

Herr, Hansjörg; Hein, Eckhard

Article

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‘It is clear that this kind of deregulated capitalism will not survive in the end’



Interview with Hansjörg Herr

Hansjörg Herr is a retired Professor of Economics. He is a member of the Institute for International Political Economy (IPE) at the Berlin School of Economics and Law, Germany, a Fellow and member of the coordination group of the Forum for Macroeconomics and Macroeconomic Policies (FMM), and a member of the Global Labour University (GLU), which he co-founded. His research areas include monetary macroeconomics, economic policies and development economics. He has authored, co-authored or co-edited more than 30 books and numerous articles. Hansjörg Herr received his PhD in economics from the Free University of Berlin in 1982 and his Habilitation from the same university in 1991. He was a Senior Researcher at the WZB Berlin Social Science Center from 1986 to 1993. In 1994 he became a Professor of Supranational Economic Integration at the Berlin School of Economics (and then Law) from which he retired in 2016.

How did you decide to study economics and how did you get in contact with heterodox economics and Keynesian or post-Keynesian in particular?

So, first, I had an apprenticeship as a cook in the Black Forest in Southern Germany in the late 1960s. I served three years as an apprentice and then even worked for half a year in Berlin. Then I was lucky that, because of the social democratic reforms in the education system in the 1970s, I got the chance to go to school again and obtained my high school degree. Then I studied business administration at the Berlin School of Economics (1973–1975) and then, in 1975, I went to the Free University of Berlin to study economics and graduated in 1981. There were several important professors, I still remember. Foremost, this was Hajo Riese, who then was a young professor, but also Klaus Peter Kisker and some others. I really had the feeling that, at that time, at the Free University different paradigms were present and discussed. This was very important for me to get a certain orientation, what kind of economic schools exist, etc.

We share the experience with the Free University because, as you know, I did my PhD in the first half of the 1990s with the same professors, Kisker and Riese, but we didn't meet them, because you had already left for the WZB Berlin Social Science Center and then the Berlin School of Economics. But I read a lot of your work while doing my dissertation work. And I remember that, initially, you also published about Marx. But then you moved more and more to Monetary Keynesianism, the school founded by Riese, which sometimes is called the Berlin School of Monetary Keynesianism. Was it already during your studies that you got impressed by Riese so much, or were you more in between the Kisker-type of Marxism and the Riese-type of Monetary Keynesianism?

Actually, when I finished my studies in 1981, I became a Research Assistant for five years at the Institute for Economic Policy at the Free University, as it was then called, and the director was Hajo Riese. At first, I wanted to analyse the financial system on a Marxian basis, I very optimistically read the three volumes of Marx's (1867; 1885; 1894) *Capital*, and even presented in a PhD colloquium my more or less purely Marxian approach. But then I came to the conclusion that it was somehow difficult to really base financial theory on the Marxian paradigm. Of course, at the same time, I was influenced by the Riese school of Monetary Keynesianism. I tried to take from Marx what was useful for me, but I based my PhD then on the post-Keynesian or Monetary Keynesian approach, because I thought it would be more fruitful for analysing the monetary system. But let me say that until today, my opinion is that Marx had a deep understanding of money and Marxists should try to also look at this tradition in the Marxian theory.

You know that I did so in my PhD, which was about a comparison of Marx and Keynes and then the post-Keynesians on money, interest, credit, effective demand and capital accumulation. Reading your PhD dissertation (Herr 1986) was very helpful to me in trying to understand what your professor and supervisor Hajo Riese and the Monetary Keynesian school really had in mind. Was it your ambition to make the Riese approach more accessible to others, or did you even deviate from Riese's view of Monetary Keynesianism? So how would you define your own role in this?

Yes, I think I tried this, but my aim was not just to copy the Riese approach. At that time, there was a big weakness in the Riese approach and that of others who worked in that tradition: Money was not considered to be endogenous. They modelled the Keynesian approach, you could say, in the tradition of Hicks's (1937) IS-LM model, or when they criticized that model, they used Leijonhufvud's (1966) approach (Riese 1986). But in both of these models, the money supply was exogenously given by the central bank, and then the private households, the wealth owners, decided how much credit would be supplied or how many shares they would buy from the enterprises. I was convinced that this was not the best way to model monetary theory. I think I was the first one in this Berlin Monetary Keynesian tradition to really model a credit market and try to find a way to make money endogenous. That was new, and it was accepted by Riese. He found it interesting and, in a way, he also benefited from this approach.

How would you distinguish this Berlin Monetary Keynesian approach more generally from other post-Keynesian strands?

First, let me say, this Berlin approach is relatively close to other post-Keynesian approaches when the argument comes to uncertainty, expectations, the behaviour of wealth holders to search protection against uncertainty, and the role of money. There is a difference, however, because the Berlin Monetary Keynesians assumed pure competition. This was the big difference from Kalecki (1954). Riese (2001) always argued that we must build models on the assumption of pure competition because this is the firmest assumption, and under this assumption we must develop our theory. Keynesians reject the neoclassical idea of marginal productivities which determine functional income distribution. But then you have the immediate problem, how do we explain profits? As a response to this question, the Berlin approach followed Keynes's (1936) idea from chapter 17 of *The General Theory*. Keynes argued that the advantage of holding money expressed in the liquidity premium, or more precisely the marginal liquidity premium, determines the interest rate, and the interest rate determines the profit rate. I think the argument that you are holding

money as an asset to protect yourself from the uncertainties in a capitalist economy and that you only part with money if you get a pecuniary rate of return in the form of interest or profit is very abstract. Later, myself and others argued that the central bank is fixing the refinancing rate and this gives, together with the interest margin of banks, the lending rate and at the same time the minimum of the profit rate. In addition, we can construct a kind of risk premium above the lending rate and then this is a minimum profit rate (Herr 2019). I would also like to make clear that Kalecki's explanation of profits based on the degree of monopoly can be combined with Keynes's approach to explaining profits. I do not see any contradictions.

Maybe one additional feature of Monetary Keynesianism is that Riese (1986) spoke about the monetary macroeconomic budget constraint. That means the monetary system, the credit volume (plus the issuing of new shares), so to speak, given by the banking system and the wealth owners, determines the volume of production and then employment. This is very much in the tradition of Karl Marx's (1867) capital formula: Money has to be advanced to get production started with the aim of earning more money with the sale of the finished goods. So usually in capitalist economies you don't have a physical budget constraint like in the neoclassical world but you have this monetary budget constraint. In this tradition it is stressed that, if the private sector is somehow not able to establish this budget constraint and inflationary developments are triggered, because maybe agents are too optimistic, then we need the central bank, then we need policy intervention to prevent the destabilization of the system.

When you had finished your PhD at the Free University in 1986 with this work on money, credit and economic dynamics in a market economy, you went on to another Berlin institution, the WZB Berlin Social Science Center, and you worked with Egon Matzner.

Yes, I've worked seven years in the Berlin Social Science Center, first with Egon Matzner as director and then, when Matzner left, a short time with David Soskice. Egon Matzner was also very important for my development, because he had a lot of international contacts and had really a huge network. In the WZB there was a lot of freedom for researchers to choose the areas they were interested in. There was a good team spirit and research topics and areas were jointly discussed. After a project about fiscal policy together with Heinz-Peter Spahn (Herr 1991), my first bigger project was about the transformation of Eastern European countries. We worked on Poland, the Czechoslovak Republic, Russia and Hungary. I learnt a lot about the transformation in these countries. What was important at the WZB were these frequent debates with different economists and other social scientists. I remember, I had long debates with Wolfgang Streeck because I had the feeling he did not really integrate macroeconomic thinking into his labour market approach.

Was this the period when you also prepared your German 'Habilitation' on money, currency competition and currency systems?

Yes, this was the same period. Immediately after I switched from the Free University to the WZB I started my plan to write a Habilitation. I could partly combine it with my work at the WZB, and partly not. I was supported by Hajo Riese and other professors from the Free University, among them also Carl-Ludwig Holtfrerich (Flandreau et al. 2003).

What is the main idea of your Habilitation book (Herr 1992), which was only published in German and later in Japanese?

The main idea is that in the Keynesian tradition, but also the Marxian tradition, capitalist societies' wealth owners or economic agents search for a safe asset to keep part of their wealth

in. Money or other liquid monetary wealth serves this purpose. I developed this idea that different monies have different asset-protecting qualities. Wealth owners will pick the monies with the best asset-protecting quality to hold monetary wealth. They could be convinced by high interest rates to keep monetary wealth in other monies, but in a situation of high uncertainty they prefer to keep money with a high asset-protecting quality. That means there is a competition amongst the different monies. If you have this idea, you directly have the idea of the hierarchy of monies. You understand the special role of the US dollar or why the poor quality of monies in most developing countries is an obstacle for development. Actually, I think I developed the idea of a currency hierarchy based on an asset-protecting quality independently and at least partly at the same time as for example Benjamin Cohen (1998), who rightly became very famous for this idea.

After your stay at the WZB Berlin Social Science Center you then became a professor of Supranational Integration at the Berlin School of Economics in 1994?

Yes, and, of course, my Habilitation was very useful to apply for the professorship. I feel it was a really good decision to go to the Berlin School of Economics (and later Law). At that time, there were a lot of heterodox economists or scientists at this university. All paradigms were present, so to speak. We had different approaches and different paradigms. But there was a kind of consensus that it is good that we have these different schools, and each group could recruit their own people. Of course, the quality was checked also by the others, but basically there was a consensus that we should have all groups in economics, all paradigms presented. This created a very nice working condition and also very nice debates.

What a contrast to the current situation at the Berlin School of Economics and Law, where pluralism in economics and interdisciplinarity is heavily under pressure and marginalized, and heterodox professors like yourself are not replaced any more. You have been one of the active and most visible professors at the Berlin School of Economics and then later the Berlin School of Economics and Law, with a lot of activities in research, building up new programmes, pushing the internationalization of the university and so on. How do you feel about the recent changes?

This makes me very unhappy because the Berlin School of Economics and Law was one of the very small number of universities with heterodox thinking in Germany. It got its reputation and became famous for exactly that. We are living in a time of rapid change and severe challenges, in which open debate and new ideas are extremely important. Giving up pluralism and interdisciplinarity and becoming another mainstream institution is not a good strategy. The Berlin School of Economics and Law, as one of the big schools in the area of economics and business administration, should continue providing teaching and research in different paradigms. Especially in our times with the ecological and social challenges and searching for new types of regulation, open debate should be promoted and universities should contribute to that. By open, I mean that really different approaches can exist at the same time and can engage in productive debates.

One major research areas of yours has been the development and application of the macro-economic policy regime approach (Herr/Kazandziska 2011). What is the basic idea here?

I think the basic idea is that in different countries you have a specific setting of institutions and also policy strategies. This also implies that there is not only one type of capitalism. We have different types of capitalism. And even if you analyse one type of capitalism, countries may follow different strategies. The key is the interaction of institutions with different players. The outcome is a certain positive or negative interaction between

macroeconomic policies, like monetary policy, fiscal policy, wage development and other policies, like for example industrial policy. Let us take the example of Germany. We have a wage bargaining system, which has led to relatively low wage increases compared for example to other European countries. This was one element for increasing the international competitiveness of Germany, which made Germany develop a regime with high export surpluses. Of course, this was liked and supported by companies and even the Bundesbank. If you now have a country in which unions act in a completely different way, such a mercantilist regime is very difficult to achieve. The central bank cannot enforce it, but will only create stagnation if it is trying to create such a mercantilist regime. So, it is a set of institutions, values, strategies of different agents and their interaction which leads to a certain regime. Such a regime is stable for a certain period of time, but of course always can change.

Built on this approach, another book which you published with Sebastian Dullien and Christian Kellermann has generated some public attention (Dullien et al. 2011). Maybe because of the title 'Decent Capitalism'. Do you feel that we are moving towards a decent capitalism?

Unfortunately not. The background of the book was the New Deal in the US in the 1930s. Out of the Great Depression, which showed that the old type of capitalism was not able any longer to create prosperity, came a new type of regulated capitalism. However, we can learn that a crisis of capitalism does not necessarily lead to a New Deal type of capitalism, but it can also lead to fascism, which also was a regulated type of capitalism, of course a terrible one. But, after World War II, all over the capitalist world we had this kind of relatively regulated system with regulated international capital flows, exchange rates, labour markets, welfare systems, strong trade unions, relatively equal income distribution, etc. This version of capitalism broke down in the 1970s/1980s, and since then we have had the movement to a more deregulated system. In this book, we developed the idea that the existing deregulated type of capitalism does not serve the people. Therefore, what would be needed is re-regulation of capitalism based on democratic principles. Currently, we live in a historical period in which it is clear that this kind of deregulated capitalism with very huge international capital flows, with this very free type of market-based globalization, will not survive in the end. And in this period, we have a search for new models. I think there are different options, but capitalism will become more regulated again, however this may be in a very authoritarian way. Let us say the Trump direction, with high inequality, limitations of democratic rights, poor labour market relations; or it can be a more democratic, more equal type of regulated capitalism. I think this is an open question. We tried to develop an idea of what a regulated capitalism could look like, just to stimulate the debate. Behind is also the idea that a quick shift to a completely new system seems not very likely. Therefore, behind this idea of 'decent capitalism' is also the idea that a transformation, including ecological transformation, can only be one with a long time horizon, and that a more and more regulated type of capitalism can change its character in the long run.

A major activity of yours has been the foundation of the Global Labour University (GLU). Could you explain a bit more about that?

The GLU was founded in 2002. Frank Hoffer, at that time at the International Labour Organization's Bureau for Workers' Activities (ACTRAV), had the idea that a master programme should be created for trade unionists. His argument was that the management side is highly skilled, and equally skilled trade unionists would be highly desirable in the

Global North as well the Global South. He made contacts with the German unions and was also supported by the Hans Böckler Foundation and the Friedrich Ebert Foundation. In a competitive process the concept developed by Christoph Scherrer from the University of Kassel and myself from the Berlin School of Economics was finally accepted and the master programme started, mainly financed, in the end, by the German Ministry of Economic Cooperation and Development. Then this project quickly became international, because we three founders, Frank Hoffer, Christoph Scherrer and myself, had the idea that the union movement should create international academic networks. We made contact with Indian, South African, Brazilian and US universities and in almost all of the partner universities the master programme is now taught and further developed. The GLU also created joint research, annual conferences, training programmes, an online academy, working papers, PhD programmes, etc.

Has this been your main occupation since your retirement in 2016? Or what else are you working on?

Not only. I just finished a book about the European Central Bank (ECB) together with Michael Heine (Heine/Herr 2021). It was very interesting to analyse the ECB's monetary policy from 1999 until today in detail, and also in interaction with fiscal policy and wage development. It became more and more clear that the ECB kept the eurozone together. If we had not had this policy by the ECB, especially by Mario Draghi from 2012 on, the euro would not exist any longer. This is one project which I also would like to follow a little bit further. Then I was involved in a research project at the Berlin School of Economics and Law about global value chains, financed by the Hans Böckler Foundation. We had several publications in that field, and a book with a collection of papers with the main results will come out soon (Herr et al. 2021). The analysis of global value chains also brought industrial policy into the focus of my research (Dünhaupt/Herr 2020). With Christina Teipen we were also successful this year to raise funds from the Volkswagen Foundation to analyse the effects of COVID-19 on global value chains.

What would you see as being the main challenges for us post-Keynesian or Monetary Keynesian economists, or for heterodox economists in general, under the current circumstances?

I think the main challenge is to integrate ecological questions, the ecological transformation in heterodox economics. I have the feeling the ecological movement and the heterodox economists can learn a lot from each other. In order to develop realistic options, both have to be brought together. I feel this is a great need and this is not so easy to be done, but I think heterodox economists should be open to this kind of ecological transformation and should integrate it into their theories and modelling.

As usual, the last question: What is your recommendation for the younger generation of heterodox economists?

My recommendation is that they should look for interesting topics. You only can become good if you research an area that you are really interested in. And of course, combine theoretical debates with political strategies, with a debate about how development can be shaped.

Okay. Thank you very much, Hansjörg, for this very interesting conversation.

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