

## Forum

### »*The General Theory* is not a book that you should read in bed!«

Interview with G.C. Harcourt\*,\*\*



Geoff, what was your motivation to become an economist?

How did you come into contact with Keynesian economics? And what were the major steps in your career as a professional economist, moving back and forth between Australia and Cambridge, UK?

Well, how did I become an economist? Purely by accident, because I always wanted to be a vet, and so I had to do natural sciences subjects as a prerequisite. But I had a spare subject to fill in and I did economics, and really liked it. Then in 1949, my last year in school, still struggling to get physics as a prerequisite, I decided that I would be a school teacher and teach economics. That would save my father from paying for me to go to university, because there were no Commonwealth scholarships then. But I could get a studentship to be a secondary school teacher, which gave me a living allowance and paid my fees. So in 1950 I went to Melbourne University to do economics. When I got to the university I suddenly flourished and came top of the first year. My first mentor said: »You really should be a university teacher, not a secondary school teacher.« So I resigned from the secondary school teacher centre and did the four years honours course in economics.

Where did I first meet Keynesian economics? Well, in the first year, people who nominated themselves for honours studied two great books, Keynes's *Tract on Monetary Reform*, and Wicksteed's *Common Sense of Political Economy*, so that was my first introduction to the great man. I was bowled over by both as a matter of fact. Then at the end of the first year I read *The General Theory*, but couldn't understand it at all. It's not a book that you should read in bed! We did Keynes in the second year, with lectures basically based on *The General Theory*-textbook versions of it.

Doing my undergraduate dissertation I was very much influenced by K.W. Rothschild. He published this extraordinary paper *Price theory and oligopoly* (1947) about using Clausewitz's *Principles of War* to examine oligopolist behaviour, about how secure profits are as important as maximum profits, in price wars and in the intervals between wars. So I thought, let's put Rothschild's oligopolists in the micro-foundations for *The General Theory*,

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and see if it makes any systemic difference. It was very, very ambitious for a young person, but it wasn't a stupid idea. Other people who read it thought it was quite good.

After my master's degree, a pilot survey of income and saving in Melbourne, I won an overseas scholarship, which were very rare in those days. In 1955 Joan and I married and we went to Cambridge. I was allocated Nicholas (»Nicky«) Kaldor as my supervisor. But then he went away for a year, and I was moved to a guy named Ron Henderson. I told him what my thesis topic was, and showed him my undergraduate dissertation. He sent me down to the National Institute of Economic and Social Research, where they were developing the aggregated profit and loss accounts, balance sheets and funds statements for all the quoted public companies in the UK. The Director, Brian Hopkin, wanted to see if any use could be made of them, so I wrote two reports, one on the woollen and worsted industry and one on the chemical industry, showing that these were very illuminating sources of data. I used them as the subject of my PhD dissertation which was on using historical cost accounting procedures for measuring income for dividend and tax purposes, and setting prices in a period of inflation.

I had taken a term off in the second year in Cambridge, to lock myself up with *The Accumulation of Capital*, Joan Robinson's 1956 book. I read a paper on it spread over two successive weeks at the research students' seminar, then Joan came along for the third. That was really the beginning of our friendship, and she told someone that I was one of the few people who understood *The Accumulation of Capital*.

After my first stay in Cambridge I got a lectureship in Adelaide at the beginning of 1958. We had six wonderful years there. I taught the first year macroeconomics course – it was the origin of my first book: *Economic Activity*, co-authored with Peter Karmel and Bob Wallace. It was published in 1967.

We went back to Cambridge in 1963. I had published a paper called *A Critique of Mr. Kaldor's model of income distribution and economic growth*. I had a terrible time with the *Review of Economic Studies*, trying to get it published there, and it ended up in the *Australian Economic Papers*. Joan Robinson loved the paper and she was delighted, and pleased that I was coming back to Cambridge. Solow, Arrow and Hahn were there and I was put in the same room as these heavies when they »discussed« with Joan. I was appointed to a lectureship in Cambridge, stayed another three years on leave without pay from Adelaide, and I was elected a fellow of Trinity Hall. I had an incredibly productive period there. It was a wonderful atmosphere. When you think of the people who were there it was a real »who is who« of modern economics. With Vincent Massaro, I wrote two papers on Piero Sraffa's 1960 classic, *Production of Commodities by Means of Commodities*, both closely vetted by Piero. I wrote my second best known paper, *The accountant in a golden age*, which was published in the *Oxford Economic Papers*. I wrote my favourite theoretical paper, *A Two-Sector Model of the Distribution of Income and the Level of Employment in the Short Run*, which was published in the *Economic Record* in 1965. I worked on the bonus scheme for managers in Russia. I had a paper in the *Review of Economic Studies* criticising the CES production function and the empirical work done on it, and I wrote two papers on the choice of technique and investment incentives.

Very reluctantly, but because we felt a moral obligation, we went home to Australia at the end of '66. I had been promoted to a readership while I was away and I was very quickly appointed to a personal chair in Adelaide. From 1965 on I was learning about the Vietnam War in which Australia was involved. I was determined to do something about that, so up until the end of the Vietnam War I was a leader of the anti-Vietnam War movement in South Australia.

The most important intellectual thing that happened to me was that Mark Perlman, the foundation editor of the *Journal of Economic Literature*, asked me to write a survey of capital theory which changed my whole life, as it turned out. I locked myself up in my room and wrote *Man at Work* on the outside. Someone thoughtfully amended to *Maniac at Work!* I wrote the first draft of the survey in about three and a half months, and sent it off to Perlman. It was refereed by Samuelson, Stiglitz, Arrow, and somebody else. Cambridge University Press asked me to make a book out of it, and in 1972 I published *Some Cambridge Controversies in the Theory of Capital*.

In the early 1980s we decided to come back to Cambridge and we've been there ever since. My major intellectual reason for coming back to Cambridge was to write the history of the first generation of the Keynesians. In a sense the book on Joan Robinson written with Prue Kerr, which came out 2009, is a culmination of that research project. But this was not the only thing. Because I'm interested in everything I wrote on just about everything! So I'm now commissioned to do a last major project which is a two-volume handbook on post-Keynesian economics for Oxford University Press, of which I and Peter Kriesler, one of my former PhD students in Cambridge, are general editors.

*When you came to Cambridge, Keynesian, or later post-Keynesian economics was flourishing? You contributed to this with your own work. In the '60s and '70s post-Keynesian economics seemed to have the potential to replace neoclassical economics sometime in the future. Why did it not succeed in your view? Luigi Pasinetti argued that this was not only an incompleteness in Keynes's work, but also a failure of the Cambridge post-Keynesians, theoretically and organisationally, because these deficiencies include, »the care in selecting, shaping, preparing and paying attention to the younger generation.« What is your view on this?*

I've written a review article of his book, where I disagree with him to some extent. However, there was one constant characteristic of the Cambridge faculty: They were bantam cocks on a dunghill, fighting for their own position and defining consensus as »agreeing with what I just said«. Joan Robinson, Nicky Kaldor and Richard Kahn were just hopeless faculty politicians. They did place people in posts, Luigi Pasinetti, me, Ajit Singh, Bob Rowthorn to some extent, and Alan Hughes. But they were hopeless on chairs. That was the reason why Frank Hahn got a major role to play, mainly due to Kaldor's fault who brought Hahn to Cambridge in the 1960s. When Richard Kahn retired he was replaced by Frank Hahn. And that was the beginning of the end of placing post-Keynesians in chairs..

*If you take a broader perspective, beyond Cambridge, what is the future for post-Keynesian economics?*

Post-Keynesians are embattled in ghettos virtually everywhere, even Joseph Stiglitz, who was here in the '60s – I had the room next to him. He was a graduate student who hadn't

yet finished his dissertation, but Solow and Samuelson said he should learn about the other Cambridge. He gave the Marshall Lectures, about 30 years later, as a theoretician looking at policy and a policy-maker looking at theory. He said that his advice to Clinton was based mainly on what he had learned from Nicky Kaldor, and the 1960s Keynesians. But when he went through the schools of thought you realised it was as if he had never heard of the post-Keynesians, he didn't even mention them in the Marshall lectures. Yet the ideas he was instituting were post-Keynesian ideas on the whole, for short-term policy.

*Coming to the present state of economics and economic policies, mainstream New Consensus Macroeconomics has obviously failed in this crisis. Is this a new opportunity for Keynesian economics in academia, on the one hand, and for Keynesian economic policies, on the other hand?*

Keynesian-type economic policies are being implemented all around the advanced capitalist world, some better than others; very successfully in China, rather feebly in America, so-so in Europe, and misconstrued but with good intentions I suppose in the UK. The trouble is that we are so scared of the financial markets that we won't do things which may offend them. And we're very half-hearted in devising effective ways of controlling them and making them behave in a responsible manner. Mervyn King, the Governor of the Bank of England, who I must say is my most distinguished student, has said three times in public that the macro course he went to as a first year student, my lectures, and then my book *Economic Activity* was the best grounding in macroeconomics that you could expect to have. I should get him to write it down sometime! His heart is in the right place, but having an independent central bank, instead of a joined up economic policy, is very inefficient and very ineffective as a result.

It's interesting that the Tobin tax is taking on again. In the early '90s I wrote a paper called *Taming speculators and putting the world on course to prosperity – A »modest proposal«*. It was really a generalisation of the Tobin tax, but I had never heard of the Tobin tax, so I didn't use that phrase! What I basically said was that you should look at transactions on the foreign exchange market, both purchases and sales, and you should classify them into economically useful ones, and the rest, prima facie, was speculation. When you work out the tax rates on the incomes on both sides of the market, you make out a weighted average with a huge penal tax rate, weighted by the proportion of the total turnover which was due to speculation. Now that wouldn't stop speculation, but it would make it less profitable. I think that would be much more effective than a Tobin Tax, but of course it needs to be international, otherwise they just go off-shore. That's the problem.

*And what are the perspectives for Keynesian economics in academic research?*

Most economics departments are full of American-trained or trained in the American way economists. They are trained as if economics began ten years ago, and they have no knowledge of the history of the subject, and no idea that in a subject like economics and economic processes, the same problems generally, with specific differences, keep recurring. So they don't know that the greats of the past had interesting and useful things to say about them. And a lot of them are not even interested.

*What would you recommend to us younger generation post-Keynesians to keep the tradition alive, on the one hand, and to get more influence on economics and economic policies, on the other hand?*

I always say that mavericks have a political duty to publish now and then in mainstream journals, and so we have to write some of our papers like the mainstream would. Now that is a very difficult task, but it is our duty. Of course, we have double the work of the others, because we have to keep up with what the mainstream does and develop our own approach. Ideally, people will start to look at the quality of people's work within their approach, and say that we may not agree with their approaches, but it is first class in the way that it is done, and so we will appoint him or her. This is a council of perfection, but that is how liberal education should occur, and if that were to occur, then people would get jobs, and they would get in the civil services, and so on. But the hegemony of the mainstream is appalling.

*Do you think that there are any areas which post-Keynesians today should focus more on than they have done in the recent past?*

Yes! I think they should develop Kalecki's and Goodwin's cyclical growth models. I think that is the proper way forward for understanding capitalism, and for putting policy around it. And that incorporates Nicky Kaldor's great contributions on cumulative causation processes, because once we realise that economies and important markets are more likely to be characterised by cumulative causation processes rather than by equilibrating ones, we have a different understanding of what we're dealing with and a different set of policy requirements.

*Do you think that changes in academic research and economic policies are going to come from within the system, or do they require political pressure?*

They have to be political. Take for example climate change. The politicians are never going to change policies in the proper way. What the post-Keynesians must do is to include the requirements originating from climate change in the way we are designing our fiscal and infrastructure policies. I don't think we are ever going to have democratic socialism, which Kalecki had in mind, so we have to work for capitalism with a human face. And it is now a golden opportunity, because with so much unemployment, we can do infrastructure investments which are climate change friendly. The other thing is that by and large government expenditure should not be used for pump priming. You should use taxes to affect the level of aggregate demand, but you should design government infrastructure with long-term needs in mind. You should not bring them forwards and backwards in response to changes in aggregated demand. You do them at their optimum time. Then you look at the rest of aggregate demand, and you design a tax system which has the notions of equity which you believe in, and jack it up and down according to what you think aggregate demand is going to do. You have to ally that with getting interest rates down and keeping them down. You have to create permanent incomes policies. You should follow the rule which in Australia is the Salter-Russell rule. It is a just, equitable and efficient rule. It is just because it allows everybody in return for money income restraint to take part in the rise in general prosperity

due to the complementary behaviour of capital and labour at the economy level. It is efficient because if you have got low unemployment, you knock out low productivity, often declining industries, and you encourage high productivity, often expanding industries. So you have a higher rate of increase of overall productivity and that gives people a proper reward for money income restraints. Then you can supplement that by redistributive policies through taxation. That will make for a much more humane, cooperative and decent society even if you are giving business people free play to be entrepreneurs and use enterprise and initiative.

*The interview was conducted by Eckhard Hein and Achim Truger in January 2010.*

*Selected Publications of G.C. Harcourt*

Joan Robinson, Basingstoke: Palgrave Macmillan 2009 (with Prue Kerr) • *The Structure of Post-Keynesian Economics. The Core Contributions of the Pioneers*, Cambridge: Cambridge University Press 2006 • *50 Years a Keynesian and other Essays*, Basingstoke: Palgrave Macmillan 2001 • *Selected Essays on Economic Policy*, Basingstoke: Palgrave Macmillan 2001 • *Post-Keynesian Essays in Biography*, London: Macmillan 1993 • *On Political Economists and Modern Political Economy. Selected Essays of G.C. Harcourt*, edited by Claudio Sardoni, London: Routledge 1992 • *Some Cambridge Controversies in the Theory of Capital*, Cambridge: Cambridge University Press 1972. And 240 papers in journals and books.

## **Kurt W. Rothschild (1914–2010). A modest and upright character with an outstanding publication record**

*Wilfried Altzinger\**

With the death of Kurt W. Rothschild on 15 November 2010 at the age of 96, Austria has lost, without doubt, one of her most thoughtful and original economic thinkers of the past century. He has been contributing to economics through a large number of publications in several fields over a period of nearly 70 years. A recent count lists 25 books, 120 papers in scholarly Journals, 115 contributions to collective volumes, and 140 book reviews.<sup>1</sup> However, it was not only his outstanding scientific performance which made Rothschild unique, moreover it was his modesty and his upright character combined with his openness and

1 Department of Economics, Johannes Kepler University Linz, Kurt W. Rothschild Lecture, URL: <http://www.econ.jku.at/1123/>.

\* Vienna University of Economics and Business. First and foremost, I want to express my sincere condolences to Valerie Rothschild and her family. Further, I am grateful to Alois Guger for his comments and suggestions on an earlier draft; the usual disclaimer applies.