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Article

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Forum

»We are all Horizontalists now!«

Interview with Basil Moore^{* **}



Basil, how did you come to economics?

I was born in 1933, and so I am a product of the Great Depression of the thirties. My father had then lost his job and was selling apples on the street of Toronto. I was attracted to economics basically because I had heard so many stories about the depression, growing up as a boy in the 1930s. I was trying to figure out what had gone wrong and what we could do differently next time.

Who were the economists that impressed you most?

I was an undergraduate at Victoria College, University of Toronto, and had several good role models there. I then had to decide where to do my graduate work, and applied to eight different universities. I was accepted at seven and I had to decide where to go. I was accepted at Harvard, and sometimes I regret not going there, because it is the leading university in the States. But I went to John Hopkins University because they offered me the largest fellowship. Hopkins was in its great years then, having Machlup, Kuznets and Domar as professors and Lerner and Patinkin as visitors.

My doctoral supervisor was Fritz Machlup, a famous Austrian neoclassical micro-theorist. I am still kind of surprised about the topic I picked under Machlup: *The Effects of Countercyclical Monetary Policy on the Earnings of Canadian Chartered Banks*. My thesis was what we used to call a pot boiler, which is something to keep a chicken in the pot. It was not intended to be my great lifetime contribution but something I could do quickly. I did it under one year and received my PhD when I was 24. I thought I could show that if banks profits went up during the periods of tight money – restricted monetary policy – then that might give the Bank of Canada a bias towards a high interest rate policy. I wanted to test this story empirically. My difficulty was that in 1958 capital gains and losses were not pub-

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** We would like to thank Katharina Dröge for the transcription of the interview.

lished, but you had to try and estimate them. This was my first experience with empirical estimation, and it only was a first step in the assessment of the issue.

After graduation I taught at Wesleyan University. I initially thought I would stay at Wesleyan for just a few years, until I went on to a research institution – Yale or Harvard for example. But I never left, primarily because Wesleyan was a very attractive place to teach. We had excellent undergraduate students, good salaries, small classes, an excellent library, and a great location just 20 miles away from New Haven and Yale, and 100 miles away from New York and Boston.

How did you get involved with the American and UK post-Keynesianism and how did you yourself become a post-Keynesian?

One of the many attractions of Wesleyan was that it had an extremely liberal sabbatical programme. After three years of teaching you received one semester on sabbatical. As an economist, I would every four years take a one semester sabbatical and also one semester at leave, so that I had one year off at half salary. My first sabbatical was in 1962/63 when I went to Stanford. John Gurley and Edward Shaw were there; and Gurley then became the editor of the *American Economic Review*. I liked them both a bit. My next sabbatical was in 1967. My first wife was German, and I went to Munich to work on my first book *An Introduction to the Theory of Finance* published in 1968. It was very much influenced by James Tobin's portfolio theory. My next sabbatical was in 1971 which I spent in Cambridge. On one side of my office next door was Joan Robinson, and Paul Davidson was next door the other side. With Joan I had many long talks at Cambridge and got along very well. Paul is one of the people I most enjoy talking economics with. At that time he was writing his book *Money and the Real World* and we talked a lot about monetary and financial theory. I also became more and more interested in Kaldor's theory. Nicky Kaldor was the first to recognize that the direction of causality between changes in money and changes in income was from income to money, rather than from money to income; a very simple observation, but also very interesting how long it took to sink in with the profession. Kaldor somewhere has a very early horizontal money supply curve as a way of diagrammatically illustrating that central banks set interest rates, not the money supply, as was then the established view.

The reason why I became a post-Keynesian was that I became a good friend of Paul's and was influenced by his views. I was primarily trying to criticize Milton Friedman's Monetarism. Friedman was the enemy. Once you recognized that the close correlation between income and money was going into the opposite direction, the so-called »reverse causality«, the sun came out – and the rest became very simple.

The book of yours most quoted is Horizontalists and Verticalists. The Macroeconomics of Credit-money. It is a milestone of post-Keynesian monetary economics and initiated a huge debate between Horizontalists and Structuralists. Could you describe your early views in this debate and, from the perspective we have today, whether there is any convergence within post-Keynesian monetary economics?

I think the Structuralists were simply mistaken. At a conference in my honour in Stellenbosch in 2005, Randall Wray, probably the one post-Keynesian most opposed to the Horizontalist position, then stated: »We are all Horizontalists now!«

The central bank sets the interest rates. But what interest rates does it set? It directly sets only the short-term rate, the 24 hours wholesale rate. Long-term rates are based on what markets expect future short-term rates to be. There is a whole family of interest rates, and I would also include stock prices, dividend yields, and land and property prices, which the central bank can only influence but not set directly. Central banks could and in fact should buy and sell stock indexes to stabilize security prices and to prevent them falling as much as rising. One trouble is that it is very difficult to define what an »appropriate dividend yield« is, which depends on current expectations. I now come out that economies are complex adaptive social systems. One of the characteristics of complex systems is that change is continuous and that they have no tendency to reach a stable »equilibrium« solution.

Is this complexity issue the distinguishing feature of your latest book, Shaking the Invisible Hand, compared with Horizontalists and Verticalists?

In my first book, I believe I got the story of endogenous money correct but not its full macroeconomic implications. These took me about 17 years to write and it finally became a new book in which complexity plays a central role. I was trying to develop an analysis in place of equilibrium analysis. I am saying that for complex systems which are continually changing you can never predict a future equilibrium position, since in real time there is no tendency for such systems to find a position of balance. If you take this position seriously, it results in a powerful general criticism of equilibrium analysis, not merely general equilibrium analysis, but any sort of equilibrium, since equilibrium is defined as a position of balance where variables have no incentive to change. If it is a complex system, it never approaches any position of balance. The Lavoie and Godley stock flow consistent modelling approach goes into this category. If it is a complex system that continually changes you cannot set future prices, since the future is unknowable. It is silly to try to pretend we can predict the future path of an economy. You might say a certain price must come sometime, but you could never say when. I say, let us throw equilibrium analysis away and put process analysis in its place.

What does this mean for central banks and interest rates?

What I have stated in *Shaking the Invisible Hand* is that one cannot make a distinction between »exogenous« and »endogenous«. Nothing is really exogenous, even interest rates, because central banks will always react to economic conditions. You can predict that central banks will raise interest rates in a boom, and reduce them in a slump. In that sense interest rates always have an endogenous component. You can never say when and how central banks are going to do it precisely. When you take complex adaptive systems seriously this is what you cannot say: »Here is the model and monetary policy or fiscal policy is an exogenous influence from outside.« This is wrong. Everything is part of the complex system, so the distinction between »exogenous« and »endogenous« breaks down. What the central banks

or the governments do is a response to the state the economy is in. There is no purely exogenous or autonomous policy coming from outside. Central banks and governments have some discretion but there is always some sort of endogenous component.

I think that I can now also show that the mainstream view of saving is misleading. We have a vision of a saving function, like a consumption function, upward sloping in the interest rate-output space. If you want more saving, you must raise interest rates, according to the orthodox view. But instead of having an independent upward sloping saving function, in reality we have an interest rate set by the central bank – a horizontal money supply. As I was finishing that book, I recognized that there is in fact no behavioural saving function. Since saving means not to consume, if there is no saving function, there can be no consumption function either. Investment causes its own saving. Once you really hang on to that, it has enormous implications for the economic development: You want to keep interest rates as low as you can because you want to have investment and growth as high as you can. You do not have to worry about the amount of saving forthcoming. There is no upward-sloping saving function. That means that the argument the central bank should not lower interest rates, because it will cause inflation now goes out of the window.

Can we relate your theoretical insights to economic policy and the situation in South Africa? You have been living there for several years.

We bought our farm in South Africa in 1991 and I retired in 2005. Normally, for the previous 15 years, I spent seven months in the USA and five months in South Africa. The South African Reserve Bank, like the European Central Bank, has been brainwashed by Monetarist views that inflation is the number one evil. South Africa has 30 to 50 % unemployment, yet the bank rate has been long held at 12 %. As in many developing countries, bank lending spreads are much wider so that you can borrow at about 15 to 20 % – which kills most small businesses. If you must borrow to buy a plant or equipment or to pay wages, 20 % kills you. For the state high interest rates is a problem, too. They have a huge infrastructure programme, which is currently holding the country together. They plan to spend 250 billion on infrastructure development, but they are going to have to borrow the funds. Since the government is the largest borrower, it has a self-interest in lower interest rates. At the moment South Africa has a low debt ratio but it is going to climb. If the government must borrow and pay 20 % interest rate the budget will be in huge deficit.

What I am doing in South Africa is replaying the old anti-Monetarist fight of the 1970s against Friedman. I try to remind the government of all the arguments for low interest rates. Their big argument against is that low interest rates are bad for saving. But this is incorrect. When people invest, saving is the income that is not consumed, so investment provides its own saving. It is actually a simple story. Saving is not volitional. It is merely the accounting record of investment.

The interview was conducted by Eckhard Hein and Torsten Niechoj in October 2008.

Selected Publications of Basil Moore

An Introduction to the Theory of Finance, New York: Free Press 1968 • Horizontalists and Verticalists. The Macroeconomics of Credit-Money, Cambridge: Cambridge University Press 1988 • Shaking the Invisible Hand: Complexity, Endogenous Money and Exogenous Interest Rates, London/New York: Palgrave Macmillan 2006. More than 100 journal articles.

Schwerer Rückfall in alte Obsessionen – Zur aktuellen deutschen Finanzpolitik

Serious relapse into old obsessions – Some remarks on the current German fiscal policy

*Achim Truger**

Nachdem die Dramatik der globalen Finanz- und Wirtschaftskrise nicht mehr zu übersehen war, hat die deutsche Finanzpolitik zum Jahreswechsel 2008/2009 einen bemerkenswerten Kurswechsel vollzogen. Nach mehr als einem Vierteljahrhundert prozyklischer, Krisen verschärfender Politik schwenkte sie auf einen makroökonomisch vernünftigen anti-zyklischen Kurs um (IMK-Arbeitskreis Finanzkrise 2009). Im Detail kann man zwar viel an den Konjunktur stützenden Maßnahmen kritisieren; insgesamt sind sie aber – auch im internationalen Vergleich (vgl. OECD 2009) – positiv zu beurteilen, und es können auch bereits erste Erfolge bei der Konjunktur stabilisierung verzeichnet werden (IMK 2009).

Wer allerdings gehofft hatte, bei dem Kurswechsel handele es sich um den Beginn einer dauerhaften Rückkehr zur makroökonomischen Vernunft, sah sich schnell getäuscht: Mit der Verabschiedung der so genannten Schuldenbremse im Grundgesetz und den bereits verabschiedeten und noch geplanten Steuersenkungen der neuen Bundesregierung erlitt die deutsche Finanzpolitik einen schweren Rückfall in ihre alten Obsessionen, der rücksichtslosen Haushaltskonsolidierung auf der einen und dem Glauben an die segensreichen Wirkungen von Steuersenkungen auf der anderen Seite. Beide Obsessionen sind schon je für sich genommen hoch problematisch; in der Kombination haben sie sich allerdings in der Vergangenheit als fatal erwiesen (vgl. Truger 2004 und 2009). Auch in Zukunft werden sie die deutsche Finanzpolitik schwer belasten.

Maßnahmen zur Konjunkturstützung 2009 und 2010 nicht perfekt, aber erfolgreich

Im Jahr 2009 ist die deutsche Finanzpolitik auf einen sehr kräftigen Expansionskurs eingeschwenkt. 2010 wird er sich abschwächen, aber immer noch ausgeprägt sein (Abb. 1, S.12).

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