

Galbraith a maverick

By Joshua Gans
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This has been a bad week for the challengers of 'conventional wisdom.' First, Jane Jacobs and now news that John Kenneth Galbraith has passed away at the age of 97.

In many respects, JK Galbraith was the writer who got me into economics when I was in high school in much the same way as demand and supply didn't. He had a turn of phrase that inspired and communicated. His breadth of coverage, captivated all and challenged the way I looked at the world. It taught me to be wary to 'easy routes' and simplistic arguments; a value I carry with me to this day.

It was years later that I learned that far from being the centre of economics, the top of the list for a Nobel prize, Galbraith, while prominent, was not considered at the forefront of economic contributions. What is more, it is precisely those things that made him so appealing to me initially, that also pushed him to the fringe in academic economics.

People often like to talk about the market centric nature of the economics profession and to suggest that Galbraith didn't have a great impact there because he thought more about institutions than markets.

In fact, nothing could be further from the truth. His first major work on American Capitalism pointed out that the US economy didn't really look like a market economy at all with its large corporations and large unions so that a broader approach than market economics was needed to understand it. And by and large economists have heeded that call over the past 50 years.

Similarly, Galbraith's account of the stock market crash of 1929 remains a solidly neoclassical account of a market failure with arguments that still underpin our notions of booms and crashes to day. More importantly, his small but very provocative work, *The Nature of Mass Poverty* (1979), stands out as an early contribution of formal, equilibrium thinking to a field -- economic development -- that had been devoid of such things prior to that.

It is worth outlining that contribution a little more. In that book, the ideas of which were generated when he was US Ambassador to India, Galbraith argued that mass poverty was a bad equilibrium where surely better ones also existed. He suggested that the reason for this was that those in poorer countries faced an actual lower return to investment (particularly in human capital) than those in richer countries, precisely because the job opportunities for higher skill workers were not available. And why weren't they available? Because firms were not investing to utilise them as there were few high skill workers about.

This looked like bad news for poorer countries -- trapped in a vicious cycle. But it also offered hope. Policy interventions could break the chicken and egg problem that caused all of this and generate rapid growth. And what was number one on the list of such interventions: what we would term today as globalisation. Not just freer trade in goods and capital but most critically people. What better incentive for those in poorer countries to invest in education than the ability to tap into the high returns to education in richer ones. Immigration was the key to ending world poverty, wrote Galbraith. You can't get much more market-oriented than that.

It is Robert Solow, reviewing one of Galbraith's books, that best captured the divide between Galbraith and many other economists. Solow saw economists as "determined little thinkers." They spend time on marginal issues (literally) rather than being able to forecast the impact of radical change. The basic idea is economic theory is well equipped to handle some situations -- the dry stuff that most economists spend their time on -- but not for larger issues. Those require more than just economic theory to be dealt with and economists, Solow argued, do more good by staying away from them. Galbraith did not do this. His purpose was large and all encompassing. Galbraith was a determined big thinker. His books wrote of theories of everything but for that very reason did not yield straightforward solutions. Thus, no consensus could ever emerge around Galbraith. Economists didn't have the tools to work out whether he was right or wrong, even if he was provocative. I'll miss him.

Joshua Gans is a Professor of economics at the University of Melbourne.