Ken Galbraith

John Kenneth Galbraith was, for most of our Baby-boomer generation, America's most famous economist. Author of <u>The Affluent Society</u>, <u>The Great Crash</u>, <u>The New Industrial State</u>, and <u>American Capitalism</u> (plus 40 other books that sold collectively more than five million copies), he taught at Harvard for nearly half a century, and served in Democratic administrations from FDR's to LBJ's.

A gifted writer whose wit leavened what were often biting critiques of America's post-World War II world, he was a pillar of American liberalism of a certain kind—Rooseveltian, first of all, in its commitment to an expanded government that addressed fundamental questions of public versus private needs as well as an excoriating liberal critic of the nation's post-Rooseveltian Cold War Liberal militarism, most especially and famously our war in Vietnam.

Today, however, Galbraith is largely forgotten—and in academic economics, few students are ever even introduced to "Galbraithian economics".

Yet in the wake of the Great Recession and the COVID years, something interesting has happened—or more exactly, several interesting things have.

First, the micro-foundations of "mainstream" neoclassical economics (the kind taught at Dartmouth in the 1960s, courtesy of Paul Samuelson) have faced difficult questions about their explanatory power and relevance. Economics was for a time after World War II assumed by many economists to be the "queen" of the social sciences (much as physics was seen by many physicists as the natural sciences' equivalent—and therefore economics' idealized "model" for a "scientific economics"). But the certainty of its axiomatic foundations--about individuals as rational maximizers of self-interest, of markets as bilateral affairs of supply and demand equilibrated by price, and of markets collectively as ever-trending toward a generalized equilibrium of allocative efficiency--have all faced daunting professional (and public) critiques.

Meanwhile, the regnant macro-economics of Keynesianism 1.0 (formulated and then/ taught to us by Samuelson in the 1960s as "the neoclassical synthesis"), after facing its own eclipse, has suddenly made a startling comeback—as Keynesianism 3.0 or 4.0 or perhaps even 5.0. The early "Keynesianism.01" we were taught long ago may or may not have accurately reflected Keynes (a heated topic), but that Samuelsonian Keynesianism, after what seemed a stunning victory under Kennedy and Johnson--crowned by the Kennedy/Johnson Tax Cut our freshman year and by the Rooseveltian activism of the Great Society (which oddly lasted long enough for Richard Nixon to publicly declare himself a Keynesian)—collapsed.

For 40 years, from the 1970s to the Great Recession, "Keynsianism" (however defined) faced repeated assaults as the Long Reagan Era replaced the Long Rooseveltian. The most famous assailants came from the University of Chicago's radically conservative critics. First came monetarism (here think Milton Friedman), then rational expectations (most famously Robert Lucas), human capital theory (Gary Becker), and then in the fiscal policy arena, supply-side (Arthur Laffer). In finance, the contributors were "random walk" (Eugene Fama) and (from Harvard, not Chicago) Michael Jensen's tying of executive compensation to stock price through options. Yet today all of these critiques have faded in terms of influence in both academic economics and public policy—and a new form of "Keynesianism" has emerged.

The Great Recession was the first real-world contributor, which focused attention on government activism (regulation and spending), and importantly made it a multinational issue. That activism was most prominently focused on finance (think Dodd-Frank) but also, in a sudden resurrection of a long-forgotten public issue, returned issue of monopoly and oligopoly to the public-policy table. (Here think about hi tech, social media, and more recently, pharma.)

Soon enough thereafter came a major reexamination of income and wealth distribution, which had grown strikingly more unequal during the Long Reagan Era (in contrast to the steady decline of inequality in the Long Roosevelt). Thomas Piketty's ground-breaking comparative scrutiny of distribution and its causes across large nations (not just the US)--and its new "rules"---have since been extensively supplemented by Raj Chetty's massive database work on US tax returns as well. More than two dozen major university economic departments now have programs specifically focused on descriptive analysis and prescriptive policies that address economic inequality---programs that simply did not exist as recently as ten years ago, and will shape policy and theory debates for a new generation.

Some of this inequality focus has been driven by increasing attention to race and gender inequality--but by no means solely. The effective consequence is that the then-new focus back in the 1960s on "poverty" (the bottom end of the distribution scale) has been replaced by research on the entire distribution scale, from poverty all the way up to the top 1%, and taken on global, rather than just national-frame, dimensions.

Global trade is another area which has seen the overturning of both Samuelsonian and Chicago School assumptions, a process that began even before the Great Recession with the abandonment of the Washington Consensus by multilateral aid and development groups, the shockingly-rapid rise of China's economy and its trade relations with the rest of the world. What's emerged since the Great Recession—and been accelerated by the COVID Crises is a sharply-revised view of global free trade practice that was textbook neoclassical economic theory in application. Issues of national security, issues of deindustrialization's Rust Belt income distribution consequences, and issues of multinationals' tax-avoidance practices and their effect on public sector revenues have had political consequences that are at the heart of much of the "polarization of politics" here in the US and across the globe.

Finally, there is the matter of global climate change—and its apocalyptic challenge to the very idea of unlimited economic growth as the future of humankind. As a 19th century intellectual triumph, "economics" presented itself as the guide map to a human future of prosperity and security. Today, the very matter of human consumption rates—and human waste and pollution as consumption's inexorable partner—stands as a challenge that seems, as the planet warms and "extreme weather" events become quotidian, to call for a radical reimagining of what "the economic project" is all about.

What I'd most hope from this conversation about Galbraith and these issues is your own thoughts about where we are headed, and what sort of "economics" you now hold as your own imaginative guide to seeing the world and its possibilities. That inevitably will surface a range of varied—and conflicting—views. Engaging them seems not only imperative but—for our fast-aging (and soon-ending) generation—an opportunity to think once more about what it is we might have to pass on to the generations we'll leave behind.

For a quick review of economists' theories and their performance in recent decades, see Paul Krugman, "How Did Economists Get It So Wrong?" in the NY Times Magazine: https://www.nytimes.com/2009/09/06/magazine/06Economic-t.html

Four books worth looking at:

Robert Skidelsky, Keynes: The Return of the Master, is the best short introduction to the issue of the Keynesian revival in the 21st century. Skidelsky is the preeminent Keynes biographer, and author of a number of shorter, very useful, works on the implications of Keynes' work for modern economics and economic policy. https://www.theguardian.com/books/2009/aug/30/keynes-return-master-robert-skidelsky

Richard Parker, John Kenneth Galbraith: His Life, His Politics, His Economics, is my contribution to Galbraith's role in expanding "original" Keynesianism in the mid-20th c. as well as his enduring relevance, most especially now in the post-Great Recession, post-COVID era. Brad DeLong's review here both recognizes that role—and casts it as Sisyphisian. https://equitablegrowth.org/still-relevant-sisyphus-social-democrat-review-richard-parkers-john-kenneth-galbraith/

Zachary Carter, The Price of Peace is a very readable overview of Keynes that incorporates his economics into his broader philosophical and moral views, and the political and social context in which they arose. https://blogs.lse.ac.uk/lsereviewofbooks/2020/09/17/book-review-the-price-of-peace-money-democracy-and-the-life-of-john-maynard-keynes-by-zachary-d-carter/

Binyamin Appelbaum, The Economists' Hour is an excellent overview of the impact of economists' theories on public policy in the post-World War II era. https://www.nytimes.com/2019/10/04/books/review/the-economists-hour-binyamin-appelbaum.html