

The Life and Political Economy of Lauchlin Currie

New Dealer, Presidential
Adviser, and Development
Economist



Roger J. Sandilands

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Lauchlin Currie in 1981.
Courtesy of Simon Fraser University.

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Preface

Although this book is a biography, its main purpose is to offer a "Guide to Currie" similar in its aims to Alvin Hansen's *Guide to Keynes* (1953). But whereas Hansen's work attempted only to explain J. M. Keynes' *General Theory*, this book surveys the development of Lauchlin Currie's thinking and policy advice published over several decades in both English and Spanish in a wide variety of books, articles, and memoranda, not all of which are readily accessible to scholars today.

Currie's first published contributions to economics appeared in 1931 while he was teaching money and banking at Harvard. In these he attempted to explain the causes of the Great Depression. His writings on monetary and fiscal theory and policy in the early 1930s led Herbert Stein (*Fiscal Revolution in America*, p. 165) to describe Currie as the intellectual leader of the New Dealers who advocated compensatory fiscal and monetary policy. He was "the one most capable of independent analysis in the field of Keynesian economics" and came "closer than any other American economist to anticipating Keynes." Currie came to "Keynesian" conclusions by analyzing the expected value of savings (leakages) at a projected full employment level of national income relative to the current volume of offsets in the form of private investment and the so-called federal "net contribution." But when the *General Theory* appeared he was, and remained, skeptical of the value of many of the new concepts and terms introduced by Keynes.

Instead, Currie was able to arrive at independent explanations of inadequate effective demand relative to full employment potential by careful definition, analysis, and quantitative estimation of the supply of money and the motives affecting its demand, or the income velocity of money. He pioneered new quantitative series for these and related variables, and this was to be of great value for policy purposes. He exerted a significant influence on institutional develop-

ment and macroeconomic policy in drafting the 1935 Banking Act and in shaping New Deal monetary and fiscal policies from his position as assistant director of research at the Federal Reserve Board, 1934–39 and later as an administrative assistant to President Franklin D. Roosevelt in the White House from 1939–45.

During the Second World War he directed lend-lease operations to China 1941–43, was acting director of the Foreign Economic Administration 1943–44, and headed the American delegation to Bern, Switzerland, to persuade the Swiss to cease wartime cooperation with Germany and recover looted gold. His involvement in U.S. policy in China was one of the reasons he was to be caught up in the hysteria surrounding the McCarthy trials in the early 1950s.

In 1949–50 he directed a comprehensive economic and social survey of Colombia as director of the first World Bank country mission. He was retained by the Colombian government to help implement the policy recommendations of the World Bank report and later became a Colombian citizen. He has been an important adviser to almost every Colombian government since that time. An exception was during a military government, 1953–58, when he turned to full-time dairy farming.

Influenced greatly by his Harvard teacher, Allyn Young, Currie has developed important new approaches to the theory of growth and development and these have shaped his policy advice. In particular, he has developed a “leading sector” theory of development based on a subtle blend of Sayian and Keynesian demand concepts, or of real and monetary demand. To escape the vicious circle of small market size and slow growth he has advocated policies to stimulate the construction sector and exports. This included a major institutional innovation, the constant-value, or indexed housing finance system that was introduced in 1972 as part of the Plan of the Four Strategies, written by Currie and implemented by the administration of President Misael Pastrana and which has sustained building throughout a long period of high inflation. He has also worked extensively on city planning.

My book was written during 1987–90 when Currie was still very active in policy advice, teaching, and writing. Thus the biography ends with a still evolving story of intellectual and policy contributions both in monetary and growth theory. My own association with Currie dates from the time he was my teacher and supervisor, in Canada and Scotland, between 1967 and 1970, and when his Colombian wife, Elvira Wiesner de Currie, taught me Spanish. Subsequently

I have worked extensively in Latin America, mainly Colombia, including periods as Currie's assistant at the Colombian National Planning Department and at the Colombian Savings and Housing Institute which commissioned me to write this biography.¹

Professor Currie made available to me all his very extensive files that date from the early 1930s, together with some memoirs of his early life as a child in Nova Scotia and as a student at the London School of Economics and Harvard. I have been able to conduct extensive interviews with Professor Currie on every stage of his astonishingly varied career. His memory and analytical powers have remained extraordinarily clear and incisive even in his late eighties. Our discussions of his past and on-going work have for me, and I hope for him also, been immensely stimulating. Professor Currie has read my manuscript but, apart from correcting certain factual errors and mentioning certain gaps in coverage, has left me to make my own interpretations, appraisals, emphases, and organization of the material as I have found it in his files and published work. As will become clear, my assessment has, overall, been sympathetic; but Currie has encouraged and welcomed criticism and has himself drawn my attention to inconsistencies and weaknesses in his ideas and advice at various times.

One's overall impression is of a man forcefully driven since childhood not only to be right but to persuade others that he is right. Though often caught up in the heated fray, he has also tried to stand back from events of the moment to distinguish primary from secondary issues and convince policymakers to establish a rational set of priorities to achieve lasting results.

Though he has applied his penetrating mind and energy to identify fundamental principles and ideals he is also a pragmatist. A pragmatist, not in the sense that he will easily compromise with what seems easiest, most practical, most popular, or most "realistic," but in the sense that he has relentlessly promoted what he thinks needs to be done and what, given the will, could be done to put logical ideas rather than emotional gestures into practice. The will to act on principles in turn is subject to persuasion and Currie has, despite innumerable disappointments, never lost his faith or hope that, sooner or later, his powers of persuasion as a teacher, writer and policy adviser will pay dividends.

Apart from expressing my sincere gratitude to the Colombian Savings and Housing Institute, the Colombian Coffee Federation, and the University of Strathclyde (which gave me extended leaves of ab-

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sence to write this book), I should also like to thank several individuals who have offered valuable comments on earlier drafts or in interviews, not least the publisher's anonymous readers. Byrd Jones of the University of Massachusetts was particularly helpful in making available to me his extensive notes on records in the U.S. National Archives and in suggesting additional insights into the New Deal era. Walter Salant of the Brookings Institution also made extensive comments on this period and on the later discussions on monetary and growth theory. Don Patinkin of the Israel Academy of Sciences and Humanities was very helpful on Currie, Keynes, and the Chicago School. Richard M. Goodwin of the University of Siena sent a fascinating letter on Currie, Schumpeter, and the Harvard of the early 1930s, which is reproduced in chapter 2.

On China, I am greatly indebted to Professor John Fairbank of Harvard, who read several drafts of chapters 4 and 5 and sent detailed and perceptive comments. My colleague David Williams at the University of Strathclyde and the late Washington-based journalist Joseph Alsop were also helpful on this episode.

On the general issues of growth and development I am indebted to my colleague Anthony Clunies-Ross. A. P. Thirlwall of the University of Kent gave valuable comments on an early draft of chapter 12, which caused me to extend greatly my discussion of the differences between Currie and Nicholas Kaldor in their very different interpretations of the ideas of their common mentor, Allyn Young, concerning the nature of "increasing returns and economic progress" and the policy implications. Professor Thirlwall, who recently produced a sympathetic and illuminating biography of Lord Kaldor, may not share my conclusions, though his earlier comments have, I believe, helped me to sharpen the issues.

On Colombia, I have benefited over the years from discussions with far more people than I can mention here. Recently I have been indebted to Luis Eduardo Rosas, Director of the Colombian Savings and Housing Institute, James Hanson of the World Bank, Alvaro Montenegro of New York University, Wilfred Owen of Brookings, Enrique Peñalosa, Colombian Ambassador to the United Nations in New York, and ex-President Misael Pastrana Borrero, who told me of his great sense of challenge and pleasure when Currie said, at their first meeting in the Presidential Palace in 1971, that his feelings then were the same as those he had on first entering the White House to serve President Roosevelt in 1939.

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The entire first draft of my manuscript was typed in Bototá by Olga Lucía Gómez with extreme efficiency and cheerfulness, despite my scrappy writing in a language foreign to her. She also dealt with my extensive revisions, ably assisted by Alica de Tellez, to whom I am also most grateful.

Glasgow, February 1990

The Life
and Political
Economy of
Lauchlin Currie

The Early Years, 1902–25

Introduction

Lauchlin Currie's life (1902–) spans most of the twentieth century. He has been a student and top-level teacher and practitioner of economics and public administration for nearly seventy years. His professional work has carried him to many parts of the globe. Born a Canadian in Nova Scotia in 1902 he later assumed U.S. citizenship in 1934 in order to accept a government post in the U.S. Treasury; and then in 1958, at a time when a naturalized U.S. citizen could not reside outside the United States for more than five years without losing citizenship, he was invited personally by the President of the Republic of Colombia—where he had married and been settled for some years—to assume Colombian nationality. Aside from four or five years as a visiting professor at various American, Canadian, and British universities, he has lived and worked in Colombia for most of the period since 1949 when he was appointed as the director of the first World Bank mission to Colombia.

His first exposure to higher education was as a student at St. Francis Xavier University in Nova Scotia in 1920. Many years later the celebrated economist Harry G. Johnson was to obtain his first teaching appointment there, but in the early 1920s the college could offer relatively little instruction in the subjects that were beginning to arouse the interest of the young Lauchlin Currie and he moved on to the London School of Economics in 1922 without obtaining a degree from St. Francis Xavier's. Sixty-six years later, in May 1988, that was to be rectified when the university awarded him a Doctor of Laws, *Honoris Causa*.

After graduating from London in 1925 he attended graduate school at Harvard where he remained to teach until 1934 when Jacob Viner invited him to join his "Freshman Brain Trust" at the U.S. Treasury.

From there he moved with Marriner Eccles to the Federal Reserve Board where he was assistant director of research until his appointment in 1939 to the position of personal assistant to President Franklin Delano Roosevelt—thus becoming the first professional economist to work in the White House. During the 1930s he became, according to Herbert Stein's history of this period,¹ the intellectual leader of the New Deal economists, developing—independently of the Keynes of the *General Theory*—both the theoretical rationale for unbalanced budgets and extensive statistical support for macroeconomic policies to combat depression.

During the Second World War he directed the lend-lease program to China and made two important trips to Chungking in 1941 and 1942, meeting with leaders such as Chiang Kai-shek and Chou En-lai. He was also de facto director of the Foreign Economic Administration, 1943–44, and head of the American delegation to the Bern Conference in February 1945.

After a period as a private economic consultant in New York he was invited to direct the World Bank mission to Colombia in 1949–50. He has been a distinguished and often very controversial adviser, in a formal or informal capacity, to almost every Colombian administration since that time and is widely regarded as having done more than any other individual to promote serious thinking and policy on the economic development of that country. He has also written extensively for a wider, international audience on the theory and practice of growth and development and macroeconomics generally.

In the early 1950s he drafted some memoirs of his early life and work in the New Deal. However, these were never completed and never published, though copies were circulated and used by a few historians of the New Deal and wartime economic management such as Arthur Schlesinger and Herbert Stein. In drafting my own account and assessment of Currie's career after his arrival at Harvard in 1925 I deliberately ignored his memoirs, preferring to piece together first my own story from his published writings and unpublished speeches, memoranda, and correspondence in those years, together with contemporary records by other writers and the assessments of later historians. Only later did I check for consistency and completeness with the memoirs Currie wrote in 1952. I then incorporated a few passages into my own text.

For the early years, 1902–25, however, there can be no better record than the very personal account that Currie himself provided in his

memoirs of the family and cultural influences on his early development as a child and student. I have, therefore, chosen to reproduce this material in its entirety. It is a revealing psychological self-portrait, and in 1952 Currie was reasonably well equipped to undertake an honest and objective analysis of self-development, having been closely associated for ten years after 1940 with some of America's leading psychoanalysts such as Harry Stack Sullivan, Erich Fromm, and Frieda von Reichman. Currie was for a time a member of the board of the William Alanson White Foundation (which established the famous Washington Institute of Psychiatry) in Washington and later was secretary of its New York branch. Also, he had himself undergone intensive and painfully revealing therapy for three or four months in 1945 with Benjamin Weiniger, on Harry Stack Sullivan's recommendation.

Currie's father had very successfully built up a fleet of merchant ships that sailed between Nova Scotia and the West Indies, South America, and Europe; but he had died when Lauchlin was only four. His mother was the greatest influence on his life, spurring him on to emulate his dead father, firing his ambition, and placing responsibilities on him as fast as he could handle them. She was an educated woman and, in a quiet way, strong and demanding. Years later, when her son informed her of his appointment as instructor at Harvard University, the news was greeted with characteristic nonchalance that indicated that she expected nothing less. Currie's life would, therefore, be an unending struggle to prove himself, to others but more especially to himself, and to fulfill his talents and the high expectations of those he himself held in high esteem. He would drive himself hard and expect the same of others. This is not always the recipe for harmonious relations but it is a necessary, if not a sufficient, condition for high achievement.

This biography is the story of those strivings and the results. It begins with Currie's own account, written in 1952, of the beginnings.

Currie's Memoirs: "The First Twenty Three Years"

Nova Scotia and California, 1902–22

I was born on October 8, 1902 on a cold foggy morning in a little fishing village called West Dublin on that side of Nova Scotia that fronts the Lab-

Lauchlin Currie



Currie's birthplace in West Dublin, a fishing village in Nova Scotia, 1904.

rador Current. I was the last of a family of five and was apparently not particularly welcomed. No name had been chosen in advance and my father lost interest in his hobby of selecting boys' names with a middle name beginning with V (Verne, Victor, Vincent). Perhaps to justify his suggestion that I be given his name, he said that I looked so small and puny I probably wouldn't live long anyway. In any case, my mother long afterward told me that I had cried continuously for 3 years and that she thought I would never learn to walk or talk,—hardly an auspicious start. In fact, when I finally did learn to walk, my career almost came to an abrupt end first by my setting myself on fire and again by my falling off the edge of a wharf into the ocean. In both cases I was saved by my father. It is fortunate I had no further misadventures as after the second one, when I repaid him on our cold wet trek back to the house by throwing stones at him and blubbering that I wanted "Ma" to rescue me, he swore that I could save myself the next time—a not unreasonable response under the circumstances.

He was in many respects a remarkable man. He was left at the age of sixteen by the drowning of his father in Halifax harbor, with his mother and a brother and many sisters to support. With little formal schooling and with few local opportunities, he supported the family, gradually acquired a substantial fleet of sailing vessels and left us reasonably well off by the time of his early death when he was only 44, on the income of which we lived very comfortably for the next twenty years. Unfortunately, I was only four when he died so I have few independent recollections of him. I have always liked my mother's story accounting for his success. After his father's drowning, a malicious neighbor said with ill concealed satisfaction that

now young Lauch Currie would have to go to work like the rest of them. When this was reported to my father he said, "I'll be damned if I work" meaning, of course, manual work, and never did. He also, curiously enough, hated the sea from which he did so well and would never sail with any of his vessels on the trade of salt codfish to the West Indies, South America and even Spain, with return cargos of rum, salt, molasses and sugar. He combined the business acumen of the Scottish with a Scottish weakness,—fondness for hard liquor, and it was undoubtedly this latter that contributed to his early death. According to the family historian, a cousin by the same name as I who became prominent in Nova Scotian political life, the Curries had been the hereditary bards (poets and musicians) for many hundreds of years to the Clan Ranald MacDonald and had fallen on evil days after the Battle of Culloden Moor when they took refuge in South Uist in the Hebrides. From there my grandfather emigrated to Nova Scotia as a boy, running away, it is said, from an unsympathetic stepmother.

My mother, on the other hand, was of predominantly German stock, bearing a name that was later to become very well known,—Eisenhauer—though with what she insisted was the correct German spelling. The first Eisenhauer, in a party of German emigrants, had been settled in 1755 by a British promoter in a cold, inhospitable part of Nova Scotia which they called Lunenburg.² When, in later life, I was much concerned with the problem of elevating standards of living, especially in lands more favored by Nature, I could not help marveling how my German forebears of two hundred years ago, in a land of rocks, hills and virgin forest where the efforts of three months a year must be devoted to the provision for the other nine, with little education or capital equipment, with primitive means of transport and harassed by the Indians, were able, in a very few years, to create for themselves a high standard of living in the essentials—health, food, shelter and clothing. It is certainly a tribute to the importance of the human factor in explaining a standard of living. With all this, they were able to maintain their religious fervor and a modicum of culture though they were almost entirely of peasant stock. My grandfather, for example, whose job was that of an expert sawyer—the man who hand sharpened all the various saws in a saw mill—, made and played a very fine violoncello in his spare time.

For better or for worse, my mother was unquestionably the dominant influence in my life. It was she who spurred me to emulate my dead father, who fired my ambition and placed responsibilities on me as rapidly as I could handle them. At the age of twelve I was harassing the very dear but not too practical executor of my father's estate (William E. Marshall) into raising interest rates on long outstanding mortgages and in checking on whether fire insurance policies on mortgaged properties had been kept up. I must have been quite a trial to the poor man, who actually had considerable renown as a poet.

It was also my mother who devised the system of providing me with pocket money. We had, shortly after my father's death, moved slightly inland and away from the fogs to the pleasant little town of Bridgewater, where I was to spend most of my boyhood. Everything that I could raise and sell from about an acre of ground was mine, even though my mother would, for example, buy the feed for the chickens. In this way, I had at least the illusion that I earned myself everything I spent.

My mother, a former schoolteacher, was an assiduous reader and I never lacked for books. For years I subscribed to *The Boy's Own Paper*—the beloved B.O.P.—and *Chums* from England, and to the *Youth's Companion* from the United States. I was probably of the last generation that read everything by G. A. Henty one could lay one's hands on. He was a prolific English boys' writer whose one hundred odd books covered practically every war in history. Although in reality they were rather tediously written, with long accounts of the disposition of forces in every battle, I have never been so enthralled by anything I read since. Even to-day, a mere memory of the titles—*The Young Carthaginians*, *With Pike and Dyke*, *Under Drake's Flag* and the others—still arouse a feeling of pleasureable excitement. The books were heavily moral in tone and invariably, in the case of the young hero, merit was richly awarded. After this rich fare, I found *Horatio Alger* and the *Merriwell* books rather tepid.

In view of my later and what most people may think my too facile changes in nationality, the influence of my early reading should not be overlooked. At that time, the paucity of strictly Canadian literature led me to read almost entirely English and American books and I was more familiar with those countries' histories than with that of my own. Thus, at a very early age, I felt almost as much at home in certain aspects of those two cultures as in Canadian. In the Maritime Provinces, again speaking of that time, we felt in many ways closer to New England than to the rest of English-speaking Canada, from whom we were separated by French-speaking Quebec. The movement between Massachusetts and Nova Scotia was sufficiently heavy to justify a steamship line and it was commonly said that there were more Nova Scotians living in Massachusetts than in Nova Scotia. I had an aunt and an uncle and numerous cousins living in Massachusetts and this was a common experience with many families. With my mother, I spent one winter in Worcester, and it was there, curiously enough, that I learned to do two things supremely important to me—to read and to skate. Later, at the age of sixteen, I was to spend a year in Redlands, California. Thus, by the time I went to study at Harvard and live in Cambridge, I went not as a stranger—an emigrant—but rather as a person returning to familiar surroundings. Similarly, when I went to study for three years in England I felt almost as much at home, although the marked difference in accents and little things like the different system

of money will cause a Canadian, at least initially, to feel more a stranger in England than in the United States. In any case, it is apparent that at a young and impressionable age, I developed no excessively strong sense of nationality such as is normally experienced by, say, American children who share only unconsciously in the cultures of other nationalities. This is not to say that I was not a product of a particular culture at a particular time and will not remain so until my death but only that that culture did not happen to be very strongly nationalistic in tone.

In fact, I am still so much a child of a certain environment that I cannot conceive of better surroundings for a growing boy than a small town in the Maritime Provinces of Canada. The long winters were not a burden but a source of delight. The long winter nights, after the early supper at six o'clock, were a time to read near hot air registers. The woods came to the edge of town and continually beckoned a boy with a dog and a gun or a fishing rod or rabbit snares, depending on the season. One swam in the river and lakes in summer and skated on them in the winter. The exhilaration of a bobsled ride down a steep and often icy hillside can only be compared to skiing, which, unfortunately only came in after my boyhood. One knew everyone, young and old, and it is difficult to imagine how a child in a city can possibly have the same sense of "belonging"—of having one's roots firmly embedded in a particular place. When one went "downtown" to the Post Office, largely in the secret hope of catching a glimpse of a particular girl and maybe even speaking to her, one greeted and was greeted by everyone—one was Lauchlin Currie, the son of Alice Currie and the brother of Marguerite and Arthur Currie.

We were among the better-to-do, but there were few class lines. Nearly everybody was middle class, and although my mother did not invite workers or farmers to the house, we were friendly and I played with their children. It was not quite as idyllic as the condition described in Longfellow's *Evangeline* "where the rich were poor, and the poor had abundance" but almost. Two of my mother's closest friends were spinster sisters who had nothing. One was a dressmaker and one an expert cook. They both helped to prepare and then attended my mother's "parties" and no one thought anything of it. On Saturday mornings, market day, my mother would discuss many things with our particular farmer, with a complete absence of any condescension. In her eyes, a cardinal sin was "putting on airs" or snobbery of any sort. People were judged by their qualities, not by their money or social position. It was a sturdy, democratic community and the genesis of my later predilection for the New Deal and my indifference to social distinctions can probably be traced to this early environment.

I witnessed, in my youth, the passing of a particular type of social life. In the period before the First World War, social life was truly social. Whether it was a picnic, a motorboat trip down the river, a moon-light excursion,

a sleigh ride in a big farm sleigh wagon, or a "party"—it was participated in by fifteen, twenty or more people and almost invariably included a long period of singing of old favorite songs. There was little occasion or opportunity for couples to go out alone. During and immediately after the First World War, all this changed, probably because of the coming of the automobile. Certainly couples preferred the new freedom, but there was a loss, especially in the group singing. We purchased our first car, a Chevrolet, in 1915 or 1916.

Both my elder brother, Arthur, and I were members of the Town Band. We played at garden parties, all winter at the Rink and, in the early days of the First World War, at recruiting rallies and at political functions. I was the youngest member of the Band for a time and I wore short pants. My uniform was a band cap. In the later days of the War, word would be telephoned before the arrival of the daily train from Halifax if a returning soldier was on board and a factory whistle would be blown. This entitled me to be excused from school to rush to the station. Sometimes only five or six of us would arrive in time but we did our best to give a welcome. Neither my brother nor I were very good musicians and my mother, who had a very true ear, used to suffer when she listened to the band.

My father was descended from those Highland Scots that had never been touched by the Reformation so that we were Catholics. There were very few Catholics in the town or indeed, in the country, and one priest had five parishes so that we could attend Mass only once a month. I acted as altar boy and my mother played the organ. It was a tolerant community and the Protestants always made a success of our annual Garden Party on which we relied heavily for funds for church repairs, furnishings and so forth. Through what I understood was a special dispensation, my father was a member of the Odd Fellows and I was always very much impressed when, on the annual grave decorating day, a group of Odd Fellows would wend their way to the Catholic Cemetery to decorate my father's grave. It was an early lesson in tolerance.

I mentioned spending one winter in Worcester, Mass. In addition we spent a winter in Sydney, Nova Scotia and another one in Halifax, both of which I recall with pleasure. My closest friend in the former ended up in a Reform School and in the latter became Vicar of St. Mary's Cathedral, Halifax. It was in Halifax, when I was thirteen or fourteen that I first began to take a serious interest in school, undoubtedly owing to a splendid teacher, Madam Sullivan of the Sacred Heart Convent. Her hold on her boys was such that we would often devote precious Saturday mornings waxing the floor of our school room. Upon my return to Bridgewater I was able to skip the Eighth Grade and so made up one of the years I had earlier lost through the frequent moves we made.

Despite those extended visits, Bridgewater was always home. But now

occurred an event that was to mark my first loss of “roots”—of a sense of belonging. With rising prices and on a fixed income and the moving away of my brother and sister, we decided to sell our house. It was a sensible thing to do, but it meant that henceforth we visited in Bridgewater, rather than belonged there. Shortly after, we went to Southern California and from there I moved on to St. Francis Xavier College in Antigonish, Nova Scotia.

The year in Redlands, California, 1919–20, with my mother and sister, and where I was a junior in High School, was one long holiday. I received “credit” for music (band and orchestra), tennis (physical training) and debating. I recall representing Redlands in a debate with another high-school, taking the affirmative of the topic, “Resolved that the United States should intervene in Mexico with military forces!” I am glad to say we lost. It was also at Redlands that I recall an early example of my tendency to say and write unpopular things. The Human Fly climbed one of the higher buildings before a large and appreciative audience. I pointed out in the school paper that the only reason people went to see him was the morbid possibility that he would fall—that if he walked along a horizontal pole a foot above the ground, a feat requiring greater skill, nobody would bother to go to see him. As I might have expected, my classmates did not care for this analysis of their motivation.

We purchased a second hand Studebaker, a 1915 model, for weekend excursions in Southern California, as far as the Mexican border and the Imperial Valley and resolved to return to Nova Scotia in it. With a tent and cots strapped on the running board and a water bag dangling behind, we started out bravely enough, intending to follow more or less The Lincoln Highway. Unfortunately, that existed then only as a broad line on the maps. The trip was one long detour, with frequent breakdowns, one while crossing the Continental Divide, in Colorado, lasting the better part of a week. We holed up in an abandoned lumber camp and lived mainly on potatoes and dandelion greens. It was to be thirty years later, in Colombia, before I drove again on narrow dirt roads winding along the edge of canyons. After two months and many side excursions to various cities we arrived in Nova Scotia and my familiarity with the United States was further extended.

The two years I spent at St. Francis Xavier’s University in a beautiful small town in northern Nova Scotia were strenuous and enjoyable. In one I completed my high school requirements and in the other I combined the Freshman and Sophomore Years by taking an impossible schedule of nine courses. The tone of the college was heavily religious and, in my time, about half the graduating class elected to study for the priesthood. Although there were some excellent teachers, both priests and laymen, the emphasis was on the classical and memory side, with textbooks and pre-

scribed reading in all courses. Since at that time I had an excellent memory I had no difficulty in heading my class. Though I was very weak in mathematics, I got through my geometry and trigonometry by memorizing the solutions to all the problems listed at the end of each chapter from which the examination questions were invariably taken. In addition, I took private tutoring in Latin from the classics teacher, an Oxford man, and remember with a good deal of pleasure trying to produce elegant translations of Horace and Cicero. I won the prize in Church History, was on the orchestra and debating team and represented my class on the school paper.

Dr. Coady was just beginning his work in introducing Adult Education and Producer Cooperatives under the sponsorship of the Church, and which was later to become very well known. I acted as a sort of private secretary to him and he liked to dictate his speeches and sermons to me as I could take them down very rapidly in my kind of long shorthand and try to supply the elusive word. Although he didn't often accept my suggestion, it apparently helped him to find the word he wanted.

Under the influence of the environment, I had a rather intense religious experience, receiving communion daily and toying with the idea of the priesthood. My love of the things of the world and the flesh was too strong, however, and I realized that I had no vocation. I was probably the most consistent violator of the student imposed rule against "goofing" by a First Year man, i.e. engaging in the perfectly innocent and harmless practice of walking with a girl during our short free period from 3-4:45 every afternoon. The penalty was the painless but humiliating one of being seized by a group of upperclassmen, while the girl ran, and being tossed in the air half a dozen times. A more serious violation was attending, under pain of expulsion, the town skating rink at night. I did this so often that the school authorities must have known but I was never caught creeping into the school grounds long after lights were out and nothing was ever said to me. Maybe it was because I was, in every other respect, a model student. In any case, these two examples may indicate that I was not of the stuff that good priests are made.

In my second year, I began to get restless and feel that I should be getting more out of college. I pored over the catalogues of larger universities and eventually, under the influence of my classics professor, decided to try for Oxford. It was for this I took special tutoring in Latin and we actually began correspondence with University College, Oxford. About this time, I talked to the Vice Chancellor of the University, Father James Tompkins, who had one of the most active and enquiring minds on the campus. He shocked me, by saying in his high piping voice, "Don't go to Oxford. They're all dead there. If you want to go to England, go to the London School of Economics where they're alive. Laski, Webb, Hobhouse, Wallas and the others. Dangerous and irreligious men—but extremely able! Here, look

over the catalogue". This was the end of Oxford for me. I wasn't sure what economics and political theory were about, but they sounded most exciting. Thus, at a certain moment, can offhand advice in a five minute talk change the course of one's life and work.

I immediately wrote to the London School and to my mother. The school replied that in lieu of the London Matriculation I could sit for a short general examination in four subjects, which I would have no difficulty in passing. My mother replied that she had always wanted to see England and would like to accompany me. So things were quickly decided and we sailed for England in the fall of 1922.

The London School of Economics, 1922–25

The impact of London and the London School of Economics on me, at that age, was tremendous. At one step I was translated from an intellectual backwater into one of the most intellectually stimulating spots in the world. I had read no modern literature and had no knowledge of nor interest in the great political controversies of our times. I had seen few plays, heard no first class music, and had come into contact with few, if any, first class minds or original thinkers.

At first, the impact was almost overpowering and I became very discouraged. Without the aid of a textbook, I failed in two of my four initial tests, French and English. I could not even identify the quotation "He maketh me to lie down in green pastures". They were, in reality, most easy tests and on the second try, with the aid of Hugo's Language School and poring over two little books on famous quotations, I passed them. The transition from being at the top of my class to failing in a specially devised easy examination for overseas students was only the first shock. The student speakers in the School's Union—a kind of debating society—filled me with awe with their easy improvised brilliance and wit and I sat silent and forlorn. My first friend seemed to have read everything and discoursed easily on any topic that came to hand while I felt an ignoramus.

However, after a bit, it became very exciting. After the talk by a great speaker at the Union—which could be Winston Churchill, Bertrand Russell, or another well-known figure—I would go home highly stimulated and write a long account of it in my diary, and discuss it at length with my friend the next day. New ideas and perspectives came so rapidly that I could not digest them. I was in an intellectual ferment and nothing seemed stable or fixed. My mother and I went to one or two plays or musical events every week and I made my first acquaintance with Shakespeare and Opera at the Old Vic. Also, I began to read furiously in modern literature, trying to make up for lost time.

I enjoyed being treated like a serious adult at the School. No attendance

records, no textbooks, no hour or quarterly examination or tests—in fact no examinations at all except at the end of the first and third (last) years. Simply lectures and suggested books on collateral reading. In this way, one could arrange one's schedule rationally and devote an intensive period to one subject without interruption and begin to get some sense of getting inside of it and mastering it. The lectures, one a week in each subject, were repeated in the evening for the students who were working, and in my third year I made it a practice of reading all day at my desk in the reading room of the British Museum and catching up on the lectures from 6 to 8 o'clock in the evening. In this way, I would read an enormous amount on a subject in say a month. Although for my major subject, economic theory, I prepared papers and discussed and defended them in class, I feel in retrospect that there was not enough of this type of work and too much passive reading. It was probably assumed that one would discuss the subjects with one's classmates and it is true that a lot of this took place. With me, however, discussion could not take the place of writing as a means of developing one's ideas in an orderly fashion.

The School was undergoing a transition when I was there. The last of the founders, The Fabians, were passing from the scene and the School was feeling its way to a new orientation. Sidney Webb was giving a few lectures on municipal organization which I attended, more out of respect for the man than interest in the subject. Edwin Cannan was the Professor in Economic Theory. He had an acute and observing mind, was impatient of too elaborately evolved theories, and insisted on the down-to-earth, common-sense approach to economics. Although the School had a strong socialistic (in the British sense of the word) tinge, Cannan was mistrustful on the whole of State intervention and generally believed that things worked out "naturally" better than planned. He induced in us a superior attitude toward the great Cambridge economists, Marshall and Pigou, which was a little unfortunate since we were inclined to be critical without really knowing what we were criticizing. This same tendency existed in the courses on money and banking toward Keynes and I only came really to appreciate him much later. It was probably fortunate for my continuance in economics that I went to London instead of Cambridge as I could not have handled the amount of mathematical economics then stressed at Cambridge and would have been repelled by the subject. Cannan, on the other hand, gave the young student the comfortable, if somewhat misleading assurance that all that was needed for the solution of economic problems was the application of enlightened common sense.

Political theory was the domain of Harold Laski and he was easily the most brilliant and stimulating lecturer at the School. His hours would pass like five minutes and one had the illusion of how easily society could be organized on rational grounds. This illusion faded, however, when one

came to re-read one's notes. The epigrams and wit were lacking and the bare skeleton of the argument frequently failed to carry conviction. It was my relatively poor showing in political theory that prevented me from receiving First Class Honors on my graduation and I had to be content with Second. Curiously enough, the only course in which I received a B instead of an A later at Harvard was in the same subject under Professor McIlwain. Obviously political theory was not my forte.

The most liked teacher at the School was Lillian Knowles, the economic historian. Her book was almost unreadable but she had a warm, kindly personality that endeared her to the students. Eileen Power, the historian, was the Glamour Girl on the faculty. In the course on logic, which I selected in place of mathematics, I gained what I never did from the latter. It was an excellent training in critical analysis and infinitely more useful for a person with my type of mind than mathematics. I struggled through Bowley's course in statistics. Hugh Dalton and Lees-Smith were later to become Labor Government Ministers. The former in public finance, was sardonic and amusing.

At this point it is worth pausing to consider an important influence on Currie at this time that is not brought out in his written memoirs. Currie had greatly enjoyed Dr. Wolf's course in formal logic which gave him powers of reasoning that he was never able to get from mathematics. He treasured "the six fallacies," especially the fallacy of composition. Thus he delighted in Keynes's exposure of this fallacy in ridiculing Dalton's proposal for a capital levy to pay off the national debt. Currie wrote later:³

Despite our rivalry with Cambridge I admired Keynes and I was considerably influenced by his early writings on the Economic Consequences of the Peace and his Economic Consequences of Mr. Churchill. The school was weak in monetary theory. So there were two supplementary influences, Cannan, in "getting behind the monetary veil to real things" and Keynes' insistence on the importance of the monetary veil! As brash young students we used to refer condescendingly to old Marshall and Pigou, for which I now blush. Remembering how critical students can be I look uneasily at my present classes and wonder how they refer to me.

In the early 1930s Currie applied Keynes's early insights on the difference between private and social accounting to justify unbalanced budgets as a remedy for the Great Depression. He thus felt a deep intellectual debt to the early Keynes but remained skeptical of the value of the later *General Theory*. As will be brought out in later chapters, Currie has applied the fallacy-of-composition test to a wide

range of theoretical and policy issues and has found that the fallacy is pervasive, for example, in marginal productivity theory, in the "law" of diminishing returns, in the theory of declining marginal utility, in conclusions on the effect of productivity growth on farm incomes, in land use decisions in city planning, in social security schemes, and in the definition of money and the effect of changes in the demand for money.

However, returning to other influences from his London School of Economics days, Currie's 1952 memoirs continue:

Curiously enough, I took no course with one of the professors at the School who influenced me most—J. H. Hobhouse. His two books—*Mind in Evolution* and *Morals in Evolution*—made a profound impression on me, as previously my world had been one of absolutes. For a time, I saw everything in comparative and relative terms—which was rather paralyzing of enthusiasts. I suppose it was a belated reproduction of the shock the Victorians experienced under the first impact of the idea of evolution. Another who influenced me greatly was R. H. Tawney. His *Acquisitive Society* and *Elements of Social Justice* I found exciting and they made me aware of the abuses of privilege much more than did Laski's lectures and books. Graham Wallas' explorations in *The Great Society* and *The Art of Thinking* helped to make me more aware of my mental processes and the always hidden motivations of convictions and views. Actually they were suggestive rather than profound books but they helped in the general ferment of ideas that was taking place. In one of his public lectures Graham Wallas said that in listening or reading we should always be alert to hear that thin small voice within us that cries "fiddlesticks." At the end of his lecture Tawney said that all throughout Professor Wallas' lecture he kept hearing that thin small voice. Wallas' sense of humor did not extend that far.

Two younger teachers who had a great influence on me were Eve and Arthur R. Burns. She was Cannan's assistant and he a lecturer in Kings College and I passed many enjoyable and highly stimulating evenings at a kind of seminar they organized at their apartment. They later came to the United States where she became one of the outstanding authorities in social legislation and he, Chairman of the Department of Economics at Columbia University—both remaining excellent friends through the years. Lionel Robbins, who was shortly to play an important rôle in changing the character of the School, was two years ahead of me and we never met. On the other hand I got to know well several graduate students, Talcott and Helen Parsons and Allen G.B. Fisher.

My mother returned to Canada after a year and after we utilized my first vacation, having been joined by my sister Marguerite, to tour the British

Isles and Paris. I thereupon moved into a typical boarding house on Guilford Street, near the School and the British Museum. The landlady was a terror and the meals still a distasteful memory but the other boarders were interesting, one being the amateur ballroom dancing champion of England and another a highly intelligent woman from South Africa who made a precarious living by playing a cello in orchestras and writing pot-boilers for pulp magazines. I forgot about the meals in the flood of argument and anecdote that accompanied every meal. I also met there an English student, Burn Edgcombe, taking the commerce course at the School, and we shortly joined forces and roomed together for the next two years and I visited his home in Somerset many times. This association with hearty and simple middle-class people and my joining in the social life of their town did more than anything else to make me feel at home in England.

Before that, I had been the recipient of many kindnesses from Lady Francis Ryder, who arranged for invitations for students from the Dominions to many country homes. Those visits were interesting and dispelled the loneliness of living in a great city, but I rarely felt completely comfortable or at home—the contrast was too great to my simple upbringing. I recall in particular an Easter visit to an enormous place near Bath. The interests of my host, a retired general, were limited to the army and sport, in neither of which I had the slightest interest. The going was difficult for both of us.

I was a member of the British-American Dance Club, which arranged dances every week or so during the season, and of something called The Empire Poetry League. The reading of poetry was a bit of a bore but the Sunday walking excursions along relatively unknown by-ways in the neighboring counties, ending at some country inn, were a joy.

To get around more, I purchased a motorcycle in my second year. It had only one recommendation,—it was cheap to operate. For the rest it was noisy, dirty, wet and exceedingly dangerous. My room mate and I, during the long vacation in 1924, toured the Continent with it and a sidecar. It was not a bad way to see Europe if you only have a couple of hundred dollars and don't mind sleeping in the fields, but I would recommend it only for the very young and very healthy. After our return I had a bad crash on a wet country road in which I broke my ankle and nearly lost my life. I sold the motorcycle with a great sigh of relief and nothing would ever persuade me to mount another.

I would not say that my three years in England were the happiest years of my life but they unquestionably were the most stimulating and intellectually exciting. I felt without moorings or anchor and religion did not give me the stable base it had before. The diary I kept at that time reflected many moods of depression and even despair. For a time, my favorite author was Hardy whose gloomy picture of the Universe was one dominated by blind forces and chance, and whose heroes were generally enmeshed in a

series of cruel and unmerited frustrations. I remember starting *Jude the Obscure* late one evening and putting it down at four o'clock in the morning with a gasp. It ends with the completely frustrated and embittered Jude dying alone reciting aloud the psalm of Job "cursed be the day I was born" and so forth. Another favorite author was a brilliant young English naturalist who died young and who wrote under the name of N. P. Barbellion. My friend Reg Hinton and I would quote at great length passages to each other from his *Journal of a Disappointed Man*. I find that the copy which I still have is heavily underscored.

Despite all this activity and inner turmoil I accepted the Managership of the National Student Magazine of Great Britain and devoted a lot of time soliciting subscriptions and advertisements and putting it on its financial feet. It was my first experience in dictating to a secretary and as I suppose is a not unusual occurrence at the beginning, I wrote out completely first in long hand what I intended dictating.

Sometime during my third year at London I made an important decision on the choice of a career. My original intention had been to study law after I obtained my undergraduate degree and I still think it would have been a wise choice as I had the type of mind that would have been well suited for the law. However, I made what was probably the mistake of dropping occasionally into the Inns of Court, which were near the School, and listening to the cases being tried. The dreary formality of English law repelled me as did also the thought of spending my life being solely concerned with the mistakes, follies, and crimes of my fellow men. Naturally there are other and, to me, more interesting parts of the law in which one could concentrate, but I did not know about them or have anyone to advise me. On the other hand, I began to feel more interest and competence in economics and be attracted by the thought of studying and teaching it. It is perhaps not much of a science, but at least one could try to approach it in a scientific spirit and the thought of maybe being able to contribute something to raising the standard of living and hence presumably the happiness and well being of man, gave a content to the work of something more than merely earning a living. In the end, I applied for entrance to the Harvard Graduate School of Arts & Sciences rather than to the Law School.

On the advice of Professor Cannan I left London a week before the final exams for a rest at the little village of Alfriston, almost on the English Channel. It was a good rest but a bad mistake. The theory was that since there were no textbooks to be crammed, and the results would depend on all the work one had done in the previous two years, the important thing was to be fresh and alert mentally. Actually, however, I "cooled off" and the courses and exams began to seem remote and unimportant. It would have been better to have remained at least in the environment of work. Actually, however, I obtained Second Class Honors and in the long run it made no

difference and I have my memory of wonderful June days on the English Channel.

After the exams I sailed for Canada, a very different person than the one who had left three years previously. It was a blessed relief, however, to plunge again into the summer social life of a small Canadian town with its daily round of tennis, canoeing, dances, and outings, with the knowledge that it would soon come to an end and I would start the grind again at Harvard.

“Enter Here and Grow in Wisdom”: The Harvard Years, 1925–34

The Student and Instructor

Currie registered at Harvard's graduate school in the fall of 1925. Study at Harvard was more highly organized than at the London School of Economics (LSE), with attendance records, a circumscribed choice of subjects, frequent hour tests, and mid-year examinations. He recalls that he had imbibed a little of the English feeling of superiority in educational matters and at first was inclined to be slightly contemptuous of the school. But he quickly found that there were some first-class brains among both professors and fellow students and that he could by no means coast along on his previous work. For two years he concentrated on intensive coursework, culminating in comprehensive written and oral examinations.

His most memorable teachers were Frank W. Taussig and Allyn A. Young. Taussig had a formidable reputation as the country's leading international trade theorist and Currie took his famous Ec 11 course in the development of economic theory, through which students came to have a fair working knowledge of Ricardo, J. S. Mill, Bohm-Bawerk, and Marshall.¹ Though Currie judged that Taussig had an orderly rather than a creative mind, he regarded him as a “truly great teacher in the sense that he aroused our intense interest in what were in reality relatively unimportant points in theory,” and students gained a valuable training in critical analysis from the discussions among themselves that followed his classes. Taussig took an interest in distribution theory and still encouraged discussion of the wages-fund doctrine and the controversial ideas of Henry George, whom he had treated fairly sympathetically some years earlier in his *Wages and Capital* (1896). However, Taussig was generally more interested in pure theory and “equilibrium” than in policy. Discussions with Taussig were more in the nature of an intellectual game. Students had the

impression that there was a definite answer to the problem under discussion, that he knew the answer and that it was up to the student to discover it. Currie later contributed to a volume of essays in his honor.²

Professor Allyn Young, however, was Currie's chief inspiration. He noted in his diary in 1927 that he "revered Young above all other men in the world. A minute with him sets me up for the rest of the day." In his memoirs Currie described him as "a true scientist with an enquiring, creative, and yet withal a humble mind." Young's most notable contribution, his presidential address to Section F of the British Association in Glasgow in September 1928,³ was, with characteristic modesty, described by Young as a "mere variation on a theme" by the master, Adam Smith. His paper was, in fact, profoundly original, described by Nicholas Kaldor in 1975 as fifty years ahead of its time.⁴ It was to influence greatly Currie's own perceptions and writings on the nature of the growth process, discussed in detail in chapters 12 and 13 below.

In contrast to Taussig, Young gave the impression in classes of thinking problems out as he went along. Currie wrote:

He would frequently lapse into a brown study in the middle of a discussion and rouse himself with an obvious effort. He gave me the feeling that nothing was completely closed or decided—that monetary theory and business cycle theory were open fields in which it was still possible to make significant contributions. He had a trick or habit that I tried to imitate when I became a teacher. In the discussions in his class, one of us would timidly offer a suggestion, or make an observation which, naturally, was frequently half-baked or beside the point. He would usually gaze intently at the speaker for a few moments and then say, "That is an extraordinarily interesting point. What Mr. X. is suggesting [or alternatively: has in mind] is . . ." and he would proceed to attribute relevant and profound thoughts to you that you never dreamed of, and to which you listened with a surprised and pleased glow. In this way he avoided hurt feelings and yet kept the discussion going along relevant and significant lines.

I had a typical experience with him in an examination. The whole examination consisted of an essay on a theoretical topic. After I had written for almost three quarters of the allotted time, I suddenly decided that I had the wrong slant and thought of a better way to handle the theme. I skipped several lines and explained my dilemma and gave an outline of how I would have developed the matter if time had permitted. He wrote on my paper that he liked both my attitude and my second suggested approach and was giving me an A for it. [*Memoirs*, pp. 24–25.]



Allyn A. Young (1876–1929). Currie dedicated his *Supply and Control of Money in the United States* (1934) to Young's memory. *Courtesy of the London School of Economics.*

In 1927, at the end of Currie's second year in the graduate school, he was selected by Young to be his assistant for the following school year—a very high honor and one which could have assured his career at Harvard. Unfortunately, however, shortly afterward Young was invited to occupy the chair of political economy at the London School of Economics for three years, the chair of Currie's old teacher, Professor Edwin Cannan. With his deep respect for English economics, he could not resist this honor. Late in 1928 the University of Chicago invited Young to be the new chairman of their department. He declined the offer but felt that, out of courtesy, he ought to go to Chicago to explain personally his decision to stay at Harvard. During his return to London in early 1929 Young contracted pneumonia and died in a London hospital at the age of only fifty-two. The sudden death of his mentor and patron was a deep personal shock and loss to Cur-

rie. He tells how his complete absorption in his work was revealed by Mrs. Young's unutterably sad account of his death when, in his delirium, he lectured for hours and hours on end.

In his *Autobiography of an Economist* (London: Macmillan, 1971), Lionel (Lord) Robbins, who returned to the LSE from Oxford to take up a chair in economics upon the death of Allyn Young, pays tribute to Young as an economist of "massive erudition" (p. 120). However, at the same time he suggested that Young's appointment at the LSE was not a great success because "he was not generally a good lecturer" and was a poor administrator. He gave Robbins the impression he was a profoundly unhappy man with a tortured temperament, ill at ease in his surroundings, distracted by his duties and difficult to talk to.

This view surprised Currie, who, commenting on Robbins's autobiography and on a copy of Nicholas Kaldor's notes on Young's LSE lectures⁵—which had just been obtained for him by the present writer—wrote him in reply, January 2, 1989:

. . . I did get to read more carefully the Young lectures as reported by Kaldor. . . They make a fascinating document even though only the notes of a student. What Robbins criticised—the slowness of delivery—bore out what I think I told you was my impression—that he *thought* them out as he went along. What I recalled most was missing—the dialogue with the students and his care to make something worthwhile of points raised by students (including me). Even 60 years later they make the treatment of many texts appear superficial. I was surprised he resorted to diagrams as much as Kaldor reported.

. . . I agree that it is probably better to stick to Young's verbal formulation than his own uses of curves—which can't express the "togetherness" of economic phenomena.

. . . What mattered to Robbins was verbal facility (which he had) and administrative detail (Beveridge had Mrs. Mair for that). He wrote as though Young had left Harvard for good which I don't think was true. His post at Harvard was filled only on a temporary basis by Hawtrey and Schumpeter until after his death, when the latter was appointed to fill it. . . He asked me to be his assistant on his return. What apparently weighed with him was the income—which I never appreciated. He never for a moment gave me the impression of being an unhappy man. I remember his bright smile and eager interest in the subject at hand—which he apparently didn't have with Robbins!

In a memorial tribute (*Economica*, April 1929) the director of the LSE, Sir William Beveridge, also gave an account of Young's work in

London that differed from Robbins's. He spoke of Young as "a main pillar of our School," a great teacher, venerated by his students, and happy in his work in London. "He came to us promised for three years; we were gladly bound to him for life if he would stay." Likewise, a long obituary in the London Times:

A profound scholar, Young possessed also the charm of personality. Of imposing stature, with a noble head and kind and penetrating eyes, he won his way to the hearts of students not by any of the gifts of the orator, but by the sense that he gave of a complete command of his subject and by a kindness of disposition which made him take endless pains on their behalf. No man was more ready to see all the sides of an argument; he had none of the intellectual arrogance which sometimes accompanies great mental gifts; and if ever he felt anger it was with those who refused to acknowledge merit in the work of other schools or of modern writers of a tendency opposite to the received tradition. These qualities of mind and character, which made him a great teacher, made him also the most sympathetic and helpful of colleagues. No one could go to Young without receiving enlightenment, and, since his range of knowledge was extraordinary, without the impression that here was a man who was an absolute master in his chosen field.

Currie's other teachers at Harvard included the following: Charles McIlwain, in political theory; Thomas Nixon Carver, W. Z. Ripley, Edwin Gay, C. J. Bullock, John H. Williams, and Harold Burbank in various fields of economics and economic history; and W. L. Crum in statistics. Currie regretted that the department was so poorly represented in the field of public finance, a field closely related to monetary and business cycle theory in which Currie was to specialize and teach. Bullock, records Currie, "was a violent reactionary, really, I believe, mentally unbalanced, and Burbank was exceedingly mediocre."

Burbank, because of the reluctance of the more able members to take on administrative responsibilities, was the chairman of the department. He has been credited with having created the best economics department in the United States—that of MIT—by deciding that Paul Samuelson was not good enough for Harvard. When, as early as 1930 or 1931 Currie began to feel that self-accelerating deflationary forces were too strong to be checked by easy money and other conventional measures and to suggest, in his classes, that the government should embark on a large-scale public works spending program and not try to cover the current cost by taxation—i.e., deliberately incur a deficit—Burbank called him in and warned that he should

stop talking such nonsense and stick to his subject of money and banking.

Currie's class, which entered in 1925, was an exceptionally good one and many of his classmates, such as Douglas Brown, Edward Beach, Donald Wallace, Theodore Yntema, and Tony Monteros, later occupied leading posts in important universities and corporations. But Currie records that "the one who was destined to become the best known, and who was also perhaps the most brilliant, was Harry Dexter White. We were, from the first, friendly rivals and remained on this basis for the next ten years." In White's papers in Princeton University Library there is a "Memorandum Prepared by L. B. Currie, P. T. Ellsworth, and H. D. White," dated January 1932, which outlined remedial measures to combat the Depression, "which had cost more than the Great War," by canceling all debts and reparations, by creating an administration of public works, by reducing tariffs, and by the purchase by the reserve banks of \$1 billion of securities to increase liquidity.⁶

Currie's friendship with White was to continue until White's death in 1948. For several years White occupied key posts in the U.S. Treasury and there kept in close contact with Currie who likewise occupied influential positions in the Federal Reserve Board and later the White House.

They entered their Ph.D. theses in the same year for the Wells Prize, which, if won, meant publication in the Harvard Economic Series. White, the protégé of Taussig, submitted his thesis on the French international accounts, 1880–1913. Currie's was on bank assets and banking policy. According to Currie "it was a close race and the judges disagreed as to which of us should receive the prize. Finally, the theses were given to a faculty member for final decision. He confessed later that he disapproved so strongly of certain ideas I had expressed in another and completely different article that he awarded the prize to White." So Currie's Ph.D. thesis was not published, but shortly afterward Harvard did publish his *Supply and Control of Money in the United States* (1934).

Currie's Ph.D. thesis included a chapter that condemned in forthright terms recent Federal Reserve monetary policy as primarily responsible for precipitating and then deepening the Great Depression during and after 1929. This chapter was later published under the title "The Failure of Monetary Policy to Prevent the Depression of 1929–32," in the *Journal of Political Economy*, April 1934. Years later, Earl Hamilton, Harry G. Johnson, and Albert Rees were to select that

article for inclusion in *Landmarks in Political Economy* (University of Chicago Press, 1962), a volume that collected together what were judged to be the twenty-four most significant papers published by the *Journal of Political Economy* in its first seventy-five years. In that volume Currie's penetrating exposure of misguided monetary theory and management stands alongside contributions by, for example, Veblen, Pareto, J. M. Clark, Viner, Knight, Henry Simons, Paul Sweezy, Samuelson, Friedman, Metzler, and Lerner.

Another of Currie's group was A. G. Silverman who, though an instructor at MIT, was completing his requirements for the Ph.D. degree at Harvard. Currie recalls his "brilliant and unusual mind. He especially delighted in the more abstract problems of economics and philosophy." Currie found Silverman and White both very stimulating in different ways, but later, during the McCarthy period, his friendship with them was to have serious consequences because of an alleged involvement in a communist spy ring.

When Allyn Young left for London in 1927, John H. Williams was asked to give his course on money and banking, the course in which Currie had been appointed as assistant. Currie's memoirs record:

It was the first time he had taught the subject and, of course, it was my first teaching assignment, so we started fresh together. It became a large and popular undergraduate course. He lectured twice a week and I broke the class up into five sections of some thirty to thirty-five boys in each one for an hour each week. It was a happy combination that lasted for some years. He was an excellent and popular lecturer. My job was to establish closer contact with the members of the class, develop the themes of the lectures through the Socratic method, grade all papers and the course theses—which was an important element of the course, accounting for about one-third of the final grade. Fortunately Williams and I shared the same general approach to the subject and we became warm personal friends.

I particularly enjoyed teaching by the Socratic method, which, to be successful, requires the active participation of the classes and is suitable only for theoretical topics. Usually it is best to confine the discussion to one point. The basic objective was by skilful questioning and guidance of the discussion to have the class, or the bulk of it, arrive itself at the point you want to make, just at the end of the hour. One must keep alert, modify the questions as required, and accelerate or decelerate the development of the topic, depending on the time element. It was much more strenuous than lecturing but the compensation was that it was infinitely more stimulating for both the students and the teacher.

The course in money and banking became too popular for my comfort.

It invariably received favorable ratings in the Harvard Crimson's Confidential Guide to Courses. In one year there were some one hundred and eighty enrollees and the sections became too big and the chore of grading papers a really onerous one. That year I had a pile of course theses about four feet high, on all of which I tried to make suitable written comment as I went along. I was referred to in the Crimson as a driver, but a just and reasonable fellow (a regular guy), which description pleased me very much. (*Memoirs*, pp. 27–28)

Among the many hundreds of students who attended Currie's classes in the years between 1927–34, some were to become prominent economists, including Paul Sweezy, Wilfred Owen, Walter and William Salant, Richard Goodwin, Moses Abramovitz, A. G. Hart, Martin Krost, and Emile Despres. Paul Sweezy's brother Alan was a fellow instructor who later worked for Currie for a while at the Federal Reserve Board.

For a while Currie also assisted Ralph Hawtrey, who was a visitor for a year, and Joseph Schumpeter. Some of the young instructors were later to claim rather contemptuously that Schumpeter's main credentials were that in the early 1920s he had, as Austrian minister of finance, presided over the wildest inflation his country had ever known. Perhaps chastened by the Austrian inflation, Schumpeter was at this time extremely conservative on monetary matters, siding with Hayek and Robbins in a "neutral money" theory of inflation. In this theory, which Currie believed showed no sense of practical realities, the money supply is said to be rising excessively fast, causing inflation, if, despite falling prices, the fall in prices is less than the fall in unit costs brought about by rising productivity. (A modern variant on this theory is that monetary conditions in 1929–32 were "easy" because, while the nominal money supply fell sharply, prices were falling even faster so the "real" money supply increased.)

John Kenneth Galbraith has remarked that Schumpeter's "political and business misfortunes had left him with a deep distaste for practical affairs, and he condemned as intellectually debased economists who presumed to advise on practical questions."⁷ However, he did use his influence to comment on policy in the Depression, usually to encourage further depression as "salutary." Currie recalls that he occasionally put his theories into practice. He believed in wage flexibility as a cure for depression. Hence he supported Harvard's decision to cut the wages of the support staff. Professors' salaries, of course, were not changed and as prices fell Schumpeter enjoyed a rising real in-

come. This accorded with his pronouncement that "a gentleman cannot live on less than \$50,000 a year."

Richard Goodwin, one of Currie's students at Harvard, and later a distinguished Cambridge economist, now at the University of Siena, recently wrote an article highly critical of the Harvard economics faculty at this time.⁸ In response to the present writer's inquiry about whether he would include Currie in his censure, he sent the following very revealing letter:

Siena, 30 Oct. 1989

Dear Roger Sandilands,

I have just read with fascination your very informative letter and the excerpt from your forthcoming book.

Indeed I thought the faculty at Harvard were a bunch of whited sepulchres; and I still think so. While I was there seven professors published a book about the Great Depression—a book of concentrated mumbo-jumbo that has been rightly totally forgotten; they were labelled the 7 Wise Men. And it included Schumpeter, whom I admire enormously, but who talked the most unutterable rubbish at the time.

I was very pleased to read the table of contents, which gave me an outline of Lauchlin Currie's career, about which I have heard little. My dismissal of Harvard did not include Currie, and I was saddened to read that he would like to have had a job there; he would have improved it.

I did my degree in history, government and economics, with mainly the politics part, but with economics as of increasing interest and the second part. Fortunately I took Currie's course and it was more or less the only good thing I found in the economics faculty. He was splendid; each lecture he would bring the latest data from the Fed. and say how unsatisfactory and tell us why. That I am not just being friendly about him will be established by the fact that, after doing my degree in Oxford (this time concentrating on economics), I decided to do a B. Litt and which I later turned into a Ph.D. at Harvard. It took 4 years of my life and in imitation of Currie, I attempted (for the first time in England), to construct monthly time series for the quantity of money. The title may well have been literally copied—the Supply and Control of Money in the UK; there is a copy in the Widener Library and in the National Institute, London. After a century of talk about money, no one had ever actually tried to count it!!! Alas for me, Phelps-Brown published a parallel series in the Journal of the Royal Statistical Society, so, miserably, I abandoned my intention of publishing the thesis, which was literally inspired by Currie's work.

When I returned to Harvard just before the war, I got, on the basis of the thesis, the job of being John Williams's assistant. I was enchanted to learn

that Currie had been the same. I enjoyed the work and think I did it well but not as well as Currie. The thing was that Keynes had happened and I became increasingly concerned with the determination of output, not solely through the banking system.

About Schumpeter: Currie was wrong, though he had good grounds. As an undergraduate, I was a member of a discussion group and for one meeting we asked the newly arrived Schumpeter to explain Marx to us. He told us that his economics was all wrong, though he had some good ideas. As a youthful radical I was furious with him and returned, some years later, full of hostility to him. After one year's contact I began to soften and ended up being a friend and great admirer. He was a real continental intellectual; he loved discussion and would give any amount of time to anyone who, he thought, had anything to say. He was a snob and a reactionary, but Paul Sweezy and myself were two of his best friends, and he knew we were both hopeless reds. For him, in fact, since we both came from banking families, we simply illustrated how capitalism would end, not the way Marx said. Like you, I hope to publish a book next year (on Chaos [OUP]), and in it one section demonstrates how wrong Schumpeter was with his (to me profound remark) that the cycle is simply the form growth takes—that was of course why he was talking such nonsense about the 1930's. And yet, as I grow older and more senile, the more I am impressed with him; I think he plays as large or larger role than Keynes! and yet the idiot dismissed the G.T. as rubbish!

I was also very interested to find out that Currie had studied with Allyn Young; Nicky Kaldor always talked so much about him (calling him Aline Young) that I often wondered what was so good about him—also it shows what an ass Lionel Robbins was. Tragic that he died so young! he would have left a legacy.

Incidentally, Schumpeter was not only Finance minister but after, as a private banker, lost his family fortune! He was a curious man, in some ways vain, but for example, in his lectures he never mentioned his own work and in his great work on history of theory, he never mentions his own work.

Well I must thank you for your generosity in sending me the letter and the photocopy, both have given much pleasure and made me think.

Sincerely,

Richard M. Goodwin

The Coming of the Great Depression

As soon as his first job was secured, in 1927 Currie was married, in a civil ceremony, to Dorothy York Bacon, a landscape architect

who continued working in Boston until the arrival of Morgan, their first child, in 1929. A second boy, Roderick, was born in 1934.⁹

In 1928, having chosen a Ph.D. topic on bank assets in the United States and Britain, he sailed to England with his wife to spend a few weeks in London collecting data on British bank assets.¹⁰ His topic was of profound contemporary significance, for his work coincided with the fateful Federal Reserve policy of 1928 and 1929 in the lead-up to the Great Depression that began around July 1929. By October the U.S. industrial production had already fallen by more than 2.5 percent.

Meanwhile, however, Currie has recalled:

I had the tremendous satisfaction of feeling that I was doing my job adequately and of having a growing mastery of my subject. Finally, I was being very successful in the stock market.

I had started in a small way at the end of 1927 investing my share of the family estate and contracted in addition a small loan. Unfortunately, since I was very successful, my friends and relatives asked me to invest sums for them. By the middle of 1929 my original stake of \$15,000 had been run up to \$150,000 and the money of my mother and brother was also in the market. The accounts of the various friends were pooled in a single account which was doing very well. When I left for a vacation at Nantucket in early September I felt my economic future was assured. It is true I had a loan of \$100,000 but it was secured by stocks worth \$250,000, which was, as things were then considered, very conservative. Unfortunately however, I had invested in stocks that had experienced the most spectacular rise and which, quite naturally, later experienced the most spectacular falls. During that fateful October of 1929 the equity shrank so rapidly I began to receive margin calls, all of which I met by selling stocks. By the beginning of November, I was out of debt, but with less net worth than I had started with two years previously.

It was a not uncommon experience and one which, even to-day, can arouse little sympathy. And yet it was a terrible blow to me, both financially and emotionally. On the whole, my friends took their losses philosophically, though there were some reproaches. The worst was the loss of a good part of the inheritance of my mother and brother. He had died in early 1929 and I had been responsible for persuading his widow to bring her three young sons to Cambridge and send them to a good private boy's school. At the same time I had started a family and my wife had given up her job. I suddenly found myself the main support of nine people on an instructor's salary of \$2,700 a year, and without any life insurance.

The first thing I did was to call an insurance company and take out a \$20,000 policy. It was a prudent thing to do, but it did increase my ex-

penses. I then cast about for ways and means of increasing my income by taking on additional teaching assignments, monitoring examinations, private tutoring and even acting as Chief Usher at the football games. In these various ways, and by carrying a terrific schedule of work, I was able to increase my income every year of the Depression, which must have been something of a record. After the first year, my nephews won scholarships, which were a help, and eventually the family returned to Nova Scotia where living expenses were much less.

In the years 1930–33, in addition to my regular Harvard schedule, I gave courses at Radcliffe, gave two courses at Miss McClintock's School for Girls in Boston, was a professor at the Fletcher Graduate School of Law and Diplomacy, completed my thesis and was awarded my Ph.D. degree, wrote various articles for Economic Journals and completed my book on the Control and Supply of Money in the United States. My teaching load alone was twenty-three hours a week (six to nine hours was considered a full schedule at Harvard).

Unquestionably, the hardest work was my two years teaching assignment at Miss McClintock's School. This was a "finishing" school for well-to-do girls of sixteen to seventeen who could not or did not care to go to college. To hold the interest of a class of forty to forty-five of such girls in economics for an hour was a real challenge which used to leave me exhausted. I used an uncompromising text, Schlichter, and the Socratic method, and did not fare too badly. At least some of the girls were sufficiently interested to devote part of their summer vacation to auditing my course in the Harvard Summer School.

Fortunately, although my health was not too good, I enjoyed most of the work. Actually, I derived considerable satisfaction in finding that I possessed sufficient resiliency and toughness to withstand the reverses and carry the load. One who always had to make his own way in the world would probably have said I was very fortunate. However, I had hitherto had a sheltered and secure life and mistrusted my ability to cope with reverses. (*Memoirs*, pp. 29–32)

The stock market crash of October 1929 was so dramatic and occurred so close to the beginning of the Great Depression that there is a widespread feeling, amongst the general public and professional economists alike, that the main blame lay with greedy, irrational speculators, aided and abetted by bankers' loans. John Kenneth Galbraith's entertaining best-seller, *The Great Crash* is perhaps the best known and most forceful exposition of this view. Charles Kindleberger,¹¹ despite acknowledging that the Dow Jones index of stock prices at its peak in 1929 was not very different, after allowing for inflation, from its peaks in 1970 and 1983–84, nevertheless concluded:

In the light of the sudden collapse of business, commodity prices and imports at the end of 1929, it is difficult to maintain that the stock market was a superficial phenomenon, a signal or a trigger, rather than part of the deflationary mechanism. One should not be dogmatic about it, but it is hard to avoid the conclusion that there is something to the conventional wisdom which characterized the crash as the start of a process. The stock market crash is less interesting for the irony it permits the historian, bemused by the foibles of greedy men, than for starting a process which took on a dynamic of its own. (p. 116)

In fact, however, the collapse of stock prices halted in December 1929 and prices rose for the next six months. The New York index of stock prices in April 1930 stood at 171, compared with 166 in October 1928 and 216 in September 1929.¹² The real collapse of stock prices occurred after May 1930 when prices slid almost continuously to a low of 34 in June 1932. After President Roosevelt assumed office in March 1933 business began to revive and, with business, stock prices rose fairly steadily from 42 in March 1933 to 154 in March 1937, declining thereafter as a new business recession set in.

Since 1929 there have been several periods when stock prices have risen as fast as in 1929 and other times when they have fallen more sharply than between October and December 1929, notably in October 1987, without precipitating a depression of the depth and duration of that in the 1930s. Kindleberger asserts that "the danger posed by the market was not inherent in the level of prices and turnover so much as in the precarious credit mechanism which supported it, and the pressure which it exerted on credit throughout the United States and the world" (p. 109).

Similar views were echoed in high places in 1929. When Herbert Hoover took over from Calvin Coolidge as President in March 1929 he spoke of the dangers inherent in the stock market. Grave concern was also expressed by Governor Roy Young, chairman of the Federal Reserve Board, by Adolph Miller, an influential board member, and by Senator Carter Glass, who, having chaired the committee that drafted the 1913 Federal Reserve Act, regarded himself as the father of the Federal Reserve System. All stressed the need to control stock market speculation and curb banks' security loans to brokers and others. Throughout 1928 and 1929 the Federal Reserve had been tightening monetary conditions by forcing member banks into debt with the reserve banks through open market sales of government bonds and the raising of the discount rate. So, when the stock market crashed

and output and employment fell disastrously thereafter, those who had advocated and implemented a tight monetary squeeze—with the biggest turn of the screw in August when the discount rate was raised to 6 percent—felt their consciences were clear.

They believed that if any blame attached to the monetary authorities, as opposed to hysterical speculators who were diverting the nation's credit into unproductive stock market transactions, it lay with the decision in the autumn of 1927, in the light of business recession that year, to ease credit conditions by open market purchases of \$200 million and a lowering of the discount rate to 3.5 percent at the Federal Reserve Bank of New York, where the stock market was located. Adolph Miller later described this action as "one of the most costly errors committed by any banking system in the last 75 years,"¹³ because it was followed by a sustained growth of stock prices. These prices increased by about 33 percent between September 1927 and September 1928, followed by a further 33 percent rise to September 1929. Miller's view was endorsed by Professor Lionel Robbins in London who stated that it was from this date, when the Federal Reserve Board let its concern with deflationary pressures in Europe override domestic considerations, that "the situation got completely out of control."¹⁴

Having made this grave inflationary "blunder" in late 1927 A. C. Miller and other key officials in the Federal Reserve—such as E. A. Goldenweiser, its director of research, and his deputy, Woodlief Thomas—became increasingly obsessed with the course of stock prices.¹⁵ In their retrospective assessments of this period Goldenweiser and Thomas agreed that, despite successive increments in interest rates and open market selling that put member banks heavily into debt with the reserve banks during 1928 and 1929, policy had erred only in being insufficiently restrictive.¹⁶

Currie's Diagnosis of the Causes of the Depression

These views were subjected to searching theoretical and empirical scrutiny by Lauchlin Currie during 1929 and 1930 in preparing his Ph.D. dissertation. This was originally submitted in January 1931 and subsequently revised and extended¹⁷ for the Wells prize competition in October 1932. There followed a series of articles in the *Quar-*