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‘Keynes was an extremely political person and we should be too, shouldn’t we?’



Interview with Jan Priewe

Jan Priewe is a retired Professor of Economics. He is a Senior Research Fellow of the Macroeconomic Policy Institute (IMK) and a Fellow and member of the coordination group of the Forum for Macroeconomics and Macroeconomic Policies (FMM). His research areas include macroeconomics, economic policies and development economics. He has authored, co-authored or co-edited 16 books and numerous articles. Jan received his PhD in economics at the University of Bremen, Germany, in 1982 and has been a professor since then, first at the University of Applied Sciences Darmstadt, Germany, and from 1993 onwards at the HTW Berlin, Germany, before he retired in 2014.

Soon after the student movements of 1968 you started your academic life, right?

I started in Konstanz, Germany, and after the first semester I moved to Marburg in 1970 where my friends from high school lived. There I faced an extremely conservative faculty and at that time it did not provide a good education. In a way I regret that I switched from the University of Konstanz to Marburg. However, there was a very active student life, including radical movements and especially Marxists of all kinds. I learned more from the post-1968 student activities and self-studies, including immense amounts of reading in social science and economics, than in the lecture rooms. We felt that something was wrong with standard economics textbooks but we had hardly any academic ‘masters’ in West Germany, so we had to teach ourselves. I also joined a Marxist student association, the predominant one in Marburg with a rather strong focus on theory-related activities.

My first job after these studies – I graduated in 1974 – was a half-year job as an assistant for Statistics and National Accounting at the Social Science Faculty in Marburg. In the middle of the term I was asked to stop teaching by the authorities of the university on behalf of the Hessian Ministry for Cultural Affairs, led by a left-wing Social Democrat, Ludwig von Friedeburg. There were vague accusations of being too radical for a position in the civil service, followed by an interrogation. So, I walked out of academia and got a job at a consulting company for regional development and urban renewal in the Ruhr area. That was my first experience outside the ivory towers of academia, a great real-world experience. I also did a couple of studies on development issues, for instance in Uganda on behalf of the European Commission, and in Libya. I saw another planet, and this remained a life-long challenge.

However, this practice-oriented job did not meet my academic and theoretical aspirations. Therefore, I moved to the University of Bielefeld, Germany, to do my PhD, as the only economist at the Sociology faculty, after having worked for a short while at the HWWA-Institut für Wirtschaftsforschung (now Hamburg Institute of International

Economics, HWWI), Germany. Before I could start the new job in Bielefeld, I again faced the risk of a political employment ban but with the help of a university-based civil rights group against 'Berufsverbote' (a German variant of McCarthyism), we received public support, among others from Willy Brandt, chairman of the German Social Democrats at the time, Joan Robinson and the local Labour Court. Then I could stay there and finish my PhD.

You started off with Marxian economics... but you also mentioned Joan Robinson?

Yes, I started with Marxism but I read a huge number of Marxist and non-Marxist books. One of the first heterodox or Keynesian books was Joan Robinson's (1942) book on Marx's economics. This impressed me very much and I got a feeling that there were flaws in Marx. In my research I then started with labour market issues and noticed that there was something missing, so I came to macroeconomics. I was confronted with Keynesianism, especially with authors like Sidney Weintraub, Hyman Minsky and other post-Keynesians, during my years at the University of Bielefeld – but only in the library, no personal contacts, apart from being involved in the network of the so-called 'Memorandum group' of German Keynesian and Marxist economists which published annual appeals for 'alternative economic policy', closely related to German trade unions.

But with whom did you discuss academic matters at that time? Your PhD, written in Bielefeld and submitted to the University of Bremen, is a very rich thesis which covers many of the labour market and employment theories of that time.

Indeed, I hardly had any theoretical discussions with other economists. I 'discussed' mainly with the authors whose books I read. My PhD was about establishing a new theory of unemployment, beyond a mostly neoclassical micro-theory of labour markets and broad-based Keynesian macroeconomics, often coined at the time as employment theory. I wrote that labour markets are not really markets, that even perfectly flexible wages could not equilibrate demand and supply and would lead to persistent rationing of labour. I came up with a new classification of unemployment according to different causations, still worth reading today as an alternative to standard labour market theory and as a supplement to pure macro theory with the labour market as a passive appendix to goods markets.

Right after your PhD you got your first professorship.

That was in 1982 when I was still quite young. When I had finished my PhD I still had five years in my contract to do the so-called habilitation which was required at that time to become a professor at a regular German university. For the habilitation, however, you needed the approval of the full faculty, which can be critical for heterodox scholars. So, I thought it was easier for me and not a bad choice if I took the first job offer. That was the professorship at the University of Applied Sciences in Darmstadt for which habilitation was not required (instead three years of professional experience outside academia). With hindsight it may have been a mistake because of the heavy teaching load at this type of university. Nevertheless, it was a nice time and I learned teaching and also loving teaching. Yet it was also difficult because our students were mainly students studying engineering but required to take a considerable load of social science courses (ironically initiated by von Friedeburg).

But you still managed to write a book on crisis cycles and stagnation, which seems to be an attempt at synthesising modern Marxian and also post-Keynesian approaches.

Right, the demand side and also money and interest were much more emphasised than in Marx himself. I elaborated on three approaches of crisis theories, in conjunction with growth

theories, and came to a conclusion put in Marxian terminology (under-consumption, over-investment and accumulation theory). But it could have been put in national accounting terminology as well and in standard modern terminology and then it would not differ much from what we are doing nowadays in Keynesian macroeconomics. Yet today I would prefer a broader approach to theories of crisis and growth, with more emphasis on money and finance, rather than business-cycle theories.

Then you gave up with Marxian economics?

Yes, for two reasons. Firstly, I wrote this book under the premise not to discuss the labour theory of value, assuming it as valid, by and large, and therefore using all the Marxist value categories. I found that problematic. I noticed that I can express the same ideas without recourse to value categories. Secondly, this book did not find much attention beyond Marxist circles, since it was published in 1988, shortly before the fall of the Berlin Wall when interest in Marxism dropped, now replaced by interest in the failure of Marxism and socialism. I then changed to economic policy issues, set on the agenda by history – I was intrigued by all the issues of the German unification like many other German economists in the 1990s. Subsequently I published three books on German unification issues, two with Rudolf Hickel which were quite popular at the time. One was a pocket book (Prieue/Hickel 1991) on *Der Preis der Einheit* [*The Price of Unity*] which lay on the counter of almost every book store. The books covered fiscal policy and many macroeconomic issues, but also regional policy issues, and those are related to international economics in a way. With hindsight, the assessment of the issues, criticised often as too pessimistic, was by and large close to reality. With the sudden monetary union of the two Germanys – which we supported due to lack of feasible political alternatives after the border was torn down – we were somehow prescient of the key euro-area issue, namely the need for a common state once common money exists.

After Darmstadt you moved on to Berlin.

Besides private motives, I switched to Berlin in 1993 because I had the chance to participate in the build-up of a new university in the eastern part of Berlin and to set up a business and economics faculty. That was the time for doing university policy.

Besides the build-up of a faculty, you have been involved in building up networks, especially the Research Network Macroeconomics and Macroeconomic Policies, which is now the Forum for Macroeconomics and Macroeconomic Policies. Was it worthwhile investing your scarce labour time? Is there anything more to be done to make this a success story?

Well, I think it is already a success story and I am sure you believe so too, because both of you are strongly involved. There is no such network elsewhere in the world, as far as I can see. And it is very important for Europe. I think we need to focus more on European debates, and I believe we should be more policy-oriented, thus connecting policy options with our theoretical basis. Post-Keynesians often have quite different views on policy issues, and I noticed also post-Keynesians who have no specific policy view at all, at least not visibly, as if economic policy were a realm of its own. Keynes was an extremely political person and we should be too, shouldn't we?

I am probably an economist with a broader spectrum of themes of interest, and more practice- and policy-oriented than others, and I like that. I want to contribute a bit to changing the world. I do not strive to be the most perfect Keynesian economist. I am interested in searching for solutions for problems, and I do not really care whether it is a Keynesian or non-Keynesian solution. It must be 'right' and hence 'good economics', and, of course, it

cannot be done without theory. There is no set of adequate Keynesian theories for all the issues we face now and in the future which only needs to be applied. Good Keynesians can (and do) have very different answers to real-world problems, and at times non-Keynesians know better solutions. I am not addicted to one paradigm of economic thought. It is a more open and evolutionary approach to theory.

You just said that you do not care much about theoretical boxes.

I do care for theory, of course, but I dislike boxes with hard demarcations.

Okay, what do you consider to be the main areas of your work?

I have five areas which I have covered during my academic life repeatedly. The first one is macroeconomics in general and, which came with my PhD, labour market and employment issues. The second is the German unification and German economic development, including the economic history of Germany and post-war economic history. In a way the first Marxian book was the economic history of Germany until the late 1980s. The third is developing countries, including development economics, among them analyses of China. I travelled to China together with Hansjörg Herr many times in the early 2000s, keen on discovering China. We wanted to find out what drove high growth and development. We had cooperated for almost ten years with the People's Bank of China – China's central bank – by giving three-month training courses for young professionals from the Bank in Berlin, in cooperation with the German Ministry of Economic Cooperation and Development. Later I founded a master's course on international and development economics; in this framework I organised an academic network with 12 universities from developing countries on finance, trade and development, together with my colleague Sebastian Dullien. The fourth area is fiscal policy and functional finance. The fifth is international economics with exchange rates and global imbalances in recent years. And this has a lot to do with the euro area and European integration. So, these are five broad areas, not to mention some excursions into environmental economics. I am not the one to specialise narrowly on certain topics for my whole life.

Would you consider yourself to be a post-Keynesian, and if so, since when?

Yes, I would consider myself as a post-Keynesian, but this is a broad camp, like several co-moving caravans. You, Eckhard, helped me, with others, to become a co-traveller. Since when? That is hard to say. Probably the 1990s, but when I started to become a post-Keynesian, I was not aware of it; others told me I would argue like post-Keynesians. Other people said I have learned from the Berlin school of monetary Keynesianism around Hajo Riese, but I found him at times cryptic. Anyway, maybe I was influenced by his school. Now I am a more conscious post-Keynesian than before, but *de facto* most of my writing was in a way post-Keynesian. But, frankly, I don't like labels very much. There are certain core principles in post-Keynesian thinking, and they leave much more intra-paradigmatic leeway compared to hard-core neoclassical economics.

What would you consider to be the core elements of post-Keynesian economics?

Eckhard, I agree with the characteristics which you have summarised in your contribution to my festschrift (Hein 2014): the long-run non-neutrality of money, the principle of effective demand, fundamental uncertainty, historical time, path dependence, and the importance of distribution conflict. But I would add perhaps a few things which are important to me and which are not so much focused on in post-Keynesian thinking. One is that, if you have an idea of historical time you need to bring in economic history

and you need to bring in institutions in a broad sense: policies, law, judicial regulations. This is important for policy-making, otherwise you provide recommendations from the ivory tower and there is no one who understands you, because you are not prepared to take care of these very complex conditions which make your policy proposal sometimes very difficult to implement. Secondly, I would add finance to monetary theory and the monetary theory of production, and this leads then to globalisation because the core of globalisation is globalisation of finance in my understanding. Thirdly, I would put more emphasis on the supply side, such as institutions, as mentioned, and especially those institutions that affect technological change. Furthermore, in my understanding, aggregate demand has a lot to do with the structure of supply, such as wage formation, setting interest or exchange rates, human capital formation, etc. For instance, understanding economic development requires a deep understanding of the supply side, of course in its interaction with aggregate demand.

You are one of the very few post-Keynesians who is working on development and international issues. Why are there so few post-Keynesians working on this?

I do not know why only so few Keynesian or post-Keynesian economists work on it. Yet there are some, though not so well-known, mainly from Latin America and India. Anthony Thirlwall is one of my heroes and he links economics to development and developing countries; Kaldor as well. I guess the reason is simply that the US is not so much interested and concerned about international economics, and so are US post-Keynesians. And, of course, the background may be that Keynes's (1936) *General Theory* is about a closed economy. So there is a huge lacuna which we have not filled yet. Development has to do with structural change on the supply side, and this is not the genuine focus of Keynesian economists.

In development economics one of my core messages is quite simple. GDP growth which is higher than the real interest rate is a precondition for development. This will normally only work if you have 'financial repression'. So you bring the interest rates down with the help of a certain financial system and with the help of a banking system, including monetary financing through the central bank, commercial banks and the rest of the economy. Moreover, you need some way of delinking the economy from global financial markets, i.e. some kind of capital account management including some capital controls. I see it through the lens of experiences in China and I tried to understand why Asia – East Asia especially, but even South Asia – developed so much better than the African and the Latin American continent. A second message is that development in larger countries is hardly feasible without industrialisation and related capacities for technological progress, or establishing other non-traditional export sectors. This requires a specific set of facilitating policies, including changes in the global economic order of trade, money and finance.

Do you also have such a set of short messages for global imbalances and especially European imbalances?

For global imbalances, which in the debates mainly boil down to China and the USA, there was a solution. It is China's reversal in 2008 to a domestic demand-led strategy, away from export led-growth. That was a grand, very important and very good change. Good for China and good for the world economy. But this is very singular, it cannot be repeated. Many other middle-income countries are always at risk of falling into untenable current-account deficits, due to failed industrial policies, Dutch disease and overvalued real exchange rates. Another good example to deal with imbalances was carried out in the 1990s by Germany. We started in West Germany, at the end of the Federal

Republic of Germany, with a 6 per cent current-account surplus and it came down to zero or fell even negative at the end of the 1990s. Why? Because we had a strong real appreciation by almost 35 per cent – which unfortunately killed the European Exchange Rate Mechanism – and we had a huge boom in domestic demand because of investing in the unification. Of course, this is not repeatable. It was only possible with an own currency, and rebalancing was not done on purpose but as a side effect of the unification shock.

Speaking of this, what is your view on the future of the euro area?

Regarding imbalances? Germany plays a key role. The German surplus in the current account rose from 1999 until 2017 by around 10 percentage points, as a share of GDP. Nominal exports grew, as a trend, by 1 percentage point faster than imports. This is explosive matter for the monetary union. Partner countries in the euro area tend to fall in triple deficits, in private, public and current-account deficits, or they mimic Germany with current-account surpluses which render the whole monetary union to an external surplus engine against the rest of the world.

Germany has strongly expanded its exports as a share of GDP, mainly in manufacturing, augmented by value chains in Eastern Europe and elsewhere. If we exclude external surpluses of the euro area with the rest of the world, the corresponding deficits are those in the euro area. This makes the deficit countries indebted. The divide of the euro area in a permanent surplus and a permanent deficit bloc is not viable. Running a surplus of all against the rest of the world is not viable too. Hence Germany and others need to downsize their surplus and the underlying oversized export sector, relative to GDP, and the deficit countries must improve their trade balance by enlarging their export base. Non-price competitiveness is more important than price competitiveness. Hence, Germany needs to learn domestic demand-led growth, as it has done slightly since 2016 when imports grew a bit faster than exports and GDP growth picked up.

Is Germany's export-led growth enshrined in stone? If we look at the current debate about the future of the German automobile industry, about all the scandals we are seeing there, the problems in our energy transition...

Not in stone, but in machinery, in engineering, in human capital, in entrepreneurial capacities, in mercantilist policies – in the structure of the capital stock. Reducing the current account down to around 4 per cent of GDP requires roughly ten years with imports growing faster than exports by 1 percentage point.

But how can this be done?

In principle, through three channels: First, Germany could boost domestic demand, with combined expansionary wage and fiscal policy and a bit more inflation over a medium-term adjustment process. This could also boost internal appreciation of Germany's implicit real exchange rate. Second, reducing mercantilist policies, such as subsidising power generation with domestic lignite, prohibiting automobile exports based on manipulated emission measurement, reducing exports of military equipment, stopping indirect tax preferences for power-intensive industries and similar. Third, promote non-price competitiveness in other European countries, especially in the other three large members, France, Italy and Spain.

If all this does not materialise, a 'transfer union', that is, fiscal federalism in the monetary union, is unavoidable. Then Germans and other surplus makers, especially the Netherlands, would have to recognise that running a permanent surplus is not a free lunch.

If so, can the German reunification – with the catch-up process of the east and the financial transfers of the west – serve as a role model for Europe?

In historical comparison the German unification is a success story in the end. It is still costly. West Germany pays roughly 3 per cent of the West German GDP, assuming we would still differentiate between West and East German GDP, to the East by various channels. Maybe that is not so much. A small dose of transfers during a rebalancing period, channelled via a new euro-area fund, might be feasible though. As with deindustrialisation in East Germany, it is much better strengthening the export base in countries tending to chronic trade deficits.

The interview was conducted by Eckhard Hein and Torsten Niechoj in Berlin on 9 February 2018. We thank Julius Garms for the transcription.

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See also <http://jan-prieue.de/>.

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