

Galbraith's Despair

by Ian Lambert

Georgists should welcome Professor Galbraith's latest offering* and should read it.

There are very few political economists today who have anything like the broad perspective on society that Henry George had, let alone the ability to write eloquently about it. John Kenneth Galbraith has both.

The quest for the Good Society Henry George would have admired and encouraged, even if he would have disagreed with Galbraith on many subjects — perhaps passionately. In an age when ideology is in retreat in political economy, one must admire the fact that Galbraith at least asks the questions, and raises the issues, that George would surely have raised.

So, for example, he sees the central problem of the modern economy as being the boom and bust cycle, with the devastating unemployment it brings. He even analyses the cause, as speculative excess in good times — in securities, real estate, junk bonds and mergers and acquisitions, although he fails to point out that a considerable part of the speculation in securities and mergers and acquisitions — and indeed junk bonds — was indirect real estate speculation. All quite Georgist in its analysis.

But sadly he formulates the problem in terms of an insufficient flow of aggregate demand. There is here no mention of Say's Law, no mention of why supply and demand fail to match. Galbraith's approach is reminiscent of Keynes', so it is not too surprising that the remedies he prescribes are essentially "demand management". Government must push along the flow of aggregate demand. So, in bad times, Galbraith says, Government can lower taxes, reduce interest rates or spend into the economy on a deficit finance basis. The

first two courses of action do not help to reduce unemployment significantly, so we must use the third. In good times, we must keep high taxes to counter speculative excess. All well and good, I suppose, but there is no mention here at all of land value taxation. (In fairness to Professor Galbraith, he may have taken the view that there is at large "no listening" for LVT. While at times, he is idealistic, Galbraith is not intending to set forth a Utopian theoretical ideal, but a model current statesmen could embrace.)

What is disappointing, and perhaps the weakest aspect of Galbraith's writing, is that he does not embrace methodological individualism in the way that George did. True to his "institutionalist" background, he can write in terms of broad effect, but unlike George and the Austrians he does not start from individual motivation and behaviour and work from there to the societal level. The result is that much of what he says is liable to be dismissed as gross over-generalisation.

So, for example, there is no analysis of speculation or how speculators are supposed to be motivated into becoming more truly productive by a high rate of progressive income tax (the blunt instrument that Galbraith advocates). If the modern economy rewards speculation better than production, it will surely reward highly taxed speculation better than equally highly taxed production. Moreover, he fails to recognise that high taxes encourage emigration of the talented (and correspondingly discourages immigration). And abroad it is often easier to be a speculator — putting back into the country what is misleadingly called "badly needed investment from overseas" rather than stealing jobs away overseas — than genuinely productive.

So his high taxes might actually exacerbate the disincentive effect. In fact, it seems, that he is more concerned about Government raising money to spend on protecting the poor in society (through the welfare state) in bad times than counteracting the speculation that causes those bad times. In short, the prescribed remedy is relief of the poor, not cure of poverty — half a Georgist loaf.

What is powerful in this presentation is Galbraith's recognition of the inevitable failure of his Humane Agenda in a democratic society where the poor and disadvantaged do not vote. He has a certain admiration for Australia and Belgium, where voting in elections has been made compulsory, although he frankly doubts that could ever be introduced in America because of the civil libertarian lobby.

There is much in this book to admire, not least that at least someone today in academia is still prepared to ask these questions and to take a broad look at the emerging world society, beyond the nation state. But, in the end, I got the impression of a note of despair from a once popular institutionalist who has now been marginalised, who recognises that he is on the losing side, and is not particularly optimistic for the future. There is an air of resignation in some of the chapters, where he resorts to dogmatic assertion rather than argument.

His younger critics will tear this essay to shreds, his older ones will damn it with faint praise. More is the pity; he deserves better than that. At least he has the courage to ask the right questions.

* Galbraith, J.K. *The Good Society: The Humane Agenda*, USA: Houghton Mifflin Company, UK: Sinclair-Stevenson.