
John Kenneth Galbraith: A Criticism—and an Appreciation

BY DAVID R. HENDERSON

Last April John Kenneth Galbraith died at the age of 97. Galbraith was one of America's most famous economists and a self-proclaimed liberal (in the American sense of "statist" rather than in the European sense of "believer in freedom"). 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 his books—certainly the ones that made him famous—for a general audience. He honed his writing skills while on the board of editors of *Fortune* magazine from 1943 to 1948. After that, he never stopped.

Most free-market economists, including me, have had little use for the vast bulk of Galbraith's writing and thinking. This is understandable, given that the main work by which he was judged, and by which he appeared to *want* to be judged, was weak, both theoretically and empirically. But a more-complete assessment of Galbraith's writing leads me to conclude that we free marketers have been somewhat uncharitable to Galbraith. He had remarkable insights, especially about government bureaucracy and war, insights that would not have surprised a Ludwig von Mises, an F.A. Hayek, or a Robert Higgs. Moreover, in his opposition to war and his attempts to stop it, Galbraith showed some real courage.

Galbraith competes with Milton Friedman as the most famous American twentieth-century economist, but with two major differences. One was ideological.

Galbraith strongly believed in government power to offset the role of corporations in the economy and to subsidize various activities, such as the arts, that he favored. Indeed, in his 1973 book, *Economics and the Public Purpose*, Galbraith claimed that "a new socialism" had become "urgent" in major sectors of the economy. Friedman, by contrast, was a strong believer in economic freedom. The second major difference between the two was with respect to influence. Whereas Friedman

affected not only popular thinking but also the thinking of economists, Galbraith affected only the former.

Galbraith recognized his lack of influence on economists and often claimed it was due to his having challenged the "conventional wisdom" (a phrase he coined). He once remarked, "In the choice between changing one's mind and proving there's no need to do so, most people get busy on the proof." In recalling critical comments that David McCord Wright and George Stigler had made on a paper he presented at the American Economic Association (AEA) meetings,

Galbraith wrote, "Neither approved new thought, however plausible." But Wright's and Stigler's views on new thought are irrelevant. By dismissing Wright and Stigler that way, Galbraith avoided dealing with their criticisms.

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Other mainstream economists, such as Scott Gordon and Robert Solow, also pointed out fundamental problems with his conclusions—problems Galbraith never seriously grappled with. Instead he focused on the witty epigram. As one critic pointed out, Galbraith’s main form of argument for key assumptions in his model of the economy was “vigorous assertion.” It’s not hard to see why. In his autobiography, *A Life in Our Times*, Galbraith wrote that he learned a deep skepticism about statistics from a Harvard colleague, statistician William L. Crum. Galbraith wrote: “In my adult life I have occasionally been criticized for inadequacy in statistical or econometric method. Crum is responsible; from him I early formed the impression that no figure and no calculation was really valid and that it was foolish to expose one’s self by citing one.”

What an incredible overconclusion. No figure or calculation was really valid? How would he know, except by presenting contrary figures or corrections in calculations? And if he judged the invalidity based on these contrary figures or calculations, wouldn’t he be accepting *their* validity? Indeed, Galbraith backed up his skepticism with a follow-up example: an incorrect data-based prediction of an Alf Landon landslide over Roosevelt in the 1936 presidential election. Of course, Roosevelt won, a fact that Galbraith acknowledges—which means that Galbraith must have trusted, within a certain margin, the actual data on presidential voting.

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 competing centers of power protected consumers. The late Nobel laureate George Stigler gave a pointed empirical and theoretical criticism at the aforementioned AEA meetings. Stigler noted that before Franklin Roosevelt’s cartel-forming National Recovery Administration gave 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 large firms did have monopoly power and even if powerful labor unions did have countervailing power, how would this assure that consumers would be helped? Wasn’t it more plausible that 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?

Certainly, there are many examples of that having happened in industries that the U.S. government did cartelize. Between 1938, when the Civil Aeronautics Board began to regulate the U.S. airline industry, and 1978, when it began to deregulate, the CAB allowed no new airlines. Not surprisingly, fares were kept high and the main beneficiaries of this cartel pricing were unions of airline employees, not airline stockholders. “Countervailing power” by the unions did no favors for American travelers.

Starved Public Sector

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.” Galbraith attributed this to our failure to give the government enough of our resources to do its job. In none of his books and articles could one find the more-straightforward explanation for dirty streets—one that is based on incentives. Government streets are an example of “the tragedy of the commons”: No one owns them and, therefore, no one has an incentive to take care of them. By contrast the privately owned streets at Disneyland are amazingly clean.

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 Galbraith himself was adamant that that was not his argument. Galbraith conceded 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? 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.

Interestingly, when it came time to outline proposals for government policy, Galbraith didn’t adhere to his own argument. He advocated that money be taken from the private sector—that is, taxed away by force from individuals—and put into government programs, especially programs like education. Why is education so valuable? Because it creates desires. Galbraith wrote: “[T]here can be little doubt that education has a marked influence in widening the span of the individual’s wants. . . . [M]ore esoteric desires—music and fine arts, literary and scientific interests, and to some extent travel—can normally be synthesized, if at all, only on the basis of a good deal of prior education.”

In other words, Galbraith used the same argument for government spending on education that he attacked as a poor argument for private expenditure on “unnecessary items.” Thus having accepted that wants acquired through education are legitimate, he should have rejected his earlier statement that wants which do not originate with the individual are illegitimate.

What is left of Galbraith’s argument? Only the tired paternalist-authoritarian argument for government spending that was always lurking between the lines: people don’t want what’s good for them; the government knows what’s good for them (never mind that the government was elected by these same ignorant people). Therefore, the government should decide what people are to have.

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, not quite. Although GM would have loved to “decree” the shape of automobiles in the 1980s, it seems consumers had different ideas. That is one reason why GM, which did produce about half of all U.S.-bought autos in the 1960s, sells only a quarter of all U.S.-bought autos today.

Interestingly, in his autobiography Galbraith presented the very evidence that should have talked him out of his

conclusion in *The New Industrial State*. In 1954 Galbraith was on a consulting team hired by Canadian Pacific Railway (CPR), Canada’s dominant railway at the time. He saw quickly that CPR’s most promising assets were its forests and land, not its railway. Yet CPR basically ignored the team’s advice. He wrote, “The railway men did not look with favor on such passing fads as airplanes.” This should have clued him in to the idea that large firms like CPR could “decree” virtually nothing.

To his credit, Galbraith ultimately admitted, with a 15-year lag, the major problem with his thesis. In July 1982 the steel and auto companies he had claimed were immune from competition and recessions were laying off workers in response to both foreign competition and recession. Asked on “Meet the Press” whether he had

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underestimated the extent of risk that even large corporations face, Galbraith paused and replied, “Yeah, I think I did.”

Ambassador to India

Galbraith was also President Kennedy’s U.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, “[T]he 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.” The Indian government took his advice. It did not take the “risk” of relying on the market but instead stuck with its system of detailed controls over every industry. The result: “nothing, or too little” happened. India was mired in poverty, which began to lift only 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 U.S. 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. In his autobiography Galbraith wrote about his experience as a price controller in a way that recalls Ludwig von Mises’s insights about how one intervention leads to another, but with a very different tone and bottom line:

Since one firm’s prices could be another’s costs, the uncontrolled or later-controlled prices were beginning to unhinge those under earlier control. And the profits of the later-controlled producers were a point of comparison for those we had attended to earlier. Also very often we found ourselves moving decisively

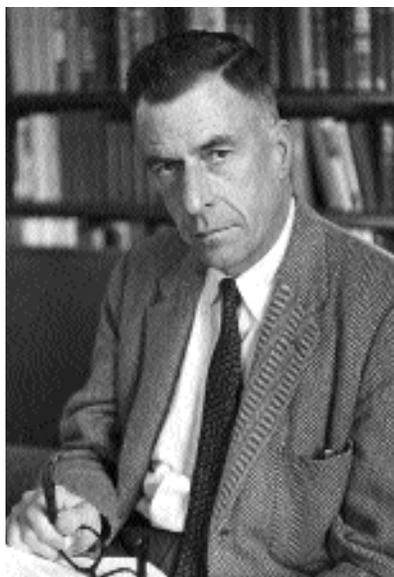
ly on less important prices while more important ones awaited action—vigorously on pepper, not at all on bread. Finally we began to realize for the first time what an unreasonably large number of products and prices there were in the American economy.

Such are the woes of a central planner. Unfortunately Galbraith didn’t much talk about the even-greater woes that the poor victims of his planning faced: frequent shortages of gasoline, tires, nylon stockings, sugar, eggs, and meat. The vast majority of the American population were the victims, and the beneficiaries were a privileged few who happened, like Galbraith, to be high in government or to have government connections.

Finally, in evaluating Galbraith’s work on economics, we shouldn’t forget his disastrous 1977 PBS series, “The Age of Uncertainty.” It was full of economic error and absurd subjectivity, truly Galbraith at his worst. The reader who wants to know more details should check two articles by David Kelley: “Distorted Picture: A Hard Look at Galbraith’s ‘Age of Uncertainty,’” *Barron’s*, July 18, 1977, and “‘Age of Uncertainty’: The Taxpayer Should Ask for His Money Back,” *Barron’s*, August 1, 1977, along with the revealing response and rejoinder by Galbraith and Kelley, respectively, in *Barron’s*, October 3, 1977.

So what’s to like about Galbraith’s thinking and about his contributions to society? A number of things. First, Galbraith was a strong opponent of military conscription.

Writing in his autobiography about the debate over renewing the draft before the attack on Pearl Harbor, Galbraith used his rapier wit to score a point against advocates of the draft: “[T]he draft involved only the life and liberty of the subject. Price control involved money and property and thus had to be taken more seriously.” Later, in the 1960s, he wrote, “[T]he 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.” In the interest of full disclosure, though, I should point



John Kenneth Galbraith, 1961

Photograph from the papers of John Kenneth Galbraith in the John F. Kennedy Presidential Library and Museum, Boston

out that when I asked him in 1980 to sign “The Economists’ Statement Against the Draft,” which I had written and got almost 300 economists, including Milton Friedman and Alan Greenspan, to sign, he had his secretary tell me, “Professor Galbraith will not be signing.”

Independent Mind

What else is impressive about Galbraith? He brought an independent mind to some of the biggest issues of the twentieth century, those involving war and peace. For all his refusal to look at evidence, Galbraith did some of his most important work on the effect of Allied bombing of Germany during World War II. As a director of the U.S. Strategic Bombing Survey he went to Germany immediately after the European war and headed a team to do an overall economic assessment of the German mobilization and the effect of the bombing on that mobilization. Galbraith’s team included economists Burton H. Klein, who made his reputation with his work on that team, Nicholas (later Lord) Kaldor, E.F. Schumacher (later author of *Small Is Beautiful*), Tibor Scitovsky, and Edward Dennison.

What they found was devastating. Galbraith wrote wittily, “Nothing in World War II air operations was subject to such assault as open agricultural land.” Successful attacks on war-production plants were much rarer. Whereas in 1940, 1941, and 1942, average monthly production of Panzer vehicles was 136, 316, and 516, respectively, in 1943 (when the bombing had begun in earnest) and 1944, monthly Panzer production was up to 1,005 and 1,583, respectively. They found similar results for airplane production. Galbraith’s boss, George Ball (later undersecretary of state under Presidents Kennedy and Johnson), found something equally disturbing about the firebombing of cities. The RAF’s bombing of central Hamburg, for example, destroyed many lives and many businesses in the central city—restaurants, cabarets, department stores, banks, and more. What were the newly unemployed waiters, bank clerks, and entertainers to do? That’s right: seek jobs in the war plants on the edge of the cities “to get the ration cards that the Nazis thoughtfully distributed to workers there.”

Moreover, the effect of the bombing was to shift control of production from the incompetent Hermann Goering and the Luftwaffe to the far-more-competent

evil genius Albert Speer. In other words, the incredible destruction that the British and U.S. air forces wreaked on Germany, with the high loss of human life, didn’t even have the intended effect of slowing Germany’s war-production machine. Galbraith had to fight hard to have his report published without it being rewritten to hide the essential points. “I defended it,” he wrote, “with a maximum of arrogance and a minimum of tact.”

In my experience as a senior economist with President Reagan’s Council of Economic Advisers, I found tact to be strongly overrated. To prevail, Galbraith probably needed about as little tact as he used.

Galbraith also visited Japan, where he analyzed the effect of the use of the atom bomb. He wrote:

Nor were the atomic bombs decisive. It has long been held in justification that they made unnecessary an invasion of the Japanese mainland and thus saved the resulting fighting and thousands, possibly hundreds of thousands, of casualties on both sides. On few matters is the adverse evidence so strong. The bombs fell after the decision had been taken by the Japanese government to surrender. That the war had to be ended was agreed at a meeting of key members of the Supreme War Direction Council with the Emperor on June 20, 1945, a full six weeks before the devastation of Hiroshima. The next steps took time. The Japanese government had the usual bureaucratic lags as between decision and action.

Not to be missed in a listing of Galbraith’s criticisms of war are three later activities or writings. First, despite the fact that he was close to Kennedy, Galbraith pulled no punches in his evaluation of Kennedy’s decisions during the 1962 Cuban missile crisis. In his autobiography, Galbraith pointed out that Kennedy’s actions almost destroyed the world and that he took the risk so as not to appear “insufficiently stalwart.” “Domestic American political considerations,” wrote Galbraith, “intruded far too deeply on an issue that threatened the end for all time of the civilized world.”

Second was Galbraith’s early thoughtful and analytic opposition to the Vietnam War. Even though Galbraith was an insider with Johnson’s administration, he criticized the war as early as 1966. After trying personally to

persuade LBJ, Galbraith went public and made opposition to the war one of his causes.

Finally, Galbraith learned early in his dealings with the military not to have any special respect for their opinions just because they wore a uniform and had risked their lives. His short 1969 book, *How to Control the Military*, is still well worth reading today. Indeed, in my opinion it and his autobiography rank as his two best books. Here is one of its best paragraphs:

The problem of military power is not unique; it is merely a rather formidable example of the tendency of an organization, in an age of organization, to develop a life and purpose and truth of its own. This tendency holds for all great bureaucracies, both public and private. And their action is not what serves a larger public interest, their belief does not reflect the reality of life. What is done and what is believed are, first and naturally, what serve the goals of the bureau-

cracy itself. Action in the organization interest, or in response to the bureaucratic truth, can thus be a formula for public disservice or even public disaster.

Many of my fellow free-market economists would do well to understand this insight fully, to understand that the bureaucracy known as the Department of Defense promotes defense about as much as the Department of Health and Human Services promotes health and human services. Whatever his other failings, Galbraith got this right.

Finally, I confess some sadness. In November 1981 I was the warm-up speaker for Galbraith at an event held by the Chicago Council on Foreign Relations. We had a short, friendly interaction, but I went into it knowing virtually nothing about Galbraith's keen observations on war and peace. How much different our conversation and my speech might have been had I paid Galbraith the respect that was his due. 

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