

King, John E.

Article

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Forum

»The reform of capitalism is a) possible and b) very desirable«

Interview with John E. King, ***



John, what was your motivation to become an economist?

My motivation was Third World poverty. I grew up in a working class home in South London. We were not affluent, but we were comfortable enough. We lived in a decent house; we went on holiday to the seaside for a week every year. The schools that we went to were good. If you needed them, the hospitals and health facilities were excellent. And it was clear that two-thirds of the world's population were not so fortunate and the gap between the rich world and the poor world, the North and the South, was widening.

I suppose as a teenager this was my reason for becoming interested in economics. Then I was lucky, I went to a very conservative suburban grammar school in South London that had some really good teachers. My economics teacher, Alan Charnley, whom I exchanged Christmas cards with every year until his death in December 2011, ran his sixth-form economics class a bit like a university tutorial, so you were expected to read up, and develop opinions and defend those opinions in discussion with your fellow students. When he thought you were right, he told you so; when he thought you were wrong, he told you so, but in a respectful and constructive way, so that you could make a better job of it next time. I have always tried to deal with my own students in that way. It gave me a sort of bias towards teaching myself, which was reinforced when I got to Oxford and discovered that going to lectures was not something that was really done. This was the 1960s. Some of the eminent professors they had in Oxford – I think of John Hicks and Roy Harrod in particular – were extremely bad lecturers. So I learned more from my fellow students and one or two of my tutors than from anybody else. My college tutor was a man called John Corina, whom probably nobody has heard of today. He was a labour economist. And again, he took the same approach with the students, he enjoyed arguing with them. And he

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introduced me to the work of Kurt Rothschild, in particular Rothschild's Theory of Wages, which made quite a big influence on me as a student. I studied development economics with Bob Sutcliffe, who had a seminar in development economics which I found extremely interesting. Moreover, I had individual tutorials in economic history with the Australian Max Hartwell, who turned out to have been a member of the Mont Pelerin Society, though he kept that real quiet. I learned a lot of economic history from him, which I have found very useful ever since.

One of the things about the 1960s was that it was possible, if you had a good undergraduate degree, to get a university lecturing job without a PhD, without even a Masters and without ever sitting another examination – and that's what I did. The person who appointed me to that was Philip Andrews, who was head of the newly established economics department of Lancaster University. He was a real conservative, but very anti-neoclassical. Again I learned a lot of microeconomics from him. Then probably the biggest influence on my development as an economist was a person who was briefly a colleague and then became a long-term friend, collaborator and co-author, Mike Howard, who knew a lot of things that I did not know. He had a multidisciplinary approach to economics and reinforced my interest in Marx and in particular argued with me that Marx and Keynes were basically compatible and that Michał Kalecki formed a bridge between them. With my early reading of Rothschild, these were the two things which I suppose made me favourable to post-Keynesian economics from quite an early age.

As a lecturer at Lancaster University, what kind of research did you do in this period? You collaborated with Michael Howard already?

Yes, we wrote a textbook on Marxian economics in our twenties, which was a very ambitious project. I have to say, the second edition, which came out when we were in our thirties, was a much better book than the first one. And I was developing an interest in the history of economic thought and persuaded Mike that we could write a history of Marxian economics, which ended up as a two-volume project that came out at the end of the 1980s/early 1990s. That occupied most of my research efforts for the first twenty years of my academic career.

So would you consider yourself as an historian of economic thought? Or do you approach economic issues rather from a political economy perspective? How do you see yourself as a researcher?

Both, I think. I probably have problems with historians of economic thought, who think that I do too much rational reconstruction and not enough historical reconstruction, and with political economists sometimes, who think that I am an antiquarian and rely too much on old ideas. But I find it is a very interesting tension between those two ways of looking at things.

After Marx, how did you get interested in post-Keynesian economics? What led to the book A History of Post Keynesian Economics Since 1936 that you published in 2002?

A set of accidents, really. I migrated permanently to Australia in 1988, having done nine years under Margaret Thatcher. I thought that was enough. I had sort of run out of steam on Marxian economics. I had done all I thought I could do in that and I was looking for

another long-term research project. Then accident number two: Hyman Minsky came to Melbourne as a guest of Robert Dixon at Melbourne University. I knew Minsky by name, but I did not know anything about his ideas. Sitting there listening to him talking almost non-stop for an hour and a half on two separate days in 1989 made me realise that there was a lot there that I knew very little about and needed to start reading and thinking about. Then I came under pressure at La Trobe University to apply for a large research grant. Australian university administrators have always liked measuring inputs into research better than measuring outputs from research, and I was lucky that the eminent historian of economic thought Peter Groenewegen was on the committee that awarded the grants that year. Otherwise I would not have been in with a chance. So I ended up with an A\$ 20,000 research grant, which was an awful lot of money in 1991. I used that to employ a couple of research assistants and compiled a bibliography of post-Keynesian economics. So I was pretty well up with the literature by 1993 or thereabouts. Then I did a world tour, interviewing as many post-Keynesians as I could find, getting them to tell me what they thought post-Keynesian economics was. So I was self-taught, but then people like Paul Davidson, Malcolm Sawyer and Luigi Pasinetti filled in a very large number of the gaps. That was the way which I fell into the history of post-Keynesian economics.

Having studied Marxian political economy and post-Keynesian economics, what is the bridge? What is good in one kind of paradigm, what is good in the other and what should we dispose of in these two? Do you think it is worthwhile going for a kind of synthesis of these two, or do we not need this because they are so similar anyway?

Some of the strengths of the Marxian tradition in economics are that they emphasise that capitalism is a class society, and the crucial relationship is the employment relationship, as opposed to mainstream economics, where firms are the agents of households. In Marxian economics firms are the employers of households, and that is absolutely fundamental. Another strength in Marxian economics is the insistence that capitalism is unstable and contradictory. And a third strength is the emphasis on power, in particular class power, and ideology. Some of Kurt Rothschild's writings here, again, form a sort of bridge between the post-Keynesian/institutionalist tradition that he is really part of and Marxian economics. Furthermore, there is the importance of profit, which does not really feature in mainstream thinking on economics any more, which in my interpretation makes Marxian political economy inevitably a monetary theory of production, because profit is always defined as the difference between two sums of money, and there is a clear link with Keynes and with post-Keynesian economics. One other strength is that the post-Keynesians would do well to begin to think about the theory of imperialism, and in particular its bearing on the relationship between China and the United States. Post-Keynesians think about global imbalances when they think about that, Marxists think of imperialist rivalry. I have discovered a bit of a growing literature in international relations in the United States and in Australia of people beginning to wonder whether there are parallels between the increasing rivalry between the United States and China and the rivalry between Germany and Britain in the early years of the 20th century, which of course culminated in the First World War, the consequences of

which are too horrible to contemplate. But there is this large and sinister political backdrop to the economic relations between the United States and China, which a Marxist would understand, which I do not think the post-Keynesians have yet come to terms with.

So that is the positive side. The negative side: there are huge problems with the labour theory of value which were emphasised by Piero Sraffa and his disciples, above all Ian Steedman, which have never been satisfactorily replied to by more orthodox Marxists, in my opinion. There is an enormous set of problems relating to the distinction between productive and unproductive labour in Marxian economics. I come from a country where manufacturing now accounts for less than ten per cent of GDP, less than ten per cent of employment, and 75 per cent of employment is in the service sector. How much of that is productive and involves people producing commodities, how much of it is unproductive and simply soaks up surplus value from elsewhere? The answer to that problem is not transparent, and I am not sure there is one. That ties in with the rise of the financial sector and the financialisation questions that post-Keynesians are concerned with. I am increasingly concerned about the inapplicability of the labour theory of value to a digital economy, in which it is not really clear what is being produced. When you buy Windows Home or Basic, what exactly are you buying and what conceivably is the labour embodied in whatever it is you are buying? I am also coming to the view that in some ways Schumpeter had a more prescient view of the future of capitalist development than Marx, who drew on Ricardo, assuming a roughly stable productive structure with profit rates tending to equality in the long term throughout the economy, so that the prices of production could be derived from labour values. If you have a set of temporary monopolies which are hugely profitable, but come to an end in a wave of creative destruction, that renders the volume three of *Capital* extensions of the labour theory of value very dubious in my opinion and also renders the falling rate of profit approach to capitalist instability very questionable. Furthermore, I have problems with the dogmatism still of a lot of Marxians, in particular those with Hegelian interests, who emphasise that 'the logic of capital' always seems to move as an autonomous force independently of the humans who implement it. It leads to what Geoff Hodgson once described as 'fatalistic Marxism', where nothing can be done, because everything is inherent in capital, or is part of the logic of capital, and therefore without overthrowing capitalism nothing can be changed. I have come back to a position I held as a teenager, after some dalliance with the revolutionary left in my early adulthood, a belief that the reform of capitalism is a) possible and b) very desirable. That puts me closer to the post-Keynesians than to many – not all – Marxists, I think.

Listening to you it seems that there could be an interesting combination of both strands, or maybe that Marxians can include a lot of good ideas from post-Keynesians and vice versa, am I right?

I think what the post-Keynesians can teach the Marxists is the principle of effective demand, which is my basic bedrock post-Keynesian proposition, which you can find in some of Marx's writings and not in others, in some of his disciples' writings and not in others. You have to accept that output and employment are often, perhaps normally, demand-constrained rather than supply-constrained, and I would add that this is true in the long run as well

as in the short run, which is one point that post-Keynesians emphasise, that many Old Keynesians, Robert Solow being a classic example, would deny. I am a little bit suspicious of the stagnationist strand in both Marxian and some variants of post-Keynesian thinking. I teach 20th century world economic history at La Trobe, and I tell my students that if they remember one number they should remember Angus Maddison's GDP estimates, which show world output ten times as large in 2000 as it was in 1900. That is not a stagnating system. It may be an unstable, contradictory system, but it is not a stagnating system. Moreover, I would add that Hyman Minsky was right on the 'exhilarationist' upward instability as well as the downward instability of capitalism. That would lead to the policy implications that capitalism can and should be reformed, and that full employment is the crucial policy problem in post-Keynesian economics and it is fundamentally a macroeconomic problem, not as the mainstream like to think of it as a labour market institutions, microeconomic problem. I would like to add that fiscal policy must play a fundamental part in the return to full employment, if there is going to be one. I would strongly support the principle of functional finance originally set out by Abba Lerner and defended by many post-Keynesians since then, and would reject the notion that fiscal sustainability is an important qualification to that principle.

Focusing on post-Keynesian economics now, how do you see its development over the last two decades? What are the weaknesses, what are the potentials of post-Keynesian economics?

I changed my mind slightly. I am less of an unqualified Kaleckian than I would have been 15 or 20 years ago. I think it is generally recognised now that Kalecki did not pay as much attention as he might have done to fundamental uncertainty and to questions of money and finance. These two are linked in a way that I will explain in a minute and that provides another bridge between Keynes and Marx. Now, there is a big problem here. Fundamental uncertainty seems to require what the methodologists call open system thinking, but if open system thinking is taken too far and interpreted as denying any possibility of formal modelling and any possibility of econometric estimation, then you do not seem to have any solid basis to make any policy statements about anything. So some degree of semi-closure – I think this is the term that Tony Lawson uses for establishing 'demi-reg's', whatever they might be – seems to be called for. There is a big methodological problem here in working out just how far along this spectrum from totally open system thinking to totally closed system thinking we want to be at. That links to money and finance, and I am increasingly coming to the conclusion that fundamental uncertainty is very closely related to the use of money. If there was no fear of default, then you would not want money, you would simply take someone's promise to pay. Marx recognises this in the distinction that he draws between personal dependence and material dependence. If you are a slave owner or you are a feudal lord, and I am a slave or a serf, we are dependent on each other personally and it matters to you who I am and it matters to me who you are. If we are simply relating to each other by buying and selling in a market, producing commodities and exchanging them for money, all I need to know about you is that your money is good, right? I do not need to know whether you are trustworthy or reliable or honest, as long as your money is not forged, that

is all that is needed. When credit money is used, or indeed any financial instrument other than 'legal tender', the fear of default, which is a major part of fundamental uncertainty, becomes an important fact of economic life. It was recognised, I think, by Marx implicitly at least, but explicitly by some of his disciples, like Rudolf Hilferding in *Finance Capital*, and it is another sort of bridge, one which is not as recognised as much I think as it should be, between post-Keynesian and Marxian economics. It is also a huge gulf with mainstream economics, where the assumption of complete financial markets eliminates this question of default completely. Whatever the mainstream approach to the use of money is, it is not the same as the post-Keynesian cum Marxian assumption. I would go further from that and again agree with Hyman Minsky that post-Keynesians should pay more attention than they have done to the determination of asset prices and to movements in asset prices, which have been neglected by comparison with output prices and the standard concern with output price inflation, which is important but possibly less important than it has sometimes been taken to be. That again is a problem for Kaleckians, because I do not think you will find any recognition, explicitly, of the problem of asset price bubbles and what happens when they burst, in Kalecki's writings. Later Kaleckians have had to think about that pretty well from scratch. So those are some of the issues that I find a) strengths in post-Keynesian thinking, b) connections with Marxian political economy and c) some unanswered questions.

What do you see as perspectives for post-Keynesian economics?

I am going to defend the broad church, big tent notion of post-Keynesian economics against the tendency towards sectarianism that I have seen in the case of Paul Davidson. But the chartalist strand of post-Keynesian economics has sectarian tendencies, too, the Minskyans, I understand, too, and the Sraffians certainly have. In the latter case there are many sects rather than one.

I think it would be a mistake if post-Keynesians fit themselves into a small or even large number of narrowly-defined sects, each of which regarded the people closest to them as the principal enemy. My youthful experience in sectarian leftwing politics was quite interesting and entertaining, but it did not lead anywhere. All strands of post-Keynesian thought should tolerate each other and talk to each other, and if the cost of that is some degree of incoherence then it is a cost that we are going to have to bear. The people closest to us are not our principal enemies, it is the people out there in the European Central Bank and the Republican Party in the United States.

Related to that, post-Keynesians should develop their links with other strands of heterodox economics. In Australia, where I come from, we have to do that, because there are so few of us that no organisation of post-Keynesian economists in Australia would be viable. So there is a Society of Heterodox Economists set up by a post-Keynesian and Kaleckian, Peter Kriesler, which welcomes anybody who is prepared to come to the annual conferences. They actively attract feminist sessions, there are Schumpeterians and other institutionalists, and radicals, and Marxians, and people from outside economics! I think this is something that post-Keynesians should think about, whether they are talking enough to people in politics departments, international relations departments and sociology departments, where they

are going to get a more receptive hearing than for the most part in mainstream economics departments. Although I am in favour of talking to mainstream economists as much as possible, it would be a mistake to believe that they are really going to listen very hard. There is the intriguing question of people on the fringes of the mainstream, like Joseph Stiglitz or Paul Krugman, who do not seem to have any awareness that they are post-Keynesians or that they might have something to learn from post-Keynesians. One or two people on the fringes of mainstream do – Charles Goodhart would be known to you, at least he is prepared to listen, even though he does not always agree with what we have said. How much of our energies we should devote to trying to influence the mainstream as opposed to expanding our influence among other heterodox communities and other social science disciplines is an interesting question.

You mentioned before some building blocks to analyse monetary production and financial markets and thus the financial market crisis and the crisis we have to face right now here in Europe. In a way it seems that post-Keynesian theory has really some potential to explain what's going on and to analyse it. But still this strand of theory and this movement, if there is any movement, is marginalised. What in your view is the reason for that?

There is something of a political paradox here. In 2008–9 the fact that non-mainstream fiscal stimulus policies were implemented successfully made it less likely that non-mainstream ideas would take over. If the main governments of the capitalist world had implemented the policies that their own economic models and theories led them to believe in, then it would have been a huge disaster and the field would have been open for a post-Keynesian alternative to exercise a lot of intellectual influence. In the third quarter of 2011, with deflation being imposed on so many European countries that may again become a possibility. If there is a major economic downturn, then maybe all bets are off and maybe there will be more interest among politically aware people – maybe not mainstream economists, who I think are beyond redemption for the most part – but maybe more interest among politically aware people, maybe among professional politicians, in post-Keynesian alternatives. But, up to now, I have to say that the prospects do not appear particularly bright. Outside Latin America, the only country in the world that has swung to the left as a result to the global financial crisis has been Iceland, for good reasons, but it is quite a small part of the world, quite a small part even of Europe. So I would not at the moment be particularly optimistic. The ideological dominance of mainstream economics is so profound that it is going to take a lot of breaking. There is a problem here that Marxists have not satisfactorily been able to answer. Ideology is usually defined as a set of ideas that promote the interests of a particular class, yet mainstream macroeconomics, if implemented in 2008–9, would have posed a mortal danger to the interest of the capitalist class, and it might yet do so again before too long. How these ideas continue to exercise the hold that they have is very hard to explain. I have not got an answer to that.

The interview was conducted by Eckhard Hein and Torsten Niechoj in August 2011.

Selected publications of John E. King

The Elgar Companion to Post Keynesian Economics, Cheltenham: Edward Elgar 2012 • *Nicholas Kaldor*, Houndmills: Palgrave Macmillan 2009 • *The Rise of Neoliberalism in Advanced Capitalism: A Materialist Analysis*, Houndmills: Palgrave Macmillan 2008 (with M.C. Howard) • *A Biographical Dictionary of Australian and New Zealand Economists*, Cheltenham: Edward Elgar 2007 • *A History of Post Keynesian Economics Since 1936*, Cheltenham: Edward Elgar 2002 • *A History of Marxian Economics, Volume I: 1883–1929, Volume II: 1929–1990*, Houndmills: Palgrave Macmillan 1989 and 1992 (with M.C. Howard) • *The Political Economy of Marx*, London: Longman 1985 (with M.C. Howard).

Staatsverschuldung aus kreislauftheoretischer Sicht

Wolfgang Scherf*

Die Staatsverschuldung gerät immer wieder in die wirtschafts- und finanzpolitische Diskussion. Für die einen ist sie Hauptursache wirtschaftlicher Krisen, für die anderen wesentliches Instrument zu deren Behebung. Der vorliegende Beitrag analysiert elementare Wechselwirkungen zwischen staatlichen Defiziten und gesamtwirtschaftlicher Entwicklung, deren Kenntnis für eine makroökonomisch fundierte Beurteilung staatlicher Schuldenpolitik unerlässlich ist.

Schuldenbedingte Krise versus krisenbedingte Schulden

Die Eurozone befindet sich, folgt man der gängigen medialen Darstellung, in einer *Staats-schuldenkrise*. Einige südeuropäische Staaten, allen voran Griechenland, haben fiskalpolitisch jahrelang gesündigt und damit die Währungsunion an den Abgrund geführt. Nun hilft angeblich nur noch harte Sparpolitik in den Krisenländern, flankiert durch milliardenschwere Rettungspakete, um die Staatsfinanzen zu konsolidieren, das Vertrauen der Finanzmärkte zurückzugewinnen und den Euro zu retten.

An dieser Sicht der Dinge ist vieles schief. Eine Finanz- und Bankenkrise, deren Ursachen nicht zuletzt in einem grenzenlosen Vertrauen in die Effizienz der Finanzmärkte und einer

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