

Convergence, Divergence and Realignment in British Macroeconomics *

For practising British macroeconomists it is probably a commonplace that the key debates in the UK over macroeconomic theory and policy have changed considerably over the last decade or so. However for economists in other fields, for macroeconomists outside the UK, and even more for non-economists, these changes are much less clear, and popular economic debate is still frequently couched in terms of a simple distinction between Keynesians and monetarists. In this paper we argue that this simple view of the debate has become seriously misleading; we indicate the changes that have taken place in British macroeconomics since the early 1970s and suggest some of the theoretical and empirical factors responsible for these changes.

We start by presenting a brief characterisation of British Keynesianism and monetarism as of the late 1960s/early 1970s in terms of five key points. We then argue that there have been important elements of convergence between *some* Keynesians and *some* monetarists on those five points. The most important of these Keynesians are Michael Artis, Willem Buiter, David Currie, Charles Goodhart and Marcus Miller, and we shall refer repeatedly to their writings. However it is worth noting here that a less comprehensive and less clearcut movement in a similar direction can be found in the works of other Keynesian economists such as James Meade and his associates (Meade, 1982; Vines and Maciejowski, 1983). Among the monetarists on the other hand much of the published material to which we shall refer is by David Laidler; despite his departure to Canada it is clear that Laidler continues to influence and be influenced by the economic debates in the UK and that in many cases he is articulating views which are held by a much wider group of economists.

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In section III we consider other areas where some convergence may be identified. We then proceed to discuss first some of the theoretical developments and second some of the experiences of UK macroeconomic policy which have contributed to this convergence. Finally in section V we note the divergences within the old 'camps' of Keynesianism and monetarism which are the other side of the coin of the convergence between some Keynesians and some monetarists, ask whether those involved in the convergence are aware of it, and consider whether the labels 'Keynesian' and 'monetarist' continue to fulfil any useful function.

I

British Keynesianism has traditionally been more 'extreme', more 'hard-line' than that prevalent for example in North America. In terms of Coddington's (1976) distinction between the 'hydraulic', 'fundamentalist' and 'reconstituted reductionist' varieties of Keynesianism, the 'fundamentalist' tendency, with its more complete and explicit rejection of choice theory and of the price mechanism, has always been most strongly established in Cambridge (England) and has had considerable influence even on the more 'hydraulic' majority of British Keynesians. Moreover the practical scope for governments to use traditional Keynesian fiscal policy has always been much greater in the UK than in the US for constitutional reasons. Thus as of the late 1960s/early 1970s, mainstream British Keynesianism could be characterised in the following five points.

First, British Keynesians doubted that the demand for money was stable — doubts made explicit in the evidence submitted to the Radcliffe Committee by Kaldor (1959) and Kahn (1959) and still prevalent a decade later, particularly in the oral tradition. Second the Keynesians doubted the existence of any transmission mechanism from the money supply to nominal income, a subject usually discussed in terms of the interest-elasticity of investment where doubts had originated with the Oxford Studies in the Price Mechanism surveys of businessmen's behaviour in the 1930s (Wilson and Andrews, 1951). Third, the Keynesians assumed in general that the growth of the money supply was endogenous to economic activity and inflation, an argument which came to be put more strongly (e.g. Kaldor, 1970) as empirical evidence supporting the stability of the demand for money began to accumulate. In terms of the IS-LM model these three points amount to

a relatively steep IS curve and a relatively flat LM curve, implying that fiscal policy is relatively powerful and monetary policy relatively weak and implying that income is unstable in the presence of shifts in exogenous exports or autonomous investment ('animal spirits').

Fourth, inflation was explained by Keynesians primarily, and after the empirical breakdown of the original unaugmented Phillips curve in the late 1960s exclusively, in terms of cost-push factors. And finally, though this was a less essential characteristic, a majority of British Keynesians probably favoured fixed rather than flexible exchange rates, believing that the latter would be highly volatile as a result of destabilising speculation, but remaining relatively pessimistic in their evaluations of the relevant elasticities and hence of the effectiveness of changes in fixed parities for balance of payments adjustment.

There were relatively few British monetarists in the late 1960s and they tended on the whole to be somewhat overawed by and dependent on Milton Friedman and his colleagues at Chicago. In the early 1970s this situation began to change as both the International Monetary Economics Research Programme at the London School of Economics under Harry Johnson and Alexander Swoboda and the Inflation Workshop at Manchester University under David Laidler and Michael Parkin began to develop an open economy version of monetarism which was both non-Friedmanite in some important aspects and more obviously relevant to the UK economy. The position of British monetarists up to that time, however, can be characterised in terms of the following five points, corresponding to those above for the Keynesians.

First, British monetarists were confident that the demand for money was a stable function of a small number of variables, with a relatively low interest-elasticity in particular. Second, they asserted the existence of a transmission mechanism from money supply to nominal income, primarily but not only via the effect of interest rate changes on various elements of expenditure (consumer durables as well as investment). Third they assumed that the supply of money was on the whole exogenous, that is to say that the authorities both were able to control its growth if they so wished and had in fact generally done so. In terms of the IS-LM model these three points amount to a relatively steep LM curve and a relatively flat IS curve, implying that monetary policy is powerful and fiscal policy weak and suggesting an economy which is less prone than the Keynesian one to fluctuations arising from shifts in exogenous elements of demand.

Fourth, in the early 1970s British monetarists came to explain inflation as an excess-demand phenomenon in terms of the expectations-augmented Phillips curve, with aggregate demand dominated by the growth of the money supply and inflation expectations adjusting on the basis of past experience. And finally, though again this is a less essential characteristic, they tended to favour flexible exchange rates on the grounds that they would enable the insulation of the economy from fluctuations in the rest of the world and that they would facilitate the operation of monetary policy.

II

The first point at issue between the Keynesian and monetarist positions set out above is the stability of the demand for money. In the early 1970s there was an accumulation of empirical evidence which tended to support the proposition of stability (e.g. Goodhart and Crockett, 1970; Laidler and Parkin, 1970) and it began to look as though Keynesian economists would have to move into line with the monetarists on this point. However in 1974 it was discovered that the demand for money appeared to have shifted significantly in the period 1972-73 — the period in which the new system of monetary control (Competition and Credit Control) had been in operation, since September 1971, and the exchange rate had been floating, from June 1972. This evidence could well have led to renewed doubts among Keynesians as to the stability of money demand, and indeed the possibility of instability was raised in two of the first examinations of the question, by Artis and Lewis (1974) and Hacche (1974). But in their later work (1976, 1981), Artis and Lewis themselves tried to explain the apparent shift, not just in terms of lags in the adjustment of demand to supply but also in terms of shocks to the supply of money which had forced the private sector off its aggregate demand for money schedule in the short run. This explanation has been further developed recently in terms of 'disequilibrium' or 'buffer-stock' money (see below); for present purposes the important point to note is that many leading Keynesian economists are no longer disposed to reject the proposition that the demand for money is broadly stable over the longer term, even though it may be difficult to model the short run relationship.

On the second point at issue, the transmission mechanism, there has also been a significant measure of convergence, involving the

consideration of a number of alternative possible mechanisms and particularly, for the UK, the exchange rate. Thus Laidler (1982b, ch. 4 — originally published in 1978) drew attention to the connection between fiscal and monetary policy implied by the government budget constraint and to the role of expectations of inflation, while Laidler, Artis and John Williamson all attributed considerable importance to the exchange rate as a transmission mechanism in their evidence to the Treasury and Civil Service Committee in 1980. Moreover models involving the latter mechanism have been presented in recent articles by Keynesian economists such as Artis and Currie (1979) and Buiter and Miller (1981a).

Debates on the exogeneity or endogeneity of the money supply, the third of the five points at issue, have diminished in recent years. This is hardly surprising: after 10 years during which the authorities have been continually trying to intervene in the process of monetary growth — efforts which have been visibly strenuous but by no means always successful — it has become extremely difficult to argue either that the money supply is simply endogenous or that the authorities can control it at will. Furthermore the evidence of recent econometric causality tests such as Mills (1980) is more sympathetic to the hypothesis of exogeneity than earlier tests such as Williams *et al.* (1976), as is acknowledged by Artis and Lewis (1981, pp. 46-48) in their brief survey. On the other hand monetarists have been forced to recognise at least some of the difficulties involved in designing and implementing policies of monetary control (e.g. Laidler, 1982b pp. 32-34, 161-163; Budd, 1982 pp. 22-28; Cobham, 1982). Thus on this point also there has been a convergence towards a position that emphasises and analyses the problems of monetary control rather than arguing for uni-directional causality between money supply and money income in either direction.

The controversy on the causes of inflation was in many ways the most virulent controversy in British macroeconomics in the early 1970s. It is therefore all the more striking how far the intensity of debate here too has been reduced. The most crucial development seems to have been the replacement among some Keynesian economists of the hypothesis of money wage rigidity by that of real wage resistance: the latter hypothesis brought Keynesians into line with the absence of money illusion in the long run which characterises the monetarist expectations-augmented Phillips curve analysis and in many cases generates predictions comparable to those of the latter analysis, as was recognised by Artis and Miller (1979). Thus some Keynesian economists have now become more willing to employ formulations very close to

that of the augmented Phillips curve, even though they may prefer the term 'core inflation' to that of 'inflation expectations' as in Buiter and Miller (1982). At the same time there was a notable 'reappearance' of demand variables in empirical work on wage inflation (Artis and Lewis, 1983). And on the other hand some monetarists have become more willing to admit the existence of important short-term cost-push effects on the price level in specific cases such as the sharp oil price increases of the 1970s or the near-doubling of VAT in 1979 (Laidler, 1982b pp. 14-15), while Sumner and Ward (1983) concluded that although the evidence for a long-run Phillips curve vertical at the natural rate was overwhelming for the 1970s it was much less clearcut for the 1960s. On this point too then there has been an important, though by no means complete, element of convergence between some Keynesians and some monetarists.

The fifth point at issue in the debates of the late 1960s and early 1970s was the choice of exchange rate regime, with monetarists generally preferring flexible and Keynesians fixed rates. The simple case originally put forward for flexible rates had already been strongly challenged from within the broader monetarist camp by Mundell in a series of papers some of which precede the period of which we are speaking (e.g. 1969, 1973): essentially in a world of capital mobility flexible exchange rates do not insulate the economy from real shocks in the rest of the world because the balance of trade is not constrained to be zero, while the adoption of flexible rates does not improve the number of policy instruments available to the government relative to the number of its objectives once the role of fixed exchange rates in tying down the price level is recognised. These arguments have now been accepted by monetarists: Laidler (1982a, p. 165), for example, after surveying the issues concludes that "the only advantage of flexible exchange rates is that they permit each country that adopts them to enjoy whatever inflation rate its own domestic policies generate". Amongst Keynesians, on the other hand, the introduction of the real wage resistance hypothesis has led to analytical results on the effectiveness for balance of payments adjustment and on the price-level effects of devaluation which are close to those obtained, via somewhat different mechanisms, in the monetary approach to the balance of payments. Artis and Currie (1979) have documented the extent to which the Treasury, London Business School and National Institute models (vintage 1979) all contain a significant 'pass-through' from the exchange rate to the price-level once the wage response is taken into account. The

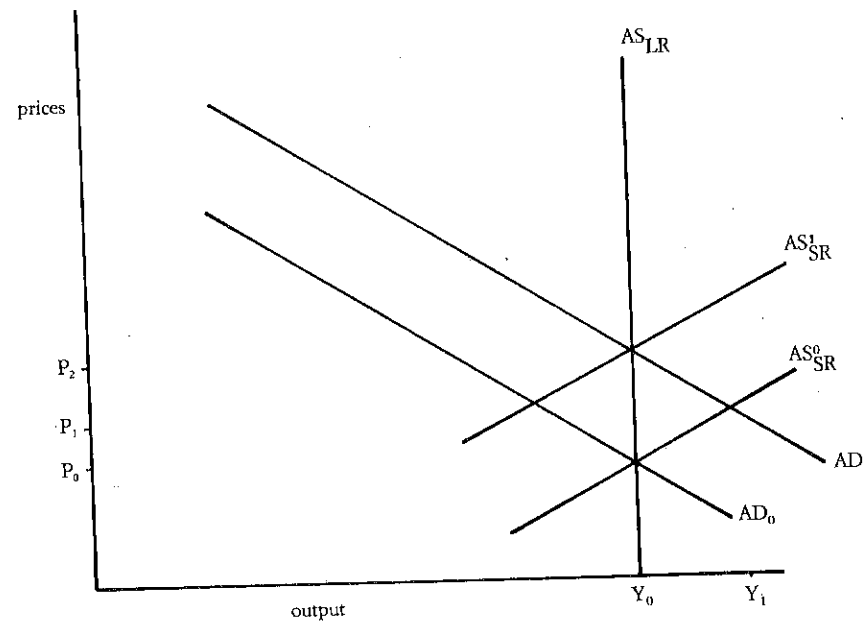
upshot is an acceptance on both sides that there is no general preference for fixed or flexible rates, but that the choice has to be made on the basis of a conjunctural analysis (compare Laidler's 1982a discussion with Artis's 1981 remarks on the desirability of the UK participating in the exchange rate mechanism of the European Monetary System). One of the few exceptions to this position is the open economy monetarist argument of Sumner and Zis (1982) that fixed rates are preferable *in general* as well as within the European Community.

It is clear then that on all the five major points of controversy between British monetarists and British Keynesians of the late 1960s and early 1970s there has been a process of convergence between some monetarists and some Keynesians, generally not towards one or other of the original positions but towards a third position. Before turning to a number of other areas where we shall argue that a similar process of convergence is occurring it is worth noting that most of this process of convergence that we have identified so far can be summarised in terms of the aggregate supply/aggregate demand apparatus of Figure 1 (itself an apparatus which had almost dropped out of the literature in the earlier period but is now widespread and prominent): here the aggregate demand curve is at least strongly influenced if not altogether dominated by monetary growth and the long run aggregate supply curve is vertical, while the short run aggregate supply curve is drawn either for fixed price level expectations or for a fixed money wage and shifts up in response to an increase in the price level.

III

The process of convergence traced out in the preceding section can also be observed in a number of other areas of macroeconomic theory and policy. The most important of these is the attitude to the 'rational expectations revolution' or 'New Classical macroeconomics'. The latter is relatively weakly represented in British macroeconomics; its most vocal supporters are Patrick Minford and his associates at Liverpool University (e.g. Minford, 1980; Minford and Peel, 1981), while some more purely academic work has been done elsewhere (e.g. Attfield *et al.*, 1981; Baillie *et al.*, 1983) and some more popular work at City University (see the City University Business School's *Economic Review*). However there is no doubt that New Classical ideas have been taken extremely seriously by both strands in the emerging convergence, and

FIGURE 1



From an initial equilibrium at Y_0 and P_0 with aggregate demand AD_0 , vertical long run aggregate supply AS_{LR} and short run aggregate supply (drawn for either a fixed expected price level or a fixed money wage) AS_{SR}^0 , an expansionary policy which increases aggregate demand to AD_1 causes output to expand in the short run to Y_1 with prices rising to P_1 . Over the longer run the increase in prices leads to an upward shift in the short run aggregate supply curve and the economy eventually reaches a new long run equilibrium at P_2 and the original level of output Y_0 .

It is striking that the general attitude of both is characterised by an emphasis on the distinction between the hypothesis of rational expectations itself and the hypothesis of perfect market clearing with which it is combined in New Classical models. This distinction, which has been made by North American Keynesians such as Tobin (1980, ch. 2), is fundamental to Laidler's developing critique of 'neo-Austrian' ideas (Laidler, 1982b ch. 3; 1982c); it is also essential, for example, to Currie's work on small macro models which is designed to take full account of the Lucas (1976) analysis of the implications of the rational expectations hypothesis for modelling and econometric testing (e.g. Currie and Levine, 1982; see also Currie, 1982).

A second area where some convergence can be observed is the analysis of exchange rate overshooting. This analysis, which dates from

Dornbusch (1976) — an open economy monetarist who has recently taken a much more eclectic position — explains that in response to monetary and other shocks exchange rates may 'overshoot' their new long run equilibrium because financial markets adjust rapidly and efficiently (with expectations formed 'rationally') while labour and goods markets clear more slowly, as in the expectations-augmented Phillips curve analysis with expectations dominated by past experience; it therefore fits readily into the Keynesian/monetarist convergence. It was introduced into British policy debates by Niehans (1981) and Buiter and Miller (1981a,b) in an attempt to explain the large appreciation of sterling between early 1979 and early 1981, but the basic result can also be found in models from the London Business School (Beenstock, Budd and Warburton 1981) and even (though the degree of overshooting is much smaller) in Minford (1981). Goodhart and Temperton (1982) found some empirical support for the hypothesis, contrary to their original expectations, and a favourable reference to the analysis can be found in Laidler (1982b, pp. 167-168).

A third area of convergence is that of 'disequilibrium money' or 'buffer-stock monetarism': here we find two of the most prominent early researchers into the demand for money in the UK — Goodhart (1984) and Laidler (1984) — both working to develop a theory of the demand for money in the direction first suggested in the UK context by Artis and Lewis (1976): money holdings are regarded in this theory as a residual or buffer-stock which absorbs unforeseen fluctuations in income and expenditure and which holders attempt to maintain not at some specific level (for given nominal income, interest rates, expected inflation, etc.) but within a certain zone. Goodhart is perhaps more interested in the policy implications of the theory, while Laidler directs his analysis partly against the New Classical continuous market-clearing assumption (if markets clear continuously and prices adjust instantaneously there is no need for buffer stocks). Nevertheless this coming together of a leading Keynesian official adviser and a leading monetarist academic in a joint endeavour is striking evidence of the kind of convergence which is occurring.

The argument for 'inflation-adjusting' the PSBR by taking account of the effect of current inflation on the real value of the outstanding stock of public sector debt is a somewhat different example of this convergence: here British Keynesians have been 'stealing the clothes' of North American monetarists while British monetarists have had little to say on the subject, at least in print. The argument started with Taylor

and Threadgold's (1979) estimates of 'real national saving' and the "real" PSBR' and has been developed in a series of papers by Miller (1981, 1982). In his evidence to the Treasury and Civil Service Committee (1980) Friedman specifically endorsed the Taylor and Threadgold analysis, which is strongly in line with his own arguments in favour of indexation and with monetarist analysis of the welfare costs of inflation (e.g. Friedman, 1974); the analysis was also supported by Williamson, Hahn and Kaldor. Recently even 'hard-line' Keynesians such as Neuburger (1983) have been tempted to use this analysis as a weapon of criticism against present government policy. However monetarists such as Budd and Dicks (1980) remained sceptical, while Minford (1982) argued strongly against the use of the "real" PSBR' as a policy target.

We conclude this section with a brief mention of three further areas where some convergence has occurred. First monetarists such as Laidler (1982b, pp. 161-163) have begun to take seriously the more traditional Keynesian emphasis (recently developed by Goodhart, 1982) on structural change in the financial system and the problem which the latter poses for the definition and control of a target monetary aggregate. Second a few economists of monetarist origin (e.g. Cross, 1983) have been willing to acknowledge the difficulty in explaining the presumed increase in the natural rate of unemployment since the mid-1960s. And third Keynesian economists have become much less optimistic about the possibilities of 'fine-tuning' the economy, even though they remain committed to 'coarse tuning' (Currie, 1981 p. 12).

IV

There are three major theoretical developments which can be identified as having made an important contribution to this process of convergence. First the monetary approach to the balance of payments and open economy monetarism more generally, as developed by Johnson (e.g. 1972, chs. 9 and 13) and later by other researchers at LSE and Manchester (e.g. Jonson, 1976; Parkin and Zis, 1976), enabled the construction of a monetarist analysis of the UK's macro experience that was by far superior to the rather clumsy attempts to 'apply Friedman' to the UK such as Harris (1975). In particular open economy monetarism showed that with fixed exchange rates the money supply is endogenous, and with flexible rates identified the exchange rate itself as a major transmission

mechanism: these two points made it possible to interpret much of the accumulated empirical evidence on the UK in a way that was acceptable to both Keynesians and monetarists. Furthermore as discussed in section II above open economy monetarism provided a critique of the case for flexible exchange rates which tended to resolve another of the major controversies between British Keynesians and monetarists.

Second, the literature on the government budget constraint has contributed substantially to the evolution of Keynesian-monetarist debates more generally over the 1970s (see for example Currie, 1978, and Burrows, 1979). On the one hand this literature has emphasised the interdependence of fiscal and monetary policy, rendering some of the earlier debates meaningless or irrelevant, and on the other hand it has shown unequivocally that some of the predictions originally made by monetarists cannot be derived from exercises with the IS-LM model (without a binding full employment constraint) except in the extreme cases of vertical LM and/or horizontal IS curves which are now universally agreed to be excluded by the empirical evidence.

Third, work on the microeconomic underpinnings of the expectations-augmented Phillips curve subsequent to the original papers of Phelps (1967) and Friedman (1968) has made explicit the two alternative interpretations available: on the one hand the 'Fisherian' aggregate-supply curve interpretation of the Phillips curve as showing the response of output to the difference between actual prices (set by a Walrasian auctioneer) and expected prices; and on the other the 'non-market clearing' interpretation of the curve as showing the response of prices to excess demand. It is clear from Laidler's writings (1982b, chs. 1 and 4) that the distinction between these interpretations has played an important role in the clarification, if not also the development, of his ideas, which strongly favour the second interpretation. This development therefore offers a version of 'monetarism' which is more accessible to economists whose vision is essentially Keynesian, and at the same time leads to a greater differentiation between more gradualist monetarists such as Laidler and the neo-Austrian or New Classical monetarists.

However it is clear that the changes in British macroeconomics have also been strongly influenced by the macroeconomic experience of the UK during the last decade or so. The most important factor here has been the experience of floating exchange rates, including the depreciation associated with the Heath-Barber dash for growth of 1972-73, the prolonged sterling crisis of 1976 and the substantial appreciation of

sterling between early 1979 and early 1981. These developments have made Keynesian (and other) economists more aware both of the importance of the exchange rate as a transmission mechanism and of the effect of changes in prices on wages (and therefore led to the abandonment of money illusion in other than the very short run). They have also led Keynesians to be much more cautious about the extent to which reflationary policies will impinge on output rather than prices. And the volatility of the sterling exchange rate over the period, which was considerably greater than had been expected by the 1960s advocates of flexible exchange rates (see Zis, 1983) and has also been difficult to model or explain (see Hacche and Townend, 1981), has blunted the enthusiasm for flexible rates.

A second influential experience has been the history of monetary control in the UK, particularly in the years since 1979. Before that time difficulties in monetary control could always be explained in terms of lack of political will but such an argument was clearly much harder to substantiate under the Thatcher government (for which reason an alternative alibi of 'Bank of England sabotage' was invented); furthermore the problems of monetary control in the early 1980s included unforeseen surges in bank lending to the private sector (rather than uncontrolled and unfunded public sector deficits) on the one hand and apparent shifts in both the demand for some measures of the money stock and the relationships between the various measures on the other. Thus monetarist economists have been compelled to recognise the existence of problems which had previously been stressed only by Keynesians, while at the same time Keynesians have been forced to abandon the hypothesis of simple monetary endogeneity in the face of the substantial and visible efforts made by the authorities to control monetary growth.

A third factor has been the experience of a variety of incomes policies during the 1960s and 1970s, where even economists with strong cost-push inclinations have been forced to the conclusion that incomes policies have had only temporary and short-term effects on wage inflation (e.g. Henry, 1981). In some cases this experience has led to further attempts to devise new forms of incomes policy which might be less vulnerable to the problems incurred by those forms already tried (e.g. Meade, 1982). But more generally the experience has contributed to a disillusionment with that instrument which most sharply differentiated Keynesian from monetarist policy recommendations in the past.

A fourth factor is simply the depth of the 1981-82 recession, which has made all thinking macroeconomists more pessimistic and more suspicious of miracle cures. Thus among the monetarists there can be found a renewed emphasis on the need for gradualism in monetary deflation (e.g. Budd and Dicks, 1982; Laidler, 1982b ch. 5), while among Keynesians there can be found a degree of caution regarding the possibilities of reflation which contrasts markedly with the self-confidence of the 1960s: for example Hopkin, Miller and Reddaway, in their 'alternative economic strategy' (1982), talk only of preventing unemployment rising above three million over the first year of their strategy, underline the difficulties facing any more reflationary policy and do not suggest any lower unemployment figure that might be reached after two or more years. At the same time the experience of frequent changes in budgetary policy during the years 1974-77, which demonstrated the difficulties in controlling the *instrument* of fiscal policy, quite apart from its effects on the economy, has helped to make Keynesians more sceptical about the fineness with which the economy can be tuned, while similar difficulties in controlling the money supply in succeeding years have reinforced monetarists' more traditional caution in this respect.

Finally it is not possible to exclude the hypothesis that the very stridency of the New Right in British politics has pushed certain monetarists to differentiate their own positions more clearly. A cynic might argue that this reflects a failure of morale or a pang of conscience in the face of the logical outcome of their own arguments, but it seems more likely that it represents a reassertion of the traditional social democratic values to some form of which monetarists such as Laidler and Budd have (like their Keynesian counterparts) always subscribed.

V

We have argued that over the last decade or so there has been an important process of convergence within British macroeconomics between a group of Keynesians and a group of monetarists, a process which has been taking place across a wide range of issues and which can be related to a number of specific theoretical developments and specific aspects of the UK's macro policy experience over this period. The other side of this coin is of course an increasing divergence between the 'convergers' and the 'non-convergers' in each of the original 'camps' of Keynesians and monetarists.

The non-converging Keynesians are probably best represented by Kaldor (1982), which exhibits a strong continuity with the Keynesianism of the late 1960s. As Harrington (1983, p. 64) put it in his joint review of Kaldor (1982) and Laidler (1982b), "Whilst the details and the focus of Kaldor's writings have changed somewhat, due largely to changes in current policy issues, the underlying theoretical approach has not changed." Harrington also points up the enormous differences between the monetarism which Kaldor denounces and the monetarism of Laidler; one reason for these differences is presumably Kaldor's failure or refusal to make any distinction between the converging gradualist monetarists such as Laidler and the diverging New Classical macroeconomists such as Minford, to whom we referred in section III. While the non-converging Keynesians may be regarded as having stood still while the world went by, the non-converging New Classical monetarists should perhaps be seen as having gone off on a tangent composed of continuous market clearing and an associated heavy emphasis on the supply side.

We therefore need to redraw the 'map' of British macroeconomics, replacing the old map with its bi-polar Keynesian-monetarist divide by a new map in which three polar positions are identified: the traditional Keynesians such as Kaldor, the developing Keynesians-monetarist convergence highlighted in this paper, and the New Classical macroeconomists such as Minford. At this point, however, there are two further questions which should be posed: first, would the participants in this process recognise the account given of it here? and second, should the labels 'Keynesian' and 'monetarist' be rejected forthwith as useless and misleading?

On the first question there is considerable evidence that those economists involved in the process of convergence are well aware of what is occurring. From the Keynesian side Currie (1981, p. 2) observed that "Keynesians were rather slow to adapt their thinking to the floating world of the 1970s", but asserted that "The lesson that money is of critical importance in a world of floating exchange rates is too well learnt to be forgotten." And Goodhart ended his (1984) paper with the hope that the disequilibrium money approach "might serve as a bridge between the methodologies of the Keynesian and monetarist camps" (p. 25). From the monetarist side Budd *et al.* (1984) put forward a minimalist definition of monetarism according to which they argued that Artis and Currie (1981), Buiters and Miller (1981) and even Modigliani (1977) should be classed as monetarist. And Laidler (1982b,

p. ix) claimed that "the monetarism which this book is devoted to elaborating is closer in its theoretical foundations to Keynesian economics than what is often called 'new-classical' economics"; while according to Laidler and Bentley (1983, p. 333), "Whether our model should be called 'Keynesian' or 'monetarist' is hard to say..." It is clear then from these quotations that those involved in the convergence are not unaware of the process.

But does this mean that the labels 'Keynesian' and 'monetarist' should be eliminated? On the one hand the process of convergence is clearly not yet complete, and insofar as these labels indicate economists' intellectual origins they identify something which will continue for some time to be of significance: how the eye sees is conditioned partly by what it has seen before. For example the convergent monetarists probably still put more emphasis on money in relation to other assets and have shown little willingness to abandon the recommendation of monetary base control. On the other hand the realignment that has taken place already is so extensive that it is positively misleading to use the same label for Kaldor and Currie, or for Laidler and Minford. Thus these labels tell us something useful about the different strands *within* the convergence, but they are unhelpful in describing the map as a whole. The point of using labels in the first place is of course to focus, structure and thereby clarify a debate or set of debates at a particular stage; but when the debates move on the persistence of the labels obscures and confuses. On balance therefore it seems preferable to get rid of these two particular labels; while the non-converging camps can naturally be referred to as 'traditional Keynesian' and 'New Classical', perhaps the developing convergence could be called 'disequilibrium monetarist'.

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