

Almost

EVERYONE'S GUIDE TO ECONOMICS

John Kenneth
Galbraith
Nicole Salinger

Almost Everyone's Guide to Economics

John Kenneth Galbraith
and Nicole Salinger

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Almost Everyone's Guide to Economics

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*For Pierre Mendès-France
with admiration*

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J.K.G.

Foreword

We've been friends for a long time, and we are both friends of Jean Lacouture, the truly wise author and editor who came to much deserved prominence in both France and the United States with his searching journalism on Vietnam. For some years now, for Éditions du Seuil, Jean has been arranging interviews of assorted writers and scholars similar to the one in this book.

Or partly so. Most often the interviewers have sought to explore in depth the life and background or the soul of the artist in question. The Galbraith soul, it was all too apparent, did not lend itself to such investigation. It is a shallow, pallid thing — one thinks of a disposable tissue — interesting only for the evidence of abuse and neglect. His life, so far as it hasn't been revealed in a journal, a novel and a book on his Canadian antecedents, is one day soon to be recaptured in a separate work, quite possibly of undue length and self-enhancement. There remained only economics.

As we considered it, this seemed the best subject of all. Economics preempts the headlines. It bears on everyone's life, anxieties and, if more rarely, satisfactions. Its subject matter

— more precisely, the circumstances with which it deals — is in a state of rapid change, one that, all too obviously, has left the statesmen and their advisers who apply its solutions well behind. This must be so; were it otherwise, they couldn't promise an end to inflation, an end to unemployment and then often achieve an increase in both. So we proposed to Jean that we try to see if the state of economics in general, and the reasons for its present failure in particular, might not be put in simple, accurate language that almost everyone could understand and that a perverse few might conceivably enjoy. It would be a conversation or, more specifically, a well-considered line of questioning in which any literate person might have participated.

We began the interrogation in the Loire Valley in September of 1977 and continued it during the autumn in Switzerland and Cambridge. The first result of our talks was usually far from complete or clear. When this was so, we amended and revised or did it over.

The economist provided the economics, and it will occur to some perceptive students of the obvious that this is Galbraith's view of economic life and not that, or not yet that, of the wholly conventional men and tracts. So it is. But were the current orthodoxies reliable and the policies they advocate applicable, we wouldn't be in the trouble we are in. We have seen the present, and it doesn't work. No economist can claim a monopoly of truth. But in what is now believed, given the results, there is a presumption of error.

If a question is asked that has been asked before, there is a certain likelihood that the answer will be similar or the same. A commitment to the same answer after the underlying conditions have greatly, even drastically, changed is a major source of error in economics, as this discussion amply avers. But consistency is not, universally, a sin. Some of the questions here asked have been asked before. What is true must be repeated. The inevitable may be more tolerable if confessed.

As Galbraith is responsible for the economics, so Nicole is re-

sponsible for its accessibility. Her function was not only to question but to persist: "Your point doesn't come clear." "It still doesn't." Many years ago, George Bernard Shaw wrote a small classic, *The Intelligent Woman's Guide to Capitalism and Socialism*. Our book, Nicole Salinger being of that race, might have been called *The Intelligent Frenchwoman's Guide to Economics and Economists*. But brevity is a virtue as elitism is not. So we threw open the door to the whole available audience: *Almost Everyone's Guide to Economics*. If the guidance is anywhere obscure, it is Nicole's fault. Though she persisted, she didn't persist enough.

J.K.G.
N.S.

Almost Everyone's Guide to Economics

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CHAPTER I

What Is Economics Anyway?

NICOLE SALINGER: *Winston Churchill said he could understand almost anything else but could not get his mind around economics. And yet obviously it is very important. What is economics exactly? And can I get my mind around it?*

JOHN KENNETH GALBRAITH: As to the last, certainly. And on essentials Churchill could, too. Let me remind you of the rest of his statement. He said he couldn't get his mind around economics, but he did know that shooting Montagu Norman would be a good thing. Montagu Norman was then the head of the Bank of England.

Alfred Marshall, the great Cambridge economist who dominated the accepted British — and American — economic teaching from the 1880s to the 1920s, said that economics is merely the study of mankind in the ordinary business of life. I would now add a reference to organization — to the study of the way people are organized for economic tasks by corporations, by trade unions and by government. Also of how and when and to what extent organizations serve their own pur-

poses as opposed to those of the people at large. And of how the public purposes can be made to prevail.

NICOLE: *When I understand economics, what can it do for me? Anything?*

JKG: To have a working understanding of economics is to understand the largest part of life. We pass our years, most of us, contemplating the relationship between the money we earn and the money we need, our thoughts suspended, as it were, between the two. Economics is about what we earn and what we can get for it. So an understanding of economics is an understanding of life's principal preoccupation.

There is another thing it can do for you. The newspaper headlines, when they escape from sex and the Middle East, are largely concerned with the economic decisions of governments. If people make no effort to understand these decisions, do not have an intelligent position and do not make that position known, they obviously surrender all power to those who do understand, pretend to understand or believe they understand. And you can be sure that the decisions so made will rarely be damaging to those who make them or to the people they represent.

NICOLE: *Valéry Giscard d'Estaing said in his recent book that economics is like the human body, an automatic regulatory mechanism and a further decision taken by the brain. Is that so?*

JKG: All similes for economic life should be resisted, but this is better than most. There are aspects of economic life which are still self-regulating, although they are diminishing in relation to the whole. And there are aspects which require guidance. It's the issues in this guidance—who is favored and who isn't—that the citizen and voter must understand.

Do you think we've now persuaded all susceptible people that they should have a working knowledge of economics?

NICOLE: *I'm persuaded, all right. But why don't more people try?*

JKG: Partly they are put off by the terminology. We economists protect ourselves from outsiders by resort to a language of our own. People in all professions do it to some extent. Physicians have their own language, as do lawyers and psychiatrists and burglars, I'm told. All like to see themselves as a priestly class with a knowledge, a mystique, that isn't available to the everyday citizen.

And some people, maybe many, are deterred by the feeling that current economic explanations are at odds with everyday reality. They hear an economist say, in describing how prices are set, that he assumes pure competition — the competition of many small firms in the market. And in the real world they see only a few vast enterprises supplying the gasoline, automobiles, chemicals, pharmaceuticals, electricity, telephone services or what have you. So they say to hell with it — economics isn't my world.

NICOLE: *Economists don't all agree; many totally disagree. Why do they disagree? How do I tell whom I should believe?*

JKG: You should believe me, of course. As to the disagreement, there are several reasons. There is self-interest, something we all recognize and are usually too polite to mention. An economist who works for a large New York bank rarely comes up with a conclusion that is adverse to the interest of his bank as that is understood by his employers. His public truth is what gains their approval. There has always been in the United States a healthy suspicion of the views of the economics professor who has a remunerative consulting relationship with corporations. Certainly his view will be different from that of an economist who is employed by a trade union.

Political identification also makes for disagreement. In the United States we have Republican economists and Democratic economists. Their personal politics controls or shapes their conclusions. That has been true in my case; over the years I've found virtue, at election time, in the views of some Democrats of exceptional illiteracy, economically speaking.

Quite a few economists measure their truth by the applause it evokes; they adjust their position, perhaps unconsciously, to what their audience will think agreeable.

Then, more important and perhaps more to be forgiven, there is the problem of change. The ultimate subject matter of the physical sciences is fixed. That of economics, in contrast, is always in the process of change — the corporation, the labor force, the behavior of the consumer, the role of government, are all always in transition. This means that economics, if it is to avoid obsolescence, must adapt in two ways. It must change as new information is added or interpretation is improved. And it must change as basic institutions change. Disagreement then comes because different economists have different reactions to change. Some yearn to believe that the basic subject matter, like that of the hard sciences, is given for all time. Some accept that economic institutions are in a process of continual alteration — that what was true of corporate, trade union, consumer or government behavior yesterday will not be true today and certainly not tomorrow.

There are still other reasons for disagreement. Some economists are very economical of thought and bring the lessons of their profession into their personal lives. They seek, accordingly, to make any ideas, once acquired, last a lifetime. A measure of disagreement comes, I suppose, from some being more intelligent than others, although that, too, is a thought that all decent and modest scholars suppress.

There isn't much difficulty in telling who has an ax to grind; our oldest instinct is to ask who is paying. Also, if an economist gets too much applause from the affluent, you should always be suspicious. The rich in all countries combine a fairly acute self-interest with an ever-present feeling of anxiety and guilt. Anyone who relieves that anxiety and guilt is assured of applause, and seeking that applause, not the truth, easily becomes a habit. Beyond that, the only test is to ask for the fullest possible explanation, then ask yourself whether the explanation is truly complete and makes sense. If an economist ever suggests

that you take something on faith because of his or her professional knowledge, dismiss him or her forthwith from your thoughts.

NICOLE: *There is reference to “economics” and also to “political economy.” Does it become political economy when the government assumes a critical function and role?*

JKG: That would be logical, as you French require. In fact, political economy is the older term. In the early professional discussion of the subject in Britain — that started by Adam Smith with *Wealth of Nations* in 1776 and continued by David Ricardo, Thomas Robert Malthus and John Stuart Mill in the first half of the last century — the reference was to political economy. No sharp line was drawn between the role of the consumer and business firm on the one hand and that of the state on the other. All were seen as part of one great system.

Then, toward the end of the last century, the term “economics” came into use. It reflected a more virginal view of the subject, from which the government was largely excluded. Producers and consumers came together in the market; the market was the all-powerful regulatory force in society. All important needs were so supplied. The state had only a minor and often rather derogatory role. Economics was political economy cleansed of politics.

In very recent times there has been an effort to revive the older term and bring the reference to political economy back into use. This, as you might suppose, is on the grounds that the distinction between economics and politics is now an artificial one, that government has a necessary and powerful influence on economic behavior and performance. Even the term “political economy” is now misleadingly narrow in its connotations.

NICOLE: *If you can't separate economics from politics, can you separate it from philosophy, history, sociology, demography, geography — I suppose not from pornography. Don't they all bear on economic understanding?*