Does John Kenneth Galbraith Have a Legacy?*

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To many in the 1980s, it seemed as if Keynesianism was gone forever--and some, such as Bob Lucas and 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 Larry 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 IMF have been publicly apologizing for trying them, and have made "poverty reduction" their mantras for the past decade. (One mustn't be too cavalier here: the failures of development policy needlessly cost many lives, and in the world's poorest countries--especially in Africa--by common agreement left behind a tragic "lost decade" of development.)

But what's all this got to do with Kenneth Galbraith? Let me start an answer by invoking a quote from the great *Annales* historian Fernand Braudel: "Events are the ephemera of history." Now he of "la longue duree" of course was signaling our need to think in epochs, and yet Galbraith--who lived to be 97--on a purely human level surely embodies the notion of the "longue duree" as an individual. He was born when Teddy Roosevelt was president, amidst the old Progressive Era. That is important--as is the fact that he arrived for the first time at Harvard in 1934, 72 years ago, in the midst of the Great Depression, when a second Roosevelt was president. We are stamped by our times, and Galbraith was 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, Schumpeter can't simply be dismissed as "sociologists"--that epithet modern economists like to fling about when they mean to dismiss an opponent. Sadly though, I hasten to add, I would guess 90% 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 , of course, 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 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 van of a remarkable revolution that was in the midst of being won; and toward those, like Kenneth Galbraith, who were warning us of revolutionary excess, 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, weren't simply atoms or electrons, or whatever else was considered the fundamental unit of physics before pi-mesons or string theory. They (we) weren't 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, Galbraith 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 reenforced 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've had to rethink (as all of us should, but not all of us do) my youthful confidences. And in that process, I've come to believe that Galbraith has proved, in many absolutely important ways, ultimately "wiser" than the "smarter" and "harder-minded" economics inscribed in rigorously-mathematical models--especially 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 helpmates 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*, and in key elements of *The Affluent Society* and *The New Industrial State*. At the simplest level, here Galbraith kept reminding us that wage markets behave differently from capital markets and capital markets from technology and natural resource markets, that time is not homogeneous or continuous, that the future is at best imperfectly known--I'm 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. Here first was that America had moved by the 1950s into a post-scarcity age (not nearly so transient as an era, nor--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. (Sen's work on modern famine as principally a distributive, 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, marketing, et cetera--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 nor 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 in its active manipulation of markets and their behavior for more liberal ends. This was not just to point to the extensive system of legal regulation that was well established by the mid-20th century, but to the unprecedented size of government income and spending relative to post-World War II 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 Ken's view, made our world so different from the 19th and early 20th century world 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 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 of the price of this good or that service, negotiated in the classic equililbrium-seeking "tapping" models of Walrasian markets themselves--had become the issue of our times. But this then led, if one stipulated that democratic theory was capable of evolving, to a powerful inference,: that those great decisions were fundamentally--while capable of being clarified by economists--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 questions for citizens, according to Galbraith, now were how to sustain an essentially equitable prosperity that attended to the private markets's habits of distribution of wealth and income; that recognized that public goods in an era of prosperity were quite often more important than private goods, and needed public action sustained by public ideology--not just private markets--to achieve them; and 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.

Growing up, as a boy Kenneth Galbraith had seen his father in World War I join the local draft board in order to exempt unwilling Canadian farmboys from the slaughter of Flanders Field. At the end of World War II, both in 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, views I might add which led him to begin warning President Kennedy of what an American war in Vietnam would do to America, do to the

Democratic Party and to American liberalism, and do 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. Let me repeat that: the spring of 1961. Kennedy, I might add, heard Galbraith's warnings--and tried to act upon them, ordering McNamara and the Chiefs to begin withdrawing the relative handful of US 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 Economics 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 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. *Times* columnist Tom Friedman has a pungent phrase to describe the "market as god" core (as Harvey Cox has put it) of this view--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 doesn't think so, and neither did Keynes--and in a world today where the economics "Nobel" was given recently to a psychologist, for god's sake, 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 at least give pause to think back to the ways in which Prof. Galbraith's work anticipated every one of these facts that have been discovered in the last 20 years about limits of his and my beloved profession.

Paul Samuelson many years ago remarked of Galbraith that he was the era's best-known economist for non-economists. 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 his words contain a useful, second interpretation: that in fighting to make economics available to non-economists, to make sure that economic questions are understood as political and diplomatic and *morally signfiicant* questions that democratic societies must engage at a deeper level, his friend Ken Galbraith has enriched us all.

After 70 years at Harvard, after four dozen books that together have sold more than 7 million copies, let me conclude by suggesting that I think we would all do well to reconsider in this new century what made Ken one of the very *wisest* economists--*not* the *smartest* or *most technically-gifted*--but the *wisest* of the past century. To do so would, I believe, then help us 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 two 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 for asking them but our own answers.

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