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‘Profit margins are determined by the need for companies to generate enough internal finance to pay for their investment’



Interview with Adrian Wood

Adrian Wood is Professor Emeritus of International Development at the University of Oxford. Among post-Keynesian economists, he is best known for his 1975 book, A Theory of Profits, which establishes a link between profit margins and growth rates. Wood was an undergraduate at King's College in the University of Cambridge. After two years at Harvard University, he obtained his PhD in Economics in 1972 at Cambridge, and taught there until 1977. He then worked until 1985 at the World Bank, including five years on China, after which he joined the Institute of Development Studies at the University of Sussex, and later became Chief Economist of the UK's Department of International Development. Wood was the guest of honour at the 2023 Lille Post Keynesian Conference.

How did you start as an economist and how did you come across unconventional, heterodox, Keynesian, or post-Keynesian economics?

I was able to study economics as a high school subject in my last two years at a British boarding school, called Bryanston, from 1961 to 1963, where I was taught by an inspiring economics master. But I was even more inspired by what he was teaching. I will never forget the class in which he explained the Keynesian multiplier model and the circular flow of income, including the multiplier equation. I had always been very interested in political, economic and social issues, but I was just astonished that such a simple apparatus could enable one to understand so much about fundamental concepts and the fundamental things that were happening in the economy, for instance, unemployment. It was an absolutely eye-opening moment. I have never lost my affection for basic, simple Keynesian models.

How did you get to Cambridge?

I applied to Cambridge, and when I went to be interviewed, I was planning to read – meaning study – history because the two subjects I had really enjoyed at school were history and economics. Both had very inspiring teachers and both I was deeply interested in. The tutor in King's who interviewed me, said: 'Oh, I think you should read economics'. So, I thought: 'Well, he must know a lot about things'. I switched to the economics entrance exams and ended up as an economist.

And who were the professors and lecturers who have impressed you most while you were in Cambridge?

My first supervisor was Robin Marris, who made a huge impression on me, which lasted through the whole of my career (Wood 2017). After one term, though, he took leave to work for a newly elected Labour government – in a ministry of which many years later I became chief economist – and his teaching was taken over by his former research officer, Ajit Singh, who also made a deep impression on me. In my second year, my main supervisor was Luigi Pasinetti, who again had a huge influence. Among other things, in a tutorial in which we were discussing the Cambridge Kaldorian theory of distribution, he said to me and my fellow student: ‘Why don’t you try testing it empirically?’. We thought, how could we do this? But we had a little go, just as a one-week essay assignment. After I graduated and went to Harvard for a couple of years, though, I discovered computers. Empirical work suddenly went beyond slide rules and log tables. One of the things I applied myself to was continuing with the idea that Luigi had given me of testing the Kaldorian theory of distribution, and I wrote a couple of term papers on that. They became the basis of a dissertation that I submitted to King’s, on the strength of which I was awarded a research fellowship. It has to be said, of course, that the fellowship electors of King’s included a Professor Kaldor, which I think may have influenced this outcome! There have been many chance occurrences.

You then went to Harvard?

I was at Harvard for two years, from 1967 to 1969. At the point when I graduated from Cambridge and went to Harvard, it wasn’t clear to me that I wanted to spend my career as either an economist or an academic. In that period the Economics Tripos in Cambridge included all the social sciences, and I had become particularly interested in sociology, taking more sociology special exam papers in my final year than economics special papers. I had also been interested in economics initially because I saw it as a way of improving the world, and I thought, ‘well, probably, if you want to improve the world, you ought to go out and actually work in it, using your economics knowledge’. Fortunately, Harvard offered me the opportunity to hedge my bets by enrolling in what was called a Master’s degree in Public Administration. Since then, Harvard has turned that into a Master’s degree in Public Policy, which is a proper taught course, very well structured, but it was then an extraordinary program. You could take any graduate courses you liked, subject to the approval of the rather formidable, rather aristocratic American lady who was the administrator of the program, called Gertrude Manley. As it happens, though, with one partial exception in the Law School, all the courses I took were in economics, because there were all sorts of things going on at Harvard that I had not learned about at Cambridge.

What exactly did you get from Harvard that you hadn’t gotten in Cambridge, UK?

The main thing was serious econometric work, using computers, and a lot of teaching that went with that. What I didn’t do was to enrol for the economic theory courses of the first two years of an American PhD. Harvard also offered an opportunity to combine economics with what, as you will remember, was my long-standing interest in history. A more senior graduate student whom I met when I got there said: ‘You should take Gerschenkron’s course on economic history’. I accepted his advice. Most of my Kaldorian empirical work, moreover, was done as papers for that course, using a long series of data kindly provided by Charles Feinstein, a distinguished Cambridge economic historian on sabbatical at Harvard. So, in my attempt to make some sort of a test of the theory, I was looking back over 100 years, and not just at the short-run data I had used in Cambridge.

And then you went back to Cambridge because there was this book that you edited with Robin Marris on the corporate economy (Marris/Wood 1971) ...

Not quite, but there was a connection. Robin Marris was on sabbatical at Harvard the first year I was there and I took the course he gave. As an undergraduate in Cambridge I had read his book, *Managerial Capitalism* (Marris 1964), attended his third-year lectures on it, and read a lot of related literature in economics and sociology for a special-subject final exam paper. My interest in the subject motivated me to take his second-semester Harvard course, after taking in the first semester a joint economics/law school course on anti-trust policy. Marris also developed a project on the corporate economy as part of Harvard's very well-funded program on Technology and Society, and hired me as a research assistant. The project culminated in a conference at the end of my second year at Harvard, attended by a star cast of mainstream economists. That conference eventually yielded the edited volume that Robin and I put together in my first year back in Cambridge (Marris/Wood 1971).

And then you started or you continued your work on A Theory of Profits (Wood 1975), which then became probably your most famous publication, at least for us. What was the move towards that?

I returned to King's as a junior research fellow, which for most people was a post-doc position, but I didn't have a doctorate. So, I registered for a PhD in Economics at Cambridge and used my time in that post to write a thesis on income distribution, an aspect of economics which I had seen as important from the beginning. The Faculty assigned as my supervisor David Champenowne, who had done path-breaking work on the inter-personal size distribution of income. He was a very clever, very nice man, but a very relaxed, laid-back supervisor who somehow felt that he shouldn't try to direct me, allowing me to do what I wanted, with guidance and assistance as I went along. It was an extraordinary situation, looking back on it. I ended up writing a purely theoretical thesis, with no empirical work. One half of it was pulling together the Marris theory of the firm with the Kaldor macro theory. The other half of the thesis was on the determinants of relative pay (Wood 1978). That choice was influenced not by any Cambridge economist, but by one particular book, *The Social Foundations of Wage Policy* (Wootton 1955). Its argument that normative concerns about relative wages were a driver of outcomes in the labour market struck me as plausible, and connected with my earlier enthusiasm for sociology.

Richard Kahn at Cambridge was also much concerned with the wage–wage inflation question. Is there any relationship between this second part of your thesis on the theory of pay and your later work where you were considering the issue of skilled labour versus unskilled labour (Wood 1994; 1995)? Do you see any relationship between this earlier interest and your later work?

There is a clear relation in terms of the subject matter. The thesis stemmed from my interest in relative incomes of all sorts, and much later, when I started working on the impact of North–South trade on inequality in both developed and developing countries, I was going back to that area of interest. Less obviously, there was also an analytical connection. In my analysis of the impact on skilled and unskilled workers in developed countries of more trade with developing countries, I distinguished between the outcomes that you would get with fully flexible market-determined wages – a rise in inequality, which I identified with what was happening in the United States – and the outcomes you would get where there were normative social and political constraints on how much wage relativities could widen, as in Europe, leading to a rise in unskilled unemployment.

Let us move back to the first part of the thesis. I (Eckhard Hein) always asked myself how you would relate your 1975 book, A Theory of Profits, to the more or less simultaneous work by Harcourt/Kenyon (1976) and by Alfred Eichner (1976), which also established the link between investment and pricing. What is special in your work, which is not in the other works, and have these contributions developed independently of each other?

It's an interesting bit of history. Although I knew Geoff Harcourt, initially from attending his lectures as an undergraduate, very much admired him, and had thanked him in the preface of my 1975 book for comments, probably on my thesis, I knew nothing of the work he had done in Australia with Peter Kenyon until after my book came out, when, having seen a review of it, they wrote me a rather worried joint letter. They also sent me a copy of the paper they had submitted to *Kyklos* (Harcourt/Kenyon 1976), on which I sent them a letter with comments and a comparison with my book. The copy of the book I had earlier posted to Geoff did not arrive for another month, but after a quick look at it, and before receiving my letter, he wrote again to say that he had concluded that the ideas in their article stemmed mainly from his own earlier work.

The Alfred Eichner story is very different, and was written up, using his and my files, by Fred Lee (2000). Al came to Cambridge in the Spring of 1972, when I met him, got to know him a bit, and realised that he was working on something closely related to my own work – at that point I had not yet started to turn the first half of my thesis into the book on profits. Al was having serious difficulty in getting anybody to publish his work, but I was able to help him to publish an article in the *Economic Journal* (Eichner 1973) and to persuade the Cambridge University Press to accept his book (Eichner 1976). We corresponded about what he needed to do to get the book published; the main thing was to shorten it drastically. It was a very small world in Cambridge in those days. Somebody even as junior as me, who knew the editors of the *Economic Journal*, one of whom was Champervowne, could recommend an article for consideration and get involved in its refereeing. Later, as a happy ending, Al's book was published.

The fundamental, important, similarity between the Eichner and Wood books is the idea that profit margins are determined by the need for companies to generate enough internal finance to pay for their investment. They need to expand capacity to grow, so growth maximisation and profit retention are closely related. The details are very different, however. Substantively, Al Eichner believed that this mechanism was deeply associated with oligopoly, so his model had to be an oligopoly model. I was much more open-minded, and thought that this mechanism and my model would fit with many sorts of market structures. I also set it out in a way that was a lot simpler. As you know, I have a two-curve diagram, which would appeal to this fencing Olympian (Marc Lavoie), two crossed swords, whereas Al had a four-segment phase diagram, and I'm not sure what Olympic sport that would correspond to! Not only, though, was Al's book a great contribution, but he also helped to put post-Keynesian economics on the mainstream radar (Eichner/Kregel 1975).

So, after these few years in Cambridge, you went into the real world and got a job outside academia. Your most cited work emanating from this period, I (Marc Lavoie) found out, is your book on North-South Trade, Employment and Inequality (Wood 1994). And that's where you deal with this skilled–unskilled labour dichotomy mentioned earlier. How did you get interested in this topic?

It was almost by accident that I joined the World Bank in 1977, having initially sought a job in the IMF – with an introduction from Richard Kahn – and intended to stay for only two

years before returning to Cambridge. That turned into eight, however, during the last five of which I had the amazing experience of working on China in the early stages of its economic system reform. My final task was to coordinate and contribute to the writing of a major report on the long-term future of the Chinese economy (World Bank 1985, Wood 2018a). We suggested, among other things, that China should realise its potential for manufactured exports and not rely simply on exporting oil and a few commodities. While we were discussing a draft of the report with Chinese academics and counterparts in Beijing, one asked: ‘China is huge, if we do what you advocate, how will that fit into the rest of the world economy?’ I simply couldn’t answer his question, but neither could I forget it. When I came back to academia in the UK in 1985 – at the Institute of Development Studies at Sussex – it turned into the question I decided to pursue in my research: how was the expansion of labour-intensive exports to developed countries by developing countries going to affect both sorts of countries – including, in the case of China, not just developed countries, but also other developing countries (Mayer/Wood 2011)? It took me a long time to provide an initial answer in that book, after which I went on to do a lot more work.

But there is still a controversy going on, about whether the fall in the relative position of the low-skilled workers is due to trade and globalisation or due to technical change that would be in favour of the highly-skilled workers. What is your view now, 30 years after your 1994 book?

My view has always been that both forces were at work and were related to each other. Technical change was one cause of globalisation and was also driven partly by economic pressures arising from globalisation. My emphasis on the importance of globalisation (Wood 1998) made me unpopular with trade economists, who were doing everything they could to show that the influence of globalisation on developed-country wages was minimal, out of fear that saying otherwise would result in protectionism. I also was very worried about that risk: as a development economist, I was arguing that if the North didn’t use domestic policies to address this inequality problem, there would indeed be a protectionist backlash, which would hurt developing countries. My line was: don’t try to pretend this isn’t happening; recognise it and do something about it! But as I said, that made me unpopular. There was a long debate about trade and wages in the 1990s, in which I was on the losing side. The economics profession decided collectively that globalisation might be a bit more important than people had previously thought, but that it wasn’t the fundamental cause of the problem. Then the issue went to sleep until the mid-2010s, when another generation of economists looked particularly at the American labour market and found that China had actually had a big impact (Autor et al. 2021). I wrote a retrospective article on the trade and wages debate (Wood 2018b). It acknowledges significant flaws in my original analysis, and has an anodyne title, but on my computer the name of that folder is ‘I told you so’!

How did your career continue after your position at the Institute of Development Studies at Sussex?

I was appointed as Chief Economist of the UK’s Department for International Development, and worked there for five years, from 2000 to 2005. After I left the government, I taught at Oxford for another nine years, where I am now Professor Emeritus. That brought me to the formal end of a very varied career.

Indeed, very varied. Based on that, do you have any advice to give to our younger post-Keynesian colleagues?

It is very interesting and instructive to work in both academic and policy jobs during a career as an economist, but not an easy thing to do and has become, I think, even harder

in recent years. Moving between the two sorts of jobs is asymmetrical: it's quite easy to go from an academic job into a policy job, much more difficult to come back into academia after more than a year or two out of it. Even more so, of course, if you were never in it: so my advice is that if you think you might want to spend part of your economist career as an academic, start in academia, for several years, not in a policy job.

Okay, so then thank you very much!

The interview was conducted by Eckhard Hein and Marc Lavoie at the Lille Post Keynesian Conference in December 2023. We thank Samuel Küppers, Berlin School of Economics and Law, for the transcription.

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