Virtually all of contemporary macroeconomics is underpinned by a Phillips Curve of one variety or another; yet most of this literature displays a curious neglect of the theoretical dynamic stabilisation perspective provided by A. W. H. Phillips. This volume collects for the first time the major works of one of the great economists, integrating Phillips’ empirical work with this theoretical contribution. In addition to twelve substantive chapters, twenty-nine economists including Lawrence Klein, James Meade, Thomas Sargent, Adrian Pagan, Peter Phillips, David Hendry, William Baumol, Richard Lipsey and Geoffrey Harcourt highlight and interpret Phillips’ on-going influence. This volume also contains six of Phillips’ previously unpublished essays, four of which were thought to have been lost. The fifth such essay (Phillips’ second empirical Phillips Curve) was previously an informal working paper of which few copies circulated, and the sixth essay is a forerunner of the Lucas Critique written by Phillips shortly before his death.

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A.W.H. Phillips
A. W. H. Phillips: Collected Works in Contemporary Perspective

Edited by
Robert Leeson
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Foreword

Arthur Brown

Almost two generations of economists across the world have been familiar with the name Phillips from its attachment to the curve depicting a relation between the unemployment rate and wage inflation. A generation of economists in half a dozen universities also learned to associate that name with an hydraulic model that demonstrated with brilliant clarity the consequences of the interrelations set out in Keynesian economics. A smaller number of readers would probably be aware of a variety of articles on macroeconomic and econometric subjects under the same name. In this book, mainly through the efforts of Robert Leeson, all the published (and some hitherto unpublished) writings of Alban William Housego Phillips are assembled, along with a selection of the discussions which they provoked at the time of their publication or, in a few cases, more recently.

Any collection of a writer’s works has something of the character of a memorial to him. The man to whom the present collection stands in this relation was a very remarkable person indeed, whose writings (and hydraulic model) by no means exhaust the reasons for which he should be remembered. Bill Phillips’ career, not in the least an orthodox academic one, was a switchback of triumphs and disasters. Born in New Zealand in 1914, he left school without any immediate prospect of higher education and passed into a wandering life, in the course of which he qualified and worked as an engineer. In the war he proved himself a hero, both in action and as a prisoner of war of the Japanese. This fact has been brought to light by Robert Leeson – Phillips was reticent on such matters. He survived, was decorated, and, like many other ex-servicemen, received a chance of university education which he had not had previously. But in his undergraduate years at the London School of Economics (LSE) he achieved only a poor degree – partly perhaps because he had chosen a subject (Sociology) that did not really suit his abilities, more certainly because the strains of war had affected his ability to perform in written examinations.
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In the course of his studies, however, his curiosity about the working of a monetary economy had been stimulated. It is possible that the idea of clarifying this by means of an hydraulic model had been given to him by a diagram in Kenneth Boulding’s textbook of economics, representing an imaginary model of this kind designed to elucidate equilibrium in the market for a commodity. However that may be, with the help and advice on Keynesian economics of his LSE contemporary and friend Walter Newlyn, he set to work to build a much more elaborate machine representing a whole economy, with foreign trade, a public sector and a central bank.

The success of the model, when it was demonstrated at the LSE, was spectacular. It persuaded James Meade and others that, despite his otherwise lowly academic qualifications, Phillips should be appointed to an assistant lectureship in the School. Once his foot was on the academic ladder, his rise was meteoric. He expounded the mathematics of the model (and variants on it) in an article published in *Economica* in August 1950 (chapter 10), and completed a doctoral thesis on ‘Dynamic Models in Economics’, the gist of which appeared in the *Economic Journal* in 1954 (chapter 16). In the same year he was promoted to a Readership and four years later attracted worldwide attention with his ‘curve’ (chapter 25). In 1958, too, he was appointed to the Tooke Chair. This was the peak of his fortunes as an economist. He continued to work mainly on problems of control and related problems of estimation. Then in 1967 he moved to the Australian National University (ANU) and turned his attention partly to Chinese studies – he had learnt Chinese from fellow prisoners of war. In 1969 he suffered a disabling stroke, and returned home to New Zealand. Six years after that, at the age of sixty, he was dead.

I cannot claim to have known Phillips as well as his LSE colleagues, for instance, did, but our acquaintance, which was connected with the hydraulic model and, more fleetingly, with the curve, made a deep impression on me. It began when, by arrangement with Walter Newlyn who had recently become a colleague of mine, I visited him in the Croydon garage where he and Newlyn were constructing the prototype model, which the University of Leeds subsequently acquired. I got to know him better as he, more than once, came to Leeds to service the model. The last such occasion was after his appointment to the Tooke Chair; he was not one to stand on his dignity! Before the publication of his famous 1958 article which launched the curve, knowing my earlier work on the same subject he invited me to discuss with him the results recorded therein. I think our discussion turned on the difference made by
our having used slightly different time lags in our respective plottings of largely similar data. As always, it was a pleasure to talk with him.

It seems to have been the general experience of Bill Phillips – it was certainly mine – that to know him was to like him. He was friendly, practical, full of quiet enthusiasm for whatever ideas he was pursuing at the time, and without the slightest trace of self-importance or pomposity. He seemed to bring a breath of Antipodean fresh air with him. Primarily, he was a problem-solver. In keeping with his engineering background and talents, he wanted to know how systems worked, and how they could be made to work better. He had come relatively late to economics, and I do not think he was much interested in the scholarship of the subject – who had said what, and when. Perhaps that is one reason why, when he felt that he had delved as far as he could into the vein of ideas about macroeconomic stability that he had found so productive, he began to turn his attention to a subject at least partly outside general economics.

Other engineers have appeared upon the economic scene at various times and with various results. Dupuit and Fleeming Jenkin scored notable successes because the applied mathematics of engineering could be brought to bear productively on important economic problems once those problems had been rightly understood. Major Douglas fared less happily because, while he perceived that demand deficiency was connected with the circular flow of money, he misperceived the nature of that flow. Phillips listened to the economists, got the flow of money right, could solve the differential equations describing its changes, and also had the enterprise and the very considerable manual skill needed to turn his perceptions into hardware that didn’t leak – or didn’t leak too much. His curve was less clearly a product of his engineering background. It had its roots in a theoretical relation between the level of activity and price inflation postulated in his 1954 essay ‘Stabilisation Policy in a Closed Economy’ (chapter 16). The success of its final, empirical version owed much to its timeliness. In 1958 people had stopped worrying about a post-war depression (a second 1920–2, or even a second 1929–33) and had started worrying about a new sort of creeping inflation connected with high employment. Moreover, there was still a decade to go before expectations of continuing inflation became strong enough to blow the curve away very markedly to the north-east; it had time to establish itself as an apparently simple guide after its publication.

One might say that Phillips’ spectacular success in economics was owed partly, like most spectacular successes, to elements of good fortune. He had luck (as I have just said) in the time of producing his curve. He was lucky in being able to bring to macroeconomic problems some highly
Foreword

relevant ideas developed in control engineering over the preceding generation. He was lucky in coming to the sympathetic attention of James Meade, who had started his textbook twenty years before with an exposition of the circular flow of money (including why Major Douglas had been wrong) to which the Phillips Machine provided a perfect concrete illustration. Meade had himself dealt in a famous article with the stability conditions of a Keynesian system, and was also no mean amateur producer of precision artefacts – from kites to cabinets.

But the element of good luck is not what one dwells on when thinking of the career of one who contended so valiantly with so much of the other sort of fortune. In Bill Phillips’ case, the real good luck was with those of us who had the privilege of knowing him.
Preface

Virtually all of contemporary macroeconomics is underpinned by a Phillips Curve of one variety or another; yet most of this literature displays a curious neglect of the theoretical dynamic stabilisation perspective provided by A.W.H. ‘Bill’ Phillips. This volume of Phillips’ complete published output integrates Phillips’ empirical work with his theoretical contribution. In addition to these twelve chapters, twenty-nine of the world’s leading authorities in their field have contributed thirty-two chapters (thirty of which have been specially commissioned) to highlight and interpret Phillips’ on-going influence. This volume also contains six of Phillips’ previously unpublished essays, plus a little-known book review. Four of these essays were thought to have been lost. A fifth essay (Phillips’ second empirical Phillips curve) was previously an obscure working paper of which few copies circulated. The sixth essay is a fore-runner of the Lucas Critique written by Phillips, in longhand, shortly before his death. It seems likely that nobody has ever seen this remarkable essay before.

Preface

paper on ‘Analysis of the Operation of a Buffer Stock for Cocoa’ because it did not readily fit into the scheme of the volume. However, a copy of this paper will be supplied upon request.

Numerous people have generously assisted with this project. Valda Phillips preserved her husband’s private papers (including the papers that are published here for the first time) for nearly two decades after his death in 1975. Susan Howson initially suggested these papers might still exist, and Robert Mundell suggested that Phillips’ *Collected Works* should be available under a single cover. Brian Silverstone was extraordinarily generous in reading – and improving – every chapter and Nena Bierbaum provided excellent guidance as the volume editor. Rex Bergstrom, Jim Thomas and Robin Court assisted in the process of eliminating reproduction errors in Phillips’ unpublished chapters. Between us we have attempted to produce an error-free volume. We have corrected some typographical errors in Phillips’ original essays and we have provided some bibliographical information that Phillips’ listed as ‘forthcoming’. Judy Klein, Adrian Pagan, David Giles, Malcolm Rutherford and Jim Thomas assisted in the process of tracking down information about these ‘forthcoming’ essays. Since I was responsible for more of the word processing than I care to remember, any remaining errors (of which I hope there are none) are quite literally mine.

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Robert Leeson