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The End of Laissez-Faire

by **Robert Kuttner**

BRIAN LAMB: Robert Kuttner, author of the book "The End of Laissez-Faire: National Purpose and the Global Economy After the Cold War" -- it's a lot, but let me start with laissez-faire. What does that mean?

ROBERT KUTTNER: It means a self-regulating economy. It is the article of faith that the Reagan administration rode into town believing in, and it was, of course, Adam Smith who started this all, but the notion is that the economy works best if the government leaves it alone. We've had a 10-plus year market test of that proposition, and my argument is that it doesn't work very well.

LAMB: Why a book now?

KUTTNER: I think two reasons: First of all, the Cold War ended, even though we're still having our skirmishes with Mr. Gorbachev and Mr. Gorbachev is having his own problems. But when the Berlin Wall came down, the burden that the United States has been carrying disproportionately for 45 years -- and which has been renewed in the Persian Gulf to some extent -- that burden for the first time since the Cold War began, ought to be lighter. The East-West conflict doesn't define everything the way it used to. **The European Community, Germany in particular, Japan, have come of age, and they could be carrying a bigger load.** The United States, then, has the running room to look to its own national economic interests in a way that wasn't possible when we were leader of the alliance and the Cold War was the main thing that mattered.

Secondly, it's no secret that the American economy is in trouble, that we spent almost a decade savaging anything that was public and celebrating anything that was private. Some of that was salutary, some of it liberated entrepreneurial energies, but it also brought us the savings and loan scandal, it brought us an economy that has failed to invest in public facilities, that puts too much of its scientific spending into the military. We have some very ambiguous cases like airline deregulation where it looked good, and for the first few years it delivered some bargains, but after a while all it delivered was a worse kind of monopoly.

So, I think the jury is in on laissez-faire, and it's a very utopian philosophy. It's very nice when you read it in a textbook, but somehow deregulated banks don't operate quite the way the theory says they were supposed to operate. Deregulated airlines don't deliver bargains. They end up gouging consumers and losing money. It's bad for the airlines, it's bad for the consumer. So, there are a lot of cases where the theory just didn't pan out. So, two reasons: The end of the Cold War creates a break, gives us some opportunity to try some thing new, and the experiment didn't work.

BRIAN LAMB: What do you think of this war?

KUTTNER: I think, like most Americans, I have very ambivalent feelings about this war. I do not think Saddam Hussein is anything but a tyrant. I think, however, that the war has caused the administration and the country to take its eye off the ball. I say that in two respects. If Secretary Baker had come to the president in July of 1990 and said, "Mr. President, in the next 12 months there are going to be two threats to world order. We only have the resources and the attention span to concentrate on one of them. One is Iraq's invasion of Kuwait, a terrible thing. This man, Saddam Hussein, is a tyrant. Kuwait supplies a lot of oil. It's a friendly regime. He has to be stopped. The other threat, Mr. President, is that perestroika and glasnost are going to go down the drain. The Soviet Union is going to turn back into a dictatorship. The reformers who have had Mr. Gorbachev's ear are going to be swept aside, and unlike Iraq, we know that the Soviet Union has nuclear weapons. It has 300 million people. It's been our adversary since 1948. Which of these two theaters, Mr. President, should be top priority?"

If you had posed that question that way, it's not at all a foregone conclusion that Kuwait is a higher priority than the Soviet Union, and yet the administration has been obsessed with the Middle East. I don't say we should have done nothing, but my own view is that having contained the Soviet Union for 45 years, having contained Fidel Castro for 30 years, we might have pursued a policy of containing Saddam Hussein, neutralizing his nuclear and his chemical and his biological capabilities, selectively doing air strikes rather than a shooting war. And not only did we take our eye off the ball as far as the fate of the Soviet Union is concerned, we have hardly given the Soviet Union a nickel. We haven't given them moral support. We have kept our distance.

We have created a kind of self-fulfilling prophecy where we didn't quite trust it, we didn't quite trust that the corner had been turned, and so we were quite content to say, "See, we told you so. Gorbachev wasn't really a democrat. They didn't really mean what they said about economic reform, and it's drifting into the sunset." And our attitude is, well, this doesn't concern us. This is their problem. Of course, it does concern us. I also think we took our eye off the ball as far as the economy's concerned. All of these big issues that we keep hearing about -- health care costs being out of control, banks going down the drain, America not investing enough in its public facilities, too much of our research and development money being military -- all of these issues demand presidential attention. If you just let them default to the lowest common denominator of interest group pressures so that a deal is cut among the hospitals and the pharmaceutical companies and the doctors and the big insurance carriers, that's not good health policy.

Or if you regulate or recapitalize banks by having a little bit for the commercial banks, a little bit for Wall Street, keep the insurance companies happy, make sure the FDIC and the Federal Reserve and the controller of the currency each get a piece of the action, that's not good policy. All of these difficult issues demand presidential attention, and yet presidential attention is elsewhere. So, I think we will pay for this in many ways.

LAMB: Robert Kuttner is economics correspondent of The New Republic, a contributing columnist for Business Week, and founding co-editor of the new liberal quarterly The American Prospect. I don't see people very often anymore saying that they're liberal.

KUTTNER: Well, I'm a liberal, and before they ship me off to the Smithsonian, your viewers might as well see what one looks like.

LAMB: What does that mean?

KUTTNER: Oh, it means that I believe in a mixed economy. I believe that this is, of course, a capitalist system where most ownership is private, where most jobs are provided through the private sector, but as the title of my book "The End of Laissez-Faire" indicates, I don't believe that the economy runs itself.

LAMB: Have you always been a liberal?

KUTTNER: I have always been a liberal. My family wasn't especially political, but I grew up. I started reading and as I started thinking with great appreciation for Roosevelt and with great appreciation for John Kennedy and great skepticism about the dogma that says that everything the private sector does is by definition good and everything the public sector does is by definition bad. I'm a product of public schools.

LAMB: Where?

KUTTNER: New York.

LAMB: City?

KUTTNER: Suburbs. When my father died, we managed to stay barely in the middle class because of survivorship pensions that my mother got through Social Security. I think that there is a constructive role for the government. It doesn't mean the government runs everything -- on the contrary. The government can't run everything, but you need a balance between the public realm and the private realm. In the past decade, a lot of good Americans who played by the rules suddenly found themselves without a job because the company one day relocated or decided to phase out a division or a company was subject to a hostile takeover, and all of a sudden the implicit social contract that an employee enters into with his employer -- you play by the rules, you give an honest day's work, and you expect something in return -- that contract is abrogated unilaterally.

The people who thought that when they reached a certain age they would be able to buy a house, all of a sudden they can't afford a house. We've seen what's happened with the banks and the S&L's. We saw the promise of airline deregulation and that nice period where you could book a cheap flight on a newly competitive airline lasted for a few years, and then the major carriers just gunned these guys out of business by selective price discrimination. So, a society that is all private, a radically individualist society that doesn't have any consciousness for the public wheel, is not sustainable as a society and it's not efficient as an economy.

LAMB: On the back of the jacket, "Reasoned and provocative, The End of Laissez-Faire may well change the terms of the debate about America's policies in the post-Cold War period, a refreshing reminder of the need for both vision and pragmatism." -- Mario Cuomo, governor of New York. Does that mean that he endorses your book and that you endorse him as a politician?

KUTTNER: Well, I don't endorse him, and I assume he endorses the book only to the extent that he feels that it was interesting to read. I do think that the kind of thing I talk about in this book is an alternative to the public philosophy we've had in the past 10 years, and it is the kind of philosophy and the kind of program which somebody like Mario Cuomo or Dick Gephardt or George Mitchell or even for that matter, Sam Nunn or Lloyd Bentsen or Gov. Clinton might run on, because the Democrats since Roosevelt have believed in a mixed economy.

My previous book was about the Democratic Party. The politics and economics of maintaining a mixed economy where there is a constructive role for the government has become harder in a period when the economy is globalized. That's why a large part of this book is about the international economy. It's harder to have an economic policy when your corporations are free to run to Taiwan, harder to have minimum wage laws, harder to have industrial policy, harder to regulate your banks when your banks can go offshore to the Grand Caymans. So, my attempt in the book is to talk about what it means, what it entails, to have this sort of Rooseveltian mixed economy when the economy is globalized, and I would hope that Gov. Cuomo and the other candidates read the book and learn something from the book and maybe even run in some of the things that are in the book. I'm a Democrat. I mean, I make no bones about that, but I'm not advising any candidates and I'm not taking sides in the primaries. I am mainly a journalist, not a political activist.

LAMB: We were reading the bio earlier and it talked about being an economics correspondent for The New Republic. What kind of arrangement do you have with them?

KUTTNER: I do six major pieces a year for them. The New Republic is really a symposium of differing viewpoints. It was once a fairly predictable magazine. It publishes people like me and people, for that matter, like John Judis, who calls himself a socialist. It also publishes people like Charles Krauthammer and Fred Barnes who think of themselves as conservatives. It's a marvelous outlet because it's very well edited, it's always fun to read, and it's never predictable. I would like to think that they publish me because my kind of liberalism is not knee-jerk, easily predicted liberalism.

LAMB: What kind of feedback do you get on The New Republic? What kind of people read it that come up to you and say, "Hey, Bob, I saw your piece and it was provocative?" I mean, do you get some sense of what kind of an outreach it has?

KUTTNER: New Republic has a circulation of about 100,000. I suppose it's what you would call an opinion-leader magazine -- people who follow politics, people who are political junkies, people who are interested in policy. Conservatives seem to be reading it almost as faithfully as liberals. It's the kind of magazine that you get in the mail and you read it. It's a page turner, it's cleverly edited, it's well-written. What I attempt to do in my own work is to take economics, which is a fairly daunting subject, and demystify it. I'm not a Ph.D. economist. I suppose one of the reasons that I'm not a Ph.D. economist is I found economics almost as boring as most other people find it to be, and I was too restless to be narrowed into that economic paradigm, and so what I try to do is write economics so that any thinking person can follow what I'm talking about.

LAMB: What is your education?

KUTTNER: I'm a master's political scientist, master's degree-level political scientist from Berkeley. I did some independent study at the London School of Economics in economics, but mainly I'm a journalist. I started out as a magazine writer, I did some time on the Washington Post and then I went to the Senate Banking Committee where I was their chief investigator, and I like to say that I really learned my economics as a congressional investigator.

LAMB: Who was the chairman?

KUTTNER: Proxmire. That was in the mid-'70s.

LAMB: The reason I asked you about The New Republic, I want to compare that with contributing columnist for Business Week. What's the difference there? How often do you write for them, and what kind of reaction do you get from that publication?

KUTTNER: Well, Business Week has a stable of contributing columnists who each write every fourth week. They have sort of one

fairly orthodox conservative, one fairly unorthodox conservative, one fairly orthodox liberal and one fairly unorthodox liberal, and I guess I'm the unorthodox liberal. Business Week is unusual among business magazines in that Business Week is not a simple cheerleader for laissez-faire. Business Week is more pragmatic. Business Week editorially -- and in its news coverage for that matter -- is not ideologically hostile to the idea that government has any kind of a role to play in the economy.

I think the Wall Street Journal editorial page, Barron's Weekly, some of the other business outlets are more doctrinaire supporters of Adam Smith. Business Week is certain pro-business, but it understands that to be pro-business is not necessarily to be anti-government, that most of our industrial competitors have a hand-in-glove relationship between government and business, which turns out to be good for Japanese business, good for German business, good for French business. I think it's not an accident that Business Week would find me congenial and I would find them congenial.

LAMB: How long have you been doing this?

KUTTNER: I've been doing that, I guess, since 1985.

LAMB: Let me go back to the co-editor of the liberal quarterly The American Prospect. What is that?

KUTTNER: Well, several people who still consider themselves liberals began feeling in the mid-'80s that the think tanks and the periodicals were increasingly dominated by conservatives and that this view of the world was finding its way into the editorial pages of major newspapers. I think the smartest thing the conservatives did after the Goldwater debacle of 1964 was to get serious about ideas. People like Irving Kristol went to conservative foundations. New conservative foundations that didn't exist before were set up, and a whole generation of people who were serious about ideas, who considered themselves philosophically conservative, was incubated so that by the time Ronald Reagan took power in 1980, there was a whole scaffolding of serious thought that I have a good deal of respect for.

I don't agree with it, but I respect the seriousness of the enterprise. There was a whole scaffolding. There was a whole cast of characters ready to come into government, ready to fill in the gaps in the conservative program thanks to the fact that conservatives had gotten serious about ideas. When the remaining liberals of my generation looked around them in the early '80s, we realized that a good bit of our scaffolding had disappeared, that magazines that had been liberal weren't so liberal, that think tanks like Brookings which had been liberal were not all that liberal in many respects. And so, I and some other people like Bob Reich, Lester Thurow, Ray Marshall, the former labor secretary, organized a think tank, the Economic Policy Institute, which is unambiguously progressive, which I think has had a lot of influence for good.

Then a few years later, Bob Reich and Paul Starr and I felt that liberalism really needed its own policy and politics magazine where we could publish a state-of-the-art piece on why, for example, as in our last issue, the health insurance system that we have is a non-system that gives us the worst of all worlds. It's expensive, it leaves out 37 million people, it leads to gold plating over here and not enough coverage over there, it leads to a paper chase -- if you've seen a hospital bill lately, it has more line items than the federal budget -- and it's not good for doctors, it's not good for research, it's not good for anybody. So, we commissioned a piece by Theodore Marmor who's a public policy guy at Yale that's probably gotten more readers in Xerox than it has in sold magazines. We want to use The American Prospect to really do this with all the major public issues and refurbish a convincing mainstream, liberal, public philosophy.

LAMB: Does this stuff do any good?

KUTTNER: Well, it did the conservatives a lot of good.

LAMB: Can you prove that?

KUTTNER: I guess I could prove it if I had in front of me the biographies of the 200 most influential subcabinet people and editorial writers of the past 10 years. There is a whole network of conservative intellectuals who spend time at places like the Heritage Foundation or American Enterprise Institute, who put in time in the Reagan administration, who go to work for the editorial page of the Wall Street Journal. This conservative idea mongering has really created a whole generation. I have trouble thinking of as many people, say in their 30s and 40s, on the liberal side who have had this depth of experience. There are some of them. Those are the people we draw on in The American Prospect. Those are the people who are acknowledged in "The End of Laissez-Faire", but I think a lot of those networks on the liberal side of things had become very weakened by the early '80s. So, I really do think that the reason why the Reagan administration was more than a smile and a shoe shine was that you had all of these conservative intellectuals to fill in the blanks.

LAMB: I guess what I'm getting at is do you get a sense that with your quarterly and your columns and your book and the other people that you mentioned -- Lester Thurow and Robert Reich and others -- that you're coming back, that people are paying attention?

KUTTNER: I would certainly hope so. I think that the more that conservatism doesn't live up to its billings and the more that the radical privatization of the entire economy is shown to have failed to be a magical cure, the more the public in general and politicians in particular are receptive to a different set of ideas. Now, it's up to us to be specific about what those ideas are, both the big public philosophy and the specific policies that implement that philosophy.

LAMB: Your think tank. Do you have trouble getting money?

KUTTNER: Let me be accurate. It's not my think tank. I'm one of the founders of it and members of the board. Well, everybody has trouble getting money. Even the conservatives have trouble getting money, and they're a lot better funded than liberals. Even American Enterprise Institute has had to scale back somewhat. The last time I looked, the Economic Policy Institute had a budget of about \$1 million-plus a year -- about 40 percent of that, I believe, from trade unions, about another 40 percent from foundations and the rest from business. Interestingly, a number of business groups do not have the same hostility to government that the doctrinaire ideological right wing has. So, raising money is always difficult. Raising money for intellectual enterprises is always difficult.

I think our conservative counterparts 20 years ago were able to persuade some businesses and some political conservatives that an investment in intellectual enterprise was a smart investment. People who had been putting all of their political money into candidacies in the hope of buying access or in the hope of getting a cabinet seat in the next administration, some of them were persuaded that they should also invest their money in ideas. I think that's now true to some extent on the liberal side, that some people who 10 years ago would have put their money into a PAC realized the virtue of a think tank or a magazine like The American Prospect.

LAMB: Our guest is Robert Kuttner. His book is called "The End of Laissez-Faire", and it's all about economics and the future in this country. Let me go over some more things about you. You have a weekly editorial column originating in the Boston Globe syndicated by the Washington Post. How does that do?

KUTTNER: It does OK. It has about 20 papers. Economics is kind of a hard sell. There are really only three people that I can think of doing a weekly or a twice-weekly editorial column. One is Bob Samuelson, another is Bart Rowen, and I'm the third. The trick with economics is to bring it down to people's experience. The columns that get the most attention are always the columns that are personalized. The columns that put people to sleep are the ones that are abstract, and even though I'm also interested in some of the abstractions, I always have to remember that most people aren't.

So, in my books and in my columns, I try to write columns, and in this case books, that people who don't think of themselves as interested in economics with a capital E would be interested in. I bank at the Bank of New England, which folded. Of course, it didn't fold. That was the interesting story. It was the dog that didn't bark, and I wrote a column about banking at the Bank of New England and what it was like to have my own money in a bank that, but for federal deposit insurance, would have been a subject of a run. That was a way of talking about deposit insurance. A lot of supposedly smart people are saying, "We don't need deposit insurance anymore." Well, if you didn't have deposit insurance and you had this kind of a banking crisis, you would have had a repeat of the 1930s. But talking about that personally in a way that other people who were worried about their money in their banks that might be going down the drain can relate to is a way of warming up economics. You can't win a hearing talking about the theory of deregulation, but you can certainly win a hearing talking about the fact that if you have to fly to Chicago, you don't know whether you're going to pay \$200 or \$1,200 for a ticket, and why is this? Why is buying an airline ticket like buying a lottery ticket? People can start thinking about that. Maybe deregulation wasn't what it was cracked up to be.

LAMB: You've taught at Harvard, you've taught at Boston University and you live in Brookline, Massachusetts.

KUTTNER: Yes, it used to be a perfectly respectable address before Mike Dukakis.

LAMB: You've lived in a state that has been run by, would you say, a liberal for the last 12 years?

KUTTNER: Well, I would say Dukakis was more of a technocrat. He wasn't really my kind of liberal. To his credit, he believed that government was needed, that government had some things that it ought to do, but he attempted to articulate this view as a

centrist, as a technician. He was painted as a liberal by the conservatives -- all the Willy Horton stuff, the flag stuff. I don't think Dukakis lost so badly because he was a liberal. I think Dukakis lost badly because nobody was very sure what he stood for, and then you add to that the fact that he was fairly stiff as a candidate, they made horse meat of him. I think the single worst thing Dukakis said was, "This election is not about ideology. It's about competence." For this, the voters judged him to be ideologically incompetent, because American voters want to know what the president stands for.

Ronald Reagan, whether you agree with it or disagree with it, stood for something. He was willing to go out on a limb and take political risks -- not just to sell things that were easy sells like I'm going to cut your taxes, but he was also willing to take risks for things that fly in the face of most people's views like prohibiting abortion. People, even those who disagreed with him, liked the fact that he stuck up for what he believed. I don't think you could say the same thing of Mike Dukakis, I'm sad to say, because I think until the bottom fell out of the Massachusetts economy, he was not a bad governor. I think he made the mistake of taking too much credit for the good years, and the flip side of that was when the bad years came, he got blamed for the bad years.

LAMB: In the front part of this book, "For Adele S. Kuttner, world citizen."

KUTTNER: My aunt is going to love that. She's going to be 88 on the 25th of this month. She's my father's oldest sister. She's the only surviving member of that generation, and she is an extraordinarily wonderful person. I'm delighted that you mentioned that. Her goodness and her intellectual curiosity and her travel has been a real inspiration to me, so this is for her.

LAMB: Did she have an impact on you as you were growing up?

KUTTNER: Not politically. She just is a dear person.

LAMB: When did you decide to name the book for her?

KUTTNER: When I finished it. My first book was for my father, who's dead, and my second book was for my wife. My third book was for my mother, and this is for my aunt.

LAMB: "My wife, Sharland Trotter, read every chapter and served as a reality check whenever the prose became too mired in technical detail or too full of itself. The text was immeasurably improved by her gentle reminders, 'What is this supposed to mean?'"

KUTTNER: Yes. Sharland is a doctor in psychology and a smart lady, but I think, like most people, she finds technical economics stupefyingly boring, and she's my best reality check. She was once an editor in a younger life, and if it passes muster with her, I think it can pass muster with other readers who are not interested in technical economics.

LAMB: When did you finish this book?

KUTTNER: You know, they say you never finish a book. You just get tired of revising it. I must have finished this book probably in May or June, and then I updated it a little bit when the Persian Gulf crisis hit, and I think the last round of updating I did was in September or October.

LAMB: As you were writing it, did you have anybody in mind that you were writing it for?

KUTTNER: I think I would like to persuade the average citizen who may have been sympathetic 10 years ago to the idea that Ronald Reagan was right, that we ought to get the government off our backs, who is now increasingly skeptical, who looks at the banks, who looks at the airline lottery, who looks at his hospital bill, who looks at the fact that we can make a cruise missile that can crawl down the air chute of a target 500 miles away, but we can't make a VCR. If you go into a discount store and you look at the products, it's awfully hard to turn one over and find that it was made in the U.S.A. I think the experience of most people now is that all is not well, and yet the only theory that has been dominant in the past decade is that if things are not all well, it's because the government screwed up, and the only thing we have to do to make things better is get the government off of everybody's back. I think that's worn thin, and I think what is needed is an equally compelling theory on the other side -- not that we need to be like the Russians and have the government run everything, but we need a balance between the public realm and the private realm.

LAMB: On the back again, "A brilliant analysis of the dramatic shift in the circumstances of American postwar hegemony." Kuttner focuses a spotlight on how the assumptions of American domestic and international policy of the past 40 years are entirely inadequate for the 21st century. This book is an absolute must read." -- Clyde Prestowitz, Jr., president of Economic Strategy Institute. Who is Clyde Prestowitz?

KUTTNER: Well, interestingly enough, Clyde Prestowitz was the Reagan administration's chief Japan expert. Clyde and I really see eye to eye on a lot of things. I think even though he's a Republican and I'm a Democrat, even though I guess he'd call himself a conservative and I'd call myself a liberal, we both feel that America's goals in the world have not served America. We both feel that the habit of thinking that national security is only military and that the invisible hand will solve all matters economic, that if Japan coerces an American company that has proprietary technology into licensing that technology to a Japanese competitor as a condition of doing business in Japan, and the United States is so concerned about Japan's support for our aims in the East-West conflict that the American government just rolls over and says, "Well this doesn't matter. If Japan gets the business, it must have been foreordained anyway or the invisible hand wouldn't have let it happen," that's crazy. That's not good for the United States.

There was an interesting story in the news this week about a company called the Moore Specialty Tool Company that makes machine tools. It's a wonderful illustration of the entire problem. Moore is one of the most sophisticated manufacturers of specialty tools in the world. It makes the tools that make atom bombs. It makes very highly precise tools. It also makes tools that are used to make everything from watches to soda pop cans to fuel injection systems. Now, this company virtually got its start because the government needed a company to produce machine tools that could machine parts at a tolerance sufficiently precise to make very sophisticated weaponry.

Moore has had trouble selling its products in the commercial market around the world because the Pentagon is afraid that this technology is going to fall into the wrong hands. Because its ability to sell commercially has been so constrained, the company was on the verge of going out of business. The Japanese, Fanuc, which is a robotics manufacturer, made an offer to buy half of it. Now, that made the Pentagon very nervous for another reason -- that if we didn't have a domestically owned company that was able to make these weapons, that would be bad for the national security, too. It's analogous to destroying the village in order to save it. You cripple high-tech. You link high-tech to the military because of national security, but then it turns out that by yoking high-tech so closely to national security, you make it impossible for the same companies to compete on global markets.

All of this flows from the fact of putting military needs first and not thinking that there is such a thing as America's economic self-interest. No other country in the world plays this way. The European Community, Japan, Korea, all these other countries look at the world economy and say, "How can we advance the interest of our country? How can we use the trading system to position our industry to compete?" We look at the trading system, and we say, "The only thing that counts is military. These are bargaining giveaways. If it helps to give away American industry to make other countries more loyal to our military aims, that's the province of the invisible hand anyway. It would be sinful for us to have strategic economic goals. That would violate laissez-faire."

And little by little by little, the economy is going down the drain. So, Clyde and I, to come back to your question, even though he may have different views about Social Security or different views about trade unions, different views about the tax system and other things that liberals and conservatives argue about, we both feel that the balance between military goals and economic goals in the world is out of whack, and we also both believe that laissez-faire, the idea that the economy is completely self-regulating, is neither a good description of what is, nor a prescription of what should be.

LAMB: Do liberals and conservatives have the same goal but different methods?

KUTTNER: I think it depends on the issue, and it depends on which liberals and which conservatives. I think most conservatives and most liberals would say that they want to maximize individual freedom and they want to maximize economic well-being. Conservatives split on the appropriate role of the government. Herbert Hoover, not a conservative held in much regard, had a case of unfortunate timing. He happened to be president when the Great Depression hit. The poor man was only in office about six months when it hit, so it really wasn't his fault.

But when he was the secretary of commerce in the Coolidge administration, he was very much of an activist. He believed that government had a major role to play in the economy. Alexander Hamilton, first secretary of the treasury, was what you would today call something of a statist. He believed that government had a major role to play in the opening of the West and in the development of the economy. Abraham Lincoln, the first Republican president, was a high-tariff man. And the same with Clyde Prestowitz, who unlike some of his conservative confreres, doesn't believe in the invisible hand. So, I think in the American context at least, conservatives and liberals would both say that they're for broadly diffused economic well-being, they're for personal liberty, personal security. But I think where conservatives and liberals split in this century since Roosevelt is that most liberals feel that the government has a strong role to play in facilitating opportunity, facilitating security, making sure the economy doesn't come unstuck by dint of speculation, and most conservatives would say that less government is generally better government.

LAMB: Hegemony is something that you write about throughout the entire book. Please define the word.

KUTTNER: I thought long and hard about using some of these terms that are a little bit daunting, including the title of the book, *The End of Laissez-Faire*. Let me take a couple of minutes and explain what it means. It means benign leadership. There is a distinguished economist named Charles Kindleberger who's the father of the theory. Basically, the theory works like this: In the same way that the domestic economy is unstable if you don't have government playing the role of ballast, the international economy is dangerously unstable unless you have one country -- Britain in the 19th century, the United States after 1945 -- playing a stabilizing role. We don't have a world currency, but since 1945, the dollar has been the de facto world currency. We don't have a world central bank, but, in effect, with the Marshall Plan and the immense role the U.S. has played in the global economy, the United States has been banker to the world.

Kindleberger also argued that the hegemonic role requires the leading country to have relatively open markets so that there is a place for the products of other countries to find buyers, even if other countries are somewhat protectionist. Now, the trouble with this is that if you were strong enough both militarily and economically, as we were in 1945, you can do this for 10 or 20 years, but after a while -- and Professor Paul Kennedy made this point in his book *"The Rise and Decline of the Great Powers"* -- the role of Atlas begins to take a toll on Atlas. I think the reasons for that are both the sheer cost of military spending and the warping of your economy that sets in when you're very good at making missiles and not so good at making VCRs, when so much of your scientific and technical know-how goes into the military side and when your military role in the world causes you to tolerate a trading system where other countries can put up barriers against your products but you feel constrained to fling your markets open to other people's products.

I think that's the pickle we've gotten ourselves into. We could afford it in 1950. We had almost half the world's industrial production in 1950. We had most of the world's gold in 1950. All of the rest of the capitalist world was flat on its back in 1950. Well, that's no longer the case. We're a debtor. We have lost major shares of everything from consumer electronics to autos to steel, and yet if you look at the Persian Gulf, we are still carrying the lion's share of the military burden. Most other countries think of this as our war. They're contributing some money. They're contributing a few troops, but they view this as Washington's show, and they like this division of labor.

They love the fact that we are the superpower and they increasingly are the super economy. This is what psychologists call a codependency. This is a sickness that requires both parties to conspire in the continuation of these roles. If the United States made it clear that it wasn't going to carry the military load by itself and that it was going to be tougher in defining and advocating its economic interests, other countries would have to adjust. But we are so enamored of this superpower role and so enamored of laissez-faire that we let Europe and Japan be free riders on the system. We let them pursue their economic self-interests, and we think it's a bad thing to have an economic self-interest, so if we can't convert them, we can at least set a good example by keeping our own markets open. It doesn't serve the American national interest anymore.

LAMB: Let me ask you one more time to define the word "hegemony."

KUTTNER: Benign leadership. It means that the world trading system is essentially an American system. The United States is the guardian of the system, the United States is the architect of the system. The same thing is true of NATO. It's our system, we're the leader of it, we pay the most money for it, we are the grand strategists of the military doctrine behind it. Hegemony is different from dictatorship. It's not a system like the Soviet bloc where we get other countries to fall in line by cracking the whip. It's a kind of benign leadership where we invite other countries to be our allies through carrots more than sticks, and my point is that the cost of the carrots has become excessive for the U.S. economy.

LAMB: You talked earlier about naming this book *"The End of Laissez-Faire"*. Did you end up naming the book yourself?

KUTTNER: I did name the book myself, but as I indicate right in the first few pages, it's not an original title. John Maynard Keynes wrote an essay in 1926 by that title, rather presciently anticipating the Great Depression by three years. While I'm not predicting that there's going to be another Great Depression, I am predicting that the laissez-faire approach has run out of gas and that it's the wrong philosophy for the next century. I very deliberately named the book after an essay by Keynes, who's someone I admire greatly.

LAMB: Who was he?

KUTTNER: He was, I think, the greatest economist of the 20th century. He was British. He was a number of things. He was a statesman as well as an economist. But he is the author of the theory which holds that economies are not self-regulating, that it is possible for supply and demand to be out of whack, and for the economy to go into a downward spiral where there's not

enough purchasing power to buy products. Even though the economy has plenty of productive capacity, once you go into this downward spiral, people get laid off, I lose my job, my grocer loses his job, my grocer's plumber loses his job, and pretty soon, even though there is the ability to make things, there is the machinery to make things, the economy hits stall speed. Keynes argued that demand and supply did not neatly equilibrate the way Adam Smith said that they would and that sometimes there is a need for an activist government to prime the pump. Roosevelt, I think, was an intuitive Keynesian without ever having read Keynes.

LAMB: When did he live, by the way?

KUTTNER: Keynes lived from 1883 to 1945. Keynes, interestingly enough, was also, in World War I, the British Treasury's chief economic advisor. He was the first and most astute critic of the Versailles settlement, which extracted all these onerous reparations from West Germany and indirectly led to Hitler because it so totally wrecked the German economy that the people were so desperate that they turned to a dictator. He played the same role in World War II. He was the architect of the Bretton Woods system -- the International Monetary Fund, the World Bank. He very much wanted the world economy after World War II to be built in such a way that it would encourage high growth and full employment and broad prosperity through a system that was private but in which government had a major stabilizing role to play. Keynesianism in the middle of this century was the great alternative to socialism. Laissez-faire capitalism had not worked. People were ready in the 1930s to turn to a totalitarian alternative either in fascism or in communism, and Keynes, in a sense, rescued capitalism from its own worst impulses by showing a market system how it could become stabilized in spite of itself.

LAMB: Who was Adam Smith?

KUTTNER: Well, Adam Smith was the father of the other view, which is that economies are self-regulating if government gets out of the way. Now, if you look at Adam Smith in the context of the time in which he lived, he was a pretty good fellow.

LAMB: When?

KUTTNER: Well, he wrote *The Wealth of Nations* in 1776. In 1776, you had a feudal leftover class that was in bed with the monarchy and you also had a rising entrepreneurial class, and the leftover feudal class was holding back all kinds of economic progress. You did not have government playing a benign role. You had government playing a very reactionary role because most governments in that era were not yet democratic. They were monarchs, and you had things like royal monopolies on salt and the kind of monopolies that the American Revolution was fought over -- monopolies on tea.

Government was playing a role that retarded commerce. So, in 1776, when Adam Smith said that government ought to get out of the way so that commerce could flourish, that was a pretty sensible thing to say. But modern economics, particularly modern conservative economics, has taken the philosophy to an extreme. Even Adam Smith believed that government had a role in building public works, in providing alms to the poor, in subsidizing research, and the Founding Fathers believed the same thing. In many respects, government played a more activist role in the 19th century in building canals, in donating land so that private enterprise could build railroads, in the homestead acts, in the land grant colleges. Government had a more active role in the economy in many ways in the 19th century than it has under Ronald Reagan. The only area in which government has residually played a very central role is in the military. And so, it's no accident that we build these wonderful Patriot missiles which have been subsidized, bought by the military, while our share of worldwide consumer electronics has dropped from 70 percent to 5 percent in less than 20 years. That is a reflection of where our public priorities are.

LAMB: We've been hearing for a number of years, because of the unbalanced budgets and the deficit, that the sky is definitely falling. We go through cycles that the sky is falling because this thing is going to break. Is it going to break, and if it does, how are we going to see it?

KUTTNER: I am worried less that the sky is going to fall than that the slow bleed is going to continue. We have had, in effect, for the past 10 years, a system where we go into debt to keep our purchasing power up, and we borrow money from the Germans and the Japanese and then with that borrowed money, we turn around and buy their products. The only thing wrong with this is that gives them a lien, a claim, on our economy which they can turn into real assets anytime they want to. Now, as long as they're willing to keep lending us money, we can do this for 10 or 20 years, but over time, you gradually become a poorer and poorer country. I think statistically something like three out of four Americans have suffered a real fall in their standard of living since 1973, which was the peak year of real economic well-being.

This is particularly true for people under 40 who, as they move from age 30 to age 40, their income doesn't go up much. It goes up far less than their parents' income went up when their parents were in the same stage of their lives. So, I don't think we're going to have a cataclysm. I don't think we're going to have another great crash. But the risk is that we are slowly going to

become more frayed around the edges and more poor and that the fact that there is no crisis means that there's no radical break in the way we do business. Now, I hope that you can break through that stalemate with ideas by offering a different way of viewing the economy and offering a different strategy for pursuing economic recovery.

LAMB: What's it going to take to get a liberal elected president again, in your opinion?

KUTTNER: I think it's going to take a liberal who believes something that is coherent, that's credible, someone who's not listening to his pollsters, but who's listening to his own gut, who has a clear public philosophy that is convincing to the voters. I think it's also going to take a discrediting of the conservative philosophy, and I don't think it's either necessary or seemly to say that as soon as the next depression comes, a liberal will get elected president. If that were the only way a liberal could get elected president, liberalism would hardly be worth having. I also think that the economy in 1992 is going to be a mess. I'm not one of those people who thinks that the recession was caused by the war and, therefore, will be cured by the end of the war. I think there are deep structural problems in the American economy -- the permanent deficit, the habit of foreign borrowing, the weakness of American banks.

It is bizarre to read the stock market pages and then on the facing page of the business section of your local paper, airlines are in the toilet, cars are in the toilet, real estate is in the toilet, this industry after that industry after that industry are all in trouble, and yet somehow the stock market is euphoric, mainly because the war is not doing as much damage as we feared -- the price of oil is not going through the roof, interest rates are down a little bit because the Fed is easing. So, the stock market has decided that it overreacted on the other side and then everybody gets in on the gravy train, which bids up the price of stocks still further. I don't think that's going to last, and I don't think that you're going to see the kind of quick recovery that a lot of economists are predicting.

LAMB: Can a candidate win the election with his or her own talent, or is it going to depend on the economy? You basically said that the conservative's going to have to be discredited, but is there a candidate out there that you see that's clever enough that can come along and mount a campaign that, given the decline in the economy, can win?

KUTTNER: You've got two variables: How bad is the economy and how good is the candidate? I think if the economy is moderately bad, which I think it will be, I think any of the field who are usually mentioned -- and I would include Cuomo, Mitchell, Gephardt, maybe Clinton, maybe Bentsen, maybe even Gore or Nunn.

LAMB: You'd be happy with all those?

KUTTNER: Well, happy is a relative term. It would depend on what they ran on. Mike Dukakis was a pretty good governor. He was an absolutely rotten candidate for president. He thought of himself as something of a liberal. He didn't run as anything but a technocrat. So, I can envision any of these guys being gun-shy and taking advice from the pollsters and running as the same kind of technocrat that Mike Dukakis ran as and losing the same 49 states. But I could also envision, under different circumstances, several of them running as good economic progressives who believe that there's a constructive role for government, who believe that laissez-faire is a fraud, and most of the American people, I think, believe that if there is leadership.

LAMB: We've only got about a minute. Knopf, \$22.95 in the bookstores. A year from now if I run into you and I ask you how did your book do, what would you call success?

KUTTNER: Well, if the book had some influence. I mean, I think a successful sale of a public affairs book is 15,000 or 20,000 copies and up, but the influence that a book has is not correlated simply with how many copies it sells. Needless to say, you write a book, you want more people to read it rather than fewer people, but I hope this changes some minds. If leaders read it and minds are changed, that's every bit as important as a mass paperback.

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The End of Laissez-Faire

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Someone Must Have a Plan

By DENNIS H. WRONG; DENNIS H. WRONG, A PROFESSOR OF SOCIOLOGY AT NEW YORK UNIVERSITY, IS THE AUTHOR OF "POWER: ITS FORMS, BASES, AND USES."

THE END OF LAISSEZ-FAIRE National Purpose and the Global Economy After the Cold War. By Robert Kuttner. 304 pp. New York: Alfred A. Knopf. \$22.95.

One wonders how many times Robert Kuttner's title, "The End of Laissez-Faire," has been used in the last century and a half for speeches, symposiums, articles, books, even as a slogan. Mr. Kuttner has purposefully borrowed it from what is perhaps its most famous previous use: as the title for an essay by John Maynard Keynes, written in 1926.

Keynes's essay was not concerned with the condition of domestic market economies but with international economics -- with trade balances and currency exchange rates, tariffs and customs unions, the gold standard and world capital markets. Keynes's theme was how to avoid the beggar-thy-neighbor excesses of protectionism without succumbing to the utopianism of free trade, so beloved by orthodox economists then and now. This is Mr. Kuttner's theme, too.

In 1984, in "The Economic Illusion," he argued the case against pure laissez-faire in the management of a domestic economy. This volume amounts to a sequel, extending the argument to the more complex world of the international economy, "a realm in which the forces of private commerce are far more difficult to tame, for the obvious reason that the reach of the nation-state ends at its borders." Mr. Kuttner, an economics correspondent for The New Republic and a columnist for Business Week, insists that his "quarrel . . . is not with capitalism itself, only with its utopian variation, and I quarrel in the spirit of Keynes." His book appears at a moment of transition in world politics and economics that is comparable to the fateful period of postwar instability when Keynes wrote his essay.

Mr. Kuttner observes that his subject is "the *second* end of laissez-faire." For if Keynes's advice was not heeded in the 1920's, the Great Depression of the 30's and the Government interventions unleashed by World War II had the effect of retrospectively elevating him to prophetic stature. Not only did he become the virtual architect of the fiscal interventionism and, to a lesser extent, the welfare-state policies adopted by the American and British Governments that came after the war, but he also played a leading role at the 1944 Bretton Woods conference. Intended to establish a new international economic order free of the disastrous instabilities of the previous decade, the conference created a global interventionist framework featuring fixed exchange rates and centered on two new institutions, the World Bank and the International Monetary Fund.

Yet after these reforms, belief in laissez-faire made a steady comeback, culminating in the antigovernment policies of the Reagan Administration. "The intriguing question," Mr. Kuttner writes, "is why the utopian vision of a pure market economy proved so potent -- why it came back to life, after being so thoroughly discredited by events half a century ago and after most advanced nations successfully built their postwar societies very much in the spirit of a mixed economy rather than a laissez-faire one." Roughly half of "The End of Laissez-Faire" tries to answer this question, focusing on the United States; the other half advances prescriptions for a new regulated world economic order that, far from challenging American national purpose, could, in Mr. Kuttner's view, reinvigorate it.

The International Monetary Fund and the World Bank never became the genuinely supranational authorities envisaged by Keynes. Essentially, they developed into institutions that provided loans and economic advice, primarily to less developed nations. They were not permitted to take the key step of establishing an international unit of exchange, a standard by which national currencies could be both measured and regulated. Instead, under Bretton Woods, the United States dollar, the currency of the dominant political and economic power in the postwar world, emerged as a kind of international unit of exchange, although philosophically the United States was unprepared to play the role of world banker that its currency's position seemed to require. Washington ardently supported unrestricted free trade on ideological grounds. Moreover, given the productive superiority of the American economy, free trade served American interests just as it had those of Britain in the 19th century, when the British were the major world power and a lack of trade restrictions assured their economic dominance.

The United States, however, has clung to a belief in the unqualified virtues of a free world market long after the loss of its postwar economic dominance, and despite the manifest failure of Japan and Europe to practice laissez-faire, either domestically or internationally. The combined effect of the Japanese and European revival in the 1960's and the domestic American inflation resulting from the war in Vietnam so weakened the dollar that its position as an international unit of exchange became untenable. This led President Richard Nixon to abandon the Bretton Woods exchange rates agreements in 1970. The United States announced it would no longer defend the position of the dollar on international markets and no longer exchange gold for dollars. Henceforth, the American currency "floated."

The pressures on the dollar were due, Mr. Kuttner explains, to the contradictions between the role of the United States as the leader of the Western alliance and its persistent affirmation of international laissez-faire. A good part of his story consists of pointing up those contradictions. Thus he argues that a free market with floating exchange rates would have been catastrophic for the European standard of

living after the war, so Bretton Woods and the Marshall Plan, hardly consonant with laissez-faire economics, were adopted to strengthen the Western powers. Mr. Kuttner also devotes an entire chapter to the export controls instituted by the Pentagon in the name of military security. These, he maintains, have resulted in American companies losing high-tech markets abroad to the Japanese and the Europeans.

After the collapse of the Bretton Woods system, though the United States remained the geopolitical leader of the West, its domestic politics turned increasingly away from the Keynesian-welfare state heritage of the New Deal. Finally, Mr. Kuttner contends, "the policies of Reagan and Thatcher . . . all but obliterated the political logic of the postwar mixed economy." The Reagan years brought both an intensification of American militancy in waging the cold war and a further downgrading of interventionist economics.

Mr. Kuttner thinks that the end of the cold war creates an opportune moment for facing the realities of the world economy. (Most of his book was obviously written before Iraq invaded Kuwait, although he briefly comments in the introduction that "the Kuwait crisis underscored the United States' continuing image of itself as a hegemonic power while its major allies retained the habit of acting as free riders on the system.") His general argument is that the United States no longer has a geopolitical-military excuse for turning a blind eye on the partly managed trade policies of its allies, who are clearly not now going to embrace the free-trade faith they rejected even when in need of American military protection. The world, as the title of Mr. Kuttner's penultimate chapter suggests, is "Slouching Toward Pluralism."

Nations can now be distributed along a continuum from mercantilism to free trade, but none are situated at the extreme free-trade end -- not even the United States. As Mr. Kuttner shows, it has never fully practiced what it preaches, neither with regard to steel and semiconductors, sectors that affect national security, nor even in so nonmilitary an industry as textiles. Japan stands close to the mercantilist pole of the continuum, and Mr. Kuttner provides an informed chapter on the Japanese pursuit of export markets, often at the expense of domestic consumers.

Does he, then, urge a protectionist economic nationalism as recently advocated, at least tacitly, by some commentators on both the right and the left? He insists not, asserting that his goal is a global mixed economy that would create the conditions for peace and prosperity: "After a detour of nearly fifty years, we have cycled back to the agenda of 1944: pluralism, peace and planning." He wants a world system that will "discourage individual nations from running chronic trade surpluses" and suggests that European-Japanese trade relations provide a model for such a system.

Critics will contend that in practice Mr. Kuttner's prescriptions would lead to fierce economic competition among nations that would be devastating for the losers, whose ranks might very well include the United States. Mr. Kuttner himself recognizes as "two nagging political questions" the degree of farsightedness of American voters and the relative competence of the American public sector. Acknowledging the prevailing post-Reagan antigovernment mood shared even by the Democrats, he nevertheless expresses a cautious optimism that a new "planning coalition" including segments of business is forming. Whether one agrees with this or not, the richly detailed evidence Mr. Kuttner has assembled will have to be taken into account by anyone assessing the present state of the world economy.