

Bhaduri, Amit

## Article

### "What we need is a better world to live in!". Interview with Professor Amit Bhaduri

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## Forum

**»What we need is a better world to live in!«**

*Interview with Professor Amit Bhaduri\**

*You are an economist who has done research at a lot of locations and universities all over the world. Is there a common culture of scientific research? What is common, what is different with regard to doing research in Delhi, Cambridge, or Berlin?*

There used to be much less of a common culture, which probably in a way was much better, because economics is not a pure science where we know the truth. Therefore it would be advantageous if we had more different competing views influencing policy. Unfortunately a common research culture has emerged that is increasingly dominated by the United States and where, not always, the most relevant questions are asked.

*How do you explain the dominance of mainstream economics?*

I can partly understand this phenomenon from the view of a country like India: Coming from a poor country, you want to establish yourself in the United States as the world intellectual centre. I had a lot of very good Indian students who are now well-known professors at American universities, and as a teacher I always tried to help them to become researchers at places like the MIT or Cornell University. I am much more puzzled by Europe and particularly by countries like the Scandinavian States, where researchers certainly do not have such an obvious economic reason to strive for a career in America.

America does quite innovative research, even if I may not agree with much of it. But although many of the American problems are not the problems Europe has (America for example is not a welfare state), and although many economic problems are viewed very differently in the United States, these problems are more or less borrowed by Europe. The issue is not whether you are a Post-Keynesian or a neoclassical mainstream economist: The central problem rather is that the questions that are asked by economists are increasingly imposed by the United States, although economic problems in the United States and in Europe simply are not identical.

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*Who were your academic teachers?*

Coming from a poor country, I chose economics because of my interest in politics. I had a very good teacher as an undergraduate who gave me an idea of the logical connections of economics, although he was not very good in showing that economics is alive. So when I went to Cambridge (England), for me economics there was exactly what I criticise now: it was just a kind of logical exercise and did not ask the most interesting questions. My first really good teacher in Cambridge who extended this view was Frank Hahn, from whom I got to know more of standard theory and standard mathematics. I remember that he told me that I was a very good student, but continually suffered from metaphysical doubt – he suspected that was something Indian ... Although I have never taken to those theoretical approaches he wanted me to, he helped me to get a scholarship at the MIT, which was probably the best place at that time. There were a lot of very good neoclassical teachers around, like Paul Samuelson and Robert Solow, and many students who are now very well-known economists, like George Akerlof and Joseph Stiglitz. I think that much of my reaction started there: I decided that I did not want to do mathematical economics – not because it was mathematical economics, but the questions it treated simply were not the questions for which I had entered economics. It was then that I made up my mind. I decided not to continue at the MIT in spite of my scholarship and returned to Cambridge. Here two of my teachers were Joan Robinson and Richard Kahn, who were largely non-mathematical, and I had some interaction with Richard Goodwin. I was very fortunate in having heard lectures from Hahn and Samuelson before, because I knew very clearly what I was giving up – something that is not always true for Keynesian or Post-Keynesian economists.

Although I have never met him, I was very impressed by Michal Kalecki. Joan Robinson was the first one to give me one of his articles, and I immediately thought that this was the way in which I would like to use mathematics. But I did my thesis and my first little papers on something rather theoretical – on capital theory –, which was a very important topic in Cambridge at that time. And after I had finished my PhD in Cambridge, I actually wanted to go to Poland, only to work with Kalecki for a year, but I did not get a reply from him. Later I learned that Kalecki was a member of a Jewish group that was heavily under attack at that time, and he was quite broken already. Anyway, I did not want to stay in Europe, so I went back to India.

*You are one of the most prominent proponents of Post-Keynesianism. What are the most important and promising current development lines of Post-Keynesian theory in your opinion?*

I think Post-Keynesianism is a kind of broad movement that has three distinct characteristics. The first very important element of Post-Keynesianism is that societies are not viewed based on a one-agent theory but on the basis of diverse agents. I learned from my teachers in Cambridge – Nicholas Kaldor, Richard Kahn, Joan Robinson – that the fact that investment decisions are independent of savings decisions makes Post-Keynesianism particularly important. So for me the first element of Post-Keynesianism is the notion that there are diverse agents: savings decisions are made by one set of agents, and investment decisions are made by another one. How these decisions match – or do not match – is a macroeconomic issue.

The second point is that advanced industrialised economies largely do not work on the basis of the price mechanism. The importance of the price mechanism is a myth of economic systems, just like the single-agent optimising behaviour. Much of Keynesian economics one cannot understand unless one recognises that there are different types of signals, which a market economy perceives. Many of Keynes' later arguments cannot be properly explained theoretically if these kinds of non-price mechanisms as information signals are not allowed for. I have become increasingly sceptical about the whole idea that all information basically is conveyed by prices. Not much Post-Keynesianism work has been done on these issues. There are some economists who do some non-optimisation based on asymmetrical information, like menu costs: some of this work is good, some less; but this is a direction that should be pursued further. Actually the whole underlying theory of non-price signals – for example political influence or networking – cannot be modelled easily. But these non-price signals are not just »information failures« – this is how societies work.

The third important area of Post-Keynesianism is the very broad field in which I myself started my professional research as an economist after getting my PhD. At some point one has to come to the conclusion that distribution involves power; whether one calls it capital theory, or in Sraffa's system »one degree of freedom«. But it is not simply perfect competition and factors getting paid according to their marginal product – I knew from the very beginning that this could not be the way the world works.

*John Maynard Keynes' ideas seem to play a certain role both in economic theory and policy in the Anglo-Saxon world, while most German economists consider his ideas and policy recommendations as overcome. Why is that so in your opinion?*

There is still some Keynesianism in Germany, if only very minor. But in my view the real problem in Germany is a political one: the east-west German division made it very difficult for anybody who sounded radical in any way to be taken seriously. German politics – both the left and the right – always accepted and supported social and welfare state policies. But intellectually this increasingly became not respectable to all: you had to show that you can do the mathematics as well as the economists elsewhere. If you think politically you have to ask certain questions, for example whether state interventions work better than the market. However, to ask those questions became less and less acceptable intellectually. One of my best friends in Austria, Josef Steindl, once said that probably the most innovative economics won't come from the German-speaking part of the world, as it is getting less and less respectable intellectually as well as politically to have doubts about the market.

*You are well-known as a macro-economist. What importance do you attach to micro-economics? What do you think of the recent attempts to create a new »micro-foundation« of economics?*

Micro-foundation of macro-economics in my view is a kind of Wittgensteinian »trap of language«. If you mean by micro-foundation that there are many identical, optimising single agents, or if you equate micro-foundation with single-agent behaviour models, you will never be able to get much sense out of microeconomics. This way of modelling in mainstream economics – based on methodological individualism and the rationality hypothesis –

is certainly a complete dead end, because one needs to model diverse agents. The work done within game theory could in some ways be a step in the right direction, because game theory comes closest to modelling two-agent behaviour. However, the assumptions on which game theory rests are still so restrictive that it is not clear whether it can be made fruitful. One really needs to solve the question who the diverse agents are that one tries to model, what their typical behaviour is, how they interact with each other, and if and how their interaction could be a matter of the interaction itself. This would be my notion of a deeper understanding of micro-economics; but until now the importance of diverse agents simply is not understood.

*Your notion of »diverse agents« provokes the question whether Marxian theory has any importance for your work.*

I think the Marxian notion of class – large groups with a prototype behaviour – is very important, although Marx over-emphasised its importance to some extent. I was never convinced by Marxian labour theory of value, but I was always quite impressed by the Marxian notion of extended reproduction, an issue that Marx himself solved only very vaguely. Quite a few other problems and issues he solved in a rather confused way, such as the equalisation of savings and investment, the importance of money as a store of value, and how money is built in in the circuit. I think that Marx did recognise the complexity caused by money, and that he did have an idea of the diversity of agents – in his terminology of class. Marx without doubt was one of the great economists of all times, although one should not take what he said as the answer – the fall of the profit rate or the immiserisation of the proletariat for example. But I think that there is a kind of outlook in his works in terms of the importance of the diversity of agents and of money. All the great masters of economics had such a vision – for Adam Smith it was the importance of the market mechanism, the division of labour and increasing returns, for David Ricardo the importance of natural resources and of distribution among the classes.

*You are also a renowned expert in the field of growth theory: how do you assess the »new« or the so-called endogenous growth theory?*

I have been working on growth theory myself during the last ten years. If you read my paper »Endogenous Economic Growth: A New Approach«<sup>1</sup> you will see that I do not think very much of endogenous growth theory, for the reasons I have already mentioned. First, it does not distinguish between savings and investment. Second, it assumes full employment and is purely supply-side oriented. Third, endogenous growth theory is full of capital-theoretic errors: It commits the error of using a single-commodity model, with the nice properties of the production function taken from Solow and Swan. But as this framework logically cannot go beyond a one-commodity-world, one cannot expect much to come out of it.

The great discovery of endogenous growth theory is that despite the assumption of perfect competition the public-good character of knowledge leads to sub-optimal invest-

1     Forthcoming in Cambridge Journal of Economics.

ment in education etc. This is a valuable idea. But one has to question the methodological framework. Endogenous growth theory uses a specific labour-augmentation approach, the so-called human-capital approach, by using a Cobb-Douglas production function. They do so for mathematical convenience; however, the Cobb-Douglas production function lacks a theoretical justification. Economically its use is justified on the basis of stylised facts only: that a reasonable stability of factor income shares can be observed empirically in the long run.

I look at endogenous growth theory exactly from the opposite side. One has to look at how competition – which does not mean perfect competition, but some form of rivalry among firms, for example over market shares – works: Very often we can observe that the resulting technological fight among firms will lead to falling costs, which results in a falling price level. This corresponds to the classical view. But the long-term decrease in the price level will raise real wages, as money wages remain constant. As a result of the rise in real wages firms have to increase their productivity. The best years of Germany, Austria, and of most of the other European countries were by and large always years in which real wages and therefore also firm productivity rose. There is a link between real wage growth and productivity growth: firms with high productivity growth realise above-average marginal profits, whereas firms with below-average productivity growth will lose out in competition and go out of the market. And this is the way capitalism works. Thus wage shares are an outcome of productivity, not the other way round.

Apart from the pure Keynesian effects of decreasing real wages, like demand problems etc., this is the biggest problem I see in the »Schröder-type« of policies, because they will end up in a productivity trap: even if a decrease of real wages may be successful in the short run, it will be a disaster for any country's long-term productivity growth, as it deprives capitalism of its life force. One cannot fight the Chinese, for example, by depressing real wages below the Chinese wage level. Particularly for the high-income countries the only successful strategy to »beat« China is to rely on higher productivity growth, maintaining high real wages.

*Recently you have given a lecture on »The Present State of Growth Theory: The Demand and the Supply Side« at the Grazer Schumpeter Society. This evokes the question if you see any possibility to combine Schumpeterian and Post-Keynesian growth theory?*

Both Schumpeterian theory and Post-Keynesian theory are very large theories that are interpreted diversely. Of course you can pick out particular elements and combine them in some way, but not the two theories as a whole. One of the most interesting points in Schumpeter's work is that he realised that a system that performs well dynamically over a long period of time need not perform well at any point in time, and that the dynamic superiority of a system does not necessarily imply its static superiority.

What Schumpeter missed out completely, however, was that »creative destruction« can go both ways. Not only that he did not realise that the extent of destruction may be larger than that of creation; he also does not offer a theoretical mechanism how destruction may guide creation. He does not explain for example how it can be ensured that an economy gets back again to the full use of its production capacities after falling below the

production possibility frontier due to a destruction process. When I was in Vienna in 1992, a lot of renowned economists said in face of the transition process in the eastern European countries that one simply had to believe in the Schumpeterian theory of creative destruction. Then I went to east Europe and the first thing that struck me was that the destruction part was very clear, but that the creation part was still to come ...

*For more than a decade economic growth has been markedly lower in the Euro area and particularly in Germany compared to Great Britain and the United States. What is your explanation for that?*

For the richer countries of Europe the European Union is a political project, to guarantee peace in Europe, to create some notion of a European citizenship etc. For the poorer countries membership in the European Union is a way to catch up economically. Many economists support the enlargement of the European Union, and of course I am also not against it. But I think there is a basic problem: according to one of the most important principles for the formation of coalitions nobody should do worse by joining the European Union. Everybody should feel that they are gaining more than they are losing; and then a stable coalition should result. Up to now, the richer countries perceived that their gain is political, in terms of Europe's stability, in terms of becoming a counter-veiling power to the United States or to China. But in contrast to larger unions like China, India or the United States, the European Union does not make use of the advantages larger economic unions have.

Part of the explanation for Europe's slow growth is that due to the Maastricht Treaty, which was introduced to secure the stability of the Euro, the European Union factually has given up demand-side policies completely. The European countries gave up too much to Brussels: They should not give money to Brussels, but should spend more in their regions. The European countries need a Keynesian expenditure policy, to create employment in the regions. The Maastricht Treaty, the European Central Bank etc. pursue a policy of keeping the Euro up by not spending. And in face of rising unemployment this is increasingly against the interests of the ordinary people. One cannot pursue a political programme – whether it is right or wrong – if one cannot make clear to the people the economic benefit they are getting out of it. This is the biggest failure in the thinking of the European Union. And this is also the most important reason why Europe is not growing. Europe simply has constrained effective demand on which it depends more than, for example, the United States.

*How do you assess in this context the growth strategy – the so-called »Lisbon Process« – the European Union is currently pursuing?*

The European Union's growth strategy assumes that it suffices to realise some basic infrastructure projects and to offer some training to the unemployed workers particularly in the poorer countries and in those countries where the training level is comparatively low; and then one can let the price mechanism take off and the market do its work. This strategy relies on the idea that market systems work only on the basis of the price mechanism,

together with some infrastructure provided to improve supply-side conditions, particularly in the poorer European countries, which are to be modernised and made more competitive in this way.

The problem with public spending in the European countries is that it often does not create local demand, but demand flows out to other countries. Public spending then may end up in a kind of trap: Governments keep spending, but effective local demand is not strengthened. Practical Post-Keynesian policy therefore should aim at creating local demand.

Under the conditions of a globalised world, countries basically can pursue two different strategies. They can direct their policy at the external market, as Germany does. However, as countries cannot control international demand and the growth rate of the world economy, they end up exactly like a corporation: They have to cut costs by shedding employees, by making the labour market more flexible, or by implementing a more stringent pension system etc. to obtain a bigger share of the world market. Apart from the fallacy of composition that if Germany gains Spain loses, and vice versa, this strategy forgets the fact that it is possible to pursue an alternative strategy: countries still can control domestic demand in a traditional Keynesian way, and every individual European country as well as Europe as a whole should pursue a strategy to retain domestic demand instead of allowing it to flow out to a large extent.

Such a strategy should rest on a regional basis. Let me illustrate this with the example of the Scandinavian countries that pursued such a strategy quite subconsciously when they were still quite poor. They tried to provide high social wages by offering public services, which is an important element of social-democratic policies. As most people and also politicians themselves used these public services – for example public transportation – their quality improved, and people could see that the state not simply increased expenditures, but that these expenditures improved living conditions and that public services formed a component of the social wage. It must be ensured, however, that the local people who are supposed to benefit from public goods and services have the right to decide on their provision. Then they will be willing to pay taxes to finance them. This would amount to Keynesianism with a certain degree of decentralisation, instead of the old-fashioned state spending. Effective demand would remain in the region, and domestic demand would be strengthened. Unfortunately most economists are not interested in these questions in Europe any more; in their view public goods and services only distort Pareto-optimality.

*Do you agree with the hypothesis that the most promising strategy to overcome under-development for the least and less developed countries is to participate in globalisation, i.e. to integrate themselves in the world market?*

To integrate or not to integrate is not the issue. The real issue is to what extent a country can actually develop and control its domestic market. If economic globalisation primarily means that countries try to raise their exports and that the external market gains in importance there will be more losers than gainers in the developing countries. Africa for example – at least Sub-Saharan Africa – cannot gain however much debt relief it receives, because it just cannot develop the external market. That kind of IMF strategy simply does not work



for these countries. Also state-led industrialisation has not worked, due to inefficiencies and corruption. In my view the only successful strategy for these states is to concentrate on the domestic market and to rely on decentralisation. Development requires a type of decentralisation in which people have the right to information and a saying in political decisions. The provision of public goods must be combined with participation; and the most important public good is the free access to information, which must not be controlled by bureaucrats and politicians. There is no other way towards a democratic development, whether it is in India or in other developing countries.

*India is well known for its booming computer service industry. Do you think that this is a promising growth strategy?*

One important criterion to evaluate India's growth is whether many people are gaining from it. The Hindu Party – which I do not like for various reasons – went into the last election in 2004 with the slogan »India is shining«, exactly referring to the growth promoted by the IT industries, and it badly lost. It is true that India has never before experienced a higher growth rate; India's middle class has never earned as much money. But it is also true that obviously the majority of Indians do not feel that they gained very much: not only in terms of relative disparity, but the poorest certainly did not gain anything. In a more acute sense China, the other really fast-growing economy, has the same problem. The central question is how to stabilise high economic growth with the kind of political centralisation we have today in India or in China, with the one-party-system. On the one hand this system is very efficient and certainly one reason why China can grow that fast. But at the same time many regions and people are not reached by this high economic growth. It is difficult to say whether this non-democratic system can be sustained in the long run.

India's growth is based on a small number of very well trained people, IT engineers, bio-technologists, etc. But there is no automatic mechanism to spread this growth to the ordinary, to the poorer people. However, the Indian government, which used to say that India is shining and that all what is needed is IT and biotechnology, seems to have learned a lesson. Now the government – and in this respect growth is a fascinating thing as it allows such policies – is talking about an employment guarantee scheme, something on which I spent a lot of energy by writing articles etc., to improve the situation of the poorest: by offering public employment, decentralised public work. If India thus succeeds in strengthening the domestic market, it will be able to sustain its development and high growth also in the long run. And this is the real conflict with international bodies like the IMF or the World Bank: they do not understand that increasing free trade and liberalising the markets is no successful development strategy. Governments in developing countries have to find a way to distribute some of the growth gains to the poorest; and this is the responsibility of national and of local governments.

One aspect economists do not discuss, but which is extremely important is the international distribution of power. What we need is a better world to live in, with a certain degree of harmony. This requires a balance of power so that nobody dominates in one way or another. I am afraid we won't achieve this by simply talking about high growth. We

certainly need a kind of distribution that allows growth to continue. But actually it is not only about distribution, but also about improving the quality of people's life by increasing social wages over time. I am aware that this is some sort of romantic vision, but we need some notion of which way we want to go. We have to go beyond nationalism and an understanding of globalisation that primarily means that countries fight over the shares in the international market.

*The interview was conducted by Christoph Sauer and Margit Schratzenstaller in June 2005.*

*Selected Publications of Amit Bhaduri:*

The Economic Structure of Backward Agriculture, London/New York: Academic Press 1983 • Macroeconomics: The Dynamics of Commodity Production, London: MacMillan 1986 • Makro-ökonomie: Die Dynamik der Warenproduktion, Marburg: Metropolis 1998 • Unconventional Economic Essays, Delhi: Oxford University Press 1993 • The Intelligent Person's Guide to Liberalisation (co-authored), Delhi: Penguin Books 1996 • On the Border of Economic Theory and History, Delhi: Oxford University Press 1999 • Endogenous Economic Growth: A New Approach, Cambridge Journal of Economics 2005

## **Afrika im Brennpunkt der Entwicklungsdebatte**

*Jörg Goldberg\**

Im Jahr 2005 steht Afrika ganz hoch auf der internationalen Agenda. Der neue Präsident der Weltbank, Paul Wolfowitz, erklärt Afrika zum »Kontinent der Hoffnung«, und die »Commission for Africa« des britischen Premierministers Tony Blair fordert eine Verdoppelung der Entwicklungshilfe für den Kontinent. Der diesjährige G8-Gipfel in Schottland, vorbereitet und begleitet durch eine breite internationale Kampagne »Make Poverty History«, widmete sich intensiv den Problemen Afrikas. Die angekündigten Verbesserungen – Verdoppelung der Entwicklungshilfe für Afrika auf 50 Milliarden US-\$ jährlich bis 2010, Entschuldung von 18 armen Entwicklungsländern, darunter 14 aus Afrika – lesen sich eindrucksvoll.<sup>1</sup> Auch im Verständnis der breiten Öffentlichkeit ist das Problem chronischer, extremer Armut auf der Welt ganz überwiegend eine afrikanische Angelegenheit. Ob Afro-Optimist|inn|en oder Afro-Pessimist|inn|en – der Kampf gegen die globale Armut wird

\* Lusaka, Zambia

1 Die Probleme dieser Beschlüsse sollen hier nicht diskutiert werden; vgl. dazu Informationsbrief Weltwirtschaft & Entwicklung, Sonderdienst 7/2005.