

*Canadian-born John Kenneth Galbraith is a Harvard professor whose views on industrial societies and their lack of competitive markets have made him one of the world's most recognized modern economists.*

*This interview covers Galbraith's views on economic theory, his personal history, and the impact of some key economic and political leaders.*

## **Depression-Era Economics: Looking for a Remedy**

INTERVIEWER: What drew you into economics? What attracted you to this profession?

JOHN KENNETH GALBRAITH: Oh, there was not a question about that. In 1931, I graduated from college in Canada in agriculture, and I had a choice at that time between going to a leisurely, agreeable academic world on a scholarship, a fellowship in California, and a hard-slugging job, work on a Canadian farm. Very few decisions have I made with such ease. When I got to Cal-Berkeley in the summer of '31, [it] was at the bottom of the Great Depression. To be in favor of what existed, not to have some kind of idea as to what should be done, was a desertion of all responsibility, so I got myself very early more and more involved in economic politics. I went to work for the New Deal in the summer of 1934.

INTERVIEWER: Can you give a sense of how bleak and how despairing things seemed in the early '30s?

JOHN KENNETH GALBRAITH: Well, there were two ways of that. A university was in many ways a poor way to see that, because you were surrounded by people with secure income and a happy life, relatively speaking. But one couldn't go to the docks in San Francisco, one couldn't go to the farms, one couldn't go to the slums of Oakland without seeing how many people were on the edge of despair and how fortunate you were as compared with the ordinary citizen at the time. And that was, I hope, the factor that involved me more deeply in progressive economics....

The diamond feature of those years, of that decade, [was] the sense that nothing was working. And those of us in universities—I was then first at California and then at Harvard, having recently come from Canada—[we] had a special sense of responsibility, because our

profession was economics. We were supposed to know not only what was wrong, but also what was right. But there was also a more important effect, that in a university, we were very comfortable; we weren't faced with unemployment. And therefore, if we had any sense of compassion, which I hope we did, we were concerned with what others were suffering [and] that we were escaping.

INTERVIEWER: Can you describe the sense of excitement that Keynes's ideas produced in young economists in Harvard?

JOHN KENNETH GALBRAITH: Well, let me speak [about] that in slight length. We were all looking for a cure, a remedy for the Depression, and most economists were looking for it in orthodox terms—old-fashioned supply and demand. And in the mid-30s, '36, '37, there was a leading New England businessman, very liberal, one of the few supporters of FDR in the business community. We were writing a book which was faithfully orthodox. It argued that the Depression was the result of the modern corporation taking control of prices and employment and restricting in a monopolistic way, and leaving people outside. I'd just finished the first draft of that book and looked at it with some satisfaction. It was [a book] that kept me at peace with my conservative colleagues. [Then] I read *The General Theory* and was faced with the fact that [our] book, already in print, already accepted by the publisher, was inconsistent at the opposite extreme from what I'd just read from John Maynard Keynes.

It was a terrible discovery, particularly as the book already was in print and appeared under the title of *Modern Competition and Business Policy*. It has now been dropped from my list of published books, or was then dropped.

I went off to Cambridge with [my wife] Cathy Galbraith, where I studied under Keynes. That was in the year of his first heart attack, but that didn't make so much difference as you might imagine, because at Cambridge in the mid- to late '30s, nothing else was talked about except Keynes.

INTERVIEWER: Did Keynes create a sense of hope where there'd been despair?

JOHN KENNETH GALBRAITH: Did Keynes create a sense of hope? Oh, unquestionably. There was this breath of hope and optimism, and I came back from Cambridge to find a whole group of people here who had also read *The General Theory*. And the younger Harvard community, coupled with one or two older professors, the most distinguished being the famous Alvin Hansen, I've said many times I think had something, maybe quite a bit, to do with bringing Keynes across the Atlantic.

### **Keynes's Impact on America: FDR and the New Deal**

INTERVIEWER: Tell me if Keynes attempted to influence Roosevelt directly. Didn't he try once in person and once with an open letter? Was he successful?

JOHN KENNETH GALBRAITH: Well, Keynes had a couple of conversations with Roosevelt, very famous, and they were deeply unsuccessful. Roosevelt's system of thought did not extend to a conceptual notion of Keynesian economics. There were other people around Roosevelt, the most notable being Lauchlin Currie... who had read Keynes, and became abreast of Keynes. Currie had even anticipated him to some extent, but the influence on the master was zero.

Let me correct that. The influence was zero, but on the other hand, one of the advantages of zero was that any digit could be inserted. And while he didn't accept Keynes as a doctrine, he didn't resist it, either. He had no other system of economic thought [or] economic theory that excluded it.

INTERVIEWER: Would you describe FDR as an instinctive Keynesian?

JOHN KENNETH GALBRAITH: No, I would not describe him as that. I would describe him as an available Keynesian.

INTERVIEWER: Can you describe the process by which Keynes's ideas did get accepted in Washington? Young economists were actively promoting him, weren't they?

JOHN KENNETH GALBRAITH: Oh, we all knew each other and were all in touch with each other, all making the case for the basic Keynesian idea, which I must emphasize to you resisted conservative finance, borrowed money, and hired people across the country, rescuing

them from unemployment. That was the basic essential, and that you didn't worry about accumulating debt, or, more precisely, you worried about it but did it anyway. That was the substance of Keynes as it was manifested in the Public Works Administration, [as] it was manifested in the Works Progress Administration (WPA), which was directed at the unemployed. That captured Roosevelt, not the underlying theory.

INTERVIEWER: You described yourself somewhat as Keynes's oracle. What did you mean?

JOHN KENNETH GALBRAITH: Oh, that's too magnificent, entirely too magnificent. I deny that I ever said such a thing.

INTERVIEWER: (laughs) I was just wondering about a man called Marriner S. Eccles's significance at this time.

JOHN KENNETH GALBRAITH: He was from the West, from Utah. He had seen very closely what the Depression was doing to the farm community and encouraged banks under his administration to lend money to farmers and to small business in order to promote employment—to make money lending, to some extent, an instrument of economic policy. He came from that to the Federal Reserve, where he fell in touch with Lauchlin Currie, another Keynesian. And the Federal Reserve, marvelous as that may seem, became the instrument of Keynesian thought. That it should be the instrument of any liberal economic thought now seems impossible.

### **Hayek and His *Road to Serfdom***

INTERVIEWER: While you were in London before the war you attended at least one of Friedrich Hayek's lectures. What was he like personally?

JOHN KENNETH GALBRAITH: I attended several of them. His lectures, if I recall correctly, were on Wednesday, and on Tuesday night Cathy Galbraith and I took the train down to London, or we had a car, so we might have driven, and the next day I attended Hayek's lecture.

Oh, he was an attractive person, a formidable force for thought. And, as I've said many times, the seminar at the LSE [London School of Economics] attracted a large group of people who came overwhelmingly to correct Hayek and bring him abreast of the human present.

INTERVIEWER: In your books you like treat him with a sort of elegant scorn. What did you dislike about his ideas?

JOHN KENNETH GALBRAITH: Oh, there's no doubt about it, they were ideas related to the dominant business community and gave substant thought to ignoring the poor, ignoring the unemployed, ignoring the Depression. He was above all that and arguing strenuously for what the establishment, the fortunate, found favorable.

I don't say that he did this deliberately in order to cultivate that audience. He just found himself there, and I think it's possible that he liked the applause that he got from the wrong people.

INTERVIEWER: You describe him as dogmatic. What did you mean?

JOHN KENNETH GALBRAITH: Perhaps that would be a bit unfair. He had a well-formulated set of ideas and didn't welcome any deviation from them.

INTERVIEWER: In Hayek's view, almost every step that you would recommend would be a step towards socialism and serfdom.

JOHN KENNETH GALBRAITH: That's absolutely right. He went beyond the economic effects to argue with the people that were disagreeing with him, urging a larger public role for the state, for the government, on behalf of the poor and the misfortunate. The unfortunate were also enemies of free speech, libertarian behavior, and that of course was the title of his one widely circulated book, *The Road to Serfdom*.

## **The Postwar World: The "Age of Keynes"**

INTERVIEWER: You've written that World War II affirmed Keynes.

JOHN KENNETH GALBRAITH: Oh, there was no doubt about it. We entered the war with massive unemployment, general hardship, and a very weak, ineffective economy. That was the nature of the American economy in 1940, '39, '40. And then came the war, public borrowing on a vast scale, public employment simulating private employment, a return to full employment, a return to the problem with which I was overwhelmingly concerned, that of inflation.

One could not have had a better demonstration of the Keynesian ideas, and I think it's fair to say that as a young Keynesian in Washington, in touch with the other Keynesians there, we all saw that very clearly at the time. We saw the war, which we regretted, and I still regret it. I don't easily tell other people they should get killed, but we saw the war as a justification of the Keynesian theory, the Keynesian doctrine, and the Keynesian recommendation.

INTERVIEWER: How widespread and influential was Keynes after the war?

JOHN KENNETH GALBRAITH: Well, his postwar years were very brief. The Bretton Woods [institutions]—the [International Monetary] Fund and the [World] Bank—were his last two great contributions in which he was very influential, no doubt about that. But his health was failing, and in a very few years he was dead.

INTERVIEWER: And how influential were his ideas?

JOHN KENNETH GALBRAITH: His ideas as distinct from Keynes himself? Keynes became Keynesian economics, and the Keynesian view of economic policy collected the whole liberal left movement in the United States. That became part of the accepted policy, the accepted doctrine. And you ask was he influential? Nobody could have been more influential. He changed the nature of what we call liberal economics.

INTERVIEWER: How about outside the USA? Was he influential on the rest of the world?

JOHN KENNETH GALBRAITH: Well, the USA, Canada, Britain, and, after the war ended, Western Europe were the total. And there was no place other than Britain where he was such

a contentious figure. But there was certainly no doubt about his influence on all the Western economies.

INTERVIEWER: What do you think Richard Nixon meant when he said "We're all Keynesians now"?

JOHN KENNETH GALBRAITH: Oh, nobody should interpret Nixon to the larger public. He probably didn't know himself.

INTERVIEWER: What was it that happened to make "the age of Keynes," as you put it, visibly important?

JOHN KENNETH GALBRAITH: Well, two things. First, one I must attribute to Ronald Reagan, once one of my fellow practitioners on the liberal left [who] came into the presidency as an economist. He came into the presidency as the country was experiencing a rather disagreeable recession and [implemented] lots of strong Keynesian policy—borrowing, unfortunately, for arms. It was the arms expenditure that cut the attention and created the sense of necessity, rather than putting people to work. But in any case, one of the results was an improving economy in the '80s under Ronald Reagan, and one of the amusing facts of that was that this was done by people who didn't really understand Keynes and who were critical of him. We had involuntary anonymous Keynesianism.

INTERVIEWER: You've written somewhere that the age of Keynes is over, it's dead. Why did it end?

JOHN KENNETH GALBRAITH: Oh, I don't think it ended for a moment. If we were to have another recession, which is possible, we would be back to using some of the crude government surplus to create employment and to get the economy moving again. That would be something you would advocate; it is something that would be done automatically.

We have the prospect of a Keynesian economy based on a past surplus of the public revenues, rather than the current borrowing.

## **Is Monetarism Socially Neutral?**

INTERVIEWER: You've used the phrase "the age of Friedman" in one of your books. If this is the age of Friedman, what does that mean?

JOHN KENNETH GALBRAITH: Did I use that phrase? Well, he's an old friend of mine, and I'm sure that economists should always be nice. But [Milton] Friedman was not a Keynesian. He would be the first to deny it. And if I used that phrase, I'm now very happy to withdraw it.

INTERVIEWER: (laughs) Is your main criticism of Friedman about monetarism? Is monetarism socially neutral?

JOHN KENNETH GALBRAITH: No, it's not socially neutral. It is politically purposeful to say that everything can be done by controlling the money supply and the interest rate, the bank rate, to say that you exclude a large area of social activity that costs money and which you would like to get rid of. And it enormously simplifies economics so that it leaves nobody intellectually able to grasp it.

The great strength of the Federal Reserve is that it has a formula for managing the economy, which takes it away from the enormous complexity of the subject and restricts it to what you do to the interest rate. Well, it's awfully nice to simplify life, and one can only question the desirability of doing so.

INTERVIEWER: Whom do high interest rates help, and whom do they hurt?

JOHN KENNETH GALBRAITH: Well, there's no doubt about that. A high interest rate, believe it or not, is very agreeable to anybody lending money. And therefore the financial community, or that part of it that has to do with money lending, is very attracted by the idea of high interest rates.

But what it does more than that—and this is a point that is not emphasized enough—by concentrating on the Federal Reserve, concentrating on the interest rate, and excluding everything else, [it] exclude[s] a lot of unwelcome state activity as having to do with the way the economy is working. You worry about unemployment, you worry about pensions, you

worry about schools, and you can say, "But we've got control of the matter on the interest rates, and we don't have to bother about all that junk." It's a wonderful conservative device.

INTERVIEWER: Is that why conservatives applaud Milton Friedman?

JOHN KENNETH GALBRAITH: Absolutely. That's one of Milton's undoubted strengths, and one of Greenspan's undoubted strengths—a wonderful concentration of economic policy on something with which you need not be immediately concerned and excluding a lot of things that cost money. And those are involved social programs, relief, welfare, things of that sort, that you don't want the government monkeying with. If I were a conservative, I would be a devoted supporter of Alan Greenspan.

INTERVIEWER: Would it be in your own self-interest if you were a wealthy conservative?

JOHN KENNETH GALBRAITH: I never reflected on that. I have always considered excessive self-interest to be a little bit on the selfish side.

INTERVIEWER: Did you approve of or disapprove of the Volcker recession?

JOHN KENNETH GALBRAITH: No, I have never been approving of recession. That puts an economic burden on the people that lose their jobs, the people that lose their wage increases, and the people that are cut as to other income, and anybody that prescribes that is a little bit too cruel to my taste. Paul Volcker's an old friend of mine. We were both approximately the same physical height, but that doesn't mean we agree on everything.

INTERVIEWER: Wouldn't some people say that Paul Volcker laid the foundation for the present strong economy?

JOHN KENNETH GALBRAITH: Oh, people will say anything. I wouldn't attribute that to Paul.

INTERVIEWER: Why not?

JOHN KENNETH GALBRAITH: Because I don't think he deserves it.

INTERVIEWER: Do you think the Volcker recession achieved anything?

JOHN KENNETH GALBRAITH: That is a phrase that has worked its way into economics and doesn't have any real meaning.

INTERVIEWER: Looking at the state of the world today—the present state of the market, the prevalence of the market economy—do you feel a lot of people these days think that Friedrich Hayek and Friedman have actually won the argument? Do you accept that?

JOHN KENNETH GALBRAITH: Certainly not. They have had a very effective voice. They've turned and got the attention of a lot of people, but we're now, as we talk here, facing an election in the United States, and no candidate so far as I'm aware has had the courage to mount a major defense of Milton Friedman.

### **The "Cult of the Market"**

INTERVIEWER: As in the 1920s, there's a cult of the market. What do you think of that?

JOHN KENNETH GALBRAITH: Well, lending on to reference, everyday reference to the market system, I have a book partly written, which I hope to finish one of these days soon, called *The Economics of Innocent Fraud*. It deals with the question of our reference to the market system. Once we called it capitalism, but that became associated with Karl Marx and with Rockefeller, both undesirable associates. And so we went over to call it the market system. That is a bland, meaningless term, because actually a socialist state also makes extensive use of the market. But the market system doesn't arouse any of those unhappy memories.

INTERVIEWER: Nevertheless, what do you think of the present cult of the market? Is it misplaced? Has it become like a religion?

JOHN KENNETH GALBRAITH: I suppose there's a form of religion. Economics transfers very quickly into religious voice. Perhaps that's true of this session here today, but they don't blame that on religion. There's a very big self-interest involved. If you have the market system, and it's working well, you exclude the state, you exclude the government, you

exclude any traces of socialism, and so that reference to the market system gives an authenticity to conservative desire that is very important to conservatives.

INTERVIEWER: Do you think the retreat of governments from the marketplace will make the pendulum swing the other way?

JOHN KENNETH GALBRAITH: No, I don't think there's been any retreat. Going back to Hayek, whom we talked about before, going back to the oldest of conservative traditions, we've had talk of a retreat from the state, a retreat from government. But when it comes down to specifics, when it comes down to education, when it comes down to social security, or when it comes down to a Keynesian responsibility for the working of the economy, and the Keynesian in the broader sense, the conservative voice becomes silent. Maybe even as in the case of the present election, which is why we're talking, attracts a certain amount of conservative support.

One must always in economics distinguish between the broad philosophical language, the broad political language, and the specific reality. Everybody wants a smaller state, but, on the conservative side, none attack social security or education or, of course, defense, which is a huge, unduly huge, part of our public budget. One must take a discriminating view of the language here, as always.

### **Government and the Market: "The Correct Balance Is Pragmatic"**

INTERVIEWER: You've kind of answered it, but what do you think is the correct balance between government and the free-market system?

JOHN KENNETH GALBRAITH: I have no doubt on that. The correct balance is pragmatic. If the market system, as you call it, has its own things that it does very well, no one could question, for example, its ability to make automobiles or grow food or provide a large part of the substance of life. But then there's an area where it doesn't work, and the distinction between the areas where it works and the areas where it doesn't work is the basis of sound policy.

We're not, as we talk, in the United States having a big, sometimes quite mindless, argument about education. Everybody agrees that education is a public service, or almost everybody,

and has to be handled, financed by the state, by the government. On the other hand, there's nobody, so far as I'm aware, suggesting that the state should take over the manufacture of automobiles, which I just mentioned, or farm products, or a wide range of other things. So it's a practical judgment that has to be made in the specific case, and it doesn't lend itself to the kind of broad theory implied in your question.

INTERVIEWER: At the end of the day, is morality at the heart of economics?

JOHN KENNETH GALBRAITH: No, but it can be. We're talking today in a very rich country, at a very rich time, and at the time we talk a large part of the American population, 10, 15 percent, are living below the level of enjoyment. They're hungry, they're ill housed, they are sick, and very largely as the result of the lack of income, mostly as the result of the lack of income. I would like to see a minimum income for everybody so that you have a life-supporting safety net. I think it's something a rich country like the United States can afford. And I'm not the only one with that view. Conservatives will say that people endowed [that way] won't work. Well, that's quite possible, but I'm impressed with the fact that leisure, if you're rich enough, is also a very good thing. In the past, often I've walked through Harvard Yard and have had one of my colleagues say to me, "Ken, aren't you working too hard?" Excessive work, leisure can be very good for a college professor, or somebody of affluence. Work can be unnecessary.