government, which is encouraged by business men who are intoxicated by inflation profits. This theory, besides being a true theory, favours the employees' interests and could be adopted by employees with the name 'government-inflation theory', or it could be called the 'profits-inflation theory' to counter the employers' propaganda for the 'wage-inflation theory'. (*ibid.*, p. 11)

The Gifford Plan centred on a 'double-adjustment' of money wages at a rate of increase equal to price inflation plus productivity growth. In the final analysis this would benefit capital as much as labour, Gifford suggested. 'The idea of sharing prosperity by means of wage and salary increases would win more firm support for the system of private enterprise and would undoubtedly strengthen it against the assaults of communist propaganda' (*ibid.*, p. 1).

Gifford spent part of 1966 on sabbatical in Europe and America. In that year he published a lengthy article in *Weltwirtschaftliches Archiv*, which was then

edited by the eminent German macroeconomist Erich Schneider.²¹ This was yet another protracted attack on 'the wage-inflation fallacy', and concluded with a call for 'a demand-inflationist counter-revolution'. Even by Gifford's standards this was a very strange article. He cited only one source, albeit a very good one (Bowen 1960), made almost no reference to the theory of money, and revealed not the slightest awareness that inflationary expectations, the natural rate of unemployment or the imminent acceleration of inflation that the monetarists were predicting might be relevant.²²

Gifford also won, indirectly, an invitation from Friedman to participate in a Money and Banking seminar at the University of Chicago in the fall of 1966.²³ Gifford asked Friedman and the organiser of the workshops, Albert Rees, whether there could be a more public broadcast of the issues Gifford wished to raise. He had in mind the ten propositions on wages and inflation from his ESA lecture the year before. Rees told Gifford that it was better to stick to the 'less dramatic' university seminar as the means to disseminate knowledge, since 'our academic community [is] perhaps unduly suspicious of unusual modes of presentation and too likely to equate them with unsound views'.²⁴ Friedman concurred, telling Gifford that the workshops were composed entirely of academics and research students.²⁵ In his reply Gifford again attempted to enlist Friedman in some form of one-off public broadcast, saying that it would help 'counteract the extreme political attitude of most economists in Australia'. Gifford further explained that seminars were a 'great inspiration, but they don't help enough in counteracting the political propaganda of the cost-inflationists'.²⁶ Gifford closed by asking Friedman whether before committing himself to the venture, he might call upon him at his holiday abode in New Hampshire to see 'what kind of person I am'.²⁷

While sharing Gifford's 'indignation' about how craven people were in relation to the idea of cost-push inflation, Friedman rebuffed the idea of a 'crash program of widespread publicity'. It was not feasible, Friedman told Gifford, 'to have any big one-shot public discussions that will advance the matter by a quantum jump at once'.²⁸ He felt that the better way to win over hearts and minds was by 'plugging away' and presenting the correct view as the occasion arose. It is not known whether Gifford actually presented his work at the University of Chicago.

He continued to write for an academic audience. In February 1967 Gifford sent a 31-page manuscript to Richard Kahn in Cambridge, with the punchy title 'Unemployment and its relation to demand expansion, retail prices, average employee earnings and legal minimum (award) wage rates in Australia 1948-49 to 1964-65: A demonstration that the Phillips hypothesis and Phillips Curve are actively-misleading to students of economic science'.²⁹ He told Kahn that he had been encouraged by Friedman and Robert Mundell to send the manuscript to the *Journal of Political Economy*, but it was never published (and was indeed quite unpublishable). Later in the same year Gifford's textbook on *Australian Banking* appeared, co-authored with J. V. Wood. It was successful and ran into four editions. Interestingly, in the 1967 edition, Gifford used conventional terms to explain how monetary policy operates in a mixed economy. Co-authorship apparently could keep him on the straight and narrow.

There followed 'Correlationism', which was Gifford's swansong. This excellent short article bore almost no relation to the long empirical paper that he had sent to Kahn, but was in effect an elaboration of one paragraph in the (wrongly-titled) 'Summary' section, in which Gifford had observed that 'A close correlation between two things which are joint results of a common cause does nothing to explain the

causal connection of events'.³⁰ This was the only mention in the 1967 draft of this crucial point. The final version of 'Correlationism' must have been very thoroughly edited by someone at the *Journal of Political Economy*, since by contrast with the *Weltwirtschaftliches Archiv* paper it was tightly written and convincingly argued. Gifford was simply not capable of writing like this on his own.³¹

5 An Assessment

Gifford won little if any support from the Australian economics profession. One senior economist whom we consulted, who remembered Gifford from this period, described him to us as 'a nutter', and another referred to him as 'a bit of an embarrassment to the club' and recalled that Richard Downing, the then editor of the *Record*, was criticised by his colleagues for publishing the 1962 paper. Gifford would indeed have tried the patience of a saint. With the sole exception of 'Correlationism', his writing was long-winded and repetitive almost beyond belief. It was also unscholarly, with very few references to sources and little if any indication that he was familiar with the literature on inflation and monetary theory. This penchant for non-acclamation might have stemmed from Gifford's training, and also from the practices of the time. It seems that the Australian economic profession repaid the backhanded compliment with extremely little citation of Gifford's works.³² Analytically, he was unsophisticated in the extreme. Certainly Gifford was never a monetarist, for he never articulated a model of the demand for money, defended the stability of the velocity of circulation nor criticised Keynes' theory of liquidity preference; still less did he defend Friedman's notion of a 'natural rate' of unemployment, or take any interest in the acceleration hypothesis that was associated with it.

The basic arguments of the 'Correlationism' paper are sound enough: correlation does not entail causation, and explanation rather than prediction is the fundamental task of social science (Lawson 1997). But Gifford's ideas on the nature of causality were crude in the extreme, entirely ignoring the already substantial philosophy of science literature on the topic (Simon 1968). He seems not to have seen the irony of his attack on instrumentalism appearing in the house journal of the Chicago school, whose methodological manifesto (Friedman 1953) was subject to precisely the same destructive critique. As for his insistence that wage increases must be accommodated by the monetary authorities if they were to remain effective, this was almost a platitude in the cost-inflation literature of the early 1960s (Bronfenner and Holzman 1964, pp. 64-5).

More interesting than its analytical merits are the political implications of Gifford's campaign. Unlike the Chicago monetarists, he was not a man of the free-market Right. The government that he was accusing of sole responsibility for Australia's inflation was that of Robert Menzies, and (as already noted) the pamphlet setting out the Gifford Plan was sponsored by the Administrative and Clerical Officers' Association and supposedly written at a level that would make it intelligible to the union's membership. Gifford's crusade was supported by the Marxian economist Bruce Macfarlane (1968, p. 192), which is perhaps less surprising than it seems: Marxists have always been susceptible to the seductive charm of the Quantity Theory (Nelson 1999). In a final ironic twist, the basic argument of the 'Correlationism' paper would very soon be used *against* Friedman by one of Gifford's earlier targets, the Cambridge Post Keynesian Nicholas Kaldor, who launched his own sixteen-year crusade against 'the scourge of monetarism' on

the basis that money was endogenous and causation ran from real variables to monetary variables, and not *vice versa* (Kaldor 1970, 1982).

Once Gifford retired from the University of Queensland in 1969 he seems to have lost all interest in economics. Instead he took up photography. Thus he did not comment on the wages explosion of 1973-4 or criticise the Reserve Bank and the Federal Treasury for their treatment of inflationary expectations. In 1973 Queenslanders had an early exposure to monetarism when Friedman's British disciple, Michael Parkin, a visiting scholar at the RBA, appeared on the ABC television show *Monday Conference* to explain in everyday language the new theory of inflation. It was televised live from a shopping centre in Brisbane (ABC 1973). Gifford was not part of the audience, but he might have seen the irony of a monetarist crusade appearing almost on his doorstep.

Gifford died on 20 October 1987 in Brisbane; there was no published obituary.³³ He would have found it hard to explain the stagflation of the mid-1970s, but might perhaps have claimed to be vindicated by the eventual disappearance of cost inflation and the rise of explicit inflation targeting by the Reserve Bank in the decade after his death. There are few economists in the Australia of 2008 who would blame trade unions for the continuing inflation, or deny that inflation is always in the final analysis a monetary phenomenon that is controlled (or at least controllable) by the monetary authorities. More crank than proto-monetarist, Gifford may well have had the last laugh.

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Notes

1 The authors would like to thank participants at the 20th History of Economic Thought Society held at the University of Queensland in July 2007. We would also like to expressly thank Alan Duhs, Harald Hagemann, Ted Kolsen, John Lodewijks, Jonathan Pincus, John Stanford and two anonymous referees.

2 They were Ronald Walker (1932 and 1943), Murray Kemp (1962), Richard Snape (1965) and Kelvin Lancaster (1966).

3 Our Gifford, we hasten to point out, is entirely different from the English economist C.H.P. Gifford of Magdalene College, Cambridge, who published extensively in the *Economic Journal* in the 1930s. Ironically, C. H. P. Gifford published an article on the Brigden report in the *Economic Record* (1934). So far as we know, the two men were not related.

4 For an unknown reason Gifford renounced the 'Liddle' in his name in 1937 (J. K. Gifford to Records Clerk, University of Queensland, 11/10/1937, UQA S135 Staff Files J. K. Gifford, University of Queensland).

5 At an early stage Gifford proposed studying, under Theodore Gregory of London University, 'the development of central banking generally ... in countries where economic conditions are similar to those of Australia'. This is contained in a letter of Copland's to J. V. Van Sichler of the Rockefeller Foundation in New York, 11/3/1930, FECC, Box 127, UMA. Incidentally, that same year Gregory came out to Australia, accompanying Sir Otto Niemeyer of the Bank of England in his official mission to

ascertain that nation's ability to meet its financial debts to London. There is no evidence to suggest Gifford met up with Gregory.

6 For more details of Neisser's monetary thought see Hagemann (1990, 1999) and Trautwein (2003). In 1954 Neisser was a Fulbright lecturer at the University of Queensland (Hagemann 1999, p. 488).

7 J. K. L. Gifford to D. B. Copland, 8/4/1932, and D. B. Copland to J. K. L. Gifford, 16/5/1932, FECC, Group 1, 9/2a, Box 15, UMA.

8 *Royal Commission on the Monetary and Banking Systems: Minutes of Evidence* Volume 2, p. 1199.

9 *Minutes of Evidence, RCMB*, p. 1197.

10 'Trade Booms: Control May Bring Depression', *Sydney Morning Herald*, 7/12/1937. The term 'wowsersism' is Australian slang for being uptight or adopting a 'holier than thou' mentality.

11 The discussion in chapter XI is very largely confined to monopoly, with a brief mention of oligopoly.

12 C. Clark to University Registrar, 21/11/1949, UQA S135 Staff Files J. K. Gifford. For the record, Gifford's text, one of the first in Australia, was soon, like many other principles textbooks, displaced by Paul Samuelson's *Economics*.

13 Personal communication with the authors.

14 Personal communication with the authors.

15 He was, however, a frequent contributor to the press (see, for example, Gifford 1951).

16 Here Gifford is using 'margin' in the Australian industrial relations sense, to refer to an award wage rate in excess of the minimum or 'basic wage', for workers in skilled and professional occupations. It has no connection with profit margins.

17 'It has been suggested to the author that he should give exact, checkable, quotations from writers who use such terms as "elastic money supply" and "cost inflation"'. He asks to be excused on the ground that the use of these ideas is unfortunately widespread (they are used even by some of his own staff who should know better) and that it would be unfair to one or two persons to be cited now for the use of terms which will probably disappear from economic science before long' (*ibid.*, p. 18, fn12). Needless to say, there is also no reference to Friedman or any other monetarist.

18 Interestingly, Gifford could not resist the use of this wicked word.

19 'Inflation is in the hands of the Govt.', *Courier Mail* [Brisbane], 14/10/1965, p. 25.

20 We are indebted to Alan Duhs of the University of Queensland for this information. Duhs attended Gifford's first-year economics lectures in 1963.

21 On Schneider see Schäfer (1999). Unfortunately the archives of the journal at the University of Kiel contain no correspondence between Gifford and Schneider (Harmen Lehment, personal communication, 8 October 2007).

22 There is a brief discussion of inflationary expectations, but only to allow Gifford to point out that 'An expectation of inflation does not cause further inflation; but merely leads to an increase in the demand for loans; it would be followed by an increase in borrowing and spending, only if the government allowed it. An expectation of inflation can be disappointed by the government; any inflation following a wage increase is the result of government action in causing, or allowing, it and not the result of the wage increase' (Gifford 1967, p. 31).

23 J. K. Gifford to M. Friedman, 8/6/1966, Milton Friedman Papers, Folder 18, Box 27, Hoover Institution Archives (HIA).

24 A. Rees to J. K. Gifford, 10/6/1966, Friedman Papers, Folder 18, Box 27, HIA.

25 M. Friedman to J. K. Gifford, 27/6/1966, Friedman Papers, Folder 18, Box 27, HIA.

26 J. K. Gifford to M. Friedman, 7/7/1966, Friedman Papers, Folder 18, Box 27, HIA.

27 *Ibid.*

- 28 M. Friedman to J. K. Gifford, 2/8/1966, Friedman Papers, Folder 18, Box 27, HIA.
 29 RRK/14/38, Richard Kahn Papers, King's College, Cambridge.
 30 RFK/14/38/16 (p. 15 of the article).
 31 It would be interesting to know who refereed the paper, what they reported, and whether Milton Friedman was involved in the decision to publish it. Access to the *Journal of Political Economy* files at the University of Chicago's Regenstein Library is restricted for 50 years (Andrew Baumann, Publications Manager, University of Chicago Press, personal communication, 11 April 2008). We can only surmise that Gifford's welcome opposition to cost-push heresy was enough to overcome any misgivings about his methodological position.
 32 Take, as an example, Fred Gruen's (1978) edited *Surveys of Australian Economics*. Volume One has a survey of wages policy by John Nieuwenhuysen and Judith Sloan. There are no references to Gifford's works, nor are there any references to Gifford in the very next survey, on Inflation, by A. J. Hagger.
 33 Personal communication from J. K. Gifford's grandson, David Gifford.

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