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‘We need long-term commitments in the form of public investment’

Interview with Mario Seccareccia



Mario Seccareccia is Professor Emeritus of Economics at the University of Ottawa, Canada. He has been the editor of the *International Journal of Political Economy* for nearly 20 years. In 2021, he was awarded the John Kenneth Galbraith Prize in Economics, an honour bestowed every two years by the Progressive Economics Forum, a Canadian organization that participates in the annual meetings of the Canadian Economics Association. His areas of specialization are macroeconomic theory, monetary economics, labour economics, history of economic thought and Canadian economic history.

Mario, how did you become an economist?

When I finished high school in Montreal, I really had no idea what I was going to study and economics was not on my radar. I had to take a bunch of courses that were compulsory for the programme of arts and sciences at McGill University where I had chosen to pursue my undergraduate studies. The norm was to take five two-semester courses. So, I registered in courses such as English literature, political science, philosophy, history, and also a two-semester differential and integral calculus course. But friends of mine were taking six courses and one of them decided to go into an economics course. I went for an extra course as well, just to inflict pain on myself I suppose; this was an economics course. However, it was not the sort of economics course that students take in first year nowadays, you know, the introductory course that is so dry and dreary, dealing only with supply and demand, or marginal utility and all that. It was a first-year economic history course, broad-based, connected with what we had been doing earlier in high school, something with which we could identify, trying to understand the economic history of the world or of the country, the Great Depression, and so on. It turned out to be the course that I enjoyed the most, not only because of the material but also because of the professor.

So, who was the professor?

It was John F. Henry, who unfortunately passed away barely a year ago. Many people know him because for a very long time he was teaching at California State University in Sacramento immediately after leaving McGill, but he then went to the University of Missouri in Kansas City. This was after his retirement in California, so he spent close to ten more years teaching at UMKC until his retirement from the latter in 2014. He was just a terrific guy. He was humorous, he was very kind, and he was just great and inspiring to listen to.

What year was this first-year course in economics?

It was a two-semester course that I took during the 1969–1970 academic year.

So, this is how you became interested in economics. How is it that you got to know about post-Keynesian economics?

I got interested in economics, yes, but I should qualify this somewhat because when I took the second-year theory courses in micro and macro, I thought they were garbage. I didn't identify with the theory. It took convincing for me to continue. So, I first got into economics but then I became more reticent about it in my second year, and only subsequently moved forward. Before I say more, I should point out that I came from a struggling Italian immigrant family who moved to Canada in the late 1950s. When given the opportunity to attend university, there are perhaps two main reasons for which students normally get into economics: either you do it because you think it is similar to a business school, and therefore you want to get rich; or you do it for a kind of altruistic approach to life, where you say, maybe I could make the world better. And it's the latter reason that brought me to economics, a desire to be more socially responsible. That is perhaps what I think drove me to economics, in addition to John Henry and all that.

Now, why post-Keynesian economics? After the introductory course, I had to either continue in economics or go into some other field. I decided to specialize in economics, although I really wasn't sure if I wanted to do that. Once I went through those boring second-year courses, I had to take the advanced micro course. The instructor of that course was Tom Asimakopulos. And although I didn't quite understand anything that he was debating, he did talk about schools of thought. He would say, well look, I'm teaching this but this is really not what in fact certain economists believe; rather this should be the real world in terms of micro theory. He was teaching from the notes that subsequently, some half a dozen years later, became his book that came out at Oxford University Press (Asimakopulos 1978). As you know, in that book, if he talked about let's say income distribution theory, he would be dealing with more than just marginal productivity theory. So that's why I was introduced to post-Keynesian economics, but at the time I did not align myself with anything. I just was trying to make sense of what the heck this field was all about.

Yes. I know that you got involved with unionization when you were still a student at McGill?

Well, that's part of my desire to improve the world or change the world, whatever. In fact, my first job, outside of working in a factory in the summer or something similar, was as a consultant economist for the Associated Railway Unions. These were 17 unions, representing something like 100 000 workers at the time in Canada, that came together, engaging in industry-wide bargaining.

But just before that, I was involved with organizing a strike, actually two strikes at McGill University. One is because I knew most of the maintenance workers. Graduate students in economics had a shared office, so I would often be there and it seemed that I would always bump into the maintenance staff – the porters, the cleaners – and they were either French Canadians or Italians and Portuguese immigrants. Actually, the president of their union was an Italian guy. Since I spoke French and Italian to these people, all of them knew me because, especially at night, they were coming to clean the offices and, if they saw me there, would start talking with me.

I remember they were complaining about what had happened to their pension plan. McGill was investing their money and had suffered important losses. As a result, McGill was asking them two things: first, to pay more contributions, but second, they were also told that they had to take a cut on the prospective pension benefits that were accruing to each member. They were all very upset because they felt that the university was playing with their money, and that triggered the strike. They were also upset about their wages, because the university was offering percentage pay increases to the professors that were

much higher than those of the maintenance staff. Finally, I got John C. (Jack) Weldon, who was to become my doctoral thesis supervisor, to consult with the local union leadership of the maintenance staff, because he had some expertise on pensions. He recommended that they should simply ask that all that money be cleared out, as the maintenance staff members could do a better job in handling the pension fund than the university.

I also was involved with an action by the teaching assistants, although it was more a bluff than a real strike. But in both cases, I had been involved in organizing things, so that by the time I was asked by the railway union leaders if I wanted to write up an internal report to justify their wage demands and assist them at the bargaining table, I was all too happy as I understood a lot of the collective-bargaining games that were being played at the time.

Right! Mario, how did you end up at the University of Ottawa, I believe it was in 1978?

I had not finished my doctoral thesis, and as a result it dragged on. Perhaps it was a mistake to look for a position before finishing the thesis, but perhaps it was not, as it allowed me to stick my foot into something that ultimately permitted me to continue there and spend the rest of my career at the University of Ottawa. At the time I was not sure if I should apply for a position, but other McGill PhD students were applying, so I thought I could do it as well. So, in 1978, I sent my CV to a number of universities. Actually, the first academic institution to make me an offer was Brock University, in St Catherines, Ontario, near Niagara Falls. The dean there was a former McGill student and a friend of Jack Weldon and Tom Asimakopulos. In addition, there was a Polish gentleman – I forgot his name – who was teaching there and who had been a student of Kalecki. I met some people there and they were quite open to what I was doing. In those days, the profession was not at all polarized as it became in the 1980s. So even the ones who were very neoclassical didn't care. To them, I was just another economist, and as long as I could teach, communicate and cover the material that I would be asked to teach, my theoretical views were not an issue.

But at the time I was living in Montreal, I grew up there, and I wasn't too excited by going to Brock, which seemed so far away. It's a beautiful area, but it was not exciting me to go there. At the time, I had also applied for a position at the University of Ottawa, which was the closest to Montreal, because there were no full-time job vacancies whatsoever at universities in Montreal. So, I decided to phone up the economics department at the University of Ottawa, and Ronald Bodkin – who had been a student of Sidney Weintraub – was the head of the recruiting committee there. I contacted him and mentioned that I had been offered a job at Brock. This was on a Monday morning, and I said: look, I have to tell them within a week whether I accept or not; and I said, as much as I would like to go to Brock because I would enjoy teaching there, I would rather be closer to Montreal. I asked if they had considered my application.

He said: we did, but we still have not started inviting people, but let me check with the committee and see if we could invite you on the Friday. So, they called me up for a Friday lecture, I gave the lecture, and as you know, I was offered the job, literally on the same day because I met with the dean right after the lecture. The dean was a French Canadian, so he was very excited because the economics department was mostly English-speaking. He even asked me if I could teach in English!

What do you mean? He asked you if you could teach in English or in French?

You see, we had spoken in French the entire time, so he was never sure how I spoke in English, so he asked me if I would also be prepared to teach in English. Yes, that was rather ironic. In the end, he was only too happy to have someone who was fully bilingual.

Let us move on to some of the work you have been doing. You dreamed up a new term – new fiscalism – which you used after the 2008 global financial crisis (Seccareccia 2011; 2012; Lavoie/Seccareccia 2017). Can you briefly explain what you meant by new fiscalism, and do you think it still applies today, with the COVID-19 crisis?

This is a pretty loaded question, because there are many aspects to this. First, I should mention that, as you know, historically, we had Keynes's view, which is a very radical perspective on fiscal policy based on the principle that we need long-term commitments in the form of public investment; he acknowledged that there should be also short-term measures but he was not necessarily a big fan of functional finance *à la* Lerner, as he felt that there should be more to this. This you can derive from many of his writings, starting of course with passages at the end of *The General Theory*, on the socialization of investment (Seccareccia 1995). This is what I learned and was exposed to as a student. However, checking the textbooks when I was in graduate school, there were essentially two other views. One is the view that became the mainstream, tied to crowding-out effects, the need to balance the budget, the instability or the inflationary pressures created by public deficits, and so forth. The other view was close to functional finance, the stuff you get from the traditional Keynesian economists of the Kennedy–Johnson administration of the 1960s, who did believe in some principle of stabilization through public fine-tuning policies.

When we got to the 2008 global financial crisis, we still had those two broad views: on the one hand, the mainstream view, the usual misguided view of so-called sound finance; on the other hand, you had a hybrid post-Keynesian view in support of activist fiscal policy, including the advocates of modern monetary theory, MMT, who proposed something very close to Lerner's functional finance. But another view was emerging within the mainstream, which we saw being expressed during that 2008 financial crisis, with many governments in the world, including our own here in Canada, who were all too happy to run deficits for a couple of years, until they started to reverse gear by 2010, at the time of the Toronto G20 meeting, in particular, when our former prime minister Stephen Harper together with German Chancellor Angela Merkel, began to advocate a commitment to target back a balanced budget by 2015.

Now what was the new fiscalism that was emerging during the financial crisis? It was the recognition that deficit-spending can be stabilizing in the short run, but policy-makers must return to budget balance eventually to ensure the long-run neutrality of the state in the economy. Within the New Consensus that had existed just prior to the global financial crisis, the mainstream still saw activist fiscal policy as fundamentally destabilizing, but during the financial crisis the fiscal policy discourse took a dramatic U-turn by emphasizing its short-run stabilizing role, with a recognition even at the IMF of strong fiscal multipliers. Hence, the new fiscalist perspective justified short-run activism during a recession as long as there is some long-run constraint on the state in its spending commitments by returning to an eventual budgetary balance.

Things changed even more later, as exemplified by the position defended by Olivier Blanchard during his 2019 presidential speech at the American Economic Association (Blanchard 2019), where he implicitly recognized the famous 1944 Domar equation that fiscal stabilization should simply entail stabilizing the ratio of public debt to GDP so as not to frighten the financial markets (Domar 1944). In this case, one could have longer-term budget deficits as long as the debt–GDP ratio is stable. However, by 2020 most of these doctrines were let go because of *force majeure* in favour of what would resemble a MMT perspective, even though our Minister of Finance officially denied it in October 2020.

Well, so much for fiscal policy. You have also been involved with monetary policy. You have been organizing petitions, gathering signatures, in particular in favour of a dual mandate for the Bank of Canada. Today, among central bankers, there's a lot of discussion around income distribution. In the past, we used to say that low interest rates were good for the ordinary person. Is it still your view today, now that we know that it also has such a large effect on wealth distribution?

Yes, interest-rate policy is a double-edged sword. But I am probably still in favour of low interest rates. I certainly don't want to see high interest rates; but the problem is, how do you deal with the wealth effect of it? Which is a real issue. But before I go into that, I should express my thanks to a Canadian senator, Diane Bellemare, also an economics graduate from McGill University, who has been really helpful in pushing in favour of the idea of a dual mandate for the central bank and who has also been really committed to the principle of full employment. The reason for which we both argue in favour of a dual mandate is not because we believe that the central bank can possibly achieve full employment on its own, but because hopefully the central bank will not be an obstacle when we approach full employment (Seccareccia/Khan 2019; Lavoie/Seccareccia 2021). The dual mandate also legitimizes full-employment policy as a norm for government, in general, and on the fiscal side as well, which is where I think the real action should be. So, the petitions were part of this idea that we should go back to a Keynesian full-employment policy view.

I remember that when we first wrote up that petition, in 2018, we were actually considering revising the statutes of the Bank of Canada Act, because there is no direct mention of income distribution in it; there is a whole battery of goals that should be achieved, even a favourable balance-of-payments position, high employment, stable prices, *et cetera*, but income distribution was not there, and we thought that it should be there. Hence, we wondered what was the best way to address that by a central bank that is still engaged in discretionary interest-rate policy. And we argued that it should be through a dual or multi-goal mandate. We actually approached the Minister of Finance, and met with him, and we approached the Governor of the Bank of Canada and met with the Deputy Governor of the Bank of Canada. I remember that in the case of the Deputy Governor, Carolyn Wilkins, when we mentioned the problems arising with the current monetary policy of inflation targeting, and said that it was not income-distribution neutral, her gut reaction was to say, no, we are neutral in what we do on income distribution. It's a technical universe for them: the interest rate is just a tool that should be used when inflation is going up, they look at the indicator of the output gap, or whatever, never seeing this as something to do with income distribution. It's interesting that the current Governor – the new one – for the first time is talking about income distribution. This was not in their vocabulary before. He has been talking about the inclusive economy, mentioning income distribution, but it's not at all what we think, because for them the only way you can get income distribution to be improved is by fighting inflation.

Now, at some point you mentioned modern monetary theory. As you know, one of their recommendations is to have the government as an employer of last resort, ELR, also referred to as the job-guarantee programme. What is your view on this proposal?

Well, I have written a couple of papers on that over the years and my position has been that I'm absolutely for it (Seccareccia 2004; 2013). But I want to qualify it, and the reason why I want to qualify it is because this policy view is completely open-ended when it comes to the composition of public spending. In other words, if you go back to the original Keynes's view, what we should have is a makeweight kind of spending system for

government, through public investment, which would maintain and sustain growth over time. That would be the core element or motor behind the growth of an economy: public investment that generates jobs through multiplier effects, sustaining it over time. I believe that the employer of last resort policy, while potentially very important in securing jobs for everyone, in a sense, is at the edge of all that – at the margin – but it can play an important role because it's like a safety net for anyone who is not being taken care of already, in an economy that is growing and sustained through this kind of high public investment.

As I said, I have always supported ELR as an important policy tool to ensure full employment. However, it is not necessarily without problems in its implementation. As I had mentioned in my 2004 article, the political reality is that there can be all kinds of regimes that can set up an ELR programme. For instance, a government could set up an ELR programme that could easily resemble workfare. Obviously, MMT economists who promote ELR do not wish this, but you can have a very right-wing government that could adopt a low-wage ELR policy. You could create jobs, but it may not be necessarily the kind of desirable jobs that socially responsible economists would want to see out there. For example, governments could create jobs that might deteriorate the working conditions in the public sector. There is nothing in it that prevents this from happening, whereas the Keynes's plan, in a sense, has already a built-in bias to sustain growth through strong public investment that would be pushing for a high-wage full-employment economy over time. Hence, I see ELR as being complementary to a strict Keynes vision dominated by public investment as, for example, would be the case with a strong Green New Deal.

Well, as you know, there's another popular proposal, which instead of job guarantee is guaranteed basic income. Again, what is your view about this?

I guess I have been writing about it for over 30 years (Iacobacci/Seccareccia 1989; Seccareccia 2015; 2020). The first time was when I intervened at a 1985 meeting at the University of Ottawa, which was organized by some anti-poverty groups. However, the idea here in Canada goes back officially to a Senate report on poverty in 1971, which argued in favour of guaranteed income in the form that is associated with a negative income tax, *à la* Milton Friedman. As you know, in reality there are all kinds of proposals out there, one of which is universal basic income. But in Canada, there was always the idea that if you want to really get rid of poverty, that's the way we should go. I have never been against it. I think that, in a sense, it is a much more rational way of organizing transfer payments than the way we have it, with our patchwork of different types of welfare programmes, either run by your provincial or federal governments. This is a lot easier to handle, as long as there are no overlapping jurisdictional problems. But it should not be seen as a substitute for a full-employment policy.

I believe, the two policies have to come together. It's like a single package: one foot is the guaranteed income; the other foot has to be a full-employment policy. Why? First, there is political reality; one has to remember that a guaranteed annual income policy was promoted by Milton Friedman in 1962, and supported by George Stigler, Friedrich von Hayek and a number of extremely right-wing economists, who were all in complete opposition to a Keynesian full-employment policy. If you read Milton Friedman (1962), you find a quote that I keep repeating every once in a while, when I talk about guaranteed incomes, because he says it very clearly: he wanted to create a system that is almost analogous to the pure neoclassical labour-market view of flexible wages. So, how does that come about? Well, the answer, believe it or not, I got from Karl Polanyi years ago. Polanyi was not a fan of guaranteed income, although I am sure that he would not have been against it, as it might be an improvement on certain welfare policies; but he looked at

what had happened historically since he was a historical/economic anthropologist, a multi-disciplinary sort of person, especially interested in economic history, as can be found in his book, *The Great Transformation* (Polanyi 1944). If you read the two chapters devoted to the Speenhamland system, you could see where it's coming from. The Speenhamland system was nothing like a universal basic income of the type promoted nowadays, but it was something akin to it. It was set up in 1795, out of the fears coming from the French Revolution, as troubles were percolating in England at the time, with the aristocracy supportive of this Speenhamland system. It was a system that guaranteed a kind of minimum income, providing an add-on to existing wages in the agricultural sector. This income supplementation was tied to the price of grains or bread. If the price of grains went up, it would trigger an increase in the transfers that would go to these employed workers.

There was a lot of criticism of it, coming from many sources, from the Malthusians, who just rejected it outright because supposedly the add-on would just create more poor people, but even Ricardo objected to it. I have a nice quote from him, that I got from Antonella Stirati who referred me to it, where Ricardo says that what they were doing was actually to depreciate the price of labour. Why? Because if you have a support system in place, even if you accept a lower-paying job, you would still be getting the difference through the guaranteed income supplement. It would mitigate the effect of the low market wage. People would still be willing to accept a low-wage job that they would otherwise refuse if there existed a welfare system that would, in a sense, compete with these cheap-labour jobs, since under the current system you cannot normally receive welfare benefits while holding a job. So, if you have a guaranteed income system that is going to give you a so-called tax back at 50 per cent, let's say *à la* Milton Friedman, that would actually be a subsidy for low-wage work. That's why it could give you these flexible downward wage effects because market wages will decrease as demand for labour falls. So, employers will be happy, but the workers are still going to get some income support and would not put up much resistance to a cut in market wages as unemployment rises.

If we implement such a system, what's the solution to avoid this negative effect on their income?

A full-employment policy. In other words, if you have high employment, there is no pressure on workers to cut their wages. It's the unemployment that generates that downward pressure on market wages. And if you institute some stand-alone policy that subsidizes those cheap labour jobs, that's just going to make things worse.

We are coming towards the end of the interview, and are left with a couple of more questions. Today, at the University of Ottawa, there are zero post-Keynesians left. Is there any lesson that you think we can draw from this pathetic situation, given that in the past the University of Ottawa was considered to be one of the centres of post-Keynesian economics?

Well, I don't think it was ever such a centre because we never were the majority, and it was not just post-Keynesian, although we had several heterodox economists – Marxians, institutionalists. And that was the norm then. When we were first hired in the late 1970s, perhaps close to half of the teaching staff were non-mainstream. In those days, things were not polarized and many of our mainstream colleagues tended to be true gentlemen. Recruiting became problematic because the vast majority of people coming out with PhDs were coming from the mainstream. Only a small minority were outside of the mainstream, with even smaller numbers among post-Keynesians. In our case, it was even more difficult because newcomers had to be bilingual. It's almost like trying to find a unicorn! By definition, the non-mainstream will tend towards zero at the end because once the

mainstream reaches the majority, especially in that polarized environment of the 1980s and 1990s where many of our mainstream colleagues became defenders of the temple, it becomes game over for heterodoxy. We tried to negotiate during recruitment committees, for instance negotiating deals to get at least one heterodox position to replace two retiring non-mainstream colleagues, but they would refuse to do so. That's deadly. So, that's the lesson: don't be nice! Otherwise, the real loss is academic pluralism.

That's what Fred Lee would have said. Well, you are the editor of the International Journal of Political Economy: is there any trend that you are observing in the submissions to your journal, or in the special issues that you manage to organize? That's the conclusion!

I think it is difficult to extrapolate trends in a simple way because sometimes, especially when it comes to special issues, we create the trend. A good example is the summer 2021 issue, which is debating dynamic stochastic general equilibrium, which as you know is mostly nonsense, with a lead paper by Servaas Storm (2021), with which you are familiar. This is an instance where we are trying to influence heterodox economists by equipping them with some instruments of criticism, because sometimes they don't have them, while at the same time trying to have a dialogue with the mainstream. None of the three commentators discussing Storm's paper are mainstream *stricto sensu*, but the closest – who certainly rubs shoulders with the mainstream – is David Colander.

The difficulty with our journal when it comes to extrapolating trends is that we do encourage interdisciplinary research, and as a consequence we get a lot of submissions from people who really should be sending them to other journals. It seems that some submitters have never looked at the journal; they just submit something, press on a button and upload a paper, whereas before you had to send three hard copies of the paper by postal mail. In fact, one of my comments to these colleagues is to say, please take note that this is not the *Journal of International Political Economy*, it is the *International Journal of Political Economy*! We do get a lot of submissions from colleagues in political science or international relations, but we are not really interested in that. We do consider research in international political economy, but only as long as it is of some interest also to heterodox economists. Despite these problems, interdisciplinarity and plurality will be the sources of strength for the future survival of heterodox economics and I believe that our journal can play an important role.

So what I take from you is that there is a trend of submissions from people doing interdisciplinary research, including perhaps some even in international political economy, which is of interest to heterodox economics. Well, Mario, thanks a lot for all these reflections, and we look forward to future issues of the International Journal of Political Economy!

This interview was conducted by Marc Lavoie at the home of Mario Seccareccia in Ottawa at the end of July 2021.

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