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Article

"I had so many feet in so many camps". Interview with Jan Kregel

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Forum

»I had so many feet in so many camps«

*Interview with Jan Kregel****

In your career you have worked with different leading Post-Keynesians, like Joan Robinson, Alfred Eichner, Nicholas Kaldor or Paul Davidson, who was a PhD adviser of yours. What was their main impact on your work and are there any other teachers who impressed you or were important for you?

I was an undergraduate at a small Midwestern college in the United States. Most of the teachers there came from the University of Chicago, so I had a very conservative and traditional economics background. In fact I did not start out studying economics, but English composition. Then I became very impressed by one of the economics professors, Frank Gathof, who was an expert in what became law and economics, but from the side of the labor unions, and I was drawn into economics as a result of this. I was also at that time involved in communications and was responsible for the college radio station. Since I had finished my requirements in three years, I decided to stay for another semester in order to do the live broadcasts for the college football games. This meant that I finished in the middle of the academic year. It is not usual to start a graduate program in midyear.

I was accepted at three universities: One was the University of Chicago, obviously because we had direct line there, the second was Southern Methodist University in Texas, to which I was attracted because I was born in Texas and had family there, and the other one was Rutgers University. Because I had originally had the idea of going to work in adver-

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tising in New York, I decided to go to Rutgers because it was close to New York and they would allow me to enter the program in midyear.

There I had courses with Kenneth Kurihara, editor of the famous book on post Keynesian economics. But more importantly, after my first semester Paul Davidson returned to Rutgers and I did Davidson's graduate macro course; there we went through the battle of Chicago versus Keynes. He turned out to be very convincing, so I saw that there was something wrong with the background I had been given as an undergraduate. In one of Davidson's advanced seminars I was introduced to Joan Robinson's *Accumulation of Capital*, and this is where the Cambridge linkages came in. Robinson's book came out in 1956, the course was around ten years later, and at that time the book was almost totally unknown outside MIT or Harvard. We went through the book, and Davidson said that he really did not understand the intention of the book, but that it was clearly important. He suggested that the only way to find out would be to go and listen to the author. So I decided to go to Cambridge as a research student and Joan Robinson was my supervisor there.

Of course this created another conflict, because Paul was very much interested in Keynes's monetary economics and Joan was absolutely convinced that monetary aspects really did not have much to do with the long-period growth theory she was trying to develop. So the idea for my dissertation that Paul suggested was to put money into the Cambridge growth models. This idea lasted about three weeks. I pretty quickly understood that this really was not the way Joan Robinson wanted to approach the issue.

After that I started studying Cambridge growth and distribution models. When I had the first or second meeting with Joan she asked if I ever had read Marshall, and I said: »Of course not, what do you mean?« She looked at me and said: »Well, maybe you better read Marshall, and then come back and we can talk seriously.« At the same time she sent me to the course of Luigi Pasinetti, and I also attended Richard Kahn's lectures. And of course Nicholas Kaldor was doing his growth course, as well as David Champernowne a course on statistics. That was the background of a normal Cambridge undergraduate at that time. They did not know how lucky they were!

Eventually, after my first year, Joan went to Stanford for a semester so I got passed over to Nicholas Kaldor as my supervisor, which was a strange experience. I had seen Joan Robinson almost every week or even more frequently, and when you had a problem she would come and see you. Kaldor was always gone. When he happened to be there, and you ran and tried to catch him, he would say: »No I hadn't had the chance to read this.« At one stage he even lost a chapter of my dissertation on the train. It was a sort of amusing.

At that time I was working on the technical progress function which I think is a very crucial Schumpeterian link into Kaldor's work. Most people have tended either to ignore or really not to understand it, because if you read what Kaldor wrote it is almost impossible to understand, but when you listened to him it made pretty good sense.

So that is all I got from Kaldor. Sraffa himself had very little impact but he had a large number of talented students working with him, and I came into contact with these people. Joan was also at that stage very interested in the implications of Sraffa's book. That is another piece in the puzzle.

I eventually went to Italy and worked there for some time, and here I got the Schumpeterian perspective again, because Paolo Sylos-Labini integrated into Italian economics the work of Schumpeter. This was reinforcing the Kaldor lines because Sylos-Labini and Kaldor were coming up with a similar approach that was not in the Marshallian Cambridge tradition.

Then finally, as a result of a number of circumstances that had to do with Cambridge regulations, it turned out that it was easier for me to submit my dissertation in the U.S. When I was doing my dissertation defense at Rutgers Hyman Minsky was present, invited by Davidson, to give a seminar. We worked subsequently together and we met very frequently and after that we became very close friends. So Minsky became the second string in the monetary aspect, with a strange contraposition that you had between Minsky and Davidson. They were both obviously doing more or less similar things, but each one of them had a very peculiar way of looking at it. In Minsky, there is this tension between the Schumpeter side and the Keynes side, but Davidson did not have much appreciation for this. So they ended up never managing to communicate or managing to produce any sort of common work. But again, I ended up in the middle trying to get these things together.

Summing up, I was stuck in the middle, which in a sense explains why I had so many feet in so many camps. That is what determined what came after that. I tried to get all of these approaches together in some sort of common approach.

An important attempt at integration was your joint paper with Alfred Eichner in 1975 on Post-Keynesian Economics as a new paradigm. What is your view today on the development of this paradigm, and why in your view has Post-Keynesianism failed in terms of substituting mainstream neoclassical synthesis or monetarism?

The background of Al Eichner was in a sense complementary to mine. As you may have noticed I had not talked very much about microeconomics. What I knew about micro was very traditional and basically what you can read in those textbooks. Al, on the other hand, first was a journalist and secondly came from a Marshallian background. He was actually going to look closely at the reality of what he was trying to study. He came to economics late and worked, in particular in his dissertation, which is really an amazing book, on both technical progress and pricing in a Schumpeterian way. Al was exposed to a lecture by Joan Robinson, and he quite quickly caught the linkages between what he was doing in the field of industrial organization and micro basis and the Cambridge macro growth theories. Joan Robinson had suggested that he get in touch with me, and one day he showed up on my doorstep in Bristol and said: »Can we talk?«, and I said: »Sure«. And this is how this particular collaboration started.

We decided to put these two pieces together: his industrial organization Schumpeterian dynamic imperfect competition approach with the Cambridge growth models and the dynamics that worked there. If we were able to put these pieces together, then we thought we would have an alternative to traditional economics. So that paper was started.

There is the question, why this approach did not work. There are two reasons. First, you have this very strong element of micro theory – and if you look at what Richard Kahn

was doing in his fellowship dissertation this was really alternative micro theory and what Al was attempting to do was alternative micro theory, too. So you have got that piece of the argument, but it got lost in the further development. The other one was the equilibrium growth models in the tradition of Kaldor and Robinson which also has fallen out of the further development.

What you have left of so called Post-Keynesian economics today is, on the one hand, this very strong influence of Kaleckian economics. This is just mark-up pricing which today does not have much resilience. On the other hand, you have the endogenous money theory. Both were not part of the original Post-Keynesian approach but came in from the outside and tended to drive out the other issues. But if you go back, it seems that what was considered as either taken for granted or as finished issues in the 1960s and 70s seems to have come to dominate a lot of the discourse. Why are we wasting our time with these debates if this is really not something which is very fruitful? We always knew this. Look at Joan Robinson's *Accumulation of Capital* and *The Rate of Interest and Other Essays*. There are chapters about money and you find most of the present debate is there. Keynes and all of his disciples started out from this, they already knew this.

But of course, the integration of these pieces has failed so far. I tried and missed it, Keynes obviously also tried, everybody tried. And still we have not managed to do it. There still is not that integration of the pieces that were involved in the so called Keynesian Revolution that took place much beyond the *General Theory*. So if I am saying there is a failure, the failure is there, and there is this difficulty in fitting all of these things together in a whole.

Do you think that the attempt at integration has failed in general? Or do you believe it is still worth while working on it?

Well I would say it is still worth while working. I still think that these things are all compatible amongst themselves. It is simply a question of getting people to do the work in order to understand what the other elements in the story are. And we should give up this single-mindedness and the tendencies towards exclusion that is some people say, well Post-Keynesianism is mark-up pricing and others say, no Post-Keynesianism is endogenous money, and so on.

If we talk about the perspectives of Post-Keynesian economics we see that the group is shrinking, to be modest. So what is in your view the relationship to modern New Keynesians, for instance Stiglitz or Akerlof. Is there any bridge or any common ground which can be developed in terms of an overarching Keynesian paradigm with Post-Keynesian elements, or do you think that this is the wrong way to go?

I think you have to make a distinction. Akerlof is difficult do fit into any sort of Keynesian paradigm because he is one of the people who were in the beginning New Keynesians in explaining price rigidities but then turned into different directions. Stiglitz tried to do the same things through asymmetric information theory. If you want to look at a linkage, this comes very close to what Richard Kahn was doing. When demand goes down – what happens? Do prices adjust or do quantities? At that time this was an open question in tradi-

tional micro theory. The traditional belief was that if demand goes down, prices are going down, too, and the market finally clears. But if you look at the industrial studies you see this is not what happens. From that point of view the new and old approaches are looking at the same things. The problem is that the New Keynesians come to diametrically opposed results than Kahn and eventually Keynes. So there is very little point of contact, because you do not need effective demand anymore when the problem is caused by price rigidity – then all you have to do is to get rid of price rigidities.

On the other hand, Stiglitz has written on development issues where he takes a step out of the information imperfection paradigm. And then some of the standard Keynesian elements come back into the story. So usually, when students come to me and ask where they can usefully apply Keynesian economics I recommend development economics. This is where you find the biggest possibility of communicating with the neoclassical synthesis Keynesians, because at the stage of development theory usually they are willing to throw out that standard micro stuff. And most of these people learnt at least some form of Keynesian macroeconomics, and they still understand things like unemployment and the role of government expenditures.

If we take a look at macroeconomic policy recommendations of Post-Keynesians today, we seem to be back in the world of the 1960s and 70s: Use more active fiscal policies in order to stabilize the economy and make use of incomes policies in order to control inflation. But incomes policies did not work in the 1970s. You are suggesting as an alternative the 'employer of last resort' (ELR) program developed by the Center for Full Employment and Price Stability in Kansas City. What are the advantages?

Let me turn first to incomes policies. You start with the difficulty in combining fiscal policy supporting full employment and price stability. But we do not want to give up full employment. So the thing which is giving us trouble is the wage rate. Let us just make the wages behave, the way they are supposed to behave in order to allow these policies to work. The difficulty with this was that it was an across the board policy. If incomes policy was going to work, wages had to be paid according some average level of productivity across the industries. Those industries in which productivity was growing less rapidly would be squeezed and they would be pushed out of the market. So there was some sort of structural logic behind it. Both in the case of the UK and in the case of Italy, incomes policy always failed because those sectors that were supposed to get squeezed were those that managed to avoid this squeeze. They were the strongest sectors within those particular economies and eventually ended up breaking the incomes policy or breaking the trade unions which were a crucial part of this. The whole idea was that there had to be some corporatist deal between the unions and the government in which the government cares for employment and the unions restrain wage demands, so that everybody is going to benefit. I lived in Italy long enough to see how easy it was in a country in which you had very strong unions, to destroy the institutions which are required for this kind of incomes policy.

The other side of the problem was fiscal policy. We are supposed to use fiscal policy in order to keep aggregate expenditure high enough. But fiscal policies, I can always remem-

ber how Joan Robinsons used to talk about it as a blunt instrument. Skidelsky at the Kansas City General Theory anniversary conference in 2006 had a very interesting paper in which he argued that if you look at the UK in the 1920s, the problem was not the general level of unemployment, the problem was sectoral unemployment. He said that what was required was some sort of industrial restructuring in the economy as well as support of the level of demand. So basically Keynes's problem was the structural difference in unemployment. This is where the 'employer of last resort'-idea comes in. The idea is to provide a so-called pool of unemployed workers who are trained, as the program is linked to training, which allows to solve the unemployment problem by definition: With the ELR program, there is a sufficient number of jobs for all of the unemployed, and the Beveridge definition of full employment is automatically met. At the same time the program can be sectorally targeted.

What is the difference between active labor market policies, as for instance practiced in Sweden, where they tried incomes policies by means of 'solidaristic wage policies'? The idea was to increase wages according to the average productivity increase and then to take care of those who get out of these low productivity, slowly growing sectors and train them in order to get them in the fast growing high productivity sectors.

The basic difference is that you are setting the wage in the ELR pool at some basic minimum. Instead of everybody's wages going up according to average productivity growth, there is some minimum wage guarantee that is given to everybody in the program. The flexibility in the system comes by the fact that employers, when they need labor, can always go to the ELR pool and pull workers out, so that if a sector is increasing and its productivity is growing, then automatically it becomes profitable to pull workers out of the ELR pool because you can pay them more than the ELR minimum wage. So the basic idea behind this is that it gives you increased labor market flexibility without the flexibility that you get in traditional theory: flexibility to fire. Here, flexibility means always having a pool of labor which is reasonably well trained and which can be hired without having the effect that this hiring then pushes up the wage above the increase in productivity. So the idea is to prevent an increase in the demand for labor pushing up the wage as expansion occurs in the system.

I have studied incomes policies in Sweden and in Holland. The practical experience, looking at the way unions responded, suggested that the coherence which is needed on the trade union side was something that would probably not be likely to occur. So what you had in Sweden for the period in which incomes policies worked was probably exceptional. This is also the case in Germany or in Austria where you had this for some period. But in the end it eventually broke down. The problem is that there are economic incentives inside which contradict incomes policies: I can still remember the creation of an autonomous union of pilots in Italy who said: »Why in the world should we be restricted to average productivity growth? Look at the American pilots, how much they earn.« If the pilots could do it, the train drivers could decide do it, and if the train drivers could do it... – and so on.

Does the ELR approach include compulsory work in your view?

First of all the ELR program follows the basic definition that Keynes used: Full employment is that all those willing and able to work are able to find a job at the going wage rate. So ELR is designed to solve this unemployment problem: Here are the jobs, if you want to come, if you are willing and able to work at the going wage, then you can do it. But if you do not, you have personally chosen to stay out.

Without social benefits?

You may, or may not want to supplement the ELR program with minimum social benefits for particular conditions. But anybody who is willing and able should be part of the labor force. That people can choose not to participate and still get an income definitely is not part of the program. The basic idea is not only to increase participation in a labor market, but you also build up social and political participation. This is something that we have seen very clearly in a program in Argentina. Once you get people involved in the work program then they also become involved in social organization. This is particularly true for long-term unemployed and for people who were permanently excluded from the official labor market, and also socially and politically excluded. There is hence a positive benefit, both for political and social reasons, to include people in that system. This is not forcing people to work.

Does the employer of last resort program contradict with the development of a permanent public sector?

First of all, there is always more public sector work to be done and it is not a question of finding things to do. Some people say, that you cannot organize the ELR program, that there is nothing for these people to do. But of course, people can build schools, technical capacities, and people are going to school.

The second point is that the size of the public sector is more or less independent of what you do with the ELR program. What the ELR program does is to change the way the deficit moves over the cycle. And if you are willing to allow the deficit to move in a counter-cyclical way, then it should not have any impact on what you are providing permanently through the public sector. But the difficulty is that a lot of people are saying that it costs too much and that the deficit becomes much too high. Most of the studies that we have done, however, indicate that the range is somewhere between 0.5 and 1.0 percent of total expenditure when you are taking into account multiplier effects, second round effects and everything else, not to count the other social effects.

The interview was conducted by Eckhard Hein and Torsten Niechoj in October 2007.

Selected Publications of Jan Kregel

Rate of Profit, Distribution and Growth: Two Views, London: Macmillan 1971 • The Theory of Economic Growth, London: Macmillan 1972 • The Reconstruction of Political Economy, London: Macmillan 1973 • The Theory of Capital, London: Macmillan 1976 • Post-Keynesian

economic theory: a new paradigm in economics? (with A.S. Eichner), in: *Journal of Economic Literature* 1975 • Economic methodology in the face of uncertainty: the modelling methods of Keynes and the Post-Keynesians, in: *Economic Journal* 1976 • Post-Keynesian theory: income distribution, in: *Challenge* 1978 • Hamlet without the prince: Cambridge macroeconomics without money, in: *American Economic Review* 1985 • Can we create a stable international financial environment that ensures net resource transfers to developing countries?, in: *Journal of Post Keynesian Economics* 2004

Productivity Growth and Unemployment Under Mrs. Thatcher Reconsidered

*Nigel F.B. Allington** and *John S.L. McCombie***

*Introduction*¹

Mrs. Thatcher's controversial premiership in the UK ran from 1979 to 1990. It witnessed the end of the post-war Keynesian macroeconomic consensus and the introduction of monetarist policies targeting inflation by attempting to control the growth of the money supply. The commitment to the maintenance of high and stable employment was abandoned and labour markets were deregulated in an attempt to improve Britain's poor economic performance since the Second World War.

This article focuses on Mrs. Thatcher's supply-side policies by considering the labour market and unemployment. Specifically, it considers whether or not her policies facilitated a productivity 'miracle' and the eventual attainment of a low unemployment rate. And whereas the OECD (1996 and 1999) argued that the Thatcher labour market reforms in the UK increased labour market flexibility, more recently (2007) it claimed that wage flexibility is no longer the *sine qua non* of efficient labour markets. A re-examination of these issues will also have a bearing on the present debate over continental Europe's current lackluster economic performance (Blanchard 2005). So, what are the implications of the Thatcher 'experiment' for present day continental Europe?

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¹ This draws on Allington, N.F.B., McCombie, J.S.L. (2009): The 'Thatcher Experiment' of 1979–1990. Did it lead to an economic renaissance of the UK?, in: Arestis, P., McCombie, J.S.L. (eds.), *Missing Links in the Unemployment Relationship*, Basingstoke: Palgrave Macmillan, with permission of the publishers.