"If Keynes were Alive Today…": Reflections on Jim Crotty

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1. Introduction

"If Keynes were alive today," Jim Crotty would declaim at one point in his class and pause, *"...he would be, like 120, and old and drooling and incomprehensible. So, listen to me instead!"*

It was a bit Crotty did many times over the 40 years he taught his legendary graduate level macroeconomics class at UMass Amherst where he spent almost all his career. It was vintage Jim in the classroom—simultaneously iconoclastic, hilarious, and subtly, serious pedagogy. As a student, you would be riveted as he worked through what a genuine Keynesian view on the point being discussed. It was impossible not to feel in some sense that you were really hearing the authentic voice of the Master, the vision of Keynes but refracted through Jim's own radical commitments and life-history.

Jim's ECO 710 was for us, as for hundreds of UMass grad students over the past 40 years, the starting point for systematic thought about the economy as a whole. In this he was, like all the great teachers, presenting not so much any particular technique or ideas as himself as a model - a touchstone to go back to when you hit a dead end, and a living example of how to be a serious economist-in-the-world. The content of the class varied over the years, but it usually involved a close reading of *The General Theory*, with a focus on its three great advances—fundamental uncertainty, liquidity preference and effective demand.

Most of Crotty's published work fits within the broad post-Keynesian tradition. But his earlier and stronger commitment was to Marx. In a series of papers in the 1970s with Raford Boddy he put class conflict and imperialism front and centre in the analysis of contemporary capitalism, exploring Marxian crisis theory and what it could illuminate about contemporary macroeconomic problems. From the mid-1980s onward, his published work no longer used an explicitly Marxist framework, and the name Keynes appears much more often than that of Marx. But this was a matter of shifting focus and circumstances rather than any more fundamental re-evaluation. In a conversation with us in 2016, he described Marx as: "clearly the more brilliant social scientist and thinker and philosopher" of the two, "with a much more ambitious project, with clearer and deeper political roots." And yet, he added: "I am writing a book about Keynes."

Perhaps the most distinctive aspect of Jim's pedagogy and scholarship, almost alone among economists we have known, was his ability to synthesise these two thinkers in ways that gave equal weight to both, that placed them in conversation rather than in tension. Crotty's Marx anticipates Minsky, while his Keynes is a political radical – a socialist – in ways that few others have recognized.

Perhaps his most profound contribution to both traditions was the brilliant 1985 article "The Centrality of Money, Credit, and Financial Intermediation in Marx's Crisis Theory" (Crotty 1985). This article has gotten much less attention than it deserves, perhaps because it was published in a small-press collection of essays in honor of Paul Sweezy and Harry Magdoff with a tiny print run. For many years was almost impossible to access, unless you got a copy from Jim, as his students did. (This was something Jim sometimes complained about.) In the article, he developed the idea that the Marxian vision of capitalist crises could only be understood in terms of the development of the credit and the financial system – that it was only via financial commitments that a fall in the profit rate could lead to an abrupt crisis rather than just a slower pace of accumulation. His reconstruction of a vision of the credit system that may either dampen or amplify disruptions to the underlying process of production suggests that Marx anticipated the ideas about financial fragility later developed in the Post Keynesian tradition. With a critical difference: While Minsky has finance calling the tune, in the Marx-Crotty version the ultimate source of instability is in the real world of labor and capital. While Jim's later work – particularly in the wake of the 2008 crisis – foregrounded finance more, he never gave in to the tendency to make finance the scapegoat for the instabilities and inequities inherent to capitalist production.

For us, Jim's most important work came in four areas. The first was the interplay of real and financial instability in capitalist crises, as in the 1985 article and his work after 2008. Second was the shifting relationship between shareholders and managers in the governance of corporations. Third was his insistence on the importance of fundamental uncertainty for macroeconomic theory – if we imagine one phrase in Jim's voice, it is "we simply do not know." Last, chronologically, but certainly not least was his rehabilitation of Keynes' socialist politics – a socialist Keynes to go with his Minskyan Marx.

As a lifelong radical, Jim was always committed to a project of social transformation. Like many economists of that generation, his interest in heterodox theory was a product of his political engagement. As he described it to us, it was only after becoming active in the anti-war movement as a young faculty member in Buffalo that he began looking to economics as a way of answering real questions about the world, rather than just an intellectual game. (The frequency of stories like this among the founding generation of American radical economists suggests that the growth of heterodox economics as an intellectual project requires a broader environment of radical popular politics.) But unlike some others who followed similar paths, he never thought the road to social change went through the through the economics profession. As he put it in the interview[1] with us, "I thought that we should be trying to create the best theories that we can, and whether the profession accepts them or not is probably not in our power."

An intellectual who sees their role as contributing to social movements must go where the movements are. So, it's not surprising that when the cracks of the neoliberal edifice emerged in Asia during the late 1990s, he turned his attention there. The shift reflected one of his

[1] Substantial sections of this essay draw directly, sometimes verbatim, from that interview and from the write up that we did that followed.

greatest strengths — his sense of economics not as a self-contained intellectual enterprise, but as a tool to help the struggle to build a better world. It would have been inconceivable for him *not* to have engaged with the emerging crisis.

In a series of papers with his student (and our contemporary) Kang-Kook Lee, he identified the ways in which neoliberal doctrine was responsible for the calamitous reversal of fortune in Korea and other countries (Crotty and Lee 2007, 2009). It was a move toward more detailed and practical policy considerations which would culminate in prescient article foreseeing the financial crisis back home (Crotty 2013, Crotty and Epstein 2013)

In some ways it is fitting that Jim's last work was his culminating book in which he wrestled with ideas of the radical Keynes and provided ballast for the idea that the Keynesian vision was one of liberal socialism, with a decided emphasis on the latter term. It was an idea that he approached periodically throughout his career and one that took nearly 40 years to complete and that he periodically re-engaged with (Crotty 1999). As he told us during the same interview: "I discovered that the Keynes that I had been taught was not the right Keynes historically. This is one of the two or three most famous economists in history. So how could we have gotten him so wrong?" In his telling, the Keynesian vision of capitalism is not a system that can last indefinitely with appropriate management, but a historically contingent system that will be progressively displaced by decentralised planning.

For the both of us, almost everything we think about macroeconomics has been shaped in one way or the other by Jim Crotty. But two strands have been central. The first is an integrated view of finance and capitalist production, drawing from key insights of both Keynes and Marx to see the system from both perspectives at once. Two dangers for critical writing on finance are, on the one hand, to internalise the perspective of financial markets, so that their smooth functioning is a sufficient condition for a well-functioning economy; or, on the other, to adopt a moralistic view in which parasitic finance battens onto defenceless productive enterprises. Jim avoided both traps. The second strand is the idea that the management of capitalism requires, and fosters, a certain element of socialisation. A system of decentralized production for profit, where long-term investment decisions must be made under conditions of fundamental uncertainty, against a pervasive desire for liquidity, is poorly suited to handle challenges that require rapid, large-scale changes in production. At a time when green transition is an existential necessity, some form of public planning is unavoidable.

2. The Interface between Marx and Keynes

As a systemic thinker, everything Jim did was an attempt to understand the strange dynamics of capitalism as a whole—its inner workings and contradictions (to use the Marxian phrase). It was in pursuit of this that he sought to merge the insights of Keynes and Marx

Keynes himself was ready to credit Marx with the insight that capitalism involves the self-expansion of value in money-form - the famous circuit M-C-P-C′- M′`. However much they differed on other points – and they certainly did – both recognized the critical difference between a system in which useful things are produced and exchanged to meet human needs (the world of orthodox economic theory) and a world where production is organized around pursuit of money for its own sake. Much of Crotty 's work was about exploring this area of overlap. In particular, he examined the ways in which finance was both necessary to, and undermining of, the process of accumulation. In each exploration, the underlying task was to explain some existing fact of the economy and not a problem in pure abstraction, and as such, often approached the same topic from multiple angles. As he told us: "the problem with my papers is that I don't write down one idea, I write down, like seventeen".

Jim's work illuminated several paths that we have followed in our work. The difficult conjoint questions he posed that we have tried to take up include: How do we distinguish the effects of financial disruptions from the unstable dynamics of the real economy? To what extent can the problem with orthodox economics be attributed to a political or ideological agenda, and how much does that matter?[2] How should one look at the role of effective demand in longer term economic dynamics? How do we take seriously the idea that the future is unknown by constructing models of evolution in historic time rather than equilibrium? All of these are critical elements of the Marx-Keynes vision of capitalism that Jim developed over a number of papers in the 1980s and 1990s (Crotty 1994, 1993a, 1993b, , 1992, 1990, 1989, 1987, 1986, Crotty and Goldstein 1992)) The same sets of concerns have motivated a number of other people who studied with Jim around the same time as us, including Kang-kook Lee as well as Armagan Gezici, Ozgur Orhangazi, and Nina Eichacker.

In Jim's work, these concerns came together in an analysis of contemporary capitalism as a concrete, historically specific system. In particular, Jim talked about the real-world contradictions of modern capitalist firms with its very specific blend of overlapping rights of owners vs managers, and financial and real sector instabilities in a series of papers in the early 1990s (Crotty 1990, 1993). He maintained that the decisions of corporate managers could not be understood as maximizing some objective function, but only as the site of contradictory impulses in unstable balance. The web of contractual commitments that characterise capitalist firms' financial commitments and the dynamics of real-world competition over market share were both fundamental here. As he has put it: ".. in order to be able to explain adequately the dynamics of the capitalist economy, a macrotheory must root instability in both the real and financial sectors." (Crotty 1990 p. 540).[3] Whether these dynamics could be adequately incorporated into the reigning New Keynesian paradigm was the subject of his spirited exchange with Steve Fazzari in the *Journal of Post Keynesian Economics* – a model of productive engagement between economists coming from very different theoretical backgrounds.

In our view, this part of the Crottyian project deserves further development. The corporation is perhaps the most important site where the logic of money collides with the world of people and things. The goal of the capitalist game is to turn a quantity of money into a greater

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[2] Jim gave detailed and generous, but not uncritical comments on our paper on this topic, "Strange Defeat: How Austerity Economics Lost All the Battles and Won the War."(Jayadev and Mason 2013) He thought we gave economists too much credit for the financial crisis and ensuing turn toward austerity. He was probably right.

[3] This is an analysis we are currently building on in a discussion of "the contradictions of the corporation", as part of a book we are working on.

quantity of money. Yet doing so requires capitalists to allow the money to, for a time, cease being money – to substitute for a universal claim on society in general a claim on a particular production process, and to substitute for arms-length market transactions ongoing relationships governed by their own rules and norms. But only for a time – at some point, profits must be realised as money. The competing pulls of liquidity — the need to realize profits as money, on the one hand, and the concrete advantages of long-lived embedded production processes, on the other, structures a great deal of the real-world conflicts around the corporation.

Further, as Jim recognized, the existence of the corporation breaks up the abstract "capitalist" into several distinct social groups. In the circuit from M to M', the shareholders occupy the final step, receiving the money payments that are – within the logic of capital – the whole purpose of the corporation's existence. Their claims on the corporation take the form of ownership rights. Yet within the corporation, capital is embodied by the managers who wield capital's authority over the production process. It is from the tension between these two distinct logics that much of both the instability and the dynamism of the capitalist system emerge.

3. The Socialization of Investment

There is no doubt in our mind that if Jim was 15 years younger, he would have been working on the great question of our time, climate change. By now the contours are obvious - the planet is burning, and the oceans are boiling. Ecosystems are changing with terrifying speed. On the positive side, it appears that most of humanity is at least aware of the threat, and the world's governments have, in principle, committed to reaching net zero emissions. But the requirements of transition are daunting. The rapid, coordinated changes across virtually all systems of production, distribution and waste management have barely begun. Nowhere is the Gramscian quip about 'morbid symptoms appearing in the interregnum' more visible than in the current climate crisis.

Can capitalist processes, organized through markets and driven by profit, coordinate the transition? In the standard economic framing, the answer is obviously yes – all that is needed is the right incentives to be provided by a sufficiently high carbon tax. But a central theme of Jim's reading of Keynes (though not of textbook Keynesianism) is that markets are weak and unreliable tools for managing large scale economic transformations, as opposed to adjustments on the margin. And they have gotten worse at it over time.

One might tell a story something like this:

At one point in modern history, let's say the 19th century, capitalist logic was central to fostering industrial development. Organising life and production around private property and the pursuit of profit was functional in the sense that it encouraged the transformation of production in ways that allowed more stuff to be made with the same labor, and that incorporated scientific and technological progress. It may not have met human needs, or have been particularly stable, but it delivered the goods. To the extent – and only to the extent

–that militant working class movements were able to threaten the authority of the owners, improvements in production translate into genuine human progress.

But this system depended on certain fortuitous or unsustainable conditions. It depended on financial arrangements that reliably translated the surplus back into productive investment, an imperially-enforced international division of labor that ensured complementary trade flows, and a degree of market competition great enough to force business owners to constantly seek improvements, but not too great to allow them to recover their fixed costs. These conditions were not themselves the result of any kind of market process, but were historically contingent or fortuitous. Already before the first world war, the system was ceasing to deliver; afterwards, it completely broke down. One could point to many reasons for this: the increasing importance of long-lived capital goods; the increasing size of productive enterprises; the shift from "investing as a way of life" to a more systematic focus on maximizing returns; a drastic shift in international trade patterns; the end of London's position at the center of international financial flows; and the progressive replacement of competitive markets with monopoly. By the 1920s, Keynes already believed that it was impossible for the development of production to be guided by price signals and private investment decisions. The far-reaching shifts in labor and capital required by Britain's very different postwar trading position – out of the coal sector, for instance – would be impossibly painful and disruptive if carried out solely through falling prices and incomes for the declining sectors – as the country discovered after Churchill's disastrous return to gold at the old parity.

This was the back story to Keynes call for a "more or less comprehensive socialisation of investment" in the closing pages of the *General Theory*. As Crotty's last work laid out, while this program is barely alluded to there, Keynes discussed it in detail in earlier writings, and made no effort to disguise the radicalism of his proposals.

The questions is not whether the stock of capital is privately owned or not (in that Keynes was less doctrinaire than Marx). The question is how decisions are made about the direction of production. To meet real human needs, but also because private returns are too uncertain to guide the production of long-lived capital assets, these decisions had to be taken out of the hands of private owners.

It is worth quoting Crotty at length on this:

> Keynes writes in many places that he's a socialist. He gives speeches to the Labour Party saying 'I'm a socialist.' What does he mean? He thinks we need to organize capital investment decisions, bring them all under a board of national investment. And we have to bring together all the sources of savings that are in our economy in one place. And, he goes through all of these incredible, important things you can do with this capital if you can control it. In 1942 or 43, he says if the state can control two-thirds to three-quarters of large-scale capital investment through this national board of investment, we'll be fine. The only way you can do this is if you drive the interest rate down towards zero, and that's what you should do. So you have to have strict capital controls, otherwise, people will take their money out…..This plan, his socialist plan, means, he says, the end of the Rentier class in Britain. Now, Britain has been governed by its Rentier class for several hundred years - the landed gentry and the Rentier class. So this is an incredibly radical thing to propose. He says we're going to have to manage our trade, we should have industrial policies, we should have wage policies, we should have geographical location policies. And all of this to achieve not just full employment, but the creation of arts, the

building of cities, the building of housing, and so on. In his socialism, there's still private markets, but they are small. He keeps saying if we don't have socialism, we're going to have chaos, we're going to have revolution.

The challenges of reorganizing production in the wake of the disruptions of World War One have echoes in the challenges of reorganizing production to eliminate carbon emissions. Now as then, the decisive argument for socialism is not just that it would be a better, more humane system, but that private ownership in pursuit of profit is incapable of getting the job done.

Keynes' vision, or Jim's version of it, helps show us how the solution to the problem of decarbonization can also be a step toward the broader social transformation he looked toward his whole life. It gives us the tools to think effectively about-- in the words of a third radical -- "what is to be done". The fundamental Keynes-Crotty vision is of the economy as a system of monetary production, where the binding constraint is not scarce resources, but demand and, more broadly, coordination. Market coordination via price signals requires individual actors to take everyone else's actions as given; it breaks down when the system changes, or needs to change, rapidly. Turned toward the problem of climate change, this vision implies a critically different view of where the binding trade-offs and obstacles lie[4].

4. Teaching

As much as Jim was extraordinarily influential to us (perhaps the most influential economics teacher we have had), neither of us technically did our doctorates under him. This is in some sense a paradox, but a common one. Despite his rich and compelling vision of the world and his impressive list of publications, over his long career, Jim did not have many PhD students. This was not because of an unapproachability—on the contrary, despite his stature, Jim was always one of the most affectionate and friendly of the faculty. For many students, too many to count, he was an important figure who provided emotional support and courage through the difficult trek. As he once said to one of us "Almost everyone who does graduate school comes into my room and cries at some point—men, women, whatever—I'm *mostly* sure that it's not me making it happen !".

Intellectually however, Jim was a difficult person to satisfy. The same impulse that led to 'seventeen ideas in a paper' meant that his primary commitment was to the answering of his own difficult and meaningful questions about the world. For many graduate students, a PhD is an apprenticeship and a learning of a craft—a way of learning techniques and ways of displaying mastery legible to the guild. Jim was not very interested in the standard toolkit of economic techniques. It was much more important to be asking a set of important questions – and he had his own definite ideas of what those were. When the method led the inquiry, ras it often does in student work, he seemed to bristle. It was an unusual and principled (and admirable) consistency. If it put him at loggerheads with much of the profession, so be it. Indeed, his relationship with the discipline of economics was fraught. An economics

[4] These issues were discussed at greater length by one of us (Mason) here: https://eu.boell.org/en/climate-policy-keynesian.

education by itself was of limited use. The point was to put it to work in the betterment of the world in front of you. As he told us "I think the role of teachers of radical economics, is to assist those people who want to understand the world better so that they change it for the better." This iconoclasm was not always helpful to students who, however much they shared Jim's commitments, were, after all, there to learn to be professional economists.

Despite or because he did not have a 'school' (he would have been embarrassed by someone claiming to be a 'Crottyian') almost everyone who passed through the department, especially those who did macroeconomics, felt very much that they were his students, even if they did not work directly with him. Years later, the ideas, the specific theoretical injunctions and commitments remain embedded among generations of those who he taught in countless organisations and universities across the world. And because they were delivered by someone, generous, warm and empathetic, it is a vision of the world that still remains vivid to all of us.

Through Jim, we were exposed to the possibility of a beautiful world, if only we would take our own understanding seriously. It was, to be sure, a vision of economics that was refracted through the best of Keynes and Marx. But it was more than that– inspiration could come from anywhere (for him at times, it was in fact from Catholic bishops who railed against economic injustice, and nuns who put themselves on the line against murderous US-sponsored regimes in Central America). The main injunction was that we should never be afraid to take our ideas to the real problems of the world. In this, he was one of the original masters. We listened to you, Jim. Thank you.

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