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'Economics is not useless. It can either be very harmful, which it often is, or very beneficial'

Interview with Robert Skidelsky

Robert Skidelsky is Professor Emeritus of Political Economy at the University of Warwick, UK, and a fellow of the British Academy in history and economics. He was born on 25 April 1939 in Harbin, Manchuria. He read history at Jesus College, Oxford, and was successively research student, senior student, and research fellow at Nuffield College, Oxford. In 1978, he was appointed Professor of International Studies at the University of Warwick, and then joined the Economics Department as Professor of Political Economy in 1990. He is currently Andrew D. White Professor-at-Large at Cornell University, USA. Since 2002, he has been chairman of the Centre for Global Studies. He is the author of a famous three-volume biography of John Maynard Keynes. Robert Skidelsky is also a member of the British House of Lords. He began his political career in the Labour party, became the Conservative Party's spokesman for Treasury affairs in the House of Lords, but left the Conservative Party for the cross benches in 2001. He is currently a member of the All Party Parliamentary Group on Extraordinary Rendition.

How did you come to economics, how did you come to Keynes and how did your work on Keynes develop?

I came to economics through history. I studied history at Oxford. I did my doctorate on the Great Depression and in the course of doing that, I encountered Keynes and decided I wanted to write something about him. So I started studying economics in order to be able to write about Keynes. I also did a biography in the intervening period of another very important character of the time of the Depression in English politics, Oswald Mosley, who then became leader of the British Union of Fascists. The common root of the two biographies was their reactions to the Great Depression.

Was it your initial intention to write a three-volume biography on Keynes or how did this kind of work progress?

No, it was not my original intention. I was commissioned to write a one-volume biography to be delivered within about 2 years. This contract was signed in 1973. The book just grew and grew, and then there were delays in getting access to papers, which I eventually overcame. But that took a long time, and so it spread. I just wrote with the sweep that I thought the subject required, and that, as it turned out, was three volumes.

What was the initial motivation to start with this biography? There was the biography by Harrod and there were biographies by other authors?

At the time I started to work on it, there was really only Harrod. And Harrod was getting dated. There are lots of good things about the Harrod biography. But when I read it and

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started working in the archives, I realized that Harrod had left out a lot of things, which I thought were important to understanding Keynes's life and his economics. He had left out the whole of his homosexuality. And he had left out things like his opposition to the First World War. Harrod fudged the fact that Keynes had actually applied for exemption on grounds of conscientious objection.

The interest in Keynes, of course, had waves in academics and also in economic policies. We had the first generation post-Keynesians in Cambridge, of course. In the 1970s, post-Keynesianism by some people was considered to be the promising and progressive way of developing Keynes's ideas. Were you involved in this to any extent, or did you 'only' focus on the work of the master?

I did not get really involved until the 1980s. In the 1960s and 1970s, I was interested in economic policy and wrote a Keynesian letter to *The Times* in about 1967. There were personal links with Keynesians. In the late 1960s I was teaching at Oxford and one of my students was Mary Kaldor, and through her I got to know Nicky Kaldor very well. So, I used to spend quite a lot of time in Cambridge. I also bought a house in Southern France in a village called La Garde Freinet. Kaldor and a number of other economists had summer houses there, too. I got a lot of my economic training from Kaldor. He loved teaching, though he often fell asleep during the middle of his own tutorials. But when he woke up he always resumed at exactly the same place. He was very keen to correct my mistakes and misunderstandings, so that when I wrote the great book, it would be a proper interpretation, that is a Kaldorian interpretation. I disappointed him in one or two respects, but I think he liked it. Then I got to know the Cambridge Keynesian establishment, or what was left of it. They were all getting rather old by then, for example Richard Kahn, Joan Robinson, and Austin Robinson. But I did not get involved really in the debates before the 1980s, when there was the first wave of an attempt to restructure Keynesian theory in order to meet the attacks of the monetarists.

I remember listening to the speech you gave in 2006 in Kansas City, when you said you were quite satisfied with the fact that you never really took sides or that it was never very clear whether you really were a Keynesian, whether you were in favour of Keynes's ideas or of Keynesianism or not. But this seems to have changed in recent times?

I think the crisis of 2008 brought about the big change. I was very anxious not to be identified with a sect. I think the one fundamental point on which I was in agreement with the post-Keynesians was their emphasis on uncertainty as being absolutely central to Keynes's interpretation of the economic problem. As a biographer, I wanted to be true to his central insight and I was not writing as a Keynesian who just took from Keynes things that were useful for policy. And in that sense, I think you are right, I am sure I said that and I wanted to keep all my doors open. I recognized there was quite a lot of value in what Friedman was saying in the 1970s.

How do you explain the almost complete disappearance of Keynes's ideas from academics but also from economic policy debates in the 1980s and even in the 1990s? How come that the Cambridge post-Keynesians and the North American Post Keynesians, who tried at least to be faithful to Keynes, completely lost influence and impact in academia, on the one hand, but also in politics, on the other hand?

I do not think the post-Keynesians ever had any real influence on academic economics. The American version of Keynes was the neoclassical synthesis that evolved over time into New Keynesianism. Basically they upheld the mainstream pre-Keynes doctrines with a few

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modifications, allowing for lags, sticky wages and prices, and things like that. But mainstream Keynesian policy seemed to be in a mess by the early 1970s because of the simultaneous rise in inflation and unemployment. Something was going wrong. I did not think it was actually the fault of Keynesian policy, but governments were eager to use these tools in order to fight wars, and increase the range of social entitlements without raising the requisite tax revenues. What you find is that during the period when apparently Keynesian policy was running wild, Keynesian economists – not all of them, but many of them – were giving good advice. For example, they were advocating budget surpluses, not deficits, when the economies were strong. But then Friedman came in and said the Keynesians could not explain inflation, because they had no monetary theory. In Europe, particularly in England, the unions were allowed to get too strong. It seemed that they could hold governments to ransom, and all governments could do was print money to accommodate their wage claims. The system of political economy was breaking down, and insofar as Keynesians wanted to fix it, it seemed they wanted to do so by having more and more controls on prices and wages, gradually freezing up the market system. So you have this very strong reaction. I think academics never liked Keynesianism fully, because they could not connect it to microeconomics. There was always a gap between Keynesian macroeconomics and classical microeconomics. They are different subjects actually. One has to do with the way markets work, and the other has to do with policy.

So, in your understanding of economics it is not a problem if microeconomics and macroeconomics are not connected?

I think microeconomics is appropriate for the analysis of problems where individual maximizing logic is important and macroeconomics is appropriate for analysing the economy as a whole. That was the division Keynes made in *The General Theory*. The trouble is that economists, because they want a unified subject, kept trying to derive the macroeconomics from the microeconomics, and found they couldn't get there. What was essentially jettisoned was the macroeconomics, and economics retreated to its core paradigm, which was really micro plus the theory of money.

The whole preoccupation with microfoundations does not convince you?

I think it was a waste of time. I know people got Nobel prizes for it …

Then we had the 1990s and the 2000s with this dominance of New Keynesian economics and the New Consensus Model, and this all collapsed with the crisis. What are the main reasons why this approach failed so dramatically in predicting the crisis, understanding the crisis and introducing the appropriate means to tackle the crisis?

The crisis was primarily due to a failure of policy. As I said, the scope of macro policy was drastically and quite unjustifiably curtailed in the belief that, provided you could keep inflation stable, the real economy would be fairly stable, barring unexpected supply shocks. These seem to me to be pre-Keynesian ideas. One consequence of the impoverishment of macroeconomics was the huge deregulation of very volatile activities, particularly financial services. Second, policy-makers paid no attention to income distribution. Productivity gains were being hugely and disproportionally captured by the rich. The result was under-consumption which also strengthened the tendency to volatility of investment. A third factor was the rush to globalization, which destroyed manufacturing in developed countries like the USA and the UK, and skewed their economies towards less productive services. The mainstream academic side did not deal with any of this. DSGE abstracted from the financial system completely; its Lucasian foundations had less and less relation to reality.

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Would you predict that we are close to a revolution in economics in the sense of Thomas Kuhn?

We definitely need an alternative. But the existing economics is very well entrenched. It is entrenched in the academic departments. It is entrenched in the journals, and you cannot get promoted unless you publish in a small number of tightly controlled journals, and so you have a generation that has only done this kind of economics. Kuhn's idea of revolution was that they are generational. One lot of professors dies out and the next lot, having to make their mark, challenge the accepted wisdom. But I think Kuhnian revolutions have become more difficult. In my more pessimistic moods I think all of economics should be blown up and we should start again. We should go back to Adam Smith as the root, but then go in a historical and sociological direction, not take the mathematical route. Keynes studied the debate between Malthus and Ricardo on effective demand and said: 'If only Malthus, instead of Ricardo, had been the parent stem from which nineteenth-century economics proceeded, what a much wiser and richer place the world would be to-day!'.

Coming to your two recent books, could we say that the 'Return of the Master' *was your short-term reaction to the crisis, and now you have turned to the long-term problems of getting to a state of bliss in* 'How Much is Enough? Money and the Good Life'*?*

That's a good way of putting it. Keynes was concerned with both the short term and the long term: he thought of the short term primarily as the way of getting to the long term, the quicker the better. Writing in the early 1940s, he saw three post-war stages. First of all, he thought investment should be encouraged to get to a state of capital abundance as quickly as possible. Then you would need to increase the propensity to consume to keep up full employment. In the third stage you would substitute leisure for work. He thought that a 'steady state' of no or little growth might happen within 50 years from 1940. It has not turned out quite like that. We have got more leisure, we are a more leisurely society, but the increase in leisure has been much less than the growth in productivity: we are still working 40 hours a week on average, whereas in 1930 we were working 50 hours. And then you get back again to the problem of distribution. You cannot give people the sense that they have 'enough', if median incomes are falling relatively to mean incomes, or put another way, the wage share is falling relative to capital. Globalization has also changed the mood. In the 1950s and 1960s, the 'we have got enough' mood was quite common, especially in academic writing – think of Galbraith's *The Affluent Society*. This has changed into the mood that we must compete against the endlessly energetic Chinese. We feel we are in a race of competitiveness, a race that is never over. At the same time, automation accelerates, destroying jobs, and we are always looking for new jobs to take their place, whereas in fact we should be looking to reduce the hours of work. Our book *How Much is Enough?* [Skidelsky/Skidelsky 2012, by Robert and his son Edward] takes this long-term strand of Keynes out from his analysis of short-term crisis.

You focus very much on this distribution problem. Have we misread Keynes or is distribution as important for Keynes as for some post-Keynesians like Kalecki or Joan Robinson?

Keynes was less interested. He was a monetary economist, and he thought that excess emphasis on distribution diverted the left from the real problem at the time, which was a problem of lack of effective demand. The practical task was to increase demand. How it was increased was secondary. He thought investment demand was crucial, because that was the path to growth and you needed growth in order to reach his utopia. At the same time, in *The General Theory* and elsewhere, he says that once you got good healthy investment demand, you can start redistributing. Remember that in the last chapter of *The General Theory*, he said there were two big problems in our society, one being the failure to provide for full employment, and second being inequity in the distribution of wealth

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and income. You needed to deal with the former first, especially in a capitalist society. Keynes was always concerned with getting consensus. If you increase demand, when you had lots of unused capacity, profit and wages would both benefit, so you were not dividing society. Whereas if you emphasize distribution you immediately get into right–left battles and he did not want to do that. So he had a political motive in downplaying redistribution.

Was it more a moral motivation, not seeing the inequality as a source of the problem? What comes to my mind is the data being presented by Atkinson, Piketty and Saez and others who have done this empirical work on distribution based on tax data, and the degree of inequality in the late 1920s was even higher than the inequality we had prior to the previous crisis.

He was quite sympathetic to Hobson, but he thought there was something wrong with the analysis. He thought that Hobson's underconsumptionist theory was wrongly based on oversaving leading to overinvestment, whereas he thought it was saving not finding its outlet in investment because of the instability of the marginal efficiency of capital. So he rejected the theory of Hobson, while sympathizing with redistribution as a tool of demand. And he could not understand Marx. I think he thought Marx was a poor economist. He completely failed to understand how superb Marx was as an analyst of power relations in a capitalist society. That comes out very strikingly at the end of *The General Theory* when he says that ideas are much more important than vested interests. Contrasting ideas with vested interests is a sign of a weakness of analysis, because vested interest has a specific meaning. It means monopoly areas in an economy, not the power relations of an economy. Keynes never attempted an analysis of power, and the role of power in rewarding some ideas and penalizing others. He had to believe that ideas are decisive in the end. If you do not believe that your theories matter, but only power matters, why are you in the business of producing ideas?

What would be your career advice for young students who are interested in exactly the questions and ideas you are suggesting in your books?

I expect students to be more critical of a lot of the education they are being given. I would encourage them to study history, philosophy and ethics alongside economics; still better, press for these subjects as integral parts of economics curricula. If they wanted to be economists, I would encourage them to try to challenge the excessive mathematization and formalization of the subject and demand that theory is tailored to problems rather than problems tailored to theory. Economics is not useless. It can either be very harmful, which it often is, or very beneficial. And if all their efforts fail, they could all join a revolutionary party and start hurling bricks at bankers.

This interview was conducted by Eckhard Hein and Achim Truger in June 2013. We are grateful to Daniel Zeng for the transcription.

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