

## PREFACE

On Friday September 20, 1991, more than 150 friends of Lawrence R. Klein spent an evening with Sonia and Lawrence Klein at the magnificent Museum of the University of Pennsylvania in Philadelphia. These friends came from all continents. They proposed to prepare and publish a *festschrift* in honor of Lawrence R. Klein. This volume, *Economics, Econometrics and The LINK* is the end product from all his friends, including those who have contributed the twenty-nine chapters to this volume and the many others who were unable to join in this project. This volume is a tribute to the scholarly contributions of Lawrence R. Klein.

In the McCarthy era, Lawrence Klein left home "for the peace and academic freedom of Oxford," England. After a productive engagement in econometric model building of the United Kingdom at the Institute of Statistics at Oxford University, in 1958 he returned to the United States as a professor of economics at the University of Pennsylvania, where he has been engaged in many productive years. Beginning in 1968, he held the distinguished Chair - Benjamin Franklin Professor of Economics and Finance - at the University of Pennsylvania. In 1991, the title of emeritus of the same chair was accorded to him.

Friends of Lawrence Klein became members of a global family by sharing a common agenda: to relate the study of economics to the "studies of mankind." The core of the agenda has been conducting economic research on the broadest and deepest interlinkages of the world economies, indeed, of humankind. We believe that the best preface to this *festschrift* is to chronicle the works of Lawrence Klein. Although a complete bibliography of Klein's writings is provided, it seems most fitting to chronicle his major works.

*The Keynesian Revolution* (1947), a term Lawrence Klein coined, was based on his doctoral dissertation at the Massachusetts Institute of Technology (1944), and it won an instantaneous global readership. Professor Paul Samuelson cites him as "Columbus" in the voyage of exploration of macroeconomics.

Lawrence Klein brought to his studies of macroeconomics the theory of probability and mathematical specifications of behavioral equations of macroeconomic actors. He persistently searched for the basic structure with stable behavioral parameters of a macroeconomic system, thereby immensely enriching the literature of economics and econometrics. In 1950, Klein published *Economic Fluctuations in the United States, 1921-1941*, followed in 1955 by *An Econometric Model of the United States, 1929-1951* (with A.S.Goldberger). Klein was soon recognized as a leading authority on the art and science of econometric modeling of macroeconomies. Reference was made to him as America's Jan Tinbergen.

In 1959 Klein was awarded the John Bates Clark Medal, granted by the American Economic Association to the most distinguished American economist under the age of 40. In 1960, he was elected President of the Econometric Society and in 1977 Klein was elected President of the American Economic Association.

Lawrence Klein broadened his research in two directions - first, construction of econometric models of other macroeconomies; and second, construction of macroeconomic model of the United States economy on a much larger scale, so that many more economic variables could be treated as endogenous, enabling the model to answer many more economic questions. The two volumes were published: *An Econometric Model of the United Kingdom* (1961), prepared in collaboration with Ball, Hazlewood, and Vandome and *The Brookings Quarterly Econometric Model of the United States* (1965), edited with Duesenberry, Fromm, and Kuh. Successive generations of the Wharton Econometric Models of the United States and the Wharton Econometric Forecasting Unit's quarterly forecasts have been a rich addition to the treasure of our knowledge in economics.

Klein's leadership in constructing econometric models of additional macroeconomies has extended to many countries in Western Europe, Eastern Europe, Asia, Russia and the other members of the Commonwealth of Independent States, as well as the Americas. As early as 1968, Klein initiated "a new project to model the international transmission mechanism." His was a landmark recognition of the fact "that the U.S. economy is no longer *closed*". Indeed, the U.S. economy had to be treated analytically as an open economy and the specification that followed is the now famous LINK Model which Klein directs in collaboration with Bert G. Hickman. It is one of the first systematic approaches to interlink many sovereign macro-economies in a global scheme. The LINK Model, by endogenizing international trade volume and prices, represents an extension of the modeling exercise to specify the macro core of the world economy.

While Lawrence Klein is an econometrician, he has been an economist first. His contributions to econometrics have invariably been based on the teachings of great "masters" in economics; and his message has been never to compromise core economic theory with the "jungle-land of facts." Lawrence Klein reminded us that "there is a misconception, in general, as to what constitutes macroeconomics, because there are two dimensions to aggregation - over commodities and services, and over economic units (firms and households)". He rejected the doctrinaire views of *monetarism*, and forcefully argued that "money matters" in economic analysis but that its role should not be exaggerated.

His presidential address at the American Economic Association meetings (1977) on "The Supply Side" invites our attention to "a full supply-side *and* demand-side economics", with broad-based interdisciplinary

relationships. He cautioned his audience not to confuse the legitimate aspects of the "supply side" with "the simplistic populist approaches through tax cuts". In 1983, he elaborated his analysis in the Royer lectures on *The Economics of Supply and Demand* and in *Lectures in Econometrics*. These were followed by his *Economics in Theory and Practice: An Eclectic Approach* (1989) with Jaime Marquez.

Economic studies, Klein emphasized, must not be based on doctrinaire precepts. He argued for "a new approach" for macroeconomic studies, "*neutral as far as doctrine is concerned*". Characteristically, he called for a new look at *The Keynesian Revolution*.

Highest professional honors have been bestowed on Lawrence R. Klein for his many contributions to economics and econometrics. He was elected a Distinguished Fellow of the American Economic Association in 1978, and was awarded the Alfred Nobel Memorial Prize in Economic Sciences in 1980. As his friends joined him and his wife, Sonia, in celebrating these events, it is hoped that the reader of this volume will have occasion to join them in paying homage to Lawrence R. Klein for his truly significant influence on our profession.

As Executive Editor of this volume, I would be remiss in not expressing my sincerest gratitude to the contributing authors and to my fellow editors, all of whom have given me their best cooperation. I owe particular editorial indebtedness to Arthur S. Goldberger and Ronald G. Bodkin. My sincerest acknowledgement is due to Barbara Ruth Campbell, who has given me invaluable technical assistance by way of "normalizing" the 29 diskettes, written in many different computer languages. Thanks are also due to Michael Ahearn for the photograph of Lawrence R. Klein.

M. Dutta, Executive Editor