Godley and the World Today

Firstly, thank you to the Levy for continuing to promote research on economic policy without let-up for more than 30 years and thank you Gennaro for letting me join this event. Thank you also Marc Lavoie for inviting me to summarize Wynne's contributions in the 1960s and 1970s in the first half of a chapter in the Palgrave Companion to Cambridge Economics.

On this occasion I want to make some remarks about the relevance of Wynne's approach to economic policy today. I have 5 headings.

1. Macro-modelling vs econometrics

In the late 1990s Wynne sent me a paper with an econometric model of growth rates that Pesaran claimed was fully consistent with Wynne's macro-economics. Wynne was baffled. He couldn't see any relationship between the reduced-form econometric model in the paper and the structured, behavioural analysis that we believed to be the best or only way to get a handle on real-life macro-economic problems.

But I don't think we lost the war on this front.

Policy institutions today still use national accounting identities and stock-flow relationships as a framework for measuring and understanding the behaviour of aggregates. They still need institutional explanations informed by more detailed evidence and studies and have to be ready to learn and change their analysis from place to place and time to time. And their research does inform what van der Pijl calls the cadres (I think he means us) if not so much the leaders or the wider public. Let's not give up.

2. National economy and international governance

Wynne thought each country has to find its own solutions within a loose international framework. He was proud of his grandfather's support for protection of Indian industries. With Kaldor and Robert Nield he supported the NO side in the 1975 UK European Communities referendum.

Unhappily ... the YES side won the referendum, free trade became the mantra, protection was deemed inconsistent with the GATT, the European single market and finally, the WTO. The result is that world markets have become an essential source of materials, products and technology for all countries. Yet as Ajit Singh warned repeatedly, finance and trade is dominated by transnational companies. Governments of most countries have only very limited instruments with which to try to balance trade, finance, production and income.

I'm not sure what Wynne would say about the constraints that all this now implies. Would he have supported Brexit ?

3. Demand vs supply

For Wynne productive potential was given and policy had to generate sufficient demand. It follows that productivity destroys job unless it eases the external constraint. sufficiently. As the UK and US economies have demonstrated, sufficiently low productivity can boost the numbers employed if not conditions of work and take-home pay.

Unhappily ... in most countries demand management to achieve full employment in a meaningful sense seems impossible although full-employment policies still have advocates and may be achievable in countries or regions where demand management is not inhibited by financial constraints.

Maldistribution of trade and income was and is the downside of globalization. Would Wynne advocate import controls today, for whom and in what circumstances ? What's the alternative ?

4, Financialization

In the 1960s when Wynne was at the Treasury, financial systems were orderly and credit was regulated by the authorities to finance government, support demand management and prioritize investment. In the 1970s all this was washed away by government decisions to open up competition in credit markets and abandon credit control.

Management of money has been handed over to independent central banks. But central banks in middle and low-income countries can hardly stabilize financial flows and volatile stock prices and rates driven by external events and expectations. International creditors are unforgiving. Renationalization of finance seems impossible.

Is capital account management the answer and how do you go about it if you are a debtor ? Unless you are very rich the only safe answer is the Dickensian one - spend less than what you earn. Either the private sector or the public sector or both must have a positive balance of net lending and the current account must not stay in deficit.

There is little protection for low-income and middle-income debtors.

5. Green growth

For Wynne macro-economics came first. Kaldor saw more potential in sectoral policies. He wanted to boost demand for primary products and hence income of primary producers, trusting land-saving innovation to provide the goods at reasonable prices. Nevertheless the 1972 Club of Rome report, Limits to Growth, was not at all agreeable to those who wanted developing countries to develop and all countries to achieve and maintain full employment.

But as it has turned out warnings in the Limits to Growth report were not wrong. Carbon emissions, climate change and the impact of ever-increasing trade and production on environments, lifestyles and politics are the biggest story in the world today.

The price of oil is a key macro variable and has been ever since OPEC's embargo pushed up the price four-fold in 1973. The question now is not whether and when we will run out of oil but for how many more years the glut of oil and gas will delay decarbonisation - and how many exporting countries will suffer financial disaster before the glut comes to an end.

Today macro-economics and terms of trade issues overlap with green questions. We have to examine the problem of economic management on a wider canvas.