

Interview with Professor James Crotty  
UMass Amherst  
June 3, 2016

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This is an edited version of the transcript of an interview carried out with Professor James Crotty, Emeritus Professor of Economics, University of Massachusetts, Amherst at his home in Amherst in May 2016 by J.W Mason and Arjun Jayadev.

ON HIS CHILDHOOD GROWING UP CATHOLIC WORKING CLASS IN THE BRONX

Interviewer: Tell us a little about your childhood and growing up Catholic in the Bronx... and how do you think that's shaped you in the years that have followed?

Crotty: To quote Steve Martin, I was born at a very young age. It was fun growing up in the Bronx when I grew up. I grew up in a working class area, somewhat ethnically segregated except for the Italian neighborhoods. It was tons of kids together. You can do whatever you want. You get in trouble if you wanted. You can go play ball all the time. The transportation system in New York was phenomenal and cheap. So, as soon as you got to be ten or eleven years old you could get a quarter and go down to Manhattan. You could do whatever you wanted. And so I enjoyed that. It was completely working class area. I sincerely believe that I never met a professional person until I was 30. Till I left New York, there were mostly only people like me, like our family. My father was a bus driver for the city, a trade union guy. And he was active - he didn't have a leadership role. I didn't have politics, as you know... but I did have a kind of unconscious class-consciousness.

Interviewer: I mean one of the things in the story that I've always liked that you've told me about the Catholic nuns that that shaped you. Can you tell us a little bit about that?

Crotty: Well, my parents were Irish immigrants and at that time at least officially, the immigrant community, the Irish immigrant community, just did whatever the Church said. Or at least it insisted that everybody else do whatever the Church said and God wouldn't maybe see you when you were doing what you weren't supposed to be doing! So I went to Catholic elementary school, and the nuns were just like any set of people, you know, there was various different kinds of people. They had some wonderful women. They were always very mysterious to us. And some of them were really tough. We had an Irish nun named Sister Stevens, who was an old woman and her hearing was bad. when you had a class, everyone was afraid of her. And she would turn around to the chalkboard to write something and someone would talk, and she'd turn around and say, "Stop that

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talking!" but she didn't know where it was coming from, so anyway, the second time she turned around, walked into the front row, grabbed my friend Eddie, took him up by the hair, banged his head on the board. And sat him down again, and she was left with his hair in her hand - a lot of his hair. So the Church ruled with a tough hand.

Interviewer: You used to say that, you know that... that it taught you something about, you know, social movements, that you couldn't have a social movement without having a great amount of love and hate

Crotty: Oh, well, maybe we're mixing up two stories, because we've shared more than one or two. I became very skeptical about religion as an elementary school student, because the nuns taught me about a loving God, but a vengeful God. And so, if you cross God, you were in big trouble. And you would burn in the fires of Hell forever. And I thought, well, my father's not so good, but he's not going to burn me in the fires of Hell forever. But if we can fast forward, I did discover later on that there are, always been two Churches, two Catholic Churches. There's a formal church, a power structure church, a top-down church, and over the course of history, a church that officially does very bad things like the Inquisition and the slaughter of native populations in Latin America and North America. But there's always another church- a bunch of wonderful people, dedicated people, wonderful, decent people. I did a weeklong course on Catholic teaching and social justice at the Maryknoll Mission Institute in upstate New York in ah, I don't know, maybe the late eighties, and there were about 45 nuns. And they were working in Latin and Central America- a bunch of nuns had gotten killed, murdered by the officials there. And they were probably the nicest set of people I've ever met, and the most dedicated set of people I've ever met. I remember I asked a young woman who was sitting next to me, what she did. And she said, well, she worked in Haiti up in the mountains, and she and another sister had a little dispensary. And the peasants all brought their children up to be treated when they were sick at the dispensary. And they often died. They didn't have much, you know, it was limited medications it was very sad state. I asked her, what do you do for a social life? She said, oh we have a great social life. She said, once a month the bishop comes up on his donkey and we have tea. And I thought, God, this is an awful way to live. I said "how do you feel about going back?" She said, "I can't wait". So I thought *these* were the people, if there was a revolution, I wanted to be with them- but not with Sister Stevens!

CHOOSING ECONOMICS

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Interviewer: In some sense, right from the beginning, there's this sort of radical element that could have gone in many ways, I suppose. But, how did you choose to come to economics? And then to radical economics?

Crotty: Okay. So, I learned class conflict and class-consciousness in growing up. This is a story which is not that interesting. I went to Fordham University. My first semester I was an honors physics major. My second semester, they threw me out of the physics department because I didn't perform up to snuff. - I was sowing my wild oats - I don't know what the common expression is for this and they told me that I couldn't stay at physics and the only thing I could probably get into, without getting bounced off my graduating time, was economics. So--as the great philosopher John Lennon said, life is what happens when you're making other plans. I ended up as an economics major.

[00:09:06-8]

Crotty: Now, the economics department was terrible. It was just an absolutely useless department, but I found math to be fun. So, I did almost a math major just because it was fun. So then, I found out - I guess when I was in my junior year - I didn't know anything about graduate schools. I didn't know where professors came from. It's a little bit like I didn't know where the fruit and vegetables at the A&P came from. I thought maybe they grew them down in the cellar, or something like that. Anyway, I found out there's this thing called grad school, and so I'm an economics major, got a lot of mathematics, I thought it might be good for me, so I applied to a bunch of schools. And so it was purely serendipitous.

Interviewer: This is really interesting because you did, in the end, go to a relatively mainstream - even conservative department.

Crotty: Well the two choices I came down to, because my math was good and because I had done very well on the GREs or something - I had a lot of options. And the two options I came down to (Now remember I'm just a working class kid from the Bronx. I don't know anything about anything) were Chicago and Carnegie Mellon! I didn't know what they did, really. I just flipped a coin and went to Carnegie Mellon, which was a good thing, really, because Carnegie Mellon had its own limitations, but Chicago, of course, was the home of conservative economics.

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Interviewer: This is a very interesting story because this is sometime in the 60s - at the same that clearly, for you, you're getting more and more involved in the politics of the moment. Could you tell us a little bit about that?

Crotty: Well, sure. I left Carnegie to go to the State University of New York at Buffalo. It was my first teaching job, and my dissertation was probably half finished. Those were different days from today, where now you have to have your dissertation finished and five published articles to get a decent job, but back then you didn't. And, for reasons that I don't fully understand, the State University of New York at Buffalo and the town of Buffalo was a hot bed of antiwar movement: massive resistance, massive student movement, militant student movements, gigantic marches, cataclysmic clashes with the police who were extraordinarily vicious and repressive. A lot of the job of the police, when I was in Buffalo, was essentially as an occupying force in the Black area. I'm sure some of them were very nice, but some of them were very brutal. And so this was kind of an amazing thing to me. Plus, the student body was confronting a draft. The draft forced students to take seriously this question of should they go kill people in Southeast Asia, and maybe get killed or maimed in Southeast Asia, and if so, why? And so, I mean, the students were really interesting and self interested in this war. So, I got sucked up into this. And then, as soon as you get sucked up into this you have to get serious about the issues of poverty and inequality and racism and imperialism and so on. I found out that economics, which I thought was fun, formally fun like a game, what I did realize early, was that it had nothing to do with the lives of anyone I knew.

I realized economics could actually be really important. And so, I became extremely involved in the anti-war movement. I became involved in the radical faculty movement. We had a mass strike that shut down the campus for two months. The campus was occupied by the Buffalo police department, who were like an encamped army. I got involved in a movement to create a new college. There was this ambitious program, you have to remember is was the golden age, right, everything - everybody had money. New York State had money. They were going to create a residential college system like Oxford or Cambridge. And so, with a bunch of people, we grabbed a college, social sciences college, and taught, the last year I was there, 2200 people. A former graduate student here [At the University of Massachusetts Amherst] named Jon Goldstein was also at the college, and a co-author of mine, Ray Boddy was too.

This whole process led me to the situation in which I was, I guess,

totally alienated from my rather mainstream dissertation work on investment theory. And I just stopped doing it. Ray Boddy and I were thinking about maybe becoming labor organizers.

And then Pam [Crotty's wife] and I got a visit at home from a very conservative faculty member from Carnegie Mellon, who was a friend of mine, named Otto Davis. He was actually a pretty important guy in the public choice movement. And he stopped by Buffalo, came into our house, said what are going? I told him what we're doing. He said, suppose I could help you get a committee that would let you do a radical dissertation at Carnegie Mellon, which was unheard of. It was never done before. It hasn't been done since!

And so, I didn't think he could, but I said, I would like to try it. I had some things I could think of that I would like to explore. And so he went back and got Leonard Rapping, who was a famous conservative Chicago school labor economist, who was on the editorial board of the American Economic Review, I think, at that time. Rapping co-authored with Robert Lucas a couple of papers that would later go on to help win Robert Lucas a Nobel Prize, (this created for Leonard headache later when he thought that if he had stayed doing that kind of work with Lucas, maybe he would've gotten a Nobel Prize). But he (Rapping) was involved in the antiwar movement, even though he was a conservative and so he said he would chair my committee. And the third member of the committee (which is very strange for people who know anything about economics) was Eddie Prescott. Yes, Edward Prescott, the famous conservative real business cycle theorist who won a Nobel Prize agreed to serve on my committee. If someone writes my biography they may ask how do you explain such a thing? And the answer is, I played rugby with Eddie Prescott for several years on the Pittsburg Rugby Football Club, and so he was a friend of sorts.

Crotty:

So, I left Buffalo without a completed dissertation and went to Bucknell University where I finished a dissertation on class conflict and the determination of macro policy. Not surprisingly no one had ever done that at Carnegie before! And I did it rather quickly. I defended it about a year later. And, at that time, if I recall correctly, the process at Carnegie was that any faculty that attended your dissertation defense could vote on whether to accept or reject it. This is unusual, right? It's usually just your committee. My committee was extremely enthusiastic about my dissertation. Prescott was enthusiastic about my dissertation. Toby Davis, I think, just loved me

and didn't care if my dissertation was any good or not. And Leonard was very happy with my dissertation. When I defended it, the first chapter had been accepted for publication at the American Economic Review. It was about a theoretical question in econometrics. I know that's hard to believe.

When I presented my dissertation, I got harassed from start to finish by a faculty member named Alan Meltzer, who was a conservative guy who was alleged to be connected closely to the Mellon money that came into the university. He was offended, I think, by the nature of my dissertation. And, so he and I had a debate that must have lasted an hour and a half. And finally the director of graduate studies, a gentleman named Robert Lucas, got up and said something like: "This is embarrassing. I think we've had enough now". And so, I left the room and they voted. Everybody voted to accept the dissertation except Allan Meltzer. And I was given a few small things to correct on my dissertation. I went home, and altered some things in the dissertation that seemed particularly annoying to Professor Meltzer. Lucas then surveyed the relevant faculty members and everybody but Allan Meltzer again voted to give me this degree. At this time, our long time dean at the graduate school of industrial administration retired and they appointed an interim -- Allan Meltzer! To complete the dissertation process the dean has to sign my dissertation. His signature simply indicating that the appropriate procedures were followed, but he wouldn't do it. And so, my dissertation got held up for, I don't know, a year. If I had been an upper middle class kid, and my father was a well to do executive, I would have sued him.

But I wasn't, and I didn't, and I've lived happily ever after.

When I think of the fact that I had four children at the time., I'm not sure that the idea about trying to do that radical dissertation was a sensible idea. . Maybe I should have just finished the original dissertation and then got on with the life I wanted to lead. But it turned out to be very lucky for me, or fortunate, or I'm really brilliant [laughs], because it made my career. The first chapter in the dissertation was published in the American Economic Review, there was a note that came out of it in the Quarterly Journal of Economics, so that's two really beautiful publications for me to have entering my next stage of the job market. I coauthored a paper that was from my dissertation with Rford Boddy in 1974 -one was in the Monthly Review, which maybe, at that time, was the most widely read left journal in the United States, and another was in the journal of , the Union for Radical Political Economics. The dissertation generated two

papers in really good radical economics journals and two papers in some of the best mainstream economics journals. And I was, therefore, well equipped to enter the world as a progressive, or a leftist, or whatever, who was a good economist. That really helped me. I couldn't have gotten my job at UMass, I don't think, without something like that.

Interviewer: In between though, you got a job at Bucknell. Tell us the story about those times and your life then.

Crotty: Alright, so when I was leaving the State University of New York at Buffalo I went to interview at a number of places. One, actually, was at the University of Utah in Salt Lake City., that was a very interesting department, and still is. It had a number, at that time, of progressive left economic economists. It was a nice intellectual atmosphere there. I was there for three or four days and one evening I went home to my motel and I turned on the TV and the local news, was on and it had a story about how someone had thrown rocks through the window of a Planned Parenthood shop on one of the main streets of Salt Lake City. And the commentator said something like, "What do those people expect?" And so I decided that probably wasn't where I wanted to raise my four kids. [laughs] So I was setting up an interview at Bucknell, and I asked the chairman of the department if it would be possible to leave a morning or an afternoon open for me, because I wanted to visit three of my friends who were at Lewisburg Federal Penitentiary as the result of trumped up charges and fake testimony in Buffalo. And I thought, maybe, the chair wouldn't like that and it would injure my chances of getting a job, but these are my friends and, I don't know, I wanted to see them, and I thought I should. It was the right thing to do. So, as soon as I asked the chair that, he said "That's interesting. I spent two years in Lewisburg Federal Penitentiary during the war as a conscientious objector. I was a Quaker." And I think I had the job right there before I visited.

#### JOINING THE RADICALS AT UMASS AMHERST

Interviewer: Alright, so, moving on to the next chapter. Like all the great radical ones, you came to the University of Massachusetts Amherst, where we are now, in the 1970s. So do - can you just talk about the early days of the department? -

Crotty: Well there's the prehistoric times and historic times. The prehistoric

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times are 1972, 73, when Steve Resnick and Rick Wolff came with a handful of their students from the City University of New York, I think. City College. Essentially Sam Bowles and Steve Resnick had got this thing set up. When they first came here, Steve Resnick and Leonard Rapping were both on the editorial board at the American Economic Review, so they were very prestigious, which is one of the reasons we were allowed to do this [Set up a radical economics program].

Interviewer: What was the department like at that time? What was the culture? What was the feeling around the place?

Crotty: There had been a complicated conflictual process by which we got there. The University of Massachusetts was a kind of small, not exceptionally distinguished university for much of it's life. It had an agricultural school, nursing school, education school. And then when the golden age came in the 60's, and money was raining down on everybody and everything, they decided to build a first class state university here. They hired lots of new people. In the economics department the faculty was, I think, professionally not especially distinguished and the decision was made to bring in a bunch of mathematical economists. And some of them were very good. So, they came in and, as I understand it, they kind of destroyed the department. I mean, they were very focused on cutting edge mathematical economics, and, I'm told, taught undergraduate courses and introductory courses that were very abstract and very difficult for the students.

So at this point Sam Bowles was having problems at Harvard spent a semester in residence here and talked to some influential people here about the possibility of a change. So, essentially, they arranged to alter the department. Rather quickly the mathematical economists, left the department. We had perfectly nice relations with them for a year or two, but they left the department. There was a very courageous provost, who thought that making UMASS the center for radical economics would be the right way to go. He was convinced from talking to Sam and other people, that radical economics was popular, radical economics was interesting. You have to remember; this was the early 1970's in the midst of the rebellion by students who, among other things, wanted to add a radical component to their education. Administrators felt compelled to yield some ground to contain the student demonstration, sit ins, strikes and so forth. Without the radical student movement a department like ours would never have



been accepted.

Most of us, with the exception of Leonard, were interested in Marxism. Some of us later became less interested in Marxism, or even uninterested in Marxism. I'm not talking about me, but others. At that time, we were kind of comradely because we had this joint project. We got applications from brilliant students all over the country and, to some extent, all over the world, because there was rising demand for what we were doing and almost no supply. So we had these great students, but the students also were coming out of this radical movement, this seriously radical resistance movement. And so, the general consensus was that there was a revolution and the revolution was probably going to take place in Thompson Tower, where we were operating! They were extremely combative, boisterous, and, argumentative and conflictual and some of us loved them for that. The other thing I would say is that the radical faculty who were here then made an attempt, which lasted for a few years, to interact together intellectually. I was in a study group with Sam Bowles and Rick Edwards and Herb Gintis and somebody else - a Marx study group. The culture was wonderful for a while here. The faculty were all young. (I was one of the oldest faculty at 36). So we socialized together.

Interviewer: I'm curious about this - you mention that the radical UMASS is a result of - largely a result of the student movement, that they were the ones to generate this -

Crotty: Absolutely. Without question.

Interviewer: I guess the question really is about how you maintain something after the political moment itself that generates it becomes weaker, right? You created a theoretical space, which was really important in the years to follow, and I'm curious about how you managed to do that, and at the same time, I want to know whether you were able to create conversations with the mainstream - how does a radical economics project perpetuate itself, or does it even make sense to have a radical economics project that isn't embedded in a larger movement?

[00:36:56-8]  
Crotty:

Well, I think the role of teachers of radical economics, is to assist those people who are still interested in this project to understand the world better so that we can intervene to change it for the better. And to create reading material for people who might be interested in

changing the world, that gives them a better understanding and reinforces their desires to change the world. We say look, it doesn't have to be like this, right? These are the reasons why things are bad. You can't get a job. You can't get healthcare. You can't educate your children. These are the reasons - They don't have to be that way. Even if we just look at various kind of forms of national capitalisms around the world, we can find that not everybody forces their children to pay for their own education and so forth.

Most of us just believed that we understood what the problems were and how you might go about resolving and creating a better situation for the majority of people in your country or community or the world. And that this is an intervention in the political process itself. So, if you can convince people that there are reasons why they have difficulties, and that they don't have to go to Fox News who tell them that the Mexicans are the cause of their problems; that it is the political economic structure that they live in. And you tell them, honestly, that there are better ways to do this, and that they could be achieved if we would change the structure of the political system - money in politics and so on and so forth, then that empowers them, and will help to whatever extent is possible to motivate people to engage in political dissent.

Interviewer : To take it in a slightly different direction --was there any interaction with mainstream economic theory? In terms of this particular movement of radical economics, how much did, at that point and later, did it engage with the mainstream? How much did it need to be something like the infant industry by itself? Can you tell us a little bit about that?

Crotty: Okay! The relationship with the profession! So in this period, we had very active interventions in the profession, in the American Economic Association. We fought over everything. We demanded space at the meetings for our own panels. We presented things to be voted on by the whole. We tried to change the job market situation, how that was done. Everyone agreed at UMass that it was important to teach the students the basic things that they needed to know if they were going to be economists and interact with the profession and get jobs. Not like Harvard, or MIT, or Stanford, or whatever, where you have to learn infinitely complex theories of everything and mathematize and so, but enough to know the basic stuff that you were going to do. And

then some of us clearly thought that it was important, I would say Sam Bowles here, for example, to always have one foot in the mainstream, and to always work with methodologies in ways which will be acceptable to mainstream people. Other people agreed with Sam that we should be trying to change the mainstream. I was much more cynical about that, about the ability to change the mainstream, and thought that we should be trying to create the best theories that we can and, whether the mainstream accepts them or not is probably not in our power to change, and is extremely unlikely.

One could ask, well, did the mainstream get changed? So, I mean, for example, we have all these new Keynesian models, non-clearing labor markets, non-clearing credit markets, and so forth. The non-clearing labor markets were, I guess, a translation of Marxist theory into the mathematics. Some of us, including me, thought that these were fine, they were good, but they were quite limited...that the end result is - not all that much. So, you end up saying the labor market doesn't clear, the loan market doesn't clear at the Pareto optimal point. How important is that? I don't know.

If the standard Walrasian general equilibrium markets is here (points to a spot in front of him), and now we have markets that don't clear, , are they here (points to a spot close to the original spot)? Are they here (points to a far away spot)? Are they big problems? Are they little tiny teeny problems? Can the state do anything about them? Is this a theory about a systemically integrated market system or is it just about single markets that do not interact? When we do our non-clearing credit market models, do we say we can't complete this analysis until we see what is happening in the labor market - and vice versa?

So we've improved on the absurd Walrasian fairy tale, a little, but we really have nothing systemic to put in its place as a theory of capitalism. Now, while there are some game theoretic models that give some insights into market processes, I don't consider this to be really a great advance.

We're not going to convert the mainstream. The mainstream does what it does and they're not interested in us, I don't think. Now, again, I'm not trying to say that the economics of non-clearing markets or whatever has not created some insights or some room, or some openings, I'm just saying I think its views are quite limited, and I don't think we'll ever convert the mainstream. A few of my colleagues would argue that the mainstream has already been converted. We're

all doing game theoretic, non-clearing markets. What's the problem?

## ON HIS INTELLECTUAL CONCERNS

Interviewer:

So, I think, we're going to now move to your intellectual engagements over the last 20, 25 years. So the big question is your synthesis of Marx and Keynes. I think, for a lot of us who are trying to describe, your project, that's an accurate description of your work. It's a macroeconomics that brings these two approaches together. I know that you use to, sort of jokingly, call Keynes a minor post-Marxian.

Crotty:

It's only half a joke. I mean, Marx is clearly the more brilliant social scientist and thinker and philosopher, with a much more ambitious project, one that has clearer and deeper political roots. As you guys know, I'm writing a book about Keynes, which demonstrates that he considered himself to be a "liberal socialist" with a socialist project of his own. But yes, I think both of them have something to teach us.

Interviewer:

Well, let's talk about that. What is it that you get from Keynes that you don't get from Marx? Why is actually Keynes, in terms of his place in your own work, more than a minor post-Marxian? What's the value of trying to join these together, as opposed to simply being a Marxist or simply being a Keynesian?

Crotty:

Well, I certainly could never simply be a Keynesian. I could live as simply a Marxist. So, I think the question that needs to be answered is why, for me, is not why Marx, because I think he's the most insightful theorist and critic of capitalism ever, but rather why Keynes? I guess that, at the root level Keynes, to me, is two things. He created a model which stood in conflict against the classical model of his time, which basically said that a lightly regulated economy works very well, and it has only a single equilibrium it can achieve - is full capacity, full employment equilibrium. If there's something that moves or shocks the economy off full employment, there are automatic disequilibrium processes which will restore it to full employment right away. So Keynes had a theory that showed that there are multiple possible equilibrium positions - including deep depression - because aggregate demand determines output and employment and aggregate demand or total expenditures can settle down anywhere. ( Marx wouldn't be surprised about this. Marx talked about this, but didn't

quite put it with the same detail and focus as Keynes). Keynes's theory of aggregate demand determined equilibrium was an enormous breakthrough in macro economic theory. In some ways, there's very little in Keynes that you can't find in Marx. But the aggregate demand model was a tremendous intervention of formalizing that model. The second contribution is the courage of Keynes to say that there are crucial economic decisions which one has to make now, the results of which will not be revealed until many years in the future, and these include really important decisions in economics, including such things as: Should you get married? Should you go to graduate school? When you decide to go to graduate school, you have to decide where you go and you will not find out whether this was a good decision for many years. You might go to some program, spend five or six years there. If you find after some years that this was a bad decision and you quit, you can't these years of your life back to do over. That's an irreversible decision. Keynes's theory of capital investment theory is a good example. What kind of capital goods should you buy? What kind of technology should you use? Where should you locate your plants? Once you've made your decision it is substantially irreversible. In traditional neoclassical investment theory, you can rent a capital good as well as buy it. If you buy a capital good and it doesn't work out for you, you sell the capital good back to the market and you get your money back minus depreciation. It's liquid. It's reversible. In the real world if you invest in capital goods and your industry becomes unprofitable, you might get back only a half or a third of what you paid for these goods if you sell them.

Keynes says, well look, there's all these decisions about financial markets and asset holdings and corporate investment and technology decisions, plant location decisions, and so on, for which the agent has to decide, and the outcome of the decision will depend on what happens to the state of the economy in the future. Two years, five years, ten years from now. We don't know anything about the future, right? The future will be determined by decisions made between now and the future. There are decisions taken in ignorance of the future. They're therefore path dependent. We have innovations, which by definition you can't know about until they appear. So, we literally know nothing about the future. This is what Keynes calls uncertainty, or radical uncertainty, and many people call Keynesian uncertainty. All of the important decisions in life, in economic life and partly in social life, fall under this situation. Shackle called them crucial decisions. And Keynes said, "I am going to construct a theory of capitalism, and the dynamics of capitalism, with an entry assumption that the future is totally unknowable and it's created by decisions

made in ignorance now and it's path dependent. So this then leads to theories of financial markets as potentially "insane gambling casinos" (I'm using his words), subject to tremendous instability, capable of generating out of control bubbles and financial panics like we saw in the US in the early 1920s and after 2007. And this is exacerbated by the fact that many purchases people or firms make involve borrowed money - to invest in the stock market or in capital goods in the boom of the late 1920s - affects your balance sheet. So Keynes is saying the problems faced in the early 1930's was that everyone had built tremendously fragile balance sheets in which assets - both financial and non-financial- that were all subject to collapse. So Keynes says that the decision we make now will make the system more or less rigid and more or less vulnerable and more or less fragile, and we have to have a theory about how you make decisions under this.

So he creates a theory that says people can't know the future, but it disturbs them. It confuses them. It makes them nervous. They try to "calm their nerves", that's a phrase of Keynes about this situation, and even to pretend that the future is more knowable than it actually is. So they create conventional, behavioral, psychological heuristics to make decisions. You have to apply that theory of conventional psychological heuristics to expectations of everything important, and you have to incorporate the balance sheet effects and vulnerabilities in this system. I mean I'm simplifying here, but when people come to make decisions about what the future looks like, they tend to extrapolate the recent past into the future. And they do this with more or less confidence in the accuracy of their expectations. So Keynes defines a concept of confidence, which was disappeared from Keynesian discourse, and is one of the most important concepts ever. He says there's two parts when the firm wants to make an investment decision. They first have to have some way to forecast the expected profit rate. They then have to ask themselves the question, how sure am I that this is actually the correct forecast or expectation? How convinced are we that our best forecasts are right? And sometimes we become very convinced of that. For example, if we're investing in financial markets and stock prices keep rising, everyone begins to believe prices are going to continue to rise, and all the experts say "This is a new era. It's not going to go down anymore, don't worry about those old crises", so investors become more and more optimistic and more confident in their optimism. They're willing to borrow lots of money to buy stocks. Firms act in the same way. Banks act in the same way, generating very, highly leveraged, balance sheets that will trigger a crisis when it becomes clear that all their decisions were catastrophically wrong.

Keynes had the courage to construct a theory of agent choice under the assumption of radical uncertainty that he embedded in his the aggregate demand model, that has proven to be extremely insightful about the strengths and the flaws in capitalist economies. I think that's his main contribution. Now, would you like me to comment on why Marx brings to the table?

Interviewer: Yes

Crotty: Well, I have a tendency, as you may have noticed in my work, that I can find a place in Marx where he said everything. Right? So, I'm prone to attribute everything possible to Marx! I have a paper, which you know about, called Marx on Money and which indicates that Marx did have an insight about this, about the uncertainty part of this, about the instability part of this. He does, definitely has an insight about the cyclical parts of this. He also has stuff, especially in Volume three, where he talks about financial fragility, basically, where there has to be certain prices and certain payments and they have to be done at a certain time. Otherwise, you can get a financial crisis. So why do we need Keynes? And I think the reason Keynes is helpful is that up until I wrote that paper, in 1985, we had several generations of Marxists who never saw this. They had no theory of money and finance and uncertainty and instability --at least I couldn't find any. Keynes puts this stuff center stage, right at the entry point? In my 1985 paper, I say that the financial markets and processes are theorized at the highest level of abstraction in Marx, so that indicates that it's really very important to his own theory. But the truth is that Keynes really puts this stuff center stage and interrogates it, and generates out of it explanations that pretty good about what causes the crazy periods in capitalism. It's not as good as Marx at all, because Marx has a much better theory of the real sector than Keynes. Keynes in The General Theory has a kind of traditional theory of important parts of the real sector of the economy. So Marx has got a better integrated system, a better historical sense, a better evolutionary sense than Keynes, but Keynes has some properties that are, I think, very positive additions to Marx.

[01:09:51-0]  
Interviewer: Based on what you just said, in terms of placing you within the Keynesian tradition, or traditions, you would be a Chapter 12 Keynesian. One who sees that, you know, fundamental uncertainty as being the sort of core insight... There is the criticism that people have

made, which is that fundamental uncertainty proves too much, and that it becomes really inconsistent with any sort of systematic theory about the behavior of the economy. You just have to end up falling back on, well, is all a convention.

[01:12:29-3]

Crotty:

Well I think that view is nonsense, because what he [Keynes] has is a theory of expectations formation. It would be a problem if you just said anything could happen. (Incidentally, anything can happen in neoclassical economics. Let me choose the preference function, or alter the production function and so forth.) So if Keynes just said anything is possible that would be a problem. He didn't believe anything was possible. He believed there were reasons why the economy had the trajectory it actually had historically. Keynes says, "I have a behavioral theory. I cannot tell you the precise mathematical form of this theory, because it's a psychological behavioral theory, and it depends on institutions and context and so on." But, "I have a theory of expectations and confidence formation, and I will tell you that the simplest way to think about this is that, as the economy is moving through time, the expectations that people draw about what the future's likely to be drawn from extrapolation by the past. It's not an anything can happen model. You should not hang around with people who say it's just Chapter 12!

Interviewer:

Let's get to the other big part of your project, your forthcoming book on Keynes, which is, in a sense, about rediscovering a more radical Keynes than the, sort of Keynes most people are more familiar with today. The Keynes of today is, I think, in the broader public mind, is about stabilizing the operation of capitalism, stabilizing income and output, but without changing the nature of production, or of social relations in any more deeper way.

Crotty:

Kickstarting the economy when it's temporarily down by deficit spending.

Interviewer:

Right -that's what most people when they hear Keynes -

Interviewer:

Yes, well you say there's a different Keynes if you read the evolution of his policy views from WWI until his death in 1946

Crotty:

In 1995, I was in residence at Hitotsubashi University in Tokyo, in Japan. Hitotsubashi means "one bridge." I was always confused, because there were no bridges on the campus. So I had little to do except to give a set of lectures to the faculty. It had a really good



library in English. So, I spent a lot of time reading the collected works of Keynes- many, many of the volumes. I also spent a lot of time reading British political and economic history (I say that with a kind of tear in my eye because, now that I decided to do this book in the last couple of years, I've forgotten all that I learned about British political and economic history!). So, I discovered that the Keynes that I had been taught was not the right Keynes historically, and this was interesting for a number of reasons. Keynes is, maybe, one of the two or three, most famous economists in history. So how could we have gotten all this stuff so wrong about Keynes?

The 19th Century was an incredibly prosperous period in British economic history. Britain was at the center of the take-off global economic growth from the mid-1700's. There are a number of things that happened. One is that the industrial revolution happens in Britain and Britain becomes the center of global trading, the commercial center as well as the financial center of the world. And Britain, therefore, has what Keynes calls the glorious 19th Century. And he says that the economic theory of the day comes from that thinking that Britain was the ideal place to develop a theory of capitalism. But precisely because it's experience was unique in the world, it was not an ideal place or an ideal time to use as a model of how capitalism works everywhere. The reason that economists developed the classical theory of the dynamics of capitalism in Britain at the time, was because of this uniquely "glorious" 19th Century.

Keynes then starts to write, after the war, that this was a unique experience. He says, methodologically there's no such thing as "capitalism", there's only concrete historical capitalisms with different institutions, psychologies, behavioral tendencies - there's only particular concrete forms of capitalism. The theory of British capitalism of the 19th century, based on the experience that Britain had with it's dominant form of capitalism, based on exploitation, the slave trade, and so forth was no longer applicable to interwar Britain. That model was dead. Britain no longer controlled trade; the Germans were advancing faster than the Brits; the Americans were advancing faster than the Brits Britain could no longer get all its supplies and food cheaply from other places; its domination of world trade was gone. It's a new world, and, in this period a bad world for England. Right and left wing revolts were spreading across Europe. There was the Soviet revolt in 1917 followed later by the rise of fascism in Italy and Germany. So everything's different now, and the

'natural' state of capitalism – in Britain and in the world at this concrete historical stage – was not like it had been in the 18th Century. Britain was sinking into what came to be called secular stagnation and in the 1930s into global stagnation, a collapse of financial markets in the US. Keynes came to believe that, in the absence a profound change in global economic condition, stagnation had become the natural state of capitalism - this is what you get from capitalism. This was not only economically devastating, it was profoundly politically dangerous.

So when he exits *The General Theory* in chapter 24, he says the world would not much longer tolerate the present day form of individualistic capitalism, by which he meant that the working class won't tolerate it much longer. There is political unrest everywhere. He writes a piece called *National Self-Sufficiency* in 1933, in which he says we have to figure out how to get out of this thing situation; we have to radically transform the economy to do it; and we have to insulate ourselves from close economic ties with countries that will not introduce radical economic change for a while. It doesn't mean he wants to be autarkic, it's just in the current conditions, the only way you're going to get out is through domestic action. So, what does Britain need to do Well, he writes in many places – that he's a socialist, he, gives speeches to the labor party saying "I'm a socialist." What does his 'socialism' mean? He thinks that the ability of unregulated markets in Britain to deliver a pace of capital investment strong enough to achieve, and then sustain, full employment in Britain is incredibly weaker than needed. So, what we need to do is organize all of the areas of in which the public sector has now any control over capital investment decisions. So he lists all of the capital investment decisions, all the capital that's controlled by the state, or that can be influenced by the state, and says we have to bring them all under the control of a "Board of National Investment." And we have to bring together all the sources of savings that are in our economy and put these under the control of the Board. The goal on the Board would be to set capital investment at a level high enough to achieve and then maintain permanent full employment. And in a book called *Britain's Industrial Future*, he goes through all of these incredible, important productive things you can do with this capital investment. In 1942 or 43, he says that if the state can control two-thirds to three-quarters of large scale capital investment and use this national board of investment to pursue and achieve sustained full employment, we'll be fine. Now, that's a huge intervention. In order to do this, you'll have to drive the interest rate down towards zero, because as you accumulate all this capital it's rate of return will decline, assuming no system-changing technical change, no large

increase in the rate of population growth, and so forth. So the only way you can do this is if you drive the interest rate down towards zero, and that's what you should do. But you can't do that unless you have strict capital controls, because, otherwise, people will take their money and bring it out. So you have to have strict capital controls.

This plan, that he said would be the center of his "liberal socialist" economic plan, means, he says, the end of the Rentier class in Britain. Now, Britain had been governed by its Rentier class for several hundred years. So, he's basically saying we have to "euthanatize" the Rentier -his word - and in so doing that we get rid of the oppressive nature of financial capital. This is an incredibly radical thing to propose in Britain, more than any place else in the world. To keep interest rates down we will have to adopt strict capital controls. We're going to have to have managed trade, because we'll be growing faster than everybody else which will generate big trade deficits. Sustained full employment would empower trade unions. Keynes thought we should have industrial policies. We should have wage policies. We should have geographical location policies. Under his plan there would be the support of the arts, the building of cities, the building of working class housing, and so on. In his socialism, there would still be a role for private markets once the main contours of economic development had been laid out by the state. Keynes says over and over again that this is a liberal socialist regime. And if we don't intervene and have liberal socialism, we're going to have continued economic chaos and we're going to have a political revolution. This story of the Socialist Keynes seems to be a story untold among economists.

Interviewer: It's a great story. Another question here is what Keynes had to say about competition, which is maybe another, sort of, forgotten legacy of Keynes that's going be revived in this book: Keynes's views on competition and monopoly.

Crotty: The view about Keynes's attitude towards the problems of competition that I always picked up, more from what wasn't said than what was said by people teaching me, was that Keynes didn't care much about competition. Keynes, in the General Theory, accepted perfect competition although I should say that Keynes accepted a number of things, like perfect competition, I think, for political purposes. That is, he wanted to convince economists that capitalism needs to be transformed and overthrown, in the democratic political process, and a liberal socialism created. And that since economists

don't like to hear that he wouldn't contest their views on a number of things, as long as he could still bring them along on the big things. But in the 1920's, Keynes was very concerned about competition. The immediate source of his concern was the problems in the industries in which Britain had previously ruled the world with export surpluses. So, the cotton and coal industries, for example, and engineering and ship building, and machine tools. Keynes is very concerned that these export industries were, in the current era, burdened with huge excess capacity and had to shrink. However, the government was going about this in the worst possible way. The official view was that they're no longer competitive because wages are too high and unions are too strong. So what we have to do, basically, is to deliberately create unemployment and further smash the unions and get wages down.

Keynes's view was that this is absolute nonsense. It offends his idea of social justice, which is that anything that the state does that penalizes a factor of production, or a laborer in this particular case, unjustly, for nothing that the laborer has done, is wrong. So, first of all he fights the government and the conventional wisdom about smashing the workers.. His argument is that you have to figure out how to grow the economy faster to induce the export industries. Government has to use public investment to stimulate economic growth outside the dying industries to attract the workers out with new jobs. So, then he excoriates the central bank, for trying to basically create massive unemployment in these industries, you know, and force workers to move to jobs that don't exist, and from their communities, and from their schools and their houses, and so on.

Then he says, let's think about the theory of competition. So, he says, if we look at the cotton industry (he worked for about two years on the cotton industry, and was particularly interested in the American section of the industry) competition isn't bad when the industry is growing. But when the industry has to be shrunk it's terrible, competition doesn't work at all efficiently., You've got all this excess capacity forcing prices down, and the firms are losing all their working capital. The banks continue lending working capital because the banks have great loan exposure to them and they don't want the industry to fail. This is keeping all the excess capacity of the spindles in there, and keeps the price being driven down further. It's just a downward spiral. Nobody wants to get out of the industry, nobody can sell their goods, the prices of spindles have collapsed and so on. So Keynes argues- we can't allow the competitive process to work this way. What we have to do is organize an association, a conglomeration, an industry organization, which has the power to make decisions

about rationalizing, about who has to close down, , who are the most efficient producers, and so on. So we have to have some government-assisted association of these small-scale cotton producers acting cooperatively to efficiently downsize the industry. Keynes had a positive view of the effects of cooperation among oligopolies in industries with large economies of scale. They're organized and rationalized inside the market. And so this is good, because now all we have to do is rationalize them from outside through government regulation. Now we have to be like the Germans, there's a rationalization movement going on in Germany, in which we have trade associations and amalgamations and holding companies. And this is all for the good, because these are industries with large economies of scale. They can't be left to the market. We have to allow firms to associate with each other, under the guidance of the government. The government has to impose certain restrictions on the firm. The government has to try and integrate this, what one industry is doing, with what other industries are doing. "Britain's Industrial Future", which stated the Labor Party's policy views in 1929 for the election, goes into enormous detail of how we have to take, both for small firms in decline and for large firms, we have to essentially impose a planning system. And, in Britain's Industrial Future, it talks about how as part of the governing boards; there should be representatives of the consumers; there should be representatives of workers; there should be profit sharing. The whole thing has to be guided by an elaborate state apparatus, which goes right up to the top, and will be guided by general staff for the Prime Minister, and so on and so forth. He argues that we've got to stop the destructiveness, either of the small firms destroying themselves or the large firms taking advantage of their oligopoly power. We have to say fine, be an oligopoly, coordinate, don't generate excess capacity in your industries, but do it in an organized way.

And so, he has an enormous amount to say about competition and its effects and what to be done about it, and how it should be coordinated. It just ain't true that Keynes had nothing to say about competition.

Interviewer: Another thing we just wanted to touch on was the relationship between the, sort of, radical post-Keynesian tradition here and the Cambridge traditional Keynesian economics. For instance, I know Joan Robinson came and visited the department at some point while you were here. So maybe you can say a little about your interactions with her.

Crotty: I'll preface my comments with the fact that a lot of mathematical economists in the U.S. spent a lot of time on the Cambridge controversy. Some of them taking Joan Robinson's side in this view. But she visited the department, which was kind of a coup, early on. I can't remember exactly when, but a long time ago. She gave a paper, and after presenting some of her views on the capital controversy and other things, she raised the question for us, the audience, the students and faculty from the department: Since she had killed the neoclassical production function and the neoclassical growth model, why did we let those people continue to write that stuff? And why, in God's name, did we let Samuelson write a textbook that was everybody read, which was proven to be garbage, in part by the Cambridge people.

And it was kind of difficult to explain to her that UMass economics department didn't control publication in the United States, nor the journals. I mean- I have a suspicion that in Britain maybe they do things differently than we do here. Maybe the Cambridge people do.

So she was fascinating woman. I was the chairman at the time, and Pam and I invited her down to a dinner in my house, along with some department dignitaries, maybe an administrator. I don't remember. So, there's 7 or 8 of us sitting around a table. And I consider myself the person who's responsible for seeing that Joan enjoys herself, and that the conversation rolls and so on. So Joan is sitting there, kind of, just looking out the window, or like her mind is in some other place. And, I'm trying to engage her in conversation and can't. So this goes on and on. I'd ask a question. She'd give me one word answers. It's getting very nerve wracking. I mean, I'm getting very stressed. I probably started to perspire. A half hour goes by. Joan is clearly bored out of her mind. She finds none of us interesting in any way [laughs]. And, being from the intellectual elite that ruled the world for a long period of time, she found no reason why she should pretend that this was not the case.

So, she's sitting next to Pam. And Pam asked her about her family. And so she and Pam start to chat about her family, and Pam asks her if she has grandchildren. And she says, oh yes. And off they go for 45 minutes, basically Joan is lit up, and babbling about her family and about her kids, having a wonderful time talking to Pam about her grandchildren. I don't know what happened after that, but I felt so relieved!

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So the main things I have to say about Joan Robinson was she had a strange view of publication, and she was a tough lady to get involved in a conversation she doesn't want to be involved in!

Interviewer: Let's say you're talking to a graduate student today, as I suppose you still do sometimes, or somebody who's interested in heterodox ideas, maybe here at UMass, or maybe thinking about it. Do you think there's still a heterodox economics community for them to join? Is there an established sort of research program that's been kind of built up that they can join? Or do you think that a young person today is almost in the same situation you were in and is going to need to strike out on his or her own, build something new?

Crotty: Well, I don't - I don't think that the latter is the case. For one thing, if you came here, you still have a number of faculty members who consider themselves to be something to the left of the profession. I mean, the number of Marxists, maybe, has declined, including some of the people who once were Marxists and are not now. But everyone here is, at least, progressive. And some people here consider themselves to be radical economists. And, also, the group of people that come to school here, the graduate community, has been over time, (I've been here since 1974), an incredible collection of people who are almost all really smart, who are almost all really interesting, who are really fun to be around, inquisitive. And so you have - You do have, here, a community of left economic scholars and activists, right?

Most people who come here do want to do well in their academic or private institution careers, but they also want to do good in the world. Now, maybe, the percentage of people who think that the revolution's just around the corner has dropped significantly since our incoming class in 1974, but almost all of our students are engaged, and want to be actively engaged in whatever form, including intellectual engagement, and it's an astounding group of people.

And, of course, there is now an enormous radical community of scholars around the world, the English-speaking world and the non-English speaking world, and a slew of left leaning or open-minded journals. So, if you have an article you want to publish, and you can send it not only to the Review of Radical Political Economies but to dozens of good journals that support and accept heterodox radical intellectual interventions. When we had to start our own journal.

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So yeah, I think there is a community, for sure. I wish it was bigger. I wish it was broader. I wish there were more UMass-like communities.

Interviewer: So if you were to meet, let's say, not someone who's already a graduate student, but a young person, maybe, who wanted to do political work, who wanted to be engaged, intellectual, but not necessarily on an academic track. Would you, would you advise them to study economics?

Crotty: I would certainly implore that person to get an economics education, a critical economics education, so that they were empowered to understand the incredible bullshit that comes from many of the most prestigious economic institutions and think-tanks and from the business press. They would be empowered to understand why all the anti-labor positions and free trade positions, and non-environmental intervention positions are not valid. There's alternative ways to study them and learn them and I would do that. The question would be, is it worth the 5, 6, 7 years to get a PhD? And that, I think, depends on what you want to do. For most activists who want to become a progressive "expert" on economics it might be sensible to get a Master's degree here where you can get your understanding to be more sophisticated. Of course, you probably have to do some technical courses, math and stat courses and so on, that you will not need if you want to be a political activist rather than an activist economist.

Interviewer: Thank you.