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James Tobin — Nobel Laureat

The Nobel Prize honors the academic work of *James Tobin* and puts its high-grade quality in its true light, but the high mark of distinction also pays tribute to an economic policy concept which is decisively influenced by the thought of the Laureat. *James Tobin* is a neo-Keynesian. It is certainly not by accident that the honor is awarded to him in a time where economic policy makers seek to cure the difficulties of the market system with the prescription “tight money, high rates of interest, and the smaller the public sector the better for the private economy”.

The “Frankfurter Allgemeine Zeitung” put the rhetoric question whether the awarding of the Nobel Prize to *James Tobin* even should be an affront on the governments which have abjured keynesianism. An affront surely not, but perhaps a memento? The intellectual climate that forms the background for economic policy in important industrial countries, also in Germany, is more or less infiltrated with monetarist thought. This does not mean that the magic formulas of the monetarists are literally translated into action. But it is unmistakable that the hypothesis of a natural rate of unemployment has freed governments and central banks from certain dissonances. That hypothesis assures that the best what economic policy could do for more employment is to provide for a low (and stable) rate of inflation. To make up anti-inflationary policy as an employment program encourages economic policy to take restrictive measures without regard of the unemployment rate. Something like this seems to happen in important western countries. Governments and central banks apparently are ready to pay a high cost in unemployment to stabilize prices. This was the point which *James Tobin* always stressed when he brought his differences to the monetarists on the core of the matter.

Clearly the Laureat is above all honored for his academic merit. We know his good work on the consumption function and on rationing. He became famous, of course, with his publications on problems of monetary theory and policy, debt management and research into the functioning of financial markets and the interactions between them and investment behavior. Many of our profession do think highly of *James Tobin's* general equilibrium approach which proved to be a really fruitful tool for financial analysis. For monetary theorists *Tobin's* q and the famous relation $R = qr_K$ seem to be not far from acquiring a captive power like that of a $E = mc^2$, though there perhaps remain some differences about the magnitude of the empirically “true” q — a grateful material for further publications. Related with the q -concept

Editors note: *Karl-Heinz Ketterer* has translated *Tobin's* „Grundsätze der Geld- und Staatsschuldenpolitik“ (An Essay on the Principles of Debt Management), Nomos, Baden-Baden 1978, into German.

is the topic that bonds and real assets are more in the relation of complementarity than substitutability, a result of the proper inclusion of risk into the analysis of portfolio choice. This offered an interesting approach to the problem of government deficits, an approach which allowed for a crowding in and undermined that more or less stupid feuilletton of a crowding out.

James Tobin's statements on inflation and unemployment have a strong reference to actual problems of the market system. *James Tobin* founded together with others, above all *Albert Hirschman* and *Charles Schultze*, the theory of structural inflation which says in its kernel that also movements of relative prices are inflationary (and not only changes in "money" which exceed potential output). This theory forms the analytical base for the conclusion that in the short run inflationary tendencies can only be wiped out at the expense of high and involuntary unemployment. Related with this is the topic that the functioning of labor markets is not the same like that of goods markets. Labor is not be sold by auction and there are good reasons for it. There is virtually no possibility to find the market clearing price, i. e. real wage. The more important is it to furnish the bargaining parties with guiding data — the field of incomes policy. For us in Germany it is interesting enough that *James Tobin* could agree with the policy of monetary targets but — remember — as a sort of setting guide-posts for collective bargaining. Indeed in Germany the monetary targets are conceived as an offer to the bargaining parties to agree on the rate of inflation which should be anticipated and thus keeping it out of the negotiations. In Germany this can be practised with better success than in some other countries because the German trade-unions traditionally accept that the negotiated real wage should help to clear the labor market.

James Tobin's answers to inflation and unemployment are different from those ones which give us German politicians and editorial writers. It is customary to conceive the actual problems of the market system as a problem of "too much": inflation is the result of too much money, slackening private investment is the consequence of too much government bonds, unemployment stems from too much real wage. Cut the "too much" and all things go right. The rule has common sense, of course. The warning of *Tobin*, not to derive short-run policy recommendations from long-run equilibrium conditions, should be kept in mind.

It is not surprising that the editorial writers in Germany had some difficulties to range in *James Tobin* when the name of the Laureat the first time became known in the public. But one listened attentively to the message. Sooner or later, slowly or rapidly, economist policy may change. In the academic discussion *James Tobin* is already in.

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