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In Memory of Robert Solow: a 2009 interview

LEFTERIS TSOULFIDIS*

Abstract: This note and interview commemorates Robert M. Solow (1924–2023), a distinguished economist renowned for championing neoclassical economics while fostering dialogue with diverse viewpoints. In a 2009 interview, Solow analyzed the Great Recession, attributing its origins to financial instability and regulatory shortcomings. He advocated for robust government intervention and highlighted the need to address critical gaps in growth theory, particularly the underexplored role of the financial system. Solow also stressed the importance of public investment in education and research as essential drivers of innovation and long-term economic progress.

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Robert Merton Solow (1924-2023) stood as the last of the eminent economists of the past characterized by a broad-minded approach defending neoclassical economics and engaging in discussions on heterodox ideas and offering his critical perspective. I had the distinct honor of meeting Robert Solow as organizer of the Annual Conference of the European Society for the History of Economic Thought (ESHET) in Thessaloniki, held on April 23-26, 2009. Solow was the invited keynote speaker of the Conference. During our interaction, I contemplated conducting an interview with him and other distinguished economists for a book I was planning to write. The interview questions were shaped by the aftermath of the Great Recession of 2008-2009, and the anticipation was that this economic downturn will endure for many years. Solow's responses surprised me because I had anticipated that the current circumstances were conducive to the emergence of groundbreaking ideas, epoch-making innovations and transformative policy measures. The answers that he gave are quite interesting and are in the spirit that economic theory can be improved but

* Department of Economics, University of Macedonia Thessaloniki-Greece. Email: Lnt@uom.edu.gr

not by much and that innovations are not like those Schumpeter expected in depressions. As for the policy measures, he wanted more government intervention and much more spending than that announced by then Obama government.

Solow's responses, encapsulated in the questions and answers, summarize his perspectives on the state of economic theory, the timing of innovations, and government's role during a challenging economic period. These exchanges, provide valuable insights deserving of readers' consideration and evaluation. The questions and answers are presented below:

1. **Is the current situation (depression) a result of a series of bubbles (housing or financial) that are to be blamed on bad behavior and wrong government policies?**

RS. There has been plenty of bad behavior (for example, the selling of mortgages, sometimes deceptively, to people who could not afford them) and wrong government policy (for example, neglect of the build-up of debt). But I think it would be a bad mistake to stop there. The underlying problem is that an unregulated financial system is potentially unstable, and this instability has become more dangerous with the advance of computer technology, and with globalization. The deregulation of finance and the refusal to regulate or even supervise the new shadow-banking system were more than a policy mistake; they were an ideological mistake. Given that potential for instability, a crisis would eventually happen.

2. **Was there any way to avoid this current depression?**

RS. I think proper regulation would have prevented the very deep recession we are now experiencing. There might still have been an unsustainable housing boom, and possibly, but not necessarily, a recession when the boom ended; but it could have been just a "normal" recession that could have been successfully handled by monetary policy and built-in fiscal stabilizers.

3. **The depression of 1930s is associated with two revolutions: the short-lived and less appreciated microeconomic revolution with Chamberlin and Robinson and of course the macro-revolution of J.M. Keynes. Do you see any such revolution to take place in the current depression?**

RS. No, I do not see any comparable intellectual revolution on the horizon in economics. There will certainly be an improved and more extensive

analysis of financial contagion, and of the links between the financial system and the "real" economy. Policy analysis will have to study how policy can be extended to deal with asset-price inflation as well as goods-price inflation. With more objectives, there will have to be more instruments, including regulatory instruments. It seems to me that economics already has the techniques to deal with these new necessities. Of course, one must recognize that it is the essence of intellectual revolutions that they are not foreseen. All I can say is that as of now progress seems to be a matter of problem-solving, not wholly new "big" ideas.

4. **If the theory of economic growth and Solow's growth model are the result of the great depression of 1930s and the new (endogenous) growth models the result of the slowdown of 1970s and 1980s then what can we expect to come out of the current depression?**

RS. Growth theory has so far not paid much attention to financial institutions and activities. Maybe the unspoken thought was that financial complications affected the short-run but not the long-run evolution of the economy (except for the easily calculable consequences of temporary reductions in investment and, perhaps, innovation). The current situation suggests that it would be useful to model extensively the relations between the financial system and the real economy. For example: how much added "efficiency" does extreme financial development provide? And at what cost in potential instability and longer-run damage to the real economy? The distributional consequences are also important, but may not involve growth theory so much, although they could do so. All this may work through longer-run interactions between the financial mechanism and the rate of investment.

5. **In your theorization of the growth dynamics technological change is exogenous. We know that in the past efforts to endogenize the "Solow residual" showed that the results are not out of touch to those of the exogenous determination. One wonders if the new literature of endogenous growth models has offered much**

RS. It seems to me that "endogenous growth theory" has not contributed very much to the core of growth theory. Where it has been very important, however, is in attracting the attention of economists to the study of the process of invention and innovation. We still do not have much understanding of how invention and innovation occur. No one doubts that when the pecuniary incentives to innovate are very strong, there will be more

innovation; but that does not get us very far. In a commonsense way, it appears that there are both endogenous and exogenous elements in the evolution of technology and industrial practice. Endogenous growth theory has highlighted that fact, and has been the occasion for interesting work, both structural and reduced-form, on the determination of innovation.

6. Economic history (and also Joseph Schumpeter) teaches that every period of depression gives rise to a wave of epoch-making innovations which shape the rhythm of economic growth that follows. What do you think for the near future, do you see any such innovations, and can the government accelerate the pace of their introduction?

RS. This fits in with my answer to the previous question. So far, it seems to me, the likely major coming innovations were motivated by events that proceeded the current recession. I am thinking of such things as renewable sources of energy and other innovations aimed at environmental protection. I am not sure that it is an established generalization that deep recessions and depressions promote epoch-making innovations; they may in some cases hinder large innovations by intensifying risk-aversion, for example. These things are very hard to foresee. Maybe it is enough to emphasize that governments can accelerate the process of technological change simply by supporting education and research.

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