HARROD AND HIS TRADE CYCLE GROUP

Also by Warren Young

INTERPRETING MR KEYNES: the *IS-LM* Enigma

Harrod and his Trade Cycle Group

**The Origins and Development of the Growth
Research Programme**

Warren Young

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For Professor James Meade and in memory of
Sir Roy Harrod

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Preface

Sir Roy Harrod has been described as second only to Keynes amongst economists in terms of the originality of his contributions to modern economic thought. Even the renowned economist and Nobel Laureate, Sir John Hicks, noted his own long-standing intellectual debt to Harrod in his Nobel Lecture, when he acknowledged the fact that Harrod's work, in essence, provided him with many fertile ideas which he further developed in the course of his own distinguished career.

Harrod was instrumental in discovering and developing – both on his own and with the assistance of others, as in the case of Keynes – some of the most fundamental and profound concepts in modern economics. These include the notion of the marginal revenue curve, the IS–LM approach to Keynes's *General Theory*, the dynamic extension of the Keynesian system, and he is universally recognised as the father of modern growth theory in economics.

In fact, if Keynes was considered by the economics profession to be the 'sorcerer', then Harrod was his very independent minded 'apprentice'. Indeed, Harrod tried to go further than Keynes by expanding his scope. However, while Harrod ventured into areas of economic theory that Keynes left untouched, he also continuously tried to integrate and reconcile Keynes's views with the 'mainstream' of economic thought. Thus, the relationship between Keynes and Harrod, and even more so, the relationship between Harrod and the Cambridge 'Keynesians', was never like that between Keynes and his Cambridge 'disciples', as Robertson called them. Although reproached and admonished by Keynes many times over their disagreements regarding Keynes's *General Theory* approach, Harrod never became discouraged. Rather, he remained adamant in his attempt to dynamise and thereby, in his view, generalise Keynes, and also to integrate Keynes's *General Theory* approach with mainstream theory as he understood and interpreted it.

Now, although Harrod's published work on the trade cycle, growth, and dynamics only appeared between 1934 and 1939, he actually began to think about these problems during the 1920s. After taking his degree at New College, Oxford, and having been elected a teaching fellow at Christchurch, he spent two terms, during 1922–3, working with and under the supervision of Keynes at Cambridge.

Upon his return to Oxford, Harrod wrote a number of essays on the trade cycle, growth, and distribution over the period 1924–33, which, although never published, must be dealt with in the context of the evolution of his economic thought. This early work, along with the later input he received from what he called his Trade Cycle group and others – such as Robertson – during the mid-1930s, assisted him both in formulating his ideas as published in *The Trade Cycle* (1936a), and in the transition to his theory of growth and dynamics, as manifest in his ‘Essay in Dynamic Theory’ (1939a).

While much has been written about the issues emanating from Harrod’s mainstream contributions in the field of economic growth and dynamics, with some work also recently appearing on other specific aspects of what can be called ‘Harroddian economics’ – and a systematic treatment of Harrod’s economic world view and detailed survey of his many contributions to economic thought is long overdue – up to now, all analyses of Harrod’s contributions have been based upon either published and secondary sources, or limited to the Keynes-Harrod correspondence as published in Keynes’s collected writings. The material to be presented in this book, however, is based upon previously unpublished essays, manuscripts, and correspondence found in the Harrod and Meade papers, and therefore throws entirely new light on the origins and development of his ideas.

In the introduction to the book, the key questions and issues to be dealt with are presented, and the necessity for reassessment, reconstruction, and retrospective appraisal of the origins and development of Harrod’s contribution outlined. In the first chapter, Harrod’s unpublished early work on the trade cycle, growth, and distribution – initially set off by Keynes’s *Tract*, and subsequently influenced by the *Treatise*, as will be seen – are surveyed. These include an essay on the trade cycle and income distribution (1924), a memo on the effect of falling prices on employment (1926a), an essay on the trade cycle (1926b), and an essay on the political economy of the trade cycle (1933b). In this context, Harrod’s published work – such as his book *International Economics* (1933a), and critiques of Robertson (1927) and Pigou (1934a) – is placed in the perspective of correspondence between Harrod and Robertson, and Harrod and Keynes respectively, and also in that of his evolving approach to the trade cycle and growth.

In the second chapter the intellectual background to the development of the growth research programme is set out by focusing on the interests of individuals and groups in Oxbridge over the period

1930–39. While the activities of the ‘Cambridge Circus’ (1931), the subsequent ‘General Theory group’ (1934–6), and the Oxford Economists Research Group (OERG) have been documented, this chapter deals with the significance of the early and ongoing work of the members of what Harrod called his ‘Trade Cycle group’. This is done by focusing on the degree of cross-fertilisation and exchange of ideas between Oxford-based economists such as Harrod, Meade, Allen, Fraser, and Hitch, and their Cambridge counterparts such as Robertson, Kahn, and Joan Robinson. In this context, almost totally forgotten volumes such as Meade’s *Rate of Interest in a Progressive State* (1933), and various editions of his *Economic Analysis and Policy* (1936b; 1937; 1938; American version edited by Hitch), along with Fraser’s *Economic Thought and Language* (1937) – in addition to critical evaluations of contemporary works on the trade cycle and economic methodology by Allen and Fraser, for example – are seen to provide a background for Harrod’s ongoing interest in the problems of the trade cycle and growth.

In chapter 3, Harrod’s progress in explaining the trade cycle and economic growth is dealt with by focusing on the years 1934–5, during which he was engaged in defending the position he took in his paper on credit expansion and economic advance published in *Economica* (1934d). Over this period he became involved in both public debate and private correspondence on the issues he raised in this paper with Robertson, Haberler, Bode, Kaldor, and Kahn. The first section of the chapter deals with the 1934 exchanges between Harrod and Robertson – both public and private. The second section presents the public debate and private correspondence between Harrod and Haberler, Bode, and Kaldor on his 1934 paper. The third section focuses on the correspondence between Harrod and Kahn on the issues that emerged from his 1934 paper. Finally, this chapter also deals with the 1934 League of Nations memorandum sent by Haberler to Harrod for comment, and which became the basis for Haberler’s book *Prosperity and Depression* (1936). The previously unknown but important correspondence between Harrod and Haberler on this forms the final section of this chapter.

Chapter 4 focuses upon the central role of Harrod’s book *The Trade Cycle* (1936a) in the evolution and development of his thought. The correspondence between Harrod and Robertson on the draft manuscript of the book over the period 1936–7, and Harrod and Henderson during 1936, is dealt with, as is the crucial influence of Meade, and also of Allen, on the book’s development. In addition,

this chapter deals with both the place of the 1936 Oxford Conference, and the role of what Harrod called his 'Trade Cycle group' in the development of his approach, and also shows the previously unknown early contribution of Meade (1936a) to Harrod's approach and to the growth research programme as a whole. Finally, the impact of the various critiques and reviews of the book upon Harrod – ranging from that of Keynes to those of Robertson, Hawtrey, Robinson, Tinbergen, Haberler, and Hansen, among others – is evaluated.

In chapter 5 the transition from Harrod's book on the trade cycle (1936a) to his 'Essay in Dynamic Theory' (1939a) is dealt with, focusing especially on a number of influences which may have assisted him in formalizing the analysis of growth and dynamics he actually presented, on his own account, in his 1936 work. This includes the impact of Cassel, Kalecki, Lundberg, Tinbergen, Lange, Hawtrey, Robertson, Robinson, and Durbin upon Harrod's thought; the correspondence on the draft of the 'Essay' between Harrod and Keynes, and the previously unknown exchange on it between Harrod and Robertson; and finally, the contribution of Marschak – described by Harrod at the time as the Oxford Institute of Statistics' 'Tinbergen' – to the development of Harrod's growth and dynamic theory. In this context, Marschak's previously unknown, but crucial detailed 'remarks' and diagram (1939), based upon the draft of Harrod's 1939 'Essay' – which was found in the Harrod papers – are presented and analysed.

In the final chapter conclusions regarding Harrod's approach are presented in the perspective of an overview of specific problems involved in its origins, development, central message, and core concepts. These include the issues of antecedents and precedence as they relate to Cassel, Lundberg, and Domar; the relationship between Harrod's work and that of Meade, Hicks, and Solow; the notions of warranted and optimum growth, systemic instability, '*Treatise Saving*', and the 'knife-edge', and what Harrod's central message really was; and finally, the role Harrod's approach actually played in catalysing the Harrod-Meade growth research programme in economics.

WARREN YOUNG