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Right for the Wrong Reasons: Why Galbraith Never Got the Prize

By ROBERT H. FRANK

THE Nobel award in economics is not given posthumously. So John Kenneth Galbraith, who died last month at 97, will never receive one. Yet Mr. Galbraith was the most widely read economist of the 20th century and was also considered one of the most influential.

There are, of course, many distinguished economists who never receive a Nobel. But the list of winners also includes some whose work has had little lasting impact. So, why did the Nobel committee pass on each of its 36 opportunities to select Mr. Galbraith?

In "The Affluent Society," published in 1958, Mr. Galbraith argued that Americans would lead longer, more fulfilling lives if they spent less on private luxuries and more on their external environments. As he memorably put it: "The family which takes its mauve and cerise, air-conditioned, powersteered, and power-braked automobile out for a tour passes through cities that are badly paved, made hideous by litter, blighted buildings, billboards, and posts for wires that should long since have been put underground."

The standards that define luxury consumption have escalated considerably since he wrote those words. Yet with 40,000-square-foot mansions going up all around us even as our government tells us we cannot afford to inspect most of the cargo containers that enter our ports, his assessment still resonates. Why, then, wasn't his work more warmly received by his fellow economists?

A succinct answer was offered by Milton Friedman, himself one of the first Nobel laureates in economics and both a longtime friend and passionate intellectual adversary of Mr. Galbraith. Interviewed just after Mr. Galbraith's death, he characterized Mr. Galbraith's work as "not so much economics as it is sociology."

Although many economists shared Mr. Galbraith's skepticism about prevailing spending patterns, they were also skeptical of his explanation of the imbalance. According to standard economic models, consumers survey available goods, then select those that best suit their preferences. But in Mr. Galbraith's account, the arrow traveled in reverse: firms first decide which goods are most convenient to produce, and then employ marketing wizardry to persuade consumers to buy them.

Most economists readily conceded that firms would gladly exploit consumers in this fashion if they could, yet most also doubted that firms had the power to do so in the long run. Mr. Galbraith's account, they felt, gave short shrift to the inventiveness of greedy rival capitalists.

His critics argued, for example, that if consumers were paying high prices for goods of little intrinsic value, there would be "cash on the table" — the economist's metaphor for unexploited profit opportunities. Rivals could thus earn easy money by offering slightly cheaper and better products, in the process luring exploited customers away. After all, the same marketing prowess that enabled Mr. Galbraith's firms to bamboozle consumers should also enable rivals to attract consumers to better options.

Mr. Galbraith's critics had a point. Indeed, his explanation for society's spending imbalance suffered from the same deficiency that has plagued arguments of social critics on the left since Karl Marx. Because it implied that greedy capitalists were leaving cash on the table, most economists couldn't accept it. To this day, however, many remain equally skeptical of Milton Friedman's competing claim that unbridled market forces ensure optimal allocation of society's resources.

Mr. Galbraith studied at the University of California, Berkeley in the 1930's. Had he received his training decades later, he would have been better equipped to come up with explanations that might have satisfied his critics. For instance, modern game theory, a staple of current economics programs, shows why bad allocations often occur even in highly competitive markets in which consumers and firms are doing the best they can individually.

The most compelling examples of such inefficiencies entail applications of the familiar stadium metaphor, in which all stand to get a better view, only to discover that none see better than if all had remained seated. Thus, Mr. Galbraith might have argued, consumers buy more luxurious cars in the rational expectation that the cars will deliver more than enough extra satisfaction to justify the cost, only to discover that when others follow suit, the effect is merely to redefine what counts as luxury.

In response, Mr. Galbraith's critics might have asked, "Why don't consumers just buy cheaper cars and vote for higher taxes necessary to finance better schools and a cleaner, safer environment?" After all, sophisticated consumers should realize that since everyone else would also be paying higher taxes, the cheaper cars they would be constrained to buy in the high-tax climate would prove just as satisfying as the earlier, more expensive, ones.

Psychologists sometimes describe economists who pose such questions as having "high I.Q. but no clue." One of the most well-documented findings in behavioral economics, a new field at the intersection of psychology and economics, is that consumers are often not nearly as sophisticated as traditional economic models assume. Had Mr. Galbraith studied behavioral economics, he might have poked fun at his critics for suggesting that normal people give even fleeting thought to how their own frames of reference might be shifted by others' spending.

Mr. Galbraith's arguments may have failed to win the approval of free market economists. Yet, unlike many of his critics, he recognized a bad allocation of resources when he saw one. Nobel prizes are sometimes awarded to scholars who are wrong for the right reasons, but almost never to those who are right for the wrong reasons.

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