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COMMENTARY

The New Industrial Economist

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John Kenneth Galbraith, one of America's most famous economists, died on Saturday at the age of 97. His fame came not from his technical accomplishments in academic economics but from his awesome writing ability, evidenced in 33 books and many more articles. He wrote almost all of his books -- certainly the ones that increased his fame -- for a general audience. He honed his writing ability while on the board of editors of Fortune magazine from 1943 to 1948. After that, he never stopped.

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Galbraith competes with Milton Friedman as the most famous American economist. But whereas Mr. Friedman affected not only popular thinking but also the thinking of economists, Galbraith affected only the former. He himself recognized that reality, and often claimed it was due to his having challenged the "conventional wisdom."

He once remarked, at his wittiest and most on-target, that "In the choice between changing one's mind and proving there's no need to do so, most people get busy on the proof." Nevertheless, while mainstream economists were sometimes a little nasty in debating Galbraith, they did point out fundamental problems with his conclusions -- problems that he never seriously grappled with. Galbraith focused too much on the witty epigram. As one critic pointed out, his main form of argument for key assumptions in his model of the economy was "vigorous assertion."

Galbraith's three most important books, measured by sales and influence on popular thinking, were "American Capitalism: The Concept of Countervailing Power" (1952), "The Affluent Society" (1958) and "The New Industrial State" (1967). In "American Capitalism," Galbraith argued that giant firms had replaced small ones to the point where the "perfectly competitive" model no longer applied to much of the American economy. But not to worry, he argued. The power of large firms was offset by the countervailing power of large unions, so that consumers were protected by competing centers of power.

The late Nobel laureate George Stigler gave a pointed response in 1954. Stigler noted that before Roosevelt's cartel-forming National Recovery Administration started giving monopoly power to large businesses, in five of the six industries with the most powerful unions -- building trades, coal mining, printing, clothing and musicians -- there were many small firms rather than, as Galbraith's theory would have predicted, a few large ones. Moreover, noted Stigler, even if powerful labor unions offset the power of large firms, there was no assurance that this would help consumers -- now not only the firms but also the unions would have a desire to limit output and keep prices high and would simply be fighting over the monopoly rents.

In "The Affluent Society," Galbraith contrasted the affluence of the private sector with the "squalor" of the public sector, writing, "our houses are generally clean and our streets generally filthy." He attributed this to our failure to give the government enough of our resources to do its job. He appears never to have considered the more straightforward economic explanation for dirty streets -- one that is based on incentives. The model that applies to the streets is "the tragedy of the commons": No one owns the streets and, therefore, no one has an incentive to take care of them.

Many people liked "The Affluent Society" because of their view that Galbraith, like Thorstein Veblen before him, attacked production that was geared to "conspicuous consumption." But that is not in fact what Galbraith did. He argued, rather, that "an admirable case can still be made" for satisfying even consumer wants that "have bizarre, frivolous or even immoral origins." His argument against satisfying all consumer demands was more subtle than Veblen's. Galbraith wrote: "If the individual's wants are to be urgent, they must be original with himself. They cannot be urgent if they must be contrived for him. And above all, they must not be contrived by the process of production by which they are satisfied. . . . One cannot defend production as satisfying wants if that production creates the wants."

Really? The late Friedrich Hayek, co-winner of the 1974 Nobel Prize in economics, delivered the most fundamental critique of Galbraith's thesis. Hayek conceded that most wants do not originate with the individual; our innate wants, he wrote, "are probably confined to food, shelter and sex." All other wants we learn from what we see around us. Probably all our aesthetic feelings -- our enjoyment of music and literature, for example -- are learned. So, wrote Hayek, "to say that a desire is not important because it is not innate is to say that the whole cultural achievement of man is not important." Hayek could have taken the point further. Few of us, for example, have an innate desire for penicillin. It had to be first produced and then advertised before doctors could know about it. And it's safe to say that we've found it very valuable.

Galbraith's magnum opus was "The New Industrial State," in which he argued that large firms dominate the American economy. "The mature corporation," he wrote, "had readily at hand the means for controlling the prices at which it sells as well as those at which it buys. . . . Since General Motors produces some half of all the automobiles, its designs do not reflect the current mode, but are the current mode. The proper shape of an automobile, for most people, will be what the automobile makers decree the current shape to be." Well, no. Of course, GM failed to "decree" the shape of automobiles in the 1980s and continues to fail today, leading to huge losses of both money and market share. It seems consumers, whom Galbraith regarded as manipulable by Detroit and Madison Avenue, somehow didn't accept GM's "decree."

To his credit, Galbraith admitted some of this. In July 1982, the steel and auto companies he had claimed were immune from competition and recessions were laying off workers in response both to foreign competition and recession. Asked on "Meet the Press" whether he had underestimated the extent of risk that even large corporations face, he paused and replied, "Yeah, I think I did."

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Galbraith was involved in politics early in his professional life. He advised Democrat presidential candidate Adlai Stevenson and, later, Presidents Kennedy and Johnson. He was also Kennedy's ambassador to India in the early 1960s. While there, Galbraith gave a series of speeches on economic development in which he hailed the role of government planning as opposed to economic freedom. In one speech, Galbraith stated, "The market cannot reach forward to take great strides when these are called for. . . . To trust to the market is to take an unacceptable risk that nothing, or too little, will happen." As is well known, the Indian government did not take the "risk" of relying on the market but, instead, stuck with its system of detailed controls over every industry. As is also well known, nothing, or too little, happened. India was mired in poverty which only began to lift after some decontrol started in 1991.

Galbraith was also one of the chief price controllers during World War II, as head of the price section of the government's Office of Price Administration. Unlike other economists involved with price controls, such as George Shultz during the Nixon administration and Frank Taussig during the Wilson administration, Galbraith emerged as an advocate of permanent price controls, an unpopular position among economists.

But there is one price control that John Kenneth Galbraith joined Milton Friedman in opposing in the 1960s: military conscription. He wrote, "The draft survives principally as a device by which we use compulsion to get young men to serve at less than the market rate of pay." For his outstanding leadership on this issue, many young men owe him a lot.

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