Godley works in mysterious ways:
The craft of economic judgment in postwar Britain

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1. Knowledge ways

Economists are not memorialized in monuments. Wynne Godley is the exception, his likeness is cast in bronze upon Coventry Cathedral as archangel Michael ("St Michael's Victory over the Devil", 1958) in a sculpture by his father-in-law Jacob Epstein. On his passing, Godley was remembered in obituaries in the major British broadsheets, that recalled his dotted career, his engagement with the arts, his grace as a host and his tragic family history.[1] The latter details were provided by Godley himself. At the venerable age of 75 he penned an essay to the London Review of Books on his battles, four decades earlier, with an abusive psychoanalyst (Godley 2001). If one were to write Godley's biography (and I know of no such plans) the defining features of his character would be taken from this autobiographical account: a search for his true voice, and as he took many public roles, a nagging fear that he might disappoint such responsibilities. The tensions that made up the intimate structures of his psychoanalytic self help also to describe his approach to economics: an anxious affirmation of voice and judgment.

One is tempted to read Godley's 2007 book with Marc Lavoie, *Monetary Economics*, as setting between covers the likeness of his economics. In this essay I take the view that Godley's life work has more to teach us if we dispose of narratives of progress and closure. The record evinces a continued effort to enunciate a knowledge that was for him tacit, a record that offers the historian a glimpse of economics as a craft. My argument is that like the artisans of all ages, and in sociological accounts the natural scientists of today,[2] can be acquired "by doing". And as craft knowledge it remains embodied and resistant to any coda.

The aim of my essay is to outline a narrative of Wynne Godley's work that probes his

1 "Wynne Godley, British economist, died on May 13th, aged 83" *The Economist*, May 29, 2010. "Economist known for accuracy of his pessimism" *Irish Times*, 29 May, 2010. William Keegan "Obituary: Wynne Godley: Economist with a flair for anticipating and responding to crises" *The Guardian*, 21 May, 2010. "Professor Wynne Godley; Controversial Cambridge economist and one of the Treasury's 'six wise men' in the 1990s who foresaw the 2008 global financial crash" *The Times*, 17 May, 2010. "Professor Wynne Godley; Obituaries: Maverick Treasury economist who launched devastating attacks on the policies of Labour and the Tories alike." *The Daily Telegraph*, 22 May, 2010.

2 The awareness of the craft like quality is often credited to Michael Polanyi, a chemist and philosopher, and his notion that much of scientific knowledge is tacit (Polanyi 2009). The consequences of this insight for our understanding of scientific practices and its public authority is developed in Collins & Evans (2002).

ways to knowledge. It breaks down the conventional account of knowledge: first produced in academic quarters and later applied beyond their threshold. In contrast, I argue that Godley developed his understanding of the economy in civil service, and popular media, as well as in academic settings. Although such attributions are of disproof, I content that his core insights were gained prior to his University appointments, in public surroundings. Furthermore, Godley's greatest achievement was not to add to a literary stock of knowledge but to develop his own, embodied, understanding of the economy in its uncertain dynamic. Godley's polemical interventions were not expressed as policy maxims, or models for wider usage. They were distinctive as communicating an imagination of economic prospects that would go beyond the enunciation of facts, simulations or model results. The residual and crucial component was Godley's judgment. In my emphasis, Godley was always the civil servant and the adviser and so the narrative begins with his tenure at the Treasury.

2. Forecaster: Education at the Economic Section

By his own account, Godley abandoned a promising career as a professional musician, principal oboist at the BBC Welsh Symphonic Orchestra, for fear of the stage. He had earned a PPE from Oxford, and although he recalled more vividly his interactions with Isiah Berlin, it was his economics teacher P.W.S. Andrews who brokered for him an alternative career: first as economist at the Metal Box Co. in 1954, and two years later moving to the "Economic Section", the principal institution for economic advice in the British government (Godley 2000).

If the "Economic Section" was Godley's graduate school, his tutor was Sir Robert Hall.[3] When Hall took over the role of Director from James Meade, the "Economic Section" was still housed in the Cabinet Office, and was on call to any branch of government that sought it. In 1953, its operations moved to the Treasury, and its influence had to be channeled through the Chancellor of the Exchequer's personality and prominence in the cabinet. Hall adapted well to these changes. Whereas Meade was first an academic and an adviser second, Hall resisted the

3 Hall has a claim to fame in the History of Economic Thought due to his and C.J. Hitch's "Price Theory and Business Behaviour", see Lee (1981), with a connection to Oxford and Andrews. I thank Marc Lavoie for bringing it to my attention.

allure of doctrinal disputation and scholarly subtlety. He was of the "one handed school of advisers", famously saying that "it is not much use giving advice to Ministers unless it is very loud and clear" (Cairncross & Watts 1989, p. 137, 135). In now dated terms, Samuel Brittan noted that "at his best Hall had an almost feminine intuition for the way the economy was moving." (Brittan 1971, p. 95) For Hall the subject was always the general economic situation, and to grasp a comprehensive view of the whole (Jones 1994). The skill to describe the landscape, and flexibility to speak on all fields of government action was a requisite skill for Treasury employment. The institutional setup in which Godley entered privileged *unambiguous commentary on the general economic situation*. As we shall see in sections 4 and 5 below, Godley was to make this tone his own.

Hall held the longest and most distinguished of tenures at the Economic Section, serving for 14 years. He was a principal in shaping the institutions of government advice, arguing that the number of economists in government was insufficient and that their quality and commitment to public service was variable. Retiring in 1961, it was Hall's replacement, Alex Cairncross that saw the dreams of reform realized. On Godley's arrival in 1956, Hall's section was a small operation of about fifteen professional economists. For a decade more it was a tight collaborative community, holding the monopoly of advice. In 1965 the new Labour administration created the "Government Economic Service" and overnight all ministries were staffed with economists. From under 20 economists in service the numbers jumped to 209, and kept on rising (390 by 1979) (Coats 1981). Significantly, among the new arrivals were those known at the time as "political economists": University faculty that took advising roles with the expressed goal of changing the course of government policy. The welcomed addition of more economists and more skilled ones, came also with the unwelcome prospect of competing for the attention and trust of ministers. Reading Cairncross's diary of the time, one finds him in continuous and often strained debate with Robert Neild, adviser to the Chancellor, and Nicholas Kaldor adviser at large on taxation (Cairncross 1997). Of prominence there was also Thomas Balogh advising the Prime Minister.

The arrival of the academics did not change Godley's responsibilities.[4] contribution was

4 Kaldor was the consummate academic. Neild, however, had a more mixed career, having been at the Economic

to hold the most up-to-date outlook on the economic situation, anticipating official estimates and statistics, on wages, productivity, public expenditure and the balance of payments.[5]

It is a challenge for the historian to track the development of a deep understanding of data, as it arises from a practice of many years looking at how data match, change, and what they mean. There is no no paper trace of its procedures. It is embodied knowledge. Sociologists of science have recorded this kind of knowledge through participant observation, whereby the sociologist tracks his own difficulties in joining a research community and assimilating their fast paced, tacit acting.[6] The second best approach is to locate puzzlement between historical actors that hold the tacit skill and those that don't.

The quality of Godley's contribution to the Economic Section can be unpacked by looking at the relationship between himself and Cairncross. The latter's mandate was to field the requests of ministers and react to the grand designs of the multitude of economist advisers. Cairncross had to converse with policy players, but the forecasts and statistics on which such interactions were based were not his.

A couple of excerpts from Cairncross's published diaries testify to bounds of trust and expertise. Cairncross reports on a lunch with Godley, in July 1967, where the latter complained about the public sector statistics: "prepared by junior clerks who don't appreciate any of the nicer points" (Cairncross 1997, p. 223). The communication was done informally, over a meal, but seems to be an issue that should preoccupy Cairncross since statistics was the material upon which all recommendations were grounded. But there is no further record of what the "nicer points" might be, and what should be done to correct the juniors. Cairncross trusted that Godley could find his way to the necessary information. Indeed, the diaries are distinctive for their short

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Section from 1951-56, and as Deputy Director of the National Institute for some time after. Neild and Godley were no strangers. In 1963 Neild worked on factors determining the course of real personal income to improve forecasting methods. He states that "we owe a great deal to Mr. W.A.H. Godley, of H.M. Treasury, who first suggested the pricing hypothesis which the study set out to test" and was then working at the Institute (Neild 1963).

5 Cairncross's diary provides a record of Godley's contributions, see for instance Cairncross (1997, 66, 84, 62).

6 The foremost study of this kind is found in Collins (1974), a participant observation study of a team of experimental physicists.

reference to data issues.

Three months after their lunch, Godley once again complained about public sector statistics. Cairncross writes in his diary that

> W.G. [Wynne Godley] very interesting on statistics of public expenditure. CSO [Central Statistical Office] use data for local authority investment quarterly which they disregard completely once they get capital spending figures once a year but these don't really relate to actual investment so we don't get either quarterly or annually any reliable guide of what is happening; and tend every year to be thrown off previous interpretation by annual data (Cairncross 1997, p. 239).

The new comment gives us some sense of how Godley worked, looking for patterns of connection and consistency in the data. In the case at hand he discovered a glaring mismatch between quarterly and yearly series, arriving at the Economic Section as "local authority investment" but really being of different sorts. Crucially, neither the quarterly nor the the annual data gave the information required, a sense of "what is happening" had to be gained elsewhere. The annual data would come as a surprise undermining the Section's standing interpretation. In coming to his short term forecasts, Godley had to rely on incomplete or biased data, on data that swapped definitions depending on the time frame.[7] To achieve it was no conjurer's trick, but an accounting insight gained of toiling at the numbers, for over one and a half decades, grasping for a big interpretative picture.

Godley's role at the Treasury was to provide short term forecasting. In the late 1960s he was called to a more unusual role, but one that drew on his understanding of the economic landscape. He produced the statistical classification upon which Kaldor's Selective Employment Tax was applied, which implied selecting which industries would be subsidized and which ones taxed. More famously, it was Godley that did the calculations for the package of policies that accompanied the 1967 devaluation of the pound from $2.80 to $2.40 (Godley 2000). In his final years at the Treasury Godley was deputy Director of the Economic Section and was having a

7 He would at times codify changes to data collection and calculation. These were the efforts by Godley in a December 1969 *The Public Expenditure White Paper* to overhaul the construction of public accounts, so that forward estimates of revenue as well as expenditure be created and set against each other (Brittan 1971).

more active role in policy design. Godley moved to Cambridge with the expectation that he would remain engaged in policy debates and that he would be free to express his policy views with a discretion that he had been denied as a civil servant.

3 . New Cambridge: Publicity against the Keynesian consensus

From the mid 1950s to the mid 1970s, the troubles facing the British economy and the tools of government were well identified. The direct controls inherited from the war were quickly dismantled and exchange rate, budget and monetary policy became the instruments of economic government. A deteriorating balance of payments was a primary concern, and the core issue in 1955 when Godley joined the Treasury (Jones 1994). The same topics were to preoccupy Godley from 1970, when he traded the Treasury for the directorship of the Department of Applied Economics (DAE) at the University of Cambridge.[8] He was an outsider to the town and to University life, but in joining Cambridge and King's College he would have seen plenty of familiar faces. Close by was Kaldor, who had been the force behind Godley's appointment, and Robert Neild was also joining the Cambridge faculty. Godley's closest collaborator, Francis Cripps, had been Kaldor's assistant.

Besides the network of people, there are other aspects of continuity between the Treasury and the Cambridge periods. At the DAE, Godley set up the "Cambridge Economic Policy Group" which issued a yearly a forecast of the British economy. The initiative was in the spirit of the National Institute of Economic and Social Research, where Godley had worked on secondment from the Treasury. That institution was another of Robert Hall's contributions wanting "an 'unofficial set of forecasts' to counter Treasury ones, to create an 'independent view on the state of the economy and its forecasts'" (Jones, 1994, p. 175). Godley's belief was that this independent view could be nurtured in an academic setting such as that of Cambridge. He

8 From the Second World War, economists at the University of Cambridge had been divided between the Faculty of Economics and Politics and the Department of Applied Economics (DAE). The Department was headed by a director. The first was Sir Richard Stone, from its founding in 1945 to 1955. He was followed by W. B. Reddaway until 1970, and then Godley until 1987. The last director of the DAE was D. M. G. Newbery, until 2004, when the division between the faculty and the DAE was abolished, the Faculty of Economics and Politics renamed Faculty of Economics.

was soon proved mistaken.

In January 22-23, 1974, Godley and Cripps authored a two part article for the *London and Cambridge Economic Bulletin* with publication in the *Times*.[9] They set a stage of impending catastrophe, calling for "a new set of principles." The fundamental mistake of was a short term focus that blinded everyone to the "predominant source of imbalance" for the economy: the Goverment's fiscal and monetary policy. The fundamental error of the orthodoxy was, according to the authors, the assumption that private sector surplus was income elastic. In fact, private sector's "net acquisition of financial assets, is small and fairly stable." Consequently the likely effect of the budget deficit was to aggravate trade imbalances (such as those in the wake of the 1973 OPEC price hike) failing to stimulate the private sector. Britain should aim to improve its export potential, with measures to increase industrial productivity and relying on external demand as its growth engine: devaluation was ruled out as potentially worsening inflation, and export subsidies and import restrictions were preferred.

There was no immediate response to Godley and Cripps's blueprint. A month later, in February 26, Neild wrote a letter to the *Times* titled: "Reversing Keynes on budgetary policy." It addressed a controversy prompted by an editorial divining the shape of the Budget.[10] He began: "I and a number of my colleagues at Cambridge believe that the orthodox [Keynesian] view, to which many of us used to subscribe, is wrong and that its application in policy-making has been a major cause of Britain's postwar economic troubles." Strikingly he summarized this policy position as contrary to the Keynesian wisdom: "the Budget should be used to determine the foreign balance and the exchange rate to determine the level of activity."

Neild's polemical reversal of Keynesianism, was a catalyst for a response by others in the Cambridge faculty, Richard Kahn and Michael Posner "Challenging the 'elegant and striking' paradoxes of the New School".[11] in his February 26 letter had made no explicit mention of the

9 The *Bulletin* originated during the Second World War when the London School of Economics was in residence at Cambridge. It was published in the mass distribution broadsheet *The Times* since November 26, 1965.

10 "The right shape for a budget" *The Times*, January 26, 1974, p. 15; Neild "Letters to the Editor", January 31, p. 17; Professor Little's "Letters to the Editor", February 6, p. 15.

11 Richard Kahn and Michael Posner "Challenging the 'elegant and striking' paradoxes of the New School" and

Policy Group research or reference to the earlier articles by Godley and Cripps. But the Kahn and Posner article grouped Kaldor, Neild, Godley and Cripps distinguishing them within Cambridge from an Older Keynesian School.[12] Godley and Cripps's policy brief was being read as a statement in economic theory. Kahn and Posner distinguished the schools in terms of their composition of the multiplier. Using the scenario of a depreciation of the exchange rate, they argued that the "new school" only considered the "leakage" of increased imports following external demand induced growth. The "new school" ignored the parallel effects of increased savings, increased profits and improvements in the budget deficit of the State. They argued that only by disregarding these many effects was it plausible for the New School to hold that the trade balance was insensitive to the exchange rate instrument. Within this setting the "old" Keynesian view encompassed the "new" as a restricted and implausible case.

Reflective of his new location, Godley's policy intervention was overtaken, even in such a worldly publication as the *Times*, by a debate about the progeny and classification of economic theory. The Kahn and Posner article was a source of concern for the Cambridge "new-comers." In late May, Godley wrote in a note to Kahn that: "I am really very sorry that we should be in the position of having a confused debate in public without trying harder to make contact between ourselves and nearer agreement." Godley's request was soon heeded, and Nicholas Kaldor, Kahn and Posner had a heated exchange of letters.[13]

Kaldor has been acknowledged as the originator of many of the New Cambridge proposals, typically with references to Kaldor (1955, 1956). The account that Kaldor was the prime mover has been confirmed by his biographers that taking for granted the theorist/practitioner hierarchy (Targetti 1992; Thirlwall 2004), explain that Kaldor outsourced

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"Theory dogged by its assumptions." *The Times* in April 17-18, 1974.

12 Kahn and Posner certified that the label of "Cambridge Economics" was legitimate, in as much as the Neild-Godley proposals rested in a Keynesian meta-structure: "Although – for convenience – we call ourselves the Old School, we are highly appreciative of the efforts of the New School to force a reappraisal. Their elegant paradoxes, which have evolved strictly within the Keynesian structure of thought, are striking and seem to call into question accepted views."

13 In Joan V. Robinson papers, Kings' College Cambridge, Wynne Godley to Richard Kahn, 23rd of May 1974. JVR/vii/228/3/3.

public advocacy to the Policy Group because he was bound to silence by his advisory post (Turner 1993). What the standard account misses is that Godley had his own independent views on the economic situation. Even in his time at the Treasury, Godley was not shy from criticizing Kaldor. Caircross (1996), with some amusement, notes meetings in which by force of argument he beat Kaldor into silence, confiding that: "This was the only time I have seen it done" (Cairncross, 1997, p. 210). Yet, Cambridge was not the Treasury, a different set of values and rules applied, and Godley would have been happy had Kaldor taken charge in the private correspondence to bring the dons to some agreement.

Kaldor however only added kindle to the fire. In a long letter, he stormed that the Kahn and Posner's *Times* article had been "unnecessarily argumentative and rather tortuous" in its manner of exposition. He further imputed misunderstanding of the "new school" position. Posner and Kahn responded in an equally ill-tempered tone. Both sides sought to expose the theoretical limitation of the opponent by charging the vice of unacknowledged assumptions such as full employment (by the "old") or a disregard for important multiplier effect (by the "new").[14] In two subsequent letters in late May, Kahn and Posner refrained from engaging in longer arguments. They concluded in a 28th of May letter that:

> We did not – and do not now – seek to make a great fuss about passing comments made by you [Kaldor] or other of your friends, we were driven to write our articles only because Robert, Wynne and Francis seemed to be collecting together these passing comments into a theoretical structure that seems to us unacceptable.

The correspondence was being copied to Neild, Godley, Posner, Cripps, Luigi Pasinetti, Adrian Wood, Douglas Wass and Kenneth Berrill. Of these spectators, it was Cripps that drew a line under the discussion, stating that "disagreement between any of us is on the behaviour of the private sector. (...) The argument is whether there is a tendency to stability, in the form of some corrective response to abnormal surpluses or deficits." He added that the DAE was doing "detailed empirical work" on the question and once these results were out further discussion would be "useful." He "fear[ed] that little is to be gained by a "theological" debate with

14 Nicholas Kaldor to Richard F. Kahn, 20th of May 1974, JVR/vii/228/3/15-16; Richard Kahn and Michael Posner to Nicholas Kaldor, 24th of May 1974, JVR/vii/228/3/17-20.

attendant dangers of misrepresentation and misunderstanding." After his early outburst, Kaldor confessed having other "pre-occupations" preventing him from fully engaging the debate with Kahn and Posner. On the 6th of June, Kahn conceded to Cripps that the "theological" debate was unproductive.[15]

The discussions of 1974 testify to Godley's difficult initiation into Cambridge Keynesian quarters. The articles in the *Times* and the bulletins of the Policy Group had Godley identifying the perils and choices facing the British economy. However, unlike his time at the Treasury, his judgment was no longer trusted and his statements were read against the academic standards of the age and of his location. They asked how Keynesian was he?[16] To have a voice in these new settings he would have refashion his insights to the current economic situation into a theoretical structure. He had to build a model.

4. Modeling: Obtaining academic credentials

Godley and Cripps were eager to strike a settlement with Kahn and Posner and benefitted from Kaldor's ultimate disinterest in continuing the argument. As the debate raged in the Cambridge correspondence it had already moved to academic fora and to the halls of government.[17] From the *Times* controversy, Godley and Cripps adopted the "New Cambridge" label with a difference. They did not call themselves "new Cambridge school" instead they referred to a "new Cambridge hypothesis" and later a "new Cambridge equation". The semantic difference defused

15 In Joan V. Robinson papers, Kings' College Cambridge, Michael Posner and Richard Kahn to Nicholas Kaldor, 28th of May 1974, JVR/vii/228/3/24; Francis Cripps to Richard Kahn, of May 1974, JVR/vii/228/3/25; Nicholas Kaldor to Richard Kahn and 29th Michael Posner, 30th of May 1974, JVR/vii/228/3/26; Richard Kahn to Francis Cripps, 6th of June 1974, JVR/vii/228/3/27.

16 Godley was often less knowledgeable of Keynes than one would expect, as testified in an exchange in the *London Review of Books* where he misremembered the policies contained in "How to Pay for the War": "I transposed a course of action which Keynes discussed into one which (I for a moment wrongly imagined) he had advocated." (Godley 1992).

17 This is not to say that there was no continued debate about New Cambridge in the press. There were several letters to the editor critiquing the Neild-Godley-Cripps proposals (c.f. 22 of August 1974 in the *Financial Times* and 28 January 1974 in *The Times*).

any claim to a challenge to Cambridge's Keynesian heritage, and made their work evidence of Cambridge's vitality. It also hinted at increasing difficulties they were facing in establishing their claims.

In the wake of the May 1974 correspondence, Godley and Cripps' statements referred to empirical findings resulting from econometric research. They thus appeared to steer themselves away from doctrinal debate. With the appointment of Denis Healey as Chancellor, the Policy Group was called in for discussions with the Treasury. It was with empirical emphasis that it stated their case in testimony to the Public Expenditure Committee in late 1974. They claimed to estimate the private sector's net acquisition of financial assets as a stable function of disposable income (with minor variables of personal hire purchase debt outstanding, change in personal bank advances, and change in book value of stocks), which they called the "New Cambridge equation." (Cripps et al., 1974) The success and promise was short-lived.

The empirical credibility of the Godley-Cripps claims was soon undermined, in 1975, by the retiring editor of the *National Review* (the journal of the National Institute for Economic and Social Science Research). Marking his departure for the Bank of England, J.A. Bispham made a firm defense of the "conventional school" of policy making and forecasting. The targets of the article were the "New Cambridge Economics" and "The 'Monetarist' Position" (advanced from Manchester's M. Parkin and D. Laidler)[18]. The Bispham critique was particularly severe because it attacked New Cambridge deploying the authority of the National Institute's data and estimations.[19] The empirical counter evidence was of two kinds, firstly that the New Cambridge equation did not perform any better than the 'conventional' alternatives in use and secondly, that the relationship did not hold after 1972. It concluded that: "The New Cambridge equation has broken down massively."(Bispham, 1975, pp. 42, 47). Bispham argued that New Cambridge theory was being built on short term circumstances, and chance alone explained that in previous

18 The Manchester group was coalesced around a SSRC research program on "Inflation, its Causes, Consequences and Cures." The group was diverse with Keynesians included, the conviction that it was Monetarist in its outlook came from a contemporaneous review by Laidler and Parkin (1975) on "inflation" in the *Economic Journal*. Here again, the academic branding took precedent over all other typologies.

19 To Bispham it was not lost Cambridge's recent subdued claims: "By the time evidence was presented to the Expenditure Committee in mid-1974 the simple relationship suggested at the start of the controversy had become considerably more complex, implicitly weakening the argument substantially." (Bispham, 1975, p. 45)

years the balance of payments had seemed unresponsive to devaluation (there had been an independent rise in import prices) (ibid., p. 44). This criticism was heard with great concern by Godley. The National Institute had been the first independent forecasting and policy institution that had inspired his Cambridge Policy Group. Godley himself had been at the National Institute in the early 1960s.

In 1975 the nature of policy debate and advice was changing rapidly. John Maloney (2010) working from released Treasury papers from 1974-75, has revealed that despite their media visibility and access to the halls of power, the New Cambridge claims were facing resistance from Treasury economists, and in less than two years their only point of consensus was an embargo on fine tuning. A competition was underway between several academic-based policy groups each wielding their own doctrinal brand and distinct model of the British economy. In addition to the National Institute, the Cambridge and Manchester groups, there was the London Business School (Budd 1975).[20] As the *Times* controversy had hinted all policy claims were promptly deconstructed by academics for their theoretical plausibility. Denied an empirical relationship by the National Institute, resisted at the Treasury, the DAE needed a model that would represent as a structure the relationships they were seeing in the data and consolidate their academic authority.[21]

Aware of their competitors' strengths, the Cambridge Policy Group wrote for *Economica*

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20 To this list, Evans (1997, p. 400) adds the Cambridge Growth Project (CGP) and Southampton University as engaged in macroeconomic modeling. Since 1965, the Social Science Research Council had been giving financial support to these groups.

21 New Cambridge was not without advocates. The Australian Treasury economist C.I. Higgins (1976, p. 201) believed that: "the distinction between the New and Old School, ... is an empirical question and depends both on the particular economy and the length of time period being considered." Higgins believed with New Cambridge, that private expenditure stability, although microeconomically problematic, was plausible in the aggregate. He further suggested channels that tied fiscal policy to balance of payments management as proposed by the "New School". With sympathy for the "New School" was another paper by David Vines in 1976. Vines refers to the Kahn and Posner model introducing to it a New Cambridge equation of private expenditure replacing the traditional consumption and investment functions (Vines 1976, p. 208). Vines concluded: "a "New School assignment" of the exchange rate to the level of income and the budget deficit to the balance of trade is appropriate as long as domestic leakages are less than foreign leakages." (Vines 1976, p. 227, although this is a weak result, see his footnote 26 on page 226.)

(Cripps & Godley 1976). Against the critics: Kahn, Posner and Bispham, the authors lined up a list of "qualified supporters," from the empirical economics camp. The article was the first presentation of the Policy Group's views translated into a macroeconomic model. The main feature of this translation was the replacement of the consumption and investment functions by a single private expenditure function (standing for the New Cambridge Equation estimated in 1974). The model allowed a balancing of distinctiveness and communality with other approaches, hence the authors embraced a unorthodox "keynesianism." They also hedged their policy prescriptions by stating that: "The effects of inflation and real growth in the above formulation are regarded by the CEPG as relatively uncertain, while the link between the steady-state budget deficit and balance of payments is more clear-cut." and "the exchange rate, export subsidies, import tariffs and import quotas can all be considered potentially effective methods ... assessment of the efficacy of different trade policy instruments depends on assumptions about the determinants of inflation."(Cripps & Godley 1976, pp. 339, 341).

My claim is that Godley and his associates were attempting to establish academic credentials for their policy interpretations. The pressure was for them to present a model that could be related to other competing representations of the British economy. But "modeling" was not Godley's strength as became apparent in 1977, with a conference held in collaboration between the University of Rochester and Carnegie-Mellon University on the subject of "Public Policies in Open Economies". Half of the conference volume was devoted to an examination of the "New Cambridge" by American economists. Disconnected from the British policy context Godley argued on the doctrinal character of his approach. Thus, three years on from the Times altercation, New Cambridge was engaging in "theological" debate.[22]

Fetherston & Godley (1978) offered the conference a simulation model of the U.K. economy illustrating their "Keynesian-type macroeconomic model" of the "medium-term framework". They noted that most of their model specification was not essential to "New Cambridge" and was shared by other models of the U.K. economy. What was distinctive of their

22 Posner wrote the introductory article for the conference volume, sharing his experience as civil servant and government adviser. He briefly presented New Cambridge, in what he labeled a "bastardized" version, and for the American reader concluded favorably: "These seem to me undisputed gains from an innovation in theory" (Posner, 1978, pp. 19-20). There was no reiteration of the 1974 criticisms.

approach was the modeling of total private disposable income and expenditure (Fetherston & Godley, 1978, p. 36). The authors used the model to study three policy scenarios: a step reduction in imports, or quotas, an increase in public expenditure, and a devaluation of the sterling. In their final remarks they concluded that their model saved Keynesianism from much of the recent Monetarist criticism. New Cambridge models were consistent with the analysis of stock equilibrium in asset markets; analysis of equilibrium in asset markets did not necessarily modify traditional "Keynesian" conclusions about the determinants of the balance of payments; and stated that: "introduction of asset market considerations gives us no reason to alter our view that the principal questions of economic strategy in an open economy concern the appropriate uses of fiscal policy and trade policy."(Fetherston & Godley 1978, pp. 55, 56)[23]

The American commentators were unsupportive.[24] The principal complaint was that New Cambridge resembled too much the old style Keynesianism that had lost currency in the United States – "a simple 'Keynesian cross' model" or a "crude Keynesianism" (Blinder, 1978, pp. 76-77).[25] Blinder concluded that:

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23 In 1976, Vines had denied the New Cambridge school the attribute of Keynesian. He wrote that

> the instability of expectations is the very basis of the Keynesian "investment determines savings" doctrine; savings adjusts to whatever investment entrepreneurs' animal spirits give rise to, via changes in the level of economic activity. The New School appear to deny this. (Vines 1976, p. 227).

Years later, Dixon maintained in equal strong terms that:

> There can be no doubt that both in its analytical core and in its policy assignment, doctrines associated with the New Cambridge School represent a dramatic break with the ideas of Keynes. New Cambridge theory seems to be more pertinent to long-run equilibrium than the world in which we have our being (Dixon 1983, p. 291).

For yet another comparison of "new Cambridge" and "Chicago monetarist" models of the economy, one of which Godley and Cripps approved of, see McCallum & Vines (1981).

24 The only luke-warm support came from Robert E. Hall that considered that some of "New Cambridge" formulations may be acceptable on empirical grounds for the British case (Hall 1978).

25 Blinder argued that it was unclear how the New Cambridge expenditure function could be divided into constituents consumption and investment; that it was unreasonable to assume that monetary policy can successfully peg the interest rate; or that demand for money was insensitive to GNP. On the issue of prices he charged that they were solely determined by supply factors – "In the land where the Phillips curve was first discovered, it apparently exists no more"; and that Britain was portrayed as setting the price of its imports.

> I am struck by how many aspects have already been jettisoned here [in America], often after a great controversy: the completely passive supply side, the fixed interest rate, the interest-inelastic investment demand, the trivialization of monetary policy, and so on. Revising any of these hypotheses would seem to be taking a step backward.

Following his analysis, two comments in defense of Monetarism offered further reasons to reject the New Cambridge approach: a flawed conception of the long-run (Frenkel 1978); a lack of empirical evidence; and failure to comply to the standard of modeling maximizing agents in a coherent general equilibrium framework (Russell & Wakeman 1978, pp. 96-98).

With his writings scrutinized in popular, policy and academic publications, in Britain and abroad, Godley was appointed to the Faculty at Cambridge as Professor of Applied Economics in 1980. Yet, denied allies beyond Cambridge, he was facing academic defeat. As Godley himself reminisced decades later:

> I did find myself badly outflanked by the rise in influence of monetarism . . . It was not, as I now see it, that the monetarists won any argument in the sense that they made propositions which I was forced to concede, on reflection, were correct. They won it for a different reason which I now admit with some shame and frustration - namely because in my own thinking I was only just beginning to incorporate balance sheet concept systematically and therefore found myself unable, at the elementary level of accountancy, to give convincing answers to perfectly simple questions about where money 'was' in my model. (Godley 2000, p. 236)

Candidly, Godley acknowledged that his modeling efforts were flawed. And they failed because he had been unable to give a formal analysis of that which he knew best, the national accounts.

5. Cassandra: publicity against monetarism

Throughout the early and mid-1970s, the Cambridge Policy Group was acclaimed in the editorial

Finally, he noted the absence of any aggregate supply side; and no consideration of efficiency losses arising from import quotas.(Blinder 1978, pp. 69, 73, 74, 76, 78) and business pages of the *Times*. Peter Jay called its contribution a "brave message of hope" sparing no praises in 1975 (February 17). The following year the discourse suddenly changed and Cambridge proposals were derided as "radical" (March 29). On March 22, 1977, the editorial column of the *Times* attacked their proposals as fallacious, with the invitation that: "Those who disagree as completely as we do with their prescriptions have a duty to explain where we think the fallacies lie in their argument." The change of fortune for the Cambridge Policy Group was part of the ideological shift undergone by the business press during the 1970s towards varied forms of "monetarism" (see Parsons 1989).

Matters got worse in 13 March 1981, when Frank H. Hahn and Robert R. Neild, on University of Cambridge notepaper circulated a letter of protest against the 1981 contractionist Thatcher budget. The protest letter was published with 364 signatures, a near full sweep of the British economics profession. The largest number of signatures was from Cambridge, Godley among them.[26] Although tenured and with his employment secure, Godley's DAE relied on grants to operate, and notably on Social Science Research Council funding. In 1982 the funding was withdrawn by a specially appointed Consortium including the SSRC, the Treasury, the Bank of England and academic consultants from the UK and overseas. The mandate of the Consortium was to bring some order into the rapid multiplication of models and forecasting approaches. It created the Warwick Macroeconomic Modelling Bureau headed Kenneth Wallis to conduct comparative analysis of the different models, and it proposed cutting of several existing programs.[27] That the consortium included representatives of the Treasury suggested to many in the press and at Cambridge that it was payback for their antagonism, but there were also plausible claims to New Cambridge's academic isolation as we have seen above. The effects of the cut were profound, since it made it impossible for the Cambridge Policy Group to function (Godley 2000, p. 235).[28]

26 The assessment of this letter is a poisoned debate, particularly as British libertarians have tried to use the episode to undermine the credibility of academic economics. A far more balanced assessment is provided in Wickham-Jones (1992).

27 I thank David Laidler for bringing this to my attention.

28 Evans (1997, p. 400) notes that Southampton University, and the Cambridge Growth Project also lost their funding. Grants to the National Institute and London Business School were reduced, and new grants awarded to, and subsequently withdrawn from, Liverpool University and City University Business School.

Godley's grim forecasts in the late 1970s and 1980s, clashed with the optimism of the new economic opinion makers. In a series of letters to *The Times* he antagonized the new cadre of advisers. He repeatedly wrote to contradict the lagged correspondence, established by Milton Friedman and others, between the growth of the money supply and inflation. One such statement came in June 6th 1980, recalling an article in the newspaper four years earlier by William Rees-Mogg:

> That inflation is now accelerating after a long period of relatively low growth in the excess money supply strengthens the case I made in my original letter" monetarism is completely failing to achieve the main objective claimed for it. At the same time, every day brings more evidence that the Government's policy is inflicting immense and perhaps permanent damage on British industry.

In October 22, 1980, he asked in the *Times* "How far will the Government let unemployment go?". The article was full of indignation, firing questions such as "If not two million is it three million? If not three million is it five million? If not five million..." Godley's principal complaint was that the government was making judgments of policy without presenting clear forecasts of policy scenarios, on the grounds of doctrinal conviction alone. He stated that "unless a government is merely capricious, its policy is essentially based on a forecast, otherwise it can have no grounds for doing one set of things rather than another." Godley was depressed that forecasters, those that imagined economic futures, had been eliminated from the policy debate.

References to "New Cambridge"soon disappeared, and efforts to establish a doctrinal brand were abandoned. Godley continued his modeling efforts but settled in creating toy models to aid in thinking through the range of policy options. As he explained in his book of 1983, *Macroeconomics*:

> the analytic solutions are used to generate numerical simulations of the development of the whole economic systems by making specific assumptions about policies and behavioral relationships. We attach great importance to these simulations as they can always be reproduced using only a pocket calculator. . . . By carrying out their own simulations readers may also gain a sense of what is involved in macroeconomic

forecasting for policy purposes. (Godley & Cripps 1983, p. 18, emphasis in original)

This was an abandonment of modeling as representation and as contributing to theoretical disputation, to endorse a much weaker, didactic use of modeling.[29] Godley might have wished his readers (and students) to "play" with his model economy, but few did, and the book had limited impact.

6. Wise man: simulating the worst case scenario

The narrative that I have been outlining appears is one of defeat. But I argue that it is no indictment on Godley and his economics. In moving from the Treasury to academia and to secure the credibility there awarded, Godley was asked to codify into theory and models his understanding of the economy. The record shows him hesitating and equivocating about whether his contribution was an empirical claim, an equation on a model, a model, or a theory. What Godley saw was a changing picture the could not rest on any set of first principles, and in due course he gave up on the codifying enterprise.

By 1982 the Cambridge policy group had lost its funding. Godley and Cripp's 1983 book had little impact. Four years later, Godley retired from his post as director of Cambridge's DAE, and took a year away as a visiting professor in Denmark. His status in Britain's academic community was not great. But on his return, Monetarism and Thatcher economics began to unfold. The signal event for our story was the the pound's withdrawal from the European Exchange Rate Mechanism in 1992.

The British pound joined the Exchange Rate Mechanism in October 1990 on the instigation of the Chancellor John Major. A month later Thatcher was forced to resign and Major replaced her as Prime Minister. Major had another victory two years later, winning the general election in April, but on 16.September 1992, he lost the economy. With a record of high interest rates to maintain its parity with the German mark, Britain was facing recession. Learning that the

29 Even sympathetic reviewers found it difficult to forgive Godley and Cripps' disregard from the extant literature, and were critical of their insularity (Vines 1984).

situation was unsustainable, a wave of short selling forced the government to announce defeat. While a decade earlier Thatcher had played (successfully) against the economics profession, Major facing economic humiliation tried to bring the economists into the fold. The Treasury set up a Panel of Independent Forecasters, known as the "six wise men." Godley was one of them, from 1992 to 1995.

The return to the Treasury was a vindication of Godley's expertise as a forecaster. The record of the 1970s reviewed in this essay, shows a man seeking to make his voice heard intra and extramural, in polemical performances in newsprint and cautiously in academia. Godley expresses a more unified attitude towards public life and science in an interview with sociologist Robert Evans in the mid-1990s.

He was dismissive of the consensus in academic modeling. When queried by Evans about micro-foundations in economic models he replied: "Well, ... when people speak of micro-foundations they tend to mean by that a very special thing, which is it's all deducible in terms of the optimizing behaviour of individual rational agents, and I don't accept that as an appropriate concept." (Godley in Evans 1997, p. 414) More importantly, Godley was unequivocal that an accurate and complete model of the economy can never be attained. He remarked that

> There's a fantasy that you're going to introduce more and more complexity and more and more realistic features and apply better and better ... and eventually it will work, and it will give you the answer. You see it's all been a great failure, all of that, and forecasting isn't done better, it makes no progress as a result. (Godley in Evans 1997, p. 436)

For him models were aids to the analyst, and "the forecasts I publish are not the result of a model working independently of my mind" (Godley in Evans 1997, p. 410)

In the interview, Godley insisted that forecasting is an effort at capturing the economic landscape. Knowing the weaknesses of data he derides the aim of numerical precision. That "tables of numbers are the enemies of good forecasting; [forecasts] should be judged by whether or not they give a good idea of what the whole situation is going to be like, what character it will have" and that "A forecast ought to convey the whole character of the forthcoming period; it shouldn't be thought of as being an entirely quantitative thing" (Godley in Evans 1997, p. 411, 416) The origins of this insistence on the general economic outlook was an insight Godley gained in his time at the Treasury. But the ability to use models for illustration and reflection was a skill he honed at Cambridge. Faced by the uncertainty of the economic future, Godley relied not on models or on theory, but on his expert judgment, and on his voice.

7. Craft and judgment

In this biographical narrative I have purposely blanked out Godley's work on stock-flow consistency that was the focus of his energies after 1994, at the Levy Economics Institute of Bard College. Some of this research originated in the mid-1970s in attempts to provide a non-monetarist account of inflation and had been a secondary subject in his 1983 book. Godley dedicated himself to this research as his real and lasting contribution: a representation of his accounting understanding of the British economy. Godley would argue that these insights were more of a method than a theory (Lavoie 2011). At the time of this writing, there is robust interest in the formulations of his and Lavoie's *Monetary Economics*, and it might be that Godley will earn the fame of the theorist posthumously. By placing the "six wise men" as the final moment of the narrative, I am dramatizing Godley's affirmation of his voice in public affairs, in deciphering uncertainty in economic futures. I am suggesting that Godley achieved it without deferring to formal models, through judgment and imagination.

The purpose of this essay is to argue that not all economic knowledge can be codified into theories, maxims, or theorems. Some knowledge is embodied and tacit. Godley's work teaches us that some knowledge need not be codified. On Godley's own account his contributions to macroeconomic theory, that occupied him in the mid 1970s, were unremarkable. What he knew evaded formalism. This insight is ironically lost, even to his close colleagues. Hashem Pesaran, a Cambridge econometrician, told to the *Financial Times* how Godley would take a vast spreadsheet of numbers, study them for sometimes hours at a time and then pronounce: "That figure is wrong". He was "invariably found to be right". Pesaran explained that "he had what amounted to a full macroeconomic model in his head, which, by some sort of subconscious process, he computed."[30] Most economists today find it hard to conceive of economic insight without some model as mediator and ultimate foundation of knowledge. Even more puzzling is that Godley's informal insight was into that most formal of realms, the national accounts, as he could see the patterns of their interconnectedness.

What Godley knew was not born of genius. He learned it "by doing economics", initially at the Treasury working through the national accounts as the sole forecasting effort in the UK, later at Cambridge competing with many alternative (academic) accounts of economic futures. What we learn from Wynne Godley is that to inform public policy and debate it is not enough to build monuments to theory and its formal logic, we must also rely on the men and women that make it their job and lives reading the data and looking for the big picture.[31]

30 Sue Cameron and John Llewellyn "Maverick who endured with ideas undimmed" *Financial Times*, 14 May 2010.

31 Great Britain has a better record than most countries in acknowledging this insight. As scholars in science studies have noted, the British polity is acceptant of elite insight into scientific controversies. Those that serve that state, and exhibit a record of independence (and eloquence!) are trusted by public and politicians alike (see Fourcade 2009; Jasanoff 2005).

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