

An Encyclopedia of Keynesian Economics

Edited by

Thomas Cate

Associate Professor of Economics, Northern Kentucky University, USA

Associate Editors

Geoff Harcourt

Reader in the History of Economic Theory, Faculty of Economics and Politics, University of Cambridge and Fellow, Jesus College, Cambridge and Professor Emeritus, University of Adelaide, South Australia

David C. Colander

Christian A. Johnson Distinguished Professor of Economics, Middlebury College, Vermont, USA

Edward Elgar

Cheltenham, UK • Brookfield, US

Harrod, Sir Roy

Henry Roy Forbes Harrod was born on 13 February 1900 in Norwich. He was the son of Henry Dawes Harrod and Frances Forbes-Robertson. Under his mother's influence he was 'brought up in a literary and artistic home in which the tradition was that conversation was by far the greatest pleasure, if not the prime object, of life' (Harrod, 1959, pp. 39–40). This aspect of his upbringing was further nurtured during his schooldays at Westminster and as an undergraduate at New College, Oxford, where he read Greats from 1919 to 1921, and Modern History in 1922, in both cases getting a first. The characteristic Oxbridge process of learning through debates and conversation (Harrod, 1951, pp. 58–9) inevitably stimulated his wide range of interests.

His early philosophical and political concerns later played an important part in the development of Harrod's dynamic theory. Under the influence of Ramsey and Ayer he embraced a logicist attitude towards the cognitive status and the method of economics (Harrod, 1951, p. 321; 1959, pp. 62–5), while the empiricism he imbibed from Mitchell (Harrod, 1937, 1949) induced him to found the axiomatic basis of his dynamics on inductive generalizations (Harrod, 1938). Interestingly though, having been an 'ardent liberal' in the 1920s, after the 1931 electoral debacle of the Liberal Party Harrod – like Keynes, and possibly under his inspiration – looked with sympathy at the position of the Labour Party, and took part in the discussions between 'Keynesians' and 'Hayekians' within the New Fabian Research Bureau (Durbin, 1985). In spite of their theoretical divergences, they shared as an analytical postulate the assumption of a base of steady progress, which later characterized Harrod's notion of dynamic equilibrium (Harrod, 1934b, 1936, 1939).

Although Harrod did not receive a proper training in economics, Christ Church considered his qualification suitable to teach economics, elected him to a studentship (which he maintained until his retirement in 1967) and allowed him two terms away to study the subject. One of these was spent in Cambridge, where Harrod attended Keynes's lectures on Cambridge monetary theory (Harrod, 1951, p. 325, 341), wrote weekly essays for him covering the ground of Marshall's *Principles* (ibid., pp. 323–4) and participated in his Political Economy Club. On his return to Oxford, Harrod attended Edgeworth's 'absolutely fascinating lectures' (Harrod, 1937, pp. 79–80) and 'took essays to him on cost curves and international trade' (Phelps Brown, 1980, p. 8). His surviving notebooks certify that this was a period of intense reading, the subjects covering monopoly, monetary problems (of both theoretical and historical character), trade unionism, international trade and political science, besides of course the milestones of economic literature. His work for the British (later Royal) Institute of International Affairs

as the Secretary of the Commission on Cartels made him well known within economic circles, and by 1926 his name was prophetically cited as one of a new generation of economists expected to make real contributions to the subject (Fisher, 1926).

In 1927, Keynes asked him to write something on international economics for the *Cambridge Economic Handbooks* series. The book, published in 1933, was praised for its originality and marks Harrod's introduction of the concepts of the crawling peg and the international trade multiplier (as they later came to be known). In the meantime, Harrod participated in the debates on imperfect competition and contributed the notion of *marginal returns*, which he independently discovered in 1928 (although the paper was only published in 1930: see Harrod, 1951, pp. 159–60n).

Besides their intrinsic interest, Harrod's reflections on imperfect competition also entailed important consequences for his dynamics. In Harrod's view, the principal difficulty for trade cycle theory is that of allowing for the *possibility* of economic change, which the assumption of stability of equilibrium negates. At first, Harrod saw the possibility of increasing returns as the condition which enables an economy to overcome the tendency to stay in a state of rest (Harrod, 1934a; Besomi, 1993). Although he later resorted to other specific mechanisms, the postulate that *instability* must be an essential ingredient of a dynamic model was consistently maintained through the subsequent evolution of his thought. This was later interpreted and discussed as an analytical *result* to be proved (the 'knife-edge'), while in reality it constituted a *premise* of his dynamics.

Harrod's first contributions to dynamics, *The Trade Cycle* (1936) and an 'Essay in Dynamic Theory' (1939), although differing in their emphasis on expectations and in their causal interpretation of the 'accelerator' (Besomi, 1995), relied on a similar mechanism for explaining the rate of growth of the economic system. In both cases this was interpreted as depending on the interaction between the multiplying effect of investment on income and the accelerating influence of the increase of income on the demand for investment goods, equilibrium being characterized by the mutual support of investment and increasing demand.

Harrod intended his dynamic determination of the equilibrium rate of growth to refer to a single instant of time. He knew, in fact, that growth itself affects both the multiplier and the accelerator coefficients, but as he was unable to work out the mathematics involved in this non-linearity he correctly insisted that the validity of his analysis be confined to the only domain warranting constancy of the parameters (Besomi, 1995, 1996). His result, however, was understood as describing the equilibrium growth *path*, and Harrod – together with Domar – was credited with the fatherhood of modern growth theory (for a discussion, see Kregel, 1980).

After the war, Harrod revised and refined his dynamic theory. (Harrod, 1948, 1960, 1973; see Asimakopulos, 1985), further contributed to imperfect competition theory (1952), wrote the first biography of Keynes and a memoir of Lord Cherwell (1951, 1959), a book on induction (1956), several pieces on monetary theory and policy (1965, 1969) and was involved in the most important theoretical issues of the economics of his time. When he died on 8 March 1978, he left behind a monumental amount of writing (for a partial bibliography, see Eltis *et al.*, 1970; Scott, 1971) and his surviving papers testify to a life of intense exchanges of views with his most eminent contemporaries – economists, philosophers and politicians (Riley-Smith, 1982). In particular, since the early 1930s, people like Keynes, Robertson and Henderson – besides his contemporary fellows Meade, Joan Robinson, Kahn and Kaldor, to cite only a few – often asked for his opinion (see Young, 1989). In 1945, he took over the editorship of the *Economic Journal* from Keynes. From 1962 to 1964 he was president of the Royal Economic Society. He was knighted in 1959 and received several honorary degrees, although to his disappointment he was never elected to a Chair in Oxford (see, for further details on his life and career, Blake, 1970; Hinshaw, 1978; Phelps Brown, 1980).

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See also:

Cambridge Circus; Domar, Evsey D.; Economics of Keynes and of his Revolution, Key Elements of the; Hicks, Sir John R.; Kaldor, Lord Nicholas; Keynes, John Maynard; Keynesian Revolution; Multiplier Effect; Robinson, Joan; Swan, Trevor W.; Technological Change.

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