

**2003 HOPE Conference:**  
**The IS/LM Model: Its Rise, Fall, and Strange Persistence**

**Call for Papers**

In 1967 Robert Lekachman wrote a book entitled *The Age of Keynes*, which waved the banner of Keynesian theory as if it marked the end of the history of economics. Shortly thereafter, in 1976, Robert Lucas and Thomas Sargent titled their manifesto for the new classical economics, “After Keynesian Macroeconomics.” Lucas and Sargent announced that the Keynesian paradigm had reached its terminal stage. In 1976, this was a partisan prophecy. At present, however, the prophecy appears to have been realized. Macroeconomics today—or at least academic macroeconomic theory—is vastly different than the macroeconomics of the mid-1970s and the four previous decades.

In 1976, the IS/LM model was the organizing theoretical apparatus—the canonical model—of macroeconomic theory. It was invented by John Hicks in his renowned article “Mr. Keynes and the Classics” as an instrument of Keynesian exegesis: cutting through the elegant prose and the many detours, it proposed to reduce the central theoretical message of Keynes’s *General Theory* to a short set of simultaneous equations and a single graph. After World War II, the IS/LM model was developed in several directions and became the lens through which macroeconomists viewed the economy. By degrees, standard textbooks—starting with books aimed at graduate students and by the 1960s trickling down to elementary texts—adopted the IS/LM model as their framework. As the model became more dominant theoretically, it lost its Keynesian character with respect to practical policy issues. Friends and foes of Keynes alike used it to promote or confute Keynesian policy prescriptions. Milton Friedman, for example, one of the sharpest critics of Keynesian economics, set out his own monetarist “theoretical framework for monetary analysis” using the IS/LM model as the central analytical tool. Monetarist conclusions and Keynesian conclusions were presented as special cases of the more general IS/LM framework.

However, to present-day macroeconomic theory the IS/LM model is an obsolete instrument, defective for its lack of microfoundations and neglect of expectations. This view has come to dominate graduate instruction in economics. A graduate student in economics, having done no economics in his undergraduate studies, might receive his Ph.D. without any acquaintance with—much less mastery of—the IS/LM model.

On the other hand, because no other model has proved so pedagogically adaptable, the IS/LM model remains the cornerstone of undergraduate textbooks.

Whether this will continue as textbook writers of the past are replaced by the recent vintage of Ph.D.s remains to be seen. In business and government and other non-academic environments, the IS/LM model has also survived. Partly, this is because it was so fully developed for practical and econometric applications, and the dynamic optimization models of academic economics are only beginning to address the whole range of detailed problems of practical interest. But cracks are beginning to emerge here as well. Recently, for example, the Federal Reserve has developed a large-scale econometric model for the analysis of monetary policy not based on an IS/LM framework.

What we see, then, might be characterized as the rise, fall, and strange persistence and uncertain future of the IS/LM model. The aim of the conference would be to study those three facets. The following are just a sample of the sort of questions that would be appropriate for the conference to address.

### 1. The rise of the IS/LM model

– Aside from Hicks himself, what was the role of and what were the interactions among the main protagonists in the founding of the canonical model? Among those who should be considered in this founding generation are Lawrence Klein, Paul Samuelson, Alvin Hansen, James Tobin and Franco Modigliani. Both the history of their roles in transforming Hicks's model into the canonical model and their longer-run influence would be worth exploring in depth.

– What is the relationship of the IS/LM model to general equilibrium? That there might be an important relationship is already implicit in Hicks's *Value and Capital*, perhaps as important in the history of modern general-equilibrium theory as "Mr. Keynes and the Classics" is for modern macroeconomics. Can it be viewed as belonging to the Walrasian approach or is it incompatible with it?

– What was the process by which the model expanded its scope? For example, how was the initial IS/LM model extended to an open economy perspective? How was the model enriched to include a developed financial sector?

– How were the gaps in the original model filled in? For example, how did the Phillips curve and Okun's law come to be regarded as essential complements to the IS/LM framework?

– The call for microfoundations for macroeconomics followed hard on the heels of the publication of the *General Theory*. What was the interaction of the program of microfoundations with the development of the IS/LM model? This question concerns both the effort to give microfoundations to particular functions (e.g., in the work of Tobin on money demand or in Friedman and Modigliani on consumption) and the general equilibrium microfoundations in the work of Clower, Barro and Grossman.

– Hicks's original model contained an explicit aggregate-supply analysis, which was mostly ignored in the early development. How was an aggregate demand/aggregate supply framework reintegrated into the canonical model?

- What is the relationship between the IS/LM model and the large-scale econometric models that became the central policy tools of macroeconomics in the 1960s and '70s and beyond?

## 2. The fall of the IS/LM model

- What started the dismissal of IS/LM macroeconomics? The Phelps volume? Friedman's 1967 presidential address? Lucas's article "Expectations and the Neutrality of Money"?
- Was the IS/LM model a specific target of criticism or was its fall the mere by-product of the rise of new classical macroeconomics?
- Should its fall be related to changing real-world conditions—the rise of inflation in the late 1960s and early 1970s or the fact that central banks shifted from targeting the money supply to follow an interest-rate rule?
- What explains the fact that Lucas and the other founders of the new classical approach became dissatisfied with Keynesian economics, the framework in which they did their earlier work?
- What was the relationship between monetarism and IS/LM? Why did the new classical macroeconomics prove a more formidable threat to the IS/LM approach than did monetarism?

## 3. The persistence of the IS/LM model

- Why has IS/LM pedagogy proved robust in the undergraduate textbooks and curriculum (and to a lesser extent in some graduate curricula)?
- The IS/LM framework has disappeared faster from instruction in core graduate macroeconomics than from some related areas such as international macroeconomics. Why?
- Econometric models based on IS/LM structures have persisted in business and government long after they ceased to be of central interest to academic economists. What is their history in these areas, and what accounts for their durability?
- Some alternatives to IS/LM have emerged as the basis for econometric models. What is their history? In applied monetary economics in the U.S., a dynamic forward-looking IS model with a monetary-policy (interest-rate) rule instead of an LM curve has become paradigmatic. How do these models relate to the IS/LM model? Can they be regarded as a true revival?
- Is the IS/LM model likely to be revived in modified forms (as, for example, Romer's IS-MP-IA model, *Journal of Economic Perspectives*, Spring 2000)?

\*

\*

\*

## Practical Aspects

- The conference will take place at Duke University, Durham, North Carolina, on April 25–27, 2003. Professor Robert Lucas will be the keynote speaker.
- Proposals for papers (five hundred words) should be sent to the conference organizers, Michel De Vroey and Kevin Hoover, by May 31, 2002, to the addresses below. Papers will be selected by August 31, 2002. All papers for the conference will be circulated to conference participants in advance, and thus must be completed no later March 1, 2003.
- In order to allow for fruitful intellectual exchanges, the format of the conference will be voluntarily kept small. All sessions will be plenary and the number of papers will be kept to around fifteen, leaving ample space for a general discussion.
- Following the conference, papers will be refereed for inclusion in the record of the conference, a volume to appear as a special supplement to the *History of Political Economy*, and to be separately published as a volume by the Duke University Press. Participation in the conference through submission of the paper will give the *History of Political Economy* first refusal rights to publish the paper.
- For further information, please write to Professor Michel De Vroey, Economics Department, Université catholique de Louvain, 1348 Louvain-la-neuve, Belgium, or e-mail at [devroey@ires.ucl.ac.be](mailto:devroey@ires.ucl.ac.be); or to Professor Kevin Hoover, Department of Economics, University of California, Davis, California 95616-8578, or e-mail at [kdhoover@ucdavis.edu](mailto:kdhoover@ucdavis.edu).