Galbraith John K. “Letter to the editor: Wage controls: reluctance to accept the inevitable[1]

Sir, as will all who are reconciled to the inevitable, I join in welcoming the wages, incomes and prices policy just announced by Mr Wilson and Mr Healey. Perhaps it should be stronger but my point here concerns the reaction to this policy.

That the trade unionists should be reluctant is not surprising. Many have always seen wage control as the heart of this policy, have thought wages, as distinct from their own higher incomes worthy of special, even unique, attention. That businessmen should be adverse is also easily understood. When wages are restrained, business incomes become a subject of public interest and policy. Also numerous company executives now enjoy a measure of influence over their own compensation but are able to attribute their reward to the impersonal beneficence of the market. With control this mystification is no longer possible.

What is puzzling, at first glance, is the reaction of economists. They are assumed in Britain as in the United States to be the source of neutral professional guidance on these matters. For a third of a century it has been evident that, as full employment is approached, the modern industrial economy is inflation prone. Wages shove up prices; prices pull up wages; and the traditional monetary and fiscal policy operates to restrain this spiral only when unemployment is unacceptably high—higher than any but the most eccentric monetarists are willing to urge.

Yet while this is common or nearly common ground, the great majority of economists in both countries are uncharacteristically silent on the subject of controls. They accept the policy only after politicians, devoid of any alternatives, are forced to do so. There is little discussion of controls in the universities. There is even less research and instruction on the subject. There is virtually no professional guidance for those who, under the lash of circumstance, must put the policy into effect.

This is true, to repeat, in the two countries which invest most heavily in economics research and instruction, which have had the greatest pride in their past leadership in the subject. On the largest and most important question facing the governments of the industrial countries ***the economics profession—I choose my words with care—is intellectually bankrupt. It might as well not exist***.

You will ask the reasons; there are, I believe, two. One is a normal innocent commitment to intellectual obsolescence. Men who believed themselves radicals when they came abreast of Keynes cannot now believe that the world has passed them by. And they have persuaded the more tractable of their students that the same ideas will give them a sufficient reputation for bravery.

But there is a less innocent explanation. The economics profession in Britain and the United States is a large source of employment. Those so employed have a profound vested interest, both pecuniary and intellectual, in the existing instruction and research. There is no economics of control. In virtually all of present instruction and nearly all present research the market is assumed.

[1] John Kenneth Galbraith, *The Times*, (July 16, 1975), Wednesday, July 16, 1975; pg. 15; Issue 59449; col D. Emphasis added.

So it is also with the textbooks. These have moved from Marshall to Samuelson. They have not gone on to the world as it is. Since the neo-Keynesian world in which depressions can be overcome without damaging inflation and without controls is what there is to teach, that *pro tanto*, is what the world is like. The reality is what serves the subject; the subject is not what serves reality. The world that is so accommodated to professional interest isn't the world of Messrs, Wilson and Healey or of Mrs Thatcher either but that's their problem.

In announcing the new policy Mr Healey said that it would have to last for several years. That is a long step on from what others similarly faced with reality have said. But it still suggests the lingering belief that somehow, sometime there can be a return to the wonderful world of established macroeconomics—no serious unemployment, no intolerable inflation, no controls; a world tht is possible only if there are no trade unions, no powerful corporations no unsatisfied claims that are coupled with the power to satisfy them.

No one avows such hopes—or of such a world. So surely we should accept that controls are inescapable, permanent and, however inconvenient, far better than the alternative inflation or unemployment. And this being our mood, might we not now concentrate our energies on learning how to live with such controls. Making it work equitably and to the good of the greatest number.

Yours faithfully

JOHN KENNETH GALBRAITH

Harvard University,

Cambridge, Massachusetts.