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**Leader's Edge:
An interview with Professor John Kenneth Galbraith**

By Stephen Bernhut
Editor, Ivey Business Journal Online

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c/o Richard Ivey School of Business
The University of Western Ontario
London, Ontario N6A 3K7
Tel: (519) 661-3208
Fax: (519) 661-3882
Email: cases@ivey.uwo.ca

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Almost exactly 95 years ago, on October 15, 1908, one of the twentieth century's most commanding public figures, John Kenneth Galbraith, was born. From his birthplace of Iona Station, in southwestern Ontario, Professor Galbraith went on to enjoy an extraordinary career as an academic, author, diplomat, public servant and one of the twentieth century's most distinguished public intellectuals. He was a professor at Harvard University for 50 years, and has been the U.S. Ambassador to India, the deputy administrator in the Office of Price Administration during WW II, where he set up and administered the wartime system of price controls, and the director of the U.S. Strategic Bombing Survey in 1945. Professor Galbraith has received 50 honorary degrees and has served as an advisor to four presidents. A stylish and prolific writer, he has written more than 35 books, including landmarks such as *The Affluent Society* and *The New Industrial State*. For many years, he has been the leading voice of American liberalism, and the most trenchant, influential commentator on American social, political and economic life.

Ironic, sardonic, and always engaging, Professor Galbraith remains vibrant and highly spirited. He spends most of his days writing and tending to correspondence, and sits in a reclining chair that he controls with a hand-held device. I spoke with Professor Galbraith twice, in June and in July, in his spacious Victorian house, on a quiet, leafy street on the edge of the Harvard campus.

In books such as The Affluent Society and The New Industrial State you captured and analyzed the emergence of certain phenomenon. If you were to write a book today, what important development might it describe and what might its title be?

I have one that went to the final press yesterday. It still has some final critical work on it, but I'm all through with it. It's called *The Economics of Innocent Fraud*, and it deals extensively with the ideas that are accepted for reasons of convenience or history rather than reality. As for example, and a modest one, the way in which we still talk about capitalism at a time when power has passed from the capitalist and the monied group to the corporate executives, the corporate managers. That's an important theme. Going on to when they get in government, their orientation is to anything that is good for themselves and quite a few other things... but none of them overwhelmingly favourable to George Bush.

What do you mean by "innocent fraud?"

It's very simple. It's fraud that isn't legally prosecuted and that people can pursue it with eminent respectability.

The enormous fraud and deceit withstanding, what strikes you the most about the recent corporate scandals?

That's about a third of my forthcoming book, all written before it happened, and persuading me that writers too can be overtaken by events. This is a manifestation of the new structure of the corporate world, which puts power in the hands of the management, not the stockholders and not the public at large, but those who put together and run the great corporate bureaucracies. That endows the people so empowered with the right to pay themselves. And not surprisingly, they have seized upon that right. This is corporate capitalism. It's in all the major industries, a minority of companies that share the production, and the bureaucratic structure that serves that end, and a freedom from legal supervision, from the fact that many of its best people move on to government, particularly in the United States.

What prompted you to write the book at this time?

I haven't the slightest idea. All my life I've had a certain compulsion to see, or to have, my thoughts in print, and that was certainly still operating on all the things that we believe to our own advantage rather than to the truth. You asked for the definition of "fraud", and that is it.

What other developments or phenomenon have you captured in the book in the book?

The myth of the two sectors, the public sector and the private sector... at a time when the private sector has taken over big chunks of the public sector, particularly in military operations and armament, defense budget. That's a very fairly central theme.

So there is no public sector?

No public sector where the corporate power finds it important to have the authority, which they do on taxation, which they do on defense appropriations, all as they replaced the old fashioned monied interest. If something is good for the corporation, it's *per se* held to be good for the country. And the power has passed from those who own the corporation to those who run it. There is no form of income, even in journalism, that is so wonderfully generous as that which is accorded to paid management in the big corporations. It's a privilege that doesn't exist anywhere in the economy. The manager sets his own pay, and up until recently there was very little comment about it. I had it in print or in taping as one of the developments of the time - early this year, late last year, and then along came Enron, the other corporate elite and what their take was on the economy. I had to do a major revision from Forecast to New Development.

It rather puts the lie to the notion that stakeholder capitalism is supplanting managerial capitalism?

Hmm.

In The New Industrial State you've written about countervailing powers. Who or what is the countervailing power to the corporate managers?

I never contended that countervailing power was universal in the labour movement or wherever, and I wouldn't now. But there's no doubt that the corporate scandals so-called have generated a counter force which has caused quite a few corporations to look at themselves and sense an adverse criticism with which they had to contend. But I'm not overdoing it. I think this is a power that is still exercised *ipso facto*.

Has the primacy or even the growth of this corporate group been facilitated by the Bush administration?

Bush is the by-product I would say.

When did this development begin?

It's been going on for a long while, but it has not become visible in its effect until fairly recent times. And it still isn't part of the discussion. There's still, even in formal economics, a commitment to the notion that money is the controlling influence, not corporate position. And they have a strength that is not apparent yet in popular discussion. Because that is assumed more

strongly in the United States than in any other country, that by marshaled political action you could control the prior situation which was that of monopoly power... or in Canada, in as late as my youth, the railroads. That is still part of the elderly mentality as distinct from the power that is accorded the corporate community or industry group.

Here is another other enormously important fact that I think has held off some discussion. This the fact that on the whole, in addition to controlling and moving to legislative control, there is also the practical fact that corporations are quite efficient at what they do. They produce effectively. If they were incompetent, as a few of them are, this would be a major curb on their political power. But in fact when they make mistakes and do some foolish things, they're still Coca-Cola.

What is the main consequence of this concentration of power in the corporate group?

The political consequence is the extensive influence of the Republican Party and the movement of some highly qualified corporate executives into actual administrative positions. A new development was George Bush. There was some before but they didn't have the kind of dominant role of Rumsfeld et al, and Cheney and so-forth. And that is the most important and clearest development, and curiously enough one of the least discussed. When they get through attacking Galbraith it will be better understood.

Why is it one of the least discussed?

Well, it's new, and it's just not become part of the public discussion. Influence develops only with some degree of professional, even learned, discussions. And the notion of corporate control of the defense industry and the effect on the Pentagon, on the environment, where they've just got a pro-Environment minister thrown out -- remarkable that there should be such a person in the Bush Administration -- and where the Cheney-Enron influence in the government has become a subject for discussion...and who is cleaning up Iraq... all these things are beginning to show up.

You coined the term "conventional wisdom", I believe. Conventional economic wisdom has it that adjusting interest rates is an effective tactic for managing the economy. Is that so?

I've covered that in the book that is coming out. It's one of the convoluted errors of the time. The notion that the Federal Reserve and the movement in interest rates will motivate or demotivate the economy is one of the fantasies of economic life. There is a recurrent concern every few weeks as to what the Federal Reserve will do and what it is the unquestionably distinguished Chairman will decide. And then there is a great discussion, which is much favoured in the financial community, and then the near certainty that whatever action is taken will make no difference. It may have a little effect on the housing industry, but its larger economic effect is one of the great hoaxes and errors of the time. And it only shows how little the financial community has to think about, that they rush recurrently to the interest rate as something that will be important.

Speaking more generally, is monetarism an effective policy for stimulating the economy?

Only in the imagination of those who pretend to understand it. Otherwise it has an incredible record of non-performance. You can look back over your history with great diligence, back to 1913 when the Federal Reserve came into existence, and fail to find a single occasion when it was decisive in the behaviour of the economy. One of the proudest things I ever did when I was in charge of Price Control and Economic Policy generally in World War II, was to disestablish the role of the Federal Reserve. We came through that war with no memory of inflation, and I

attribute no slight importance to the fact that Secretary Morgenthau and I excluded from responsibility the Federal Reserve.

Do you see anything blowing in the wind to suggest that the economy will not improve?

There is a very clear answer to that: No one knows. The whole question of the aggregate economic performance of the economy and the factors affecting it is spiked through with unknowns both as to what will happen and how important that that will be. And therefore the mark of economic intelligence is to look at all such predictions with extreme skepticism.

You've written that "capitalism has a history of mindless boom and painful bust." Is this essentially what we have been going through in the last 3 years or so, or is it something more, or in fact, something less than that?

Well, I would say that the dominant thing in these last years has been, in the United States (I wouldn't have the same charge against Canada) is the depth of the commitment to damaging economic policy. The major threat to the system ... and I don't cite any novelty here... comes from recession or depression. And given recession, given that fact, the basic policy of the corporate elite is to do what makes it worse, if at all. The surest flow of expenditure to sustain the economy, wherever it is, is that of the middle-class and below. When it has money, it spends. And there's no similar assurance on more income for the affluent - that may be saved or squirreled away... there's no similar certainty of support to the economy. And the basic thrust of the corporate elite is to pay money to those who already have it and may not spend it.

The prime example, which I must confess I wasn't prepared for, I didn't think it had a chance, was to eliminate the tax on dividends. Dividends go to people who may or may not spend. And therefore the anti-recession effect is, at best, questionable. Social payments, unemployment help, the whole range of social expenditure, by contrast, are reliably spent. And the essence of corporate policy is to reward what may not be spent or invested and deny what is sure to be spent. "It would be hard (and I quote myself from the book) to have a design more completely damaging to those who pretend to enjoy it".

One of the first books you wrote, The Great Crash, remains your best selling book. Do you see any similarities between fiscal or public policies today and those that prevailed before the great crash?

Skip that. I haven't given it any thought.

If I may, a few questions about globalization? Who gains the most from globalization and who loses?

The biggest gain is for those who talk about it, and there should be no doubt about that. But this is subject to factors that are still unknown and effects that are still unknown, and it owes its significance to the notion that if you use the word "globalization" you must have a certain distinction in economic life. It's a fashionable field of discussion with a singular lack of importance. Most of the things that involve international trade and international economic activity belong to the great unknown, and this is something the discussion of globalization systematically ignores.

Is there some truth to the claim that most the primary benefits accrue to the major corporations, and in fact the rich get richer at the expense of poor nations and poor people?

Not necessarily. The advantage of the developed nations and of great corporations is well established now, and the change that is the result of international policy will be very slight. These are the facts of the modern corporate economy and not the changes in policy initiated by the World Bank or its counterparts.

Might it be the result of policies pursued by the World Bank?

No, it's mostly the result of one of the great problems of our time, and that is providing enough material for journalists.

What are the consequences of the failure of the more able nations to address the widening gap between the rich and the poor?

Human suffering and political instability. Those are the two things that are closely connected, that are the effect. And one of the positive developments of our time is that quite a few countries are clearly passing the point of extreme danger, extreme suffering, into a modest sort of prosperity. China, of course, is the leading example. This is also true for South Korea, which had a long history of privation. And as you look around the world there are other examples. And the particularly sad fact is that so many countries are still not having any improvement. And one example of that is the attention now focused on Africa as the laggard part of the world economic scene.

Does poverty breed terrorism?

That it breeds social disorder as a result of desperation cannot be doubted. Anybody who questions that should buy a ticket immediately to, say, Liberia.

Are today's main economic problems cyclical or structural?

Both. The cyclical effects are normal to the structural situation and have been for generations and even centuries. Anybody who doubts that has not heard of the business cycle, which was the mild expression of it.

What is essentially the central or the main economic challenge today?

There's nothing novel about the answer to that question. It is what it has always been...the extreme difference in well being in the modern market community, the modern corporate community, and the great and increasing differences in wealth and income, coupled with the further fact that the system is still unstable. There's still an unpredictable but certain succession of a boom and a recession. And beyond that there is the continuing inadequacy of the commitment to that part, of the living standard, which has to be rendered collectively: health care, the extremes of poverty and so-forth. Again it has always been a source of satisfaction to me as a one-time Canadian that Canada has recognized this much more clearly than most other countries.

The will to combat terrorism is still as intense as it was just after September 11 but the will to rebuild Afghanistan has waned...

Well, in the first case you mention, the will was very strong. That is, the feeling in the United States, going back for decades and centuries, that you rally behind the government in times of wartime crisis - not crisis but war crisis. And 9/11 was quickly translated into the level of an

attack on the whole American republic. Their being at war evokes the ancient commitment to rallying behind the government and particularly the President in wartime, and this was one of the strongest influences of the 9/11 and subsequently the Iraqi war - the notion that that also consolidated support for the government.

You worked under four presidents. In your estimation, who was the greatest leader?

FDR. That has two aspects. It had elements of reality and it had large elements of religion. In those days you were either a Roosevelt man or you were outside the pale. You were a New Dealer or nothing. There have been others with whom I've had a closer relationship, notably John F. Kennedy and Lyndon Johnson. And while there was one section of the liberal community that was averse to Johnson, there was another section, of which I was certainly a member, that got along very well with him. On the unity of the United States, they escaped from the colour bar, the colour discrimination, the attention to poverty and particularly rural poverty. On these, Johnson was simply superb. A few of us came to realize that and became friends and supporters. We were just three months difference in age, and on that common age, he regarded me as old enough, as compared with some of his supporters, to be reliable. I spent time with him down on the ranch. I went bird hunting with him one day where the birds were never safer (*laughs*) -- at least as far as I was concerned -- and I saw much of him in Washington. And there's no question that in unifying south and north, bringing attention to the problem of rural poverty and affirmative social action, LBJ was one of the best. One of my closest friends over a large part of a lifetime, and much younger than I, was John F. Kennedy. But the things... the social action that can be ascribed to Johnson overshadows the social action that can be ascribed to Kennedy.

What kind of a man was Kennedy?

He was so attractive, so charming, that people for that reason lessened their sense of his commitment to hard purpose. But those of us who knew him, and I knew him over most of his lifetime - we were in the same house at Harvard - were never in doubt as to the depth of purpose of that man, and his effectiveness in pursuing it. And people didn't appreciate that, partly because of his charm. I look back and so does Kitty, my wife, on our association with the Kennedys over their lifetime as one of the bright colours of life, including his wife, and the depth of perception, that you had to know her to appreciate. And it could take wonderful forms. During the first Kennedy years, with the split in ideology and public purpose between the Pentagon, the military, and the vital nature of that particularly on Viet Nam, the effective commander-in-chief, the master of organization and ceremony and official presence of the military where the general who was tall, handsome, very effective in appearance, was influential to some extent, but only for the wrong purposes, only for what was a cliché at the time like Viet Nam. And the most impressive comment that I remember to this day was from Jackie saying, "You know, Jack (her husband)... You know, Jack, I thought well of the general until one Saturday morning he came into the office in a sport jacket." (*laughs*) Said it all!

Your mention of Johnson recalls the tremendous volume and effect of the Vietnam protests. Excluding that single day of marches last fall, there has been no protest over the invasion of Iraq, or for that matter, over the potentially damaging effects of the "economics of innocent fraud." Aside from Noam Chomsky, the relative silence, or is it passivity, of the liberal media seems lamentable.

This is normal. In any time of well-being, most people, or a very large proportion of the population and the influential population, attributes the favourable situation to their own excellence and intelligence, and therefore takes leave of the problems of those who are left behind. And one can regret that human beings can be so indifferent as to the suffering, the

hunger, medical disasters, living disasters of other human beings, but it is an eminent part of the human character.

But what of the apparent cynicism in the White House?

Cynicism suggests the higher level of intelligence. And the basic problem of the White House and of American policy is the assumption that anything that is good for the corporate elite is good for the country. Anything that pays more money to the top management for its use or investment -- the belief that that is inherently good -- is the thing of which you're speaking. That, for example, lies behind the enormous discussion and action for tax relief. Tax relief will not be noticed by most journalists, but they will hear about it constantly from those who are benefited.

If consider the arc of the American Empire, is it ascending, has it flattened out, is it declining?

That involves the content of the word "empire".
I'm thinking in the sense of imperial ambition...

I would confine myself to saying that American foreign policy is in decline. And that is because of a series of ventures that failed to have acceptable content. I was one of the people involved in Viet Nam. Kennedy sent me to Saigon for a view on the situation there, knowing already that it would be unfavourable. There can be no doubt that that disaster, as we look back on it, greatly impaired the quality of American leadership.

There's a question here which I haven't resolved in my own mind, the extent to which foreign policy is important, as compared with the changing world scene. On the latter, there's no doubt that American industrial eminence is not as great in the world as it was 20 or 30 years ago. It was one dominant centre of economic development preoccupied a bit with Japan, and also with the different development in Russia. But the eminence, physical eminence, productive eminence of the United States was not subject to any challenge. Now there has been a whole range of challenges, most importantly from Europe where, without any singular exception, the combination of sensible, restrained social policy and the industrial process and agricultural process has got into a certain harmony that one never anticipated in the past, and has given economic and political strength that has been very impressive.

The obvious fact is that the Bush Administration has an incredible capacity for the wrong thing, and the effect of its Middle Eastern operation on our position in Western Europe and Japan has been disastrous. What was taken in France as one of the inevitabilities of life has been destroyed and damaged irreparably, and similarly if less spectacularly elsewhere in Europe, including both Germany and Britain, so that that has certainly had powerful effects on the international position of the United States. We will talk for years about how we sacrificed the American position in Europe to save the Iraqis, in a situation where whatever the evils of their government, there was a compensating disagreeable quality about the military operation that followed, and something that could have been foreseen, and should have been foreseen. Some of us did foresee it.

Should the United States continue to act unilaterally?

This is exactly what I was talking about. The notion in Washington that they can act as a dominant rather than as a cooperative entity has been disastrous, and in conflict with years of policy going back to World War II and beyond, where you might have a dominant role and very often did, but every effort was made to make it seem cooperative, and with some success. One thing I must say I don't understand is the British policy here. Why didn't the British stay with Canada on Iraq?

While in academia or in government, you have significantly influenced a number of programs and policies. What do you consider to be your major accomplishment? And what is the most significant change you have observed?

Oh... I would be quite commonplace. The major change that I've seen since I first joined Harvard in 1934, and it has really been a very big one, has been the change of policy development in Washington, both in the Executive and on the Hill, to a much more careful, steady development than was true when you first encountered it in the early years. The notion of somebody who had a basic working knowledge of economics, let alone John Maynard Keynes, was then impossible - it was eccentric. Now something of that sort is assumed and you can go... I don't myself do it any more... go before a committee and have a very well considered set of questions and discussion. The understanding of American life and its public essentials has been greatly improved, and I would pick that out as being the biggest change.

And from a personal perspective, what do you consider as your most gratifying achievement?

I don't know that I've reflected on it. I've had the greatest pride in my books and the greatest pride in two of them you mentioned, *The Affluent Society* and *The New Industrial State*. *The New Industrial State* is out of date, it needs to be updated, but it was an important book at the moment and widely used as a text. And those two books persuaded more people than anything else I've done, or any legislation with which I've been associated. The greatest development in Washington in my lifetime involved no input of mine; I was an admiring observer. That was the whole social security structure, that really changed life, changed life more than any other legislative entity. But the author of that was for many years the next-door neighbour and close friend of mine, Tom Elliott. His grandfather was the President of Harvard. He was a lawyer and a very good lawyer, and he ushered that whole operation through the Congress. His wife is still a neighbour here, his widow. I would put that at the top. There were other things like the Triple-A, Agricultural, Adjustment and Administration. Well, it would be hard to pick out... the next important one would be the whole structure of labour relations and the conceptual apparatus incorporated into Keynesian thought - they were all important and it could be argued for a very good purpose. But being in Washington in those years often and seeing what was happening, the social security was a breathtaking development.

My last question. What is it going to take for someone, either an individual or an institution, to really do something about closing the rich-poor gap?

This is the most important question that could be asked, because the American political scene for a long while succeeded in covering up the different political aspirations for the rich and the poor and what was happening in favour of one or the other. If anyone wanted to emphasize anything, it was what was being done for the poor - not just Democrats but political leaders in general. Now, surprisingly, I didn't ever expect it, we have an open social and political support for wealth and for preserving the incomes of the rich - protecting the incomes of the rich and enhancing them. This is a development which I repeat again I never foresaw, and few of us foresaw, and it is very, very clear the abruptness, the openness with which a policy for the rich is pursued in Washington, and everything from taxation to foreign policy is something I never expected. I thought we had that problem rolled into the background. Now it's the most urgent political issue there is.

What is it going to take to reverse that?

I'll leave that to the next generation. But at a minimum, it requires some extensive and better elevation of the voice of the poor. This is not something that will come through kindness. It will come through changing political attitudes and through action.