

The Legacy of John Kenneth Galbraith

Richard Parker

John Kenneth Galbraith may have been one of the wisest economists of his time, writes his biographer. He anticipated the limits of modern-day economics and made politics, corporate power, and psychology central issues in understanding it. But the questions he raised still haunt us.

JOHAN KENNETH GALBRAITH has more than once said there should be no subject, however large or small, that a Harvard faculty member cannot treat fairly briefly. This article will attempt to sum up the economic legacy of Professor Galbraith, but because brevity is required, it may not do the professor full justice.

At the height of the Keynesian Golden Age, Paul Samuelson famously remarked that economists—except for a few on the right and the left—agreed about what economics was and what it was intended to do.

Friedrich von Hayek, from the fastness of Mont Pélérin, even then disagreed with Samuelson, Milton Friedman from the Gothic corners of Hyde Park disagreed, and Paul Sweezy from the pages of the *Monthly Review* (for quite different reasons) disagreed with this idea that economics enjoyed what amounted to a medieval Catholic unity,

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with Cambridge, England, as Jerusalem; Cambridge, Massachusetts, as Rome; and John Maynard Keynes as Christ.

Today, I think it is fair to say, economics has a much more fractious—almost Protestant—appearance, with sharp divisions, disagreements, and considerably more doctrinal diversity than it had forty years ago. The Golden Age of Keynes—and the heady confidence of my teachers then that there was a macroeconomic mechanics whose application would lead us to a steady and ever-growing full-employment state (a sort of economic “End of History,” if you will)—is gone.

Samuelson, in revising his great textbook, by the mid-1980s acknowledged as much, listing Keynesians of many stripes, neo-Keynesians, post-Keynesians, rational expectationists, supply-siders, new classicals, monetarists, environmental economists, feminist economists, new-growth economists, new institutionalists, and half a dozen others among the noisier and more prominent Protestant denominations of the post-Golden Age world.

To many in the 1980s, it seemed as if Keynesianism was gone forever—and some, such as Robert Lucas and Milton Friedman, welcomed its death with open arms. But a funny thing then happened: Keynesianism’s greatest challengers themselves failed, and rather quickly. Monetarism was tried by Paul Volcker and the Bank of England—and abandoned. Supply side was embraced by Ronald Reagan and David Stockman—and failed. New classical economics proved worse at prediction and explanation than Lawrence Klein’s adaptive expectations models. And in development economics, the heady proponents behind the “Washington Consensus,” “structural adjustment,” and “shock therapy” all came up with dry wells, one after another—so dry that the World Bank and International Monetary Fund have publicly apologized for trying them, and have made “poverty reduction” their mantra for the past decade. (One must not be too cavalier here. The failures of development policy needlessly cost many lives, and in the world’s poorest countries—especially in Africa—are commonly agreed to have left behind a tragic “lost decade” of development.)

But what does all this have to do with Galbraith? Let me begin an

answer by invoking a quote from the great *Annales* historian Fernand Braudel: “Events are the ephemera of history.” Now, he of “la longue durée,” of course, was signaling our need to think in epochs, and yet Ken Galbraith—who recently celebrated his ninety-fifth birthday—on a purely human level surely embodies the notion of the “longue durée” as an individual. He was born when Theodore Roosevelt was president, during the old Progressive Era. That is important—as is the fact that he arrived for the first time at Harvard in 1934, seventy years ago, in the midst of the Great Depression, when a second Roosevelt was president. We are stamped by our times, and Galbraith has been stamped by his.

Economics before the 1950s was not the mathematical discipline it has since become—and yet remarkably it produced its fair share of better-than-average economists. Smith, Ricardo, Marx, Marshall, Pigou, Ely, Veblen, Commons, Keynes, and Schumpeter cannot simply be dismissed as “sociologists”—the epithet that modern economists like to fling about when they mean to dismiss an opponent. Sadly, though, I would guess that 90 percent of economics graduate students nowadays could tell you nothing about half those names, and know little beyond the names—and perhaps the title of a work or two—for the other half.

This ignorance of one’s professional ancestors was largely seen as an advantage in post-World War II economics. Certainly it was my experience as a student taught the discipline in the late 1960s and early 1970s. Mathematical models and mathematical techniques were our meat and potatoes, and if we learned something about our ancestors, it was almost by accident. The promise of economics was in the present and future. The Neoclassical Synthesis—that shotgun marriage of Keynesian macro-theory and pre-Keynesian micro-theory—reigned, and the cross in front of which we learned to bow was the IS-LM cross that Sir John Hicks had taught as the essence of what Keynes meant. Those were the heady days of game theory, of econometrics, of computer-based forecasting (done, I might add, with punch cards on mainframes, a horror I hate even to mention to students today). What we all knew, though, was that we were the vanguard of

a remarkable revolution that was in the midst of being won, and toward those like Galbraith who were warning us of revolutionary excess even then (one even now pauses at the prospect of conflating him with Edmund Burke, but that is who he was), we were taught to display impatient contempt.

But what was Galbraith warning us about? Several things, I believe. First, that mathematicization of economics—not the individual techniques so much as the belief that we were the new physicists of human relations—was a dangerous assumption that carried risks at least as large as the clear opportunities we saw. Human beings, he said, were not simply atoms or electrons, or whatever else was considered the fundamental unit of physics before pi-mesons or string theory. They (we) were not quite rational either—especially when in groups—in the strict ways that the micro-assumptions of the Neoclassical Synthesis, even when it tried to tuck this problem behind the veil of Revealed Preference, said they (we) were.

Human beings, he insisted from his own observation and experience, were subject to all sorts of “irrationalities”—passions, miscalculations, misunderstandings, pressures to conform and pressures to obey—that made our models (especially when too tightly drawn) unstable, and our predictions prone to error. We needed, he said, to understand that in large groups, especially nations, human beings acted out of collective beliefs (“conventional wisdoms,” he called them) that reflected and reinforced both the unequal distributions of power and wealth that everywhere and always exist, and the ideological justifications that groups, especially dominant groups, impose on the rest of a society and era.

That made for a “softer” sort of economics than my generation was being taught at the time, and made it child’s play for us to sneer and dismiss Galbraith then. In middle age, however, I have had to rethink (as all of us should, but not all of us do) my youthful confidences. And in that process, I have come to believe that Galbraith has proved, in many absolutely important ways, to be ultimately “wiser” than the “smarter” and “harder-minded” economics inscribed in rigorously mathematical models. This is especially true when those models treat

government and the politics behind governance either as exogenous to primary models of the market or simply as a beneficent, wise, and evenhanded helpmate in realizing the market's genius, as many of his Keynesian colleagues did, thinking themselves perfectly able to manipulate aggregate demand in order to achieve permanent growth as the solution to ancient problems of inequality.

I think it would behoove all of us today to attend, rather more humbly, to three fundamental objections that Galbraith raised almost a half century ago. The first was that power will always and everywhere be present in both economics and politics, and that economists who thought the "natural laws" of the market would felicitously trump the use of power by the powerful to gain unnatural market rents were wrong. In this, of course, he was guided by Berle and Means, by Robinson and Chamberlin, and in a way by Schumpeter—to whom he owes much, especially in his first major work, *American Capitalism* (1952), and in key elements of his own works, *The Affluent Society* (1958) and *The New Industrial State* (1967). At the simplest level, here Galbraith kept reminding us that wage markets behave differently than capital markets and capital markets than technology and natural resource markets, that time is not homogeneous or continuous, that the future is at best imperfectly known—I am putting this as neutrally and in as familiar terms for my colleagues as I can, not precisely in Galbraith's words—and finally that all this (plus that stubbornly irreducible question of power) bears large implications for the possibilities, real or heuristic, of any equilibrium-based model, as well as for the future of the world.

Especially in *The Affluent Society* and beyond, he emphasized two features of that reality. First was that America had moved by the 1950s into a post-scarcity age (not nearly so transient as an era, and—as he reminded us in talking about the role of nuclear weapons—not so surely permanent, either), and that in this new age, the parsimonious definition that Lionel Robbins had famously given to economics—a study of allocation under conditions of scarcity—therefore no longer operated with the same force or had the same importance it once had. (Amartya Sen's work on modern famine as principally a dis-

tributive rather than an absolute scarcity issue reminds us indirectly of this as well—though I daresay neither he nor Ambassador Galbraith would consider, say, India an affluent society.) His other point here was that the great corporation—that distinctive institution of modern capitalism—through advertising, branding, and marketing, now and hereafter would exercise a major influence over the nature and shape and intensity of consumer demand not wholly subservient to either the consumer or the market.

The second major argument Galbraith made was that politics was and is universally important to economics—not just in government’s conservatively imagined role as a night watchman, but also in its active manipulation of markets and their behavior for more liberal ends. This was to point not only to the extensive system of legal regulation that was well established by the mid-twentieth century, but also to the unprecedented size of government income and spending relative to post-World War II gross domestic product (GDP)—a third to as much as half of GDP, in fact, in the modern advanced industrial economies. It was this achievement of an enormous economic scale—beyond its regulatory scope—that, in Galbraith’s view, made our world so different from the nineteenth- and early-twentieth-century world that Marshall and his colleagues had described.

These facts about our age—and I do think we must call them facts, rather than Galbraithian hypotheses—of affluence, of the market power of great corporations, and of the giant presence of modern governments in economies, combined to make his final point: that to a great degree, the important decisions about the overarching shape and direction of economies—versus the relatively trivial questions about the price of this good or that service, negotiated in the classic equilibrium-seeking “tapping” models—had become the issue of our times. But this, then, led to a powerful inference, if one stipulated that democratic theory was capable of evolving: that those great decisions—while capable of being clarified by economists—were fundamentally at the heart of democratic politics and the informed interplay of democratic citizens.

But what were those key decisions that citizens needed to make?

Here I shall conclude by once again citing Braudel on events as “the ephemera of history.” The large question for citizens, according to Galbraith, was how to sustain an essentially equitable and prosperous world that would attend to the private markets’ habits of distribution of wealth and income; that recognized that public goods were quite often more important than private goods, and needed public action sustained by public ideology—not just private markets—to achieve these public goods; and that knew that war—war in an age that had finally discovered how mankind could end all life on the planet itself—made even prosperity and the right allocation of public and private goods ephemeral to mastering the dark forces of Mars in our midst.

As a boy, Galbraith had seen his father in World War I join the local draft board in order to exempt unwilling Canadian farm boys from the slaughter of Flanders Field. At the end of World War II, in both the Strategic Bombing Survey and his brief excursion into the State Department in 1946, he had seen firsthand the feckless and horrific consequences of rational strategic bombing policies and the ways power and irrationality, masquerading as purposeful reason, had given birth to the cold war and the thermonuclear age. It was these experiences—and the bipartisan ideological prison that held American liberals and conservatives, as well as the capitalist West and communist East, in its grip—that informed his views of Vietnam in the 1960s. These were views, I might add, that led him to begin warning President Kennedy of what an American war in Vietnam would do to America, to the Democratic Party and American liberalism, and to a humane realization of Keynesian ideals—a realization that would move beyond the military Keynesianism we had so far then achieved—as early as the spring of 1961. Kennedy, I believe, heard Ken’s warnings and tried to act upon them, ordering McNamara and the Chiefs to begin withdrawing the relative handful of U.S. soldiers we had there by the spring of 1963. But he did not live, of course, to see his own orders fulfilled—and all of us have paid the price ever since.

Economics today is a very different discipline than it was in those years. In a major study by the American Economic Association a decade ago, nearly two-thirds of American economists openly agreed

that the profession had become “overmathematicized and too unrelated to the real world.” Today, after thirty post-Golden Age years, it is fair to say that while there is still some agreement about methodologies in economics, larger agreements still elude us about purposes and goals and visions. And that is a tragedy for the world, because it has helped validate a kind of new fundamentalism that Keynes, and Galbraith, and Samuelson (and Solow and Arrow and a host of other heroes of my teachers’ generation) rightly tried to destroy.

We see that new fundamentalism everywhere around us—in the shape and size of Washington’s most recent tax cuts, in our military actions in the Middle East and South Asia, in the angry assertions that “the market”—whatever that truly might be—“always knows best,” and that those who would interfere with “the market” are uselessly acting to hold back the natural tide. And not least in the censorious rebukes hurled at those who would challenge these “new” truths. New York *Times* columnist Tom Friedman has a pungent phrase to describe the “market as god” heart of this view (as Harvard Divinity professor Harvey Cox has put it)—but is more sympathetic than Cox. Friedman argues that we live in a world of “golden handcuffs” and ought to get used to it, and indeed celebrate our gilt shackles because of the ever more comfortable world to which they are leading us.

Galbraith does not think so, and neither did Keynes—and in the world today where the Nobel Memorial prize in economic science was given recently to a psychologist for investigating the behavioral irrationalities that trump the antique idea of rational maximizing agents, when the promise of game theory has proved greater in nuclear war planning than explaining the ways of markets, when most computer-based forecasting is good for a matter of weeks and months rather than years, and when econometrics, in the words of Lawrence Summers, has never been decisive in settling any economic question of consequence, we ought to think back to the ways in which Professor Galbraith’s work anticipated every one of these facts that have been discovered in the past twenty years about the limits of his and my beloved profession.

Paul Samuelson many years ago described Galbraith as the era’s

best-known economist for noneconomists. There is a slighting tone in that remark—at least when heard by economists—that I think we ought to revisit and reexamine. I think, too, that Samuelson himself—surveying the post-Golden Age world—would admit now that his words contain a useful, second interpretation: that in fighting to make economics available to noneconomists so that economic questions are understood as political and diplomatic and *morally significant* questions that democratic societies must engage at a deeper level, his friend Ken Galbraith has enriched us all.

After nearly seventy years at Harvard, after almost four dozen books that together have sold more than 7 million copies, Galbraith is one of the very *wisest* economists—not the *smartest* or *most technically gifted*—but simply the *wisest* of the past century. Let me conclude by suggesting that we would all do well to reconsider in this new century what made him so, to help us then decide what questions *we* intend to ask—and what answers *we* intend to give—in a world that spends more on arms than aid, in which 2 billion people live on less than \$2 per day, in which 12 million children die each year from preventable disease and malnutrition—that's *a holocaust of children every six months*—and in which power and wealth still seem to hold such unnecessary sway.

Those were his questions. What we owe him is not just our thanks today for asking them but our own answers.

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