Roger Strassburg hatte die Gelegenheit, sich in Berlin mit **James Galbraith** zu unterhalten. Galbraith war kurz zuvor in Griechenland und traf sich dort mit Yanis Varoufakis und Alexis Tsipras. Seine Erfahrungen in Griechenland, die Gefahren für die Eurozone und transatlantische Missverständnisse sind Thema des Gesprächs. Heute wollen wir Ihnen und internationalen Lesern die englischsprachige Originalversion des Gesprächs präsentieren. Die deutsche Übersetzung folgt am Freitag.

Roger Strassburg: I was listening to your speeches. One of them that I found was kind of interesting was the one in Croatia, where you talked about true and false Keynesianism. What does that actually mean?

James Galbraith: Well, it's a politer term for the subspecies that Joan Robinson referred to by a somewhat ruder word. What I'm getting at there, hoping to stick some needles under the skin of certain people, is the misleading, and I think fundamentally anti-Keynesian idea that the macro-economic task consists of stimulating, and thereby returning the economy from its present state to the track of potential output, which was previously considered to be normal. What's wrong with this, is two things. First of all, it conveys the false impression that the macro-economic problem is a short-term problem amenable to a relatively short-term solution consisting largely just of increased spending or reduction of taxes. That, in turn diverts attention away from the problems that I think are effective barriers to such a return.

So my view is that the Keynes, were he around today, would have a vivid appreciation of the difficulties and would be taking a strategic and long-term approach to these issues, putting in place institutional changes that in my view are required. They include, first of all, regulation of the debt issue, a transformation and restructuring of the banking sector, new institutions to provide employment to those who need it, and a strengthened system of comprehensive social insurance. All of those things were part of the New Deal formula, and they are all, I think, palpably essential, not to restore growth and full employment, but to face the much more urgent task of preventing any imminent disaster.

Roger Strassburg: So you don't necessarily think that the growth trend is a good measure?

James Galbraith: I think any program which is predicated on reaching the previous trend growth in any short or medium term – or for that matter, reaching it at all – is doomed to disappointment, and it's not a good idea to hold out a false benchmark as the predicate of an economic program.

Roger Strassburg: At the same time, that was a trend that showed us at more or less full

capacity.

James Galbraith: I don't know what full capacity means…

Roger Strassburg: Everybody's employed, more or less…

James Galbraith: Ah, well that's a different story. Full capacity is normally defined by the output potential of your capital equipment. There are two things that happen to capital equipment in major crashes. One is that it disappears, and the other is that when it is replaced, it is replaced – particularly in the present environment – by alternatives which are vastly labor saving. The consequence of that is that – you already see this in the data – even the miserable growth rates that we have seen have not corresponded to a recovery of employment, even to the extent that you would have predicted from previous formulas. And I think that's substantially due to two things: the destruction of the previous capital equipment and labor-saving technological change going forward.

Roger Strassburg: There's the school of thought that claims that labor is becoming obsolete, which is kind of an extreme way of putting it, but do you think that the work is running out?

James Galbraith: Well, lets separate this into manageable pieces.

Manufacturing employment in the U.S. Is already down to about eight percent of the labor force. That eight percent, most of that is not going away, it represents the people who are working in sectors where the U.S. remains a competitive player. The parts that are vulnerable, light industrial pieces, some of that will stay, notwithstanding what happens elsewhere in the world, and the amount that is still vulnerable to leaving is not a very large faction of total employment. And even if you lost it all, it would only be of the same order of magnitude of job losses that have already occurred in the crisis – we've lost eight million jobs, if we lost eleven million more, it's not that much more. So that's point number one. Point number two is the rest of the economy, which is another 130, 140 million people. It's a much larger piece, and a lot of that is office work, a lot of that is information processing work, a lot of that is in various sectors of this kind where businesses have purged their labor forces, and as they continue to cope with a slow growth environment, they're not keen to hire anybody back, so they're substituting cheap technologies for expensive labor in every possible way.

Roger Strassburg: Well, do you think that the economy will tend to develop new and different kinds of jobs?

James Galbraith: I don't think economies tend to develop those jobs. I think you have to create them.

Roger Strassburg: Are they createable?

James Galbraith: Of course they're createable, sure.

Roger Strassburg: So you wouldn't go along with the notion that labor's becoming obsolete?

James Galbraith: No. Old people need care, and that's what you hire young people to do, and this is perfectly manageable so long as somebody writes the checks. It's not difficult. I don't think it can be done effectively on a profit-making basis in every sector, but it can be done for sure. It's actually not complicated to do. You just have to have institutions that do it and that provide the appropriate levels of quality control and that sort of thing.

Roger Strassburg: In an environment where everyone's trying to save money, of course, that's not likely to happen.

James Galbraith: Well, if you're of the view that money is a physical constraint in the system, then you're doomed. You're not going to get there.

Roger Strassburg: I know – you have to go dig it up out of the ground or something…

James Galbraith: Right, exactly.

Roger Strassburg: What about growth in general. You talked about growth not necessarily being able to follow the trends in the past. What do you see as limits on growth? There's the Club of Rome position that things have to start shrinking, actually, because we're growing too much.

James Galbraith: My view is there are three or four major obstacles.

One of them is resource costs, not the physical availability, but the cost of obtaining and also – if it were properly accounted for because of climate change – the cost of using the energy that we have. And it's obvious that this has changed dramatically from forty years ago. Part of that is also the financialization of energy and commodity markets, which allows the economic rents to be extracted very rapidly if there is a movement toward faster growth. Energy prices go up very quickly, and then you get basically a tax on the system and a drain on demand as a result. That's again part of the problem of having a financialized global

commodities market. So that's point number one.

Point number two – actually a subordinate point, but closely related – is that for a while in the 1990's the United States believed that it could stabilize the world economy with military force. It's obvious this doesn't work, and the impact of that realization is being felt everywhere.

Point number three is the effect of technology on labor demand going forward, it strikes me as a significant barrier to returning to full employment primarily on the strength of the private profit-making sector.

And point number four is the collapse of the financial system, which is universal in Europe and the United States. The banking sectors are vast institutions that have served very little public purpose, if any. At this point, they could be run as public utilities, and the fixed cost that they presently impose on the economy could be lifted, and you would then have some more scope for private profitability in everything else, which would be a good thing.

Now, does that mean that you could manage a world economy if you can't get any growth at all, and go down into a constant negative growth rate? I do not understand how that works. Businesses are in the business of making money, and if they cannot make money, they will not operate at all. So I think that this would be a much more dramatic situation than the people who advocate it casually think.

Roger Strassburg: You were talking about a "third way" when you were in Croatia. Could you elaborate on that a bit more as to what that would involve?

James Galbraith: A "third way" between the Austerians and the Stimulards? It's not a third way between those two alternatives. If I used the term "third way", it was only in deference to the historical use of that phrase in Yugoslavia and Czechoslovakia.

Roger Strassburg: You weren't against stimulus, though, were you?

James Galbraith: I am against the use of that word as a description of any viable economic strategy. Absolutely, I'm against the use of the word "stimulus". I think it should be purged from the vocabulary of anybody advocating an effective alternative to austerity, because it is not an effective alternative to austerity.

Roger Strassburg: And the alternative would be?

James Galbraith: The first necessity is to stabilize the patient, who is on the verge of

collapse. This is not about stimulus, it's not about returning to growth, or returning to full employment, this is about preventing a disaster which will lead to the breakup of the Euro Zone and the European Union, and will lead in that direction in my view quite soon if nothing is done. So that's what I've been talking about over the last month.

My thoughts on this were very much crystallized by the visit to Greece after the trip to Croatia. The question is, what's the evidence?

Okay, here's some evidence. The Greek government failed to sell its gas monopoly to Gazprom for a very modest sum because Gazprom's analysts believe, accurately, that they could not trust the forecast of income from the gas monopoly. And did I mention that this is a gas monopoly? We are talking here about a reasonable projection on the part of a competent firm that the economy underpinning the revenue stream of the gas monopoly is failing. Right? It doesn't take much if we ask ourselves, on what basis does a rational government sell a gas monopoly for cash? The only reasonable answer is: When it needs cash immediately and does not expect to survive for very long, because a gas monopoly is a revenue stream that goes on forever unless you sell it, in which case it goes away. It's just crystal clear what the situation is from the eyes of the government of Greece at the present time.

Now when they fail to sell the gas monopoly, then on six hours' notice with no cabinet discussion and no parliamentary debate and no vote, they shut the state radio and television, ostensibly to save 200 to 250 million euros over the course of a year in order to satisfy an arbitrary demand for that amount from the troika, and to show how tough and resolute they were.

Well, the Greek people said, no, that's enough. That's enough. You can put up with a lot of privation, but you cannot put up with a direct attack on the one – however flawed – institution of public discourse that the country actually has. You can't do it, so the journalists took over the buildings, the trade unions kept the power on, and the crowds went outside to protect them. It was fantastic.

But it was something that really tells you you're not far away from the brink. And there are more things that can and will happen over time, but you're not far away from having a confrontation that will lead to a real, let's say, breaking point. And, of course, we've already seen the political repercussions in the sense that the one of the coalition partners left the government, leaving it with a majority of three. And it does not take much for a majority of three to lead to new elections.

Roger Strassburg: What was the mood actually in Greece. I mean, going through the streets, what did you see as physical evidence of the condition the country is in?

James Galbraith: Well, there are two things.

One is that in the streets of Athens you see elderly people prowling through the garbage looking for food. You see lots and lots of people sleeping on the streets, it's a very depressing sight. You also see miles of empty storefronts. And you see pawn shops, chains of pawn shops, sometimes occupying the only viable business in an otherwise empty, rather ugly complex of former business showrooms and so forth. So that's the kind of evidence you see palpably.

The other thing that I saw was – again, outside the ERT offices – was rather more exhilarating, in fact, it was exhilarating, which was this atmosphere of – I wouldn't call it even protest – we are here because we are going to protect, we are not going to allow this closure of state television and radio to happen, and so we are here to stand as a buffer between the staff who are inside going about their jobs and any coercive force that was outside, which was – mercifully at that point – not in evidence, but obviously a potential. If the crowds hadn't been there, you know, you could have had… The government had told the trade unions to turn off the electricity, and they turned off the phones, but the trade unions said no, we're going to keep the electricity going. The government turned off the broadcasting towers, but the staff hooked up with the web and broadcast that way. And other private radio stations across Europe took it up.

Roger Strassburg: What about Portugal. You said at one point that there it wasn't quite as evident at this point.

James Galbraith: You had a general strike in Portugal, I think, yesterday. The Portuguese situation is very serious, but my sense, and I wasn't there for very long, my sense is that the social stress is not as serious as in Greece. What will happen, is if the place is going to break, I think it will be Greece first, and that the problem after that, the immediate problem is not the same kind of social breakdown in Portugal, or Spain, for that matter, but that the speculative attack on those countries becomes overwhelming. You get a bank run, in other words.

Roger Strassburg: Speaking of banks, the EU has apparently decided that it's going to be a general policy now to start including depositors in the ones that take a beating when a bank fails. What do expect that to do. I mean, we're still talking about uninsured deposits here.

James Galbraith: The problem here is the scale of deposit insurance, and there are two things. One is the basic level, 100,000 euro, is too low. And the other is how you treat business entities, cooperatives, and small businesses and so forth, who have payroll, which periodically is a lot more than that. If you're rigid about the question of whose deposits are insured, then you're going to in this kind of a bail-in, you're going to end up bankrupting your business sector, which is what has happened in Cyprus.

Now, what happened in the U.S.: You don't want to create a situation in which one hundred percent of all deposits are insured, as then it's just an invitation for all kinds of, say, unscrupulous activity. I mean that what happens is that a bank offers a little more interest and you have money flowing around all over the place. What you want to do is to have a solid base of deposit insurance and a base for businesses. And then, of course, people need to be aware that there are limits, which is again the situation.

The test of it is that you want to avoid a situation in which there is a panic, a capricious run on the banking system, and I don't think the Europeans are there. And, of course, the problem that they have is that if it's the national authority that's paying out, then the bankruptcy of the state basically means that the deposit insurance fund isn't credible, this is why it has to be done on a collective basis.

Roger Strassburg: There's a lot of resistance to that here.

James Galbraith: Well, that may be, but, you know, nobody is safe in this situation.

Roger Strassburg: Well, Germans do worry about their deposits. They hear that deposits aren't necessarily safe, it makes them worry, too. But they're absolutely dead set against paying for anybody else's.

James Galbraith: I think that ultimately the decision on the future of Europe will be made in Germany, and Germany has to decide, does it want it or not? If it wants it, it has to take minimal steps to stabilize it on the same principles on which they stabilized the East, and on which they built the Federal Republic in the first place. And if they don't want it, well, it will go away.

Roger Strassburg: I think even if they want it, they're not going to stabilize it.

James Galbraith: In which case they'll lose it, and then we can see what is left. But when it's lost, Germany's going to have the problem it had before of an appreciating currency, and an industry that quickly loses competitiveness, and there'll be higher unemployment.

And its markets will have collapsed and its debts won't get paid.

Germany is not going to escape the consequences of this. Again, it's a choice that Germans can, and I'm sure, will make. But what is necessary is to state clearly what the choice actually is.

This is why Yanis Varoufakis and I made the argument in the New York Times that a Syriza government in Greece is perhaps the best hope for Europe, because it would present the choice clearly. Syriza is a pro-European party, it's not proposing in a reckless way to take Greece out of the Euro, which the Greek people don't want to do.

Roger Strassburg: They're being accused of that.

James Galbraith: It's a false accusation. Syriza is a pro-European party.

Roger Strassburg: You've met with Tsipras?

James Galbraith: I've met him several times, yes. Actually, we met up with him in the ERT offices in Thessaloníki, and that was quite a dramatic moment. It's interesting to watch someone in a moment like that, which has a lot of emotional charge to it. As a political presence he's very impressive. It's the first time I'd seen him in that situation, and I was very struck by it.

Roger Strassburg: Well that [a Syriza government] could happen sooner than we think. The government continues to crumble there, I mean, three votes…

James Galbraith: …three votes, yes. And the initial thinking was that Samaras had done this in part because he figured that he would win either way, either coalition partners would be forced out, in which case he'd get an early election, or they would cave, in which case he would be completely dominant inside the coalition.

Roger Strassburg: I think he didn't figure the people would be upset about it given the reputation…

James Galbraith: That is what Alexis said to me, that they miscalculated the reaction of the people. But from the people's point of view, if you look at the alternatives that are available with commercial channels, foreign channels, the Greek Orthodox Church channel, you end up not having a national media. You don't have anything which has got the responsibility of conveying what's going on in the country to the population. So that's unacceptable.

Roger Strassburg: A difficulty that can be, is that, of course, it can become a state media in the negative sense.

James Galbraith: Of course, and the ERT had all kinds of problems…

Roger Strassburg: …the government's mouthpiece…

James Galbraith: …well, yes, yes, and Yanis Varoufakis was banned from it. One reason we went to Thessaloníki – we went for a meeting on economics, but also had planned to have an interview with ERT 3, which was the only branch that didn't get the memo that they couldn't have Varoufakis. So, yes, there were all kinds of issues here. But interestingly enough, when we went to the building in Athens the right-wing journalists were there, too. I mean, this crossed a line. You have the basic institutions of a functioning self government or not. That's as simple as that. It created a great deal of clarity. People understood this was not an austerity move, this was a political act.

Roger Strassburg: Do you think Greece is going to collapse?

James Galbraith: Well, the current direction is certainly moving that way, and moving that way, I think, quite quickly. And I think the precipitating event will probably be political. We'll see what happens when there's a change of government. If I were in a position to counsel European authorities, which I do from the margins, I would say, you need to rethink your ideas quickly. Time is not on your side on this issue.

Roger Strassburg: I'm sure you've been in touch with Heiner Flassbeck.

James Galbraith: I saw him two days ago.

Roger Strassburg: His take?

James Galbraith: Heiner and I see eye-to-eye on a lot of things. I think my policy approach is where there are some differences. I put much more emphasis on social insurance, he puts it on wages. The social insurance in my framework, the advantage of it is if you wanted to do it, you could do it very fast. You're not changing labor relations.

Roger Strassburg: The problem is that it appears that we're going in exactly the opposite direction right now.

James Galbraith: I fully understand the direction we're going in, but my job is not to be the political realist, my job is to be the economic realist. What I'm trying to lay out is what

seems to be the minimum necessary steps to prevent the failure of the system. And I really think that's just minimal. The idea is to do as little as you need to do, and to do it within the framework of current European treaties insofar as you can, because there's a lot of grand talk about banking unions, new federalism and so forth, and the patient will be gone long before you get there. You can erect that over the grave.

Roger Strassburg: Well, I think that to some extent it's a way of pushing things off into the future.

James Galbraith: That's exactly right. But pushing things off into the future in the present situation is a formula for absolute failure.

Roger Strassburg: That's clear, but I don't think it's clear to everyone yet. There's been the initiative, as well as this pact for competitiveness that Merkel started.

James Galbraith: The idea that you're going to have a successful European Union which is competitive in labor costs for the Chinese is a…

Roger Strassburg: …pact for lower wages, and to eliminate social…

James Galbraith: …reductio ad adsurdum. No chance of succeeding along those lines. None.

Roger Strassburg: But I fear that it may come, though. Whether it'll succeed or not is not the issue here.

James Galbraith: Yeah, sure. And it raises the question of what the real motivation behind such a scheme actually is. Is this simply something that's a political document designed to appease a certain constituency, or is it largely just another attack on contrary political forces, on labor and so forth. And I'm sure that's partly true, as well. But what it is not is an even remotely credible document for an economic strategy.

Roger Strassburg: It's an ideology, and public opinion here as represented in the media is that the rest of Europe should become more like Germany.

James Galbraith: It's fair to characterize how the media represent things, but an underlying fact is that the German Federal Republic was built in the postwar years on social democratic principles, and I imagine a large part of the German population still shares those principles.

Roger Strassburg: Very much so.

James Galbraith: The German trade unions, with whom I have good relations, have, I think, staked out one of the most progressive positions, and I think they are in Europe the force that's most alive in northern Europe to the conditions outside the core countries. So if there is going to be a rescuing of the European project, it will be here. I'm confident it will not come from France, and the other countries of the north are too small. So there it is. It's Germany or nobody to make a change of ideas and policies.

Roger Strassburg: Well, the opinion leaders, as we might call them, are going to have to change their rhetoric before that's going to happen, because they're still very much in the other direction.

James Galbraith: I agree. Or new opinion leaders need to emerge with a different rhetoric, so there you are.

Roger Strassburg: They're not there.

James Galbraith: Well, I understand, but that doesn't mean that they can't be created. You know, the project forlorn and hopeless as it may be of someone like me is to try and express ideas that can be crystallized into an alternative program. I can't implement that program, I'm not German. It has to be done in here, but I can certainly visit from time to time and open my mouth, which is what I do.

Roger Strassburg: It doesn't hurt…

It would be nice to have some sort of a force. The social democrats do criticize that the austerity-only program isn't working. But they don't really take that step far enough in the other direction.

James Galbraith: There's a large political class out in Brussels, well-meaning people with utopian visions. They're not getting out as much as they should, to see what is actually happening. And there's a tendency to think that, well, Greece is a long way away, and the rest of us will not be affected if Greece goes down. But I say, show me an example of a political union, of a confederation, that holds together when a piece of it goes away.

The United States…

Roger Strassburg: That was tried…

James Galbraith: Well, what precipitated the secession of the South in 1860 was the departure of South Carolina. That was the first, and then…

But to bring it into the 20th century, Yugoslavia fell apart following the departure of one Republic, which was Slovenia. And the Soviet Union fell apart following the departure of the Baltics, which were tiny in relationship to the whole. Once a piece of an entity like this is kicked out, you have cumulative processes which can operate very quickly, very quickly.

Roger Strassburg: You do have the problem here that you have countries, and they have a national identity. That doesn't make them nationalistic…

James Galbraith: Right.

But one needs to recognize that you have a project which has built up a standard of living of the European continent, and that's a project of integration. Integration has a lot of efficiencies associated with it. In any event it creates a world in which there are cross-border interdependencies. And if you want to break them up, you can, but the price is enormous. In the experience that we've had recently, it's on the order of 40%. So that's a good benchmark for what might happen to living standards if you suddenly went back to capital controls and trade barriers and national industries. And good luck trying to build national industries that will compete with the industries that will be in Germany that are highly competitive, but will not have markets because nobody will be able to buy their goods.

Roger Strassburg: Right. There's also the notion of nations competing against each other the way companies compete against each other, which is fairly strong here in Europe.

James Galbraith: There's that, and then the notion that Greece has a formula that will restore its competitiveness. There's a misunderstanding of what the Greek economy consists of. The number one industry is shipping, number two is tourism. Shipping is a world phenomenon that depends entirely on the movement of goods and services around the globe. And tourism is entirely dependent on, among other things, the Germans and the British.

Roger Strassburg: What's the attitude about Germans there? What I read in the papers here, it's actually mixed. You sometimes read about the Nazi symbols and all that sort of thing. At other times – there was a picture about a year ago of people holding up a thing saying, "Thank You, Europe", which happened to be people who were thanking people in other countries for protesting against the austerity measures, and it was twisted the other

way around. So you get a little bit of both kinds of stories as to what the attitudes there are.

James Galbraith: Greece is a highly polarized country, and as the situation gets desperate, you have a Neo-Nazi party which is using food, among other things, as a political organizing tool, food and xenophobia.

People who have talked to the immigrant communities report that they're very frightened, very frightened. I saw Tariq Ali in Rome late last year. He'd been speaking to the Pakistani community in Greece, and he said these are people who have been really intimidated. There are a lot of immigrant communities in Greece, and they're targets and they know it.

Roger Strassburg: I was going to ask you about a totally different subject: your talk today [Audio – mp3]. The title of it ("How Come Europeans Understood the Political Economy of America So Much Better in 1861 than Today, and What Did Karl Marx Have to Do with That?") sounded interesting, but I'm not sure what it means. I'm curious as to just what that was about.

James Galbraith: Well, it was not that separate from what we've been talking about, it came around to that.

Roger Strassburg: The title certainly implied something completely different.

James Galbraith: No, it wasn't completely different at all, but I used it as a way of saying, what is the inverse relationship between bandwidth and understanding in Transatlantic communications.

In the days before the telegraph, Europe at least one newspaper correspondent who understood the United States rather well, and his name was Karl Marx. He'd never been to the United States, but was a good reader of maps, knew where the railroads were, knew where the mountain ranges were, knew what the political environment was, knew the census reports and the proportion of slaves and free labor in each of the states of the South and the border states. And because he thought clearly and independently about these issues, he was able to write very clearly about the nature of the Civil War, about Abraham Lincoln's approach, and about the likely military outcome, what a victory of the South would have required and how it quickly became a military impossibility. So it's very bracing to read Marx on the U.S. Civil War, and particularly in comparison with the mythologized textbook treatments that one gets even now after 150 years.

How does that bear on the modern world?

The argument I made was that the dominant European narrative of the United States now as then is utterly misleading. It's the notion that we have somehow in the thirty years since Ronald Reagan transformed ourselves into a free-market, deregulated, privatized, flexible labor market, weak-welfare-state country, which, if you just cast your memory back to the 60's and 70's, a totally unrecognizable view of the country, a country that was built by Roosevelt and Kennedy and Johnson, especially Roosevelt and Johnson, and which had extended even into the Nixon administration, which had and has a very substantial social insurance, public investment and regulatory framework. Many things about this have been under assault, some of them have failed entirely, including the regulation of finance, but this is not a Hayekian vision that has triumphed, but rather the one I described in my book, The Predator State. The real politics of the country controls these apparatuses and how much of the benefits are diverted to cronies and oligarchs and political constituents, which captures what happened in the Clinton and the Bush years – and ongoing, of course.

Roger Strassburg: Well, that's good for them to hear, because, that is something I face, particularly from the left. There is the view that the United States is the epitome of unsocial, and the attitude in the United States about Europe is just the other way around.

James Galbraith: That was the premise of my talk. And it's interesting that since these two reciprocal images serve the purposes of both the right and left on both continents. They are not challenged by either side, and therefore there's never a real corrective on the table. So that was, the goal of my talk was to make exactly that point.

Roger Strassburg: I'm glad somebody's saying that. I get tired of saying it.