

## Comments by John Cochran

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*Time and Money: The Macroeconomics of Capital Structure* is a significant accomplishment. It develops and refines the macroeconomic model of Ludwig von Mises and Friedrich A. Hayek and also makes major contributions in the area of comparative frameworks and the history of economic thought.

The macroeconomic theories of Hayek and John Maynard Keynes were the major rivals in the 1930s. From the 1940s to the late 1970s, however, the framework developed by Keynes in *The General Theory of Employment, Interest, and Money* dominated economic policy and pedagogy despite logical and theoretical problems with the model. Much of the success of the Keynesian approach within the profession was due to the follow up developments by Sir John Hicks and Paul Samuelson. These authors developed simple graphical presentations (the IS-LM model and the Keynesian Cross) that made it easy for economists to grasp the implications of the theory, to extend and develop the theory, and to use the theory for historical analysis and policy applications, and most importantly the simplifications provided a pedagogy for teaching the Keynesian model to new students of economics.

Hayek's model, which was partially responsible for his winning the Nobel Prize in economics in 1974, was temporarily abandoned, not because it was wrong, but partly because, as Sir John Hicks has argued, that while the writings of

Hayek and Mises on business cycle theory were in English they were not English economics, and partly because the model was too complex. The Austrian model had no equivalent model or framework to compare to the IS-LM or Keynesian cross framework. Hayek's attempt to further develop his more complex theory resulted in the publication of *The Pure Theory of Capital*. This book is over 500 pages long and was only a preliminary for 'further investigations of the dynamic phenomena of business cycles.' Hayek never completed a promised second volume of at least equal length to fully develop his model. The great complexity of the capital and monetary issues have caused many others who have attempted the project to also abandon it.

Professor Garrison's *Time and Money* fills in both gaps. In the book, Dr. Garrison finishes Hayek's project, not by trying to make the model as complex as issues of time and money might suggest, but by combining a simpler model, the 'intertemporal structure of production', with two standard principles level models, the production possibilities frontier and the loanable funds market to develop a comprehensive framework for exploring the operations of an economy in time. The author successfully handles caveats and exceptions in conversation and detailed discussion. The book provides a clear explanation of business cycle phenomena, meaningful extensions of Austrian framework, a platform for future research for the author and others, a novel and correct interpretation of Keynes, and a new and very useful framework for comparing competing and complementary macroeconomic theories. Most importantly, Garrison's graphics provide a pedagogy that is useful from a principles to a graduate level of

instruction. The model is not just a tool to develop Austrian insights, but is also a useful tool to foster better understanding of the workings of a market economy – how and why it may work and how and why it may break down.

Even before publication, the book was generating excitement and discussion among professional economists. Last October at the International Atlantic Association Meetings in Charleston, S. C., I organized a session on capital-based macroeconomics. The program had four papers, each building on the basic framework developed in *Time and Money*. The highlight of the well-attended session was a presentation by Dr. Garrison on the book. Participants in the session came from the U.S., the U.K, and continental Europe.

To place the importance of the book in a broader context, Brian Snowden, Howard Vane and Peter Wynarczyk, in a leading graduate level text (*A Modern Guide to Macroeconomics: An Introduction to Competing Schools of Thought*, Edward Elgar, 1994), recognize that the Austrian (capital-based) macroeconomics offers “important insights and alternatives to mainstream macroeconomics.” They argue the approach is one that has witnessed a major sustained revival of its fortunes during the past 20 years due to the “commitment and tenacity of Mises and Hayek” and from the “contributions of a new generation of Austrian economists ...” Professor Garrison’s work in Austrian macroeconomics over the past 20- some years has been among the most influential of these new contributions. *Time and Money* and its detailed development of a capital-based macroeconomics is perhaps the most important of these recent developments. The capital-based approach has the advantage of providing a seamless

macroeconomics of the short run, the medium run, and the long run, particularly when compared to current mainstream analysis, which lacks a medium run and has long run and short run models that are often in conflict. In our book, *The Hayek-Keynes Debate: Lessons for Current Business Cycle Research* (Edwin Mellen Press, 1999), Professor Fred Glahe (University of Colorado) and I argue that it is only with a “greater understanding of the forces actually shaping events in a monetary production economy that we can make rational decisions about policy and monetary institutions.” *Time and Money* is certainly a major contribution to our further understanding of these complex market processes. I strongly recommend Professor Garrison for this award based on this important new work.