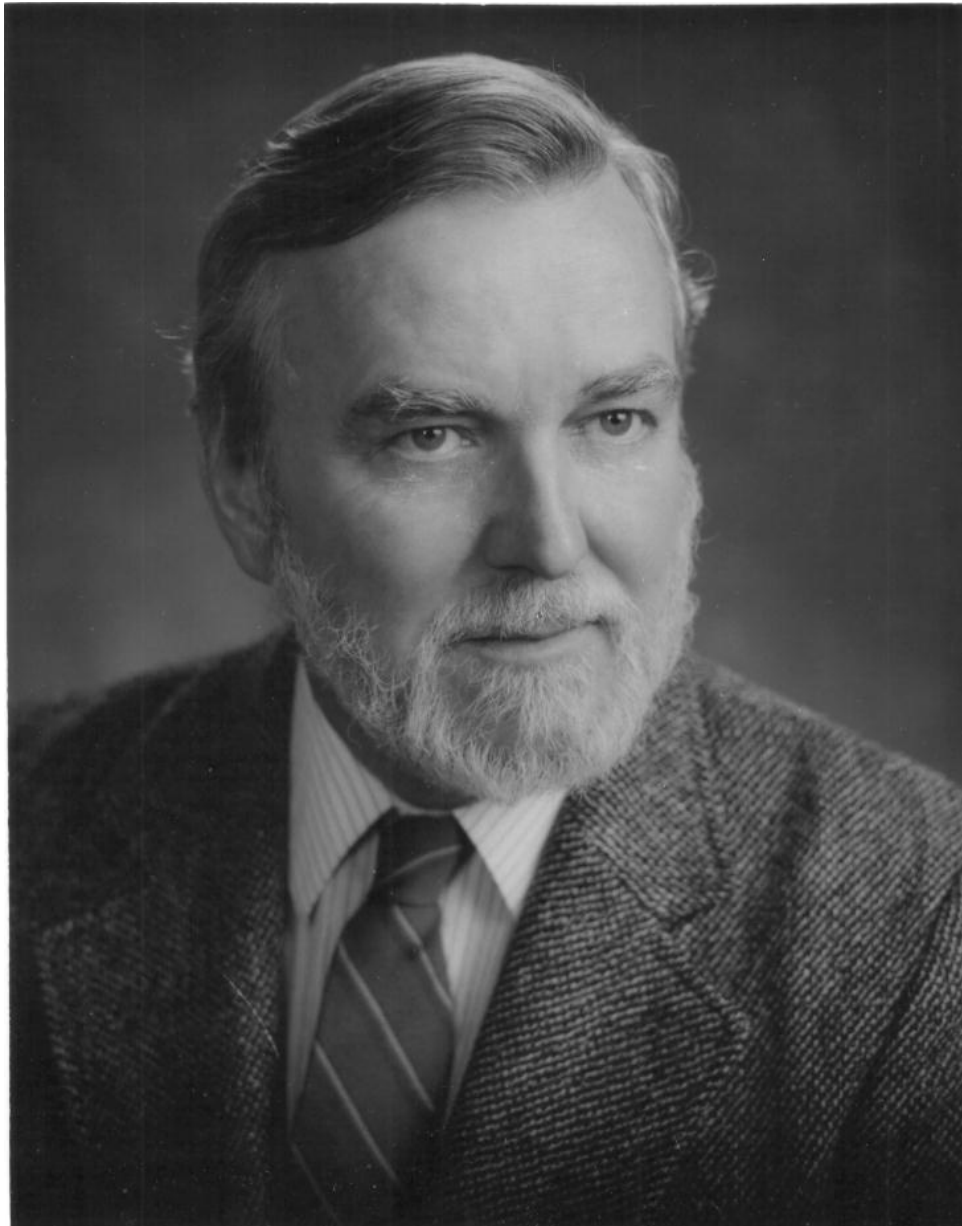


MARK SETTERFIELD

John Lally Cornwall
1928-2008



In 1988, John had already published two books that described how capitalist economies could achieve sustained periods of rapid growth consistent with low unemployment. In *Modern Capitalism: Its Growth and Transformation* (1977), the second and most celebrated of these books, John explained the post-war Golden Age of capitalism (1945–1973) as a self-reinforcing virtuous circle of demand-led growth, using a Kaldorian model of cumulative causation. (The penultimate chapter, which discussed deindustrialization and the macroeconomic debacle of the mid-1970s, featured one of John's best and also one of his own favourite chapter headings: "Closing Time in the Gardens of the West.")

However, it was in *Growth and Stability in a Mature Economy* (1972) that John laid the foundations for all steady-state models of demand-led growth, by explicitly discussing the reconciliation of the expansion of aggregate demand and aggregate supply – a reconciliation that is necessary if the equilibrium rate of demand-led growth is to be truly sustainable in the long run. With good reason, this issue has been rediscovered and further developed several times since the early 1970s. So although *Growth and Stability* has never enjoyed the popularity of its more illustrious successor (for example, I didn't encounter it at all as an undergraduate at Cambridge, but I knew all about *Modern Capitalism*), I always thoroughly enjoyed the conversational turns that led John and I back to it, and that invariably ended with our concluding (with a chuckle) that it wasn't a bad little book after all.

Nevertheless, 15 years into the prolonged post-1973 growth slowdown – a period that also witnessed the ills of simultaneous high unemployment and high inflation, the coincidence of which he began discussing in *The Conditions for Economic Recovery* (1983) – John had decided that accounting for protracted periods of either better or worse macroeconomic performance simply wasn't enough. Instead, the challenge lay in explaining how these episodes could rise and fall as part of a broader historical process in which successive episodes are causally related, and hence ultimately give rise to one another.

For John, the key to unlocking this puzzle was institutions, broadly defined to include norms, customs, conventions and formal laws – i.e., all forms of social structure that specify behavioural procedures of the sort "whenever confronted with situation *x*, do *y*." In an environment of uncertainty and distributional conflict, institutions enable action, by prescribing behaviour when it is impossible to identify an optimal response to a situation. In the process, they play an important cognitive function, by making the likely future behaviour of others more predictable. Institutions also codify and regularize interactions between parties, and thus have the potential to reduce conflict. The very inertia of institutions, which in John's turn of phrase renders them "exogenous in the short run but endogenous in the long run," makes them ideally suited to these roles. As a result, institutions act as an "operating system" within which the income-generating process functions, producing protracted periods of either better or worse macroeconomic performance depending on the degree of "institutional fitness."

Because John's conception of the long run endogeneity of institutions involved their being sensitive to past macroeconomic outcomes, he saw the entire capitalist system as being subject to a path-dependent process of evolution in the long run. In his vision, relatively enduring institutions give rise to episodes of macroeconomic performance lasting for several successive business cycles. But each episode of performance has feedback effects on the very institutions on

which it is based. This ultimately creates institutional change and thus a new episode of performance, and so on.

The first fully developed accounts of these ideas can be found in John's *Breakdown* books (1990; 1994). But he continued to refine and hone the model of capitalist development laid out in these books throughout the last twenty years of his life. Perhaps its finest expression is to be found in *Capitalist Development in the Twentieth Century: An Evolutionary Keynesian Analysis*, which he co-authored with his wife Wendy (2001). By this point, John had begun to identify the medium run as the fundamental building block of macrodynamic analysis. Consistent with the thinking outlined above, John took the defining feature of a medium run episode of macroeconomic performance to be the institutional framework that was its ultimate cause, treating this institutional framework as robust to the aggregate fluctuations associated with the business cycle in the short run, but ultimately endogenous to trends in performance over consecutive business cycles in the longer term. In tandem with the *Breakdown* books, *Capitalist Development* also succeeds in delineating the "Cornwall view" from other, similar visions of macrodynamics, such as those associated with Social Structure of Accumulation (SSA) theory and the French Regulation School (see, for example, Kotz et al., 1994 and Boyer, 1990 respectively).

Despite its emphasis on negative feedbacks in the long run (as a result of which episodes of superior macroeconomic performance are expected to bequeath episodes of inferior performance, and *vice versa*), the Cornwall view eschews the more strictly cyclical view of capitalist growth associated with the SSA and Regulation approaches. *Capitalist Development* also makes clear the Cornwalls' strictly Keynesian view of the income-generating mechanism, even in the long run, in contrast to the more Classical inspiration of much – although not all – descriptions of growth in the SSA and Regulation traditions. As David Colander noted in the foreword to *Capitalist Development*, John was a Keynesian to the core. Indeed, he frequently referred to his work of the last twenty years as essentially an effort to deepen and extend Keynes' short run analysis, by uncovering the institutional foundations of the process of aggregate demand formation at any point in time (the "deepening" project) and providing an evolutionary, demand-determined account of the long run (the "extension" project).

At the time of his death, John, together with Wendy and I, was working on the latest refinement of the *Breakdown/Capitalist Development* model. John had begun to turn his attention towards the inherent instability of a financialized growth process. Only this summer, we were discussing the irony of macroeconomists' current obsession with a "great moderation" in macroeconomic time series at a time when, in our view, capitalism was better characterized in terms of a "latent instability," owing to the unsustainable process of debt accumulation that many households were relying on to fuel growing consumption expenditures in the face of stagnant real earnings.

As a true student of Keynes, John's interest in the topic ran far deeper than that of many who are now suddenly professing that money and finance matter. In *Growth and Stability*, John had outlined a model of the business cycle in which investment-led booms prompt savers to reallocate their portfolios, away from deposits at thrift institutions (building societies) and towards corporate debt and equity. By reducing the capacity of the thrifts to finance residential construction, this development moderates the boom. During the downturn, savings flow back into thrifts which are then well placed to finance the pent-up demand for residential construction, thus moderating the slump. Given certain financial institutions, then, the housing cycle

moderates the business cycle when the latter is investment-led. In *Capitalist Development*, John and Wendy used this model to explain the macroeconomic instability of the interwar years, when a consumption-led boom during the 1920s meant that the housing cycle was in phase with the business cycle and thus failed to play the stabilizing role described above.

If nothing else, however, the themes intimated above, when set alongside the comparative analysis of labour market institutions that dominated his account of the rise and fall of the Golden Age in the *Breakdown* books and *Capitalist Development*, serve to illustrate the sheer breadth of the canvas on which John Worked.

John Cornwall was my dissertation advisor, my mentor, and eventually my colleague and collaborator. But above all else he was my friend, and it's in that capacity that I'll miss him most.

*Dr. Mark Setterfield
Department of Economics
Dalhousie University*