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SOME REMARKS ON NISSAN LIVIATAN'S ARTICLE ON DON PATINKIN'S CONTRIBUTION TO MONETARY THEORY

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Nissan mentions Don Patinkin's many contributions in monetary theory, and their effect. Note that these contributions dealt with the most important topics, which are at the heart of macroeconomic research still today. It is also worth noting that whereas some of his contributions exerted an extensive influence in the past, others were ahead of their time and are only now beginning to have an impact.

This is the case, for example, with the attempt to provide microeconomic foundations to money within the macroeconomic model, which is discussed in the microeconomic part of *MIP*. Although this subject has not been resolved to this day, there are several ways of doing this. Don was one of the first to tackle the subject and his contribution is as important today as ever. He realized that the role of money can be understood only by undertaking a detailed analysis of the technology of transactions. He built a complex model in which the precise timing of the individual's transaction at any point is not known in advance but is random and coincidental. Full incorporation of this approach in the macroeconomic model was not possible at his time, and so his approach did not have many disciples then. In the last few years, however, researchers such as Kiyotaki and Wright and others have developed similar models based on random encounters.

Thus, I recently found myself re-reading that part of Don's book while doing research on money and liquidity. I was referred to the book by David Levhari, Don's student and colleague, and by the great Swedish economist, Assar Lindbeck, who told me recently how greatly he was influenced by Don's book when writing his own doctoral dissertation.

The other subject which preoccupied Don was the link between money and real economic activity, namely, the theory of business cycles, which is also central for both economic policy and research. This subject as well has not yet been fully resolved, and is still today an area of extensive research. The approach delineated by Don, namely, the slow adjustment of prices and wages, has affected the thinking on the subject to this day, and still constitutes the principal approach to it. Note that one of the main contributors to the entrenchment of this approach is Stanley Fischer, the Governor of the Bank of Israel, in his research from the late 1970s, which showed that Don's explanation held firm even with rational expectations.

The approach of sticky prices and wages is still the leading one today, despite all its limitations. Researchers who have tried to construct alternative theories of business cycles, such as 'real business cycles,' have also resorted increasingly in recent years to non-continuous price adjustments in their research. Anyone who sees this understands that by doing so they are perpetuating the tradition established by Don, even if they tried initially to adopt a completely different approach.

I would also like to address Nissan's comments that Don did not relate to monopolistic competition, in the framework of which sticky prices are discussed today. It is true, but this was not done out of conservatism but because the tools did not exist then. The current preoccupation with monopolistic competition was made possible by the pioneering work of Dixit and Stiglitz in 1978, long after the publication of Don's book.

I feel it is important to point out that the subjects which preoccupied Don, and his unique contributions, were important not only in terms of research and implementation, but also because they are part of a troubling intellectual puzzle. The mystery that puzzled him was why does money, which is, after all, only a thin veil over the real world, merely a means of payment, have so much influence in the real world? Why does everyone complain to the governor of the central bank about the high interest rate which 'strangles the economy,' when all he can do is create money, which is no more than a means of measurement?

This conundrum bothered Don all his life. It dictated the subjects of his research and lay behind his studies of the history of economic thought.

Therefore, I regard Don first and foremost as an intellectual. A man who tried to understand phenomena by use of thought processes and to study and better understand these thought processes themselves. I think that because of this characteristic the following words suit him most:

"But reading [him] was for me—as I am sure it has been for many others—not only a source of intellectual stimulation, but also a personal experience of contact with an individual of the highest sincerity and integrity, a man of simplicity and principles. These qualities even shine through his purely economic work, and it is therefore no surprise to find that they reflect the general characteristics of [him] as a man—as a determined fighter for intellectual and social freedom."

That is what Don himself said about the famous economist Wicksell, at the Wicksell Lectures he gave in Stockholm in 1967 (the square brackets are my own changes).