The Missing-in-Action Economics of John Kenneth Galbraith

J. Bradford DeLong
Professor of Economics, U.C. Berkeley
Research Associate, NBER

brad.delong@gmail.com

December 2006

John Kenneth Galbraith was the most politically-influential American economist in the twentieth century. He gave more advice to more presidents and senators than should have been possible with three lives. The pieces of advice that we remember best are those that went counter to that time's "conventional wisdom," a phrase that Galbraith coined: that strategic bombing did not win World War II; that Vietnam was a strategically-unimportant quagmire where we were likely to do more harm than good; that claims for the macroeconomic "fine tuning" of the economy were likely to blow up in your face; that the capacity of businessmen to delude themselves was nearly infinite.

Galbraith's politics have been in retreat for a generation now. John Kenneth Galbraith saw America as a would-be social democracy that has lost its way. If only Americans were to cease to credit the delusions and self-serving declarations of the right, he thought, then it would become crystal clear that a bigger government doing more things would make America a much better place. Galbraith's political views have been losing relative influence for a generation now, for both good and bad intellectual reasons and for largely bad sociological reasons as well. Nobody today likes to hear about the importance of Big Government, Big Labor (which barely exists), and Big Bureaucracy. On the bad-intellectual-reason side, big business prefers to redefine itself as entrepreneurial and self-reliant CEOs bending reality to their will, rather than as sophisticated organs of relatively large-scale planning embedded in an imperfectly-competitive economy. And nobody today wants to claim that there is a Big Enough Labor to exercise any effective power at a scale sufficiently large to be countervailing.

On the good-intellectual-reason side, Galbraith lacked a comprehensive and easily-graspable theory of government failure. Declarations that markets are producing substantial failures call forth the question, "compared to what?" And until American liberals have a good, comprehensive, and easily-grasped theory of governmental failure and success, competence and incompetence, I believe that they will continue to find themselves in relative retreat.

Richard Parker has a powerful sociological explanation for the relative eclipse of Galbraith's politics: a loss of nerve on the part of America's Democratic Party establishment. Too many Democratic intellectuals and politicians drink cocktails at Martha's Vineyard and not enough spend time on the shop floor learning what issues are important to those sweeping-up or on the assembly line or manning the convenience store cash register from midnight to six--and so the mass base of the Democratic Party withers. Without a mass base, Democratic politicians listen too much to their relatively rich contributors, and turn into Eisenhower Republicans--people like me.

But I am here to talk not about Galbraith's political activities, his politics, or his policy advice: I am here to talk about John Kenneth Galbraith's economics--an economics that, I have said before, ought to have made him one of the most if not the most influential American economist of the twentieth century. And Galbraith's economic views have undergone an even more distressing eclipse. Among economists--my own tribe, the tribe of economic historians, an exception--the seventy-year-olds have read Galbraith and think he is very important; the fifty-year-olds have read Galbraith and know that the seventy-year-olds think he is important, but are not sure why; and the thirty-year-olds have not read Galbraith.

One part of the story is one of blindness on the part of an academic establishment descended from Paul Samuelson's Foundations of Economic Analysis. Paul Krugman made this point in a different context in his paper on "The Fall and Rise of Development Economics": if one values formal modelling, but is not very good at it, then the range of ideas that you can seriously consider will be small and limited to those that your relatively-feeble modelling skills can grasp. Economists over the past generations have not yet been that good at formal modelling. And so insights that find institutional and narrative expression are stripped out of the discourse when it moves to the model-building stage.

Harry Johnson, in his superb but not-entirely-fair Ely Lecture criticizing Milton Friedman's Monetarists, said that in order to carry out an intellectual revolution in economics you need to propound a doctrine that has three properties:

1. It can be summarized in a sentence.
2. It must provide the young with an excuse for not reading their elders.
3. It must provide clear signposts telling the young what they can do to contribute to the ongoing revolution.

John Maynard Keynes and Milton Friedman both propounded such doctrines. They said, respectively, that "aggregate demand determined supply" and that "inflation was always and everywhere a monetary phenomenon"; they dismissed their predecessors as obsolete; they set hundreds of young to the task of estimating consumption, investment, and money demand functions.

John Kenneth Galbraith propounded no such easily-summarizable doctrine. The closest we can get is: "the world is complicated, and the conventional wisdom that is this age's self-image and the right-wing ideologues are both terribly wrong." For Galbraith, there is no one market failure to serve as serpent in the Eden of perfect competition. He starts from the ground up--what are the major economic institutions, and how do they interact? You could not tell somebody how to follow in Galbraith's footsteps. The only advice you could give would be useless: Be supremely witty. Write very well. Read very widely Know a great deal of institutional detail. Galbraith provided critiques of old theories which required that you have read and understood them--not a new theory that excused you dismissing everything earlier as irrelevant. And there were no signposts pointing down the path to become a Galbraithian.

The result? In academic economics today, we are nearly all Paul Samuelson's children. Many of us are John Maynard Keynes's children. Bob Solow and Milton Friedman and Bob Lucas and Jim Tobin have many descendants. But Galbraithians are few on the ground. Would economics as a discipline be stronger if the fifty-year-olds and the thirty-year-olds had the appreciation of Galbraith that their seventy-year-old elders do? In my view, almost surely. Will economic fashion turn and economists appreciate Galbraith once more? For that to happen, somebody would have to turn their hand to mathing-up chapters of The Affluent Society and The New Industrial State and publishing them in journals. That's too high-stakes a bet for assistant professors to make, and those with tenure already have their own research projects.

This is a shame. Professors teaching the United States since World War II can still do no better than to assign his books The Affluent Society and The New Industrial State to teach students what the American economy that so dominated the world in the middle of the twentieth century looked like--and what a post-New Deal liberal thought should be done to make it work better. Anyone wanting to learn about the start of the Great Depression or about the functioning of financial markets in a time of irrational exuberance should still start with Galbraith's The Great Crash: there will never be another history of the stock market bubble of 1929 that is as worth reading. During World War II he played a key administrative role in squaring the circle that was pushing production far above economists' measures of potential output while not allowing runaway inflation to undermine the legitimacy of economic mobilization for World War II at the Office of Price Administration. These are the insights that drop away when we move to formal models.

Galbraith's work as an economist was a scattered but comprehensive attempt to think through the consequences of the replacement of an America of small farms and workshops by one of large factories and superstores. Just how influential could advertising be in shaping demand? In a world of passive shareholders, autonomous managers and engineers, and firm decisions that emerged out of internal bureaucratic contests, just what were the objectives that big firms acted as if they were pursuing? How did competition work when its principle dimension was not price but instead quality and perhaps advertising? How did the limits of thoughts permitted in polite discourse--the "conventional wisdom"--allow the system to hold itself together while constraining its flexibility? And if economists' standard vision of competition was in fact as weak as Galbraith believed it to be, why was the mid-twentieth-century American economy so efficient compared to every single other nation?

The conventional wisdom among American economists and in American economics today tends to endorse claims that the most efficient economy is one in which the gales of perfect competition scour the land clean. In Galbraith's view, these arguments were nonsense. Even when undertaken not by one but many firms, modern industrial and post-industrial production is a very large-scale process; large-scale requires planning; and planning requires a certain stability, which means that the gales of large swings in market prices and in quantities demanded have to be contained or at least managed. As Marty Weitzman formalized a generation ago, relatively centralized planning have the advantage when the costs of failing to coordinate quantities in the right proportions are high, and decentralized markets have the advantage when the costs of failing to respond to shocks to users' value are high.

So, then, what would a Galbraith-school or a Galbrath-influenced-school or a Galbraithian economics for the twenty-first century look like? What would be the research program that could produce useful insights about the economy in a distinctively Galbraithian vein?

A first thread would pick up Galbraith's argument that we are an affluent society, an argument that he made in The Affluent Society. Adam Smith's

Britain was poor. Most people most of the time had relatively simple demands: enough food not to be hungry, enough clothing not to be cold, enough shelter not to be wet. Today we--at least those of us here--have more complicated and subtle market demands: enough comforts not to be uncomfortable, enough entertainment not to be bored, and enough status markers not to feel small. This change is one of the most glorious things about our economy and technology. As George Stigler liked to say, it is the very essence of economic progress to turn conveniences into necessities, luxuries into conveniences, and to invent new and previously unheard-of luxuries.

But while the nature of the things demanded in relatively poor societies is relatively obvious, the nature of things demanded in affluent societies is not. The psychological-sociological-economic process by which we decide what our wants are is something that is desperately important in understanding our economy. It is something that businesses that spend a fortune on non-informative advertising are desperately eager to influence and guide. It is something we do not understand very well.

Galbraith did not have a theory of the shaping of tastes and the formation of demand. He has insights--the insight that demand for public national parks was likely to be too low and demand for SUVs too high because a great deal of money was spent drawing symbolic links between driving an SUV and being happy, while there was no countervailing costly drawing-of-symbolic-links between having national parks and being happy. Galbraith's observations called forth a vociferous critique. I have always liked Milton Friedman's version. He viewed Galbraith as the modern-day equivalent of an early nineteenth century anti-market radical Tory: "Many reformers -- Galbraith is not alone in this -- have as their basic objection to a free market that it frustrates them in achieving their reforms, because it enables people to have what they want, not what the reformers want. Hence every reformer has a strong tendency to be averse to a free market."

A second thread would pick up on Galbraith's sociology of organizations: the ideas that form a cloud around Galbraith's word "technostructure." If Ronald Coase were here, he would agree that the existence of so many very large firms spanning so many industries indicates that there are truly powerful advantages over a large scale to coordination through authority and command and bureaucracy rather than through market exchange. But he would be at sea with respect to what businesses that have substantial freedom not to obey market forces actually do.

What do they do? Galbraith pointed out incentives for organizational growth, incentives to take steps to maintain market stability, incentives toward technological rationality. We today would add an incentive to pay the CEO an absolute fortune as the winner of some complicated tournament--and we can observe that the current patterns in top-management compensation are a powerful argument that the pressures to maximize shareholder value are not all that great. But we have advanced little beyond Galbraith's insights of the 1960s in our understanding of how market forces constrain and fail to constrain large business organizations, and why they do what they do with what relative freedom of action that they have.

The third thread would pick up on the relationship between technological development and large business enterprise. I think it was Paul Samuelson who I first heard say, "It takes a heap of Harberger triangles to make up for one Bell Labs." One of the things that AT&T bought with its effective monopoly over telephones before 1985 was a quiet, orderly, organized life. Another thing that it bought was a lot of fundamental and applied research. What does the balance sheet say about this?

The questions asked by Galbraith's economics are now, I think, low-hanging fruit. I look forward to seeing lots of interesting and productive work on them over the next two decades.