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## Short presentation of Axel Leijonhufvud

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159. This is a presentation of the work of Axel Leijonhufvud in Thomas Cate, ed., *An Encyclopedia of Keynesian Economics*, Edward Elgar, Cheltenham, 1997, pp. 365-67, prepared by Michael D. Bordo and Lars Jonung.

### **Leijonhufvud, Axel**

Axel Leijonhufvud is one of the leading figures in modern disequilibrium macroeconomics. His interpretation of Keynes is considered to be a breakthrough in explaining the linkages and differences between the *General Theory* and Keynesian economics as entombed in income-expenditures models.

Axel Leijonhufvud was born in Stockholm in 1933 and was educated at the Universities of Stockholm and Lund, receiving a fil. kand (BA) at Lund in 1960, before leaving on a one-year fellowship for the United States at the age of 27. Inspired by US academic economics, he began graduate studies, obtaining a MA at Pittsburgh in 1961 and a PhD at Northwestern University in 1967. He went to UCLA in 1964, still working on his PhD, although he had no intention of staying. However he did stay, became full professor and made a distinguished career at UCLA until his retirement in 1994, serving as department chairman for many years. Leijonhufvud holds honorary degrees from the University of Lund (1983) and the University of Nice, Sophia Antipolis (1995).

In his PhD dissertation Leijonhufvud focused on the coordination of the activities of firms and households over time and between markets. To him this was the central problem of macroeconomic theory. His dissertation sought to shift theoretical attention away from price rigidities as the explanation of coordination failures to the pattern of information flows in the market network characteristic of a monetary economy. This theme was elaborated in his *magnus opus*, *On Keynesian Economics and the Economics of Keynes: A Study of Monetary Theory*, published in 1968. This monumental study was highly acclaimed. It has been translated into half a dozen languages.

Leijonhufvud was inspired by his UCLA colleagues Armen Alchian and Robert Clower: Alchian's work on incomplete information and transactions costs and Clower's on notional versus effective demands. Leijonhufvud argued that, viewed from the standpoint of Walrasian general equilibrium theory (already dominant in the 1960s), Keynes's *General Theory* should be understood as dealing with systems in which trade does not necessarily take place only at equilibrium prices. In the market adjustment process postulated by Walras, in contrast, no trade takes place until market-clearing prices have been established. The Walrasian auctioneer – an anthropomorphic version of *tâtonnement* that gained widespread acceptance through Leijonhufvud's use – performed a crucial role as information coordinator, a role for which no institutional counterpart exists in actual economies.

According to Leijonhufvud, Keynes struggled to explain how coordination failures could develop in economies lacking the auctioneer. Leijonhufvud discussed at great length the problems that might arise in coordinating individual economic activities when agents are not just costlessly and inexplicably provided with all the information given by the general equilibrium price vector. Chapter 2, which analysed the 'income-constrained process' resulting from trade at non-equilibrium prices, became the starting-point for much of the subsequent literature. According to Leijonhufvud, the message of the *General Theory* was quite different from the subsequent Keynesian tradition based on the income–expenditure approach. Leijonhufvud disparaged much of the Keynesian heritage. His interpretation of Keynes's work became the subject of an intense debate. As a consequence of Leijonhufvud's interpretation, disequilibrium analysis became a central element of macroeconomics prior to the Lucasian revolution. By focusing on the information-disseminating role of the price mechanism and seeking to base the explanation of central macroeconomic problems on the limitations of what a realistic version of the price mechanism can achieve, Leijonhufvud also contributed to the revival of interest in Friedrich von Hayek's work.

Leijonhufvud returned to many of the themes of *On Keynesian Economics and the Economics of Keynes* in a collection of essays published as *Information and Coordination* in 1981. This collection includes the 'Life Among the

Econ', a satirical piece that has become a minor classic by itself. Over his career he has contributed to methodology, economic philosophy and history of economic thought as well. Recently his research has focused on the experience of high inflation and monetary regimes, summarized in *High Inflation*, written jointly with Daniel Heyman. Leijonhufvud's interest in far-from-equilibrium processes has also led him to work most recently on the socialist transformation problem. In 1993, Leijonhufvud founded the Center for Computable Economics at UCLA, of which he is director.

Leijonhufvud's approach to economics is a verbal and inductive one, preoccupied with conceptual foundations and seldom reaching the level of policy-oriented modeling. The processes driven by the inconsistent beliefs of heterogeneous agents, which have been the focus of his interest, lend themselves less readily to modeling with traditional mathematical tools than do, for example, representative agent equilibrium models. Thus Leijonhufvud's stock in trade stands in stark contrast to the mathematical formalism characteristic of modern economics. Indeed, at one stage in the 1970s, macroeconomics was at a crossroads – the choice between the Clower–Leijonhufvud disequilibrium analysis and the Lucas equilibrium approach. The Lucas route became the preferred one, being easier to formalize and to subject to econometric testing.

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**See also:**

Clower, Robert W.; Dual Decision Hypothesis; Economics of Keynes and of his Revolution, Key Elements of the; Lausanne, The School of; Lucas, Jr., Robert E.; New Classical School of Economics; Post Keynesian School of Economics.

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