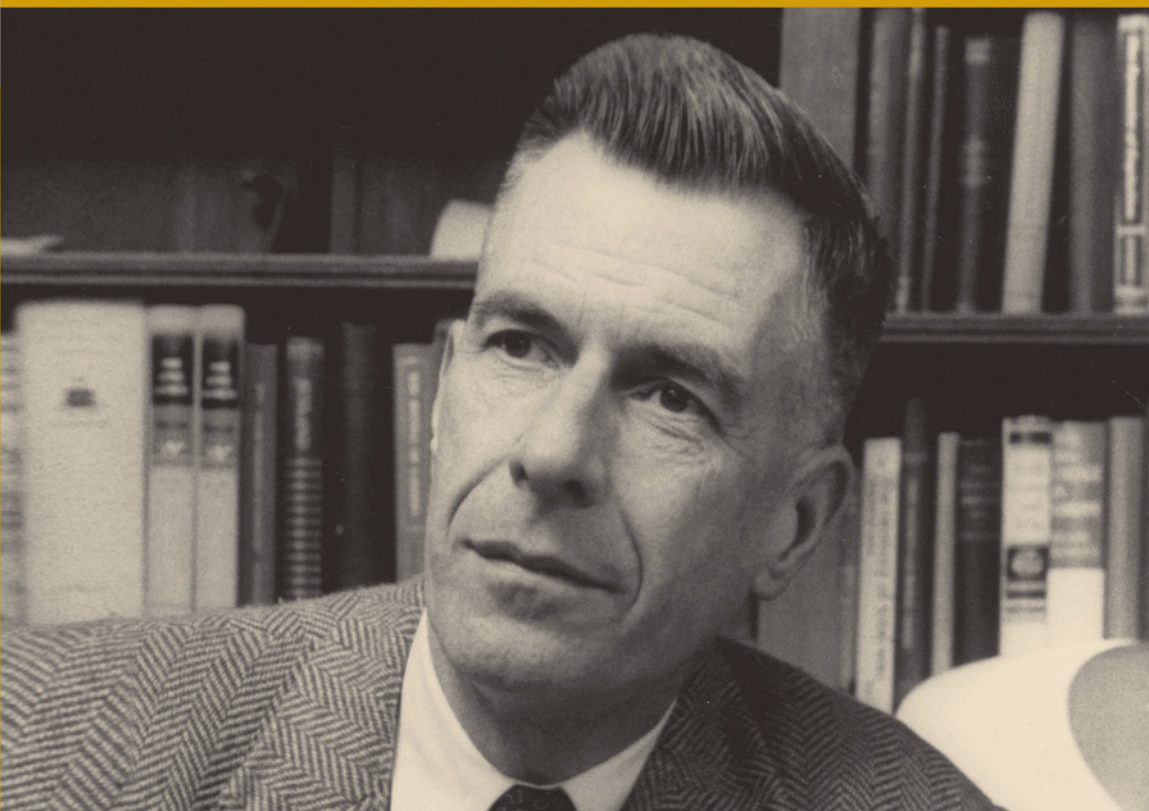


GREAT THINKERS IN ECONOMICS

Series Editor: A.P. Thirlwall



JOHN
KENNETH
GALBRAITH

*James Ronald Stanfield and
Jacqueline Bloom Stanfield*



John Kenneth Galbraith

By

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Preface and Acknowledgements

We begin on a personal note. We became engaged early in the Summer of Love, that is, 1967, for those too young or too old to remember. James had read *The Affluent Society* in Professor Joe Ashby's thought class that spring and grabbed a copy of *The New Industrial State* as soon as it became available in June. His intellectual engagement with Ken Galbraith was immediate and permanent, and became a part of his collaboration with Jacqueline. The Galbraithian influence was evident in *Economic Thought and Social Change* (1979) and various essays from the 1970s and 1980s, some collected in *Economics, Power, and Culture* (1995). Jacqueline researched the issues of consumer social responsibility, dual career couples, and family policy. Our concerns came together in joint work on consumer craft knowledge, the Nurturance Gap, and the Great Capitalist Restoration. In all of this, one finds the core theme of Galbraith's 'paramount position of [commodity] production' and what Ken Boulding called the 'pathologies of persuasion' of consumers, workers, and citizens. We find parallel concerns in Marx's alienation and commodity fetishism, Veblen's dichotomy between invidious and industrial efforts, and Karl Polanyi's protective response. All emphasize the problem of lives and livelihood. So also the Roads to the Future, one of which must be chosen, are defined in no small part by the place of economy in society.

We appreciate the permission granted by James K. Galbraith to draw freely on his father's publications. We also want to acknowledge that Jamie's work has been very useful, especially in sorting out the Great Capitalist Restoration that deconstructed the corporate-welfare-regulatory state complex that Ken Galbraith conceptualized so well. We also appreciate the similar permission given by Richard Parker with regard to his *John Kenneth Galbraith: His Life, His Politics, His Economics*, which provided us insight into the importance of Galbraith's politics to his economics. Of course, Jamie and Richard do not share the burden of our errors.

In the biographical sketch in Chapter 1, we draw heavily on Galbraith's memoirs, *A Life in Our Times*, as well as Parker's definitive biography. These two books are much more than a record of the life of a man; they are insightful histories of the twentieth-century American experience, and we heartily recommend them for further reading. In preparing the

present book, we did not have access to Stephen Dunn's *The Economics of John Kenneth Galbraith*, forthcoming from Cambridge University Press, but we have now seen the manuscript and we recommend it as a thorough theoretical examination of Galbraith's work. The present book is a portrait of the life and work of a great public intellectual and heterodox political economist; it occupies a middle ground between Parker's authoritative, detailed biography and Dunn's technical exegesis in Galbraithian economic theory.

We also thank Tony Thirlwall for his assiduous review and comments on the manuscript, which greatly improved the clarity of expression. Any remaining ambiguity is no doubt a result of our not having taken his advice in all cases. We are also grateful to Gemma Papageorgiou for her encouragement and guidance through the process of manuscript preparation. Both Tony and Gemma were gracious and forgiving in the face of our failing to meet deadlines. Without them the book simply would not have materialized.

We must add a note on referencing. We cite so many works by Galbraith that we list them separately in the References. Since there are so many references in the text to Galbraith's more prominent books, we use titles or shorthand titles to refer to them, as noted below. In addition, for Galbraith's two most important books, we take the further step of referring to chapter and section number instead of page numbers. *The Affluent Society* and *The New Industrial State* have been reprinted so often through their four editions that we think citation by chapter and section is more useful (e.g., *Affluent Society*, ch. 4:1,3 refers to chapter 4 sections 1 and 3). In a few cases, we refer to the date of subsequent editions to alert the reader to added material. There is yet one more complication. In later editions of *The Affluent Society*, Galbraith omitted the original chapter 12. We remind the reader of this when referring to later chapters in the book.

The abbreviated titles are as follows:

American Capitalism for *American Capitalism: The Concept of Countervailing Power*
Price Control for *A Theory of Price Control*
Controversy for *Economics and the Art of Controversy*
Affluent Society for *The Affluent Society*
Liberal Hour for *The Liberal Hour*
Economic Development for *Economic Development*
Industrial State for *The New Industrial State*
Laughter for *Economics, Peace and Laughter*
Public Purpose for *Economics and the Public Purpose*

Mass Poverty for *The Nature of Mass Poverty*
Annals for *Annals of an Abiding Liberal*
Life for *A Life in Our Time*
Anatomy for *The Anatomy of Power*
Stands for *A View from the Stands*
In Perspective for *Economics in Perspective*
Contentment for *The Culture of Contentment*
Euphoria for *A Short History of Financial Euphoria*
Economic Time for *A Journey Through Economic Time: A Firsthand View*
Good Society for *The Good Society*
Socially Concerned for *The Socially Concerned Today*
Innocent Fraud for *The Economics of Innocent Fraud*

JRONS AND JACKIE,
May 2010

We appreciate the following permissions to quote in chapter epigraphs: Chapter 1: *The Progressive* for Amitahb Pal's interview with Galbraith (2000); Chapter 2: *The American Economic Review* for Laughlin Currie (1972) and Palgrave Macmillan for Lester Thurow (1998); Chapter 3: M. E. Sharpe for Myron E. Sharpe (1973); Chapter 4: Professor Kari Polanyi-Levitt for Karl Polanyi (1944); Chapter 5: *The Quarterly Journal of Economics* for Thorstein Veblen (1898) and the University of Minnesota Press for Andreas Papandreou (1972); Chapter 6: the Association for Evolutionary Economics for Clarence Ayres (1944) and M. E. Sharpe for Adolph Lowe (1977); Chapter 7: *Social Research* for Arthur Schweitzer (1954); Chapter 8: Monthly Review Press for Paul Baran and Paul Sweezy (1966) and the University of Toronto Press for W. Leiss (1976).

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1

Political Economy and the Useful Economist

John Kenneth Galbraith is one of the few who can truly lay claim to the mantle of 'public intellectual.' His long and varied career as an economist, administrator, campaign adviser, political activist, diplomat, journalist, and professor has few equals.

Amitabh Pal, 2000

Assessing the importance of John Kenneth Galbraith as an economist is no easy matter, despite his being among the world's most famous economists in the second half of the twentieth century. Among American economists of any era, he is rivaled only by Thorstein Veblen, for the introduction of phrases that take on a life of their own in the literate idiom. Such phrases as countervailing power, the conventional wisdom, the affluent society, the new industrial state, and the technostructure have become familiar even beyond Galbraith's remarkably wide readership. In the twentieth century no other economist, excepting John Maynard Keynes, Galbraith's professional icon, can claim so secure a place in the belles-lettres of the English-speaking world. But his very fame complicates the assessment of Galbraith as an economist. His fame owed much to his penning best-selling books; this at a time when professional regard was based mostly on publishing articles in prestigious journals. Such articles were very esoteric and intended to be read by disciplinary, even subdisciplinary, cognoscenti and not the general intelligentsia. Hence this most famous economist was considered not to be an economist at all by many in the profession, though few would have not known who he was.

Before giving an overview of Galbraith's importance as an economist, we submit a biographical sketch. As the epigraph suggests, he was a

modern Renaissance Man, but the point is not simply his versatile intellect nor his intense work ethic, not even his passionate commitment to modern liberalism. Rather, we insist that one cannot comprehend his importance without information on his varied activities. It is not just that Galbraith over his long career did so many things, more importantly, it is that in doing these things, he self-defined himself as an economist.

From the farm to the eve of war

John Kenneth Galbraith was born 15 October 1908 in southern Ontario, Canada. Like many in that area he was of Scotch ancestry (Galbraith, 1964b). Farm life and work shaped his later life as did the political activity and intellectual orientation of his father. Galbraith credited the experience of arduous toil on the farm for the work ethic that led to his later prodigious writing. He earned his bachelor's degree in animal husbandry at Ontario Agricultural College, later to become the University of Guelph. From his instruction in English composition under two particularly able professors, he developed his strong commitment to the craft of writing.

On a field trip in 1930 Galbraith was exposed to agricultural economists from major universities, which he later recalled as 'a high point of my college career' (*Life*, pp. 13–14). He soon became convinced that the principal problem facing agriculture was not so much efficiency in producing goods as in selling those produced. This insight (Parker, p. 34) led him to shift his emphasis to farm economics in order to address the problem of depressed agricultural markets (*Life*, pp. 13–16). He went on to graduate study in agricultural economics at the University of California in Berkeley. In addition to a thorough schooling in Marshallian economics from Ewald Grether, Galbraith was influenced by Leo Rogin and Robert Brady, who exposed him to historical and progressive economics. He was particularly struck by Veblen's distinction between exoteric and esoteric knowledge because the broadly meaningful character of exoteric economics expressed his commitment to a pragmatic approach to political economy.

In a 1996 interview with David Colander and Harry Landreth, Galbraith supposed that 'to the extent that [he] was influenced by anybody, it was by Veblen. Not in terms of specific recommendations but by his general attitude of suspicion of orthodox doctrine and [its being] in the service of economic interests' (Stanfield and Stanfield, 2004, p. 182). He had earlier placed Veblen's influence as second only

to Marshall from his Berkeley years (*Life*, p. 29). Galbraith noted that Veblen was 'not a constructive figure; no alternative economic system and no penetrating reforms are associated with his name.' Galbraith sought to resist this lack of constructive insight and its associated cynicism even though he later observed somewhat tangentially that Veblen and others should be allowed 'to identify absurdity or error without being required to correct it' (*Life*, pp. 30–1, 267). More importantly on the matter of influence on Galbraith, one should always be mindful that there is no doubt that he came to consider Keynes to be the most important scholarly influence on his economic thought.

In academic year 1933–34, Galbraith completed his doctoral dissertation on county expenditures in California and published a revised version as a monograph in 1934. He authored or coauthored two additional monographs, two articles in the *Journal of Farm Economics*, and an article in the Canadian journal, *Scientific Agriculture*. Armed with this start to what became a varied and prodigious publishing career, Galbraith attended the annual meeting of the American Economic Association (AEA) in December 1933 in search of employment. He secured a position at Harvard, under the aegis of John D. Black, a well-established and progressive figure in agricultural economics, who proved to be a perfect fit for Galbraith (*Life*, p. 55). Black became the young economist's 'teacher, patron, mentor, and protector' (Parker, p. 52). The two published several articles together and Galbraith published several others under Black's tutelage.

In the summer before undertaking the position at Harvard, Galbraith went to Washington, specifically to the office of one of his former Berkeley professors, Howard Tolley, who had just become head of the Agricultural Adjustment Administration (AAA). Tolley offered Galbraith a temporary summer assignment to research various options for the disposition of tax-delinquent farmland that were not of sufficient value that private citizens would pay the taxes due on them. Galbraith (1935a) researched the relevant tax laws and legal basis for public accession, and proposed that the federal government pay the taxes and add to the public lands. The proposal came to nothing by way of action (*Life*, pp. 36–7), but the experience began Galbraith's frequent and varied public service that punctuated his academic career for four decades. After moving to Harvard, Galbraith continued consulting for the Agriculture Department, building his political network. The focus of his work began to evolve toward the general problem of industrial organization and enterprise behavior and the need for reform and regulation to secure the effective functioning of markets (Parker, p. 13).

This focus was strengthened in the summer of 1936 when Galbraith took a commission to work with a group of progressive businessmen, headed by Henry Dennison (*Life*, pp. 61–7; see also Parker, pp. 75–80). The group sought to examine the instability and inequality of capitalism, explain and support the New Deal, and outline a wider strategy for a technocracy-led renewal of the American economy. This association with Dennison was to play an important role in Galbraith's career, albeit a role that must have seemed unlikely to him after he made what he considered to be a most inauspicious start to their association. Galbraith was on the verge of becoming an American advocate of Keynes and a book written with Dennison was not Keynesian, despite Dennison's anticipation of the gist of Keynes's argument about the streams of investment and saving (on Dennison see McQuaid, 1977; on his relation to Galbraith see Bruce, 2000). Galbraith (1938a) quickly disowned the book he coauthored with Dennison. In an interview with Stephen Dunn (Stanfield and Stanfield, 2004, p. 224), Galbraith recalled that he had talked Dennison out of the policy views that anticipated Keynes's prescriptions, then 'discovered that Dennison was right and I was wrong' and that he had dropped the book from his publications list.

In the fall of 1936, Galbraith joined many other young American economists in an intellectual migration to the new economic world of Keynes. Younger faculty and graduate students enthusiastically discussed Keynes in almost constant rump sessions. Senior faculty members, led by Joseph Schumpeter, were adamantly opposed to Keynes's message (*Life*, pp. 67–70; *Laughter*, p. 13n). Even Alvin Hansen, soon to become the leading academic force for Keynesian ideas in the United States, was initially critical of *The General Theory*. Seymour Harris also joined in the very classical objection to the New Deal but later became an early convert to Keynesian principles, indeed 'the most diligent of all the Keynesian evangelists and one of the most effective'. Harris seems to have been the first to use the designation the 'New Economics' for what became the (neo-)Keynesian mainstream in the postwar period (Galbraith, *Money*, p. 268). Importantly, a small but dedicated and growing contingent of Keynesian-minded economists had assembled in Washington DC, led by Lauchlin Currie and Marriner Eccles.

Galbraith received a fellowship to support a year's travel to Europe to study issues of finance and instability in agriculture. He took advantage of the opportunity and, in company with his new bride, the former Catherine Atwater, spent most of academic year 1937–38 in Cambridge, England. He intended to study with Keynes but upon arrival learned that Keynes was ill and would be unavailable during his visit. But

Keynes's acolytes were a capable crew and Galbraith (1998b) enjoyed the endless discussion of *The General Theory* with Joan and Austin (E. A. G.) Robinson, Richard Kahn, Piero Sraffa, and James Meade. He also met Michal Kalecki, the brilliant Polish expatriate economist who later wrote an influential piece on the inherent conflict of Keynesian policy with the structure of the capitalist organization of labor (1943). Galbraith applied his enhanced understanding of Keynes to an important article published in the *Harvard Business Review* shortly after his return trip across the Atlantic. The year provided ample time for travel and immersion in European culture. During a late 1937 trip to Sweden, he met Gunnar and Alva Myrdal, as well as Gustav Cassel and Bertil Ohlin (*Life*, pp. 81–2). In May 1938 he traveled to Rome to attend a conference on international agricultural issues. To fulfill his fellowship he traveled to Berlin that summer to visit economists and tour the countryside with a guide from the agricultural ministry (*Annals*, pp. 190–1). He went on to publish an article on Nazi policy toward agriculture (1939a).

Back at Harvard, Galbraith spent academic year 1938–39 publishing and seeking employment. He hoped to use an offer from Princeton as leverage in his effort to secure a new contract at Harvard, but the effort failed (*Life*, pp. 96–7). In the fall of 1939, teaching with some dismay at Princeton, Galbraith accepted an offer from the National Resources Planning Board (NRPB) to head up a study assessing the New Deal's public-works spending. The report (Galbraith, 1940) strongly approved public spending measures in the face of depression and 'may have been the first unambiguous commitment to Keynesian policy' by an American government agency (*Life*, pp. 94–5). Such was the prevalent atmosphere, however, that Keynes's name was not used (Parker, pp. 108–11). The report occasioned little controversy or influence as the invasion of Poland and the fall of France directed America's attention elsewhere.

John Black continued his interest in Galbraith's career and in February 1940 recommended him to the American Farm Bureau Federation (AFBF). Having been assured by Black that the AFBF wanted someone who could see the problems of agriculture in a larger setting, including its political aspects (Parker, pp. 115–16), Galbraith requested and received a leave of absence from Princeton and set off at semester's end for the Chicago office of AFBF. There Galbraith found a powerful organization dependent politically on patrician southern supporters of the New Deal and Midwestern opponents to the New Deal and unions. The southern wing knew little about unions and, race excepted, were liberal while the Midwestern wing was conservative. They were further divided by the

fates of corn and cotton. Adroit politics by its president, Edward O'Neal, maintained the coalition. Both factions of the AFBF were delighted by Galbraith's forthright advocacy of farm price supports; he recalled basing this advocacy on recognition of the importance of dynamic efficiency relative to static efficiency (*Life*, pp. 98–105). This was to be a fundamental insight in his later argument in *American Capitalism* and elsewhere.

Soon thereafter Lauchlin Currie insisted that Galbraith come to Washington DC to provide a Keynesian outlook to the work of the National Defense Advisory Commission (NDAC). NDAC was to design economic planning and controls that would be needed to ward off inflation, hoarding, and black marketeering when America entered the war. Galbraith's supervisor at the NDAC was Leon Henderson, a New Deal veteran of some renown for his eccentric personality as well as his intelligence (*Life*, pp. 106–9; Parker, pp. 118–19). With his unit at the NDAC paralyzed by Henderson's controversial past and the absence of concern over inflation after the long depression, Galbraith found himself largely idle and soon accepted a transfer to a different unit of the NDAC, which was concerned with assessing proposed locations for defense facilities. This was an area of considerable controversy, as a multitude of jobs and a plenitude of profits were involved, matters to which regional political forces were closely attuned. Working through these controversies during the summer and fall of 1940, Galbraith expanded his knowledge of how to get around politically in Washington DC. Though valuable tactically in the future, the experience of interest group politics in the face of looming war caused him no little dismay at the time. This provided him further instruction in the political aspect of political economy and reinforced his sense that economics could not be effective when practiced apart from political culture (*Life*, pp. 110–18; Parker, pp. 119–31). Galbraith continued his immersion in political culture, doing some speechwriting for President Roosevelt in the 1940 campaign, continuing to commute to the AFBF offices in Chicago, and working at the NDAC, which was soon disbanded and replaced by the newly formed Office of Production Management (OPM). The frenetic pace of his life took its toll and Galbraith checked into the hospital in December 1940, suffering from fatigue. He resigned from the AFBF and the Galbraiths left town for him to recuperate (*Life*, pp. 118–23; Parker, p. 131).

From war to Harvard redux

Early in the new year, refreshed and ready for work, Galbraith faced without enthusiasm the prospect of a return to Princeton. But an

alternative was to present itself by virtue of a letter Galbraith had written to Alvin Hansen, now the leading American apostle of Keynes, commenting on Hansen's (1941a) article on controlling inflation during the military buildup. In this letter he explained to Hansen that, based on his own experiences at NDAC, he disagreed with Hansen's conclusions from Keynesian theory about the response of the economy. Hansen was impressed with this letter and arranged publication of a revised version (Galbraith, 1941). This article and talks based upon it received much attention and were a major factor in Galbraith's selection to administer the wartime price control program (*Life*, pp. 127–9; Parker, pp. 134–9). Henderson had become head of the newly formed Office of Price Administration and Civilian Supply (OPACS). In keeping with Roosevelt's penchant for bureaucratic reinvention and duplication, this agency paralleled the OPM and was in some ways descendant from the recently abolished NDAC. By December the Supply Priorities and Allocations Board (SPAB) had been added to the alphabet soup; SPAB took over from OPACS the function of rationing consumer goods, and was conjoined with the OPM into the OPM/SPAB (*Price Control*, p. 49; *Life*, pp. 149–58). OPACS was thereafter referred to as the Office of Price Administration or OPA (*Life*, pp. 150–1). The original mission of OPACS was 'to ensure an adequate supply of essential civilian commodities, dispense with nonessentials and keep prices stable.' Henderson brought Galbraith aboard as deputy head in charge of price controls. There was resistance to the price control program, and though Roosevelt in April issued an executive order to establish it, the enabling legislation was not passed until late November 1941, nine days before Japan attacked Pearl Harbor (*Life*, pp. 124–44; Parker, pp. 138–42).

Galbraith was certain that price control, supply management, and rationing should not be separated. Despite the apparent fact that they were, he used bureaucratic manipulation and adroitly timed public relations to maintain their linkage (Parker, pp. 144–52). But the control system was flawed, there was no adequate reduction in overall aggregate demand, and prices were rising. Circumstances dictated a shift from controlling prices in particular markets to a general price freeze. The General Maximum Price Regulation, nicknamed 'General Max,' was announced in April 1942. General Max was an expedient and had to be replaced with specific price regulation of industries, products, and quality grades (*Life*, pp. 163–73). Though in retrospect the strengthened price control and rationing system program was successful, it begat much wrangling in particular cases, required a considerable bureaucracy, and generated much controversy. It was an easy target when the

political winds shifted, leaving control to a coalition of Republicans and conservative Democrats; 'the New Deal was effectively dead' (Parker, p. 150).

Under a Congressional threat to eliminate the OPA budget, Henderson resigned. Other resignations of key New Deal figures followed. Galbraith became the public face of the OPA, vainly trying to defend its function and its considerable success. He held on until the end of May 1943, when, refusing to resign, he was let go. Looking back, Arthur Schlesinger (1984, p. 10) seemed to have been surprised that the two men lasted as long as they did, since the 'OPA, though ... astonishingly successful in restraining inflation, was a major target for [business] lobbies and ... the right-wing press; in consequence, a favorite congressional scapegoat.' He also thought the two men were constitutionally ill-suited, recalling that 'Henderson and Galbraith were irrepressible men, temperamentally ill-equipped to mollify opposition and especially deficient in the capacity to resist the temptation of a wisecrack. After Republican gains in the 1942 midterm election, Henderson was thrown to the wolves. Galbraith followed in 1943.'

Galbraith later referred to his two-year stint with the OPA as 'months of accumulating fatigue' (*Life*, pp. 177–89). There is no doubt that the job was demanding and the hours long and arduous; he eventually oversaw a staff of thousands. With the New Deal dismantled and many of his cohorts gone, he may well have been relieved when he was forced out of OPA. The recollection of his wife was that Galbraith had collapsed to the floor, suffering from extremely low blood pressure (Parker, p. 152).

In the summer of 1943 Galbraith's career took yet another sudden and fortunate turn in the person of Henry Luce, publisher of *Time*, *Life*, and *Fortune* magazines. Galbraith had turned his attention to postwar matters even as the war was barely underway. In a late 1939 letter to Julian Huxley, he had assumed an Allied victory and wrote about the postwar European economy (Parker, pp. 133–4). In this he was not alone, no doubt many saw the war as a pivotal threshold for America. One was Luce, who in 1941 had published in *Life* an article on 'the American century' in which he imagined a postwar world of American leadership toward economic prosperity and social tranquility. The piece was no doubt sincere but it struck the New Dealers in the administration as rather jingoistic. Vice President Henry Wallace responded with a vision of a World New Deal and 'the century of the common man' (Parker, pp. 153–63; Markowitz, 1973). In general, relations and sentiment between Roosevelt and his New Deal advisers, most assuredly including Wallace, and Luce were far from cordial. Even Luce's wife,

the quite formidable Claire Booth Luce, got into the act, referring to Wallace's call for a new global order as 'globaloney.' No doubt more heat could have been added if someone had leaked Luce's internal memorandum, 'The Reorganization of the World,' in which he laid out in detail his plan for vastly superior American military strength, support for a United States of Europe, a United States of India, a prosperous Soviet Union, and a renascent China, all guided by the Anglo-American partnership bent on creation of an orderly capitalist world trade regime.

Of greater importance to Galbraith than the rift between Luce and the New Dealers, was that the publisher, despite being an ardent Republican steadfastly opposed to the New Deal, had early on accepted Keynes's message that capitalism had to be reformed to be salvaged, and he wanted an editor and writer who could introduce Keynesian ideas to America without antagonizing his advertisers and corporate readers. Luce wanted *Fortune* to develop his scenario of a new capitalist world order. Although the exact sequence of events is unclear, Galbraith began work at *Fortune* in October 1943 (*Life*, p. 256, Parker, p. 159).

Assigned to the general project of overseeing the magazine's coverage of the economy's gradual demobilization and transition to a postwar world, Galbraith set to work on that most important and all-too-often overlooked mission of any war, to win the peace. In his first essay, rushed into the January 1944 issue, Galbraith made no mention of Keynes but Keynesian ideas were infused. Additional articles followed in rapid succession, written by Galbraith or under his tutelage, that advocated Keynesian policy, argued that government would have to play a major role in the postwar economy, defended the New Deal, and sketched a world trade regime with provisions for macroeconomic stabilization (Parker, pp. 157–63).

The Luce campaign for Keynesian policy at *Fortune* was joined by another business group, the Committee for Economic Development (CED), which grew out of the administration's Business Advisory Council. Henry Dennison and some of his cohorts had been involved in the latter. The CED played an influential role in the movement toward acceptance of Keynesian policy measures. *Fortune* surveys revealed a dramatic shift of opinion from 1943 to 1945 (Parker, pp. 168–71). An effective combination of business interests were arrayed in favor of the New Economics. Not that any universal acceptance arose; to the contrary the conversion of American businessmen was ever tenuous and the conservative opposition persisted. There was nonetheless an aspect of Keynesian economics that appealed to a business culture; unlike the New Deal, it apparently required no direct microeconomic intervention

in the economy. This separation of microeconomics and macroeconomics, which became explicit in the New Economics consensus that emerged after the war, soon became a vexing issue for Galbraith. Another ominous portent for Galbraith was that corporations engaged in military production were a major part of the business coalition that supported an increased role for government in the postwar macroeconomy. The seeds were thus sown for a business or military Keynesianism, that held over little of the New Deal's commitment to social reform. Ironically, Parker (p. 163) notes that Galbraith's first article in *Fortune* unwittingly 'symbolized the decline of older New Deal forces and alliances and the rising power of big business and the armed forces.' Dissent would persist, including Eisenhower's famous admonition that a 'military-industrial complex' was arising that would test the fabric of American democracy, and Galbraith would rank among the earliest and most persistent dissenting voices.

Galbraith's political and government work continued. He found time to serve as a speechwriter for Roosevelt's 1944 campaign and was active in the National Citizens Political Action Committee, a group organized by the prominent union leader Sidney Hillman to work for the president's reelection (*Annals*, p. 164). In 1947 Galbraith was a cofounder and chairman of the Americans for Democratic Action. This was a group of staunch liberals and former New Dealers that organized to toil for the liberal cause within the Democratic Party. When he returned to Harvard, Galbraith set politics aside for a time to pursue and display his newly revived academic career. Even when he again became active in politics, his work in the ADA was 'episodic,' though he took the chairman position in the 1960s to gain a platform from which to oppose the war (*Life*, pp. 277–8, 485–6).

Of course even when Galbraith was not engaged in partisan electoral politics his government service was conducted in a politically charged atmosphere. This was especially true of a new government assignment in 1945 in which he directed the study of the 'overall economic effects' component of the United States Strategic Bombing Survey (*Life*, chs. 13–15; Parker, ch. 9). The study was inherently controversial since there were political interests seeking to establish an independent air force that wanted verification of the strategic value of air power. The findings with respect to both Germany and Japan did not help in this political effort and formed the basis of a controversy lasting for some years (Gentile, 1997).

The year 1946 was critically important in setting the course of America's postwar foreign policy and economy (Parker, ch. 10; see also

Tugwell, 1971; Markowitz, 1973). In early 1946 Galbraith left *Fortune* once again to serve as the director of the State Department's Office of Economic Security Policy (OESP). The charge of the OESP was to advise on economic recovery issues for Germany and Japan. The stint was brief, well under a year, because Galbraith became disillusioned with the trend of America's foreign policy toward containment of the Soviet Union. In his memoir, the sobriquet for the chapter on the period was 'Cold Breath' (*Life*, ch. 16). He was isolated by the culture of the State Department and his divergence from the view that more or less assumed the Cold War with the Soviets had already begun. Before resigning from OESP, he wrote a speech for Secretary of State Byrnes that laid out the goals of American policy in Germany and confronted the mutual suspicions in Washington DC and Moscow that were to lead to Churchill's 'Iron Curtain' speech. Not long thereafter the president announced his Truman Doctrine, the massive National Security Act of 1947 was passed after only five months' debate, and the Cold War had begun in earnest (Parker, p. 205).

Galbraith's long-run interest was still focused on academic life and Harvard, to which given the opportunity he returned. He left *Fortune* with some regret, fondly recalling his time there and appreciative of the opportunity provided to develop his writing skills and gain insights into the nature of corporate organization (*Life*, pp. 268–9; see also the interview with Stephen Dunn in Stanfield and Stanfield, 2004, p. 229). In mid-August 1948 the Galbraiths moved back to Harvard after an absence of nine years. Galbraith focused on his academic career and his family. By then there were two sons, John Alan had been born in 1941 and Douglas soon after. The family was badly shaken by the tragic death of Douglas in the spring of 1950 (*Life*, pp. 278–9). Galbraith said little publicly on this intensely personal matter that Parker (pp. 233–4) insisted had a powerful effect on him, so much so that 'the way he wrote changed forever.' The family gradually healed and resumed an active social life. Two more sons, Peter Woodard and James Kenneth, were born in the early 1950s.

From affluence to the turbulent 1960s

After his return to Harvard, Galbraith's publication output increased markedly and his stature as a public intellectual soared. He was soon to enjoy immense recognition from *American Capitalism*. The book was a popular success and most economists, while not conferring wholehearted acceptance, nonetheless conceded the need to pay careful attention.

At its winter meeting in 1953, the American Economic Association convened a panel on the book and a rather uncivil set-to ensued. The panel consisted of Galbraith and five variously hostile critics, including George Stigler (1954), a future Nobel laureate, and David McCord Wright (1954), who less than deftly wielded Schumpeter's magnificent capitalist dynamics. Of Stigler and Wright, Galbraith later remarked that 'neither approved new thought, however plausible' (*Life*, p. 283; see also Parker, pp. 246–7). Thereafter Galbraith's dissent from more conventional economics became more severe.

Having drastically cut back his government service and political activity, Galbraith grew restive, frustrated with what he observed to be the sad state of American politics (Parker, pp. 252–3). When friends George Ball and Arthur Schlesinger, Jr., asked him to join the Adlai Stevenson presidential campaign as a speechwriter and economic adviser, Galbraith accepted and wrote on economic and agricultural policy and edited the work of other speechwriters. The return to political life was exhilarating but Stevenson's loss to Eisenhower in the 1952 election contributed to a serious bout of depression, which Galbraith compounded with uncharacteristic abuse of alcohol and sleep medications (Parker, p. 264). He entered psychotherapy and the process revealed a longstanding pattern of cyclical 'euphoria and depression' and provided Galbraith insights that helped in the management of his future bouts of depression. The experience left him with an abiding appreciation for the services of psychiatrists (*Life*, pp. 304–5). Galbraith's political activity continued. He and a group of Stevenson supporters, the Finletter group, assumed the candidate would run again in 1956 and began preparing background memoranda and position papers for that effort (Parker, pp. 264–7).

Early in 1954 Galbraith received a request from *Harper's* magazine to write a commemorative article on the twenty-fifth anniversary of the 1929 stock market crash. The timing was good since Galbraith was struggling with the writing of the book he had under contract, *Why People Are Poor*. As he worked on the article, Galbraith decided there was enough material for a book. He quickly produced *The Great Crash*, which became a best seller and one of the most durable books in Galbraith's *oeuvre*, as well as one of the most enjoyable for him to research and write (*Life*, pp. 308–13). Parker (pp. 267–9) judged it to be among Galbraith's best-written books. With capitalism reliably furnishing new periods of boom and crisis, the book continues to have its day, as in today's Great Recession.

Why People Are Poor eventually morphed into *The Affluent Society*. The former was to address 'the causes of the poverty that made economic

improvement so urgent' (*Life*, p. 305). Galbraith reckoned that an examination of the poverty that persisted in the United States was an appropriate preliminary step toward the investigation of poverty in the less-developed nations. He took a sabbatic leave in 1955–56, and the family traveled to Europe where Galbraith was to spend the year writing *Why People Are Poor*. After several months he remained stymied, unable to find a theme for the book, but serendipity intervened. A chance meeting at a dinner party led to an invitation to visit India and advise on its development planning (*Life*, pp. 307–8, 322–4; Parker, pp. 275–7). From that visit Galbraith gained insight into his struggle with the book; back in Europe that spring, he had the *voilà!* moment that writers often require and the 'book suddenly took form.' It had become clear to him that 'the rich society was the new and interesting case. ... [I]t was affluence that had never been fully understood or examined.' After that the writing went fast and a completed draft, at that point titled *The Opulent Society*, was in hand when the Galbraiths returned to the United States that summer (*Life*, pp. 335–7; Parker, pp. 279–80).

Working for the Stevenson campaign took Galbraith away from the book, which required editing and was finally finished in late 1957 (Parker, pp. 280–2). Galbraith was active in the campaign and the stress took its toll but he recovered quickly after it ended. Before taking up the book again, with an eye toward the prospective increase in the use of monetary policy, he took time to write an important though not influential article on its detrimental social effects (Galbraith, 1957; *Life*, pp. 347–9). In 1958, *The Affluent Society* was finally published, the title, which became a phrase in the idiom well beyond the reach of the book itself, having been changed by resort to a dictionary (*Affluent Society*, 1976, p. xxiv). Galbraith became convinced that the book would sell well only after Sputnik was launched, thinking that the fact that the Soviets had accomplished such a feat with a much smaller economy would enhance the credibility of the book's case for American social imbalance (*Affluent Society*, 1976, p. xxiv).

Galbraith was an important figure in the newly formed Democratic Advisory Council (DAC) of the Democratic National Committee. The DAC was formed largely by former members of the Finletter Group. Galbraith was disappointed with the policy discussions of the group, which he thought illustrated the bankruptcy of the liberal tradition. He later recalled that there was little or no concern in domestic policy discussion for civil rights for blacks or women, for inflation, or for any challenge to GNP-fetishism, and that the foreign policy discussion was dominated by fear of being seen as soft on communism, which

he considered to be 'the roots of the fatal politics of Vietnam' (*Life*, pp. 357–61). He soon reduced his participation with the group but began frequent discussion with John F. Kennedy. While basking in the radiant success of *The Affluent Society*, he determined that it had been not the 'wrong book' but 'only a small part of the right book' and his thoughts turned to what became *The New Industrial State*. The key insight was that the situation he had depicted in the earlier book had its roots in the nature and function of the great corporations that dominated the economic landscape (*Life*, pp. 361–3). He became obsessed with the book and more committed to it than to any task before or thereafter, but he made the time to work in the Kennedy campaign after the primaries and serve as a floor manager at the Democratic convention.

After the election Galbraith faced a difficult choice between returning to work on *The New Industrial State* or accepting a job he had long coveted, that of Ambassador to India. Given their passion for travel and their interest in India kindled by their 1950s visit, the Galbraiths chose the ambassadorship and enjoyed their stay in India. This much is clear from Catherine Galbraith's brief account of her activities as ambassador's wife (see her article from *The Atlantic Monthly*, reprinted in an appendix to Galbraith, 1969a, pp. 603–16). Galbraith's *Ambassador's Journal* reveals as much and also declared that an ambassador's job provides considerable leisure. Given his residual work ethic from his early life on the farm, Galbraith employed this time with his characteristic productivity (*Life*, p. 393). He found the time not only to compile his diary (1969a) but also to pen his first novel (1963) and his memoir on the Scots in Canada (1964b), and to begin a coauthored book on Indian painting (1968b). He also prepared and delivered several speeches on economic development that were eventually revised and published (1962), then expanded and republished (1964a). He later noted in his book, *The Nature of Mass Poverty* (p. v), that it had its origins in his time in India.

Galbraith also became engrossed in American foreign policy and his increasingly sharp policy disagreements with others in the Kennedy Administration became evident. He clashed with the CIA over its clandestine operations in India and took steps to end them (Galbraith, 1969a, p. 51 and *Life* pp. 395–8). He served in the midst of the disputes and 'border wars' between China and India and India and Pakistan (1969a, chs. 20–22, pp. 568–74; *Life*, chs. 26, 27). In their aftermaths, he had to explain tactfully both the Bay of Pigs fiasco in Cuba and the tension of the Cuban missile crisis (1969a, pp. 79–87, 430–4). Of course the most rancorous arguments involved the direction of American policy

in Vietnam (see Parker, pp. 389–92). Galbraith noted that McGeorge Bundy, President Kennedy's Special Assistant for National Security, had scolded him about his sharp exchanges with others in the state and defense departments. Bundy confided that Secretary of State Dean Rusk and Deputy Undersecretary of State Alexis Johnson had told him of their sense that Galbraith held them in low regard. Galbraith noted in his journal that this speaks well of their powers of perception (1969a, p. 294). After a two-year tenure as ambassador, Galbraith returned to the United States in the summer of 1963, very anxious to return to work on *The New Industrial State*.

The advice Galbraith gave JFK from the latter's emergence into politics in the early 1950s to the very bitter end is demonstrative not only of Galbraith's continued political involvement but also his growing separation from his liberal economics colleagues and the liberal wing of the Democratic Party. After Sputnik, JFK hammered away at the need to close the 'missile gap' with the Soviet Union; but no such gap existed and Galbraith worried that JFK was building expectations about military spending that would lock him in after he was elected (*Life*, p. 387; Parker, pp. 321–2, 331–2). While JFK was still in the House of Representatives, Galbraith urged him to oppose the 'flexible supports' reform that would have weakened support for farmers (*Life*, pp. 356–7). On agricultural issues Galbraith remembered JFK saying 'I don't want to hear about agriculture from anyone but you, Ken. And I don't much want to hear about it from you either' (*Life*, p. 357). JFK consulted Galbraith on many issues such as potential growth and the threat of inflation, the deficit in the balance of payments and gold transfers, and how to ease monetary policy without offending Wall Street (Parker, pp. 324–5, 348–50). In a series of strategy memos during JFK's presidential campaign Galbraith urged emphasis first on reform at home, to return the economy to full employment, and to expand programs for education, health, housing, urban development, environmental protection, and civil rights; and second, on negotiation and diplomacy abroad to reduce tension in the world, advance disarmament, and pursue economic development. He also urged resistance to the political demands of special interests (Parker, pp. 333–7).

Galbraith was concerned that economists were advising a growth-is-all strategy and that this 'growthmanship' was playing into the hands of the powerful organizations of the military establishment in and out of government. The neo-Keynesian economists had little to say on the military or any other component of output because their concern was almost entirely focused on the macroeconomy. Their outlook was based

on a model indicating that stable growth could be maintained by means of a high-employment budget coupled with a socially chosen tradeoff between unemployment and inflation (Parker, pp. 328–33, 343–4). Given stable growth and high employment, they thought that resource allocation could be safely left to market forces (see Stanfield, 1979, ch. 1). In a late 1963 speech, Galbraith observed that the nearly exclusive emphasis put upon policy to maintain full employment defaulted on the central question as to the output toward which the employment should be directed. If not just full employment output but the quality of life attained by it were to become a concern, ‘it will matter a great deal how the expansion of demand is managed’ (*Laughter*, p. 18; see also Chapter 7 of this volume).

In retrospect, Galbraith’s advice was not influential as to the general direction of the Kennedy administration (Parker, pp. 348–50, 359–62). In no area was he more insistent or less influential than in his frequent warnings about the trend of foreign policy, especially in Vietnam (*Life*, ch. 29 and elsewhere; Parker, pp. 362–77). Naturally, he was very distressed by the tragic end of the Kennedy administration (1969a, ch. 27 and pp. 629–32).

Though having no formal role in the new administration, but still more or less a confidant, Galbraith continued his confidential advice to President Johnson on economic issues, and more desperately against the involvement in Vietnam, albeit to little effect in the latter case. He had campaigned to some extent for LBJ but had turned down consideration to become ambassador to the United Nations largely because he was again deeply involved in writing *The New Industrial State* and could not abide setting it aside yet again (*Life*, pp. 455–6). As the American role in Vietnam steadily escalated, Galbraith concluded that ‘episodic efforts at inside persuasion ... would do no good’ but widespread protest might, and at any rate he found further political loyalty impossible to endure. Early in 1965, he went public with his dissent (*Life*, pp. 479–80). He did make another personal attempt to persuade LBJ, in an early 1966 memo, in which he outlined the reasons not to pursue the war and proposed an ‘enclave strategy’ of securing areas necessary to protect America’s South Vietnamese friends, but ceasing any effort to push the adversary out of the country (*Life*, pp. 482–4). He later published an expanded version of the enclave strategy, *How to Get Out of Vietnam* (1967b) as well as a book on the ‘dark shadow’ of the military establishment (1969b). He and some friends encouraged George McGovern, Robert Kennedy, and Eugene McCarthy to run in the Democratic primaries against LBJ. McCarthy agreed (*Life*, pp. 488–90). We need not review ‘the violent

convocation' of 1968, other than to note that Galbraith was conflicted when Robert Kennedy entered the race, but remained loyal to McCarthy, and late in the general election endorsed Humphrey (*Life*, ch. 31).

The New Industrial State and beyond

After returning from his stint as ambassador, when not engaged in teaching or politics, Galbraith was at work on *The New Industrial State*, which reached the bookstores in the early summer of 1967 and quickly raced to *The New York Times* best-seller list where it stayed for a year (*Life*, pp. 513–20; Parker, p. 436). Popular success notwithstanding, there was a much chillier reception within the economics discipline. He later singled out Robert Solow and Scott Gordon for their 'especially eloquent' reviews (*Life*, pp. 520–1). Solow's criticism was harsh and led to an exchange lasting several years (Parker, pp. 437–51). Nor was Solow the only critic from the liberal and radical left. Critiques of varying degrees were submitted by Walter Adams, James Meade, Robert Heilbroner, Michael Harrington, Ralph Miliband, Harry Magdoff, Paul Sweezy, and Robert Fitch (Hession, 1972, ch. 7).

Galbraith was chosen for the presidency of the AEA in 1971. Not surprisingly, given his strident criticism of conventional economics and conservative economic policy, his selection was met with vigorous dissent, notably from Milton Friedman, one of 'two of the most awesome economists of the twentieth century,' the other being Galbraith (Breit, 1984, p. 18). The program Galbraith put together for the 1971 meeting was heavily oriented to political economy and particularly distinctive in its emphasis on socially structured inequality by ethnicity, nationality, and gender, as well as class. Also, several critical papers addressed the relevance and crisis of economic theory. The program featured presentations by many radical economists, including John Gurley, William Tabb, David Gordon, Michael Zweig, Michael Reich, Herbert Gintis, and Harry Cleaver (see Fels, ed. 1972; Parker, pp. 478–85). No doubt for conservative economists such as Friedman, the inmates had indeed taken control of the asylum.

Galbraith selected Joan Robinson to present the Richard T. Ely lecture, which she delivered to an enthusiastic standing-room-only audience (happily by virtue of very early arrival the authors of this book secured seats). He smiled in obvious approval at the resounding criticism Robinson leveled at neo-Keynesian economics in her lecture (See Chapter 6 below on 'the second crisis of economic theory'). The two had been friends since they met on Galbraith's sojourn to Cambridge in

1937 and both were early dissidents from the neo-Keynesian neoclassical synthesis. Robinson shared with Galbraith a commitment to the Keynesian legacy that included revising it as necessary in response to changing circumstance, especially in regard to policy issues.

This was the first time that a woman had ever presented a major talk at the AEA (Parker, p. 485). Galbraith also led the Association to appoint a Committee on the Status of Women in the profession. The Committee's preliminary report was formally presented at the 1972 AEA business meeting; it concluded that women were seriously under-represented in the profession. Galbraith supported the committee chair, Carolyn Shaw Bell, and endorsed having an AEA standing committee to monitor and promote the standing of women in the profession. Also, he and Lester Thurow submitted for discussion a draft legislative proposal for advancement of the status of women in corporate America. We discuss in Chapter 7 below, Galbraith's presidential address (1973b), which was also controversial (Parker, pp. 505–11).

Further controversy at the AEA meeting involved four promising young radical economists who were denied reappointment at Harvard, more or less openly for their heterodox views. After the convention, back at Harvard, Galbraith continued his resistance to the social or power structure of the economics discipline (on which see Ward, 1972; Stanfield, 1979, ch. 8). To no avail, he joined in protest with a few other senior faculty and graduate students (see Rosovsky, 1989 and Brimmer, 2007, for recollections of the events). This added to the fissure between Galbraith and fellow faculty that had arisen not only from his strident criticism of the discipline but also over his support of student protests of the Vietnam War, especially a violent student strike in 1969 (Parker, 474–7, 506–11).

In the fall of 1973, with the Nixon administration beginning to crumble under the weight of Spiro Agnew's resignation and Watergate, and the economy descending into turmoil as the war in the middle east led to an oil embargo, Galbraith's *Economics and the Public Purpose* was published. The book reflected the mood of its time, more strident in its political and economic criticism, the frustration even anger of its author apparent. It was nominated for the 1974 National Book Award in contemporary affairs, remained on the best-seller list for five months, and was translated into seven languages. The book was extensively reviewed largely to the tune of great praise in the popular media, hailed by *Time* magazine as 'one of the most important books of the year.' But the response by economists was more muted and few professional journals took notice of it (Parker, pp. 512–16).

Though buoyed by the popular success of the third volume of his trilogy, Galbraith, quite frustrated with the intellectual milieu in his department, was ready for a change and pondering retirement. That summer he had been contacted by the BBC about doing a television series on economic thought in its historical context. For the three-year-plus project, he would both write and narrate the programs which were to be filmed at various historically significant locales. Despite doubts about the usefulness of the format for economics instruction, he accepted, largely because of the appeal of the travel involved. When the program aired, the concern of a high-level BBC bureaucrat as to its radical left-wing perspective, led to the addition of a conservative commentator to each episode. The commentators were drawn from 'the Hoover Institution at Stanford University, a talent repository, even museum, of the solemn intellectual right' (*Life*, pp. 511, 516–34). The rigors and unfamiliar ways of television production were tedious and aggravating, if at times comical, to Galbraith (Parker, pp. 516–18), but although few would hail the series as an unqualified success, two books did emerge, the eponymous companion book, *The Age of Uncertainty* (1977a), and another that elaborated one of the series' subjects, the history of money, *Money*.

Galbraith had continued his opposition to the war in his speeches and writing and worked with his liberal allies in the Democratic Party to secure the 1972 nomination for McGovern. He worked for the McGovern campaign and was prominent at the convention. He supported the antiwar activities of Harvard students in a furious and divisive debate within the faculty and administration (Parker, pp. 473–7). He later proudly noted that he earned a place on Nixon's infamous list of enemies (*Life*, pp. 523–4; Parker, pp. 491–3, 500–5). After the McGovern campaign, Galbraith 'detached [himself] from political matters' except for moderate activity in the Morris Udall campaign for the Democratic nomination in 1976 and more energetic activity in Edward Kennedy's quest for that nomination four years later. He had no role in the convention nominating Jimmy Carter the first time and emerged only briefly to deliver a speech on arms control in the second. Indeed it has been said that Carter 'quietly but firmly turned down Galbraith's offer of assistance' in his 1976 campaign (Reisman, 1980, p. 171). Galbraith concluded his memoirs with a suggestion that he was exiting the fray altogether: 'I have noticed that those who write their memoirs have difficulty knowing when, on public matters, they should stop. The obvious stopping point is when the view is from the stands' (*Life*, p. 537). He

later used this phrase in a very eclectic collection of essays, *A View From the Stands*.

But Galbraith remained very active in the struggle for liberal ideas, both in economics and politics, a seamless milieu for him, of course. He continued publishing articles and opinion pieces in resistance to the 'conservative onslaught.' He very much feared that the Keynesian legacy would be squandered in the 'second crisis of economic theory,' as Robinson termed the inartful separation of macroeconomics and microeconomics (see Chapter 7 below). The ask-no-questions commitment of the neoclassical synthesists to economic growth was in effect submission to 'self-justifying commodity production,' and their neglect of the dual economic structure was to deny themselves any useful explanation of the stagflation that beset the economy in the 1970s. Galbraith also viewed the fate of Democratic Party liberalism to be intimately connected to that of the Keynesian legacy. This had indeed been the case since the conversion of the New Deal reform strategy (see Jeffries, 1990). As he had admonished for decades, Galbraith considered underestimation of the social problem of inflation to be a serious mistake which would 'erode support for authentic Keynesianism and for Democratic liberals' (Parker, pp. 524–33). Both fears were of course well founded. The monetarist-expectationist counterrevolution arose and proved to be a major distraction for economists from the real issues of political economic life (Parker, pp. 533–43). The postwar establishment of major corporate, political, and labor organizations came apart at the seams and political ideologues drove the two parties to extremes which hampered effective government policy (Parker, pp. 543–53). Eventually the Reagan administration abandoned the war on poverty and seemed instead to be waging war on the poor themselves (*Economic Time*, pp. 213–18).

But before Reagan, the Republican Party's Nixon and Watergate fiascos provided an opening for a liberal Democratic comeback had the Party not been divided and shifting rightward. The selection of Robert Strauss to head the Democratic National Committee in the wake of McGovern's defeat signified as much and Jimmy Carter's Washington-outsider campaign confirmed it. Carter, a 'curiously un-Democratic President' (Schlesinger, 1984, p. 15), lectured the nation in his 'malaise' address and Vice President Mondale admonished the Party to surrender its nostalgia for the Roosevelt era and 'adjust [its] liberal values of social justice and compassion to a new age of limited resources' (Parker, pp. 552–3). The Carter administration began the era of deregulation, did nothing to prevent the start of several decades of increasing inequality, and asserted, if in a minor way compared to what was to

come, the priority of military over domestic spending. The Democratic Leadership Council (DLC), formed in 1984 with corporate financial backing, undertook the rescue of the Party from its overly liberal outlook. President Clinton had chaired the DLC and appointed many of its members to his administration.

Galbraith, of course, deplored the neoliberal movement that overtook the Democratic Party (Parker, pp. 624–46). He observed that candidate Michael Dukakis had run away from the Party's traditional values and issues, choosing to offer his competence rather than ideas. In Galbraith's view, such a tactic was not only betrayal of the Party's core values, it was also self-defeating because the voters, when offered a choice between a real and an ersatz conservative, would choose the bona fide. By 1992 he had come to see little difference in the two American political parties, at least so far as the likelihood that either would undertake needed reforms (*Contentment*, pp. 149, 151). His early if moderate optimism about President Clinton soon gave way to the hard facts of Clinton's obsequious desire to please Wall Street. The Clinton administration supported trade liberalization, further financial deregulation, media deregulation, and welfare retrenchment. Galbraith warned of the long-term consequences of increasing inequality, rising household debt, deregulation, and financial speculation, even as President Clinton and Treasury Secretary Rubin exulted in the New Economy's taming of the business cycle and the prospect for uninterrupted growth in the New Economy as far as the eye could see. In the Spring of 1995, Galbraith made a public and much publicized break with the economic policies of the administration.

Galbraith was greatly concerned about the growing share of income flowing to the financial sector of the economy under the neoliberal governance regime, which certainly earned its awkward sobriquet, *financialization*. There is no doubt that much of his model of the New Industrial State was changed with the rise of 'impatient capitalism' or 'money-market capitalism,' in the apt phrasings of James Crotty and Hyman Minsky, with its commitment to short-term returns rather than the development of core competencies and long-term market share (Parker, pp. 605–15; Minsky, 1996; Crotty, 2002). Galbraith observed the 'devastation ... of the great management-controlled corporation' by what has come to be called financialization (*Contentment*, ch. 5). The compensation of top executives soared, rising by a factor of 10–15 as a ratio to that of the average production worker, perhaps reaching as high as 400. Income growth was extremely skewed, in the two decades after 1979, its growth among the top 20 percent of Americans rose four times

more than that of the bottom 80 percent. This was in sharp contrast to the earlier postwar experience in which the advance in income was distributed evenly across the spectrum (Parker, pp. 638–40; see also Reich, 2008, ch. 1 and Kuttner, 2008, ch. 2). No wonder a shrewd wag revised President Kennedy's metaphorical remark that a rising tide raised all boats to its raising all yachts.

Galbraith was concerned about globalization under this regime. As far back as the mid-1980s, he had advised foreign governments to resist what came to be called the Washington Consensus, with its 'free market mantra' and 'radically different approach to economic development and stabilization' (Stiglitz, 2002, p. 16). John Gray (1998, pp. 22–3) was an early critic of 'the Washington consensus – the dogma that minimum government and free markets are achievable and desirable throughout the world.' Not that Galbraith opposed globalization, to the contrary, as Parker observed, for Galbraith 'the deepest lessons of the twentieth century were ... incontrovertible: more global integration of economies, cultures, and political systems offered many more and better potential benefits to mankind than the violent nationalisms' of the past. Galbraith emphasized the broader social and political advantages of globalization, and insisted, as we shall explain below, that progress required that the Washington Consensus be replaced with a reformist, internationally coordinated, and ultimately transnational, governance regime (Parker, pp. 644–5).

Now that the neoliberal regime has floundered on the shoals of financial crisis, cultural backlash, and ecological disruption, the future is yet untold. We are aware that Galbraith frequently advised as 'a matter of elementary personal caution that one avoid prediction' (1991, p. 46) because one's wrong predictions will be remembered, not one's correct ones. Despite these admonitions, we hazard a guess that the framework of a new governance regime will not be easily fashioned; its scope will likely be writ large and its complexity cavernous. As one would expect the conventional wisdom would much prefer to leave matters lie, but circumstances will not likely consent to that course.

John Kenneth Galbraith died 29 April 2006. He was about one-half year shy of his 98th birthday. His career as a professional economist spanned more than 70 years. He left a pragmatic American legacy in the modern liberal tradition that should prove useful to the issues and policy choices that loom large ahead. We turn to that legacy in Chapter 8. For the remainder of this chapter we summarize his importance as an economist.

The public intellectual

The first thing that is apparent from our biographical sketch is that Galbraith was very much a public intellectual, always immersed in the day's controversies and frequently engaged in partisan politics or government service. It is interesting to note that upon embarking on a series of collected interviews of public intellectuals, the University of Mississippi Press, after George Kennan, chose Galbraith as the subject of the second volume in the series (see Stanfield and Stanfield, 2004). A public intellectual is one who is broadly influential in literary and public discourse. Jacoby (1987, p. 26) emphasized that such intellectuals 'mastered a public prose,' 'a public idiom,' in which they 'wrote to and for the educated public.' Enriqueta Cabrera (2006) noted that 'Galbraith is regarded as the most widely read U.S. economist in the twentieth century. He had an enormous facility to understand and explain economic problems ... from the standpoint of their social, national, and worldwide impacts.'

In the ambivalent divide among social scientists that Gattone (2006, pp. x–xi) noted, Galbraith probably was among the least reticent about public engagement. He was certainly not steeped in 'the tradition ... that it is important [for social scientists] to maintain a healthy distance from politics in order to provide an evenhanded and objective assessment of its principal actors and institutions.' This tradition upholds the view that 'when scholars are embedded in the ideas and activities of everyday life,' they may tend to 'develop findings that support pre-conceived beliefs or goals.' Galbraith emphasized that this problem of selection bias and its political consequences was not derivative from political involvement; indeed one of his central themes was the 'convenient social virtue' of those economists who insisted upon their value neutrality and scientific remove from everyday controversy, all the while their work obscured the power of organizations that had escaped the discipline of the competitive market. He resided on the other side of Gattone's divide, which insists 'that virtually all social scientific investigations have some political dimensions' and that social scientists 'have a responsibility to acknowledge these connections and take them into consideration in their own work.'

It must be emphasized, as Parker conclusively argued, that Galbraith's involvement in politics and government greatly affected his approach to economics. Parker insisted that having often observed the defeat of reason by sheer political clout and shilly shally, Galbraith concluded that 'elegant economic models could not anticipate the outcome of political battles.' Yet, as Parker went on to note, politics and governance

ineluctably affect economic outcomes; therefore uncertainty was inherent in the 'constant negotiation and bargaining' of decision-making, ensuring that even 'goals and preferences were subject to frequent and dramatic reevaluation and change.' Hence, Parker (p. 189) concluded, for Galbraith, economics 'could not be considered in isolation from the human world of politics, institutions, and power.'

In an essay on the future of economics, Galbraith (1991, pp. 44–5) insisted that 'no clear line separates economics from political interest I do not wish to see economics indifferent to larger political and social concerns. Economics, as I have urged, should not be a soulless abstraction; it is in the service of the larger social good' Galbraith went on to make clear that he was not advocating that politics drive economics: 'as the economist must not accommodate to political convenience, so he or she must not be indifferent to the political context and its social and humane constraints.'

Throughout his career, Galbraith made clear his conception of economics in his refusal to separate political and economic analysis, his willingness to promote values and priorities that he considered more important, and his effort to communicate in clear and graceful English prose (Parker, p. 240). Clearly Galbraith kept alive a literate and topical approach to economics. His political economic analysis was not expressed in elegant mathematical terms but rather in accessible if very sophisticated English. He considered the economic process to be complex, value-laden, and ever changing and insisted that professional economists misstep, mislead, and miseducate when they reduce their subject to uncontroversial puzzles with equilibrium outcomes, no matter how elegantly contrived. His subject matter was invariably comprised of the leading topics of the day. He was not searching for the ultimate and eternal economic laws or verities but for the temporal and tentative answers to the questions of everyday, contemporary experience. For Galbraith the economy was comprehensible only in 'context of public policies and programs' (Parker, p. 527). In short, he made every effort to make his political economy accessible and pertinent to the concerned citizenry of democratic capitalism. In terms used by Thorstein Veblen, Galbraith's economics was exoteric, and it gained a grudging respect from the economics profession in its most esoteric age.

The dissenting Keynesian political economist

Galbraith was a 'useful economist' throughout his career. At each remove he sought to integrate 'politics, power, ideology, and historical

circumstance to explain the actual lived world' (Parker, p. 527). His role as a dissenting Keynesian political economist actually comprised two very different phases of his career. In the 1930s he was an early convert to the Keynesian dissent from the orthodox view based upon Say's law, which held that aggregate output necessarily created its own demand, so that no general glut or excess of output or labor was possible. Then again, in the early postwar period, he was among the first Keynesians to dissent from the neo-Keynesian orthodoxy of the neo-classical synthesis.

Galbraith wrote often of the Keynesian revolution, but tended either to avoid mention or to diminish his own role in it (*Laughter*, pp. 43–59; 1975b; *Life*, pp. 94–5). He was given a rather more important role by others. In his recollection of the early stalwarts to the Keynesian cause, Laughlin Currie (1972, p. 141) remarked that 'I was, I am happy to say, responsible for bringing Ken Galbraith to Washington.' Galbraith also figured prominently in Alan Sweezy's recollection (1972, p. 116), which began with a note that 'in discussing those who influenced policy in the early period, I have selected a few outstanding people who contributed in one way or another to the evolution of policy in a Keynesian direction.' Byrd Jones (1972, p. 131) regarded Galbraith to have been one of 'some twenty to fifty economists [that] had created a revolution in American policy. Sharing new developments, ideas, and influence, they laid the basis for national fiscal planning. They convinced a growing number of their professional colleagues of the legitimacy of their analysis.' Thus it is safe to conclude that Galbraith played an important role in articulating the policy implications of Keynes's *General Theory of Employment Interest and Money*, and for abetting the struggle to win acceptance of aggregate demand policy in the United States. There were three aspects of this acceptance, those being within the economics profession, the government, and the wider public, which is to say the business community since other interested economic parties were either quickly on board or not aware of their interest. Galbraith was involved in all three aspects (see Parker, especially chs. 5–8), and became 'an admired pioneer in the Keynesian revolution' (Parker, p. 195).

Galbraith's political experience undoubtedly strengthened his critical stance toward the turn taken by postwar conventional economics. As he had earlier struggled against professional and political resistance to Keynesian ideas, now he sought reform of these ideas and their policy consequences. He determined that the fundamental approach of economists to their subject matter was problematic. His agricultural economics background and his early study of Veblen perhaps laid a foundation,

but his experience in Washington DC in the 1930s and 1940s intensified and focused his dissent. With increasing intensity he urged the profession to incorporate social and political realities into their analysis. More and more, while accepting the essential validity of Keynes's analysis of mature capitalism, Galbraith vigorously asserted that political economic structure imposed serious limitations upon the use of aggregate demand policy by itself. In particular, he became increasingly concerned about the distortions imposed by political economic power and the skewed distribution of income and wealth, and the need for economists to focus squarely on social conflicts and problems and the reforms necessary to resolve them so as to promote progressively the public interest.

Galbraith's most direct and fervent criticism of the neoclassical synthesis was its neglect of the role of power and organization. For him, 'any attempt to evaluate the conditions of political decision making in industrial societies must begin with an investigation into the inner workings of the mature corporation and its association with the state' (Gattone, 2006, p. 81). For Galbraith (1991, p. 42–3) the 'controlling circumstance' of the economic process was 'the reality [of] the modern great corporate and management-controlled enterprise,' which deployed the power of resources and organization and exercised great influence over popular attitudes and political decisions. Recognition of this fact by economists was a central 'accommodation ... for which ... one must most hope. Until then some of the most evident characteristics of the modern economy will continue to go unmentioned and unremarked in contemporary theory.' Even as the American version of the great corporation stagnated and lost global competitive advantage, it was not devoid of power. The neglect of this power was manifest in the separation of microeconomics and macroeconomics, which 'in its bearing on public policy stands as one of the more damaging errors of modern economics.' Galbraith had in mind the microeconomic premise of competitive markets and the application of aggregate demand policy to sustain economic growth without attention to the character of the output produced, the distribution of income generated, the consequences for the environment and quality of life, or the impossibility of sustaining an acceptable combination of inflation and unemployment.

The American pragmatist

Galbraith's ardent partisanship is quite unusual. To be sure, political activity is not uncommon among economists; it is commonplace for

them to serve as highly visible advisers to candidates and administrations and to provide testimony to congressional committees. There are popular essays that convey the author's political slant. Economists at least tend to know each other as inclined to one political persuasion or another. But Galbraith's refusal to neatly separate his politics from his economics set him well apart from his more conventional colleagues, who insisted that status in the discipline be based upon their scholarly work, not their public advocacy. In his explicit attention to the politics of economics, Galbraith had more in keeping with American pragmatism than more conventional economics (see Brinkman, 1981 and Hill, 1997).

Samuels (1984, pp. 72–4) noted that Galbraith, among very few other economists, examined the social structure of the economics discipline (see Stanfield, 1979, ch. 8); Galbraith was therefore very much aware that his candid partisan advocacy would redound to his disadvantage in terms of his status within the discipline. In a 1962 essay in *Fortune* magazine, he observed that all sorts of human groups develop methods of separating those who belong to the group from those who do not. This is accomplished by means of a special language or code reinforced by a well-articulated system for according power and prestige on the basis of one's conformity to the criteria for belonging. In economics this code is embodied in the sophisticated mathematics which is 'obviously beyond the reach of the intelligent layman' and in Galbraith's view quite likely 'out of touch with reality' as well. 'The prestige system of economics ... assigns ... the very lowest position to the man who deals with everyday policy [who by doing so] is immediately caught up in a variety of political and moral judgments. This puts him in communication with the world at large.' In turn, this contact threatens 'the sharp delineation which separates the tribal group from the rest of society.' To be considered successful in one's policy or political activity affords little or no favorable professional recognition because this success is 'rated not by his professional peers but by outsiders. This causes difficulty in fitting him into the professional hierarchy and argues strongly for leaving him at the bottom' (*Laughter*, p. 38).

Galbraith goes on to note that economists who concern themselves with related disciplines, such as sociology and anthropology, are similarly regarded within the profession's status system. The obvious exceptions to this rule are mathematics and statistics, which provide the tools (or language) for economists, who believe the only bias they contribute is that of rigor in logic and testing empirical correspondence. But to the contrary, Galbraith was convinced that the highly formal methodology

of economics not only constrains its ability to attend effectively to matters of policy, but that it also proscribes economic analysis in another way. Social or institutional change does not fit readily within the elegant models. Anyone who focuses on change suffers in terms of professional prestige, since 'the first steps to bring institutional changes within the framework of economic analysis are invariably tentative, oral rather than mathematical, and lacking the elegance' of conventional economics. Given its staunch dedication to the formality of hard science, the discipline is systematically diverted 'from accommodation to underlying social and institutional change' (*Laughter*, pp. 10–11). Thus a serious problem of selection bias, to use a term from cognitive psychology, comes into play: there develops a 'habit of mind which simply excludes the mathematically inconvenient factors from consideration' (*Laughter*, p. 41n).

Galbraith was convinced that economists systematically excluded from consideration the social problems that vex the public, and that this severely maligned their usefulness to democratic discourse. Indeed he came to believe that their principal efficacy was to obscure, however inadvertently, the exercise of power by organized economic agents (1973b). In an effort to transfer professional attention to social problems, Galbraith proposed that economists test their epistemology by its relation to the problems that concern the public. His 'test of anxiety' reveals his place in the tradition of American pragmatism. It is virtually impossible to distinguish it from John Dewey's test of validity: 'If ideas, meanings, conceptions, notions, theories, systems are instrumental to an active reorganization of the given environment, to a removal of some specific trouble and perplexity, then the test of their validity and value lies in accomplishing this work If they fail [in this regard] then they are false' (Dewey, 1957 p. 156). For Galbraith, as well as the pragmatists, thought is contextual and must be evaluated by practical experience in regard to consequences (see Stanfield and Carroll, 2008). Hence metaphysical principles or ideology must be subjected to consequential validation. So also Galbraith (1991, p. 45) insisted that 'an error' that must be avoided 'is the tendency to identify ideological rigour with wise economic policy.' Further, he noted that the 'only humane course in economic policy is to assess individual economic action not in accordance with broad rules but in accordance with specific effects.' And again, in an interview with Steven Pressman, Galbraith noted his belief that the modern economy, at both the microeconomic and macroeconomic levels, fails to function 'in a socially acceptable fashion' and therefore 'that there is a large role for state intervention which cannot

be decided by general theory, but involves a pragmatic consideration of the social consequences in the particular case' (Stanfield and Stanfield, 2004, p. 146).

Galbraith (1991, p. 45) continued by noting that little intellectual effort is required 'for the application of ... seemingly immutable rules' by which 'rhetoric and indignant condemnation of deviation' are substituted for concrete analysis of a situation. 'Far more [intellectual effort] is required of those who bring information and analysis to bear on the particular case.' For pragmatists, especially Dewey and Clarence Ayres, democracy was potentially a self-correcting process of applying intelligence experimentally or tentatively and correcting errors as revealed by the ongoing test of consequences. Galbraith's insistence upon the need to reduce inequality of income and opportunity is also in keeping with the pragmatists who insisted that the potential for democratic self-correction and progress is enhanced by the spread of democratic participation and inhibited by the persistence of arbitrary socially constructed inequality.

Also similarly to the pragmatists, Galbraith was mindful both of the hazard and the utility of habit. He insisted that the 'conventional wisdom' tends to obstruct accommodation to change but it also serves an important role in social integration. Waller (1988), with particular reference to Peirce, Veblen, and Dewey, emphasized that habit, embodying routinized skill sets and judgments derived from experience, is a source of efficiency in its focusing of intellectual and practical activity even as it carries the risk of selection bias and cognitive lag. Galbraith emphasized the uncertainty of the future, which connects to the pragmatists' emphasis on contingent evaluation and experimental action. Thus the conventional wisdom must reflect not only inertia or vested interest but also the presence of uncertainty and therefore the existential *angst* that one must act even though one knows one might be wrong.

Galbraith insisted that the useful political economist must be politically involved and willing both to articulate values and priorities and their basis. His work was tantamount to a call for a reconstruction of economics such that evaluation of alternatives could be admitted into the analysis. Again, this is remarkably similar to Dewey's (1957) call for a reconstruction of philosophy. The gist of what Glen Atkinson (1995, pp. 90–1) referred to as 'pragmatic value theory' is 'the concept of pragmatic problem solving. A problem is a recognition that there is a difference between what is and what ought to be in a particular situation.' All in all, the task of the pragmatic social scientist is to identify social conflicts and problems that emerge in social evolution, articulate

them in light of clear premises, and propose institutional adjustments to resolve them. As Rick Tilman (1987) noted in his excellent rendition of contemporary pragmatism or instrumentalism, the social scientist merges into the social reformer. Note Parker's (p. 527) observation that there was 'no break between Galbraith the economist and Galbraith the citizen and political activist.'

The heterodox economist

Galbraith was a breath of fresh air for those who found wanting both the conventional economics of the neoclassical synthesis and the monetarism or New Classicism that arose to challenge it after the stagflation of the 1970s. A diverse movement toward heterodox economics arose. If he did not lead it, Galbraith certainly validated the search for an alternative economics that stood on a firmer realistic footing and offered a better guide to economic policy. He was a beacon that signaled the need for a heterodox economics and at least in that sense no one would doubt that he was a precursor of the various heterodox branches today. We contend, of course, that his importance was much greater.

Often noted and virtually incontestable is Galbraith's status and influence in American institutionalism, or, Original Institutional Economics (OIE in contrast to NIE or New Institutional Economics). This much has been made clear, not only in almost all history of economic thought texts, but also in Stanfield and Wrenn (2005) and two symposia in the *Journal of Economic Issues* (June, 1984 and March, 2008). There is first the basis in the pragmatist tradition, the emphasis on detail, and the insistence upon an evolutionary focus (Veblen, 1898; Hamilton, 1919). There is also the insistence upon the need for continuous social reform to accommodate technological change, that is, upon the 'logic of reform,' in modern industrial society (Gruchy, 1967, pp. 621–8; see also Gruchy, 1972, ch. 4). For Galbraith and the American institutionalists, institutional adjustment is *the* economic problem. Galbraith's basic conception of the economy as a technological process controlled by institutions that, although malleable, are supported by human tendencies that resist change, is decidedly institutionalist. The psychology of economic life is not reduced to rationalistic psychology by Galbraith and the institutionalists. Economic inquiry is not reduced to the choices made from given wants in regard to the allocation of given resources. Technology defines resources and it is ever changing and ever redefining resources. Human wants also change through cultural process (Waller, 2008).

Galbraith's involved, optimistic reform spirit was quite distant from that of the detached, sarcastic Veblen, and he more or less consciously resisted the latter's demeanor (*Life*, pp. 30–1). Indeed Galbraith's career more closely resembled that of John R. Commons, prose styles excepted. Yet as Galbraith indicated in his preliminary remarks upon receipt of the Veblen-Commons Award (not included in his formal remarks, 1977b) he was not familiar with the work of Commons. But, though he did not study Commons directly, there is ample opportunity for him to have picked up Commons indirectly, starting with his mentor, John Black, who got his doctorate at the University of Wisconsin and became an important part of its progressive, reformist tradition. Gilbert and Baker (1997, p. 302n) refer to Black as a 'constant advisor and outside critic of the USDA economists through the thirties and forties Two of his earlier graduate students who became leading institutional economists in the New Deal USDA were Mordecai Ezekiel and Howard R. Tolley, who, because of Black's influence, might be termed academic "grandsons" of Wisconsin.' Tolley was not only one of Galbraith's professors at Berkeley but also the one who hired him for his first job in Washington DC at the AAA. Moreover, Commons' influence was very much a part of the culture of the New Deal (Kemp. 2009), in which Galbraith's immersion is evident.

For good reasons, Galbraith is often linked to the Post Keynesian group. He regarded the unofficial dean of Post Keynesian economics, Sidney Weintraub, as an 'unrelenting critic' of the shortcomings of conventional economics as well as a 'devoted friend' (Galbraith, 1985, p. 509). He (1985, p. 509) applauded Weintraub and Weintraub's more famous student, Paul Davidson, for their efforts to found the *Journal of Post Keynesian Economics (JPKE)*, and for making it 'within the space of a few short years ... one of the most progressive and policy-relevant journals in our field.' The *JPKE* has published at least two symposia on Galbraith's work (Autumn, 1984 and Fall, 2005). The symposia articles address his work in relation to Post Keynesian Economics, Original Institutional Economics, and the future of heterodox economics. Davidson (2005) provided a personal recollection of his and Weintraub's long friendship with Galbraith and documented Galbraith's very generous financial support of the fledgling *JPKE*.

Galbraith (1978c) wrote an introduction to the first issue of the *JPKE*, in which he defined the approach in terms very similar to his own. He noted that Post Keynesian Economics is 'amendatory and not revolutionary,' firmly committed to policy reform to accommodate to the fact 'that industrial society is in a process of continuous and organic

change,' and aware that at present the receding disciplinary force of market competition is the overbearing fact compelling accommodation. This diminution is a product of myriad actions to exert control of economic exigencies through organization into great corporations and unions or public goods and transfer payments. Further he contended that, accepting the receding market, the Post Keynesians recognize the obsolescence of the distinction of microeconomics and macroeconomics and the futility of aggregate demand policy as a singular instrument of economic stabilization (1978c, pp. 8–11). So also it is often noted that the Post Keynesians are closer to the views of Keynes himself than the neo-Keynesians or 'bastard Keynesians' as Joan Robinson famously remarked in making this point.

Most likely Dunn and Pressman (2005 and 2007) had it right in concluding that Galbraith went a long way toward integrating the approaches of the institutionalists and Post Keynesians, as well as Kalecki, and in so doing laid the cornerstones for a new edifice of political economy. Keller (1983) had pointed out the complementarity of Post Keynesian and institutionalist economics and called for a synthesis. The late and profoundly missed Al Eichner had also urged such a synthesis by that time. Canterbury (1984) had seen Galbraith as laying a foundation between the works of Sraffa and Kalecki. Canterbury used the concepts of administered or 'mark up' pricing, Galbraith's 'revised sequence' or producer sovereignty, and Sraffa's indeterminacy of income distribution to reach a common conclusion that contains important theoretical and policy implications. Income distribution, and therefore the level and structure of aggregate demand, is determined by power and political discretion. The resultant 'close connection between state policy and the economy' (Canterbury, 1984, p. 89) confirmed the Galbraithian insistence upon the necessity of a genuinely *political* economy.

Galbraith's influence on other strands of developing heterodox economics is less certain. Various aspects are examined in a symposium in the *Review of Political Economy* (October, 2008) and in at least three useful collections honoring him (Bowles, *et al.*, 1989; Keaney, 2001; and LaPerche and Uzunidis, 2005). His insistence on inclusion of a normative element in political economy is certainly kindred to the insistence upon the ethical context of economic action among social and socioeconomists. His insistence upon concrete examination of the economic agent in complex and changing social contexts is also found in behavioral economics and finance, evolutionary economics, and New Institutional Economics. In the last, Galbraith's emphasis on the phenomena of organization paralleled later work by Oliver Williamson and

his emphasis on Veblenian cumulative and circular causation anticipated the concept of path dependence.

Galbraith's influence in nearby disciplines has been noted. Marc Humbert (2005) argued that Galbraith's analysis of economic behavior in the context of political and moral philosophy provided a comprehensive assessment of value and power that may serve as the foundation for a new paradigm embodying an ethical and political approach to economic activities. Conrad Waligorski (1997 and 2006) analyzed Galbraith's work as an important contribution to modern liberal political thought. Barry Smart (2003) insisted upon the relevance to sociology of Galbraith's social and institutional analysis of capitalist evolution, social balance, and the self-liquidating character of the welfare state. Wesley Widmaier (2004) noted Galbraith's, and Dewey's, contributions to international relations theory. Galbraith figured prominently in Andrew Yarrow's (forthcoming) examination of the impact of the theme of abundance on postwar journalism.

The best-selling author

Galbraith's insight into the sociology of economics led him to address his work to a wider audience. This is evident in his observation that all social science scholars, perhaps economists in particular, 'are naturally jealous of the larger framework ... in which they operate. For if [it were to] become obsolete, so does the knowledge subtended thereon. This ... is further reinforced by the functional role of the ideas in excluding inimical lines of thought and action [To] attack such a framework ... from within ... is a perilous matter. The jury, or most of it, is a party at interest. The fate of all who attacked Say before Keynes is a warning' (1970a, p. 471n). Even those who were acolytes of Keynes had to be careful. Laughlin Currie had not been afforded tenure at Harvard, in Galbraith's view, largely because his 'ideas, brilliantly anticipating Keynes, were considered to reflect deficient scholarship until Keynes made them respectable' (*Laughter*, p. 48n). The same was true of New Deal economists, 'the Roosevelt economists were largely without professional prestige. None of them ... ever fully survived the premature identification with policies that nearly all economists now consider right The honors went to men who ... urged wrong but reputable policies' (*Laughter*, p. 13n). These observations led Galbraith to conclude that 'economics is very complicated.'

As Galbraith was to point out in *The Affluent Society* (see below, Chapter 4), the disciplined cultural continuity provided by a conventional

wisdom is not without merit. But the habitual outlook enforced by the power and status structure can also impede accommodation of thought to changing circumstance. If as Galbraith (1991, p. 41) thought, the economy is 'in a continuing process of transformation,' to avoid accommodation to its evolution 'is a commitment to intellectual obsolescence.' Given the difficulty of assailing conventional economics directly, Galbraith (1970a, p. 471n) noted that an 'alternative is to engage a larger public and thus, as it were, force the issue on the discipline. For, if the assumptions being attacked are vulnerable – if they are incongruent with reality – the public intuition will be responsive.' In this regard, it is worth noting that his disappointment that *A Theory of Price Control* failed to attract the attention he expected, led Galbraith to vow not to write for a narrow professional audience again. Though the book was well reviewed by the few who reviewed it, he noted later that 'the experience persuaded me that one could spend one's life producing professionally well-regarded books that would go extensively unread.' Even worse, were one inclined to dissent from the established canon, one might well encounter a hostile audience because books go for review to 'the established professionals in the field, who are the strongest defenders of the established view. It is a system that selects an adverse jury for all inclined to innovation.' Thus Galbraith decided 'that henceforth I would submit myself to a wider audience' (*Life*, pp. 174–5; see also Halberstam, 1967, p. 50).

And did he ever. The sales figures cited by Galbraith's definitive biographer, Richard Parker, leave no doubt in this regard. *American Capitalism* 'became a best seller and is still in print a half century and 400,000 copies later' (p. 234). *The Great Crash*, regarded by Parker as one of Galbraith's 'most enduring works' and 'one of his most entertaining and elegantly written books,' has been continuously in print and has recorded sales of about 800,000 copies (pp. 144, 268). *The Affluent Society* quickly reached the best-seller list and total sales, including numerous translations, have exceeded one million copies (p. 52).

A Journey to Poland and Yugoslavia, 'a modest essay-travelogue-analysis' about Galbraith's 1958 visit, sold more than 10,000 copies (pp. 325–6). The paperback *How to Get Out of Vietnam*, much to LBJ's chagrin, sold out the 250,000 copies of its first printing (p. 432). *Economics and the Public Purpose* sold a disappointing (to Galbraith) 165,000 copies (p. 763). The eponymous companion book to the television series *The Age of Uncertainty* was widely translated, attained Book-of-the-Month-Club selection, and sold more than 500,000 in Japan alone (p. 549). Also moving quickly up the best-seller list was Galbraith's memoir, *A Life in*

Our Times, with its closing chapter that suggested to Parker (p. 561) a mood of 'disengagement and even a hint of disillusionment that he'd never before shown.' Nonetheless, despite Galbraith's apparent resignation to the Conservative Hour and the 'allegedly *passé*' nature of his ideas, a series of seven books in the 1980s sold more than 1.3 million copies, *Economics in Perspective* totaling more than 500,000 copies on its own (Parker, p. 577). In the 1990s, *A Short History of Financial Euphoria*, a derivative of *The Great Crash*, was written on commission, with 150,000 copies distributed free to 'opinion makers' before it went on sale (Parker, p. 620). Sales of *The Culture of Contentment* quickly passed 100,000 (Parker, p. 628). *A Journey Through Economic Time: A Firsthand View*, which reported on Galbraith's six decades (and then counting) as a professional economist, and *The Good Society* were substantial books, though not apparently best-sellers (Parker, pp. 636–7). In 2004, 70 years after Galbraith left Berkeley with his PhD to work in the AAA before going on to Harvard, *The Economics of Innocent Fraud: Truth for Our Time*, was published to generally favorable reviews (Parker, pp. 650–1). Sharpe (2006, p. 6), noting the book's theme 'that the well-off always find ways to justify their narrow self-interest as the overriding social interest,' recalled that upon handing him a copy, Galbraith averred, 'a little mischievously, "This is my best book."'

Galbraith also published three novels, *The McLandress Dimension* (1963), *The Triumph* (1968a), and *A Tenured Professor* (1990); countless essays, reviews, and remembrances in popular periodicals; and delivered countless speeches. He even coauthored a book on Indian painting (1968b). Many of the essays and speeches were published, some more than once, in collections (*Laughter, Annals, Stands*). Notably, 'Galbraith is the sole economist to be a fellow in literature of the American Academy of Arts and Letters' (Breit, 1984, p. 22) and also served as president of that prestigious academy (Parker, p. 6).

The point seems made that the man could write. His fluid prose and mordant wit always entertained and almost always edified. In applying his celebrated wit, he went against the grain of his profession, violating Paul Samuelson's 'First Rule for Scholars: Never make a joke' (Solow, 1988, p. 378). Samuelson may well have been joking in this regard but there is no doubt that Galbraith's use of humor went well beyond professional norms; it was apparent even in his most obdurate criticism, for example, that pertaining to the impotence of aggregate demand policy in the face of the wage-price spiral. He responded to a question on the macroeconomic malaise of the 1970s by observing that 'with fiscal policy or monetary policy or both, we curb inflation by creating

a recession and unemployment. And ... it takes a good deal of unemployment to prevent inflation. Whoever arranged matters in this way is open to criticism' (1978a, p. 97).

Galbraith was no admirer of Richard Nixon and often joked about his subsequent dismay at having hired him to work in the Office of Price Administration during the war. Apparently, seeking to deflect attention from having worked in such a liberal agency, Nixon had taken to saying that he had worked in the Office of Emergency Management, a very large umbrella organization. Galbraith remarked that this 'was much as though a Marine had said he worked in the public sector' (*Life*, p. 157). In the early 1970s, upon learning that Nixon had imposed wage and price controls, for which Galbraith was a longstanding advocate, Galbraith commented that 'I feel like the streetwalker who has just been told that her profession is not only legal but the highest form of municipal service' (quoted in James Galbraith, 2008b, p. 492).

Galbraith often aimed his wit at himself and his fellow economists. George Stigler once expressed 'shock' that so many more Americans read *The Affluent Society* than Adam Smith's classic *The Wealth of Nations*, to which Galbraith retorted that perhaps 'the deeper cause of Stigler's sorrow ... might have been not that so many read Galbraith and so few read Smith but that almost no one reads Stigler at all' (*Laughter*, p. 12n). Noting that *The Age of Uncertainty* sold rather well in Japan, Galbraith declared that his 'admiration for Japanese literary taste was unbounded' (*Life*, p. 534). *The Great Crash* was often noted for its literate style, which led Galbraith to confess that 'any writer who says that he is negligent of such praise is almost certainly lying' (*Life*, p. 312). The high praise accorded to *The Affluent Society* prompted Galbraith to recall that 'only a strong character can resist such praise. I made no attempt' (*Life*, p. 354). In his introduction to the fourth edition of the book, Galbraith (*Affluent Society*, 1984, p. xiii) gently mocked himself: 'Were I a ... dispassionate reviewer devoid of all personal animus, as, needless to say, I so regard myself, I would have only slight objection to the early chapters.' Galbraith often made his infamous arrogance the object of self-deprecatory humor. He once recalled that he had experienced a problem in personal relations with his colleagues at all five of the universities with which he had been affiliated. He opined that the problem was not his colleagues' envy for his being more diligent and able, but rather it arose 'from my fear ... that my superiority would not be recognized' (*Life*, p. 18). Though capable of good-humored barbs at those he considered influential, Galbraith was ever gentle and

supportive to those less so, and one suspects that his arrogance was mostly self-parodic posturing (Sweezy, 2006).

We return to Galbraith's importance in a final chapter on his legacy. In the intervening chapters we examine chronologically his great body of work.

2

Political Economy in Agriculture, Depression, War, and Peace

What must be kept in mind in assessing our work in retrospect is that we were pragmatists, and extremely policy conscious.

Laughlin Currie, 1972

[Galbraith's] interests were always those of political economy, with political considerations ranking at least as high and most often higher than those of economics.... The result is an economist out of the mainstream of economic thought, but in the mainstream of economic events.

Lester Thurow, 1998

As noted above, Galbraith began an active publication regime while still at Berkeley in the 1930s, drawing upon his dissertation and other research he conducted on various projects (see Parker, 2005, pp. 678–9, n. 23). Incipient aspects of his mature work arose when he began working with Black at Harvard and it is there that we start our survey of his work in the periods of the Depression and the Second World War and its aftermath. In this we see the evolution of his principal focus from agricultural economics to industrial organization and macroeconomics.

Agricultural and industrial organization

In an early article, Galbraith and Black examined the extent and significance of marketing in the American economy. They set out to measure the extent of marketing by two statistics: the value added to production of marketing activities and the share of employment in marketing. Then, almost as an afterthought, added a third metric, the total income produced by marketing. All of these measures were admittedly

problematic, given the primitive state of data collection at the time as well as the difficulty of specifying what the term marketing exactly meant. They settled upon a definition of 'commodity marketing ... considered in a relatively narrow sense, namely as something rather intimately a part of or connected with the transfer of ownership of tangible goods. On a business unit basis, this includes the great body of wholesale and retail establishments, together with the sales activity of manufacturers and like producers' (Galbraith, 1935b, p. 396). They excluded transportation services.

Needless to say Galbraith and Black engaged in some creative 'political arithmetic.' They found that marketing cost amounted to about 85 percent of that of manufacturing in 1929 (the only year available since the census had only just added the distribution sector). Using income produced they adjusted this figure downward to exclude some activities that are not precisely marketing costs and estimated manufacturing to have been 21 percent of national income and marketing 16 percent. Using the employment measure, they found that marketing ranked third at around 17 percent, behind manufacturing (about 27 percent) and agriculture (about 21 percent). Comparing the census results on employment for 1910, 1920, and 1930, they found that marketing had been growing much faster than any other category, especially in the 1920s.

They concluded that future economic studies should include the productivity of 'commodity distribution' activities as well as 'commodity production.' They had already pointed out in an introductory vein that policies to stimulate employment should, perhaps, take into consideration the employment in commercial activity and not just in production activity.

The Galbraith (1935b) and Black article raised themes that came to loom large not only in Galbraith's work as he became more interested in industrial organization but also in heterodox economics in general. Sraffa (1926) had already raised the issue of the decline of prime costs in relation to selling costs in order to explain the generation of equilibrium output in the absence of rising marginal prime costs. Interestingly, this explanation implied that with an increase or decrease in demand, a corporation's output level, not its price level, would adjust. At the aggregate level the predominance of output over price changes was the central message of Keynes for a substantially recessed economy, though Keynes always maintained that such structural considerations were theoretically secondary to his main point. Robinson (1933) and Chamberlin (1933) soon published their books on non-perfectly competitive market structures.

Berle and Means (1967) were building upon the pragmatic realism of American institutionalism in their classic argument of increasing economic concentration and the separation of ownership and control. They called for a 'new picture of economic life' in which the most important element would be 'a new concept of business enterprise' and an analysis of the modern corporation 'not in terms of business enterprise but in terms of social organization' (1967, p. 309). They also argued that the 'passive' stockholders (think Veblen's absentee owners), having surrendered operational control of the modern corporation, had also surrendered their traditional claim that the enterprise is to be run in their sole interest. On the other hand, the management, now in control, has no traditional claim to operate the enterprise in their sole interest. Therefore social reform should place the modern corporation in service to the interests of 'all society' (1967, p. 312). This would require reform such that those who control the 'great corporations' would become a 'purely neutral technocracy, balancing a variety of claims by various groups in the community and assigning to each a portion of the income stream on the basis of public policy rather than private cupidity' (1967, pp. 312–13).

Galbraith of course went on to emphasize the need for a revised image of American capitalism and to make creative contributions to analysis in this vein. Most importantly, like Berle and Means (1967), he adamantly insisted that the corporation be analyzed as an organization, replete with bureaucracy and attendant issues of internal governance. Externally as well he insisted that fundamental issues of governance were involved that not only defied the basic postulates of economic theory but also tested the principles of the democratic process. As we shall see he came to emphasize the supersession of the market by powerful organizations which administered outcomes, and raised concerns about the legitimacy of corporate power and its supposed relation of market-enforced subservience to the public purpose (see Papandreou, 1972).

Not surprisingly Galbraith published several papers on the agricultural programs of the New Deal. An article coauthored with Black examined the production credit system adopted to pull together and extend several agricultural credit programs already in place (Galbraith, 1936b). The article summarized the structure and extent of the system that operated under the general aegis of the Farm Credit Administration. The authors reasoned that the ultimate success, or lack thereof, of the production credit system rested upon the strength of its attempt to build in incentives for borrowers by means of their having a stake in the credit agency. This 'cooperative or joint responsibility principle' seems to have been a

forerunner of the micro-credit systems of recent decades. Interestingly, they concluded by refusing to forecast the success or consequences of the program, because too many variables were involved, including the course of the aggregate economy itself. Galbraith always scoffed at economic or political forecasts.

A third article coauthored with Black (Galbraith, 1938b) dealt with the persistence of high agricultural output levels through periods of economic slack. The authors examined a list of explanations and generally granted some element of truth to them all. Although, noting that the scope of the paper did not include careful statistical analysis to weigh the relative merits of the various explanations, they conjectured that technical and cost factors were predominant. The length of the production period, fixed costs, and costs that must be borne well ahead of the market period, as well as weather conditions, increase the uncertainty of the market period conditions and in any event represent substantial overhead costs that must be covered to the extent possible. They contended that variable costs which smoothly adjust to output levels formed a relatively small percentage of agricultural costs.

As Parker (p. 59) observed, the authors' explanation of the maintenance of agricultural output in the face of slack markets amounted to an argument that individually rational production decisions lead to collectively irrational overproduction. This presents a familiar prisoner's dilemma situation in that not knowing the response of others, one would decide to maintain or even boost production. There are elements here of Keynesian uncertainty and even the interactivity of economic agents that figure prominently in contemporary behavioral and institutional economics. Galbraith and Black concluded by admonishing the reader not to go away with the impression that agricultural decisions are on the whole rationally undertaken. 'No doubt the production decisions of the majority of farmers are made without reference to any reasoned considerations of maximized return' (Galbraith, 1938b, p. 322). Habit, emulation, and inertia come into play. This leads toward the emphasis on cumulative causation or path dependence and away from the simplifying assumption of fully informed rational decision-making.

Galbraith's work under Black's tutelage generated several other articles in a short time. Three 1937 articles dealt with federal policy and agricultural finance. Galbraith noted that the federal government had every reason to attempt to stabilize farm incomes inasmuch as it held more mortgage debt than any other organization in the world, something between 35 and 40 percent of the nation's total farm mortgages.

This is not surprising since some 50 percent of farm mortgages were in default when the Farm Credit Administration was formed in 1933 with authority to refinance farm mortgage debt. He also examined various mortgage repayment schemes designed to stabilize farm income across the business cycle. An interesting feature in this regard is the emphasis on the room for experimentation since the federal government held so many mortgages. Policy experimentation was a feature of the New Deal that reflected the influence of American pragmatism and original institutional economists such as Rexford Tugwell.

Parker (p. 58) made a valid observation that this handful of articles in agricultural economics foreshadowed Galbraith's future work, in that they dealt directly with practical problems and contained no mathematics, unless one so classifies descriptive statistics, and the reasoning was quite accessible to those competent in logic and the English language. Nor was there observance of the conventional economics stance of value neutrality. The arguments urged policy measures intended to stabilize the livelihoods of the rural population.

Galbraith (1936a) also published an article that combined agricultural economics with industrial organization. Leading economists were calling for increased price and wage flexibility to facilitate the market economy's self-adjusting capacity. Substantial concern had arisen over the growing discrepancy between the rigid prices and flexible production volume of industrial goods and the flexible prices and inflexible volume of agricultural goods. Gardiner Means had been persistent in raising the issue of inflexible industrial sector prices. Rolland S. Vaille had also examined overhead costs and flexible prices and inflexible output in the agricultural sector. These drew Galbraith's interest to these issues (1936a, p. 457n). Galbraith argued that rigid or overhead costs were not sufficient to explain rigid prices. Rigid manufacturing prices tended to generate rigid costs in agriculture, yet obviously there had been a substantial decline in agricultural prices with falling demand. A further factor, monopoly or market power, the capacity to exercise control over supply and price, had to be considered to explain rigid industrial prices during the Depression.

Galbraith also argued that monopoly power alone is insufficient to explain downwardly rigid prices in periods of slack demand. Two additional elements must be involved. First, 'some unique "rigidity-inducing" features of the adjustment to a reduced demand' must be present. One such feature occurs in cases where products are small expenses to the buyer and prices are customary; the buyer may not even notice a price reduction. Another feature is in cases in which there are frictions that

operate to make prices rigid to a degree. Sellers may be aware that information problems and brand preferences may impede adjustment to price reductions. Galbraith (1936a, p. 472n) also noted a point made by Means of what we would now call 'menu costs.' Second, it has to be explained why entrepreneurs in the possession of market power 'choose to forego maximum profits for a considerable period of time, and even sacrifice profit entirely in the short run, in favor of maintaining constant prices' (1936a, pp. 458–9). One explanation of this is changes associated with the price elasticity of demand: 'People with decreased money incomes and increased concern for their economic security are less rather than more responsive to lower prices' (pp. 463–4). In the case of oligopoly, interdependence is likely to be recognized and to avoid price wars the extra profit available by sharp price reductions may be foregone. Galbraith (1936a, p. 466) insisted that in addition to rational entrepreneurial behavior that leads to price rigidity there are other factors that grow out of 'business habits or popular business misconceptions.' Much of this discussion is focused on the uncertainty of outcomes in interdependent situations when price changes are set in motion.

We can see that future themes of Galbraith were becoming evident, especially the insistence upon the need to revise the image of the corporation and to treat it as something more than simply a big firm. He has already insisted that the great corporation should be regarded as the normal not the special case (1936a, p. 474). He also connected macroeconomic instability to economic structure, because price rigidities tend to exacerbate periods of business fluctuations, and insisted that antitrust activity would not be helpful in such situations; indeed that such policy may actually worsen price rigidities by creating oligopolists who are less responsive to demand changes than outright monopolists. Regulation of public utilities is also unhelpful from the standpoint of reducing the extent of macroeconomic recession (pp. 468, 474). Galbraith (p. 473) also introduced an embryonic form of the dual economy concept, which later became central to his analysis, by his insistence that the divergent character of prices and output in the manufacturing and agricultural sectors 'is a condition which those who seek to preserve so fragile a patient as modern capitalism cannot afford to misunderstand or ignore.'

Galbraith concluded (pp. 474–5) by noting that New Deal agricultural policies had set out to create monopoly power in place of competition and that only time would allow evaluation of this program. Questions that would have to be examined carefully included the effect

on fluctuations and the manner by which the economy was to be regulated if not by the price system. In the end the article seems to be moving toward Galbraith's familiar position that economic concentration and large corporate organizations are inevitable and useful in key parts of the economy, so their power should be acknowledged. In this context his allusion to the intentional creation of market power for agriculture is a harbinger of his later formulation of the concept of countervailing power.

We are Keynesians now

Even as his thinking was in transition from agriculture to broader issues of industrial organization, Galbraith made an abrupt transition to become an ardent Keynesian macroeconomist. In his conversion to Keynesian thinking, for a time he seemed to turn sharply away from concern about economic structure. He was later to return to this road not taken and that journey was to encompass his postwar career in which he was an early critic of the neo-Keynesian New Economics of the neoclassical synthesis.

The result of Galbraith's dialog with Dennison was the book already discussed above that Galbraith (*Life*, p. 66) dismissed as 'a bad book that should never have been printed.' Galbraith (1938a, chs. 1–4) and Dennison reviewed the theory of perfect competition, compared it to 'real world competition,' and examined the extent and consequences of administered pricing by large corporations. They concluded that the resultant lag and erratic character of price adjustments could prolong and worsen a depression (ch. 5). The corporate form of business organization was said to separate ownership and control which permitted myriad opportunities for managerial and financial chicanery (pp. 66–77). This marked the first appearance in Galbraith's work of what he later called the 'approved contradiction,' that the managers of corporations would continue to seek profit maximization even though the earnings and capital gains accrued to owners who had no control. Thus the force of profit maximization could no longer be confidently relied upon to reward (or penalize) socially (un)desirable behavior.

Galbraith and Dennison (ch. 7) examined alternative policy responses, which, setting aside comprehensive socialization of industry, were either to try to retrofit a competitive universe of small competitive firms, or, to accept the extant industrial structure and attempt to devise an institutional configuration that accomplished a great deal of what the self-regulating market economy would bring about were it present. They

conjectured that the second alternative would be more practical than an attempt at radical reconstruction of industry to recreate effective price competition among many small sellers. Galbraith and Dennison (ch. 8) then addressed broadly the sort of reforms they thought necessary as part of the reformed institutional configuration. Increased disclosure of business information was urged to assist legislators making new laws and overseeing extant laws, to improve business decisions on the volume of investment and location of operations, to increase labor mobility, and to better inform consumers at lower cost. It is quite possible that all or most of this business publicity is presently mandated by the legislation authorizing the Securities and Exchange Commission (SEC), providing for the compilation and distribution of income and output data, and so on.

Galbraith and Dennison (ch. 9) went on to examine strategies for regulating corporate behavior. To establish continuity with past practice, they noted that the question had never been whether there should be regulation but rather what kind of regulation there should be. The authors mentioned several state activities that few if any would have challenged and reviewed the growing role of the state for decades past. This is a point worth emphasizing: there is no such thing as 'the market solution,' only a political economic solution. The market cannot structure itself; the polity structures it. When economists refer to the market solution they are in fact assuming a politico-legal framework, essentially that laid down with the rise of capitalism, which assumes private property and capital. Whether one approves or not, that the residual of revenue over costs in an enterprise belongs to the capitalist is a concrete historical outcome. As such it embodies specific politico-legal decisions that could have been made differently. Even the concept of private property is no fixed entity. What is embodied in property rights evolves daily with legal precedents, legislation, presidential decrees, or negotiations with regulators. Even changes in informal norms can alter property rights. Hence it is incumbent upon anyone who favors the market solution, or any other procedure for organizing the economy, to specify the specific character of the *regime* in question. Thus free trade is a vacuous concept without specification of the governance regime involved. Anyone in doubt as to the significance of the point should be convinced by reading James Galbraith (2008a, chs. 5, 6).

It is interesting to note that Galbraith and Dennison called for the kind of regulation that they thought would have improved the operation of the market economy, and 'which, perhaps, reinforces certain structurally weak parts' (pp. 101–2). This may be an early glimpse of Galbraith's notion of countervailing power, which was to be prominent

in *American Capitalism*. The authors often refer to the need 'to learn as we go along' and 'do some rational experimental work in the art of regulation' (p. 105). As noted above, this experimental attitude is akin to the spirit of American pragmatic institutionalism, especially to the noted New Dealer, Rexford Tugwell (see Gruchy, 1967, ch. 6). Galbraith and Dennison (pp. 119–20) also emphasized the political threat of economic malperformance and clearly suggested that the democratic process entails a self-correcting capacity that it must use to offset the decline of the self-regulating character of the market economy.

Galbraith and Dennison called for a commission to be established that would have had quite broad powers to work with industries to develop plans for improving performance, adjust tariff schedules, grant subsidies, and possibly even levy taxes (pp. 106–8). They also called for legislation setting minimum wages and maximum work hours, but with these parameters worked out on an industry-by-industry basis with provision for regional variation within an industry (pp. 112–14). Finally they called for federal chartering of corporations and for various restrictions on the activities of corporate officers and members of boards of directors. Galbraith (*Life*, p. 64) was embarrassed by the book with Dennison and recollected that he had proposed 'more competition' as a cure for the Depression. Perhaps, but that was not the resounding message of this book. It explicitly eschewed antitrust action to break up large corporations and emphasized that its regulatory scheme was offered as a substitute for antitrust policy, the one exception being large financial organizations, 'the case of the holding company-investment trust structure' that facilitated highly leveraged, speculative activities by the 'adventurers in corporate finance' (Galbraith, 1938a, p. 118).

Whether or not the book was as bad as Galbraith thought, it was certainly not the most important aspect of his association with Dennison. As already noted, Dennison had arrived at the basic thrust of Keynes's argument, just at the time *The General Theory* was being published. Dennison saw the Depression as the result of two income streams, one flowing to the masses who mostly spend and the other to the very affluent who mostly save their income. It followed that the solution to the Depression was to divert income from the saving stream to the spending stream by, for example, income taxation rather than sales taxes. Galbraith's subsequent conversion to Keynes's theory solidified his relationship to Dennison and his business cohorts, who were to figure prominently in the young economist's career.

One thing is clear, Galbraith's fertile mind was grappling with new theories and complex real world problems. The Depression, his own

work on economic organization, the classic by Berle and Means (1967), the new theories of market structure put forth by Robinson (1933) and Chamberlin (1933), and finally and especially *The General Theory* must have been a heady mix for him. The 1937–38 academic year spent in Cambridge, England, was one of the most important of his long career. Galbraith (1938c) published a comment on an article by Richard Kahn that presaged his later emphasis on the ‘dependence effect’ and the ‘revised sequence’ (see Chapters 4 and 5). The discussion involved whether a consumer could have a rational preference for one commodity over other identical commodities. Galbraith observed that the notion of an irrational consumer required that the analysis go beyond what we would now call revealed preference and into the ‘nature of motivation itself.’ Since such considerations had been ruled ‘to be outside the field of economics,’ Kahn had ‘overstepped the boundary’ set by the discipline’s methodologists. But Galbraith, true to later form, insisted that Kahn had ‘good and sufficient reasons for refusing to be bound by purely methodological considerations, if, indeed, these are ever binding.’ Along the way Galbraith raised issues of habit, ignorance, and even a desire for self-differentiation or propensity to dissent. The argument is not altogether clear but Munier and Wang (2005, p. 71) found in it elements of ‘social and emotional aspects’ and agent interactivity that at least suggest the problems of limited cognitive abilities and the consumer’s ability to resist external influences and maintain personal sovereignty.

After returning from his excursion of self-discovery to Cambridge, Galbraith picked up his publishing agenda. In a nod to his travel grant, he published an article (1939a) on the Nazi policies regarding farm inheritance. These laws protected the farm from being taken for debt, past or future. Nor could the farm be sold. This applied to farms that were deemed large enough to support a family, which also had to document its racially pure ancestry. The intent seemed to be to prevent further subdivision of family-sized farms and of course to have them stay in the possession of Aryan families. There was a baronage attached to these farms to enhance esteem of the family. Another objective was to increase the rural birth rate among Germans, an objective that seems not to have been achieved. These laws virtually eliminated the use of mortgage debt to finance capital improvements, loans to farmers on personal security with no asset security being a dicey affair. The laws further limited efficiency in agriculture by making it nearly impossible for the landless to buy land from ineffective farmers. From the Reich’s point of view, the central problem involved was the growth of non-German

farm holders, thereby sacrificing a key foundation of German national character. This concern dates back to the turn of the century at least; Max Weber in his inaugural (1895) address to the University of Freiberg had proposed subsidies to induce Germans to stay on their farms.

Galbraith's main attention by this time was focused on the work of Keynes. He reached out to the business community with an article in the *Harvard Business Review* that dealt with the continuing controversy with regard to the New Deal's expansion of public (deficit) spending. He first reviewed pre-Keynesian orthodoxy in economics, that the operation of product, labor, and capital markets would at least have a *tendency* to remove any unemployment (Galbraith, 1939b, pp. 24–6). He maintained that this view severely hampered efforts to deal with the all-too-evident existence of persistent unemployment in the real economy. He argued that wage reductions would be resisted and in any case would reduce aggregate demand if they were to occur, that saving is not closely related to investment by interest rates, and that there is an interest rate so low that those with funds would not want to loan them (Galbraith, 1939b, pp. 28–30). He insisted that 'economists have always been more impressed by the effect of interest rates on investment than have those who actually make investment.' He cited the multiplier effect to indicate that the amount of public spending needed to reduce unemployment would not need to equal the entire shortfall of demand.

With regard to the 'dangers' often associated with deficit spending, Galbraith noted that in principle, with substantial unused capacity, such spending did not imperil the economy, and that notice should be taken of the fact that the deficit spending of the New Deal did not bring about inflation. With regard to public debt, he separated proactive economists into those who foresaw deficits during periods of unemployment but called for counteracting surpluses in prosperity, and those who foresaw a normal tendency toward unemployment and therefore persistent use of deficit spending. He leaned toward the latter and offered what came to be the standard neo-Keynesian rebuttal to fears of excessive public debt that, except for debt held by foreigners, 'we owe it to ourselves.' Nor did he fear that public spending would usurp resources from private investment in depressed economic conditions (Galbraith, 1939b, pp. 30–3). In short, he concluded that it is likely that the normal tendency in the economy would be toward unemployment and that the choice in the future would be to accept unemployment or to countenance deficit spending to remove it.

Galbraith (1940) reiterated this conclusion in the report of a study he directed for the National Resources Planning Board. The study was

commissioned to examine the extent and consequences of public works expenditures in the New Deal. Roosevelt had recently proposed a substantial expansion of deficit spending and wanted the study to back him up by promoting 'wider understanding of the part which the wise choice and timing of public works can play toward increasing national income' (Roosevelt's letter requesting the study, quoted by Parker, 2005, p. 109). In the report, Galbraith cited statistics attesting to the extent of deficit expenditures and their contribution to mitigating the effects of the Great Depression. He cast the argument in part in Keynesian terms, though not mentioning Keynes by name, including multiplier analysis of the relation of income and employment to injections of public deficit spending. He divided the debate over deficit spending into four camps: conservatives who opposed deficit spending and wanted to rely on the economy's self-correcting character; those a bit less conservative who favored a modest public works program; those who supported a large but temporary counter-cyclical program; and those who thought it necessary to have a permanent public works program of considerable size. Galbraith sided with the last group, repeating his argument that, left to its own devices, mature capitalism's normal or equilibrium condition would involve serious excess capacity and unemployment (Parker, 2005, pp. 108–10).

As noted above Galbraith served during the war as director of the Office of Price Administration and Civilian Supply (OPACS). He contributed a series of articles (Galbraith, 1946c, 1947b, 1951a) reflecting upon his price control experience. Also as already noted, before he was appointed to the OPACS job, he had engaged in a discussion with Alvin Hansen on mobilization for war, which led to an influential article (Galbraith, 1941). As these articles are closely related to his postwar monograph (*Price Control*), to be discussed below, we postpone their specific consideration for now. It is sufficient to note here that in these articles Galbraith clearly demonstrated his growing recognition of structural problems as an economy matured and his characteristic insistence upon the need for a politically cognizant economic analysis (Parker, pp. 135–8, 140–2). We turn now to Galbraith's concern for the postwar period, for the task of winning the peace, even before the war was won.

Winning the peace

As already noted, Galbraith had begun thinking in terms of the postwar economy as early as 1939 in his exchange of letters with Huxley (Parker,

pp. 133–4). Having moved on to *Fortune*, he continued his efforts to influence policy in the postwar period and took up again the cause of Keynesian economics that he considered vital to winning the peace. He published a series of articles embracing Keynesian policy, though not always mentioning Keynes by name, and envisioning a postwar world in which the United States assisted recovery overseas and pursued cooperative arrangements with the Soviet Union. The first installment appeared in less than a handful of months after he took up his duties at *Fortune*. Galbraith (1944a) celebrated the new tool provided by national income accounting and urged businessmen to accept the need for overall conscious direction of the economy by government. A month later Galbraith (1944b) reiterated support for Keynesian policy measures, still not mentioning Keynes, and defended the advances of the New Deal's social and economic policies. There followed an article (Galbraith, 1944c) in which he insisted that the government would have to play a major role in redirecting the economy during demobilization. Finally, an article appeared that celebrated Keynes (by name) and assured readers that Keynesian policy, far from being socialistic, was the way to continue enjoying the benefits of capitalism (Galbraith, 1944d). An article by John Davenport, which showed Galbraith's editorial influence, urged support of Keynes's proposals for postwar coordination of policies for stabilization and the promotion of development (Parker, p. 167). These were later adopted in the main at the Bretton Woods conference in 1946, which served to organize the global trade and payments process of the capitalist economies for several decades.

On leave from *Fortune*, Galbraith's oversight of the assessment of strategic bombing provided him another platform to try and shape the postwar world away from military hubris toward negotiation and cooperation. The eventual report provided statistics indicating that German war production increased steadily throughout the war and increased even faster after dedicated strategic bombing had started in earnest. Moreover the study concluded that a labor shortage plagued German mobilization and bombing seemed to have destroyed so much of civilian business capacity that workers available for employment in the mobilization effort had actually increased (*Life*, pp. 205–6, 213–15). Galbraith (1945) argued that the burden of ineffective leadership and slow initial mobilization were the major factors in Germany's defeat. Galbraith headed a similar study in Japan and its results, though somewhat different, were still disappointing to those seeking validation of air power. The principal conclusion was that the combined effect of bombing and naval blockade did reduce Japan's war production, but

the lost output was not likely to have been crucial to Japan's defeat (*Life*, pp. 231–5). Galbraith (1946b, p. 132) later stated that strategic bombing had little impact on Japan's war economy and that the decisive tactic was the naval blockade which denied Japan strategic natural resources. Moreover the evidence was clear that Japan, faced with Germany's defeat, had decided to surrender long before strategic, and atomic, bombing was undertaken (Parker, pp. 184–7).

Back at *Fortune* after resigning from the State Department's Office of Economic Security Policy (OESP), Galbraith continued his advocacy of a reasonable policy toward Europe and the rest of the world. He drew upon the speech he had written for Secretary Byrnes to write a memorandum for the National Planning Association that implicitly explained his resignation. Galbraith (1946a) argued for German unification and a dedicated effort to cooperate with the Soviet Union. He urged a vast expansion of aid to Europe, and that no part of Europe should be excluded. In some respects his proposals anticipated the Marshall Plan that was announced the following year (Parker, ch. 10). In an article pointedly titled 'Is There a German Policy?' he reiterated much of this memorandum, adding a criticism of the lack of clear direction in American foreign policy and emphasizing the dangers of a divided Germany (Galbraith, 1947a).

Galbraith persisted in his opposition to the trend of American foreign policy with another study for the National Planning Association (1949) in which he cautioned against an ethnocentric American insistence upon instituting its style of capitalism elsewhere in the world. He warned that a rigid doctrinaire approach was dangerous, and that in particular America should not shun democratic socialist and social democratic political movements in Europe because they were essential to stable democratic governance (Parker, p. 219).

Galbraith (1950) addressed the dangers of the tendency in American political culture to avoid thinking long term and insisted this must be overcome with respect to the anticipated end of the Marshall Plan in 1952. His insight into political culture was displayed with his observation that 1952 would be a presidential election year, in which 'the behavior of no American political leader is ever quite rational' (1950, p. 169). But beyond bad timing, the Marshall Plan, though successful in many ways, would not by 1952 have achieved the necessary goal of a 'Europe economically stable and self-supporting.' He saw the problem of Europe essentially as its having a customary standard of living that exceeded its productive capacity. This alone would have been a cause of chagrin and impatience. But the 1952 target implied an even more serious situation. Europe was still dependent on American exports for

which it could not pay without significant reductions in its standard of living. Reduction of an inadequate standard of living would have been a very dangerous option, certain to foment desperation.

Galbraith concluded that the only real option was to continue to work toward raising European productivity so its capacity to produce rose to its social perception of a minimally decent standard of living. He suggested revision of the Marshall Plan, starting with abandoning the goal of completing the Plan by 1952. He also urged the Europeans to schedule unification, to begin accommodating their fiscal policies accordingly, and to establish the necessary central authority. For its part the United States should commit to a schedule of unilateral tariff reductions and maintain high and stable growth of its economy. It should also amend its agricultural policies to assure maximum output and provide by gifts or loans a flow of dollars to finance exports. Galbraith also noted that American support of the world's poorer countries would create markets for European goods, as would diplomacy to restore trade between East and West Europe. Clearly, Galbraith insisted that the United States must remain committed to restoration of the European economies. He was in essence offering an alternative vision to the Cold War, military Keynesianism that was emerging. He insisted that economic comfort was a far more important key to security than arms and alliances and that 'investment in economic stability is far cheaper than its alternatives' (Galbraith, 1950, p. 174).

A Theory of Price Control

The Depression well behind and fresh in mind the war time experience with full employment, Galbraith returned to matters of economic organization and structure, a concern that would characterize his work for the rest of his career. A bit of digression is in order to set the context of the prewar consensus for consideration of *A Theory of Price Control*, which had its roots in a series of articles (1946c, 1947b, 1951a) in which Galbraith reported on his experience as director of the price control program during the war. *Price Control* requires careful attention given Galbraith's conviction of its importance (*Life*, p. 174). Though based on the articles mentioned, the monograph is more than a report on the experience with wartime price controls; it is also a theoretical statement grounded in that experience; in recent terminology one supposes this is what is meant by realism as a methodology (see Dunn and Mearman, 2006). There is the further fact that the matter of controls became a persistent aspect of Galbraith's postwar dissent from mainstream

economics. In *Price Control*, he began to link Keynesian aggregate demand policy to achieve high employment with a direct intervention mechanism to arrest the inflationary interaction of wages and prices, and asserted with remarkable foresight the incipient predicament of the postwar economic era: 'inflation, more than depression, I regard as the clear and present economic danger of our times and one that is potentially more destructive of the values and amenities of democratic life' (*Price Control*, p. 9).

Galbraith began by noting that the theoretical consensus before the war leaned strongly against controls as a primary tool for constraining prices. The imposition of controls, then as now, was considered unwise and largely impossible. Controls were seen as necessarily impeding the allocative mechanism of the market while leaving unchecked the excess demand that impelled prices upward. Controls had also been shown by history to be unworkable because underground markets would arise and displace the legal market in which controls were applied. In light of this, Keynes had argued that the primary instrument for controlling inflation and financing mobilization should be taxation (some of which could be returned after the war, so-called 'deferment' or forced saving). This would remove an adequate share of the income that otherwise likely would be devoted to consumer spending. Keynes added that rationing and price controls could serve as valuable secondary instruments (*Price Control*, pp. 6–7n; see *Life*, pp. 127–30). We have mentioned above the discussion of managing the mobilization for war between Galbraith and Hansen on the eve of America's entry into the war. In retrospect one judges their views to be more similar than not. 'All of these proposals ... put the Keynesian depression policies in reverse...now taxation and compulsory saving would seek to reduce demand' (*Life*, pp. 129–30; see also *Price Control*, p. 5). But there were some differences, even if they came to naught because 'however rational the design, we would come to learn that it would not work' (*Life*, p. 130). For our purposes it is significant that Galbraith objected on political economic grounds, showing that his Washington experience had left him with a shrewd understanding of the nuances of politics and power and moreover that he was increasingly aware of the issue of economic structure.

Galbraith (1941, p. 82) acknowledged that inflation was a serious problem in that it generated arbitrary redistribution of income, diminished the very important element of popular morale in the face of war sacrifices, and increased the difficulty of readjustment in postwar demobilization. But he cautioned that a poorly applied control system could be even worse in its effects on distribution, morale, and postwar

readjustment even as it impeded mobilization for war. Hansen's (1941a) view emphasized the distinction between rising prices because of bottlenecks in production capacity and those due to an overall excess aggregate demand. He argued that a move to full employment output could occur at current prices but that beyond that government would need to begin absorbing private sector purchasing power by a sequence of borrowing, progressive income taxes, and finally consumption taxes (Hansen, 1941a, pp. 3–4). As full employment output was reached, Hansen (1941a, pp. 6–7) recommended controls and supply management for the bottlenecks that would develop and Keynes' deferments, bond sales, and payroll taxes if necessary. Monetary policy to limit credit creation would also be needed. In a subsequent article, published alongside Galbraith's, Hansen (1941b, pp. 91–3) explained that he thought the potential expansion in labor supply and output was larger than some credited and that available excess capacity would limit the impact of the wage-price spiral for a large range of expanded output. He also emphasized the double advantage of Keynes's deferment system that it would reduce demand during the mobilization but would increase it during the subsequent demobilization. He also suggested that economists should give serious consideration to the 'Baruch plan' for a price freeze with allowance for specific exceptions on a case-by-case basis. Galbraith (*Life*, pp. 133–4) later recalled that economists, himself included, were 'horrified' by the Baruch plan because it would have virtually eliminated the allocative function of prices, and 'an economist without a price system is a priest without a divine being.' Of course, as we have seen above, the eventual General Max system was essentially in accord with Baruch's proposal (Parker, pp. 148–9).

Galbraith (1941, pp. 82–3) challenged the usefulness of the distinction between excess demand and bottleneck inflation, given the long period of economic distortion in the face of depressed aggregate demand. He thought this experience had left substantial industry-by-industry variation in investment, capacity, and technological obsolescence, as well as distortions in the structure of consumer demand. In other words, since the economy was still structurally unbalanced from the Depression era, well short of full capacity output, bottlenecks would develop that would cause inflation. Galbraith insisted that the mobilization problem was to reorganize production in the face of 'institutional and technical resistances' that varied by industry. He emphasized that these resistances and the bottlenecks they presented were not merely technical; institutional factors such as habit, power, and sentiment were involved. In part his reasoning was political, knowing that for workers, consumers, and

businesses to go along with the program, it would have to be perceived as equitable. There was ground for Galbraith's concerns as, during the economic preparation for the war, union strike activity was rampant, corporations resisted sacrificing profitable production for consumers in order to gear up for war, and Congress remained very suspicious of Roosevelt's policies (Parker, pp. 140–2).

In any case, the degree of distortions and resistances would not be uniform across industries that would reach full capacity and generate inflation at different rates. In effect Galbraith (1941, pp. 83–4) insisted that 'full employment will have little or no relation to the appearance of inflation.' The question of timing price restraint in the mobilization process would therefore be far more complex than commonly thought. The aggregate demand tool would not be precise enough in its timing or its targeting. In particular, it was necessary to avoid premature reduction of aggregate demand and effort should be made to anticipate and respond to the resistances, using specific controls as the primary instrument for controlling inflation until full capacity was clearly reached. Before that point it was necessary to consider measures to limit consumer demand in specific industries in which shortages would accompany the reorganization of resource use. Finally Galbraith (1941, p. 85) cautioned against the use of consumption taxes that might be politically difficult to remove after the war in favor of progressive income taxes. He did not want financing of mobilization to leave a legacy of aggregate demand restriction in a mature economy with a tendency toward underemployment.

As already alluded to, circumstances were soon to demonstrate the limited character of this debate which was conducted more or less within the consensus Keynesian view. It became necessary to reverse course and apply price controls across the board, a step that was taken timorously and with much qualification that the failure to limit purchasing power had necessitated the drastic program redirection (*Price Control*, pp. 7–9). Galbraith confessed his own surprise at the success of the General Max regime and decided to pursue further analysis of price controls.

There was formal rationing for some of the commodities that were price-controlled; this in principle was no surprise. What was surprising was that price control of non-rationed commodities worked reasonably well. Galbraith (*Price Control*, ch. 2) argued that the existence of imperfectly competitive markets was much of the explanation for this unexpected success. Administered pricing to the extent of a corporation's market power was recognized. Government control of such prices

essentially delegated the task of rationing to the seller. Oligopolists, small in number and large in size, know their regular customers and have incentive to apportion available supply evenly among them so as to retain their patronage. Their customers also have incentive to remain loyal unless substantially disappointed because any change requires adjustment and recontracting cost. Even in situations in which price incentives, the offer of higher prices, are used by the government in an effort to secure necessary strategic goods, oligopolistic firms may very well take a lesser price and profit so as not to substantially disappoint their regular customers. As far as preventing price-setting above maximum regulatory levels, an oligopolistic market structure has added advantages. Being small in number, oligopolists are quite visible, and given the popular commitment to the war effort, they are subject to social opprobrium if observed asking for price premia. Citizens, customers, even employees may well report those observed to be cheating on the controls. Their small number also made it possible for individualized negotiation with the price authority so the necessity of price control could be applied with as little damage as possible to their businesses. This required a bureaucracy of considerable size, but this too was an advantage for control. Moreover, oligopolistic industries are routinely subject to stable prices because of menu costs, custom, and a fear of initiating a price war. In other words, 'it is relatively easy to fix prices that are already fixed' (*Price Control*, p. 17).

Other advantages to price controls are inherent in cost-supply relationships (*Price Control*, ch. 3). The prevalence of excess capacity in oligopolistic industries meant that there was a considerable lag between imposition of a controlled price and the eventual shortages that price ceilings bring forth in conventional market theory. Moreover, the tendency toward constant or decreasing cost implied the possibility of increased output without corresponding cost increases. Galbraith expressed surprise at this factor, but one has to wonder why, given Sraffa's (1926) famous article.

The price control system that emerged by trial and error worked in reasonable fashion. Galbraith (*Price Control*, ch. 4) identified several key features of the 'disequilibrium system' that evolved during the war. Aggregate demand was maintained at levels well above potential output, for many commodities substantial direct control over resource use was employed, and near universal price control was applied. Another feature which was applied to a lesser extent but which needs to be a part of such a system was rationing in competitive industries. Direct control over resource use was necessary to secure the necessary reorganization

of resource allocation. Aggregate demand beyond potential output secured overfull employment of labor as frictional unemployment was eliminated and secondary or contingent workers were drawn into the labor force. The use of equilibrium aggregate demand would not have worked because extra-wage compensation would have had to be banished. Overtime pay, hiring bonuses, and productivity incentives could not have been used, because their use would have caused aggregate demand to surge beyond potential output. In the disequilibrium system the excess demand and labor premia drew substantial marginal workers into the labor force. Of course, this worked partly because of support for the war effort and partly because of confidence that the income saved could be spent after the war at reasonably stable prices. Price controls were a factor here because they lowered inflationary expectations (Galbraith, 1952a, pp. 33–40).

This system worked because of its exploiting, but not overly so, the available 'margin of tolerance.' By this term Galbraith referred to the area in which the falling marginal utility of income is still high enough to induce the extra labor effort. When the point is reached that the supply of additional labor effort stops, the margin of tolerance has been exhausted. Galbraith considered the large advantage that the United States enjoyed over Germany in their respective margins of tolerance to have been a significant factor in its victory. Estimates ran upwards of 50 percent for the share of American output growth attributable to secondary workers or an increased work week. There was no comparable increase in Germany; indeed there may have been a decline in labor force participation. This demonstrated the value of popular trust that the value of savings would be maintained. In the disequilibrium system the administration of price control has two principal objectives: to control prices and to maintain the margin of tolerance. In the war the separation of rationing and price control interfered with the pursuit of these two objectives (*Price Control*, ch. 5). The abrupt removal of allocation and price controls and the failure to remove excess liquidity in the postwar period were also problematic and prevented the successful liquidation of the disequilibrium system (*Price Control*, ch. 6). The resultant burst of inflation likely reduced the margin of tolerance for any subsequent application of the system.

Galbraith (*Price Control*, chs. 7, 8) goes on to consider the situation of limited mobilization. In a limited, rather than all out, war, overfull employment would not be needed nor would direct control over the general pattern of resource allocation. Even at levels of full employment equilibrium between aggregate demand and potential output,

the danger exists of an inflationary wage-and-price spiral that could be stopped by limiting demand only at the cost of employment and production. In this tradeoff situation Galbraith thought that society would not likely choose restraint of aggregate demand at a time when substantial production is being diverted to limited military mobilization, nor did he think the complete disequilibrium system was called for. There was no need for overfull production nor for comprehensive controls over resource allocation. Plus the margin of tolerance would be narrow and subject to dissipation as the limited mobilization wore on. He concluded that full employment demand with wage and price controls would be the best option. Ideally the controls would be applied only in the oligopolistic or administered sector of the dual economy where market forces do not operate to constrain prices and wages and in which controls are most easily applied. But he feared that the American polity would not accept this sort of targeted controls, so across-the-board controls might be politically necessary. It is not clear whether Galbraith at this time had limited mobilization for the Cold War in mind or only situations like the Korean Conflict or the later Vietnam War. We will track the development of his thinking on the matter of wage-price controls.

Galbraith's political experience in agriculture, depression, war, and its aftermath reinforced his sense that economics should be relevant to the issues of the day, and that to be so, it had to be political economy. The power struggles and infighting he saw in Washington led him to the conclusion that a nation's economic achievement depended on its political leadership and its political decisions. As noted, his book with Dennison concluded with emphasis on this point. His mistrust of esoteric economics was confirmed and he became an ever more forceful critic of the abstract formality of postwar economics. Economically crucial political variables could not be so modeled nor predicted, in his view, and the essentials of economic performance could not be captured in such models (Parker, p. 189). Nor could esoteric economics, by definition inaccessible to the general public, supply the discourse required for democracy to stand on solid footing. In this there is a methodological difference between economics and the 'hard' sciences it sought to emulate. The problems of economics are given by the public's problems and identifiable from the public's anxieties. The validity of economics is a matter of responding effectively to these issues. The data in economics – willful human beings – are ever changing. Hence 'economics is not durable truth; it requires continuous revision and accommodation. Nearly all its error is from those who cannot change' (*Life*, p. 125).

At least one observer, David Colander (1984, p. 40), has argued that Galbraith's early dismissal of mainstream economic theory and his decision to write for a larger audience, 'while good for Galbraith, was bad for the profession.' Colander was convinced that *The Theory of Price Control*, foreshadowed both by Galbraith's early article on price rigidities (1936a) and by his book with Dennison (1938a), could have led to an important advance in mainstream theory. Colander (p. 32) quoted no less than Milton Friedman with regard to the novelty of Galbraith's work in this regard: 'so far as I know, [Galbraith] is the only person who has made a serious attempt to present a theoretical analysis to justify his position' on wage-price controls.

A specific lesson Galbraith drew from his experience in agriculture, peace, and war is the need for continuous revision of policy to provide effective governance of the powerful force of capitalism. He frequently asserted that reformers, while frequently castigated by those with rigid preconceptions of the role of the state in capitalist society, are actually the ones who rescue capitalism from its crises. In that sense he often asserted that Keynes, like himself, was a true conservative trying to preserve capitalism in the face of the dangerous ahistorical oversimplification of its most vocal supporters. This point still resonates because a common doctrinal defense of capitalism is that it is virtually inevitable because it is somehow appropriate to an invariant human nature. Political economy, as noted above, regards any governance regime to be a concrete historical product of a bevy of legal, political, and cultural phenomena. As such, a substantial change in these phenomena could undermine capitalism. The application of carefully assayed reform may be necessary to head off a socioeconomic disaster that would induce institutional change that fundamentally damages the system. The same point can be addressed to those who confidently assert the inevitability of intensified global integration today because of technological imperatives. They should note that complex politico-legal and social changes were intertwined with these technological changes, and indeed, that institutions empower agents with the discretion to make decisions to develop technology in some directions rather than others. Complacency has no role in political economy, whatever one's ideology, because society exercises discretion over its always emergent economy.

Finally Galbraith insisted upon an evolutionary economics (see Veblen's classic article, 1898) in which it is understood that economic agents face fundamental uncertainty in their economic actions. When asked by Stephen Dunn in 2001 when he became aware of this fundamental fact of uncertainty, Galbraith's reply implied that he really

could not remember not being aware in this regard. 'I think that in dealing with economic institutions one must always assume uncertainty because there are enough factors that may, by their change or by their interplay, be unpredictable, and I think I just took that for granted. I simply assumed uncertainty in all major decision-making ...' (Stanfield and Stanfield, 2004, p. 229). In support of Galbraith's recollection, note his reference in an early article (1939c, p. 871) on agricultural price supports to 'a future which, as always, is unknown.' Dunn (2001) emphasizes the role of uncertainty in Galbraith's theory of the great corporation.

Thus Galbraith in his earliest work demonstrated his status as a pioneer of many strands of emergent heterodox economics, especially behavioral and institutional economics, realist methodology, and Post Keynesian economics. He also displayed his steadfast commitment to policy formation. And, in these and other regards, his contributions had only just begun.

3

Political Economy and the Art of Controversy

Even though the theory of countervailing power is not mentioned in Galbraith's later works, it still possesses some historical substance. Various social groups have in fact converted weak positions into strong ones through organization, tacitly or overtly supported by government. It is also true that economic and political organization continues to be a way for the abused and the rejected to obtain redress.

Myron E. Sharpe, 1973

This chapter examines Galbraith's work in the 1950s before the monumentally important *The Affluent Society* (1958). The books in question are a far cry from the integrated model of mature democratic capitalism that later emerged in the trilogy consisting of that classic plus *The New Industrial State* (1967a) and *Economics and the Public Purpose* (1973a), but the mature Galbraithian vision begins to take shape. A substantial portion of the chapter is devoted to Galbraith's first effort at constructing a broad picture of the American economy, *American Capitalism: The Concept of Countervailing Power* (1956), which greatly enhanced Galbraith's standing outside the profession. Second, in *The Great Crash* (1954) Galbraith analyzed the hysterical euphoria that tends to emerge in periods of sustained economic prosperity; this interest in manias and panics was to concern and entertain him for all of his professional life. His now classic treatment of the spectacular collapse of asset values in 1929 has often been reprinted; indeed it has remained continuously in print. One suspects it is probably selling rather well of late given its pertinence to the financial excess and Great Recession of our time. Third, we take our chapter title from *Economics and the Art of Controversy* (1955), in which Galbraith displayed his keen appreciation of the nature of

American political culture and the political context of economics. This slim volume has been largely neglected; it is not mentioned in the index of Parker's definitive biography of Galbraith and it is listed only once, and oddly at that, in the index of Galbraith's memoir (*Life*, p. 58). We cover *Controversy* despite its obscurity because of its exemplary value with respect to Galbraith's insight into the traditions of American political culture.

American Capitalism

In approaching Houghton-Mifflin with the idea for *American Capitalism* (its working title was *The Vested Ideas of Economics*) Galbraith indicated that its purpose was to provide 'the pragmatic justification' for a privately organized economy. Rather than an appeal to the link between economic and political freedom or to considerations of static efficiency and distributive equity based on the theory of marginal productivity, this justification was to be based on 'the social efficiency of decentralized decision' in arranging production and achieving innovation (Parker, p. 235). This social efficiency was explained not in terms of the familiar model of market competition but in terms of his concept of countervailing power, in which constraint upon the application of power derives not from one's competitors in the selling of products but from one's buyers. Galbraith (*Life*, p. 81) later recalled that the idea of countervailing power grew out of his visit to Sweden in the 1930s. There, he had observed that the consumers' cooperative movement had established high volume purchasing power that enabled effective bargaining with manufacturers over price. The cooperatives were large enough to credibly threaten to undertake production themselves if the supply prices were too high.

In *American Capitalism* we find a theme that runs through all of Galbraith's work. He was convinced that the capitalist economy was the superior alternative but his experience had left an indelible impression that capitalism could be saved only by persistent reform. Likewise he noted the resistance to reform from those well positioned in the capitalist economy and those who were its most ardent defenders; the rich, the business elite, and conservative economists and politicians opposed every reform that was instituted and without which capitalism would not have survived. Thereafter he was to gather much satisfaction in citing the historical experience attesting to the fact that only liberals could save capitalism; he often chuckled that conservatives seemingly preferred its principled death to the reforms necessary to rescue it.

Galbraith's concern was the anxiety or sense of foreboding that he detected in the early postwar period. Despite agreement that no sensible alternative to capitalism existed, there was great uncertainty about its future. That capitalism appeared to work only with considerable intervention from government troubled those of conservative mind, who sensed that this meddling would lead 'to some new, unspecified but wholly unpalatable design.' Liberals, observing the rise of the great corporation, were troubled by the decline of competition and the apparent impotence of antitrust policy. Galbraith insisted that the problem was resident not in the world but in the ideas by which it was being interpreted. He compared the situation to that of the bumblebee, theoretically unable to fly and subject to oppressive matriarchal governance, nonetheless flying about, albeit perhaps with great insecurity. He saw similar illusion to be the source of much dismay about the economy, which was performing well but in defiance of the economic theory equivalent of the laws of gravity (*American Capitalism*, ch. 1).

The microeconomic debility of the conventional model

Galbraith observed that among economists and less formally the general public, capitalism was assessed on the basis of the conventional model of the competitive market. The defense of capitalism rests, first, upon demonstration that a competitive economy is socially efficient in principle, and second, upon observation of the nature and performance of the actual economy. The idealized competitive economy necessarily generates output that consumers desire at the least possible cost or necessary supply price. This includes adoption of best production methods, full employment of available resources, and saving and investment behavior to augment future productivity. The focus is on static efficiency and the question of dynamic efficiency is largely neglected or tacked on in *ad hoc* fashion. In particular the introduction of new best practices seems to have been relegated to exogenous status.

The second aspect of the conventional defense rests upon the ability to observe that the actual economy is competitive and therefore performing well. Here there is a problem. Although the postwar economy was indeed performing rather well, its apparent non-competitive structure contradicted the ingrained notion that a capitalist economy succeeds because of its competitive market structure. Galbraith contended that this notion was broadly applicable to the capitalism of the time when the classical economists initially advanced it, and that it became ever more rigorously and elegantly specified as professional economics

developed. But as abstract model building progressed, the competitive model lost its realistic correspondence as real-world economic behavior continued to evolve.

Much of the appeal of the competitive market model resides in its handling of the problem of power, which Galbraith defined simply as the 'privilege of controlling the actions or of affecting the income and property of other persons' (*American Capitalism*, p. 25). Observation suggests that the management of the great corporation is visibly engaged in making decisions about the allocation of society's resources and the distribution of its income. But in the familiar story of the competitive market model, the business managers are said to operate from a highly constrained position. Those with whom the manager deals – the corporation's consumers, workers, and suppliers – have resort to the manager's competitors and therefore cannot be subjected to the manager's arbitrary discretion.

In the great corporation the management appears to be visibly distinct and independent from the stockholders who own the enterprise. In principle, the management remains subservient to the owners in a fiduciary, principal-and-agent relationship. The controlling principle is again the existence of competitors. Owners, in order to signal their dissatisfaction, can demand that the board of directors replace present management with competing managers from the available pool of talent. Or owners can sell their present equity and buy equity elsewhere, in effect hiring the management of a competitive corporation.

In cases in which competition fails because of unsavory business practices, antitrust intervention nullifies the collusion and restraint of trade. The state serves as *deus ex machina* to preserve competition. The imagery of this conventional story suggests that any apparent power on the part of the manager is really exercised in the interest, and at the behest, of the consumers of the enterprise's products and the suppliers of its factors of production. All trails lead back to the well-informed and empowered household whose choices are the ultimate seats of sovereign influence. For this imagery to be plausible it must correspond to observed economic conduct. Galbraith was unconvinced that the conventional story would either allay the anxiety of postwar America or provide relevant policy instruction. He reviewed empirical work that suggested that the great corporations exercised considerable economic influence, that a relative handful of them dominated many major industries, and that this concentration was steadily increasing. This empirical work clearly revealed the dominance of an essentially non-competitive market structure in a large portion of the economy.

For Galbraith, the theoretical new departures associated with Edward Chamberlin (1933) and Joan Robinson (1933) added to the statistical basis for questioning the competitive market model. The fact of the power of the great corporations seemed to him to be obvious and obtrusive. If so, their prices, and the costs they express, could no longer be viewed as the result of impersonal market forces if they were the result of the exercise of power.

These observations call into question the case for social efficiency promised by the market model. The growing recognition of economic power could then be expected to bring increasing concern about the correspondence of observed production costs to their minimum level and about the independence or genetic character of the wants or purposes served by the commodities produced. Market power means that, with respect to price, the demand for a corporation's products is less than perfectly elastic; the substitutes offered by competitors are either somewhat dissimilar or information about them is lacking. Market power may also apply to a corporation's input purchases; the corporation may have the power to affect the supply prices of inputs. Possessed of market power to some degree, the corporate manager achieves to that degree the ability to administer prices and costs. Such administration implies a degree of discretion and calls into question the social necessity of observed corporate costs and the market determination of the observed pattern of income distribution. Hence the legitimacy of the observed decision-making becomes suspect. The ambiguity in the relation of resource allocation and income distribution to scarcity presents a damaging challenge to the foundations of the competitive market model (Stanfield, 1995b).

Observation also revealed that in the industries populated by the great corporations, the force of competition was applied to areas other than price. For survival and profitability, market share was important but it was pursued not by price competition but by all manner of sales and promotion activities. Competition became 'an exercise in uniquely ostentatious waste' (*American Capitalism*, p. 47). The problem becomes sinister if these sales promotion activities influence the formation or articulation of consumer preferences, all the more so if they affect citizen preferences and the direction of political discourse. Social efficiency revolves around household (consumer and citizen) sovereignty. It can be said to exist when the production and distribution of private and public goods match the structure of household preferences for them, and represent as well household preferences in the supply of the factors of production.

Galbraith thought the deterioration of commitment to the conventional model had begun and would continue. In what proved to be a bout of ingenuous optimism, he penned a chapter entitled 'The Abandonment of the Model,' which suggested that pandemic doubt was rampant in the profession about the competitive model's empirical correspondence. This optimism is understandable in light of the attention then being paid to non-perfect structures of competition, on the heels of the work of Chamberlin (1933) and Robinson (1933). But as E. A. G. Robinson and Edward Mason observed, respectively, the study of imperfect competition is the 'gateway to institutionalism' and the theory of oligopoly is the 'ticket of admission to institutional economics.' Where there is discretion, there is organization and strategy, and where these are present, there is complexity and the need to ground analysis in realistic detail.

Galbraith was also rather optimistic about public perceptions and cognizance. In his subsequent work, he would not maintain the view that 'the great majority of the people have come to regard the government as essentially benevolent' (*American Capitalism*, p. 29). Nor later would he have been likely to make the case that because they affect 'the income and welfare of many,' the decisions of powerful businessmen 'cannot be concealed from a community that has come to look for them' (*American Capitalism*, p. 61). The problem of the public's cognition and its emancipation in these regards was to become a major concern of his later work. Galbraith regarded the 'ogre of economic power' to be a major cause of political economic anxiety.

Liberal opinion offered no adequate response to the popular discomfort that Galbraith expected to increase. One liberal strand upheld the conventional model of competition in principle and insisted that antitrust intervention must be aggressively applied to resurrect it. The extent of such intervention would have been exceedingly disruptive, even revolutionary, and at any rate was unlikely to be achieved by litigation. Nor would any break up generate small competitors immune to the structural logic that led to concentration in the first place. An alternative liberal view, according to Galbraith, was similarly unrealistic. This was the inchoate call for public regulation and planning. Galbraith concluded that this was never seriously addressed and that had it been the liberal would have been reluctant to endorse any concrete options, such as public ownership or price regulation. He cited the findings of the Temporary National Economic Committee as evidence of this feeble liberal response, arguing that the committee 'was unable to approve of the economy it found but, equally, unable to embrace any alternative'

(*American Capitalism*, pp. 56–7). Yet a third strand of liberal opinion was associated with the prominent institutionalist, John Maurice Clark, as well as Edward S. Mason. This view emphasized the concept of a reasonably effective, or workable, competition, which, though far removed from truly competitive market conditions, nonetheless contained sufficient rivalry to encourage technical advance and disposition of its benefits to consumers in the form of lower prices and economic growth. Galbraith (*American Capitalism*, pp. 57–8) seemed to find this approach amenable but thought that because of its preoccupation with the competitive market economy doctrine, it failed to explain why what is not workable in principle could be workable in practice.

Galbraith concluded that liberal opinion needed a more plausible, more realistic model of the economy's functioning. So also did the businessmen whose manifest exercise of power had become problematic. Since vigorous antitrust enforcement was palpably unlikely one might have thought they could take comfort in that opinion, but to do so would have been to admit that they did indeed exercise power. Better to assert their subordination to market forces than to admit of power. Any admission of power would have invited unwanted attention. Yet if the competitive market defense was losing its verve, as Galbraith thought, then clearly businessmen were much in need of a better rationalization to legitimate the inexorable power of the great corporation.

The memory of the Great Slump

Galbraith (*American Capitalism*, ch. 6) argued that the economic performance of the 1930s had dealt another severe blow to the competitive market model and was an additional source of popular anxiety. No great effort would have been required to observe that the Great Depression signaled reason to doubt that the actual economy displayed the self-regulating features so prominently associated with the competitive market model. Indeed a more dramatic empirical contraindication would have been difficult to contrive. The prolonged slump suggested the abandonment either of the theoretical notion that a competitive economy is self-stabilizing or of the conviction that the actual economy is competitively organized. For at least a decade after the war, popular opinion exhibited a profound lack of confidence in the reliability of the economy, the 'depression psychosis,' as Galbraith termed it.

The Keynesian formula for managing the economy was a further source of popular anxiety. It conflicted with the moral certainty that state intervention was a necessary evil to be minimized. That economic

performance had come to rely on intervention by the state was deeply troubling to anyone who was convinced that politicians and government bureaucracy were generally inept and motivated by their own interests. The policy associated with Keynes came to be based on the notion that a competitive economy is not necessarily stable in the aggregate but that the actual economy is reasonably competitive. This view did not accept the need for direct structural intervention or economic planning, other than the familiar nostrum of antitrust policy and some programs to improve market functioning. This interpretation came to be known as the neoclassical synthesis at the suggestion of Paul Samuelson (1964; see also Stanfield, 1995a, ch. 3). It more or less reduces the problem of the aggregate economy to the relatively indirect manipulation of aggregate demand. As Samuelson asserted, once aggregate demand policy has done its work and the economy is operating at an acceptably high level of employment and income, the 'verities' of the neoclassical model are restored. Thus in microeconomics, given the assumption of full employment, the competitive model was preserved and the profession returned to its highly formalized discussion of this ideal economy.

Setting aside the microeconomic issues, the notion that competitive capitalism in its modern form chronically displays inadequate aggregate demand is fraught with the unsettling implication that the state assumes a necessary and substantial role in economic performance (*American Capitalism*, pp. 80–3). The state becomes in effect a partner to the business enterprise in the successful operation of the economy to produce and deliver goods. In a culture so committed to the pecuniary side of life, there is much prestige to the administration of matters economic. It seemed to Galbraith that in principle such respect henceforth would be shared by leading businessmen with the state. Given the classical suspicion that government bureaucracy was insensitive to cost, the large expansion of the state's budget seemed certain to be socially wasteful. Yet, evidently, serious depression was also wasteful in that much productive capacity and labor services were left idle.

So also does the specter of excessive saving call for the revision of venerable formulae for ordering the propriety of matters economic. If lack of buyers for the output of existing productive capacity is seen to limit its profitable use, the urgency, indeed the wisdom, of delaying gratification so as to add to that capacity becomes, logically, suspect. So also is one led to question the blatant inequality that ineluctably generates such saving by the wealthy and such deferred gratification by the needy. The private consumption of those who want or need

more thereby seems to come about at little or no real cost. Resources otherwise unused do not appear to be valuable in terms of their alternative employment. The same impression of low or zero opportunity costs applies to government spending to attend to various collectively consumed goods and services. That income redistribution is one implication of the Keynesian argument was not lost on Galbraith. This too, Galbraith thought, was unsettling to the postwar American mood.

The increased role of the state, especially by way of deficit finance, and the suspicion that thrift was a less than uncomplicated social asset, cast a psycho-cultural pall of its own. The known verities of propriety and social conduct left no doubt as to the social virtue of thrift nor of the prestige and proper authority on matters moral and political of those wealthy enough to practice it. Major social change always involves uncertainty and often evokes dismay at the loss of the familiar, and in this case, seemingly, at stake was the legitimacy of the wealthy capitalist class.

Thus in the early postwar period, Galbraith detected a deep insecurity with respect to the issues of microeconomic structure and macroeconomic performance. It seems that his desire to focus this concern and the economics and politics guided by it motivated *American Capitalism*. He was concerned that the 'depression psychosis' would lead economic interest groups and policy makers to be preoccupied with heading off an insufficiency of aggregate demand. Consequently he feared that the social ill of inflation, which as we have seen he had come to regard as the more likely insidious undertow on the body social, would be neglected.

A further source of uneasiness was the 'ogre of power' and the lack of assurance that the microeconomy would result in an efficient static outcome. The available models of conduct in situations of non-competitive market structure strongly guided expectations toward the view that oligopolists would tacitly reach outcomes very near the monopoly case. Quantity of output would be held down to maintain price at a level that maximized profit. This profit would be above the normal or accepted return of the competitive model. Barriers to entry, associated with advertizing budgets and brand name recognition, would discourage potential competitors who lacked the huge sums necessary to compete for public goodwill. Cost barriers that stem from the economies of large-scale production already achieved by the established corporations operate to similar effect – no matter in this regard whether they are technological (rooted in the reduction of real social costs of production) or merely pecuniary (stemming from the exercise of power over

prices or political discourse). Cost barriers blunt the cutting edge of the competitive sword since it impedes new entrants in search of a share of extraordinary profits.

Troubling implications of inefficiency and unfair income gains arise. In the conventional economics story, the profits or quasi-rents earned in less-than-competitive situations lack the defense of being competitively earned. Their distributive impact is only indirectly defensible, by the suggestion that collective action in search of a remedy might lead to a worse outcome. Nor is equity the heart of the matter; inefficiency becomes endemic. Resources turned away from oligopolistic industries are underemployed elsewhere in the economy. Relative prices inaccurately inform decision-makers about the relative scarcity of the products.

The paradox of success

Paradoxically, in contrast to this unsavory prospect, Galbraith found that the actual economy of the early postwar era was performing rather well, and was inclined to believe that most people would agree. Microeconomic inefficiency, macroeconomic stagnation, and the disconcerting increases in the power of the great corporation and the role of the state had not yet delivered on the promise of disaster they presented to those mindful of the conventional economic faith. In his effort to resolve this paradox, Galbraith proceeded in two steps. First, he critically examined the conventional conception of social efficiency. Second, he suggested that there needed to be a change of perspective on the economy and unveiled the concept of countervailing power to accomplish this re-viewing.

As noted, the conventional conception of social efficiency is rather static. It emphasizes the production at least cost and sale at necessary supply price of the output that households demand. This in turn requires full employment of resources, selection of best technical practices, and investment to match household preferences between present and future consumption. The process of invention was largely neglected except for the argument that competition would lead to rapid diffusion of innovation that led to superior goods or production cost reduction. This treatment of the process of invention and innovation was the locus of Galbraith's explanation of the paradox of success. His explanation emphasized technical change and the contrast between static and dynamic efficiency. As just noted, static efficiency is concerned with the cost and structure of production in accordance with household

preferences at a given time. Dynamic efficiency is concerned with the growth of production, most especially with the growth of factor productivity, through time.

Galbraith (*American Capitalism*, pp. 85–90) drew upon Schumpeter (1962) to explain that static efficiency is neither sufficient nor necessary to induce technical change; indeed, that it may present a barrier thereto. In competitive industries, rapid diffusion of known successful innovation would quickly dissipate any profit advantage enjoyed by the original innovative enterprise. This would remove the incentive to undergo the costs of research and development and added risk associated with innovation. The great corporation, which is protected by significant barriers to the entry of competitive firms and which enjoys the power to administer price to some degree, may be in a better position to innovate. It has access to profits above the competitive norm, often dubbed Schumpeterian profit, and therefore the means to finance innovation. It has reason to do so because it still faces rivals contending for market share with the few firms in its industry.

The corporation also faces Schumpeterian potential competition from firms and products presently unknown to it. Schumpeter famously argued that the essence of capitalism is to be found in Creative Destruction, the incessant process of innovation that simultaneously creates new economic opportunities even as it renders obsolete and destroys prior constellations of economic value and income. Marshallian competition among many well-informed sellers and buyers of standardized products was not in Schumpeter's view a complete or even accurate depiction of the capitalist process. The competition that mattered was that from the unknown but potentially economically life-threatening new product or production technology. This compelled the firm to engage creatively the frontiers of scientific and technical knowledge. Thus the great corporation had the incentive and the means to pursue innovation. Indeed in Schumpeter's dramatic rendering of capitalism, it was involved in a life or death struggle to do so.

Galbraith added to this the additional factor of *organization*. He sought recognition that modern industrial apparatus required large corporations; no conspiracy need be involved 'in the tendency toward concentration of ownership in an industry' because 'the causes are deeply organic' (*American Capitalism*, pp. 33–4). This necessary concentration arose in the first instance from technical economies of scale in production, but eventually extended well beyond to the advantages that size confers in organization and administration. He called this phenomenon 'the economies of experience.' The experiential advantage conferred on

size is having the time and degrees of freedom to find individuals who possess promising talent, assign and test them, and determine their fit and fitness within the organization. This procedure enables the great corporation to develop teams that effectively pursue improvement in its processes. These economies of organizational scale appear to be at least partially real, meaning that they lower the social cost of production. But they must also include a merely pecuniary element that stems from the exercise of power, because as we see below there are bargaining gains from the development of countervailing organization.

Galbraith (*American Capitalism*, p. 90) added a further consideration of the great corporate organization. Given the great store that American culture places upon technical change, there would be great prestige accorded the organization for its 'technical virtuosity' (to use a term that Galbraith later employed). Hence he thought that these organizations would pursue technological dexterity more or less for its own sake. Hence to the survival and profit motivations for innovation, Galbraith added the incentive of prestige to his embryonic concept of the great corporate organization. Overall he concluded that the great corporation's commitment to innovation was very strong.

Following Schumpeter, Galbraith insisted that the gain in social welfare from dynamic efficiency could well be more than sufficient to offset the loss associated with static inefficiency. This was Galbraith's argument concerning the apparent economic success in the face of grave doubt in the decade after the war. Technological change, especially that which increased productivity of inputs, offset the inefficiency of application of these inputs at any given time. Indeed, that very static inefficiency was a vital source of the important dynamic efficiency.

The concept of countervailing power

Galbraith posed the concept of countervailing power to resolve the paradox of apparent economic success in the face of great anxiety about economic structure and function. He sought not to allay concern over the power of the great corporate organizations but to redirect and refocus it. He thought it necessary to change perspectives on the economic process in order to understand the apparent success and to anticipate developing tendencies that imply the onset of problems to which attention should be directed, the sooner the better. Toward this end, Galbraith (*American Capitalism*, p. 110) referred to the 'paradox of the unexercised power of the large corporation.' The market structure seemed to be non-competitive but the expected calamity of inefficiency

had not materialized. He argued that the preoccupation with restraint of power, and hence the maintenance of efficiency, through the process of market competition is the source of myopia with respect to this paradox. He offered countervailing power to fill the breach.

The concept of market competition is focused upon rivalry among buyers and among sellers. One faces constraint over one's actions that stems from the existence of rivals on one's side of the market. Thus preoccupied, those who seek constraint find it lacking in the absence of traditional price competition in the core industries in which the two hundred largest corporations operate. Consumers appear to lack protection from monopoly pricing when a handful of firms supply them products at administered prices generated by tacit collusion. Laborers appear to lack protection from monopsonistic buyers of their services. Farmers appear to lack protection when buying inputs and selling output to these oligopolistic industries. From the perspective of the competitive model the great corporation appeared to face no important constraint on its exercise of power. Yet, that no apparent disaster was revealed by experience in the early postwar era suggested that some unidentified constraint was in play.

Galbraith (*American Capitalism*, pp. 111–14) urged that a new constraint had emerged. Countervailing power was his term for constraint on the exercise of power that emerged from the opposite side of the market. Those threatened by exploitation in the absence of genuine choice among competitors seek to redress the balance of power by developing the ability to negotiate from positions of strength. They seek countervailing power. The strongest manifestation of this tendency in the private sector is the development of large retailers such as Sears, Roebuck & Company and the Great Atlantic & Pacific Tea Company (*American Capitalism*, pp. 117–26). In support of the notion of countervailing power, Galbraith pointed to the fact that the merger wave of the 1920s was remarkable for its consolidation of retail and distribution firms that were not previously in competition with one another, coming from different local market areas. Chain stores, mail-order firms, and cooperative buying by independent or non-chain retailers quickly became familiar features of the American economic landscape.

In Galbraith's view, these powerful buyers of manufactured products emerged from the profit ambitions of the retailers. Faced with buying from oligopolistic manufacturers, they retaliated by forming themselves into buying complexes capable of exercising oligopsonistic power. Their threat to remove their patronage to another supplier proved difficult to ignore. They could offer the further threat to set up their own

production capacity with which to supply their inventories. This threat was very credible; it enabled the buyers to countervail the original positions of market power enjoyed by the manufacturers. Galbraith went so far as to suggest that countervailing power, like competition, would develop to the point at which contending forces were balanced; in effect he thought that a tendency existed toward a stable or equilibrium outcome. Galbraith noted that the force of competition was by no means totally expunged from American industrial organization, but he insisted that where competition was not effective because of some barrier to entry there was an incentive for countervailing power to arise. He thought both entry of competitors and countervailing power would tend to arise to challenge positions of entrenched market power.

The countervailing power of large buyers tended to protect consumers from the original power of the manufacturers of consumer goods (*American Capitalism*, pp. 117–18). The mergers of retail firms did not in the main involve previous competitors and therefore may not have involved a reduction in competition. Indeed free entry in retailing industries appeared to have remained largely intact. If sufficient competition remained in the retail market, the gains of volume buying would be passed on to the consumer. However, Galbraith (*American Capitalism*, pp. 152–3) noted that the organizations, once disadvantaged but now having countervailing power, might abuse that power. As with any reform, experiment, or innovation, unintended consequences are likely and may prove destructive. The use made of countervailing power was one potential problem that would have to be monitored.

Another problem that required watching was the influence the great corporations might come to exert over political opinion and public attitudes. The traditional liberal concern for the great corporation's power is not totally without substance even though its premises are misguided. The great corporation can have 'significant power ... even over the mind of the consumer whose wants and tastes it partly synthesizes' (*American Capitalism*, p. 7). The large corporation might 'turn its vast resources to corrupting politics and controlling access to public opinion' (*American Capitalism*, p. 109). These problems he did not see as critical in the early postwar period but noted that they should not be neglected even though 'the danger is in the future.'

Galbraith saw another problematic aspect in the difficulty some groups face in developing countervailing power. The failure of spontaneous generation of countervailing power in the private sector led Galbraith (*American Capitalism*, ch. 10) to a further bit of historical explanation. As noted, government had expanded greatly in the wake

of the interwar turbulence. This expansion is explained in part by the need of some interests to secure government dispensation in support of their efforts to develop countervailing power. Farmers and workers are notable in this regard. Neither could successfully organize within the legal and political framework in existence prior to the 1930s. Legal and political changes were necessary to enable them to countervail the original economic power of manufacturers. Farm marketing cooperatives had been tried as a means to improve the terms of trade in selling output to the urban centers. They were not in the main successful because of the premium that any individual could earn by agreeing but renegeing on the agreement.

Labor struggled without much success to organize versus the superior power of its employers. The eventual entry of organized labor into the postwar establishment required the active intervention of the state to mandate good faith industrial bargaining. The state also supported the labor interest indirectly with aggregate demand maintenance and income support programs. The power of any economic agent in selling a commodity is enhanced by the prevalence of a relatively tight market. Galbraith did not maintain that countervailing power was a monolithic explanation of union development. Other variables certainly came into play in the history of particular unions. Some indeed arose when they faced no important original power, in effect becoming original holders of market power in such industries as coal mining and textiles (*American Capitalism*, p. 116). But Galbraith maintained that countervailing power was an important factor in the development of many unions. He seemed to be convinced that the typical pattern was for unions to develop and grow stronger where original power positions were strongest. The incentive to unionize was strongest where the largest excess profit existed from which unions could garner a share.

Galbraith (*American Capitalism*, ch. 10) argued that the concept of countervailing power necessitated a new view of the state's role in the economy. A pivotal domestic function arose in the need to assist where necessary the development of countervailing power in relation to positions of original power. In a passage noteworthy for its prescience, he observed that 'we may expect domestic political differences to turn on the question of supporting or not supporting efforts to develop countervailing power' (*American Capitalism*, p. 151). He maintained that a re-viewing of the role of the state was vitally needed. Support of labor and agricultural interests should be case-specific. The goal is not to sustain the rise of original power or the abuse of countervailing power but to assist the development of needed countervailing power in the

face of original power. Antitrust laws should be applied with care and with an eye to whether their object is countervailing or original power. Careless application of antitrust policy to attempts to develop countervailing power would serve to protect original power and short circuit the spontaneous force that was the key to successful economic performance despite the decline of competition.

Here again the preoccupation with the competitive market model hinders accurate cognition of the problem at hand and leads to counterproductive policy. The same would be true of instances where countervailing power became abusive, including cases where state policy in support of countervailing power had been erratic and fostered the development of abusive power. To avoid poor policy in regard to original and countervailing power the state's role in balancing power must be based upon clearly articulated principles, which can in turn flow only if the state's role in power balancing is regarded as normal operating procedure. To insist that all power must be eliminated, most especially state-condoned power, was to Galbraith's mind 'to offer the guillotine as a cure for headache' (*American Capitalism*, p. 165). The possession of market power in and of itself is not cause for state antitrust intervention. The effect of such power has to be considered and this effect often turns on the distinction between original and countervailing power. This distinction also signifies that there is an important difference between monopoly and oligopoly because countervailing power will be more readily achieved against potentially unstable coalitions of a few firms than against a single seller. Countervailing power comes to the defense of antitrust activity in that it may be wise to break up a monopoly into a few firms and to resist mergers and acquisitions that reduce the number of rival firms.

Full appreciation of the difference between original and countervailing power also suggests that reduction of prices to consumers is not a universal criterion (for the current relevance of this point, see Reich, 2008). Empowerment of unions and farmers clearly sought to redistribute income by enhancing their bargaining power. This may well have increased consumer prices. The benefit to be considered opposite this cost, in addition to securing aggregate demand, is the reduction in social conflict. Admission to the political economic establishment affords farmers and workers an interest in the system. There is a great deal of difference between bargaining over marginal gains and losses and fighting for political economic inclusion. A further point is that some groups continue to be marginalized and their anger and resentment is palpable and growing. In this regard, farm workers, schoolteachers,

clerical workers, and public employees came to Galbraith's mind in the mid-1950s. Since then some of these have organized and achieved a degree of inclusion, but the general point lingers that such disadvantaged groups as remain will continue to require organization and most likely state assistance in gaining inclusion.

The development of countervailing power tended to reduce income inequality. Restoring a workable balance in the flow of income was an important aspect of the New Deal reforms (*American Capitalism*, pp. 180–3). This was a conscious effort and it was not solely motivated by humane concern for social justice. There was clear recognition of the need to restore balance in the distribution of income in order to sustain aggregate demand. If nothing else one must concede that the institutionalist or structuralist policy position was clear on this point. This is clearly consistent with the gist of Keynes' emphasis on the need to enhance macroeconomic performance by overcoming the endemic problem of the maldistribution of income in mature capitalism. Maldistribution is part of the microeconomic foundations of macroeconomic instability, as are structural imbalances generally. So also is the existence of market power a vastly significant element of these microeconomic foundations. On this too Galbraith had much to say in his later works and in this regard much of his mature thought also began to take shape in *American Capitalism*. In particular there is the 'problem of restraint' to which we now turn.

The problem of restraint

As we have seen in the discussion of *A Theory of Price Control*, Galbraith regarded inflation to be the major postwar threat to decentralized private capitalism. Though many variables would come into play that made it difficult to anticipate the course of peacetime inflation, he regarded 'inflationary tensions [to be] capable of producing a major revision in the character and constitution of American capitalism' (*American Capitalism*, p. 201). Galbraith was convinced that the 'Keynesian formula' contained serious limitations and that the problem of restraining inflation was far from solved (*American Capitalism*, ch. 14). The 'essence of the Keynesian formula' consisted in the application of aggregate demand policy to influence the overall business climate and 'leaving private decisions over production, including those involving prices and wages, to the men who now make them' (*American Capitalism*, p. 178). Galbraith was among the first to question the adequacy of this strategy in light of the reality of business and political culture. He cited what he

later came to call the 'political asymmetry' of aggregate demand policy; its use curries political favor in combating unemployment by cutting taxes and increasing government spending, but is far less palatable when inflation compels these actions be put in reverse (pp. 180, 185, 194–5). Galbraith was also concerned that the neo-Keynesian scenario would be ill equipped to deal with the 'old-fashioned speculative boom' phenomenon (*American Capitalism*, pp. 198–201). Galbraith explained that high aggregate demand tends to negate the action of countervailing power.

The constraining effect on prices is removed because the great corporations have much discretion over their prices and little or no incentive to risk loss of production by confronting union demands over wages and benefits; they can pass on rising labor costs. The great corporations have the least possible incentive to renege on the convention against price-cutting; starting a price war that might lose market share makes no sense. Farmers too enjoy ready markets for their output and have less incentive to haggle over their input costs and little need to worry about selling their output. Retailers, chains or independents, have little ammunition since manufacturers have plenty of customers. Thus the Keynesian formula is further complicated by the existence of market power in microeconomic structure. Inflation could bring demands for wage and price controls that would undermine the advantages of decentralized decision-making.

Galbraith continued his advocacy for wage and price controls in situations in which there is maximum production and expectations of shortages with attendant rationing or surging prices and raised a further inflationary threat that might arise from changing long-term expectations. Successful application of the Keynesian formula could lead to confidence that government will avert any serious slump and the 'depression psychosis' might decline over time (*American Capitalism*, pp. 187–90). This could generate 'vigorous borrowing' for investment and a reduction in household determination to retain precautionary liquidity. Added to a rise in business and household debt and without the old-fashioned ideological taboo against public budgetary deficits, the populist pressure toward inflationism may be difficult to resist. The force of the political asymmetry of the Keynesian strategy may grow over time (*American Capitalism*, pp. 194–5).

With sustained prosperity it would be difficult to prevent the rise of an 'old-fashioned speculative boom,' in which an increase in asset values takes on a dynamic of its own because business culture is susceptible to periods of excessive optimism, when it is not inclined

toward excessive caution. Some of the capital gains will be spent in consumer goods markets, adding to the inflationary dynamic there and reinforcing the inherent dynamic in the speculative inflation of asset values. The eventual pricking of such a speculative bubble must necessarily involve a sharp reduction in the level of economic activity. The policy makers are thus left with the highly unpalatable choice between ratifying inflation and causing a sharp correction. There will always be great temptation to postpone action to arrest the manic process in hopes that matters will somehow spontaneously work themselves out. Many will always advise 'that all is well. Nothing so develops the latent fatuousness in a community as a speculative boom' (p. 200). The problem of manic bubbles arising in periods of economic prosperity probably 'presents an unsolved problem of restraint' (p. 200).

Since a brisk or seller's market shifts the power balance toward sellers and neutralizes the restraining force of countervailing power, in a period of sustained prosperity wage and price interaction would set in and add a further boost to inflation so long as it were validated financially. Galbraith (*American Capitalism*, p. 193) seems to have come very near the concept of endogenous money in observing that wage increases directly generate income and additional aggregate demand. Inventory investment, financed by corporate debt or dissaving, also rises in a more or less automatic response to price increases. If no pressing need, such as war, exists for full utilization of resources, Galbraith (*American Capitalism*, pp. 194–201) advocated the use of fiscal policy to maintain an element of slack in the economy. Some slack to reduce the pressure of aggregate demand upon productive capacity 'is an absolute and inescapable requirement in industries characterized by a generally developed countervailing power ... [because it] is what keeps countervailing power from being converted into a coalition against the public' (*American Capitalism*, p. 196). The requisite slack 'can be afforded. Price stability and the rehabilitation of the normal operation of countervailing power is more important than squeezing the last bit of production from the economic system' (*American Capitalism*, p. 199). On the other hand, if there is a need for maximal production, 'the only alternative to open inflation is to remove to central authority the power of decision over wages and prices' (*American Capitalism*, p. 197). There would be discomfort in resorting to controls, but the general concern over the distortions created by controls has to be balanced against the 'even more serious consequences,' including the 'damaging social and political effects,' of open inflation.

The Great Crash

Galbraith began *The Great Crash* by observing that the manic bubble that set up the panic of 1929 shared common features with past episodes of 'wild speculative frenzy,' such as the South Sea bubble or the Florida land boom of the early 1920s. Manias thrive on the widespread belief that it is possible to get something of monetary value, indeed a great deal of something, for nothing. A 'common denominator' of all speculative episodes was apparent in 1927–29, that being that people came to believe that they were somehow 'predestined by luck, an unbeatable system, divine favor, access to inside information or exceptional financial acumen to become rich without work' (*Crash*, p. x). In the midst of the speculative booms that may arise from extended periods of prosperity, this sense of getting something for nothing acquires an aura of certainty or inevitability.

Speculative episodes are led by those whose memories are short enough to have forgotten the last hysterical episode, much less of the longer-term historical litany of manias and panics. Only ignorance of this past, or at least its incomplete appreciation, allows one to believe the inevitable hype that the present situation is *new*, that opportunities abound as never before. Historical perspective, if present, would help inure one to present illusion, by leading one to recognition that when it is said 'that history is being made in this market or that a new era has been opened, that the same history has been made and the same new eras have been opened many, many times before' (*Crash*, p. xxii). The intervals between periods of speculative excess are determined by the time it takes people to forget previous episodes and this in turn will vary with the severity of the last denouement of panic and collapse of asset values (*Crash*, pp. xx, 5). At some point of course the natural effects of demographics will leave few of the cohorts who suffered through the last crash and said 'never again.'

When observation reveals great sums of money being made there is a powerful desire to believe in financial genius that cannot be wrong. How can these geniuses be wrong when they are making money hand over fist? Pecuniary success is associated with great ability, even great virtue. Indeed in 1929 the geniuses so convinced themselves of their superior acumen that later in the midst of the crisis they persuaded themselves to buy 'their own worthless stock' in hopes of turning things around. Galbraith (*Crash*, p. 130) noted, probably with no little glee, that 'men have been swindled by other men on many occasions. The autumn of 1929 was, perhaps, the first occasion when men succeeded on a large

scale in swindling themselves.' The mind-numbing certainty of success is usually abetted by any number of financial gurus who, at considerable fees and capital gains for their personal assets, embroider the new era and advise and guide those who want 'in.'

These stellar emissaries of the Golconda that is capitalism are often involved in the proliferation and manipulation of assets and securities, whether land banks and development, stocks, investment banks, holding companies, 'derivatives,' or whatever (*Crash*, pp. xx, 48, 58–9, 84–8). The hot financial instruments share common characteristics of being very poorly understood, and thought to be innovative and superior to those that went before, but being in the main marginally new wrinkles on very old patterns which are not new in any basic way. Certainly nothing about them warrants the common view that they have virtually eliminated risk. Certainly also no fundamental change in risk has occurred to justify the dramatically increased margin buying and other forms of leverage that inflate the bubble. Outright chicane is far from rare in these matters; one Charles Ponzi was kind enough to give his surname for reference to the most spectacular variety of these schemes.

In addition to the gurus and more staid personages who lead by example, there is usually some element of public authority, involved either in promoting the new era for its own ends or in service to its own illusions, or merely refusing to regulate or even denounce the hysterical behavior, for fear of being determined to be out of touch with, or worse to be against, the unfolding prosperity. Galbraith believed that the fear of being held responsible for the inevitable collapse disabled the Federal Reserve in the years before the 1929 crash. The growth of speculation and the weakening of portfolios that developed along with the extended prosperity should have been evident. In early 1928 'the mass escape into make-believe' became apparent and 'the time had come, as in all periods of speculation, when men sought not to be persuaded by the reality of things but to find excuses for escaping into the new world of fantasy' (*Crash*, pp. 16–17). The Fed no doubt retained memory of the last financial debacle, and also of its being blamed for it. Galbraith (*Crash*, p. 16) did not agree that easy monetary policy was the cause of the speculative madness of 1927–29. This view, which he regarded as 'formidable nonsense,' was based on the presumption that the opportunity to borrow at low interest rates must necessarily lead to speculation. But he insisted that many periods of low interest rates, indeed lower than those then present, had not been accompanied by speculative excess. Only a drastic increase in interest rates would have had any impact and Galbraith (*Crash*, pp. 34–7) did not think it evident

that such an increase was possible or likely to reverse the speculation if achieved. Higher interest rates may have deterred many from borrowing, but the last and least to be so effected would have been the speculators who had unbounded optimism in their pyramids in the sky. Dramatically higher interest rates likely would have done little but adversely select for loans the most deeply deluded. Galbraith (1993, *A Short History of Financial Euphoria*, p. 89) later noted that such efforts by economists to defend the efficiency of markets by blaming policy 'was evasion bordering on nonsense.'

On the other hand, although the Fed lacked authority to reduce leverage, it could have asked for it and it could have exerted moral suasion. Galbraith did seem inclined to believe that more stringent regulatory tools, had they been requested by the Federal Reserve Board and granted by Congress, coupled with a stern dose of moral suasion, may have stemmed the speculative tide because 'mood' is very important to the frenzy. But by early 1929 the effect likely would have been catastrophic and the culprit all too evident (Galbraith, 1954a, pp. 37–40 and 174).

There is a place in an unfolding speculative drama when all possibility vanishes of checking or moderating it. Galbraith earlier had set this tipping point at 'roughly ... where preoccupation with short-run capital gains replaces calculations of prospective earnings.... It can only be reversed... [and] there will always be fear ... that steps to check the boom may have widespread repercussions....' (*American Capitalism*, p. 199). Beyond this point nothing but sudden disillusion and the onset of panic or collapse will put an end to the ever upward spiral of illusion that feeds the frenzy. Galbraith concluded that this point was reached no later than early 1929; thereafter no policy could have gradually deflated the bubble. 'The real choice was between an immediate and deliberately engineered collapse and a more serious disaster later on' (*Crash*, p. 30). Politically, someone would be blamed either way, but it would have been evident who would have been responsible had immediate action been taken, and less clear who would have been vilified for the later disaster. The 'Federal Reserve authorities had decided not to be responsible for the collapse' (*Crash*, p. 46).

Galbraith was convinced that there is nothing specific that defines the eventual collapse and that there is little to be learned from examination of the collapse itself. Still it is to be expected that the inevitable search will unfold for what tilted the scale and initiated the collapse. For Galbraith such inquiry was at best a distraction and at worst it could be seriously misleading and obscure the lesson that needs to be learned: 'for it is in the nature of a speculative boom that almost anything can

collapse it. Any serious shock to confidence' can set off the initial wave of selling that then accelerates as the powerful process of deleveraging ensues. Nonetheless there is generally a search 'for a really adequate miscreant' to whose villainy can be attributed the disaster (*Crash*, pp. 95, 127, 161). Distraction compounds error and the essential lesson is disregarded that no matter the pinprick that deflates it, it is naive speculation that supplies the energy that inflates the bubble. Until this is learned and firmly implanted in institutional memory, the cycle of financial boom and bust will be repeated. Galbraith acknowledged that the 1929 fiasco led to some useful legislation that provided regulation and banned some nefarious activities (*Crash*, pp. 170–2).

An insistent question concerns the relation of the crash of 1929 to the Depression that followed. Galbraith (*Crash*, p. 176) acknowledged that explaining 'the boom and crash in the market' was much easier than explaining its relation to the Depression. Nonetheless he was certain that the stock market crash contributed to the severity of the Depression; he rejected the view that the crash merely reflected the deteriorating economic fundamentals (*Crash*, pp. 93–7). In part this reflected his sense that such a massive financial liquidation must have had an impact on the real economy in the years ahead; he did not believe that the concurrence of the crash and the Depression could have been mere coincidence. It also reflected his holistic focus: he insisted that 'no Chinese Wall separates' Wall Street from the wider economy because 'there is an essential unity in economic phenomena' (*Crash*, p. 2). Capitalism is a monetary production economy in which finance is crucial to the volume and structure of output. In short, Galbraith (*Crash*, p. xx) considered the persistent 'recurrent speculative orgy' to be damaging, to serve no useful purpose, to deflect pecuniary motivation that could otherwise serve productive purposes, and to undermine popular confidence in, and to threaten the viability of, capitalism.

Galbraith (*Crash*, pp. 178–81) scoffed at the 'rest' theory of economic downturns. This is the idea that the economy eventually requires a pause to catch its breath after a long prosperous run. But he noted the labor force was not tired, raw materials were plentiful, plant and equipment were far from being depleted, and entrepreneurship was energetic. If so then any needed rest applied only to the financial sector whose heady tempo had indeed been remarkable. But if rest were needed to slow the pace of financial activity and for this reason the real economy suffered, then Galbraith's point had been conceded and the financial crash had indeed impacted the economy.

Galbraith (*Crash*, pp. 179–82) did not deny that the economy was critically unsound by 1929, nor that the economy had turned down before the crash. Business enthusiasm had led to excess inventories and a correction had begun in the summer of 1929. Although data compilation was not yet well developed and one cannot be altogether certain, it is plausible that rising manufacturing profits throughout the 1920s had been largely absorbed by rising investment in plant and equipment. If so, if the rate of increase in investment fell behind the rate of rising profits, demand for goods would fall behind productive capacity and this might have been a factor by the fall of 1929. High interest rates and weakness in agriculture may also have played a role. Galbraith (*Crash*, p. 181n) recognized that a spontaneous fall in consumer spending, could lead to the same result, but apparently did not think it had yet become as discretionary and volatile as after the Second World War. He also insisted that the downturn in economic activity was minimal well into the fall of 1929.

Galbraith (*Crash*, pp. 7, 180–93) argued that thereafter the crash interacted with critical weaknesses in the economy. The distribution of income had become increasingly skewed to the wealthy. In large part this was the result of the increasing imbalance in the economy, which derived from its dualistic nature and the relation between technical change and oligopolistic pricing. In the 1920s, ‘output per worker in manufacturing industries increased by about 43%.’ But wages and prices were comparatively stable, as we would expect given the oligopolistic convention sustaining downward price rigidity and the immaturity of union organization. Also buttressing the profitability of manufacturing was the situation in agriculture, which Galbraith noted was weakening from the 1920–21 economic crisis as its output prices fell but its costs – structured by purchases from oligopolistic manufacturers – remained stable. Not surprisingly profit margins widened in manufacturing industries and the proportion of income represented by profits, interest, and rent nearly doubled (*Crash*, pp. 180–2). This increase fueled the saving of the well-to-do, supporting their personal spending and nurturing their confidence in the munificence of the American way. With cash and optimism they invested, fueling the investment boom in production capacity and the frenzied asset-buying, which required a flow of saving to serve as the base for the loans to be devoted to speculation. This process contributed greatly to a substantial swing in income distribution toward the few at the top from those at the middle and bottom of the income pyramid. This shift in income distribution was one of the

major factors contributing to the unsound economy that developed in the 1920s.

There were other economic weaknesses in the gathering perfect storm. Corporate management was anything but staid and prudent. A great many schemers of dubious character and business acumen entered the corporate ranks and created a 'flood tide of corporate larceny.' The financial structure of corporate America was also problematic, with the proliferation of trusts and holding companies. With the collapse of asset values many concerns responded by reducing investment in operating capacity in order to sustain dividend payouts. This reduced demand and led to further price deflation and reduction in earnings, which led to further cutbacks in investment in order to maintain debt service. Further borrowing became virtually impossible. The banking structure was unsound and endemic bank failures were not cushioned by deposit insurance. Bankers likely enjoyed some of the general optimism of the time, but on the whole seemed no less, no more competent than in other eras. But a system of many independent banks without deposit insurance is a crowd of dominoes waiting to tumble; even isolated mismanagement could cause a considerable series of problem banks. Not surprisingly the events of 1929 set off a massive chain reaction of bank runs and failures. Household and business spending was greatly impacted by loss of bank account liquidity.

Foreign trade and payments also played a role, though one small in relation to the size of the economy. America had moved to creditor status and therefore its export surplus could no longer be offset by its payments abroad to service its foreign debt. Thereafter America's trade surplus would have to be offset by gold transfers from its trade clients or by its loans to them. The nations importing American goods had limited resort to gold transfers and had to rely on borrowing. For some time, consideration of the credit-worthiness of the recipients of these loans was often sacrificed to the earning of underwriter's fees. This element of financial fragility added to that of the domestic financial and banking systems. When this fragility of international debt became apparent as defaults rose, the loans stopped, and American exports fell. The importers' capacity to earn foreign exchange by their own exports to America, already limited, suffered another shock as a result of a substantial American tariff increase.

The state of economic knowledge and policy was a serious problem. A tax cut that generally benefitted the wealthy, and moral suasion to encourage businesses to raise investment and maintain wages, had little effect. These measures would have at least been aimed in the

right direction had they worked; other policies were based on perverse advice. The necessity of a balanced budget was generally approved. This made further tax cuts and expenditure increases difficult as the budget was already heavily (for the standards of the time) in deficit. Indeed, had this advice been carried to its logical conclusion, tax increases and spending cuts would have been the order of the day. The consideration given to exodus from the gold standard was troubling for those giving economic advice; they indeed, of all things, warned against an increase in inflation! Obviously they were not students of the current empirical economy so much as 'custodians of bad memories' who embodied 'a triumph of dogma over thought' (*Crash*, pp. 187–91).

Hence Galbraith (*Crash*, pp. 191–3) viewed the subsequent extended economic pall to have been the result of interacting forces of the industrial and financial sectors of the modern economy. Rampantly speculating on the upward elasticity of their weakening portfolios, the true believers strode with indefatigable confidence toward inevitable tumble. But this financial pyramid building in the sky was interlaced with economic structural changes. The perverse income and wealth dynamics of oligopolistic pricing and technological change both kindled the speculative mood and financed its application. This vicious circle undermined the prosperity by weakening the ability of the larger underlying population of workers, farmers, and small business operators to purchase the products from the rising industrial capacity. The massive imbalance between what the economy could produce and that which its people could buy was not finally overcome until the advent of the next world war.

Galbraith (*Crash*, pp. 193–9) closed with an appraisal of the future prospect for the boom and crash cycle. In this regard his judgment echoed that which we have observed at the conclusion of *American Capitalism* (p. 200) and as we shall see this conclusion remained firm in his later work. In *The Great Crash* he noted that so long as the memory of 1929 was retained, the euphoria necessary for runaway speculation would be absent. He observed that important new measures of public policy, such as regulation of margin requirements and security exchanges and deposit insurance, were put in place that in principle might arrest a speculative surge. Still he argued that the prospect for a repeat of the boom and crash cycle was far from nil; indeed, he would not have had anyone be all that reassured by the availability of tools with which to regulate financial practices and stop a speculative movement. As he later put it, 'nothing was said or done or, in fact, could be done about the decisive factor – the tendency to speculation itself'

(*Euphoria*, p. 86). To be useful, tools must be applied or at least thought likely to be applied. So long as there recurs the conviction that a new magnificent era has arrived, the necessity for application of these measures would be doubted and a fundamental threat to capitalism would again arise, as once again enthusiasm would cause 'men who know that things are going quite wrong to say that things are fundamentally sound' (*Crash*, p. 199).

He noted that measures had been put into place that would cushion the impact of a crash on the real economy (*Crash*, pp. 195–8). The distribution of income had become somewhat more equal and the international system more stable. Income taxation, agricultural programs, unemployment compensation, and other income protection programs were stabilizing measures. He judged the addition of federal deposit insurance to be very important. Plus the understanding of economic policy had improved, and even if timidly applied, measures of inadequate strength aimed in the right direction were better than measures targeted in the wrong direction. Only a threat of a serious depression would test the resolve to apply these measures with the necessary vigor.

Later, Galbraith (*Euphoria*, pp. 89–101) traced the easing of the residual caution from the Great Crash. The wheeler-dealers and charlatans rose on cue as the opportunities arose. Minor disturbances came and went but by the 1980s there was a more serious episode. The 'innovations' of yet another new era, especially the aptly named junk bonds and leveraged buyouts, set the stage for the Crash of 1987. In its aftermath legislative inquiry was conducted and new laws considered, but none were passed. This inaction Galbraith did not bemoan because 'the recurrent and sadly erroneous belief that effortless enrichment is ... associated with what is thought to be financial perspicacity and wisdom is not something that yields to legislative remedy' (*Euphoria*, p. 101).

The Art of Controversy

In *American Capitalism* (pp. 105–7) Galbraith maintained that, with the possible exception of times of war, Americans tended to exaggerate the importance of policy decisions on the economy. He attributed this misperception to a confusion of close decisions with important decisions and a tendency toward robust rhetoric as policy decisions were debated. But, he noted, once a decision is made, the alarm that had been sounded as to adopting or not adopting a policy quickly subsides. Any harm or gain from the decision is often imperceptible because the affluence of the American economy provides a wide margin for error.

Galbraith elaborated on this 'dialectic of exaggeration' (*American Capitalism*, p. 106) in *Economics and the Art of Controversy*, an essay on American economic policy debate in the mid-1950s. This exercise in political economy is remarkable for its political insight; as we often stress, it is genuinely *political* political economy. Galbraith (*Controversy*, ch. 2) argued that an establishment had formed in America among adherents to contending political economic policies and interests. The key factor in the formation of this establishment was mutual acceptance of the rights of others to exist therein; coexistence became the defining feature for management and union relationships in collective bargaining, for matters of farm policy, for the general issue of the self-regulating market versus government guidance of the macroeconomy, and even for extant welfare state programs. Galbraith shrewdly observed that not only in terms of matters military is it true that 'a poor peace is better than any war' (*Controversy*, p. 31). He made a case that the well-worn issues of political debate over the economy were no longer in serious dispute in any fundamental sense. Galbraith argued that no appreciable advocacy of socialism existed in the United States; capitalism was fully ensconced in the postwar American mind (*Controversy*, pp. 33, 36–7). This ran counter to the expectation of those in the industrial democracies that the ultimate shape and character of the political economy would continue to be subject matter for ardent debate. He opined that too few people felt themselves so put upon by social circumstance that their discontent could serve to fuel a significant movement for socialism. This 'American exceptionalism,' if we may apply a term from later usage, included for a long time the ideological denial of the need and *raison d'être* for the unions, yet the American workers had never in any great number challenged the rationale for the private employer. In Western Europe, as a rule, matters were reversed. Employers assumed the existence of the unions while the workers' ideology often challenged the rationale for the private employer.

But the unions had gained footing in the postwar American political economy. Galbraith (*Controversy*, pp. 14–20) cited as a threshold of sorts, the 1937 Mayflower Hotel compact between US Steel and the CIO. Thereafter labor disputes were frequent but their mood had changed. Union leaders denounced Taft-Hartley as legalized union busting and speakers at business gatherings urged ridding the nation of the scourge of unionism. Noisy rhetoric to be sure but not all that furious in Galbraith's estimation. He concluded that there were two reasons for the clamorous oratory. It was in part mere ritual, offered as a reminder perhaps to keep the troops in line or just a bit of social nostalgia. It did not bespeak a

strategy of all-out war. No business orator expected to be taken seriously and Taft-Hartley did not spell the doom of unions, though it probably adversely effected organizing in the southern United States. The other reason for the fiery rhetoric was tactical; there were serious gains to be won or lost in collective bargaining and marshalling public opinion and stiffening the resolve of one's team-abetted relative strength.

Galbraith (*Controversy*, pp. 25–8) reached a similar conclusion in the case of agricultural price and income subsidies. As we have seen in the discussion of countervailing power, agriculture, like labor, could not have organized without state assistance. The Republican rhetoric against farm policy continued, a matter of principle since all intervention was said to be counterproductive and dangerous, and it may well have been that a substantial number of GOP voters in 1952 thought themselves voting for repeal of agricultural subsidies. If so they were to be disappointed soon after election day since no serious assault on farm policy was even attempted. Indeed their standard bearer, one President Eisenhower, did not even persist with the rhetoric. Galbraith (*Controversy*, p. 28) quoted from Eisenhower's 1954 message to Congress on farm policy: "for many reasons farm products are subject to wider price fluctuations than are most other commodities. Moreover, the individual farmer or rancher has less control over the prices he receives than do producers in most other industries. Government price supports must, therefore, be provided in order to bring needed stability to farm income and farm production." '

Galbraith also argued that the argument as to the self-regulating character of the capitalist market economy had subsided and the need for public intervention and guidance generally conceded. There were actually two questions here, one having to do with macroeconomic stabilization and the other with various programs that comprise the welfare state. In the wake of the Depression it was difficult to contend that the capitalist economy left to its own devices would sustain adequate employment and output. The surrender of the doctrine of automaticity was unambiguous for all political intents and purposes. It was years yet before President Nixon's famous observation that 'we are all Keynesians now,' but President Eisenhower's less famous stance was even more emphatic. In submitting his Economic Report to Congress he remarked that 'government must use its vast power to help maintain employment and purchasing power as well as to maintain reasonably stable prices' (*Controversy*, pp. 58–9). He went on to note that this responsibility is a continuing one that includes fiscal and monetary policy, farm price supports, and public works expenditures. That the latter day GOP faithful

came to lack the candor of Eisenhower or Nixon does not in itself signify any important dissent from the surrender of the principle of the self-regulating capitalist market economy. Again, fulsome rhetoric did not indicate any substantial and serious objection to the policy in question. The focus of debate over stabilization policy shifted to the question of means and timing rather than the need for state intervention. As in the other cases noted above, 'a controversy that once involved a major strategic principle has now become a secondary conflict over tactics' (*Controversy*, p. 70). Serious discussion was involved, of course, but it was less fundamental than in earlier times.

Galbraith (*Controversy*, pp. 42–51) remarked upon the important change in public ethics that followed the surrender of the doctrine of the self-regulating market. Acceptance of the necessity of government guidance of the economy changed the foundation for income maintenance measures from humanitarian concern to requisite functionality in economic stabilization. Issues such as tax policy and the level of corporate profits had to be newly scrutinized as to their bearing on macroeconomic performance. Public works expenditures came to be as much a matter of functional finance to stabilize the economy as the public's expression of need for the public goods.

Even the existing measures of the welfare state had become entrenched. No less a stalwart member of the Grand Old Party than Thomas Dewey, in reflection upon a losing senatorial bid by a fellow GOP member, remarked that 'anyone who thinks an attack on the fundamental idea of security and welfare is appealing to the people is living in the Middle Ages' (*Controversy*, pp. 73–4). Lesser of the GOP faithful may be less candid than Dewey and persist in their expressive political illusion but their attacks on established welfare state programs are as a rule conducted only in general terms and seldom if ever aimed at specific policies. Galbraith noted that the debate over the welfare state was often conducted with 'extreme uncertainty over what is being debated' and that it was a 'virtual certainty that an individual who opposes the Welfare State in the abstract will be in favor of much of it in the concrete' (*Controversy*, p. 74). Forced to speak upon the particular and clearly specified policies of unemployment compensation, old age and survivors' pensions, or other existing programs of the welfare state, the opposition is rather less definite and very muted at best.

It is true that extensions of the welfare state are openly opposed by conservatives, as are most changes, in the nature of the case. New policies have no track record and must necessarily be evaluated in hypothetical terms. When one can rely upon hypothetical consequences,

one can release one's imagination and more freely lambast proposed policies (*Controversy*, p. 81). Given their exegesis, if the proposals are adopted anyway, it is likely that the consequences will fall well short of the exaggerated forecasts, to the apparent discredit of the prophet. But debate will continue, tactical maneuvers at the margin still have importance, albeit diminished. Moreover, Galbraith (*Controversy*, pp. 29–30, 103) thought there would remain those who have interests vested in continued controversy over mostly settled principles. The typical political career is based on controversy. To make well-worn arguments in a debate among familiar disputants, one needs to apply little current effort. Lobbyists and other influence-peddlers abound who have specialized information of the issue. There are also individuals and factions who refuse to accept settled principles, and these minorities, with no hope of reversing precedent, are under no constraints to amity in hopes of winning. Controversy therefore has a dynamic of its own. Galbraith's point was not that political disputation had come to lack energy; quite to the contrary he argued that in the absence of genuine substantive differences, the political disputants had to be all the more clamorous to garner attention. He saw much sound exercised over issues that were more or less settled and no longer subject to furious conflict.

In these books we see the emergence of Galbraith's permanent interest in financial bubbles and organization. Both had emerged in tentative form in his earlier work in agriculture, depression, and war. His insistence on the need for an economic theory of mature capitalism that focused on organization was to become central to his later works and, arguably, his most important contribution to economic theory (James Galbraith, 1984 and 2008b). His concern over the obstinate succession of boom and crash, and his elaboration and historical corroboration of Keynes's (1964, ch. 12) insights into the behavior of mature stock and credit markets, was to become a large part of his fame and an important contribution to the understanding of the realistic problems of macroeconomic stabilization. *The Great Crash* remains a superior work in economic history: 'there is no other history of the stock-market crash of 1929 that is as short and even half as worthwhile' (DeLong, 2005, p. 126).

In a curious chapter on the 'unseemly economics of opulence' Galbraith tipped his hand with regard to his future interest in the obsession with consumption in affluent America. He recognized that the American postwar economy displayed considerable endemic waste but was 'too well off to care.' Galbraith went so far as to assert that the alternative to the evident frivolity of much resource use in a wealthy

economy will always be equally frivolous. The most spectacular waste is advertising and related selling costs which are uniquely characteristic of affluent societies. 'No one would advertise the sound-effects of processed breakfast foods striking the milk to ... [those] who have only the resources to buy oatmeal' (*American Capitalism*, pp. 95–101).

He added that anyone who frets about the victimization of the buyer should first consider that the buyer 'is the victim of his own comparative well-being' (*American Capitalism*, p. 100). Galbraith did somewhat temper this apparent complacency by noting that there remained much unnecessary poverty and inequality of income distribution, and thus the aggregate economy was subjected to unreliable spending. He concluded that 'there are good reasons for continuing to worry about social inefficiency ... [but] no one should be at loss as to why we survive it' (*American Capitalism*, p. 105).

That Galbraith confessed 'equanimity' with regard to this waste is puzzling not only in light of the stridently critical mood of his later works, but even with respect to the far from complacent thrust of his argument in the book under discussion. He criticized the misplaced concern of economists with static inefficiency 'in a land which is already suffering from nicotine poisoning and alcoholism, which is nutritionally gorged with sugar, which is filling its hospitals and cemeteries with those who have been maimed or murdered on its highways and which is dangerously neurotic about normal body odors' (*American Capitalism*, p. 102). This is not complacent prose; indeed one should think it conveys a sense of urgency at the prospect of a social economy going stark raving mad. It brings to mind Veblen's (1967, pp. 306–7n) insistence that advertising 'is a trading on that range of human infirmities which blossom in devout observances and bear fruit in the psychopathic wards.' At any rate, much of Galbraith's later work was to confirm the seriousness of Veblen's concern about the psycho-cultural malaise of mature capitalism, though one could argue he never accorded it the gravity it should command (see Stanfield, 1995a, ch. 13).

As we have noted, with *American Capitalism*, published later in the same year as *The Theory of Price Control*, Galbraith made a dramatic break from the relatively narrow confines of more conventional economics, both in terms of the scope of its subject matter and the extent of its market area for book sales. Colander (1984), as well as Galbraith himself, emphasized the contrast between the two 1952 books. Though certainly the first has political elements and its attention riveted on policy and reform, it has nothing approaching the wide swath of the later book as a work in heterodox political economy. For the first time

but far from the last, the book earned Galbraith the proclamation that he is not really an economist. Hunter (1958, p. 103) concluded a long essay on the book by observing that ‘there is serious doubt that countervailing power is primarily of the material of economic theory. On the desirability of pressure groups to offset weak market positions the economist cannot be the main authority; and the assessment of such forces in terms of “the minimisation of social tension” seems to be a task for other disciplines.’ In contrast to such dismissals, Arthur Schweitzer (1954), a social economist in the German historical tradition, devoted a lengthy review article to the book, then followed with a ‘revisited’ essay in which he observed that ‘the theory fell in disrepute ... and was not even upheld by its originator in his well-known subsequent works.’ Schweitzer then drew upon recent histories of the New Deal era and Weberian sociology to reformulate the theory of countervailing power in light of a changing context of social ethics and goals. His conclusion no doubt pleased Galbraith, as it was a resounding modern liberal declaration on the struggle of farm workers to unionize: ‘The next contest will come in the Congress over the national right-to-work bills, which seek to outlaw countervailing power – by misnaming it monopoly power’ (Schweitzer, 1980, p. 1016).

As indicated in the epigraph from Myron Sharpe, Schweitzer was not alone in his insistence that countervailing power retained its relevance. There was concern among admirers of *American Capitalism* that the concept of countervailing power was to be a paradigm lost. But, as we see in Chapter 7 later, Galbraith later returned to the question of power and substantially rehabilitated the concept, de-emphasizing any notion of automacity and making it more contingent and dynamic (see Kesting, 2005).

4

The Political Economy of Affluence

I know not why it should be a matter of congratulation that persons who are already richer than anyone needs to be, should have doubled their means of consuming things which give little or no pleasure except as representative of wealth

J. S. Mill, 1848

Fired by an emotional faith in spontaneity, the common-sense attitude toward change was discarded in favor of a mystical readiness to accept the social consequences of economic improvement, whatever they might be Household truths of traditional statesmanship ... were ... erased by the corrosive of a crude utilitarianism combined with an uncritical reliance on the alleged self-healing virtues of unconscious growth.

K. Polanyi, 1944

The Affluent Society (1958a) is one of the most famous books of the twentieth century. Once he focused on American affluence, the paradox that production nonetheless remained the highest national priority came to Galbraith 'with the force of a thunderclap' (Parker, 2005, p. 280). Thus one of the two major themes of the book became the impediment to progress posed by obsolescent thought or cultural or institutional lag. Galbraith's term for this was the *conventional wisdom*, an unforgettable phrase which has become ensconced in the popular idiom and is applied to any habitual interpretation of present circumstances to which its correspondence is dubious. The other major theme was that political economic thought needed to traverse this lag in order to examine the power of the great corporation in modern society and to contemplate the opportunity afforded by affluence to enhance the quality of life. In this regard,

Galbraith emphasized the need to address the issue of *social balance* in the allocation of resources between the public and private sectors.

The chapter also discusses *The Liberal Hour* (1960), a book of essays that both elaborated the themes of *The Affluent Society* and anticipated those of *The New Industrial State*. Galbraith's growing apprehension over the menace of militarism became evident, his impatience with the drag of social nostalgia more pronounced, and his concern about the neglect of aesthetics, environment, and quality of life more manifest. He also began to focus more on the great corporation in terms of organizational behavior.

The chapter includes discussion of Galbraith's *Economic Development* (1964a). We cover this volume with some unease since Galbraith considered it to be only 'marginally better' than its predecessor *Economic Development in Perspective* (1962), which he regarded as a 'non-book' to be avoided (*Life*, p. 393; *Ambassador's Journal*, 1969a, p. 295n). Since the original book (1962) was drawn from a series of lectures, his concern may have been largely stylistic. However, in the 'Introduction' to *Economic Development* (pp. xi–xiii) he noted the addition of several chapters and expressed concern that he had given too little attention to problems of economic administration and especially to the need to shift much of this task to the price system. So apparently he also had some substantive misgivings about the books.

We provide supplemental discussion of Galbraith's journal articles and essays and we also return to the subject in later chapters. This allays somewhat our concern over ignoring Galbraith's advice. We are further reassured by the acceptance of the volume by prominent institutionally oriented development economists. Adams (1984, pp. 93, 97) noted that 20 years after its publication, its first five chapters still had 'a fresh air about them' and were worthy of assignment in a development economics course. He also noted the prescience of Galbraith's emphasis on 'political development and administrative competence' and the timeliness of his emphasis on improving popular consumption, the basic needs approach, which was not common in the early 1960s. Peach (2008) relied heavily on the book and noted that Galbraith 'approached the economic development problem with a keen understanding of both the economic and political forces shaping the development debate' which remains highly relevant today.

The Affluent Society

The Affluent Society is the most important of the books discussed in this chapter. Indeed it is arguably the most important, or at least second

in importance only to *The New Industrial State* (1967a), in Galbraith's total *oeuvre*. The central thrust of the book was to challenge the creed that made increased production the ultimate test of social achievement. The continuing urgency of the need for ever higher income and consumption is the product of the conventional wisdom and its 'tradition of despair,' which persist not by tradition and inertia alone but also by their convenience to powerful vested interests in the 'paramount position of production.' The conventional wisdom neglects the role of the 'dependence effect' in the formation of wants and in so doing obscures the power of the great corporate organizations. To emphasize the pernicious effects of this preoccupation with personal consumption, Galbraith introduced the 'theory of social balance' to contrast the copious abundance of commodities produced to serve private virtue and vice with the squalid results of the habitual parsimony accorded to the supply of public goods and services. He sought to make the case that a serious problem existed at the margin of resource allocation between the private and public sectors.

The conventional wisdom

Galbraith often referred to the problem of 'ideas and circumstances,' the problem being that the former tend to persist in the face of changes in the latter. He frequently made the point by taking issue with Keynes's famous quote on the power of the ideas of long past 'academic scribblers' (Galbraith, 1998b, p. 12). Galbraith clearly recognized the power and persistence of ideas since he often referred to the danger of lagging thought, such as Say's law or the theory of competitive markets. But he insisted that the most resolute enemies of obsolete ideas were the circumstances posed by ever-evolving reality. 'Ideas are inherently conservative. They yield not to the attack of other ideas but to the massive onslaught of circumstances with which they cannot contend' (*Affluent Society*, ch. 2:6).

Change is a fact of all natural existence and human beings in particular, inveterately curious and conscious of their material existence, tend to amend their tools and knowledge. But habitual conceptions of truth and propriety tend to lag behind this incessant change. So there is *conventional wisdom*, a framework for interpreting observed events within the canon of traditional thought. Resistance to invention in natural sciences is common but in the observation of social events there is even greater elasticity afforded the individual over the interpretation of events. One is 'within a considerable range ... permitted to believe what [one] pleases,' ... so there arises 'a never-ending competition between

what is relevant and what is merely acceptable' (*Affluent Society*, ch. 2:1). Acceptability is the ethnographic telltale of the conventional wisdom and considerable ritual and sanction guides an observer to the acceptable. An added difference of economics from natural sciences is that the former 'is subject to two types of change. The first is the interpretation of given phenomena. The second is in needed accommodation to change in economic behavior or institutions' (Galbraith, *Economics, Peace and Laughter*, 1971a, p. 8). The inventions of national income accounting, input-output analysis, and application of advanced computing technology to economic analysis represented the first type of change. The second lies in the need to accommodate economic thinking to such changes as the emergence of the great corporation, generalized affluence, or organized labor. While it has been progressive in the first instance, economics has been very resistant to adaptation in the latter.

The community of economists, as is the case for other social and natural sciences and indeed for all human activity, is held together by a social structure that undergirds the conventional *paradigm*, to use the term made famous by Thomas Kuhn (1970) in his seminal discussion of natural science. (For an early application of Kuhn to economics see Stanfield, 1979, ch. 1.) One skeptical of the paradigm is simply ignored, presumably being insufficiently schooled in the subject matter or simply prone to error. Ostracism is a powerful disciplinary force in any human community. The conventional wisdom is not without function. In social science a degree of paradigm discipline is necessary if there is to be a community of scholars. There is a sort of progress in the day-to-day resolution of puzzles well defined by the paradigm. Minimal innovation that does not threaten the hard-core propositions of the paradigm is not only acceptable but even celebrated, some novelty in the solving of acceptable puzzles by acceptable methods being the nature of professional practice (*Affluent Society*, ch. 10:2).

The conventional wisdom in any setting provides a degree of order and understanding, often tacit, without which social interaction would be 'erratic and rudderless.' Therefore 'every society must be protected from a too facile flow of thought' (*Affluent Society*, ch. 2:5). Change cannot be too swift or the capacity to assimilate it will be insufficient, which will lead to cultural disintegration and anomie.

But the conventional wisdom is always and everywhere under stress from the unfolding succession of events. This stress becomes fatal to an element of the conventional wisdom when a pressing problem or contingency is so in need of solution that the obsolescence of habitual

thought becomes palpable and intolerable and the inherently conservative character of ideas must yield to 'the march of events' and circumstances (*Affluent Society*, ch. 6:4). This suggests that just as the conventional wisdom should not yield too readily and settle rapid change and disorientation upon a society, so also it should not be so resistant that change when it comes is so obtrusive that assimilation comes only with great strain on the body social. Thus 'there are grave drawbacks and even dangers' in thought that systematically 'avoids accommodation to circumstances until change is dramatically forced upon it' (*Affluent Society*, ch. 2:6).

Galbraith's specific reference in *The Affluent Society* was to the classical economics perspective with its obdurate concern for economic efficiency and growth. As noted above in the discussion of *American Capitalism*, Galbraith thought that this classical outlook was broadly applicable to the circumstances in which it originated, but he was convinced that profound changes had occurred that militated toward change in the outlook of economists. The major circumstances that he was convinced required recognition were the power and organization of the great corporations and the affluence that they produced.

Galbraith traced from Adam Smith the development of the conventional wisdom in economics, which he called 'the tradition of despair' (*Affluent Society*, chs. 3, 4). Economics arose to deal with various issues presented by the rise of commercial society, to which was soon added the further momentous changes stemming from the rise of the factory system and the industrial revolution. To the long history of mass privation and subjection to the vagaries of nature, there was now added the experience of institutionally imposed insecurity. In the face of scarcity, but with recognition of economic growth, the central tradition in economic thought became preoccupied with productivity and growth. To promote productivity and growth, and to eliminate waste and idleness, the classical tradition in economics has promoted the discipline of the competitive market economy. In the original scenario the fate of the ordinary individual was darkly drawn, as in the doctrine of the iron law of wages, in which the lot of the common worker was able to eke out a wage that measured up to the subsistence of the worker and his family, but no more than enough.

By the last quarter of the nineteenth century, the iron law of wages had been rejected in name with the advent of neoclassical economics and the marginal productivity theory of distribution (*Affluent Society*, ch. 5). But vestiges of the classical situation remained and there was no great swell of optimism as to the lot of the worker. There was concern

over the extreme inequality of income distribution, especially in relation to inheritance and monopoly power. The maintenance of competition and the insecurity by which its incentive system operated was not in doubt. To this despair over inequality and insecurity was soon added the specter of industrial depression, with its massively damaging interruption of production. Galbraith found no important modification with regard to the tradition of despair in American economic thought or the Marxian variant (*Affluent Society*, chs. 5, 6). The main currents of the conventional wisdom in economic affairs, as established in the eighteenth century, refined in the next century, and carried over to the twentieth century, insisted upon the inevitability of scarcity and the ineluctable need to increase real income production. There was persistent controversy as to how much inequality and insecurity had to be endured as necessary to this task.

Galbraith argued that by the middle of the twentieth century, the issues of inequality and insecurity had been defused by subsuming them within the overriding objective of raising production (*Affluent Society*, chs. 7, 8, 9). In his view, inequality had greatly declined as an economic issue. Neither adherents nor opponents of progressive taxation seemed any longer to be pushing to increase it or decrease it. Though substantial inequality remained, for a quarter of a century after the Second World War, it was relatively stable. Galbraith also argued that conspicuous display of wealth and leisure had become *passé* and that the very rich had shifted away from the extravagant embellishments of personal life that Veblen had ridiculed in *The Theory of the Leisure Class*. In the institutionally dominant great corporation, 'prestige and power are now far more intimately identified with those who, regardless of personal wealth, administer productive activity' (*Affluent Society*, ch. 7:5). The major force involved was the solvent of economic growth. Growth in real income enabled all classes to advance in absolute terms and averted the vastly more pithy and controversial problem of income and wealth redistribution. A modern liberal and classical liberal or conservative consensus on growth thus supplanted the bitter controversy on inequality. A truce had been forged on the issue of redistribution so long as growth continued to raise all incomes.

Similarly, economic insecurity had been subsumed under growth and declined as an issue (*Affluent Society*, ch. 8). So long as income is linked to productive performance, economic security is possible only through the high employment made possible by sustained growth. For good measure, national security was added to the side of expanding output because industrial supremacy was seen as a necessary ingredient to superior

military preparedness. Though, in principle, the welfare or social security state was still condemned as inimical to economic effort, the reality was its acceptance as part of an organized effort to avoid insecurity. The great corporations led the way in the risk reduction movement, securing their autonomy by means of administrative power, product diversification, advertising, and technical innovation. With government assistance workers advanced security through unions, farmers through price supports, and small businesses through regulations on business conduct. All became more secure with various income protection programs. Given these microeconomic reductions in risk, all that remained was to protect all against macroeconomic failure with stabilization policies to secure the vital high employment and economic growth.

Galbraith noted that there were strong vested interests behind the preoccupation with economic growth (*Affluent Society*, ch. 13). Those who in one way or another enjoyed their income, prestige, and power because they contributed to, guided, or understood the process of expanding production, had a vested interest in maintaining the definitive priority accorded to economic growth. Put negatively, any decline in the importance attached to expanding output would have led to a decline in their income, prestige, and power. Business executives and technical professionals who ran the social machinery of production, wealthy people who had accumulated purchasing power, politicians whose platforms and constituencies were based on government fostering of growth, and academic economists whose central ideas were concerned with scarcity and growth all had varying degrees of vested interests in the continuing obsession with expanding production. In short, the *growth lobby* had emerged. Strong ideological sentiment and powerful political economic interests had become wedded to the central proposition that the greater the output, the better. Much else that concerned or should have concerned society had been swept beneath the growth rug. To challenge growth had become a sure sign of immaturity if one could be so pardoned, insanity if not. 'It is an index of the prestige of production in our national attitudes that it is identified with the sensible and practical' (*Affluent Society*, ch. 9:1). Polanyi's epigraphic prose decrying the nineteenth-century classical liberal faith in the crude corrosive of material progress is no less applicable to the postwar modern liberal consensus of the growth lobby.

The dependence effect

Thus Galbraith arrived at 'the paramount position of production' (*Affluent Society*, ch. 9). The intellectual bedrock of the continuing

importance of more output is provided by the economic doctrine of insatiable consumer wants, which are assumed to exceed the extent of the resources available to satisfy them. In addition, for the conventional economist, human wants are datum; neither their formation nor their quality is appropriate subject matter for economic investigation. This effectively prohibits practitioners of the economics art from examining, by any standard or to any effect, such questions as the influence exercised on popular wants by powerful economic agents or the validity of established wants with respect to any standard of aesthetics, social merit, or individual well-being. More is better, period. Yet for Galbraith, much had changed since this doctrine became canonical. The great corporations expend many billions of dollars every year in the United States in an effort to influence consumers. Affluence puts a great deal more discretionary income at the disposal of consumers. These two overriding facts of modern life are related in many ways. The productivity of the great corporations provides the affluence, which in turn provides the discretion that stimulates advertising.

Nothing in *The Affluent Society* so activated controversy as the discussion that deals with the maintenance of popular emphasis on consuming more, that is, with assuring that people continue to want more no matter how much they possess already. In discussing the process of want creation, Galbraith utilized the concept of the 'dependence effect' by which one's wants arise from or depend upon what one sees others consuming. Emulation is an innate aspect of human learning, and necessarily plays an important role in the process of want creation. The demonstration effect, that observation of the production and consumption of others induces the observers to increased exertion to produce and consume, had long been recognized in economic thought. People emulate one another in an attempt to curry favor, display their modernity or good taste, 'keep up' with others, or simply to exercise their innate curiosity. But economic thought has neglected the intensification of this effect by the very active incitement of the modern process of advertising and other salesmanship activities. These present a persistent cultural theme: BUY! The moral mini-stories portrayed in advertising stimulate an incomes race in which people endeavor to outdo one another in earning and spending income. The presence of such vast efforts to create wants led Galbraith to doubt, or at least to the need to critically examine, the case for the continuing urgency of expanding output to satisfy them.

Perhaps Galbraith could have been more careful in stating the dependence effect, though those who did not want to understand the

point may well have chosen to miss it in any case. But Galbraith did leave an opening with observations such as: 'If the individual's wants are to be urgent they must be original with himself. They cannot be urgent if they must be contrived for him' (*Affluent Society*, ch. 11:1). There is a vastly misleading phrase here as well as a profoundly important key word. The misleading phrase is 'original with himself.' There is no need to stipulate such autonomy for the individual; one may certainly form one's wants and the expected consequences thereof in concert with other people. One may do so with critical certainty or one may accept advice from a trusted friend, family member, or charismatic leader. A critical attitude is necessary for many visions of one's participation in the good society, but no matter how important it is in that regard, it is overstatement to insist that this disqualifies or delegitimizes those wants with respect to the allocation of resources. To insist on wants originating with the individual is to establish a straw person that is altogether too easily assassinated. As Hayek (in Phelps, 1965, pp. 37–42) observed, all wants are culturally derived so it is a *non sequitur* to assert that wants that are learned rather than innate are relatively unimportant.

But to be fair to Galbraith one must point out that Hayek overlooked the contextual clarity of Galbraith's point; Galbraith acknowledged that 'wants can have bizarre, frivolous, or even immoral origins, and an admirable case can still be made for a society that seeks to satisfy them. But the case cannot stand if it is the process of satisfying wants that creates the wants' (*Affluent Society*, ch. 11:2). This leads us to the profound key word, *contrived*, which is pivotal, in that it leads one to ask by whom? As noted one's wants may be influenced by others without losing legitimacy in asserting the notion of scarcity. No matter how much we prefer that one think for oneself, leadership and paternalism abound in human society. A society which so indoctrinated individual conscience that these social interactions were absent is not imaginable; were it even remotely approached, it would disintegrate into cultural crisis until moral authority were restored. But this does not mean that all answers to the question 'by whom?' are acceptable. No one, or certainly almost so, in range of this script would accept a political dictatorship that had legal authority to impose wants upon the individual by force or propaganda. Influence of one individual upon another within a vertical relationship is morally acceptable in some contexts, but for the dominant philosophical points of view in democratic capitalist societies, the great corporation and the consumer is not such a context.

Galbraith's point was that the wants cannot legitimate the production if they originate with the producer's desire to sell this production. Taking full measure of the vast efforts devoted to salesmanship and advertising and examining the theory of consumer demand in this light, one cannot simply dismiss the possibility that those who organize production activities thereby also seek to form the wants to be satisfied by their output. This deflects another point made by Hayek, that the want-creating activities of producers are only a part of the cultural milieu. The pluralism argument is contradicted by Galbraith's emphasis upon wants being *contrived* to serve the needs of powerful purveyors of commodities. The question as to whether a vibrant pluralism orders production is an empirical one. The question must be addressed as to whether there are enough counteracting media voices so that we can rest easy knowing that the voice of the great corporation is not dominant. Casual empiricism of contemporary culture suggests plausibly that the voices of the great corporations are well nigh hegemonic and that therefore this should be a matter eliciting considerable scrutiny.

Granted, even if production is found to serve wants largely contrived for the convenience of the producer, one might suggest that there is no problem so long as the production involved produces no unpleasant byproducts. But as we shall see below, Galbraith took great care to indicate otherwise. In view of the social costs of production, strong doubt must indeed attach to the urgency of wants so contrived. The specter arises of self-justifying commodity production, commodities produced to serve the pecuniary interests of the businesses selling them without having passed muster as to their value to any reasonable substantive purpose in the human life process. This perception raises troubling questions about legitimacy and value in the contemporary institutional configuration (Stanfield, 1995a, chs. 4, 6).

To emphasize, there is an important difference between the general acquisition of tastes through social interaction and the systematic imposition of tastes to fit the needs of powerful vested interests. Life as a marionette earning and spending income is inconsistent with all known conceptions of the good society in classical or modern liberal thought. Even social conservative doctrine, while placing great emphasis on moral leadership, would not go so far. The point is ever so much stronger if the marionette's sovereign 'choices' are cited as inveterate evidence against the feasibility of environmental protection, greater social equality and security, or increased social amenities and leisure time. The habitual proclivity of economists deflects attention away from the issue of want formation, away from the generation and distribution

of individual earnings capacity, and away from the power structuring of the context within which individual preferences and capacities are applied (Stanfield, 1995a, ch. 1). Of course, economists do not dictate popular consciousness, but in an econocentric culture, they exercise important influence upon it. All the more so when their canon is of great convenience to society's most powerful organizations which can therefore be expected to promote it.

The final major concern of *The Affluent Society* was to examine the consequences of the tenacious devotion to economic growth. Galbraith's 'ultimate purpose' was to clear the way for recognition of the opportunities that would emerge were the more-is-better mentality put aside, allowing democratic capitalist societies to put their enormous productive power to saner and more humane use (*Affluent Society*, ch. 14:1 in the first edition, ch. 13:1 in later editions). In short Galbraith made the case that the preoccupation with economic growth in its present pattern generates dubious additional welfare and spawns many debilitating problems and distortions, because its output is seriously unbalanced.

Galbraith insisted that the process by which wants are created and satisfied threatened economic stability and implied continuous inflation. He anticipated that attitudes toward debt would have to change in order to sustain the enormous increase in consumer debt that would be required (*Affluent Society*, ch. 14 in the first edition, ch. 13 later). Hesitation to add further debt would have to be overcome and the traditional virtue of deferred gratification would have to yield pride of place. In the landscape of the society which Galbraith saw emerging, there would be permanent and necessary fixtures designed to induce further consumer debt. Competitive salesmanship would lead to easier credit checks, lower down payments, and longer repayment terms. This rising debt would increase uncertainty and economic instability, thereby threatening economic security. Consumer spending would become less reliable as a component of aggregate demand and its volatility would have to be considered alongside that of business investment. Any increase in unemployment would be exaggerated by the effects of a decline in consumer confidence and an increase in financial stringency on consumer debt. Galbraith suggested that there might be diminishing returns to advertising and other marketing tactics. They might lose persuasive influence at the margin, requiring more aggressive efforts, and therefore have to grow more than proportionately to output.

Galbraith also argued that the paramount position of production would make persistent inflation all but inevitable (*Affluent Society*, chs. 15–17 first edition, chs. 14–16 later). The dominant goal of

production would require that the economy be operated at high levels at which it is not stable. Business debt and consumer debt would be pro-cyclical, growing the most at precisely those times when excess demand threatens to develop. Policy that would contain inflation by reducing demand and output would be generally inadmissible because it would conflict with the truce on inequality and insecurity and with the paramount position of production. Regulatory provisions to raise and enforce standards of consumer credit would face similar impediments. Galbraith cited the argument from *American Capitalism* that at a high income level, countervailing power is blunted and the market power of organized economic agents will exacerbate inflation. Effective application of wage-price controls would perhaps make macroeconomic balance at high output sustainable but they were inconsistent with the prevalent 'social ethos.' Much of the ingrained resistance to controls reflected the lack of general recognition of the very different responses to aggregate demand policy by the dual sectors of the economy and of the fact that controls need only be applied to the administered sector (Galbraith, 1957).

Galbraith considered rising consumer debt to be a major problem of the continued assignation of paramount importance to the increase of production. A second major problem of this emphasis was the impediment placed in the way of sustainable stabilization policy, especially the seemingly intractable problem of inflation. The third major problem arises from the fact that the preoccupation with output is highly selective in that it accords very little attention to output in the public sector. The dependence effect and the ideology of consumption support a dynamic expansion of private sector commodities. This is part of the impetus toward instability, or, at least it can be said that were a larger proportion of resources devoted to goods provided by the public sector, stability would be enhanced because public sector output, at least at the national level, is less volatile than that of the private sector. Moreover with more adequate funding, the public sector could deal directly with inequality and insecurity, freeing the level of aggregate income from that responsibility.

The theory of social balance

From this selective emphasis on private sector output, Galbraith (*Affluent Society*, ch. 18 or ch. 17 in later editions) maintained that there arose a third, and in many ways defining, pernicious consequence of the paramount position of production, that being the imbalance between public and private sector output. One of the most telling discussions in the

book is that which deals with the theory of social (im)balance. Galbraith maintained that the preoccupation with expanding production and the process of consumer want creation that sustains it tend to generate relative penury in the public sector. This reinforces the traditional anti-government bias of the conventional wisdom as the incessant attention to private consumption obscures the need for collective action in areas critically important to the quality of life. Galbraith argued that nothing so strong as the dependence effect, especially its active ingredient of advertising, operates to draw attention to these collective wants.

Yet a moment's reflection establishes that private and collective wants are complementary (*Affluent Society*, ch. 18:2 first edition; ch. 17:2 later). The increased utilization of automobiles must go hand in hand with increased collective provision of roads and traffic control. The suburbanization and urban sprawl that mark the automobile age requires a far-flung government apparatus to service and protect dispersed neighborhoods. The resort to an ever-greater volume of packaged goods and disposable items necessitates more trash removal and solid waste disposal planning. Galbraith even anticipated the trend toward dual-earner households and noted that this too has implications with regard to social balance. Increased participation of both spouses in the paid labor force would necessarily generate a need for more collectively regulated and provided environments to occupy the time of children.

The need for environmental protection vastly increases with urban sprawl, intensified energy utilization, and fulminating packaging. But aggressive policies in this regard have been hampered by their apparent conflict with the paramount position of production and the institutional bias to private output. Regulations to improve automobile safety and traffic control in an effort to reduce the carnage on America's highways involve increased costs or increased taxes, both of which reduce private consumption. Improved and expanded public education to offset the effects of television and other influential media in the private sector remain underfunded. Galbraith compared public educational expenditures to those on television and athletic activities. Today the Internet adds immeasurably to the concern over the education of children. Public provision and regulation of child care fares no better; actually it fares even worse because an additional element of social nostalgia intervenes. The traditional patriarchal family structure has given way to dual earning and single parent households, much to the chagrin of social conservatives who insist that the traditional structure is necessary for the adequate rearing of children. The pragmatic focus on function rather than structure, and therefore the need for public provision

of functional equivalents to the traditional family structure, makes little headway against the combined forces of social nostalgia and the paramount position of commodity production. A serious Nurturance Gap results (Stanfield and Stanfield, 1995, 1996, 1997).

In what seemed to be another consequence of social imbalance, Galbraith (*Affluent Society*, ch. 13 in first edition only) argued that the paramount position of production might pose a threat to national security. He challenged the prevalent view, that high growth *per se* was sufficient to protect the nation, because it neglected the fact that the public sector arranges national security and that the consumer goods encouraged by the dependence effect make no contribution. The incessant effort to convince people that they need to consume at ever-higher levels might make it difficult to convince them to forego consumption in order to provide capacity for military preparation. One can see how this proposition, though obviously curious in retrospect, could have been extrapolated from Galbraith's frustrating experience with war preparation and price control in the 1940s (*Life*, chs. 8–14). His work on the survey of the effects of strategic bombing in Germany also suggested to him that habitual standards of civilian consumption would not readily yield to mobilization. He also pointed to the Korean War, in which consumer buying in anticipation of shortages and rationing led to serious inflation, and concluded that such efforts 'to protect the conventional standard of living became an immediate and clear-cut threat to the effective prosecution of the war.'

As opposed to a need for acute mobilization, Galbraith also insisted that a chronically inadequate provision for national security could not be ruled out. Education is necessary to provide the human resources to operate complex modern war machinery. Galbraith, of course, wanted to avoid the Cold War confrontation that arose in the postwar period and was no advocate of the 'perilous strategy of deterrence,' but he noted that its prosecution required resources and that social imbalance could obstruct achievement of its goal of overwhelming preparedness. More importantly, Galbraith argued that America should go well beyond 'this effort to find a balance in thermo-nuclear terror' and include in its strategy foreign aid and concern for the well-being of the transnational order. The specter presented to the rest of the world by the incessant urge to expand consumption was that of a plutocrat greedily determined to see to its own comfort and ostentation. The preoccupation with consumption muzzled the power that effective use of America's wealth could provide were it devoted in some important measure to easing the deprivation that breeds disorder and to improving the organization of the

transnational system. Galbraith thought the rest of the world attributed America's poor application of its affluence to some failure of statesmanship, but he argued that the problem emanated from much more depth in American culture, 'it is an aspect of our economic attitudes' (*Affluent Society*, ch. 12:7).

It should be noted that, although Galbraith (*Affluent Society*, 1976, p. xxvi) 'liked the chapter on The Illusion of National Security,' he nonetheless deleted it from all editions after the first. (This is of course the reason for the resort to awkward citation of the book herein.) By then he had no doubt become more concerned about 'the dark shadow that is cast by the ... power,' of the military complex, though in the same breath he adverted that 'much on my mind twenty-five years ago' was 'the commitment of a production oriented society to the promiscuous ... production of weapons.' Though he averred that his concern in this regard had increased, one puzzles that the original Chapter 13 could have been written in the face of any level of this concern (*Affluent Society*, 1984, p. xxxii). In any case the experience of military funding since 1958 has certainly affirmed the decision to omit the chapter.

Even with the paramount position of production socially ensconced, Galbraith noted a problem of imbalance in the nation's investment choices that could affect the capacity to generate output (*Affluent Society*, ch. 19:1,2; ch. 18:1,2 in later editions). Innovation, essential to continued improvement in the standard of living, has become the task of highly organized, highly trained individuals. The investment in their capacity is almost wholly concluded in the public sector. Unlike investment in material capital, there is no semblance of a capital market that spontaneously allocates investment funds to uses that offer the highest prospective rate of return. If investment is to be made in the human capital necessary for the success of the modern great corporate organizations, the political choice must be made to do it. Without adequate investment in human capital, the much coveted prosperity may be undermined by shortsightedness. Of greater importance to Galbraith, beyond this economic case for education was investment in the 'personal capital' of the individual, that is, the expansion of the individual's capacity to 'know, understand, and reason' and thereby to pursue a meaningful life (*Affluent Society*, ch. 19:4; ch. 18:4 in later editions). In this regard there is a conflict with prevalent economic attitudes in addition to the need to make the political choice to allocate funds; the more educated person may be more resistant to the adman's message and more inclined to pursue a wider range of satisfaction than those derived from commodities (*Affluent Society*, ch. 19:5 or ch. 18:5).

Galbraith insisted that only by changing these economic attitudes could America empower itself to make far better use of its affluence. Only then could it seize the foregone opportunities to enhance its quality of life. Beyond such specific matters as environmental protection, education, upgrading the urban environment, and pursuit of a stable world order, it could more generally re-examine the link between production and income and the continuing but dubiously necessary agony of toil that accompanies 'real work' and reconsider the choice between leisure time and paid labor force participation. It could also confront the serious poverty that remains a blot on American society. Galbraith (*Affluent Society*, 1976, pp, xxi-xxiii) noted that some critics had assailed him for neglecting the fact that the poor need to consume more and also that very often the case for increased output was based on the poverty argument. But, given the process of want creation attendant to more output, it is far from clear that more output would improve the lot of the poor, especially since reduction of poverty in the main requires public sector investment in the health and safety, housing, and education of the poor. No approach to poverty reduction could be made without reducing social imbalance. He pointed out that his critics were in effect 'asking that we postpone consideration of the causes of poverty until no one was poor.'

Galbraith anticipated and answered the question as to 'what replaces the profound preoccupation with production?' (*Affluent Society*, ch. 20:1 or ch. 19:1). His answer was 'a concern for new goals' and 'emancipation of the mind,' much of which would be bound up with ceasing to evaluate everything with regard to efficiency in production. The political and cultural importance of the great corporation would receive increased attention as would the effects of unions and corporations on working conditions, and the dignity and personal development of the worker. The market economy's much vaunted mobility which enforces efficient adjustment of resource allocation, would have to answer for uprooting 'the ties of family, friends, pastor and priest, countryside, and mere inertia' (*Affluent Society*, ch. 20:3 or ch. 19:3). Galbraith argued that ultimately the Victorian moral code would be at stake because efficient behavior on the market economy's terms is not simply a model of behavior, it is very much a model *for* behavior (*Affluent Society*, ch. 20:4 or ch 19:4). It is interesting that Galbraith mentions Victorian morality in this regard because his question is reminiscent of the Victorian economists who founded the Cambridge School. In the wake of Darwin, they fretted about what would replace religion to maintain 'spontaneous conformity' (this apt term is Adolph Lowe's, 1988). Their answer was

scarcity and the disciplined behavior encouraged by the market economy. It is also interesting to note that Keynes's counterculture was very much in revolt against Victorian morality (Hession, 1984, pp. 55–6).

It should be made clear that Galbraith was not saying that poor taste in the purchase of goods in the private sector meant that public spending would necessarily be better, as Wallich argued (in Phelps, 1965, p. 45). As noted above, Galbraith cited many examples of penurious public sector spending and its deleterious effects. These limitations on the quality of life speak for themselves as to the social value of a well-directed increase in public sector funding. The contrast drawn to the plethora of gadgets and ostentation in the private sector, was not meant to prove the need to expand collective consumption. Galbraith's point was that the opportunity cost of such an expansion was not as great as was habitually thought, because the importance of the private consumption that would have to be forgone was not so great as was habitually believed. His case was that the calculation at the margin between public and private sector output was not being accurately made because the conventional wisdom distorted assessment of the relevant benefits and costs.

In sum, with the principle of social balance, Galbraith stated that for a given level of private consumption there is an optimal size public sector. The most insistent of the book's lamentations was that this principle was not being observed, and as a result there was a debilitating imbalance between private commercial affluence and collective provision. In forcefully making this contrast between private opulence and public squalor Galbraith issued what is perhaps the book's most famous paragraph:

The family which takes its mauve and cerise, air-conditioned, power-steered, 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. They pass on into a countryside that has been rendered largely invisible by commercial art. (The goods that the latter advertise have an absolute priority in our value system. Such aesthetic considerations as a view of the countryside accordingly come second. On such matters we are consistent.) They picnic on exquisitely packaged food from a portable icebox by a polluted stream and go on to spend the night at a park which is a menace to public health and morals. Just before dozing off on an air-mattress, beneath a nylon tent, amid the stench of decaying refuse, they may

reflect vaguely on the curious unevenness of their blessings. Is this, indeed, the American genius? (*Affluent Society*, ch. 18:1 or ch. 17:1)

Galbraith viewed this paragraph, though not the point it addressed, with extreme diffidence. In his memoir he enjoyed a chuckle in this regard: 'I lingered over this paragraph. I thought it too patently contrived, too ripe, but in the end I let it stay. It was the most quoted passage in the book' (*Life*, p. 340).

The Liberal Hour

This was a collection of essays that reflected *The Affluent Society* and anticipated *The New Industrial State*. The concept of conventional wisdom is further elaborated, especially in an essay on 'social nostalgia.' Such nostalgia is a pervasively atavistic lamentation for the loss of a real or imagined age of simplicity and virtue. It is also the vague hope that the present's 'difficult problems will yield to old and familiar rules and formulae' (*Liberal Hour*, p. 114). Galbraith noted that in part this nostalgia stemmed from the nature of institutional change, which tends to occur under the duress of critical exigencies in periods that are often unpleasant. In part it is simple inertia, any change requires intellectual effort and acceptance of a degree of experimentation because its consequences cannot be entirely foreseen. Galbraith noted that long-standing institutions are known and comprehensible because they have been pondered and they have been idealized, their serviceability has passed into the canon of common sense (*Liberal Hour*, pp. 114–17). Of course the consequences of adhering to them in a changing context are also unknown. Social nostalgia is very prominent in American political rhetoric in which there is much affirmation of the charm and integrity of small business, family farming, and small town values. Galbraith's political insight has never been more astute than when he observed that much 'political discussion ... is devoted to the praise of institutions which their proponents would not want if they could have them' (*Liberal Hour*, p. 117). One need only recall the presidential election of 2008, in which the 'real America' was a pervasive theme, meant to suggest the decency and goodness of small town life compared to the impropriety and iniquity of urban complexes. Of course, the inconvenient fact obtrudes that in any physical or empirical sense, it is in these complexes that the vast majority of *actual* Americans dwell. One doubts that any future census will reveal a mass migration of Americans to small towns.

Galbraith found especially galling the nostalgia attached to entrepreneurship, self-reliance, and the heroic individual. No similar reverence is associated with the great corporation of modern times, which is seldom cast in a favorable light in political rhetoric, though of course it is often favored in political action. Its organization is poorly understood, indeed only vaguely recognized as existing; even in professional social science circles, there is less interest than one should expect for the dominant institutional edifice of our time. Galbraith urged his frequent point that the organization of the great corporation is the source of innovation and affluence, though its teams of specialized talent engaged toward common objectives are not likely to ever become the stuff of legend or to elicit adoration and affection (*Liberal Hour*, pp. 34–5). He lamented that ‘American liberals have for many years devoted far more time and energy to regretting big business than to learning how best to live with it’ (*Liberal Hour*, p. 110). Antitrust rhetoric was to him for the most part an empty exercise in social nostalgia.

Galbraith also seemed to be concerned that failure to recognize the nature of the great corporation might impede understanding of the relationship between people and machines. He was apparently replying to the concerns around this time of technological defeat of human freedom and spirit. Understanding of the nature and function of the great corporation made clear that knowledge was more important than machines in determining economic progress and that America should not be obsessed with the production of machines to the neglect of the education that is necessary for continuous advance of experimentation and knowledge. Here he anticipated a key theme of *The New Industrial State*, although by the time of its publication he had come to see that the needs of the great corporation were generally well attended by the political process.

Galbraith’s growing concern for the ‘dark shadow’ cast by military organization and power began to take shape. He welcomed the advent of the phrase ‘peaceful competition’ into discourse on the global competition with the former Soviet Union. He urged that whatever the temperament or doctrinal commitment of the Soviet leadership, there was no reason to think that they had ‘a predilection for high temperature incineration’ (*Liberal Hour*, p. 18). He denounced the preoccupation with military expenditures and cautioned that it was not only dangerous but self-defeating because it damaged the nation’s international reputation. Instead, he advised a broad strategy for American efforts to demonstrate the superiority of its system to that of the Soviet model, one that avoided a narrow focus on scientific and technological advance. He

noted that in the eyes of the world that would judge the competition, other dimensions of intellectual and artistic performance mattered, as did anything else in the body social that made manifest the quality of American society (*Liberal Hour*, p. 24). He advised that the United States practice generosity in its foreign aid programs and be mindful of the damage it inflicts upon itself in backing abhorrent regimes merely for their toeing the anti-Soviet line (*Liberal Hour*, pp. 28–9). He noted pressing social problems, such as urban decay, race relations, and poverty, and cautioned against the logic that the Cold War is all-important and that therefore social reform must wait. Such logic overlooked the fact that the source of American greatness was in its ‘capacity for economic and social experiment and change, and on the diversity and freedom of [its] culture’ (*Liberal Hour*, p. 32).

Galbraith’s concern for what came to be called ‘quality of life’ issues continued to evolve. He issued his familiar call for America to challenge itself by asking why more-is-better, what is to be accomplished with more consumer commodities, and what are their social costs? Environmental protection was of course part of his concern. He found to be especially disturbing the implications of the automobile culture, ripping apart ‘our countryside [with] the ghastly surgery of the super-highway.’ He noted that design obsolescence was rampant, that much of it was devoted merely to altered packaging, and that in this regard ‘the end is in sight. The unopenable package ... is just around the corner’ (*Liberal Hour*, p. 20).

Galbraith expanded upon the cultural theme, emphasizing the importance of the ‘aesthetic response’ and the arts to the quality of life and to the economy (*Liberal Hour*, ch. 3). He expressed hope that the security won by the great corporation’s devices to protect itself from the rigors of the marketplace might eventually give it license to provide leisure time to support artistic endeavor. However he noted that so long as the conventional wisdom held that competitive insecurity was necessary to spark maximum exertion, the appearance of leisure would remain unseemly and those within the great corporation would have to feign great exertion (*Liberal Hour*, p. 52). He expressed concern that America’s preoccupation with the use of artistic creativity for commercial purposes would damage both art and the economy. The binding of art to advertising focused creativity to commerce rather than artistic cognizance and required advertising to appeal to the largest number of people. This tended to lock up art within established tastes and retard its ability to operate at the frontier of social change. This would eventually lead to a prevalence of stodgy design, and he thought the trend of

exports and imports, notably in the case of automobile styles, may have been showing this effect even then (*Liberal Hour*, pp. 57–8).

In a speech given in late 1963, Galbraith advanced more detail on ‘economics and the quality of life’ (*Laughter*, pp. 3–25). He returned to the question from *The Affluent Society* as to what would replace the striving for increased output, noting that ‘a society must have a purpose’ (*Laughter*, 1971a, p. 7). He insisted that changing institutions and circumstances may well have made quality of life considerations more important than growth (pp. 14–15). That Galbraith was convinced that a perverse and pervasive social imbalance existed we have discussed, as also the neglect of a growing need for that which is normally provided in the public domain (see Heilbroner, 1989, p. 373 on dynamic social imbalance). The list is familiar to us, the artistic and intellectual development of an increasingly civilized community, adequate public goods that are complementary to private goods, knowledge and technology to operate and improve the productive apparatus, and solutions to structural unemployment (*Laughter*, pp. 15–16). There is reason to doubt the necessity of the continuing subordination of the individual, if not to his employing organization, then certainly as part of the social submission to the goals of the administered sector that purportedly serves the individual’s whim and fancy. There is blatant conflict with the principle of truth-in-advertising and the politico-legal procedures to rectify situations of damaging output and production practices (*Laughter*, pp. 19–22).

More seriously yet, there is the conflict with aesthetics. Aesthetic and recreational activities are degraded if not set off from commerce and industry by public authority, for example, ‘good theatre and good music require the protection of mood; they cannot be successfully juxtaposed to rhymed jingles on behalf of a laxative.’ Clearly in Galbraith’s view, collective action to replace the priority of producing more private goods with consideration of the quality of life would be ‘broadly emancipating’ in the opportunities presented for social and individual development (*Laughter*, pp. 22–4). Moreover, public support was most critical to aesthetic development in the area of *avant garde* culture because path-breaking creativity will by definition lack, and indeed be offensive to, a mass audience.

In an essay on inflation Galbraith explicitly linked the inflation-versus-unemployment dilemma to the cultural ethos that all who are able should seek employment in the paid labor force. He noted that removal of ‘the economic penalties and ... social stigma associated with involuntary unemployment’ would ‘make the economy much easier to

manage' (*Liberal Hour*, p. 60). But until that day he insisted on the need for wage and price controls to avoid inflation, which he considered to be quite regressive in its effects. He was still convinced that society would choose inflation over unemployment, and did not think that increased international competition would do much by way of controlling inflation (*Liberal Hour*, pp. 62–5). It is noteworthy that Galbraith specifically dealt with the problem of differential productivity and wages and profits. If wage increases are allowed and no price increase is made in response, industries with high productivity would have a wider margin to distribute between higher wages and higher profits without the need of a price increase. This would convey unequal abilities to compete for labor, and ultimately for capital as well. He determined that price increases would have to be granted in low productivity industries. The Swedish strategy of wage solidarity, accelerated industrial evolution, and active labor market policies attempted to deal with this problem, and though abandoned in the Great Capitalist Restoration after 1978, we suspect the program deserves and will likely receive future consideration.

Economic Development

In what was probably his earliest statement on the problem of economic development, Galbraith (1951b) criticized the rich countries for so much talk and so little action on the task of aiding the development of poor countries. He also emphasized the relationship between the development of industry and the changes needed for development, noting that little reason or opportunity may exist for investing in agricultural development. He observed that industrialization generates investment and change, in agriculture as well as industry, and that the development of industry is rightly considered an instrument for progress and should be an objective of foreign aid and investment. He cautioned though against neglect of simple and commonplace industrial gains by adoption of grandiose plans for large-scale industrial works, modeled after the industries of the rich countries.

In a later work on development, Galbraith considered the purpose of development, and strengthened the caution against the common tendency toward a copy-the-developed-economies syndrome, because the underdeveloped countries face choices that are far different from those already advanced (*Economic Development*, pp. 3–4). He recognized that inevitably there would be tendency toward 'symbolic modernization,' such iconic manifestations of modernity as stately capitol buildings or a

shiny airport, but urged close scrutiny of this impulse. Even a focus on maximum growth could be problematic if it led to preoccupation with capital-output ratios and investment in heavy industries, to a relative neglect of investment in human capital (*Economic Development*, pp. 5–8). He thought that, at least implicitly, a consensus had been formed that the goal should be selective growth, emphasizing improvement of mass living standards (*Economic Development*, pp. 8–12).

Although this emphasis left many questions of emphasis to be determined in particular cases, Galbraith thought it was a good first principle in development planning. 'Until people have a part in economic progress, there will be no economic progress' (*Economic Development*, p. 22). He proposed it be called the 'Popular Consumption Criterion.' This criterion would focus attention on the consumption basket of the 'modal' consumer; in India he thought perhaps attention should be centered on producing consumer goods that could be purchased by those with incomes below the eightieth percentile (*Economic Development*, pp. 11–12). He recognized that the criterion could not be rigidly observed and that necessary exports would be an exception as would goods for those with vital skills whose incomes would rise faster than those of the less well endowed. Nonetheless he thought the criterion would establish a dividing line between the presumed focus of output planning and that which needed to be justified.

This conclusion was based on his observation that desire was the motivating force for development, and that culture and polity matter a great deal. 'In brief, back of what may be called the instrumentalities of change, there must be a strong and effectively expressed desire for change' (1951b, p. 694). The source of the desire for change he observed invariably to be popular government, especially parliamentary democracy but including some dictatorial or authoritarian polities in which popular will matters enough that it cannot be ignored. In this he saw no mystery since material progress is advantageous to the mass of the people and far from necessarily advantageous to a colonial occupying force or a domestic oligarchy. To the contrary, development is often seen correctly to be quite contrary to the interests of such ruling powers (1951b, pp. 694–5).

In discussing the obstacles to development, Galbraith asserted the need for empirical detail so as not to force the variegated problems of underdevelopment into one monolithic category. There are many causes of national poverty, among them ideological factors, residual effects of colonialism, class exploitation, sparse natural resource endowment, capital shortage, overpopulation, illiteracy, and poor economic policy.

All have some element of truth in particular cases; none have universal application. Each empirical case is likely to present a combination of several factors and require an eclectic policy mix (*Economic Development*, ch. 2). For example, in an early study of Puerto Rico, Galbraith (1953) observed many factors that the country had in common with other poor nations, such as a colonial past, predominance of agriculture, a heavy ratio of people to land mass, and lack of a cultural disposition to change. But many differences were observed, notably Puerto Rico's political stability, relative homogeneity of population, access to American markets, and the beneficence of considerable American technical assistance. Hence any lessons to be gained from successful Puerto Rican development would have to be taken with care.

In a revision of the discussion of causes of national poverty Galbraith classified the obstacles to development into three models (*Laughter*, pp. 228–42). His first model involved an inadequate cultural base in that the population lacked the education and experience that would present opportunities that when undertaken would promote development. This barrier to advance stemmed in large part from the legacy of colonialism, under which the skills necessary for leadership and intellectual activity were in the hands of external governors rather than indigenous people. Emergence from colonial suppression inevitably created a leadership vacuum, which was problematic in many ways but most fundamentally in the lack of the competent and motivated cadre requisite to effective governance.

In his second model, there was a cultural background of education and literacy and a cadre of competent people to provide leadership, but there was no incentive structure to tie this capacity to effective governance and promotion of development. Quite to the contrary, in this model the extreme inequality of income and wealth distribution and the power structure that sustains it provide little incentive for those doing the bulk of the work. Patrimony was the source of income for those with some educational background and the application of governance ability is structured by the needs of suppressing popular discontent in the interest of the wealthy. Income accrues not to those whose efforts promote development but to those who are well placed within, and serve to maintain, the status quo.

Although it is conventionally associated with underdevelopment, capital shortage or overpopulation is not a commanding feature of models one and two. Where educational and cultural preparation is the chief obstacle to advance, capital transfers are unlikely to be well applied by the present governance regime. Nor will capital transfers do

much to promote development in the countries that have governance capacity but presently choose to use it in reactionary fashion. Indeed, one should note that, despite the low standard of popular living, such countries generate a considerable economic surplus above current mass consumption, but this surplus is dissipated in the patrimonial system that is designed specifically to prevent social change rather than to encourage it.

Capital shortage and overpopulation is evident in Galbraith's third model. Here overpopulation does indeed limit application of a surplus to advancement despite the governance regime having the capacity and intent of promoting development. Given the very severe disproportionality in the factors of production, too much available labor relative to available capital, there is frequently very low or zero marginal labor productivity (*Economic Development*, p. 101).

As noted, Galbraith argued that much error can follow from facile generalization as to the obstacles to development. He offered differential prescriptions for the three models. For the first model, the task is to expand human capital formation. As noted, capital transfers are not critical and could well be wasted since the human factor to administer them effectively is lacking. Nor is social reform or resort to publicly planned investment desirable: this would draw upon scarce talent by adding to the tasks of governments that are already unable to competently exercise their basic functions. Finance alone would not enable the purchase of the talent necessary. Programs to educate the population, probably in the educational organizations of other nations, are needed in order to develop the necessary leadership cadres.

For the countries that comprise the second model of underdevelopment, neither education nor capital is the key. In these societies, the need is for structural change to widen popular participation and advance the desire for change. Galbraith was not optimistic that change in these nations could be accomplished by reform because 'land reform is a revolutionary step; it passes power, property, and status from one group in the community to another.' He argued that no one should expect the dominant groups to enact or accept this reform 'as an act of grace,' that it would come about only from the pressure of powerful circumstance (1951b, pp. 695–6). Galbraith noted that in the process violence could not be ruled out, but he did not advocate that American policy should support revolution. He did, however, insist upon the need for the United States to stop trying to suppress popular revolt. He strongly advocated that American moral and material support be withdrawn from oligarchic, repressive regimes (*Laughter*, pp. 248–50).

For the third model countries, the problem is not one of advancing in a major way the cultural base. Educational and scientific advance are always welcome and may be needed in a few sectors but the general problem is not the absence of the cultural factor. Nor is it a need for basic social change in terms of removing a reactionary political and economic elite. Rather the need is for infusions of funds to finance investment and consumption of the indigent. So also must population control be a focal point (*Laughter*, pp. 243–53; see also *Economic Development*, pp. 99–103).

The next chapter transports us to the turbulent 1960s in which protests of war and militarism share the stage with the struggle for civil rights. In these and other regards Galbraith's ideas are evident, nowhere more so than in the counterculture's rejection of what was called 'materialism' in the idiom of the time. This was evident in Galbraith's (1971b) mildly critical but artfully sympathetic review of Charles Reich's (1970) now almost forgotten bible of the counterculture. This should not occasion surprise, in consideration of *The Affluent Society* alone, but Galbraith soon broadened and deepened his criticism of the consumer society. However, though pronounced, the mood of the 1960s was fleeting, soon giving way to overt economic crisis followed by the continuing economic stress of the Conservative Hour.

5

The Political Economy of the Great Corporation

The difference is a difference of spiritual attitude...it is a difference in the basis of valuation of the facts for the scientific purpose, or in the interest from which the facts are appreciated.

T.B. Veblen, 1898

The study of the capitalist market economy, when restricted to the non-evolutionary aspects of the capitalist process, ceases to be relevant to it.

A.G. Papandreou, 1972

The publication in June 1967 of *The New Industrial State* constitutes the maturation of the Galbraithian System. In the 'Foreword,' Galbraith himself compared it to *The Affluent Society* as a window to the house that contains it, the earlier book providing a 'glimpse' into the total structure depicted in the latter. Years later, he referred to it as his 'principal effort in economic argument' (*Anatomy*, p. xiii). *The New Industrial State* is the systematic expression of all of Galbraith's preceding works that examine the neglected problem of power and political economic structure. The works that followed it, notably the highly readable *Economics and the Public Purpose* (1973a), emended, but scarcely enlarged upon the essential 1967 classic. Four decades later it rewards the careful and open-minded student with a model of the concrete political economy that no other scholarly work in the postwar period approaches. Even though the specifics of the analysis must be altered to incorporate continuing change, the analytic structure remains essential reading and will likely remain so for the foreseeable future; it will remain vital until a superior interpretation of the trajectory of mature capitalism is provided.

In the book, Galbraith dealt with the rise of the great corporation, its internal relations, its place in society, and the unresolved problems it posed.

In the present chapter, attention is first turned to Galbraith's discussion of the major trends to be explained and the technological and organizational imperatives that he offered in explanation. Next, consideration is given to his analysis of the social character of the great corporations of the administered sector, internally and externally. Contemplation is then given to the social predicament that Galbraith saw emerging from the characteristic operational performance of the administered society, which while far from being abjectly disagreeable, is not wholly unproblematic. Finally, scrutiny turns to Galbraith's appraisal of the prospect for social reform guided by vanguard political action by the academic community.

Origin of the great corporation

The politico-legal form of the corporation arose in the late mercantilist era when the European sovereigns chartered limited joint-stock companies with monopoly trading privileges. The modern corporation is a substantial mutation and bears little resemblance to its ancestor. Even from its earliest history as an engine of capitalist accumulation the great corporation of today has substantially changed, both in its internal organization and its relations to the rest of society. As James Galbraith (1984, p. 43) has indicated, the organizational conception of the great corporation may well be his father's most important contribution to economic theory and the least understood aspect of Galbraith's work. In the bulk of economics, the preoccupation has been with the conventional theory of the firm, with its simple organization in pursuit of maximum profit, and with the heroic entrepreneur of popular legend. This preoccupation has exerted incapacitating selection bias that has greatly obscured the nature and function, as well as the significance, of the great corporation. Galbraith carefully detailed the origin, internal organization, and external organization of the great corporation.

A note on method

Before turning to the imperatives that brought the great corporation into existence, a note on method will be helpful. Galbraith seldom commented at any length on methodological issues but one can form an idea in this regard by considering together remarks he made at various places on the sociology and methodology of the economics discipline.

He began *The New Industrial State* by observing that economic thought maintained a curious stance toward change. That the economy had substantially changed was not in doubt yet its structure and behavioral tendencies were taken not to have been altered. 'There is massive change, but, except as the output of goods increases, all remains as before' (*Industrial State*, ch. 1:1). In an addendum to the book, returning to a point made in *The Affluent Society*, Galbraith stressed the distinction between an improved theory of price determination from a change in the way prices are actually determined. The first involves theoretical innovation or advance in empirical compilation while the latter involves evolution of the behavior of economic agents (*Industrial State*, Addendum:5). This distinction has the important implication that economics must have an evolutionary focus because it means that the day-to-day experience of problem-solving involves institutional change.

Galbraith's evolutionary focus was broad and explicitly normative. Not only was conventional economics static in its outlook, it was also quite narrow and prone to regard as definitive the existing intellectual boundaries, which Galbraith regarded as arbitrary to a large extent, or at least as insufficient justification for excluding important aspects of a problem. He did not castigate those who specialized in the analysis of narrow aspects of social life but he cautioned that specialization is a convenient tool but not a virtue in itself. Moreover it could lead to error because 'the world to its discredit does not divide neatly along the lines that separate the specialists' (*Industrial State*, Addendum:1). This applies as well to the boundaries between the various disciplines, which have been laid down by scholars or their administrations in terms of the problems that then required attention and there is no reason to think their judgment infallible or that the problems remain forever divided along the same lines (*Industrial State*, ch. 1:4).

Galbraith's evolutionary and holistic approach was determined by the subject matter because of circular and cumulative causation. Change in one place sets off change in another place that reacts back upon the first place. His method alerts investigation into change induced by observed change. The rise of the great corporation was a major change and it set in motion further changes in industrial relations, the operation of firms and farms, and the role of the state. It also begat the need for a lot of technically sophisticated specialists which required much increased educational capacity. Taken together such changes have meaning that they lack when viewed apart and it is no surprise that the power of corporate executives and the rising political voice of

the university community are both evident and controversial. Groups which have newly risen to power have always been viewed askance as to their legitimacy and their couth. If not exactly the *nouveau riche*, they are nonetheless the newly powerful and to many they may well seem to be rather full of themselves (*Industrial State*, Addendum:2).

Galbraith was convinced that there are 'few, if any, useful ideas in economics that cannot be expressed in clear English' (*Industrial State*, Addendum:2). There is no doubt that a broad, literate approach reduces analytic and expository rigor (Gordon, 1976), but there is risk of error in a narrow reductionist and formalist view. In cognitive science today this danger is termed *selection bias* and considered to be a danger to any cognitive process. Galbraith argued that the formalism of conventional economics tended to cordon off the competitive market model and abet the resistance to recognition of important institutional changes. Therefore in much economic discussion the 'validity of the result ... depends not on congruity with what exists, with reality, but on whether it derives in a valid way' from the idealized model (*Life*, p. 514). Or, formalism 'on occasion ... leads to the habit of mind which simply excludes the mathematically inconvenient factors from consideration' (Galbraith 1979a, p. 41). Or, yet again, an image of 'what should exist acts as a surrogate for reality. Pursuit of the image then prevents pursuit of the reality' (*Industrial State*, ch. 7:1). A methodology that is concretely grounded in observations of the actual economic process will have more defenses against selection bias than one that proceeds from idealized assumptions about economic action.

Galbraith insisted that values be made explicit and that analysis lead to practical conclusions. He noted that he would 'turn to the effects of economic change on social and political behavior, and to remedy and reform' (*Industrial State*, ch. 1:4). Galbraith was convinced that the institutional changes of organization and affluence had indeed altered economic behavior. He carried forward the argument of *The Affluent Society* that this raised new questions about the conduct of economic activity. This is yet another reason not to apply rigorous boundaries between economics and other disciplines because a broad perspective is needed to address the questions that arise from recognition that 'what counts is not the quantity of our goods but the quality of life' (*Industrial State*, ch. 1:4). As before, Galbraith was concerned about the extent of beauty or 'civilized values' sacrificed in the interest of increased output, the extent to which education should be shaped by the needs of production, or the extent to which the individual's personality should

be made to conform to the strictures of production (*Industrial State*, Addendum:3).

The imperative organization

Galbraith's purpose in writing *The New Industrial State* was to provide an 'economic, political, and social theory of that part of the economy that contains the great corporations' (*Life*, p. 513). This theory had to weave together six more or less commonplace political economic trends (*Industrial State*, ch. 1). Of course, the growth and development of the corporate form of organization is the most obvious change. The ownership of the great corporations is widely dispersed and largely invisible and their operational managers tend to be qualified almost entirely by virtue of professional credentials and political acumen rather than ownership. A second and all too evident trend is the major increase in the promotion of products by advertising and sophisticated forms of marketing design. A third fundamental trend is the increasing technological sophistication applied to the production process. Technology is the 'systematic application of scientific or other organized knowledge to practical tasks' (*Industrial State*, ch. 2:2). Although it has its physical or mechanical correlates, this is a behavioral concept in that it emphasizes a mode of pursuing goals or solving problems by habitual recourse to the combined efforts of people with specialized abilities.

A fourth trend is the dramatic increase in the extent of state activities in social and economic life. By any measure, the state's role has grown, indeed developed because the quality or nature of the state has changed along with the increase in its size and the extent of its role. Fifth, education has grown along with the increased technical sophistication of production. More students go on to the next level of the formal educational process and the per capita years of education have increased. The final trend is the decline of the trade union. As we have noted earlier (Chapter 3), Galbraith considered the declining importance of unions to be a result of the integration of unions into the postwar establishment and the adoption of high employment as a goal of economic policy.

Galbraith insisted that these trends were driven by 'the imperatives of technology and organization' (*Industrial State*, ch. 1.3). One consequence of modern technological and organizational forms is an increase in the passage of time from initiation to completion of an industrial task. The work of design reaches backward in the vertical structure of the industry to carefully specified if not made-to-order inputs. The life cycle of a product is lengthened by the more exacting engineering standards

applied to it, as well as, one assumes, the more elaborate preparation for its marketing. The size of the corporate operation grows along with the time element and ever larger amounts of capital are committed to the operation. Capital and labor grow more specialized and inflexibly committed to particular tasks and product cycles. Increased specialization of knowledge and skill, and its embodiment in ever more dedicated equipment, requires ever more sophisticated organizational forms to bring them to bear and integrate them into a coherent interdependent mechanism.

Large, inflexibly committed amalgamations of specialized knowledge and equipment call for reliable combination and reasonably accurate expectation of circumstance. Careful planning and thorough research and development are required to anticipate and solve problems to avoid expensive errors. The great corporations exercise planning by replacing spontaneous market forces by administration. By vertical integration they reach backward toward the sources of necessary inputs and forward to secure necessary outlets for their products. Changes in price or the details of supply or distribution represent possible surprises that are costly in the waste of inflexibly committed, expensive inputs. The exercise of administered pricing allows the great corporations a measure of control over much that they buy and sell. Long-term contracting reduces uncertainty. Mass society and mass media are as much a part of industrial society as sophisticated production methods because consumer patterns of behavior devoted to living through commodities cannot be left to chance. Considerable resources must be deployed in market research, design, and advertising in an effort to secure demand for particular products. State intervention is required to manage the overall volume of demand to remove the Keynesian specter of inadequate aggregate demand.

In short, Galbraith argued the development of technology and organization had evolved in response to specific requirements of correlating behavior to the requisites of modern industrial technology. Such evolution in the wake of the consequences of technology had generated a change in the structure of social relations, both within the corporation and in its relation to society. Galbraith (*Industrial State*, ch. 2:4) was not offering a case for so-called technological determinism. Though he granted that technological change had 'an initiative of its own,' he also noted that the process of change in technology, organization, and specialization was mutually reinforcing, technology causing change but also responding to change, causing increased size, organization, and specialization but also responding to increased size, organization, and

specialization. The process is one of cumulative and circular causation or path dependence.

The nature of the great corporation

Having established the rise of the great corporation Galbraith went on to examine its social relations, both internally and in its place in society. As noted above, the separation of ownership and control received forceful expression in the seminal classic of Berle and Means (1967), which along with Means' work on administered pricing, were credited by Galbraith as having exerted a major influence on his own work (*Industrial State*, 1985a, pp. xx-xxi). He also mentioned drawing upon management and organization theory in examining the motivation of those who run the great corporation. Once he established the needs and goals of the great corporation he went on to examine the ways by which it seeks to satisfy them in its relations to society.

The technostructure

The separation of ownership and control refers to the tendency of the modern corporation to disperse ownership very widely so that owners out of necessity, settle their economic interest in the hands of a fiduciary agent, the management, who then operate the day-to-day affairs of the enterprise. The impact of ownership dispersion is powerfully reinforced by the rising technical sophistication of the enterprise's means, organization, and output. Increased sophistication in process and result requires increased sophistication in direction. Together the scale and technological consequences of modern industry necessitate a coordinating force that can apply specialized and differentiated expertise over a vast organizational range. As effective control of the modern corporation shifts to those who possess the expertise to exercise it, the social landscape of the corporation is transformed apace. Since power 'goes to the factor which is hardest to obtain or hardest to replace,' historically it has passed from warrior chieftains to land barons to captains of industry and later to captains of finance.

This expertise and scope cannot be ordinarily brought to bear on the conduct of business by one entrepreneur nor even a small cluster of entrepreneurs (*Industrial State*, ch. 8). The great entrepreneur who builds the business, in the process enlarging it and intensifying its technical sophistication, in effect brings about 'his own extinction.' The individualistic, action-oriented personality of the classic entrepreneurial type is not well suited to the requirements of bringing to bear

on decisions the cooperative blending of many elements of expertise (*Industrial State*, chs. 5:6, 8:3). This further development led Galbraith to conclude that within the corporation control had come to reside not with management proper but with a cadre of specialized individuals formally under the supervision of management. But the top executives cannot comprise all the requisite expertise and must therefore devolve much decision-making to committees or teams of specialists. Teams of specialists, empowered both technically and institutionally, are needed to assemble and correlate the knowledge applied in the corporation. These teams must be relatively unimpeded by interference from their formal superiors in the corporate organization. Discretion and autonomy pass not only from the owner to the management of the enterprise, but also from the more visible managerial chieftains atop the enterprise to the anonymous and functionally fragmented professionals within it. These professionals through teamwork and committee counsel bring their variegated expertise to bear upon the many lines of activity that are critical to the enterprise, its financial and personnel management, marketing, accounting, product development, and so on.

Galbraith (*Industrial State*, chs. 5:5, 6) considered this change to be sufficient to warrant a designating term, for which he offered the *technostructure*. This designation is more specific than the common reference to a new class in that it refers to the expertise that is crucial to the organization. The technostructure is then an 'apparatus for group decision – for pooling and testing the information provided by numerous individuals to reach decisions that are beyond the knowledge of any one' (*Industrial State*, ch. 7:3).

Galbraith suggested understanding the great corporation's internal organization in terms of the motivation of those most closely involved in its operation. He first stated his objection to the assumption that the corporation is just a big firm that has the same motivation, profit maximization, as its smaller predecessor, the entrepreneurial firm. He argued that this contains an 'approved contradiction' that the management or technostructure of the corporation sought profit maximization in the interest of the stockholders who had no control over decisions (*Industrial State*, ch. 10). This seemed contrary not only to fact but to logic; if people are assumed to be self-interested then those who control the decisions would presumably make them in their own interest. Galbraith concluded that the profit-maximization assumption, like the assumption of competitive markets, reflected the simplifying influence of the subject matter that allowed economic theorists to pursue elegant formal statements. In effect, he argued that the approved

contradiction was a product of selection bias (*Industrial State*, chs. 6:2, 10:6, 11:1, 12:4).

As noted before (Chapter 2), Berle and Means had been concerned that corporate management would become a self-perpetuating oligarchy enriching themselves at the expense of stockholders and society. Galbraith noted that there were avenues for this behavior since management is largely in control of its own salaries, deferred compensation, pensions, profit sharing, and stock option plans. But he insisted that these opportunities had vanished with the rise of the technostructure because such managerial exploitation would damage the corporation as a going concern by interfering with the performance of the technostructure (*Industrial State*, ch. 10:4). It follows that power is used to serve the goals of the technostructure (*Industrial State*, ch. 10:6).

Galbraith then laid out the possible motivation of the technostructure, noting that compulsion and pecuniary reward were the established principles of motivation. Drawing upon the organization theory literature, especially Herbert Simon, he emphasized *identification* with the goals of the organization. Identification, or an individual's acceptance of the goals of the organization, is closely related to *adaptation*, or the sense that one can achieve influence or voice in the organization, so to turn its goals toward one's own (*Industrial State*, ch. 11:2). The sense that this is possible is important in securing one's identification with organizational goals (*Industrial State*, ch. 11:5). Obviously, for one who has no sense of the possibility of adaptation, security of employment and compensation become more important. Galbraith mentioned professional ethics and goals as additional motivation, as in the cases of 'lawyers, physicians, artists, and scientists' (*Industrial State*, ch. 12:4).

Galbraith used this sketch of motivation to identify the personnel of a corporation. He suggested use of a diagram of concentric circles in place of the typical hierarchical chart of a bureaucratic organization (*Industrial State*, ch. 13). He wanted to avoid the hierarchical schemata to avoid the semblance of centralized power, so to emphasize the dispersion of power among the technostructure. The outermost circle contained the stockholders whose identification with the goals of the organization was least. The Board of Directors, nominally there to maintain the fiduciary responsibility of management to the stockholders, is largely ceremonial, and the owners generally have no illusion of influence, no sense that they could participate in shaping the organization's goals and turn them toward their own. Their interest is in the profitability, more specifically the dividends and capital gains, of the

company. If the company's earnings or dividends payout are too low, their option is to exit by selling their equity share of the company.

Production workers are the next inward ring of the circle. In general these employees have no sense that they can shape the goals of the company and thus are primarily interested in the wages and benefits they collect and the security of their employment. As Marx argued about the alienated condition of workers, their interest is one of external reward, and their search for self-realization is directed to non-work time, leisure time in the popular vernacular, which, much to Galbraith's chagrin, associates productive activity solely with collecting income. The matter of identification among production workers is not absolute. The everyday experience of organizational life and the nature of the work and the output may generate some identification. It is well known that job security does so, as in the celebrated case of lifetime employment in Japan, in which workers display a considerable degree of loyalty, reciprocity, or identification (Stanfield, 1994). A more or less pleasant, amicable work environment is undoubtedly a consideration. Hence among production workers identification and earnings should be considered to be admixed in variable proportions on a case by case basis.

The next inward ring is composed of foremen, supervisors, clerical and sales staff, and other 'routine white collar' positions. This ring merges on its edges with the technostructure *per se*, that is, the 'technicians, engineers, sales executives, scientists, designers, and other specialists.' Beyond that, in the innermost core, are the top executives. Moving inward among these concentric rings, one expects to observe that 'identification and adaptation become increasingly important.' Identification is facilitated by the perceived prestige of the organization, the extent of interaction and rivalry among personnel, and the degree of satisfaction enjoyed by the individual. The great corporation is mindful of its public image, the technostructure constantly interacts in decision-making in a largely cooperative atmosphere, and the professionally oriented individual finds satisfaction (*Industrial State*, ch. 13:4). Galbraith insisted that the semblance that the technostructure does not include the upper echelon of the firm's executives or management derives from the generous compensation at the top. But these top managers are likely to have been recruited from the technostructure. Above all, they must understand that the technostructure requires autonomy to function as teams of experts who provide tested solutions to the problems of corporate operations; any interference by top executives would damage this process. It must also be remembered that moving toward the inner core of power in the organization, identification and

adaptation grow stronger relative to pecuniary motivation (*Industrial State*, ch. 13:4,5). Indeed, Galbraith noted the 'paradox of pecuniary motivation,' that the higher its level the less it matters relative to other sources of motivation (*Industrial State*, ch. 11:6).

The great corporation and society

Galbraith insisted that the relationship of the technostructure to society had to conform to the 'principle of consistency.' Hence, 'the relationship between society at large and the organization must be consistent with the relation of the organization to the individual' (*Industrial State*, ch. 14:1). He cited the example of the king who summoned the military services of his 'feudal' lord, who was obligated to obey by tradition and subject, at least in principle, to force, if necessary. Likewise the lord commanded his military retainers whom he supported for that purpose and who were in turn subject to obligation and compulsion. In a market economy, the goal of society is to maximize real income, of firms to maximize profit, and of households to maximize utility. The present social goals, Galbraith noted, were oriented to growth of commodity production and technological advance. Nothing rivals the 'paramount position of production' in the cultural and social integration of American society. This is evidently consistent with the technostructure's need to produce goods and secure the demand for them. Galbraith conceded that this is a dynamic, interactive relationship (*Industrial State*, ch. 14:5; see also Kesting, 2005, on the contingent character of power).

As discussed above, Galbraith argued that the technostructure's motivation must be understood as a complex admixture of identification with the organization's goals with a desire to adapt these goals to one's own. Individuals who identify with the organization's goals internalize them and make them their own. Other individuals rightly or wrongly believe they have or can yet adapt the organization's goals to their own. Either way, the goals of the corporation tend to reflect the perceived interests of the technostructure.

As a hired salariat, the technostructure has a strong interest in the financial security of the corporation because this underwrites its financing as an overhead cost in a going concern. To function, the technostructure requires autonomy, any interference in its decision-making by external interests must be resisted. The goal of securing the organization's existence as a going concern is served by the enhancement of the organization's reputation by maximizing the growth of sales, because this conforms to the social ethos and provides evidence of organizational success. Secondary goals include technological

virtuosity and steady profitability. Subject of course to the security constraint, which is primary, the organization's status and the inherent integrity and quality of its work are served by dynamism in its techniques and outputs. A steadily rising rate of earnings and dividend payouts is also desirable in that it reinforces the primary goal of securing technostuctural autonomy by attesting to the success of the organization. Finally, a tertiary goal is to maintain a reputation for social responsibility and public service, which provides both inherent satisfaction and an enhancement of public image, which again reinforces the aura of being a well-managed company and deflects possible external interference (*Industrial State*, ch. 15).

Galbraith's discussion of the composition and motivation of the technostucture is a controversial area of *The New Industrial State*. As we see in the next chapter, he later clarified the notion of the technostucture in *Economics and the Public Purpose*. In the ensuing decades, there was to be much academic and popular interest in the character of corporate culture, the principal-agent problem, the quality of corporate performance, and the magnitude of executive compensation.

The technostucture and society

As noted, Galbraith argued that the technostucture has the need to control its boundary conditions lest they change unexpectedly and damage the autonomy it requires. This dynamic is apparent in its relations to its customers, suppliers and distributors, finance capital, workers and their unions, and the state. The technostucture is assisted in its pursuit of this objective by the notion that its apparent discretion is chimerical because it is ultimately subject to the discipline of market competition. The great corporation's boundary conditions are mostly the concrete conduits by which the market forces would contravene its apparent discretion – the notable exception in this regard being the state with its implicit threat of regulation. Galbraith's discussion of the means by which the technostucture pursues its goal of autonomy provided some of his most telling arguments.

Administered pricing provides protection from a corporation's customers and suppliers. In this regard, Galbraith reminded the reader of the paradox from *American Capitalism* that by the standards of conventional economic theory, oligopolistic market structure allows corporations to exploit their customers with high prices and to be very inefficient in their use of resources and under no competitive pressure to innovate. Prices tend to be rigid and not to fluctuate in response to changing market circumstances. Yet the manufacturing economy

generates prosperity and economic growth (*Industrial State*, ch. 16:2). In Galbraith's view, far from being a cause of malperformance, administered pricing is a source of success because it enables the corporation to plan its production and investment plans with stable prices. Galbraith noted that a dynamic relationship existed between a corporation's sales and earnings; targets for the latter were important but so was sales growth. Since sales growth depended on the degree of success in marketing expenditures, which raised costs, there was uncertainty because the ratio of sales to advertising could not be precisely forecast (*Industrial State*, ch. 17:5). Galbraith thus added uncertainty to the original formulation of this relationship by Sraffa (1926). Galbraith noted that state support of agricultural prices, though still suspect by the standards of conventional theory, has enabled farmers to invest and pursue dynamic efficiency (*Industrial State*, ch. 17:2).

Technostructures in other enterprises who supply inputs or purchase output represent potential threats to a given technostructure. But other great corporations would also need price stability. Deals with small firms involve some market variability but these firms tend to be heavily dependent on large customers and eager to please. Forward contracting and vertical integration, already discussed, allay much of the problem in this regard. Galbraith's point appears to have been supported by Oliver Williamson's (2002, pp. 176–8) later work on a contract/private ordering/governance model of incomplete contracting. Contracts are incomplete because all possible contingencies cannot be specified. Given some degree of asset-specific investment, the contracting parties have an incentive to maintain the contract and to engage in private ordering to govern recontracting as unforeseen contingencies.

In addition to price stability, the great corporation needs a secure source of finance capital. The various financial interests that could threaten technostructural autonomy include the stockholders directly or as represented by the board of directors or the corporate raider or takeover artist. The banking and institutional investing community, including such specialized elements as pension and trust fund managers, are also distinct threats. As noted in the discussion of the separation of ownership and control, Galbraith asserted that the board of directors is generally in a cozy relationship with the upper echelons of corporate management and will not interfere unless more or less forced to do so by a failure of steady earnings. The ordinary stockholder is seldom large enough nor actively engaged enough to intervene in any major way beyond parting company with the equity of portfolio non-performers. Large stockholders who take an active managerial interest directly or

via directorial membership are a declining breed in Galbraith's view. Then too, if they function as part of the administrative strata, by virtue of close approximation with the technostructure, they would presumably learn the lessons of team decision-making and technostuctural autonomy. If not, if Galbraith's model well serves, they would become vanishing breeds along with the companies they sought to manage, since such interference would manifest itself as a weak corporate culture. Investment banking interests routinely limit themselves to portfolio decisions about equities. Direct interference would take them into the details of industrial conduct to a distracting extent in terms of managing their own highly specialized entities, with presumably, similarly specialized teams of decision-makers. Corporate raiders are notorious bottom feeders, seeking their prey among underperforming equities that do not satisfy the steady earnings proviso.

In all cases, the technostructure's security would seem to be rooted in its ability to sustain a minimum and steadily growing earnings pattern. Steady profit performance tends to dissuade interlopers. More importantly, earnings are set at a level sufficient to ensure substantial internal financing of corporate investment. This fact is too often overlooked. Galbraith emphasized its importance. 'Few other developments can have more fundamentally altered the character of capitalism. It is hardly surprising that retained earnings of corporations have become such an overwhelmingly important source of capital' (*Industrial State*, ch. 7:4).

Workers through their unions represent a possible boundary constraint upon the technostructure's autonomy. Galbraith had already noted that the decline of unions was a major trend, and that this decline emanated from the same forces that have created the great corporation and the technostructure. The decline in the relative importance of the entrepreneurial firm was also important because there was an inherent conflict between union representation of workers and the profit interests of such firms (*Industrial State*, ch. 23:2). State framing of collective bargaining and maintenance of high aggregate demand tended to support workers and lessen the urgency of union representation. For the period of the postwar era covered most directly by *The New Industrial State*, there was considerable peace in American industrial relations. The social compact that obtained was supported by union leadership, who stressed 'lunch pail' issues and eschewed interest in divisive issues such as opening the corporate books or intruding into the prerogatives of management. True to the commitment to production above all, little was said about reducing the workweek or increasing vacations. At the

same time, the technostructure, intent upon minimum earnings and administering prices to cover costs, was reluctant to risk a shutdown and adverse publicity by hardnosed collective bargaining.

The technostructure had weakened unions by automation and similar process innovations which tend to reduce those employees who are likely to engage in union activity. A technostructure may well pursue such capital-deepening innovations even to the extent that costs rise on average as a result; it will be remembered by now that not profit maximization but organizational security is the primary goal. Wages, like other prices facing the great corporation, need to be stable and predictable to facilitate planning. Finally Galbraith observed that growth in union membership was apparent among public employees who were not dealing with great corporations (*Industrial State*, ch. 24:2).

Galbraith thought that the union had come to function in a somewhat *ministerial* fashion, administering the corporation's interest by explaining its operation and culture to the production workers. No doubt identification generally works with less force among the production workers than their pecuniary interest, which is applied by supervisors who seek to maintain the intensity of labor effort. But some identification among these strata is to be expected and a good working relation between the union leadership and the technostructure's representatives in the human relations process is a factor likely to be of some import in promoting loyalty (*Industrial State*, ch. 23:3). The union also serves a ministerial function in explaining to its members the bargaining process and justifying the complex gradations of pay for a differentiated structure of employees. The workers are less likely in general to see such status-driven differentials as arbitrary, which they largely are, if they perceive that their representatives have participated in their determination (*Industrial State*, ch. 24:3). Unions serve further by a tendency toward standardizing wage costs at the industrial level, which facilitates corporate cost planning, as does, of course, long-term wage contracting *per se* (*Industrial State*, ch. 24:4).

Union support of state maintenance of aggregate demand and of the specific demand for corporations that sell importantly to the state also serves the interests of the technostructure. Similarly welcome in particular cases is the union voice in favor of the protection of domestic markets against import penetration. In short, Galbraith concluded that the unions had undergone decreased membership, had their functions diminished, and their remaining functions molded to the needs of the technostructure (*Industrial State*, ch. 23:3).

The state is a possible interloper into the technostucture's affairs, but given the conventional wisdom, it is enjoined by stringent ideological antipathy. The great corporations have been known to engage in 'advocacy advertising' in support of the market mentality. Citizens may affect the corporation by influencing the state in matters of importance to it. The technostucture does not lack vanity with respect to its public image and expends considerable resources to exercise positive spin control. It is interesting to note that the presence of various citizen social movements – environment, peace, civil rights, affirmative action even consumer product safety – that aim to influence corporate behavior, is evidence of public belief in the existence of managerial discretion. So also is implied the public perception that controlling corporation behavior is essentially a political problem, a problem of governance (Hamilton, 1957). The corporate response is often to cite its record of social responsibility in the areas being pressed upon it and to point to the ineluctable pressure of market forces which prevent its doing more in the good and noble cause. This is a deeply paradoxical response. To claim to be exercising social responsibility is to recognize the power to administer. To simultaneously cite market forces as one's reason for not doing more in the desired direction is to deny the power to administer. This should occasion no surprise; Galbraith made clear the corporate need to escape the market in practice but to advert to it in principle. The result is enigmatic to be sure, but may nonetheless serve to obscure corporate power. This applies as well to the concept of corporate social responsibility in that it raises serious issues of accountability and legitimacy (Stanfield, 1995a, ch. 4 and Reich, 2008, ch. 5).

As noted in *American Capitalism*, Galbraith considered antitrust action by the state to be more threatening to those endeavoring to establish control of their markets than to those who already had control (*Industrial State*, ch. 16:3). The great corporations rely upon the state to regulate the volume of aggregate demand. The administered sector has no means to assure sufficient aggregate expenditure to clear its markets, though the sales effort likely has some aggregate effects over and above its effects on the specific demand of corporations. The state is also a major and reliable purchaser of great corporate output. Nowhere is this more apparent than in weapons procurement. The great corporations also require the research and development efforts of the state, much of it related to the military purpose, and education to supply the requisite personnel. Much state expenditure is devoted to overhead costs or complementary goods to corporate output, notably in the area of highway

construction and maintenance without which the present social landscape is simply unimaginable.

Price stability would be of little use to a corporation's planning if it could not also rely on selling its output. The state's role in assuring aggregate demand has been noted. Galbraith thought that the impression that the administered sector had opposed Keynesian policy measures was misleading and concluded that there is a ritualistic, nostalgic tone to much corporate dissent from active government (*Industrial State*, ch. 20:2,7). Beyond aggregate demand the corporation must maintain its specific demand. The administered sector expends prodigious sums on its sales effort to garner its specific demand share. Political influence is also important, because as just noted the state is a major customer. The management of specific demand via advertising and marketing, and political influence, is a major concern to Galbraith and the source of very troubling implications.

The revised sequence

The great corporation does not allow its superficial commitment to the market mentality to dissuade it from extensive efforts to safeguard its sales, never mind that its activities in this regard do not well support the view that it is the servant of genetic market forces. Advertising, design obsolescence, packaging changes, survey research, and other marketing techniques seek to identify and persuade potential buyers. The high value placed on technological advance induces a drone effect professing that all is new (*Industrial State*, ch. 18:3). The flow of such strategies, their main themes and symbols, is a popular history unto itself. Likewise the great corporation modifies its rhetoric to secure supportive state activities.

The compelling turn that Galbraith's work began to take with the dependence effect in *The Affluent Society* emerges in more somber form and designation in *The New Industrial State*, in which he employed the *revised sequence* to refer to the great corporations' influence on consumer and political culture. Contrary to the conventional accepted or original sequence which upholds the sovereignty of the consumer and citizen, with the revised sequence Galbraith asserted the cultural hegemony of the great corporations. In the wake of affluence an unrelenting, pervasive resort must be made to help develop the personality required by the administered sector, a person 'that reliably spends his income and works reliably because he is always in need of more' (*Industrial State*, ch. 18:6).

Galbraith was careful to emphasize that the reverse flow of influence from the household cannot be ignored. He sought to avoid exaggeration

of his point (*Industrial State*, ch. 14:5). The organic society of relations in friendship and kinship, and within educational and religious organizations, persists and no doubt remains important in the formation of consumer preferences. But this is no reason to ignore the issue of the influence exercised upon these preferences by the corporate elite. Indeed, such as with the news industry, bad news is news because it is unsettling of what we expect or hope to be the norm. Also, there is an important logical asymmetry to be noted. The accepted sequence conception is reassuring to the degree it is true but its degree of truth does not moderate the consternation evoked by whatever degree of validity that must be accorded the revised sequence conception. The latter negates the former but the converse does not hold. Evidence to support the notion of the revised sequence indicates a social problem exists. Evidence that the original conception exists alongside the revised sequence does not support the conclusion that there is no problem. Such is the asymmetry of apologetic and critical doctrine, born of the logical impossibility of proving the negative by example.

Exchange processes still visibly operate to clear markets but much of the underlying preferences are influenced by the corporate elite. The principal function of the market in the administered sector is not to constrain the power of the corporate behemoths but to serve as an instrument for the implementation of their planning (Papandreou, 1972). The decisive significance of the concept of revised sequence is its relation to the legitimacy of corporate production and distribution of output, its effects on income distribution, and the broader consequences of its various charitable, political, and media activities (Stanfield, 1979, chs. 3, 4). The original sequence conception 'supports the conclusion that the individual is the ultimate source of power in the economic system.' This conception has the further implication that state regulation is in most respects a violation of the sovereign individual. 'The accepted sequence also raises barriers against a wide range of social action' that would be inconvenient to the administered sector on the grounds that such action would interfere with consumer or citizen choice (*Industrial State*, ch. 19:4). Transportation planning, product design, environmental protection, media programming, city planning, and so on are left to the monitoring of individual preferences by the market, supplemented by the political system to be sure, but Galbraith hung a cloud of suspicion there as well.

The relationship of the great corporation to the state is very complex, but Galbraith concluded that 'the revised sequence operates also in the field of public procurement.' Here also he avoided overstatement,

arguing for 'a complex two-way flow of influence' (*Industrial State*, ch. 27:7). He thought that, compared to the entrepreneurial corporation of earlier times, the great corporation is 'far less able to deploy financial resources for political purposes' and 'far less effective in direct political action' (*Industrial State*, ch. 26:3). Moreover, the great corporations are very unlikely to take positions that are openly in conflict with the goals of the state because they rely heavily on the state to maintain aggregate demand and to provide a substantial portion of specific demand (*Industrial State*, ch. 22:7). Nor are the great corporations likely to identify with a political party, except perhaps whichever is in control at a given time (*Industrial State*, ch. 27:6). Galbraith presented a puzzle that the great corporation has less direct political capacity yet 'the trend of public policy has been highly favorable to its needs.' In fact he believed that the great corporation had 'other methods of influencing social action of far, far greater significance' (*Industrial State*, ch. 26:5).

Galbraith brought the principle of consistency to bear on this puzzle, noting that the goals of the state are to have a stable and growing economy, which is providing advanced education and progressing in science and technology, as well as sustaining ample military preparedness. These are of course the goals of the great corporate system and, as with the technostructure in them, it is difficult to separate identification from adaptation (*Industrial State*, ch. 27:2). Indeed Galbraith argued that it is difficult to separate the bureaucracies of the state and the great corporations. The decision-making by teams and committees which submit proposals for review in a formally hierarchical arrangement often include personnel from both bureaucracies. Pecuniary motivation is not absent in this process, no more than in the great corporations, but it is not the primary explanation for behavior (*Industrial State*, ch. 27:4,5). This is most clear in defense procurement (*Industrial State*, ch. 20:7) but space, energy, and aviation programs also typically engage in long-term contracting with bureaucracies that interact and overlap with the great corporations (*Industrial State*, ch. 27:3,5).

As before, Galbraith insisted that the power exercised by the corporate elite is effectively obscured by the original sequence, which is taught as science in schools and universities and bandied about by government and think tanks. Galbraith issued the scathing charge that conventional economics is a system of belief which tends to systematically exclude 'speculation on the way the large economic organizations shape social attitudes to their ends' (*Industrial State*, ch. 15:1). In *Economics and the Public Purpose*, Galbraith was to attach the labels 'convenient social virtue' and 'imagery of choice' to this process. The revised sequence

could not be more radical in that the original sequence is the root of traditional political economic thought and the fount of legitimacy for the organizations that produce the daily bread and govern the public sphere. With the concept of revised sequence, 'Galbraith raises the question of whether the American people actually want the particular kind of material progress their system delivers' (Kristol, 1967, p. 90). With it, Galbraith raises 'the fearful prospect ... of a nation in deep servitude to corporate power with respect to both the ends and means of life' (Hession, 1972, p. 179).

The social predicament

Since the remaining chapters examine Galbraith's conception of the good society and the reforms necessary to move toward it, we can be brief in discussing the closing chapters of *The New Industrial State*. We need only to maintain the threads of continuity between his earlier works and those to follow.

As discussed above, the substantial reorganization of social relations into an administered mold has done much to meet the correlative behavioral changes associated with the ongoing development of tools and knowledge. But this social evolution has met these challenges incompletely, so that critical unresolved problems remain which taken together form a definite *social predicament* that demands vigorous attention and earnest commitment to further reform. The dual economic structure retains serious problems of aggregate instability that staunchly resist resolution by habitual recourse to aggregate demand policy, thus posing a *macroeconomic dilemma*. Further, profoundly debilitating aspects flow from the relentless misallocation of a large fraction of collective wherewithal. This obdurate error is best captured in the relation between *social imbalance and the quality of life*. The great corporations have only desultory interest in solving these problems and cannot be expected to resist with reasonable energy the expansive banality that represses the quality of life.

Galbraith's views on macroeconomic stabilization policy are well known by now to the attentive reader, so brevity is called for. In *The New Industrial State* he sharpened his analysis of the structural complications that beset Keynesian aggregate demand policy. There is the ability of powerful organizations to administer prices and wages at near full employment. Galbraith was convinced that the 'paramount position of production,' now placed in context of the powerful administered sector, would likely enforce near full employment output. He had earlier

thought that income protection policies could allow enough unemployment to control prices but he now abandoned that view (*Industrial State*, ch. 22:7).

Galbraith stressed the need for the state to accommodate the administered sector by educating its key personnel, the technostucture. The state largely makes good on this accommodation, but it does so only with a lag. This accommodation lag is part of the general problem of cultural or institutional lag, a theme that runs through Galbraith's work. State activity remains suspect in the conventional wisdom and this delays accommodation. Formal educational lag is not the only component of this accommodation lag. Social discrimination and poverty continue to limit access of some individuals to education and employment opportunity (*Industrial State*, ch. 21:5). Technological change continues to render obsolete the skills and training of some individuals. Sectoral or geographic adjustment to gain employment is far from instantaneous, all of which can cause unemployment for some members of the labor force to coexist with shortages of others (*Industrial State*, ch. 21:4,5,6). Aggregate demand policy has no better answer in this regard than the concept of tradeoff between unemployment and inflation. Economic slack being infeasible, and undesirable in the absence of more aggressive income support policies, Galbraith advocated wage and price controls in concert with other structural measures such as active labor market policies and measures to improve inter-industrial planning (*Industrial State*, ch. 22).

The frustration of macroeconomic stabilization policy is a failure of the great corporate system more or less on its own terms. The existence of unemployment means resources are left idle despite the much heralded urgency of more output. That a significant share of the population is excluded from participation leaves the socially disturbing presence of an underclass. Not only does this threaten social disorder but potential customers are not enabled to respond to the marketing appeals of the administered sector. Indeed, adverting the affluence of American life to them deepens their disappointment and inflames their anger, more or less openly courting social turbulence.

With the exception of the problem that economic structure poses for macroeconomic stabilization, on its own terms the great corporate system has proven to be quite successful. Galbraith celebrated its dynamic efficiency and its ability, so to speak, to 'deliver the goods.' But the goals to which that output was directed greatly concerned him. This is a problem of default; society has not evolved a governance regime to guide the great corporate system, thus leaving it to establish goals for

the affluence it generates. As presently organized, commercial, industrial society embodies core tendencies that chronically undermine the quality of human life and threaten to acutely diminish it in a flash of military or ecological bedlam. These untoward tendencies comprise the social predicament of the New Industrial State and the Road to the Future lies in the responses chosen in the effort to subordinate these tendencies to the continuity and quality of human life.

In this regard Galbraith returned to the aesthetic dimension of life which was a concern from some of his earlier to his later works. The classical economic model was, and is, dedicated to spurring economic growth by the financial vulnerability of economic actors. Beyond the misery of economic insecurity, Galbraith insisted this entailed cultural deprivation or distortion because it is a blueprint for making the 'pecuniary motivation as nearly pre-emptive as possible' to the detriment of aesthetic considerations (*The Liberal Hour*, 1960, p. 49). The social interest in aesthetic development cannot be left to rely upon the attention or the competence of the organized interests of the administered sector (*A View from the Stands*, 1986a, pp. 139–51).

In *The New Industrial State*, Galbraith made an important change in his concern for social balance in resource allocation by acknowledging that in many areas public spending is well funded, while other areas are underfunded, though potentially of great service to the quality of life (*Industrial State*, ch. 30:2). Similar discrimination is found in the private sector. The theme of social imbalance is thereby made into a distortion of priorities within both the public and private sectors, rather than simply a problem of the public versus the private sector. The distorting influence is the governance exercised by the administered sector. Public services that serve the interests of the great corporations tend to be amply provided. These include military hardware, roads and highways, certain kinds of research and development, and airport facilities. Public services that neither serve nor disserve the administered sector must compete for attention against the private goods that the great corporations promote with a massive sales effort. Public goods also face the atavistic sentiment that the state's activities should be minimized. Other public goods face more adamant resistance because they interfere with the objectives of the administered sector and therefore face its active opposition (*Industrial State*, ch. 30:2).

The problem is simple in principle however complex it may be in practice. In contrast to the great success of the administered sector in developing the organization necessary to the planning required for the use of advanced technology, there are important areas left in the breach.

Galbraith (*Industrial State*, ch. 31) cited urban and interurban surface transportation and urban and suburban real property development as major instances of the planning lacunae. Planning is here required but it falls outside the organized intelligence of the administered sector. In a 1966 article Galbraith bemoaned the 'starvation of the cities,' noting that 'there is no reason to believe that an unplanned metropolis will have any better chance of beauty than an unmade bed' (*Stands*, p. 23). Much of the benefits involved would lie in social or public goods so that there would be no effective means for their capture in the revenue functions of the administered sector. Resistance is likely to be active because the autonomy of the technostructure is threatened whenever the state presumes to enforce the public purpose in ecologically conscious modes of mobility or in aesthetically cognizant built environments.

The aesthetic dimension is particularly noxious to the administered sector. Its serious promotion by the state would include regulatory apparatus for the pursuit of environmental and aesthetic goals. These would necessarily impede the governance exercised by the administered sector. Many decisions about plant location, architecture, shopping facilities, and technology used and sold would come under the scrutiny of public authority. Support of the arts and humanities would require funding and compete for attention with the priorities of the great corporations in public budgets. This would very much include a shift of educational priorities. Perhaps most important of all, development of the aesthetic dimension would inhibit the individual's susceptibility to the charms of the advertising arts. Alternatives to commercial amusements and entertainments would proliferate and consumers' consciousness would become more critical and their tastes more refined. By all of the above, a most basic aspect of advertising would be hampered because it relies on 'dissonance' or cacophony; it must stand out by its lurid or clamorous contrast to its setting. To the conventional defense that people consume commercial media and buy the products advertised, therefore they are being provided what they want because they would not respond otherwise, Galbraith countered that this is to say that one 'who comes to a full stop because he is hit over the head with an ax proves similarly by his response that it was what he was yearning for' (*Industrial State*, ch. 30:3).

As noted, Galbraith recognized that the imbalance is not solely one of the public versus the private sector. The great corporations are not likely customers for art, especially progressive art. Their needs run more to the banal because they seek to garner attention not to offend. Moreover the aesthetic dimension is notably unsuited to the organizational regime of

the great corporations. 'Artists do not come in teams' (*Industrial State*, ch. 30:4). Artistic and creative activity cannot be organized on a large scale to enjoy the gains of experience and power it provides. In the public and private spheres, so long as the market mentality prevails, the aesthetic dimension will suffer when compared to dimensions that have explicit price or cost tags. The aesthetic dimension will seem to offer indefinite benefits and evident costs and be set aside (*Industrial State*, ch. 30:3; see also *Affluent Society*, ch. 24:6 or ch. 23:6). This is clear in the distinction made by economists between tangible and intangible benefits and costs. The tangible is said to be measureable in pecuniary terms, the intangible to be subjective and immeasurable. But this exemplifies the fallacy of misplaced concreteness. Price calculation is the application of an abstract principle; to assign a dollar figure to a cinema presentation because preference has been revealed by purchases may be useful but it is not tangible. The appreciation of the beauty of an orderly and pleasant urban environment may resist expression in dollars but it is certainly a tangible human sensual experience.

Galbraith returned to the topic of work, which had figured prominently in *The Affluent Society* (*Industrial State*, ch. 24). He noted that primitive human beings had worked to secure a level of reproductive consumption but no more and that economic development 'consists in no small part in devising strategies to overcome the tendency of men to place limits' on their consumption and income and therefore of their work effort (*Industrial State*, ch. 23:5). Work in the early stages of industrial society had been long, arduous, and debilitating and therefore reduction in work hours was a major goal of organized labor. Galbraith noted that the trend toward lower working hours had stopped and that in the quarter of a century from 1929, despite about a doubling of output per worker, work hours had actually increased. In principle, participation in the paid labor force could have been reduced by 50 percent with no decline in the standard of living but in fact none of the productivity gains had been used to reduce work hours. Juliet Schor (1991) has documented that this trend persisted in the postwar period. Galbraith attributed this to a reduction in the arduousness of work and to the incessant sales effort and asserted that the demand for more leisure would return only if leisure time became more interesting and satisfying and the sales effort less effective. He noted 'that the greatest chance for achieving such emancipation lies with education' (*Industrial State*, ch. 32:1, 2). To repeat, this would require a reordering of priorities in the budgeting for and structuring of education. As things stand, Schor (1998) has documented the powerful impetus to consumption and

amplified the importance of Galbraith's concern. Robert LaJeunesse's (2009) examination of the many issues of the social governance of work time also attests to the continuing significance of Galbraith's work.

As we have seen, Galbraith was a politically engaged public intellectual who never considered his political economic analysis to be detached social science. In effect his political economy merged into the task of social reform (Tilman, 1987). Ever optimistic and incapable of rage, at least to this point in his career, Galbraith looked for a source to mount resistance to the comprehensive insipidness promulgated by the administered sector. He saw the shape of this resistance to be given by the nature of the task. Organization is required to guide the reform of correlative behavior toward the public purpose of achieving economic progress that is equitably distributed, ecologically feasible, and aesthetically meaningful.

The prospect for reform

As noted above, the growth of higher education is one of the constitutive facts of the changes characterized by the emergence of the great corporation. This growth is integrally bound up with the technological and organizational imperatives that bring the corporate form of economic organization to its characteristic role in the modern social economy. The personnel of higher education and research are therefore expanded and potentially empowered. The growth of the economic presence of the state has been similarly related to these imperatives and among the many essential tasks of the expanding state is the public financing of higher education and research and development.

Galbraith looked to the 'scientific-intellectual estate' to function as a political vanguard and use the power that is potentially theirs by virtue of the nature of the great corporate system. Expertise is necessary to the technostucture of the New Industrial State and those who possess it can only come into being through the scientific-intellectual estate. Thus the estate is positioned to exert influence indirectly through its research and educational activities and directly through political and organizational activity. In the former the instillation of the critical attitude in students and the refusal to purge research and education of humanist concern and idle curiosity are immensely important.

As modern higher education is in large part an accommodation to the requirements of the administered sector, so also it is necessarily in large part organized to accomplish this accommodative function. Galbraith maintained that there was a strong tendency for the

priorities of the great corporation system to become the priorities of education and research and that unless this tendency is 'clearly foreseen and strongly resisted' the trend will be toward 'preclusive emphasis on education that most serves the needs, but least questions the goals, of that system' (*Industrial State*, ch. 33:1). If this trend prevails, the sciences, mathematics, and business fields, plus any others that the technostucture finds 'useful,' will prosper. That which offers no apparent advantage in the accommodation to the corporate sector will be underfunded and underrepresented in university administration. That which portends a threat to the autonomy of the technostucture will be subject to vigorous adverse selection. The arts and humanities, notwithstanding their ancient pride of place in the higher learning, nonetheless tend to be accorded secondary status in the modern edifice. This relative neglect and overt opposition will extend to many of the applied and interdisciplinary studies programs concerned with the delivery of social welfare, the understanding of the ecological predicament, and so on.

But this tendency 'has not gone unchallenged' and Galbraith considered the matter far from settled. 'One is led to inquire whether education remains education when it is chained too tightly to the wheel' of the great corporate system (*Industrial State*, ch. 28:4). The academy is by immemorial tradition the repository of human values, erudition, and wisdom and 'service of the university to the aesthetic, cultural and intellectual enjoyments of the individual is still asserted.' The insistence upon the 'importance of liberal education for its own sake' is habitually incanted at academic ceremonies (*Industrial State*, ch. 33:1). Galbraith urged that the matter be pressed beyond ritual and that the university 'retain paramount authority for the education it provides and the research it undertakes' (*Industrial State*, ch. 33:2). In so doing the university would retain its primordial function of providing the critical consciousness and encouraging the 'systematic questioning' that the mature individual requires to face the existential exigencies of modern life. The ethnographic marker of this struggle in faculty governance activities is continuous discussion of the 'core' curriculum. Of late this has taken the form of the furor over the pursuit of multi-culturalism and political correctness versus the preservation of traditional pillars of excellence in the academic program. This is most likely a propitious discourse, because at a minimum the adversaries are in substantial agreement on the fundamental point presently at hand: there exists a core educational curriculum that configures the process of becoming an educated human being. Debate of the nature of this liberal educational

core is rightly the subject of heated controversy because it comprises the essence of the academic entity as such.

Significantly, this debate over the core curriculum represents the distillation of several centuries of academic experience. Hence, its character has definition that preceded the present era with its tendency toward hegemonic dominance of social life by the administered sector and the nuances of this debate have stature independently of the vagaries of the administered sector. The aspiration to empower the human intellect and imagination as the unique right and responsibility of every person is necessarily incompatible with subordination to the purposes of the administered sector. The cultivation of the self, of the 'entire human personality,' is expressly in conflict with definitive preoccupation with the earning and spending of incomes. No case was made by Galbraith that the resistance to the corporate purpose is inevitable, only that the potential for such resistance is ineluctable (*Industrial State*, ch. 30:4). Galbraith noted that the academic community views with disdain the 'organized public bamboozlement' of product advertising. The contradiction is evident that the system requires for its success the services of a community 'that deplores it as intellectually corrupt' (*Industrial State*, ch. 25:6). This contradiction is latent and so will remain until and unless it is vigorously prosecuted by an appropriately constituted and focused scientific-intellectual estate. It must be organized and purposive, it must be firmly in control of its funding, and it must be autonomous in ministering its resources. In particular it must evenhandedly apply resources to support students in different subjects and in faculty in different research fields (*Industrial State*, ch. 30:2,3).

Beyond asserting its prerogative of administering its mission and resources toward the purpose of an 'aesthetically progressive society,' Galbraith argued that resisting the hegemony of the administered sector would require a *political lead* from an emancipated scientific-educational estate. He made it clear that nothing short of direct and *organized* political effort will save the day. Intellectual debate and conversation, the natural province of the estate, are mere political surrogates; they are not the functional equivalents of the political lead, which will require the application of cohesive and disciplined effort. The estate is not naturally suited to this role. The intellectual and artistic temperament so celebrates the dignity and worth of the individual that its constituents do not take readily to the coordination and compromise of the political campaign (*Industrial State*, ch. 31:3).

Moreover, the estate's habitual sense of itself places great stock in its non-partisan, even aloof, juxtaposition to the contemporaneous issues

of society. By virtue of its political neutrality it is said to defend its political autonomy. This *separatism* has a hallowed if largely unexamined place in the academic retinue. John Dewey (1957) critically examined it in his call for a reconstruction in philosophy, to which much kinship is evident in Galbraith's contemplated reformation in economic thought. Galbraith pilloried without mercy the notion of an ivory tower of sages who dispense wisdom impartially and with no need to examine its remote social consequences: 'In the last millisecond before the ultimate nuclear fusion, a scientist will be heard to observe that the issue of nuclear control and military security is really one for the politicians And as the last horizon is lost behind the smoke, gas, neon lights and detritus of the industrial civilization, men of self-confessed artistic sensitivity will be heard to observe that, unfortunately, none of this is the business of the true artist' (*Industrial State*, ch. 31:4). Galbraith often insisted that the neglect of power by economists made them the 'natural allies' of the great corporate system (*Industrial State*, ch. 31:5). As the next two chapters indicate, he went on to renew and sharpen his criticism in this regard. In the two final chapters we deal with the vast political economic changes of the Conservative Hour in as much as they impact the analysis of Galbraith's trilogy.

6

Political Economy and the Public Purpose

The persistence of a way of thinking which somehow fails to take account of what are proving to be the basic realities of modern economic life is itself one of the great economic mysteries of our civilization.

C. E. Ayres, 1944

What must we know in order to gain systematic understanding of the economic activities of a human group, and by what intellectual techniques can such economic knowledge be obtained?

Adolph Lowe, 1977

Joan Robinson's Ely lecture provides a convenient ingress to this chapter, which is primarily concerned with the third volume of Galbraith's trilogy, *Economics and the Public Purpose*. An early dissident from the neo-classical synthesis, Robinson had been very much engaged in the capital controversy between the two Cambridges (England and Massachusetts) and adamantly insisted that the neo-Keynesian interpretation of Keynes was erroneous; her epithet for those who adhered to it was the 'bastard Keynesians' (Robinson, 1974; see also Gibson, 2005). Thus Robinson, literally an original Keynesian economist who was in Cambridge when Keynes was formulating *The General Theory*, and Galbraith, one of the earliest and staunchest American articulators of Keynes, agreed that the New Economics was critically inadequate.

Economics and the Public Purpose was foreshadowed by two important essays, 'Economics as a System of Belief' (1970a) and 'Power and the Useful Economist' (1973b). Galbraith deemed the latter, his presidential address to the AEA, to be 'the best short account of [his] general economic

position' (*Annals of an Abiding Liberal*, p. 3). In these essays Galbraith became more militant in his criticism of the neoclassical synthesis, overtly accusing the neo-Keynesians of having the 'convenient social virtue' of masking the 'conditioned power' (see Chapter 7) of the great corporations. Galbraith often said he was not capable of anger; perhaps, but in these essays and *Economics and the Public Purpose*, his mood had certainly changed. The fabled wit was less playful, more acerbic, and at the very least the prose reflected considerable frustration and irritation.

Together these three essays constituted a warning that the predominance of modern liberal economics was at stake. As early as 1962, Galbraith had been concerned that the trend of economic policy was going awry and might lead to the popular rejection of 'both the Democrats and Keynesian theory itself' (Parker, pp. 423–30). He elaborated this concern in *Economics and the Public Purpose*, which Parker (pp. 512–13) regarded as Galbraith's 'most radical work,' conveying his 'immense frustration' with contemporary economics and policy and 'his boldest and farthest reaching attempt to set forth guiding principles for political economic reform, including no fewer than *five* different kinds of socialism.'

In *Economics and the Public Purpose*, Galbraith slightly emended the overall model of the great corporate system to set it into context within the economy as a whole and elaborate upon its implications. The concerns for social imbalance and uneven development and the dualistic structure of the economic order were given more systematic attention. This included an explanation for the survival but limited development of small businesses and attention to the international system. The issue of gender inequality was raised in connection with the burden on the affluent housewife of managing the opulence of the household's consumption. As the title suggested, the central task was to explain the divergence between the purposes of the great corporations and those of the public. The most pernicious purposive divergence was the corporate interest in the profitable and secure production of armaments and the public's interest in arms control. Galbraith sought to resolve the dilemma of the state being at once a central part of the problem and essential to its solution (*Life*, pp. 526–9). To sharpen his criticism of the neoclassical synthesis, he submitted the ingenious *test of anxiety* to draw attention to the contrast between a *political* economic analysis and that of the neoclassical synthesis.

The second crisis of economic theory

Robinson referred to the 'second crisis' of economic theory, the first crisis being the massive interwar unemployment, which had been resolved

in part by the Keynesian Revolution. To remind, the neoclassical synthesis retrofitted Keynes's macroeconomic ideas into the neoclassical microeconomic framework. The disciplinary policy norm became high or full employment achieved by aggregate demand policy coupled with confidence in markets to allocate these highly or fully employed resources. Theoretical attention was paid to externalities and some policy implications were drawn regarding human capital formation and pollution. Little was said about economic structure with regard to macroeconomic stabilization except that society would have to establish the tradeoff terms between inflation and unemployment.

In this context, and on the eve of the 1970s' stagflation that was to fatally undermine neo-Keynesian complacency, Robinson argued that economics had come to face a second theoretical crisis foreshadowed by the incomplete character of the Keynesian resolution of the crisis of the 1930s (see Wrenn *et al.*, 2008). In her view, Keynes made sense only in a real world, real time context in which the past is irrevocable and the future unknown (Robinson, 1972, p. 3). In traveling 'from equilibrium to history and back again' (Robinson, 1974), the neo-Keynesians had removed the influence of the past and of the uncertain future (see also Dunn, 2001). In Veblenian terms the neo-Keynesian agent had 'neither antecedent nor consequent' (Veblen, 1898, p. 389); such an agent has no history and makes no history.

Robinson insisted that the neoclassical synthesis neglected the political economic reality of the contest between capital and labor in the social process of accumulation. Further she declaimed that it offered no theory of the state and had no eye for the struggles of economic interests within real political contexts. She also argued that it vastly oversimplified all choices in the face of uncertainty, including the tradeoff between unemployment and inflation. In the real historical world the seemingly simple choice to be made along the Phillips Curve was a messy spectacle, culminating in the resultant 'stop/go' pattern of the political business cycle (Robinson, 1972, p. 5). The neglect of historical forces of price and wage determination led the neoclassical synthesis to overlook an inflationary bias (Robinson, 1972, p. 5). Hence Robinson insisted that the neo-Keynesians had not resolved the first crisis of economic theory in that they could not prescribe a policy regime that could achieve stability at high or full employment.

Robinson's further, second, crisis of economic theory arose from the fact that the neoclassical synthesists were unable, indeed unwilling, to account for the real historical content of employment and output (Robinson, 1972, p. 6). As often noted herein, much of the appeal of

aggregate demand policy was its indirect character which allowed economists to hand over the issue of the content of output to the market, and thereby to sovereign consumers and citizens. It had already done so with the issue of the distribution of income and wealth and followed suit with the issue of the inflation-unemployment tradeoff. Any intervention in the content of output, as with the distribution and trade-off issues, were matters of social and political choice. Like Galbraith, Robinson argued that this served to obscure the historical reality of the political economic process. Robinson was especially concerned about income distribution and poverty, in the face of which the neoclassical synthesis offered a highly problematic (marginal productivity) theory (1972, p. 9), and about environmental damage, in the face of which the neoclassical synthesis offered a rather impotent theory of externalities (1972, p. 7). A most serious, indeed the ultimate environmental threat was, and remains, the accretion of weapons which are as terrifying as they are securely profitable to the great corporations of the military-industrial complex.

In closing, Robinson lamented 'the evident bankruptcy of economic theory which for the second time has nothing to say on the questions that, to everyone except economists, appear to be most in need of an answer' (1972, p. 10).

Galbraith (1970a, p. 470) asserted that economics had too often been politically convenient to vested interests, and that this was again the case, as 'present professional belief ... is now ... excluding urgent as well as politically disturbing questions from professional economic vision.' Specifically, as we have seen, he held that the assumption of consumer and citizen sovereignty served to exclude from professional scrutiny important issues about the power of the great corporations.

Curiously, to Galbraith (1970a, p. 472n), orthodox professional opinion had little notion of the existence of any relation between corporate efforts to secure specific product demand and government efforts to secure aggregate demand. As Robinson lamented, the economist's concern with the level of aggregate demand was not accompanied by a concern for the specific content or structure of demand. Given the assumption of consumer and citizen sovereignty in a world of scarcity, conventional economics could but applaud economic growth given the irreproachable link between output and economic welfare and progress. Galbraith (1970a, p. 474) found especially appalling the neglect of the clearly plausible case for great corporate influence in the public provision of military goods. Nor was the case all that less plausible for many private goods or the public goods which supported their use. To treat as

innocuous and inconsequential so pervasive a social reality as advertising and other salesmanship efforts, in the mood of Galbraith's analogy to religion, might be termed the Immaculate Deception: corporate power nonexistent, no blame for perverse outcomes may there be laid.

Galbraith presented a short discussion of what he later called the 'test of anxiety,' noting that one would come to view several key issues differently if one were to examine them from the perspective of producer sovereignty. Concern would then arise expeditiously and forcefully for the quality of life in relation to the structure of output, environmental degradation, inequality, and the vexing persistence of macroeconomic instability given wage and price pressures (1970a, pp. 476–7). In concluding in his usual optimistic vein, Galbraith (p. 478) called upon the familiar refrain of contrasting the force of changing circumstances to Keynes's stress on 'the ultimate power of ideas. In degree, he was right. But he could wisely have stressed the far greater authority of circumstance. Circumstance has given us the great private and associated public organizations.' Absent circumstance 'the ideas I am urging here would be nothing. Reinforced by such circumstance they are ineluctable.'

Galbraith's familiar optimism was apparent at the start of his presidential address: 'For a new and notably articulate generation of economists a reference to neoclassical economics has become markedly pejorative. I would judge as well as hope that the present attack will prove decisive' (1973b, p. 1).

Galbraith went on to restate forcefully the criticism that 'the most commonplace features of neoclassical and neo-Keynesian economics are the assumptions by which power, and therewith political content, is removed from the subject.' By 'eliding power – in making economics a nonpolitical subject' conventional economics 'destroys its relation with the real world' (1973b, p. 2). Galbraith again insisted that the conventional presumption of the sovereignty of the individual consumer and voter veils the processes by which power is exercised and by which society is governed. Also familiar, he insisted that this absence of a political economy perspective leads conventional economics to great error in addressing both the microeconomic and macroeconomic problems of society. The misallocation of resources because of oligopolistic or monopolistic market structures is misinterpreted, as are the problems of unemployment and inflation. Many other important issues are simply not considered (1973b, pp. 2–3). The nub of the problem is the lack of understanding of the dualistic structure of the economy, a bifurcation accurately revealed only by a focus on power. Conventional economics

provides 'no explanation of the most important microeconomic problem of our time. That problem is why we have a highly unequal development as between industries of great market power and industries of slight market power, with the development, in defiance of all doctrine, greatly favoring the first.' He noted again that the conventional macroeconomic remedy for stabilization consistently resulted in politically unacceptable inflation or unemployment (1973b, p. 3).

Once again anticipating the 'test of anxiety,' to be elaborated in *Economics and the Public Purpose*, Galbraith then recounted the effects of applying a political economic perspective with cognizance of power and dual economy. The identity between the goals and needs of the great corporations and those of the community would evaporate. Given the great corporation's power and commitment to expansion, attention would turn to the need for policy to balance the growth and development of the administered and market sectors (1973b, pp. 6–7). In the macroeconomy it would be expected that aggregate demand policy would yield unacceptable results unless it eschewed monetary policy and was supplemented by wage and price controls. Such controls would be expected to make apparent the need for policy on income distribution, which would come into a new light when seen as the result of relative administrative power (1973b, pp. 7–8). The dread of distorting relative prices and resource allocation would lose its force when it was seen that prices and resources are already being administered by the great corporation. The political economy perspective would cast a different light on persistent interindustry wage and price differentials, problems of environment and sustainable growth, and concern for product safety (1973b, pp. 8–10).

Galbraith concluded with a juxtaposition of the state as a large part both of the problem and of the solution. Once power is integrated into the analysis, one could not 'escape or disguise the contradictory character of the modern state. The state is the prime object of economic power. It is captured. Yet on all the matters I have mentioned ... remedial action lies with the state' (1973b, p. 10). The state is the only social entity that conceivably could exercise sufficient countervailing power to the great corporate oligarchy to achieve reform of the governance regime. But this is problematic given the state's encapsulation by the very corporate oligarchy that must be challenged since 'between public and private bureaucracies ... there is a deeply symbiotic relationship. Each of these organizations can do much for the other.' Thus, 'to deny the political character of the modern corporation is not merely to avoid the reality. It is to disguise the reality' (1973b, pp. 5–6). This *mystification* is, 'however

unconsciously, a part of an arrangement by which the citizen or student is kept from seeing how he is ... governed' (1973b, p. 6).

It follows that the state must be emancipated as a prelude to reform. This can only occur if economic doctrine is first emancipated, in effect by resolution of Robinson's second crisis. 'Thus perhaps our greatest question. Is emancipation of the state from the control of the [administered sector] possible?' The answer is unknowable. 'But there is a gleam of encouragement. As ever circumstances are forcing the pace.' We must remember 'that political issues are made not by parties and politicians but by circumstance' (1973b, p. 10).

The imagery of choice

Galbraith organized *Economics and the Public Purpose* by contrasting the power and purposes of the great corporations with the public purpose. Both the concept of the public purpose and of power require some definition. Galbraith found overly simple the common view in economics that the public purpose is to maximize production of goods that people want. The more complex reality, given powerful organizations and the cognitive limitations of citizens and consumers, was that the observed public purpose became subservient in part to them as well as to the larger public. Galbraith expended little space defining power. He defined it as the ability 'to command the efforts of individuals and the state' or to 'impose [one's] purposes on others' (*Public Purpose*, pp. 3, 92). Earlier he had given a similarly brief definition, defining power as 'the privilege of controlling the actions or affecting the income or property of other persons' (*American Capitalism*, p. 25). Even in *The Anatomy of Power* (1983a), a subject of the next chapter, in which he elaborated at length the sources and implications of power, he accorded it the simple and commonplace meaning that it enables one to impose one's will on others (*Anatomy*, p. 2).

Most would agree that consideration of the public purpose requires attention to power. In a careful review and analysis of the concept of 'public interest,' Richard Box observed that 'it is a commonplace idea that public sector decision-making at all levels of government is often constrained by the interests of the wealthy and powerful.' Box also noted that the absence of citizen knowledge of the possibility of institutional change is a serious impediment to vigorous democratic discourse, and that 'knowledge of alternative futures outside of those believed acceptable by the people who exercise control over the political and economic realities of the present is not easily found.' There is a possibility that

'public service practitioners' would expand public knowledge of alternatives, but in so doing they would face credible threat to their careers (Box, 2007, pp. 590–7).

Galbraith adopted the term *imagery of choice* to characterize the conventional economics' neglect and obfuscation of the role of power. To remind, he maintained that the 'essence of the neoclassical system' is that household choices are the predominant forces in the economy, and though 'shaped by the culture they are an expression of individual personality and will' (*Public Purpose*, p. 12). The central aspect of this neglect of power is the absence of a theory of organizations, which in pursuit of their not entirely simple purposes, exercise power and shape social economic outcomes. At the very least the exercise of power changes the alternatives available to others and effects their well-being. Galbraith (*Public Purpose*, ch. 3) insisted that political power is highly significant in this regard. In the postwar era, the state's role and spending had been permanently enlarged, and public decisions often structure private decisions. Recall the theory of social balance. If private consumption in many instances stands in a complementary relationship to public goods, then the relative appeal of possible private goods will be influenced to some extent by the decision whether or not to supply the juxtaposed public good.

The heavy reliance upon automobile transportation is the most important case in point; indeed it is most likely second only to military production in its effects on the sustainability of the present pattern of American living. If the government allocated the funds in support of alternative transportation modes that it has devoted in service of the automobile mode, America would likely move about in a much different fashion. And the matter is dynamic. Once a given technology or organization is given a lead by such collective action, it may enjoy economies of scale that effectively bar entry of alternatives in the future. Whether they stem from lower real costs or the exercise of power, given the phenomena of path dependence or cumulative, circular causation, there are advantages to organizations or technologies that are already developed. Note that given the relative inequality of power or imperfect information, the original path chosen may not have been the preference of the majority, nor the most efficient in any social sense.

Not that majority rule in the public sector would dispose of the matter of power. Power may extend to the exercise of a degree of influence over the attitudes from which those who are less organized make their own decisions. As already noted, in the political context, the absence of knowledge of alternatives is crucial. Given the incessant exhortation

to buy commodities, there is ample cause for concern about consumer knowledge of alternatives to commodities (Stanfield and Stanfield, 1980). This is a profoundly sinister possibility in a liberal society and it is precisely the thrust of much of Galbraith's work. The foundation of a liberal society is the liberal sphere, that space within the private domain in which the individual's preferences are presumed to be supreme. The preferences developed in the liberal sphere are the source of the commitment to democratic collective action: pluralism is significant because of the assumption that there is a multiplicity of life experiences that then come to bear as the multifaceted individuals engage in political discourse. The liberal sphere is the laboratory for Keynes's 'experiments in living,' perhaps in service to Veblen's 'idle curiosity.' A most essential concern, notably so for Galbraith and Critical Theory, is the self-authenticity of the preferences or the extent to which they arise from the experience and reflections of psychologically mature individuals (Lutz and Lux, 1988; Stanfield, 1995a, ch. 13).

As Galbraith often insisted, the imagery of choice serves the 'dominant economic interests' in two basic ways. It obscures the power of the great corporations and it resolutely accords virtually unconditional importance to the output they produce. Galbraith (*Public Purpose*, pp. 6–8) carefully avoided any suggestion that this 'convenient social virtue' was intentional on the part of conventional economists; that is, he thought it stemmed from their epistemology, not from any intent to serve the administered sector. As to Ayres' mystery in the epigraph to this chapter, aside from selection bias, Galbraith (*Public Purpose*, pp. 24–7) noted other factors in the persistence of conventional economics, including specialization and a reductionist approach to the subject matter. He had made the point before (*Industrial State*, p. 8n), as he had the role of tradition and nostalgia; the competitive market paradigm was reasonably applicable to the economy of an earlier time and it is the most readily available doctrine. And it must be conceded that it does permit 'endless theoretical refinement' that gives at least the impression of progress in understanding the economy.

The dual economy redux

Galbraith elaborated more carefully the concept of the dual economy and the constraints upon development that confine some firms to the market sector while others advance their development and populate the administered sector. He also provided a more systematic examination of the interaction of the two sectors.

In order to typify the firms in the market sector, for purposes of contrast, Galbraith summarized the nature of the great corporations and the goals of their technostuctures (*Public Purpose*, chs. 10, 11). As above, he emphasized organization which 'goes hand in hand with technical advance.' Technology, as before, he defined as 'the development and application of scientific or systematic knowledge to practical tasks.' The need for capital grows apace, as does the gestation period of production and overhead costs. This growth necessitates planning and the need to 'seek to control the social environment in which' the corporation functions. Control tends to grow with size and therefore Galbraith expected the great corporations to grow well beyond their 'technically optimum size.' Again he noted that the power conferred by size should be expected to be used to pursue the purposes of the technostucture, which are 'job security, pay, promotion, prestige, company plane and private washroom, the charm of collectively exercised power.' This growth and its related power are primal forces of socioeconomic change and they manifest a pattern of intensively uneven development (*Public Purpose*, pp. 38–41).

Uneven development between the two sectors results in the familiar asymmetrical or dual structure of the economy. The great corporations in the administered sector are vastly larger than those in the market sector. For the 1969 data that Galbraith used, a thousand large corporations accounted for around one-half of all private sector economic activity. In manufacturing, the concentration was more extreme, but it was also substantial in transportation, communications, utilities, and banking and finance. Some twelve million smaller firms comprised the market sector. Size is a marker that divides the two sectors, but it is so because it represents a qualitative divide, that the market sector firms are in principle amenable to direction by one individual while those in the administered sector are defined by their advanced organization that precludes such individual control (*Public Purpose*, pp. 42–4).

Firms in the market sector tend to be those which face inherent structural obstacles to technical and organizational development. This is true of productive activities that tend to be geographically dispersed and technically unstandardized, to involve personal service or artistic expression, or to be constrained by 'law, professional ethos, or trade union restriction.' The activities which must be performed on site in various places are poor candidates for the synergies and experience advantages that modern technology and organization confer. Construction activities are an example, though one cannot sort out altogether the influence of the productive activity itself from the effect of trade unions

and local government regulations. Many services involve the expectation of personal attention. Agriculture requires space. Creative, artistic activities are legendary for their resistance to organized control (*Public Purpose*, pp. 41–2).

In this sector, the market form of integration remains forceful and profit maximization is a reliable motivation, subject to the constraint of avoiding 'excessive risk' (*Public Purpose*, p. 92). Little opportunity exists for abnormal profit on the basis of the ability to administer relations with customers, suppliers, or the state. Advertising tends to be minimal and to be informative more than manipulative. The opportunity exists for abnormal profits of the classic Schumpeterian type but they tend to be fleeting because barriers to entry are insignificant. New market areas are the innovations most available to such businesses and they are also the most difficult to protect from new entrants in search of a share of excess profits. Barriers to entry are notably minimal in the service, retail, construction, farming, and light industrial manufacturing businesses that reside in the market sector.

The inability to sustain an important volume of excess profits means that retained earnings for reinvestment are unlikely to be large and are direct subtractions from the household's living standard. The market sector firm is therefore likely to be dependent upon the financial intermediary system for financing and is therefore impacted by monetary policy. The many firms in the market sector face great uncertainty. The more obdurate and successful endure and succeed by intensive exploitation of themselves, their kin, and their employees. The rules that govern organized behavior in the administered sector do not operate in the market sector. Labor effort within the large organization is standardized within limits set by more or less precise formulae and expectations; arrant sloth is likely to draw attention, so also unmitigated diligence. In the market sector the hard work and dedication to business bears upon the entrepreneur's survival and personal prosperity. So also does reward follow success in personal oversight to intensify the efforts of employees. Long hours with intensive concentration on the business at hand are profitable for the owner of the firm in the market sector. Self-exploitation and employee exploitation tend to be *de rigueur* in the market sector.

Of course, there remains the possibility of windfall gains and losses that may intrude upon the relation between effort and reward. Circumstances beyond individual control can defeat the most worthy and escalate the most undeserving. To these vagaries must be added the repercussions of decisions made in the administered sector which

add to the vulnerability of the market sector firm and therefore to the necessity of intensive exploitation. Likewise state activity, often at the behest of the great corporations, can dramatically affect a market sector firm. The market sector firm can attempt to affect state activity or its relations to the great corporations by organizing or seeking political influence. As we have seen in the discussion of countervailing power, collusive action is difficult to sustain in the face of free-riding. Efforts to influence the state must be direct and tend to be visible. Given the prevailing doctrine of market competition, either effort draws social and possibly legal opprobrium. As Galbraith had noted before, the case of agriculture and its state-assisted countervailing power, is still denounced for the static inefficiency of its supra-competitive level profits and non-clearing markets, despite its record of successful innovation and dynamic efficiency. In Galbraith's view, this success was the result of state stabilization of agricultural prices. This stability secures the incomes of farmers and enables their investment in advanced technology (*Public Purpose*, pp. 44–51).

The state and the global economy

Galbraith extended his analysis of the role of the state in the critically necessary process of reform and of the barrier presented by the prevalent conventional wisdom and its bedrock, the neoclassical synthesis in economics. He also provided a much more thorough discussion of the 'transnational system,' including re-examination of the problem of uneven development in the global economy.

The transnational context

Galbraith (*Public Purpose*, pp. 164–75) observed that the transnational system is an extension of the organization of the great corporations. In part this is but the fickleness of providence lacking the foresight to distribute raw material resources equably among the locales into which human beings imposed their economic development. Technostructures are large-scale users of materials and they reach out to secure their supplies globally via contracting, vertical integration, and political influence. But apart from raw materials there is further need for the administered sector to reach out and establish operations transnationally. Other costs of production may also vary internationally, notably labor costs, and at the same time, costs associated with compliance to stipulations of environmental and other social regulations. Political and social systems for various reasons may ebb and flow in accommodating

themselves to the needs of the technostucture. The movements in exchange values of currencies present further but similar problems.

Hence a corporation operating primarily in one or a few countries is subjected to cost disparities and rivalry that could be damaging. A great corporation from abroad may enter the market and not respect the convention against price competition. Diversification in the locales in which the corporation produces and markets its products averages out the exposure and allows rapid adjustment of production and marketing should differentials occur. This does not of course protect a nation's labor force or its market sector; to the contrary it exposes them to international pressure to a greater extent than if production were primarily national, because in that event the technostucture would have a much greater stake in the cause of protectionism. The great influence of the technostucture would then come fully to bear behind the same interests as the market sector and the representatives of labor.

Instead the great corporations become multinational or transnational entities. They take their organization with them into other countries. It would not serve them well to consign their marketing or purchasing activities because they would not have influence over consumer or state demand in foreign countries. By extending their organization, they extend their influence. Since organization is required, the strongest organizations have the advantage. In the American case, this is notably true of military industries. Galbraith was convinced that the commitment of organization, capital, and skilled labor to military production left much of American civilian industry with higher wage costs and lower quality capital than that available to their counterparts in Germany and Japan. The strong development of American multinational corporations reflected their need to produce overseas in order to achieve lower costs (*Public Purpose*, pp. 167–70).

Since the rich countries trade industrial output largely with each other, the concern over American cultural domination is most substantial in the other developed countries. Galbraith considered this concern to be misdirected because he thought the cultural uniformity of multinational corporations had less to do with their being American than with their being part of the administered sector. Similarly, the multinational corporations impair the sovereignty of states, not because of their nationality, but because the administered sector seeks to maintain its autonomy. In the postwar period economic nationalism declined along with trade barriers because the great corporations had no need for protection.

Galbraith (*Public Purpose*, pp. 124–5, 174–5; see also 1982–83, pp. 90–3) argued that the structure of the transnational system did exacerbate the uneven development between the rich and poor countries; therefore ‘if one insists on the term, this is the true shape of modern imperialism.’ What is termed imperialism in the global economy is an extension of the dual economic structure in the advanced countries. The less developed countries are disadvantaged in the same manner and by the same processes as the market sector in the advanced countries. The ‘terms of trade between ... two systems will have an insouciant tendency to favor the system that controls its prices and costs,’ which, in the absence of ‘unimpeded mobility between the two systems,’ will result in ‘inequality of return’ (*Public Purpose*, pp. 50–1). The exploitation by which the market sector survives in the advanced countries is likewise the fate of the less developed countries. Galbraith accounted for the persistence of the development gap by the tendency of the poor countries to specialize in the economic goods and services not amenable to organization.

Economic development redux

As Galbraith came to see the problem of uneven development as an aspect of the transnational system, his focus evolved. As noted above, in 1965 he had revised his earlier version of the causes and remedies for underdevelopment and settled on three modalities or models (*Economics Peace and Laughter*, 1971a, pp. 228–53). He continued to insist that policy should obey circumstance and resist what he later (see Chapter 7) called the ‘convenient reverse logic’ of first finding a remedy that appealed, then searching for the cause that implied that remedy (*Mass Poverty*, p. 91). But he apparently had determined that many of the explanations and remedies were distractions from the main issues in the development process (*Mass Poverty*, pp. 69–73, 87–91). We do not want to suggest a major break with his previous work, indeed it seems to us that Galbraith had narrowed his focus and come to emphasize factors from his earliest work, notably population density, the need for industrialization, and the importance of the ‘desire’ for change which required in turn popular participation and influence (1951b, 1964a). If anything, Galbraith’s emendations of his analysis of uneven development strengthened his focus on ‘how to get the job done’ (Peach, 2008).

Galbraith (*The Nature of Mass Poverty* 1979a, pp. 70–1) had come to view mass poverty in terms of ‘the common circumstance [of] a relationship of population to land which perpetuates the equilibrium of poverty.’ Given population density in agrarian areas, he emphasized the acculturation or accommodation to poverty. Individuals who live in

mass poverty quite rationally become risk averse – failure of an attempt to change implies serious destitution even starvation for those near the subsistence minimum. Their experience suggests that nothing but frustration followed upon attempts to break out of poverty; ‘one thing worse ... than poverty was to live in hopeless conflict with it’ (*Mass Poverty*, p. 94). In another place, Galbraith (*The Voice of the Poor*, 1983b, pp. 17–18) observed that ‘poverty ... has its own culture ... people come to terms with it. They cease to struggle against the obtrusively normal for the seemingly impossible.’

Policy should then focus on combating accommodation by increasing the number who reject accommodation and aiding the escape of those who do (*Mass Poverty*, ch. 6). Not all people accommodate poverty. Some aspire to break away from it despite all contrary evidence; they embody the desire for change. Development programs should focus on identifying and empowering these individuals. Their success will move others to attempt to break away. The greater the proportion of the population that so aspires, the greater the chance that the development process will move forward. If aspiring individuals cannot be found, then an effort to create them should be made in the process of basic education for the agrarian population, which is necessary in any case. For those who desire escape, technical training, improved inputs, and seed money should be provided.

Galbraith (1983b, ch. 2) often emphasized the stages of economic development and the need to recognize that development is a historical process that incorporates some recurring patterns. This carries with it the importance of having development strategies and foreign aid that are cognizant of the specific stage of the historical process that has been attained in a particular case. He lamented a common pattern in which the rich nations offered advanced capital equipment and technical advisers to poor countries, even though the latter lacked the capacity to employ them effectively toward development. The impact of the dual economic structure comes into play in these regards because often the ‘economic interest of the rich countries is strongly involved in the priority ... accorded to capital investment’ (1983b, p. 22). Sales and fees for technical services are generated for the great corporations of the rich nations. Often what is most needed in the poor country is basic education and politico-cultural development. Basic education has pride of place to lay the groundwork for the technical education to follow. Plus the ‘primary case for prior commitment to education ... is that it breaks [the] accommodation to the culture of poverty’ (1983b, p. 19).

Another primary requisite for development that Galbraith stressed in many places is the need for adequate governance. A reliable political system that accords people security of person and property is required for economic success; such a system also 'conveys a sense of political participation' which, though not necessarily representative in a parliamentary sense, is nonetheless attuned to the needs and capacities of the people. Another intrusion of the interests of the advanced countries and their dual economies into the development process of the poor countries, that Galbraith (1983b, pp. 14–16) especially deplored, was the military trade. In the milieu of Cold War competition, but also reflective of the economic interests of the greatest of all organized corporate interests, the military-industrial complexes, substantial arms trade has been conducted between the rich and poor nations. Note is often made of the waste this involves of the resources of the poor nations, resources that could instead have fed, sheltered, and educated people, or invested in the civilian economy. Beyond this waste Galbraith emphasized the political effects of the arms trade. It lays the ground for violent conflict among the poor nations and distorts the political pattern toward dictatorial, non-popular governments which are inimical to development. The suppression of political development suppresses economic development.

And there is more. Much of the military equipment requires technical expertise that is unavailable in the poor countries. This means that a substantial cadre of technical personnel must accompany it to the poor nations. Again we note the effect of the dual economy and the great corporation's need to follow its output abroad to secure its operation and its markets. This cadre nourishes suspicions, paranoid or not, of imperialism and intrusion into the sovereignty and culture of the poor nation. Coupled with stagnant living standards and non-representative governments, the seeds are sown for discontent and disorder, which often becomes violent (1983b, pp. 57–61; see also Chua, 2004). This internal strife and the often violently expressed tensions between the poor countries virtually preclude the effective, people-oriented civilian government that is essential for economic development.

In sum the first stage of development includes basic education in the rural areas, cultural development, and stable governance. Beyond that, industrialization is the foundation of development and it requires infrastructure and public capital formation or oversight of direct foreign investment or foreign aid. Law and order and public investment were essential to industrialization in the advanced countries and they are essential for today's poor countries to move forward. Capital formation

abetted and guided by a developmental state promoted the rich nations getting rich and it is essential for the poor nations to have a chance to follow suit (*Mass Poverty*, pp. 115–16).

For the all-important leading cadre who aspire to improve their situations, emphasis should not be placed on their remaining in agriculture. Their escape in the form of migration to urban areas, should not be discouraged, nor should migration to industrialized areas outside the country. Galbraith (*Mass Poverty*, ch. 7) wrote passionately on the issue of international migration. He was convinced that it was good for the emigrant and good for the host country. It provided better paying jobs for the migrant than could be found at home, and it supplied labor for tasks in the rich country that those already there did not wish to do. This is an inevitable dynamic in societies that offer the opportunity for upward mobility. Those who move up raise their children to move on to better jobs. In support of his case for the importance of migration as an escape from mass poverty, Galbraith cited the history of his Scotch ancestors, the Irish, Eastern Europeans, those from the West Indies and Latin America, black sharecroppers from the American south, and many more.

Galbraith recognized that some hesitation was understandable since immigrants are different and some social friction accompanies them, but he considered this to be a condition that is quickly self-remedied by their desire to assimilate and move their children up the social ladder. The other common objection, that immigrants take jobs that the locals need, not only ignores the dynamic of upward mobility, it is also based on the notion that the number of jobs is fixed, while in fact, immigrants create jobs.

Galbraith credited as fact-based the concern in the poor country that its best and brightest emigrate, but still thought it misguided. The emigration of the industrious reduces the population-to-land ratio and encourages others to aspire to escape poverty by migration or increased effort at home. Though he did not see migration as a total strategy, or even the most important element of strategy, Galbraith did think it a win-win phenomenon and marveled at the great historical curiosity that the rich countries resist it, or at least pretend to do so by insisting the immigrant workers are temporary. He also emphasized that with the best available development strategies, the achievement of self-regenerating industrial development is far from certain, as all historical process is uncertain.

As we have noted above, the power of the great corporations infringes on national sovereignty, in both the poor and rich countries. Although

The New Industrial State was quite clear on the great corporations' political needs and the influence they wielded to secure the state's service of these needs, Galbraith later became even less sanguine. He came to believe that the state had been largely co-opted by the great corporations, that its executive branch in particular had been taken over or assimilated to the needs of the administered sector. This was achieved by influence on opinion and belief, and directly by bureaucratic symbiosis, as discussed in 'Power and the Useful Economist' (1973b). He saw the consanguine relation of the state and technostructure to be especially marked in the military and intelligence areas where the claim of necessary secrecy provides yet another blanket to shroud it from the public eye (*Public Purpose*, pp. 143–5). The tendency of the corporations in regulated industries to reverse roles with their regulators is now commonplace, but its deeper meaning is not. The manner in which big business and big government do business remains obscure to a public schooled in pluralistic apologia, and reports of transgressions tend to be regarded as extraordinary malfeasance or inevitable government corruption. Johnston (2008) has provided a devastating ethnographic account of the recent American experience in this regard. Unions have declined as a countervailing power to the great corporations, both because their strength in general has declined and because they have come to identify to a large extent with the goals of the great corporations (*Public Purpose*, pp. 160–2).

Galbraith considered the legislature, though co-opted, to be, at least in principle, less so than the president and the executive branch (*Public Purpose*, pp. 242–50). The legislature is subject to the indirect influence of the administered sector's sway on public opinion but may be more open to direct influence by their constituents. The great corporations are national or multinational in scope and their direct influence is more readily applied to the executive branch. Since constituent influence is a possibility, legislators may be less reliable in serving the corporate interest. Galbraith was not naive about the difficulty of popular influence on the legislature; his usual political insight was not suspended. He observed that in Congress or any other legislature, the 'traditions and folk rites ... greatly favor what exists over what is effective. Oratory and symbolic action are a substitute for serious change' (*Public Purpose*, pp. 301–2). Of course, absent emancipation of public opinion, the significance of the possibility of constituent influence comes to naught in any event.

This leads to the fundamental source of the technostructure's political influence – belief, and to the convenient social virtue of conventional

economics. On this point Galbraith's work has been consistent from *The Affluent Society* onwards, notwithstanding the increasing urgency of the message. So long as more goods and services are perceived to be the cure for all that ails, and for so long as the market is perceived to be the impersonally functional device that induces the augmentation of output, the technostucture can rest easy, knowing it can administer its market relations to its liking and deny all suggestions of having any administrative power because it is believed to be subject to the discipline of the market. Then as well it is market discipline, not power, that leads to the underdevelopment of the market sector in the rich countries and the economies of the poor countries. With this, all who are enamored of the conventional view will agree, especially if they struggle in the market sector under substantial subordination to the market's discipline, or if they prosper in the administered sector in splendid transcendence of that discipline.

The affirmative public policy response that is required to overcome underdevelopment in the market sector of the advanced economies and the mass poverty in the transnational system is likely to conflict or at the least not be of particular concern to the interests of the great corporations. The needed reform is not apparent so long as the imagery of choice remains dominant. As noted above, for Galbraith the fundamental question remained as to whether the state could be emancipated. The emancipation of belief is the prerequisite to effective application of a strategy for reintroducing the technostucture to the public purpose in both the rich and the poor countries. The debunking of the imagery of choice is the prolegomenon to the drama of emancipation. Galbraith offered the test of anxiety to motivate this critical reassessment of economic doctrine.

The test of anxiety

Galbraith enlarged upon the contrast of the conventional and political economy models by applying the *test of anxiety* to social issues (*Public Purpose*, ch. 20). The test of anxiety is based upon the pragmatic principle that 'the ultimate test of a set of economics ideas ... is whether it illuminates the anxieties of the time. Does it explain problems that people find urgent? Does it bear on the current criticisms of economic performance? Does it bear on the issues of political debate ...' (*Public Purpose*, p. 198).

Galbraith insisted that popular opinion sensed a fundamental irrationality in production choices. Again the problem was imbalance,

some goods are produced in excess while others, often seeming to be of greater importance, are in meager supply. Galbraith saw imbalance not only between the public private and public sectors but also within the public sector; the supply of education and many urban services is scant relative to the output of industries devoted to the military, space and aviation, and highways. That this imbalance can be attributed to household preferences becomes ever more difficult to believe as the costs and inconvenience of the lack of neglected products rises and the inanity of the gadgetries that fill houses, garages, and landfills becomes ever more obvious (*Public Purpose*, pp. 141–5). Massive advertising is also cause for concern as is much product innovation; novelty is often an effort to create design obsolescence and tied to marketing campaigns (*Public Purpose*, pp. 137–8, 150–2, 198–200, 205–60).

Great distributive inequality is evident and a major source of popular concern. The conventional explanation of inequality is that impersonal market forces are determinant, but contrary to the conventional model there is no observed tendency toward equalization of returns in different industries. With every episode of corporate malfeasance and publicity of increasingly exorbitant executive salaries, the public's view becomes more skeptical. The dual economic structure will continue to distribute income and wealth unequally between the administered sector and the market sector. Galbraith (*Public Purpose*, p. 203) insisted that without 'energetic reform, the tendency [will be toward] one comparatively affluent, one comparatively impoverished working force.' Galbraith was prescient in his expectation of this rising inequality within the working population, and this development has very negative consequences for political support for the welfare state (see James Galbraith, 1998). Galbraith insisted that tradition, notably the customary hierarchical precept that those higher on the totem pole should be paid more, is a major factor in determining the structure of income distribution. Status and power also increases as one proceeds up the pecking order, including the power to augment one's own status and compensation (*Public Purpose*, pp. 264–5). Were the unequal pattern of income and wealth distribution seen to be the result of the exercise of administrative power and cultural influence by the great corporations, its resigned, but partial, acceptance by the public would likely vanish.

A persistent source of popular anxiety, if here ebbing, there flowing in the last 50 years, has been that associated with issues of ecology and environmental protection. The anxiety over resource depletion and environmental degradation runs a gamut of concerns from an individual's health to the moral responsibility to subsequent generations. For

many Americans ecological ruin is a 'future in plain sight' (Linden, 1998). To this concern orthodox opinion offers the concept of externalities and market failures. The strategy of internalizing external costs and benefits so to achieve quasi-competitive market outcomes is dubious on its own terms since the measurement with any precision of the relevant marginal social costs and benefits is well nigh impossible. But more important, this line of thought neglects the role of power in environmental degradation (*Public Purpose*, pp. 287–9). Incessant advertising promotes an ideology of consumption, portraying the solutions to life's problems solely in terms of consuming commodities. As noted above, truth itself is victimized as mouthpieces for the great corporate interests challenge the credibility of scientific evidence. The power of the great corporations to influence or 'buy' political and scientific figures becomes quite evident (*Public Purpose*, pp. 206–10).

Moreover, political decisions structure future individual economic decisions. Galbraith observed that 'some kinds of private demand are only possible if there is complementary action by the state.' As noted above, a compelling example of the exercise of power in the collective limitation of individual alternatives is the heavy American reliance on automobile and air transport, which are by any reckoning major aspects of the environmental problem. Given their obvious need for public infrastructural investment and measures to secure petroleum supply, it is clear that 'broad patterns of consumption are established by public policy' (*Public Purpose*, p. 136).

Macroeconomic instability is the most visible failure of the economic system and often the most painful. Opinion polls routinely indicate that inflation and unemployment, 'the economy,' are among the most urgently perceived problems. The stop-and-go syndrome has already been discussed; it will persist so long as the market system is said to be effective and policy is limited to the Keynesian remedy of manipulating aggregate demand. The administered sector is inherently unstable (*Public Purpose*, pp. 127–8, chs. 18, 19). Galbraith was convinced that there was no coordination, no equilibrating mechanism, between the output plans of different industries nor of the saving and investing performed by the technostuctures of the great corporations. In Galbraith's view, the persistent tendency, as we have often noted, was toward inflationary bias.

As alluded to above, Galbraith argued that a political economy perspective, that is a focus on economics, power, and culture (Stanfield, 1995a), would speak to the concerns in question. The power of the great

corporations strongly influences consumer decisions and available alternatives, especially given its political influence and the complementary character of many public goods to private goods. Serious reforms dedicated to alleviation of environmental distress, inequality, instability, and uneven development would interfere with the purposes of the great corporations. In every case the mood would change fundamentally if the impetus of the issues were seen to emanate from the administrative power of a corporate oligarchy rather than the discretion of sovereign households.

Belief and the agenda for reform

Galbraith was convinced that substantial reform was needed, and needed desperately, but he was also convinced that reforms could not be effectively pursued until the emancipation of the state was achieved (*Public Purpose*, ch. 21). The first step in that direction is 'emancipation of belief' and recognition that the public interest and that of the administered sector normally diverge and therefore the necessity of reform to align them. The 'belief to be contested' is the identity of the goals of the individual and the great corporations, which means challenging the 'proposition that the production and consumption of goods ... are coordinate with happiness and virtuous behavior' (*Public Purpose*, pp. 218, 221, 223). Galbraith used the term, *public cognizance*, to refer to the need for American citizens to develop a healthy suspicion or 'truly liberal resistance' toward belief that is convenient to the great corporations (*Public Purpose*, pp. 229–30). This critical attitude must also be taken with regard to their elected representatives and other government officials, who should be assumed to be active in the interest of the administered sector, pending proof to the contrary. Galbraith held this to be particularly important for the legislative branch, which he considered to be the best opportunity for initiation of emancipation. He also advocated a presumption against legislative incumbents unless it could be demonstrated that they upheld the public interest against that of the great corporations. Recapture of legislative initiative for the public interest would create an opportunity to enlist the executive branch (*Public Purpose*, pp. 244–50).

The power arrayed on the side of the growth lobby seems virtually insurmountable, yet Galbraith was not without hope. He drew again on the notion of an operant antagonism that could yet bring the public purpose to bear on the state and thus on the administered sector. He repeated from *The New Industrial State* (ch. 34:2) his hope that higher

education of the personnel required by and supportive of the great corporations would also nurture the critics of the administered sector (*Public Purpose*, p. 156). The 'educated proletariat reflects the values of the educational system' in which it is lettered with the credentials necessary to enlist in the technostucture. Students are imbued with a sense of 'the worth of individual personality' and the 'importance of thinking for one's self' (*Public Purpose*, p. 211). They are instructed in the social doctrine that ultimate power resides in the individual's calculus of good and bad, right and wrong. But outside the universities they encounter a very different world 'in which organization exercises large, even seemingly plenary power and to which they, as citizens, soldiers, consumers or organization men are expected to be subordinate' (Galbraith, 1970, p. 475). Galbraith placed much hope on the resulting cognitive dissonance. 'Thus, in effect, the technostucture cultivates the criticism of its own need to override personality – to harness people to its purposes. This is a fact of first importance, a fulcrum on which much reform must rest' (*Public Purpose*, p. 211).

In order to emancipate belief from the self-justifying commodity expansion that serves the purposes of the great corporations, Galbraith identified four basic nodes on which convenient belief must be contested (*Public Purpose*, pp. 227–9). The present economics pedagogy must be subjected to the excruciating embarrassment of the test of anxiety, and the doctrine of inexorable scarcity must be countered by the fact of the inordinate effort and expense devoted to the manufacture of wants. Second, the educational system must devote itself to critical thought and throw off the assumption that pecuniary reward indicates the social value of educational achievement. Third, the popular attitude of 'resigned acceptance' of overt persuasion must become the focus of cultural resistance, and a goal of this opposition should be alternative financing of media to free popular culture from the grip of commercial purpose. Fourth, the powerful forces that formulate public policy in the interest of the administered sector must be identified and their legitimacy challenged. One notes again that the role of the university community is central.

After the emancipation of belief has been achieved, the emancipation of the state can return public policy to serving the public purpose. Galbraith laid out a detailed agenda for reform focused in three broad directions: (1) to enhance the competence and power of the market sector; (2) to establish regulation of the administered sector to overcome social imbalance and assert the public purpose; (3) to manage the economy in full recognition of the two sectors (*Public Purpose*, pp. 221–2).

The goals of reform would be to improve the situation of women; move toward equality of power, competence, and return in the economy, notably between the two sectors; environmental protection, especially by a realignment of the purposes of administered sector to those of the public; reorient government expenditures to serve the public purpose; and ensure inter-industry coordination (*Public Purpose*, pp. 250–1).

The first set of recommended policy instruments related to ‘the burdens in managing a high standard of family consumption and the resulting need to have women conditioned to this task’ (*Life*, p. 527). Reform was to be aimed at overcoming the ‘crypto-servant’ role of women in the household (*Public Purpose*, chs. 4, 23). Emancipation of belief would here again be required because social conditioning exerts powerful pressure, not least in women themselves, toward the traditional wife-mother role. Here as in other regards, ‘emancipation of belief is itself a consequential reform’ (*Public Purpose*, p. 233). The ‘consciousness-raising’ emphasis of the women’s movement at that time was well aimed because emancipation of belief is the first step and foundation of reform.

Galbraith drew the ethical implication that either women should assume a decisive role in life-style choices as well as the management tasks with regard to consumption, or that both roles be shared. He was convinced that either change would bring ‘a drastic change in ... consumption patterns’ (*Public Purpose*, p. 234). Beyond that, for those women who choose to participate in the paid labor force, legal and policy remedies should facilitate their opportunity to do so. Equal access to that of men should be assured to the better jobs and the education required for them. Expanded high-quality child care should be publicly supported and flexible work time arrangements should be encouraged. Galbraith anticipated a few changes that would emanate from this social change, including reduced suburbanization; increased purchases of convenience foods, household services, and entertainment activities, and perhaps even increased artistic pursuits. These changes would involve a relative shift to services and therefore to the market sector, which would increase inequality if not checked by proactive public policy (*Public Purpose*, pp. 235–40).

Galbraith noted that he was not a futurist and was not trying to trace all of the ramifications of the policy measures he advocated. The rise of dual-earner households, already noted in *The Affluent Society*, was clearly implicit in his discussion. He was correct in many ways but did not anticipate the Conservative Hour that was to lead to stagnant real wages for at least a generation. Many dual-earner households became so out of necessity if the family’s living standard was to be maintained.

This necessity may have eventually swamped the declining 'economic necessity' of the family that he saw as the cutting edge of the emancipation of women (*Public Purpose*, pp. 234–5; see also Folbre, 2001 on the economy and the family). As already noted, rising inequality of wage and salary earners became pronounced, as Galbraith expected in the absence of policy measures to the contrary (see James Galbraith, 1998). That policy measures in fact exacerbated this inequality and that urban sprawl continued unabated would later come as a surprise to him (*Affluent Society*, 1984, xxv–xxix). In the quarter century that followed, the political coup that weakened the New Deal and Great Society measures to offset inequality led to greatly exacerbated inequality. This has now been thoroughly documented (see for example James Galbraith, 2008a; Kuttner, 2008; and Reich, 2008) but it remains to be seen if the Great Recession will induce countervailing policy measures.

Other policy measures recommended by Galbraith (*Public Purpose*, ch. 25) included those intended to reduce inequality: antitrust exemption, price supports, and support of unionization in the market sector; a greatly increased minimum wage; international agreement on measures to stabilize output and prices in the market sectors; public support of the technical and capital needs of the market sector; and a guaranteed annual income for those who cannot find work at a decent wage. In the administered sector, Galbraith (*Public Purpose*, ch. 26) suggested white collar unionization and explicit attention to wage and salary differentials in collective bargaining. He noted that wage and price controls, necessary for stabilization, could include provisions to narrow income differentials by setting a maximum range for average and maximum compensation in the great corporations and pursuit of a wage solidarity procedure to narrow wage differentials. He also advocated tax reform to tax the benefits and perquisites afforded the executive stratum, to set equitable rates on investor income, and to restore progressivity in tax rates. Though he thought it unlikely, Galbraith asserted that the mature great corporations could be converted to public ownership without loss of effectiveness and with greater dedication to the public purpose. This recommendation applied especially to the great corporations in the military industries (*Public Purpose*, pp. 283–5). This was a minor change from Galbraith's (1969b, p. 10) view a few years before that nationalization of the military complex would not significantly correct the burgeoning size of military output.

Galbraith (*Public Purpose*, ch. 27) also thought that some of the underdeveloped industries needed to be 'socialized.' Here he emphasized the 'remarkably unfrivolous needs' to be protected from the elements, cared

for when ill, and able to get back and forth to work. He insisted that the provision of housing, health care delivery, and local transportation was insufficient and erratic and should be taken over as public enterprises. The state should also continue agricultural price and income supports and undertake a major program of subsidies and promotion of the arts. Environmental protection (*Public Purpose*, ch. 28) would require adequate public funds for clean up of degraded areas and strong regulatory provisions to reduce additional damage by economic growth. Congress should be budgeted adequate staff for setting these standards and overseeing the regulatory apparatus to enforce them. Congress should also have available the necessary information from the great corporations, an open book so to speak.

The operation of the state in general should be scrutinized for its effect on the dual economy (*Public Purpose*, ch. 29). Galbraith observed that the (incipient) decline of American competitiveness stemmed in large measure from the uneven allocation between industries of public purchases, financial support (including bailouts), risk underwriting, and research and development programs. The market sector and even the weaker elements of the administered sector fared poorly in the contest for favorable state action. The US Congress should have an expanded and transparent budgeting process, including public hearings by a joint budget committee. Galbraith also saw the need to improve the matching of revenues and functions in the federal government structure, either by moving functions from the cities and states to the federal government or moving tax revenues from the federal government to the cities and states. We can only add that the need for this reform has been readily apparent in the current Great Recession.

Galbraith's macroeconomic stabilization policy proposals were consistent with his earlier work (*Public Purpose*, ch. 30). Discretionary monetary policy should be banned once and for all in favor of low and stable interest rates. Spending and tax policy should be corrected to remove the bias toward the administered sector. A progressive income tax structure that includes a comprehensive income base, with few 'loopholes,' is better for equality and stabilization. The need to increase demand should not favor tax reductions but increases in expenditures; vice-versa, the need to reduce demand should be approached by tax increases. This framework is necessary to preserve essential public services while pursuing stabilization.

Recognition of the dual structure of the economy is important in the determination of aggregate demand policy. Comparison of price and wage movements and labor supply and demand in the two sectors

would provide the signal for aggregate demand policy or structural policy, or a combination of the two (*Public Purpose*, Galbraith, pp. 311–12; see also Stanfield, 1996, pp. 134–47). Wage and price controls should be considered a permanent policy in the administered sector (*Public Purpose*, pp. 312–16). Many of the other proposals considered above imply the use of other structural policies, such as active labor market policies and price supports. Beyond that, a planning authority would be needed to coordinate decisions among the administered sector industries. The planning authorities of the nations in the global trade system would require coordination (*Public Purpose*, ch. 31).

Galbraith also called for a very aggressive welfare-regulatory state. It requires a very optimistic outlook for modern liberals to fathom an agenda that includes public spending redirected toward weaker parts of the economy, more progressive taxation, fiscal policy designed to preserve public goods at the expense of private goods, and wage and price controls and supports applied with an eye to increased equality (*Public Purpose*, p. 316). As always Galbraith relied less on ideological persuasion alone than on persuasion coupled with ‘hard circumstance,’ namely, ‘the fact that things are not working’ (*Public Purpose*, p. 212). Less than a decade later, he conceded that he had ‘faced but did not resolve the deep and enduring contradiction’ that the state is the essential means to correct the divergence of the purposes of the public from those of the great corporations, but the state ‘is extensively under the control of corporate power’ (*Life*, p. 528). Even before then, in a lecture (1979c), he had begun to see the welfare state as a ‘self-liquidating movement,’ as he later termed it (*Affluent Society*, 1984a, pp. xxv–xxvii). In Chapter 7 we follow the course of his thinking in these regards in the Conservative Hour after the mid-1970s. In Chapter 8 we examine the takeover of the state by a recrudescing financial oligarchy.

7

Political Economy in the Conservative Hour

We are in need of a theory on the origin, base, impact and effect of economic power. Since power is enjoyed by persons as well as by groups, the theory of power has to be presented in terms of the structure of groups active in our economy. Powerful groups develop their own economic policies and seek to impose them on other groups as well as on the government.

Arthur Schweitzer, 1954

In this chapter we first review Galbraith's analysis of the failure of economic thought and policy that paved the way for the Conservative Hour. Thereafter we turn our attention to *The Anatomy of Power* (1983a), *The Culture of Contentment* (1992a), and *The Good Society* (1996). The first is the most focused discussion of power that Galbraith provided. It offers a taxonomy and analysis of this fundamental force in the social system. The second presents Galbraith's view that a new socioeconomic class dynamic has arisen, that between the relatively affluent, who tend to be politically active, and the less advantaged, who are relatively inactive politically. A vanguard of sorts are the socially concerned who seek public policy measures aimed at supporting the disadvantaged, both domestically and transnationally. Galbraith musters some optimism about the force of historical circumstance but nothing like the optimism he earlier had ascribed to the scientific-intellectual estate (*The Socially Concerned Today*, 1998a, pp. 30–1). The socially concerned are the sizeable minority of the affluent whose political attitudes include looking 'beyond personal contentment to a concern for those who do not share the comparative well-being' (*Contentment*, p. 17). *The Good Society* is a concise discussion of Galbraith's vision of the guiding principles for the socially concerned.

Economic crises and the crisis of economics

The second crisis of economic theory transpired, and it had the effect that Galbraith had feared rather than what he had hoped. There was no turn to a liberal, heterodox economics with a structural strategy for a more progressive welfare-regulatory state apparatus. Keynesian economics was discredited, it was said, and instead of combining its macroeconomics with a realistic conception of microeconomic structure, the profession sunk into a confusing morass of efforts to rebuild macroeconomics from idealized microeconomics. The welfare state that grew up with Keynesian economics was beset with blame and substantially retrenched (see S. Clarke, 1989 and Stanfield, 1990). Much to Galbraith's chagrin, the left wing of the Democratic Party gave way to a centrist, neoliberal predilection that championed deregulation and a balanced budget.

As we have seen above, 'within a decade' after publication of *The General Theory*, 'the belief that the modern economy was subject to a deficiency in demand – and that offsetting government action would be required – was close to becoming the new orthodoxy.' This acceptance was signified by the Employment Act of 1946 (*Public Purpose*, p. 189). By 1952, 'the views of Keynes had subsided into quite general acceptance' (*A Journey Through Economic Time: A Firsthand View*, 1994, p. 152). In the postwar period, for 25 years, the Keynesian model and its prescription for aggregate demand policy were the conventional wisdom for maintaining output near its potential level. In this Liberal Hour, the American economy performed relatively well and confidence in the New Economics was almost unbounded. As early as 1961, Walter Heller, Chairman of the Council of Economic Advisers under Presidents Kennedy and Johnson, chortled that the 'economy is like a regular .300 hitter' in baseball. Galbraith (*Money*, 1975a, p. 269) noted that the 1968 *Economic Report of the President* was 'almost the last moment for self-congratulation' for the New Economists and referred to their facing 'high noon' soon thereafter. However, the 1969 *Economic Report of the President* was also quite sanguine. 'No longer do we view our economic life as a relentless tide of ups and downs.... Ever since the historic passage of the Employment Act in 1946, [in] economic policies ... we have [been] ... sustaining prosperity and heading off recession or serious inflation.... [A] solid foundation has been built for continued growth in the years ahead' (quoted in *Economics in Perspective*, pp. 255–6). There was talk of 'fine tuning' the macroeconomy and even of the possible obsolescence of concern about the business cycle (Bronfenbrenner, 1969).

In radical economics circles, by 1970, there was growing recognition that especially favorable circumstances, largely exogenous to the policies of the New Economics, were responsible, and that these were fading away (see Bowles *et al.*, 1983, for a later comprehensive statement). Galbraith later provided a similar summary of these circumstances, including pent up demand and liquidity from the war, a very favorable trade balance during the reconstruction of the war-devastated economies, the rise of permanently high military expenditures, and an automatic stabilizing effect of welfare state policies. He noted that 'none of this could be attributed to a deliberate economic design' (*In Perspective*, pp. 256–8). Nonetheless, economists relaxed 'in self-approving contentment' and 'exuberant confidence,' which retarded critical introspection, leaving unnoticed the dangerous shortcomings of the New Economics. Once again, as in the 1930s, Galbraith observed 'another great constant in economic life: as between grave ultimate disaster and the conserving reforms that might avoid it, the former is frequently much preferred' (*In Perspective*, pp. 236, 258, 265). The neoclassical synthesis was soon in full crisis (Stanfield, 1979, ch. 2; Parker, pp. 664–7).

Galbraith early on examined this crisis in economic thought, continued to trace it and its associated changes in economic policy, and contemplated its future course (*Money*, chs. 20–21; *In Perspective*, chs. 19–22; *Economic Time*, chs. 20–25). The neoclassical synthesis was based upon highly formal models that depicted the economy in oversimplified terms, suggesting far more precision in economic understanding than was present, or indeed, possible. In turn, this led to a confidence in statistical models as the footing for predictions on which to ground policy (*In Perspective*, pp. 259–62). Galbraith never had confidence in prediction in general, given the uncertainty of the historical process. One cannot say how future 'matters will be resolved; those who so specify go beyond the range of serious fact and available knowledge' (*Economic Time*, p. 246). There is a vast array of variables that come into play in any real historical context, such as technological changes, the course of international trade and payments, the whims of decision-makers in myriad places, and the responses to the above by various organizations. Given this plethora of interacting decisions by cognitively limited agents, Galbraith noted 'the all-too-evident fact: The combined result of the unknown cannot be known.' Thus, 'those ... who tell of the future financial performance ... do not know and normally do not know that they do not know' (*The Economics of Innocent Fraud*, 2004, pp. 39–40).

Galbraith regarded the 'reliance on prediction and foresight' to be a basic flaw of the policy strategy of the New Economics. Social change

is incessant and tends to alter the relationships of the variables in the models. Moreover, in the prior instance, the practitioners of this dubious art must exercise judgment in specifying these relationships; judgment is prone to bias (*In Perspective*, pp. 263–4). Further the New Economists ensconced in government faced the additional handicap of political pressure to make optimistic predictions to avoid self-fulfilling prophecy of poor economic performance. Their predictions and recommendations were subject to being trumped by larger policy and political concern, such as an approaching election or the conduct of a war. Another political problem, ‘the fatal inelasticity of the Keynesian system,’ which Galbraith later called the ‘political asymmetry’ of aggregate demand policy, was the extreme difficulty of applying the anti-inflationary remedy of expenditure reductions and tax increases, a problem writ large given the Cold War bias toward military spending (*Money*, pp. 270, 276–9). In this and other regards a serious flaw of the New Economics was its ‘growing divorce of economics from politics,’ its separation of ‘economic instruction and policy advice ... from political constraints’ (*In Perspective*, pp. 266–7).

Galbraith (1957, *Affluent Society*, ch. 16, ch. 15 in later editions) continued to lament the increasing resort to monetary policy, and to contest the claims that it was neutral in its effects on resource allocation and income distribution and conducted in political independence (*Money*, pp. 279–82). Nor did he find it effective given its reliance on the unpredictable relationship of money supply to income and employment, given the problems of defining, measuring, and controlling monetary aggregates and the plausible case that could be made for causation running from income to money supply rather than the reverse. He also lamented that monetary policy to combat inflation, in contrast to a tax increase, was more agreeable to those with high income. High interest rates were an important part of the retrenchment and assault on the union movement in the Carter, Thatcher (UK), and Reagan administrations (*Economic Time*, pp. 216–17). Although he had earlier argued that high interest rates were not a problem for the great corporations given their access to retained earnings (*Public Purpose*, pp. 297–8 and *passim*), Galbraith came to see that the great corporations were vulnerable to the effect of high interest rates on exchange rates (*In Perspective*, pp. 270–6). Even though the corporations could offset some of this vulnerability by their multinational scale of operations, the effect on American production and workers was profound (*Economic Time*, pp. 192–6). As to the opposite problem of rescuing the economy from recession, Galbraith was emphatic as to the lack of

utility of monetary policy, which though 'wholly agreeable ... exists only in well-established economic belief and not in real life.' Though it brings no disagreeable controversy, given the presumed sagacity of those who operate nearby large sums of money, it has 'no economic effect' on recession because 'firms do not borrow and expand output that cannot be sold' (*Innocent Fraud*, pp. 43–5).

The increasing significance of global economic relationships posed great challenges to the American economy and others after 1970. Exchange rate volatility with the collapse of the Bretton Woods system and the growing global competition for American goods, especially from the reconstructed economies of Germany and Japan, were early harbingers of the discourse on competitiveness and serial financial crises around the world. Their development into multinational organizations offered the great corporations some respite against this growing competition and state bailouts and protective measures were also called upon. The intensified competition severely tested the financial structure, unions, industrial relations, and welfare apparatus of the capitalist countries, and serial retrenchments ensued in the social programs developed after the Great Depression.

The separation of politics and economics left the mainstream poorly equipped to deal with this plethora of changes. Galbraith insisted that analysis of power and political context was essential to economics and that the neoclassical synthesis obscured the first because it ignored the latter. This neglect and the separation of microeconomics and macroeconomics left the New Economics without means to realize the evolution of economic structure. In his trilogy Galbraith's most insistent themes in this regard were the tendencies to wage and price inflation and social imbalance generated by the exercise of power by large organizations. But his view of the great corporation began to change with observation of its vulnerability to restrictive monetary policy. He began to emphasize the features of all organizations to expand their bureaucracies, settle into comfortable habitual behavior patterns, and develop 'socially and economically regressive tendencies' and 'organizational stasis and senility' (*In Perspective*, pp. 279–83). In the great corporation 'there was more to be feared from incompetence than from market power.' So startling a concession must be emphasized: 'where once ... there was fear of corporate power, there is now deep concern for corporate incompetence and weakness' (*Economic Time*, pp. 49, 243). Galbraith's concrete, evolutionary perspective led him to recognize the imperative rise of the power of the great corporation and thus of the significance of its organization and culture. That perspective also enabled him to examine the

subsequent tendencies of this organization and the errors committed by those who exercise its discretion.

More than the Vietnam War or even the oil price shocks, Galbraith considered a sort of revolution of rising expectations to have sown the inflationary seeds for the 'dim decade' of the 1970s (*Money*, pp. 291–300; *In Perspective*, pp. 269–70; *Economic Time*, p. 190). This decade, 'the dim years,' marked the beginning of the decline of American well-being and its global economic position (*Economic Time*, pp. 189–92). He also observed 'a marked change in the American public's attitude toward government, the federal government in particular,' which took on 'the aspect ... of a commonplace and sometimes corrupt conspiracy against the public good.' This mood was politically affirmed by President Carter's election on the theme of not being part of the Washington establishment (*Economic Time*, pp. 190). This theme, if anything, became more pronounced thereafter and remains so today. Its companion theme in economic thought was the rational expectations theory with its 'mystical quality' and the even more preposterous supply-side economics (*In Perspective*, pp. 286n, 296). The deregulation and reduced domestic spending begun by Carter soon accelerated under Thatcher and Reagan. The effects of deregulation, contracting out, and privatization were to empower business versus all social movements, especially unions. The resort to monetary policy to curb inflation was also a setback for the unions, as was increasing global economic integration against which labor had no effective global countervailing power. Even the debilitation suffered by some of the great corporations weakened unions because union strength requires bargaining with strong corporations.

Financial deregulation and increasing globalization paved the way for a series of crises, all having the characteristic features that Galbraith emphasized in *The Great Crash* (1954a) and *A Short History of Financial Euphoria* (1993). Leverage was expanded by substitution of debt for equity, the value of the latter then required to increase sufficiently to service the debt. The fiasco of the frenetic leveraged buyouts and frantic lending of the savings and loan banks led to a severe recession in the early 1990s; Galbraith observed that the depressive effect would come to an end and 'new confidence leading on to the next episode of speculative euphoria will arrive. So it has been; so it will be' (*Economic Time*, pp. 229–33). And so it was to be, colossally so in the Great Recession that is ongoing as we write.

This neoliberal restructuring of welfare state policies and the contours of the global economy was accompanied by a more aggressive foreign policy based upon a major expansion of military production.

Neoconservatism, an especially messianic variant of American exceptionalism, exerted increasing influence in foreign policy. Under the terms of the Washington consensus, the neoliberal banner was flown over the emerging and transitional economies as well as the retrenching advanced economies. The Anglo-American norms of economic governance were installed by the 'conditionality' imposed by international organizations, backed up by force and diplomacy; there was, as the authors have termed it, a Great Capitalist Restoration (Stanfield and Stanfield, 1996).

Galbraith noted that the future would likely turn upon two conflicting impulses. A dialectic was evident between regional associations and trade compacts versus the traditional identities and functions of the nation states. He expected this drama to continue to unfold and to pose a fundamental conflict between the social and economic autonomy and cultural identity of nation states versus the organizational demands of an increasingly integrated global trade and payments framework. The so-called architecture of this framework is likely to remain quite fluid going forward. Galbraith also noted an ongoing dialectic, operating both within and across the boundaries of nation states, between the affluent and the less fortunate (*Economic Time*, p. 246).

The Anatomy of Power

Galbraith greatly expanded upon the discussion of power in his previous works, in which one has to search to find even the most minimal definition. Schweitzer (1954) noted that *American Capitalism* lacked discussion of power and its various aspects, and neglected the literature, especially Max Weber's famous contributions on the subject. In an interview shortly before publication of *Anatomy*, Galbraith remarked that in the early 1950s he 'had not yet explored the subject of power in a truly comprehensive way' (1983b, p. 28). In *Anatomy*, he mentioned several authorities who had famously written on the subject, then adopted Weber's simple definition that power is the ability to impose one's will on someone else. He then developed a taxonomy of power and analyzed its changing historical character.

Galbraith distinguished the instruments and sources of power. The most evident means of applying power is the threat to inflict unpleasant consequences upon the person or group upon whom one seeks to impose one's will. This threat is credible when one is physically well endowed, well armed, or backed by a relatively large group that gives the appearance of capability and willingness to inflict harm. With a bit

of apology for the unconventional usage (*Anatomy*, pp. 4–5n), Galbraith called this *condign power*. He noted the similar connotation of the adjective coercive. Punishment may also involve degradation of one's reputation or standing in a community. Power can be exercised by more affirmative reinforcement by the offer to supply a reward in some valuable medium. Although verbal approval or praise is part of the matter, such *compensatory power* is most commonly associated with payment in goods or a money object. Potentially not evident to the object person or group is *conditioned power* that is exercised by persuasion or acculturation. Overt or recondite appeal is made through symbolic interaction, that is, by appeal to beliefs, aspirations, or iconic imagery. In modern industrial society this last is the most characteristic implementation of power, though compensatory and to a lesser degree condign power are present.

The sources or bases of power are likewise three in number. Weber's charismatic leadership is reflected in *personality* as a source of power. Personality involves leadership based on one's intellect, skill, physique, confidence, or perhaps even guile, though Galbraith did not speak directly to the issue of sincerity. *Property* is a familiar font of power. Wealth conveys ability to purchase influence or cooperation in pursuit of one's goals. Finally, as often noted, *organization* provides a power base of particular import in modern industrial society.

The founts of power can be variously associated with the instruments of applying it but there are some pronounced associations. Personality tends to be linked to conditioned power, though it includes physique and therefore condign power is possible. Leadership secures identification with one's ends and means. Property is most obviously connected to compensatory power. Organization is often partnered with conditioned power, but it tends to involve size, which involves property and compensatory power. The state as an organization can deploy condign power and the modern state in principle monopolizes the use of force. Resort to force was commonly available prior to the rise of the modern state, as it is in the case of failed states, either society-wide or in neighborhoods that are out of reach or out of concern to the state.

The purposes for the pursuit of power are legion. Virtually any interest or value of an individual motivates the pursuit of power since human beings are social creatures whose needs generally involve cooperation with others. There is considerable reason to believe that power can be an end in itself, a conveyance of direct satisfaction to its bearer. Galbraith presented a sort of stages theory of the evolution of the bases and instruments of power, from early tributary societies to industrial

capitalism (on which see Weber, 1966). Modern commercial society in general shifts away from condign power toward compensatory power, though in its earliest stages the margin was slight between outright force and removal of a family's subsistence wage. The emergence of industrial capitalism made fixed capital the most significant form of wealth. The application of condign power to protect property became the provenance of the state.

Galbraith had emphasized a further evolutionary stage in his earlier work on affluence and the rise of organization. Affluence tends to widen the gap between condign and compensatory power but also to erode compensatory power as the urgency of wants declines. The welfare state and union organizations, necessary to secure the workers' conditioned acceptance of the system, further weaken the force of compensatory power. Grumbling about the lack of a disciplined work ethic on the part of each subsequent generation of workers is ethnographic support of the point. In Galbraith's opinion, it is less the welfare state than affluence that should be singled out for blame. There is a cultural dynamic of some importance here, between the effects of affluence versus those of the ethos of diligent work and delayed gratification (Baran and Sweezy, 1966, ch. 11 and Lowe, 1977, pp. 12–5 and 1988). Galbraith had often commented on the role of advertising in this conditioned power struggle.

Along with affluence, organization grew in relation to property as a source of power. Operation of the great corporation requires teams of specialists whose motivation is not primarily compensatory but conditioned as they tend to be motivated by identification with the organization and its consonance with their professional ethos. As for compensation of executives, Galbraith never tired of pointing out the pervasive factor that to a large extent they have the agreeable task of setting their own remuneration. But he also insisted that no one in the upper reaches of an organization would admit to being in it for the money. To so admit would be to say that their commitment to the organization is less than total. None could so aver. They are fortunate indeed to have economists around to explain the power of compensatory motivation and affirm that the market for executive talent is highly competitive.

Externally the organization has wealth with which it can exercise compensatory power and such condign power as necessary and permissible in its political locale. But the *raison d'être* of organization is to utilize conditioned power. Much of conditioned power is derived from tacit knowledge, habitual responses to certain stimuli that stem from

continuous socialization as to what is decent and fair or repugnant and discriminatory. Public relations and advertising endeavor to connect the image and output of the corporation to social norms and supportive cultural and intellectual dispositions, such as the competitive market model of conventional economists that Galbraith ridiculed as their 'convenient social virtue.'

Though Galbraith stood by the concept of countervailing power, he had come to think that he had taken 'an unduly sanguine view of resulting equilibrium' (*Anatomy*, p. 74n and 1983a, pp. 28–9). He still mentioned equilibrium in *Anatomy* but his reference to a 'dialectic of power' suggests an ongoing dynamic process. An ongoing struggle is clearly present in the observation that the 'answer to the power of the employer is the union. And the answer to the union is a right-to-work law' (*Anatomy*, p. 73; see also Schweitzer, 1980). We can perhaps clarify the point by reverting to his argument in *Economics and the Art of Controversy*. Once established, the contending parties limit themselves to skirmishing over marginal issues rather than matters of organizational life-or-death (Ward, 1979). An overall homeostasis applies but within that there are still efforts to secure marginal advantage. Of course, this cozy establishment was based upon a postwar 'capital-labor accord' that was to give way (Bowles *et al.*, 1983).

Galbraith (*Anatomy*, ch. 15) expanded upon his discussion of the state a decade earlier. He divided the modern American state into three sets of structures and processes. The outer confines are populated by the voters, Congress, and a large number of organizations intent on influencing either public or Congressional opinion. The inner core is the more or less permanently affixed organizations whose routines constitute the continuing process of governance. In between the outer confines and permanent inner core of the state is a layer of officials and staff that mediate between the other spheres. The president, the cabinet, and a host of advisers either exercise real power or at least appear to do so.

The outer reaches of the state contain a noisy process of organizations in pursuit of conditioned power on behalf of corporations, unions, farm groups, consumer federations, environmental associations, and so on. Though Galbraith acknowledged that some of these efforts are successful, he judged that the cacophony of many voices diluted their messages. In contrast, the inner core of bureaucrats who populate the administrative structure of the state has access to all sources of power, including the condign apparatus and the compensatory power of the great wealth of the state. He did not think that the power of this inner core was much limited by the ostensible budget authority of Congress

or electoral outcomes. The personality of this inner tranche of the state is unimportant so far as direct influence is concerned; after all the individuals are supposed to carry out their functions impersonally and formally within the rule of law. The center, mediating ring of the state has great property and organization at its disposal. Important condign decisions are made, but normally not those regarding domestic law enforcement. Personality is important, especially for the president, but perhaps also for some of the more important cabinet officers. The exercise of compensatory power is substantial as is the executive organization. Though he thought the original power of this stratum was substantial, Galbraith believed that it is often overestimated.

Galbraith (*Anatomy*, ch. 16) drew a stark picture of the exceptional position of the military establishment. It has access to great wealth and dispenses a massive bundle of compensatory influence. Its organization is by nature very disciplined and it has great ability to keep its secrets. Given 'bureaucratic symbiosis' it has the coziest of relationships with the business organizations with which it contracts. At this time Galbraith thought the conditioned power of the military establishment required a credible enemy, but he later doubted even this constraint. But even with a real or plausibly rendered illusion of danger, the conditioned power of the military is not total, especially if reliance is made to a draft. Globally Galbraith expressed great concern about the threat to democracy posed by the widening gyre of the power exercised by military dictatorships (see also Cypher, 2008).

The Culture of Contentment

In *The Culture of Contentment*, Galbraith examined the social and political economic undercurrents of the Conservative Hour. These themes began to emerge in his work no later than the late 1970s. 'If one is rich or even well-to-do and self-regarding, any doctrine that makes public services (and therewith taxes) uneconomic, politically regressive and possibly immoral is bound to seem benign. Anything so convenient must be right' (*Affluent Society*, 1976, pp. xiii-xiv). In a series of lectures and essays he began to reform his political analysis and concept of social imbalance along the lines of a new dynamic in political culture between the fortunate and less fortunate. The politically active affluent had a highly selective view of public expenditures, supporting those that favored themselves but offering growing resistance to those needed by the poor, as well as to taxation in general (Galbraith, 1979c, d and *A View from the Stands*, pp. 3-6, 179-81). Galbraith had also begun to

develop the theme of the 'self-liquidating character' of the welfare state, because its success undermined its political appeal, having raised a large share of the population into secure and comfortable affluence (1988a, pp. 188–9).

Galbraith also noted that 'the convenient reverse logic' was gaining momentum and it was no longer fashionable to proceed from identification of a problem, to specification of its cause, to prescription for its remediation. Instead he saw that the increasingly fashionable political logic prescribed that for any problem, one identified the most convenient (to the affluent) remedy available then sought a cause consistent with that remedy. In the case of poverty, the old logic of proceeding from the problem to causes to remedies was particularly noxious in suggesting costly public expenditures. He noted that the convenient new logic suggested a need for remedies that do not involve taxes on the affluent, and thus they in turn found convincing the view that poverty resulted from deficient ambition of the poor. In a further spectacular logical leap, Galbraith noted that the accepted view held that the low motivation of the poor was due to the demoralizing and disincentivizing effect of transfer payments and public services. But of course taxes upon the affluent were held to sap their motivation so tax reduction was required. Galbraith helpfully clarified by observing that '[j]ust as the poor have not been working because they have too much income, so the rich have not been working because they have too little.' The convenient reverse logic was also useful to the affluent in their foreign policy advocacy. The conclusion that social unrest stemmed from inequality and deprivation lent itself to inconvenient implications, better to start with the premise that military production and operations are not only the correct remedy but incidentally are very profitable to the corporations owned and controlled by the affluent. Hence it must surely be true, as President Reagan insisted with characteristic rhetorical simplicity, that "'the Soviet Union underlies all of the unrest that is going on ... in the world"' (*Stands*, pp. 35–7).

Galbraith expanded and sharpened these arguments in *The Culture of Contentment*, which made clear his resignation to the fact that the educational-scientific estate had not so far risen to its role as a vanguard for a reasonable society (Parker, pp. 623–8). The book's central theme is that the affluent flock to the polls, forming a Contented Electoral Majority that dominates electoral politics. This group, which includes the great corporations, forms the Culture of Contentment. The incomes of the contented majority are comfortably high and relatively secure, made so in no small part by government programs such as pension

fund guarantees, deposit insurance, corporate bailouts, farm income supports, Social Security, and Medicare. Although Galbraith recognized that there is a minority in the ranks of the affluent who are socially concerned, the politically major are sanctimoniously self-regarding. He lamented the fact that the state tended consistently to reflect the views of the contented political majority, but conceded that this outcome was broadly sanctioned by democratic procedure, if only by virtue of the non-participation of around one-half of the potential electorate (*Contentment*, pp. 10–11, 150–1).

The outlook of the contented electoral majority, first and foremost, is that the affluence they enjoy is justly theirs; they reap only what they earn by their acumen and diligence. Their outlook with regard to social problems is short-run and selective. Long-run problems of environmental degradation, infrastructural deterioration, and social unrest among the underclass are diffuse and somewhat uncertain as to extent and incidence. Action to ameliorate these problems is visibly costly in the short term and the incidence of these costs is just as obvious; the contented majority would have to pay more taxes (*Contentment*, pp. 6–7, 18–19).

But the Selective View of the Role of the State permits generosity with regard to expenditure that is favorable to the affluent. Bailouts of financial corporations provide spectacular examples of the selective view. Deregulation of presumably efficient markets create opportunities for wealth creation that is advantageous to the contented majority. When the speculative excess imposes an unsupportable burden on financial operations, and meltdown ensues, it is highly convenient to the affluent that the state insure deposits and bail out financial firms (*Contentment*, ch. 5 and pp. 157–8). Galbraith noted that such discrimination is a complex undertaking that requires artful attention to semantics. For example, the pejorative use of the term bureaucracy is selectively applied to the public organizations that collect taxes, regulate industry, and distribute certain entitlement programs. The organizations involved in military and intelligence activities, air traffic control, and perhaps even social security and Medicare management do not similarly suffer bureaucratic assignation, nor do the vast corporate organizations which are presumed to be subject to market discipline and guided by capable entrepreneurial talent.

The outlook of the contented majority is tolerant of an extremely skewed distribution of income and wealth; serious discussion of the equity of the super-rich by the merely rich or of the merely rich by the merely affluent would raise questions potentially unsettling of

contentment (*Contentment*, pp. 26–7). Galbraith noted that a crucial element in the outlook of the contented electoral majority is their lack of concern for the misfortune of the functional underclass. Political rhetoric abounds that America is a middle-class society to which the Old World's preoccupation with class is irrelevant. Hence there is no place for the rhetoric of class war in American political discourse. Even if the existence of the functional underclass becomes conspicuous, the inconvenient fact of its necessity need not be mentioned. The contented can as well ignore the possibility of long-run social turbulence over the condition of the underclass. They can take comfort in the fact that history shows that previous underclass population groups achieved upward mobility and were in the end anything but riotous. Galbraith pointed out that the industrial jobs and quality public education and services that promoted social advance in the past are largely unavailable to the present underclass, but wryly noted that with practice such facts can be ignored (*Contentment*, ch. 3).

Galbraith's political economy of the culture of contentment led him to a very ambiguous conclusion. He contended that reform cannot 'be seriously expected,' yet seemed to agree with those who stress the self-correcting capacity of democracy (*Contentment*, pp. 11–12, 154–5). He set out some scenarios that could lead to reform and the direction that reform would need to take. We return to the prospect for reform below.

The Good Society

Though it offers few surprises, *The Good Society* warrants our attention. It is a concise, concentrated statement of the principles and judgments that guided the lengthy life of a paragon of progressive modern liberalism. The book is a missive to the socially concerned that they should continue their efforts and to assist them in so doing. Thus it should serve as a good capstone to set up the discussion in the next chapter of the Galbraithian legacy and the challenge it contains.

Galbraith emphasized that his concern was with the reform that was possible, that his goal was not the perfect but the achievable. This led him to urge recognition that '[d]eeply ingrained patterns of thought' exist and must be recognized as constraints on reform. They are linked to established politico-legal and economic procedures, patterns, and structures that have historical force. The business enterprise and its corporate form are givens, so also the consumer economy. Individual and social achievement and well-being are likely to remain focused upon

measured indices of commodity production and consumption. If some of these givens appear to conflict in some regards with Galbraith's earlier work, it is necessary to recall that he was never a constructivist seeking to radically reconstruct the basic patterns of social interaction in pursuit of an idealized future. He was a reformer whose efforts to improve the goals of production and consumption and achieve wider inclusion in the political economic process, were concrete and contingent.

Indeed Galbraith (*Good Society*, ch. 3) made clear his pragmatism. He admonished the socially concerned to avoid ideological framing of issues and to insist on specific and detailed discussion. As noted in *The Art of Controversy*, he thought a focus on generalities could generate controversial and heated rhetoric but shed little or no light on problems and their solutions. 'In the good society ... there is one dominant rule: decision must be made on the social and economic merits of the particular case [in this,] the age of practical judgment.' In a similar vein, he urged that nationalist ideology be resisted and not allowed to confine the movement to social reform within national borders. 'Human beings are human beings wherever they live.' The socially concerned must insist that 'in a civilized society there is concern for the world as a whole' (*Good Society*, pp. 2, 121).

Galbraith did insist that there are goals upon which the good society must not compromise and constraints it must not accept. There must be universal inclusion. The good society must not accept arbitrary socially structured inequality nor allow discrimination on the basis of social identity to deny anyone the opportunity to pursue a 'rewarding life.' As before, he insisted that no constraint on freedom is so complete as abject poverty and that no other incentive is comparable to economic opportunity for encouraging socially useful effort and amicable behavior. The power of vested interests cannot be allowed to constrict needed reforms and critical scrutiny must attend any suggestion that desirable policy changes are 'politically impractical.' In the absence of proof to the contrary, any such assertion must be assumed to be an ethnographic trait of 'the common design for protecting a socially adverse interest' (pp. 4-5). In matters of income protection, economic stabilization, or social and environmental regulation, the socially concerned should be suspicious of opposing arguments and 'search to see if self-serving pecuniary interest is [their] motivating factor' (*Good Society*, pp. 80-1).

Galbraith recognized that individuals will tend to differentiate themselves for any number of reasons, and that in a commercial society this will be translated into pecuniary terms. Therefore the good society would know that 'no fixed rule' exists for a good distribution of income

but that it would not hesitate to alter income distribution to resolve specific problems. The good society would not accept some income as a matter of principle, including that from financial chicane, abuse of market power, exercise of management prerogative to garner excessive executive compensation, or transactions that are fraudulent or damaging to consumers, environment, or social interest. The good society would almost certainly include progressive income taxation to head off socially adverse inequality and serve as an automatic stabilizer, as well as adequate support for the poor, removal of tax preferences for the affluent, generous minimum wage and unemployment compensation levels, and support of trade unions (*Good Society*, pp. 28–32, 59–65).

Galbraith argued that strong and stable economic growth would be a necessity for the good society, at least for so long as individual and social achievement is based upon commodity production and consumption, population growth continues, and there is need for opportunity for upward mobility of the poor at home or abroad (*Good Society*, pp. 24, 33). His macroeconomic policy recommendations are familiar by now. The three tools of aggregate demand policy are by no means evenhanded in their results and effectiveness (see Nell and Forstater, 2003, for a contemporary discussion of functional finance). Monetary policy is futile in a recessed economy and socially damaging when used in strong enough measure to reduce inflation. Tax reductions are of uncertain value in a recession and may be politically difficult to reverse; increased public spending is preferable. The opposite is true in an inflated economy, tax increases are more reliable and decreased public spending is likely to be socially damaging (*Good Society*, pp. 37–41).

Galbraith recognized that the ‘trade-off [between inflation and unemployment] is present in all accepted thought.’ He urged rejection of the trend in political preference to the acceptance of relatively more unemployment. In any case, he advocated both generous unemployment compensation and comprehensive indexation of income. Of particular interest, he no longer favored wage and price controls, because they ‘conflict with the basic structural character of the market system,’ and ‘with powerful economic and public attitudes and beliefs.’ Hence resort would have to be made to an appeal to socially responsible wage and price restraint, ‘directly negotiated restraint,’ along the lines of “the European model” (*Good Society*, pp. 41–8; *In Perspective*, pp. 268–9, 296–7). The good society would seek ‘a social contract between (sic) the trade unions, the modern large corporations and the government that limits wage increases to what can be afforded out of existing prices. It

must be part of the understanding that trade union restraint will also mean price restraint' (1988a, p. 190).

For Galbraith there was always the special problem of the boom and the speculative orgies that tend to recur as 'each generation returns with enthusiasm to the derelictions and frequent insanities of the one before.' In a remembrance of first reading Keynes, he (1998b, p. 13) observed that 'we are now engaged in a classical exercise in securities speculation, a wave of financial and industrial acquisitions, unseen but undoubted financial aberration And ... there is a new generation of economic prophets assuring us that the economy has passed into a new and permanently prosperous phase.' Hence, though regulation is needed to improve honesty and transparency, police insider trading, and reduce debt-for-equity leveraging, Galbraith thought speculative episodes were 'an inescapable feature' of the capitalist system and that there was little that could be done other than to alleviate the effects on the general population: 'as a practical matter, attention must be concentrated on mitigating the distress and hardship and especially the unemployment ...' (*Good Society*, pp. 34–5, 79–80; see also *Contentment*, pp. 179–80).

Although Galbraith advocated use of the powerful force of deficit spending to combat recession, he did not treat the issue of the deficit 'casually; a high measure of intelligence and discretion is always required.' Obviously he opposed the goal of an annually balanced budget, which would preclude functional finance. 'There could [be] no better design for enhancing economic instability.' He noted with alarm the serious congressional consideration of submitting to the states a balanced budget amendment, which 'could have been the most regressive legislative proposal of recent years.' He left no doubt about retention of his celebrated sardonic wit by adding that this was 'a hard competition to win' in the Conservative Hour (*Good Society*, pp. 40–1). For analysis of deficit spending, he thought it would be useful, but certainly not definitive, to distinguish in principle spending on current operations and service to vested political cronies from measures to enhance future productivity (*Good Society*, pp. 51–8).

Galbraith's concern for social balance persisted. Once again he emphasized the role of education in the good society, and once again he noted that although its service to economic goals is most apparent, its social value should never be narrowly conceived but comprehensively focused on the art of living. Education supports social peace and tranquility by promoting both upward mobility and understanding of democracy and *civitas*. An educated and informed population is

not only empowered to practice democratic participation but also to demand it (*Good Society*, ch. 9).

Galbraith insisted that the good society would emphasize that the market economy must be carefully structured by a politico-legal and ethical framework. Formal public policy and precedent, while essential, are not sufficient, especially in a world of large organizations whose bureaucrats exercise discretion. Earlier with regard to the negotiated economy of the New Industrial State, Galbraith (1983c, pp. 268–9) had emphasized that: ‘I would like to see us ... accept that we have a world of strong unions, strong corporations, large government, and that we have to have an ethic of conciliation between them.’ Galbraith noted that environmental protection is essential and that much of the problem stems from production and consumption that results from the conditioned power of the ‘vast and energetic advertising industry and the persuasive power of modern communications’ that are ‘necessary to instruct the individual as to his or her desires’ (*Good Society*, p. 83). He noted the need for state action in the areas of income protection, occupational health and safety, the activities of the financial industry, and hazardous or technically shoddy consumer products (*Good Society*, chs. 10, 11). The last would steadily increase as the effective geographic and technical distance increased between the consumer and the production process. This implies a concern for consumer competence that we will return to in Chapter 8.

Galbraith (*Good Society*, ch. 3) noted that the situation of the great corporations had been greatly altered by increasing global competition and ‘explosive technological change.’ In effect, Schumpeter’s virtually life-and-death potential competition from the unknown innovation has come ferociously to the fore. The weakened position of American manufacturing had the expected effect of intensifying the opposition of original and countervailing power, escalating the decline of union power. But from another angle, the countervailing powers of the emergent big-box retailers were much of the thorn in the side of the manufacturing corporations. Galbraith also observed that the political voice of business, including that of the great corporation, has been reduced somewhat by an increased plurality of political voices, including scholars, students, varied media, and professionals in many fields. Indeed he noted that the anxiety once felt about great corporate power in America had become less evident than concern about an ‘often immobile corporate bureaucracy’ and ‘corporate stasis and incompetence’ that failed to maintain international competitiveness (*Good Society*, ch. 14).

Galbraith had clearly moved some distance away from his earlier concern about the power of the great corporations. It is not altogether clear how far he intended to take this point, specifically whether or not the co-opted state and the need for its emancipation from the administered sector remained a principal concern. His concern for social balance remained but even in this regard he seemed to have become less concerned with the revised sequence and more concerned with the political voice of the contented voting majority, including its highly selective attitude toward the role of government. But around the same time, he elsewhere noted that the preoccupation with consumer satisfaction 'may be regretted' and that it assures a 'strong political voice' for those who 'own or manage' the production process (*Socially Concerned*, pp. 17–18). So it might be correct to say that the earlier theme of emancipation from the power of the great corporation had not been abandoned but moderated by recognition of increased global competition and diluted by an increased focus on the attack on the social welfare state. The latter he saw as in effect a 'war of the affluent against the poor,' since the attack centered on that portion of public activity that provides opportunity for the poor (*Socially Concerned*, p. 26).

But it is clear that Galbraith (*Good Society*, ch. 13) had become ever more concerned about what he saw as the autonomous power of the military establishment. 'I would like to see, above all, an arresting of the military power, a powerful commitment to arms control... That seems to me to be overwhelmingly more important than anything else' (1983c, p. 268). Quite apart from any dynamic of foreign affairs, Galbraith considered this to be a singular issue in the realm of domestic policy. The budget of the military establishment seemed to him to be largely of its own choosing, ostentatiously egregious, and unsupported by any reasonable evidence of need or demonstration of credible enemy threat. He clearly thought that the power of the military establishment is a forthright failure of American democracy and that the good society has no higher priority than to resurrect civilian authority over its military. In this regard he again insisted that the military complex had to be much more clearly understood in organizational terms (1983d, p. 28; for a comparison of Galbraith and Veblen on the military problem, see Cypher, 2008). Galbraith (*Good Society*, ch. 14) was convinced that great organizations, public or private, manifested two unmistakable tendencies, to substitute discipline and identification for critical thought and to endlessly proliferate personnel in its middle and upper echelons. In the absence of serious internal criticism designed to renew the vitality and sense of organizational purpose, organizations give way

to bureaucratic stasis. Without hard budget constraints they give way to costly and redundant officials with excessive salaries and expenses. Galbraith often made the point that private enterprises, even the great corporations, were ultimately subject to the market test of earnings, but no such stricture applied to the ostensibly private but in fact hybrid organizations in the military establishment.

In the postwar period, Galbraith (*Good Society*, ch. 16) was skeptical about all charges of imperialism made against the advanced countries. Old-style imperialism was to his mind long gone, by virtue of historical circumstance. Colonialism was no longer of significant economic benefit to the advanced countries and the awakened national identity in the poor countries rendered it more costly as well. Trade among the advanced countries had become predominant and Galbraith thought that there was little for these countries to gain from efforts to maintain imperial hegemony. Galbraith (1982–3) noted that there was much ‘compulsive talk about a new imperialism’ during the Cold War. The Reagan administration adopted the ‘Soviet empire’ or ‘evil empire’ as the preferred sobriquets for the USSR. America’s imperialist intentions were *de rigueur* in Soviet rhetoric. But Galbraith thought that, at its most plausible moment, the case for a new imperialism was not altogether convincing (1982–3, pp. 88–92). There were few of the trappings of imperialism. Technicians and advisers were dispatched but not governors or administrators. There was no apparent effort aimed at economic exploitation. The intent was ideological, to persuade toward capitalism or communism. Real imperialism had no such reformist designs on its object territories. Galbraith insisted that were it imperialist competition, it was at best ‘a pallid thing’ of a most incompetent sort because the two countries had been losing influence for two decades. Even if the point were conceded that the struggle between the great powers had some semblance of a neo-imperialism, Galbraith insisted that this ‘rule of error’ had ended by 1990 (*Good Society*, pp. 127–8).

Galbraith did not consider tenable the contention that the transnational corporation constituted a new form of imperialism (*Good Society*, pp. 126–7; see also 1978b). He thought that this view greatly overestimated the influence of the transnational corporation and its direct foreign investment. He insisted that the transnational corporation was best understood as part of the surge of historical events. ‘The modern large enterprise sweeps across national frontiers... The transnational character of modern economic life is a controlling fact of our time ... Beneath and dominant, however, is the larger pressure of economic and social change’ (1997b, p. 63). Of course, the great corporation was part of this

controlling circular and cumulative change in circumstances: 'modern global development is not a function of the development of capitalism but rather of the managerial corporation' (2002b, p. 6). It developed from the technological and social changes brought about by capitalism and thereafter shaped the further development of capitalism.

However Galbraith did not deny that the good society should be prepared to deal with the legacy of imperialism (*Good Society*, p. 129). Five centuries of exploration, conquest, and exploitation by the world's powerful nations left a great residue of distorted and unbalanced development and patterns of resource utilization. The good society recognizes that the advanced countries have an obligation and interest in overcoming this very uneven development, and the need to respond generously to do so. Strong and steady growth in the advanced countries is necessary to support the opportunity of the poor there and to provide opportunity to the poor nations that need to earn foreign exchange. As we have discussed in previous chapters, Galbraith thought any development assistance effort must be specific and guided by clear understanding of what is needed in the particular case. Galbraith (*Good Society*, ch. 17) again emphasized that the first considerations should be basic education and orderly governance. He was concerned about the threat of violence given the arms trade and militarization of less developed countries. Military intervention, always under international auspices, must be deployed to stop acute disorder and violence. 'In a humane world order, we must have a mechanism to suspend sovereignty, when this is necessary, to protect against human suffering and disaster' (2002, p. 7). Civil wars and liberation struggles pose difficult issues requiring judgment; Galbraith (1983c, p. 267), never comfortable advocating violence, nonetheless saw it as inevitable in some cases in which reform could not proceed against the obstacles of an entrenched ruling oligarchy.

As noted above, Galbraith (*Good Society*, ch. 12) had long felt that immigration was all but inevitable and that it was one sure way for some to escape poverty. Responding to a question regarding new policies that were preventing immigration, he responded: 'Oh no, they don't. Broadly speaking, anybody who wants to come to the United States can come. You know that as well as I do' (1983c, p. 268). Moreover, Galbraith considered immigration to be essential for both rich and poor regions and nations (*The Nature of Mass Poverty*, 1979a, ch. 8; *Contentment*, pp. 34–9). Some immigrants are admitted into the professional ranks but the more problematic issue attaches to those admitted to do the 'real work.' Once admitted, these immigrants should be protected and provided opportunity to the same degree as citizens. In principle, the good society must

recognize its primary responsibility to its own citizens and previous immigrants and endeavor to limit the volume of immigration to the availability of jobs. In the American case in particular, enforcement of this standard is beset by statistical limitations and its vast ungovernable borders. As upward mobility depletes the ranks of those available to do the 'real work' new immigrants will be needed (on 'real work' see *Stands*, pp. 42–5).

Galbraith recognized and welcomed globalization though he did not approve of the inelegant neology (1999, pp. 2–3). He maintained that internationalism, like the growth of organization and the welfare state, is less a matter of political leadership and acumen than underlying historical circumstance. 'The international thrust, economic, cultural, technological, in modern times must be accepted. It is indeed controlling' (1997b, p. 63). Galbraith supported internationalism, his preferred term, because guided by a proper governance regime, it would have a stimulating effect on cultural life, induce improved economic performance, and nurture global comity. Such internationalism would be welcomed by the good society; but 'mindless internationalism' that dissipated the social progress of the last century could not be. In particular the obsession of political leaders with 'socially barren trade policy' is not acceptable, and must be replaced by a broader concern for the coordination of social welfare, environmental protection, and macroeconomic stabilization policies (*Socially Concerned*, p. 28).

Galbraith thought that the potentially benign consequences of internationalism presented 'the greatest social and political problem of our time. That is the reconciliation of modern internationalism in all its inevitability with both its own needed guidance and constraints, and with the humane social protection accorded by the welfare State' (1997b, pp. 63–4). If powerful military and economic organizations were allowed to impose their wills on the policy agenda, much, and perhaps all, could be lost. The weapons trade to poor lands, in service to the militaristic assumption that war is inevitable in human relationships, could not be tolerated by the good society; nor could it allow the discourse on international competitiveness to be used to retrench the welfare, regulatory, and stabilization regimens that had been achieved (see Keaney, 2001; Dugger, 2001; and Donald and Hutton, 2001). But liberal concerns that these gains not be sacrificed and conservative concerns about loss of national and cultural identity could not be allowed to coalesce into a movement to restrict internationalism. The solution to this dilemma is obvious but difficult. International cooperation to coordinate social and economic policies is required. Much has been done

already along these lines but every critical situation confronts informal, *ad hoc* agreements. Further progress requires permanent international organizations to coordinate not just market economic relationships and national security measures but the broad range of social and cultural policies essential to the good society (*Good Society*, ch. 15).

In seeking these and other reforms, Galbraith noted that the good society would have to recognize and contend with the new class dynamic: on the one side, are the rich, the comfortably affluent, and those realistically aspiring to affluence; on the other side are the less advantaged, the despairing, plus the socially concerned who seek a more compassionate and equitable world (*Good Society*, p. 7). Galbraith remained convinced that only in such a world would social order, trust, and comity prevail, because genuine opportunity and the realistic belief of the poor that they can improve their situation, are the only mode by which to avert social unrest and violence. This is true on the mean streets of the rich nations and in the slums of the poor nations. The principal barrier to creating this opportunity is the myopic, socially unconcerned culture of contentment, whose members utilize their articulate and influential political voice in opposition to the necessary public policy.

Galbraith's (*Contentment*, ch. 13) assessment of the prospect for reform reflected this changing socio-political dynamic. It was focused not upon the process of conditioned power and the role of the great corporations and the state in defining the public purpose, but on the possibility of 'the reckoning' that would shake the complacency of the culture of the contented electoral majority. The 'leading prospect for change' would be some development that adversely and elementally challenged the culture of contentment. The contented could be goaded into action by a singular event such as economic disaster, military misadventure, or angry upheaval of the underclass. Galbraith noted that the first would remain possible by the nature of capitalism and the perverse economic policies orchestrated by the culture of contentment. Speculative activity is inevitable and in the absence of wise regulatory and offsetting policy measures could bring down banks and insurance companies of sufficient number and size to provoke a severe recession. But the culture of contentment could sit it out and resist the political demands of the deprived and socially concerned. The more likely scenario to Galbraith's mind was stagnation, a steady decline of the American economy as the culture of contentment maintained its myopic policies, great corporate stasis remained unchallenged, and the American military establishment usurped far more resources than that in internationally competitive economies.

Galbraith (*Contentment*, ch. 14) insisted that a military misadventure would have to be substantially unsettling, of wider compass than the first Iraq war, to shake up the culture of contentment. He thought that the functional underclass would become increasingly restive and its resident neighborhoods ever more dangerous. But he did not think that even an overt revolt would be taken as a sign to the contented electoral majority that substantial public remediation was needed. Instead he thought the affluent would be more likely to add security personnel and gates around their enclaves of contentment and call for application of more rigorously condign measures to control the evident antisocial and criminal behavior of the underclass. One might think that action would follow from anticipating the possibility that some combination of these maladies might occur, but Galbraith thought not because long-term contemplation is far from pervasive in the culture of contentment.

Galbraith's last chapter (*Contentment*, ch. 15), the artfully titled 'requiem,' reflects an ambivalent outlook for the prospect of reform. It could be an elegy for the demise of progressive modern liberalism or a lamentation to rouse it from its slumber. The dialectic of complacent contentment versus impatient activism 'all but exclusively involves the role of government.' It turns upon ideological distraction versus pragmatic attention to reality. Galbraith concluded in this ambivalent mood. He noted that political leadership might arise that was dedicated to restoring human needs and equity to the policy agenda, and that this effort might combine with rising electoral participation to turn the tide back to progressive liberalism. This could arise from charismatic leadership that energized and directed the disadvantaged and presented a persuasive political program that roused the contented to action. But 'the prospect is not bright.' Yet in view of the 'present discontent and dissonance,' there is a 'not inconsiderable likelihood of an eventual shock to the contentment that is the cause.'

A few years later Galbraith concluded *The Good Society* (pp. 142–3) with similar ambivalence, noting that 'the fortunate ... are securely in command ... and so they will be for the foreseeable future.' But he appealed to a coalition of the socially concerned and the politically inactive because with 'true democracy, the good society would succeed, would even have an aspect of inevitability.' Early in the Bush II administration, Galbraith (2001, pp. 7–8) remarked that money had become more influential in politics than ever before and that it was difficult to imagine the rise of a force to counteract it and launch a new progressive era. But in a 2004 interview with Michael Dietrich, Galbraith added a

new wrinkle to the political lead by the scientific-educational estate, by noting 'I would be optimistic on the growing role in all of the western countries of the concerned of the intellectual artistic communities.'

As we ponder Galbraith's hesitant optimism during the Conservative Hour, we should recall his frequent insistence on the power of circumstances relative to ideas. The socially concerned should take comfort in his insistence that the rise of the welfare state and other manifestations of the increasing role of the state were the result of powerful historical forces that voiced pragmatic response. Agricultural societies found work for all and, unlike urban-industrial societies, had no need of unemployment compensation. Not until modern medical science began to extend the lives of common people did medicine become so expensive that health insurance and social security became pressing problems. The 'fundamental thrust of history' will present opportunities for the return of pragmatic reform. The socially concerned and their heterodox political economic allies should take comfort in this knowledge and endeavor to be ready to militate for the requisite social reform necessary to accommodate a world in constant motion. To this Challenge, which is the core of the Galbraithian Legacy, we now turn.

8

Political Economy and the Galbraithian Legacy

Work and consumption thus share the same ambiguity: while fulfilling the basic needs of survival, they increasingly lose their inner content and meaning.

Paul Baran and Paul Sweezy, 1966

We must confront explicitly the ideology of insatiable want and the social practice that sustains it.

W. Leiss, 1976

These epigraphs suggest the essential legacy of John Kenneth Galbraith and the challenge he has laid before progressive modern liberals: organization, institutional change, emancipation, subordination of making a living to a life worth living, explicit confrontation of the commodity-oriented, growth-is-all culture. Attention must be paid to large organizations, the power they deploy, and its consequences. In an era of 'rapid and powerful social and economic transformation... [t]he transforming influence is organization' (Galbraith, 1982a, p. 5). This will require a self-consciously critical heterodox political economy. But criticism alone is not enough, political organization must be employed to challenge the configuration of power and promote institutional change. Institutions are the pathways of human existence; present institutional tendencies or biases must be understood, criticized, and judiciously redirected.

The Galbraithian Challenge must confront the exuberant exultation of the contented electoral majority and their scribes in journalism and the academy. As the epigraph from Leiss suggests, the Galbraithian Challenge is linked to the cultural criticism of the Critical Theory school of Marxism (see Held, 1980). As the Baran and Sweezy epigraph indicates, Critical Theory examines the tendency in monopoly capitalism

to emphasize commodity production to the virtual exclusion of other dimensions of the quality of life. This criticism seeks to confront the tendency of capitalist culture to myopically identify the good life with the goods life. The great pragmatist, instrumentalist philosopher, John Dewey, also insisted upon the need for liberalism to emphasize aesthetics and the quality of life: 'When the liberation of capacity no longer seems a menace to organization and established institutions, ... when the liberating of human capacity operates as a socially creative force, art will not be a luxury, a stranger to the daily occupations of making a living. Making a living economically speaking, will be at one with making a life that is worth living' (Dewey, 1963). The goal is to replace the prevalent commodity fetishism with a vision of a sustainable and humane social economy governed by the population's genuine needs for self-actualization. These needs must be expressed by self-authentic consumers and voters who are free from the conditioned power of organized interests vested in the expansion of commodity production for its own sake.

The political aspect of this concern should be made clear. Not only in economic activity but also in political activity attention must be given to the individual's ability to articulate and seek outcomes that serve his or her authentic needs and interests. Galbraith's hope that the political activity of the disillusioned and disadvantaged will arise and challenge the sway of the Contented Electoral Majority is obviously at stake here. The success of such a movement is contingent upon the ability of its constituents to resist the conditioned power of organized political and economic vested interests. Critical Theorists and Radical Institutionalists have adverted to this issue and posed troubling scenarios of administered perceptions in their Propaganda Models of media filtering of political economic rhetoric and information (see Marcuse, 1964; Held, 1980; Tilman, 1987; Jackson and Stanfield, 2004). Thomas Frank (2004) has argued that in their political activity, middle- and lower-income Americans are distracted from expressing their political economic interests by the obsession in political rhetoric with social and cultural issues such as abortion and gay marriage.

If Galbraith was correct, America is in the throes of a cultural crisis in which its fundamental cultural understanding of its economy is obsolete. Culture refers to the sets of meaningful symbols that guide social behavior. This knowledge of how things work and one's roles therein is often habitual and tacit and most individuals more or less spontaneously conform to their expected social roles and expect others to follow suit (Lowe, 1988). The cultural story of the American economy

entails the principle of inevitable scarcity, therefore more-is-better and as-much-as possible is ideal; competitive markets enforce opportunity cost by relating cost and price to necessary supply price, thereby securing efficient allocation of resources; and the role of the individual is embodied in the maxims of the work ethic and self-reliance, frugality and delayed gratification. This conventional wisdom is profoundly at odds with Galbraith's world of affluence, social imbalance in resource allocation, the conditioned power of the great corporations, and the pervasive role of the state in the economy. The story of Galbraith's world emphasizes a fundamental contradiction. The values of market culture insist upon dedication to production and the necessity of arduous, time-consuming participation in the paid labor force. The need for the output is certified by the struggle against scarcity and the jobs are justified by the output. But very often the output is unimportant, wasteful, even destructive, but the jobs are needed. The output is thus justified by the need for employment. The system is irrational and its scarcity is artificial; the market culture is 'incapable of generating a new morality to guide men's conduct in an age of potential plenty' (Baran and Sweezy, 1966, ch. 11).

The result is cultural crisis. Established mental models, the conventional wisdom, fail. Individuals face incessant violation of their expectations because their actions do not elicit the expected response from others. The nature and role of large organizations is a source of puzzlement and ignorance. There is no basis from which to examine organizations *qua* organizations, no applicable ordering to account for their social roles, their tendencies, the standards by which they are to be held accountable, and the countervailing organizations that are to do so. In general, in the wake of the absence of a positive theory to place in society the emergent corporate-welfare-regulatory state, there is a pervasive lack of ability to define the behavior that is necessary for it to work well and no clear criteria for assessing its performance (Stanfield, 1979, chs. 5, 6; 1986, chs. 4,5; 1995a, ch. 9). This is the most potent and fundamental aspect of the Galbraithian Legacy.

Galbraith (1989) took the opportunity provided by an Association for Evolutionary Economics (AFEE) session that was devoted to his legacy, 'to speak of the nature of the assets (and also some liabilities) I would like to see disposed.' He emphasized that '[a]bove all, I would like to leave an enduring impression of the way in which neoclassical economics does not adjust to the world as it is but rather adjusts the reality to itself (p. 413).' In economics instruction this selection bias leaves the 'impression, carried into the real world by the products of our instruction, that

all economic enterprise is of a piece, that all power is subordinate to the higher authority of the market' (p. 416). Without moving beyond this bias it would be impossible to recognize important structural phenomena. Galbraith thought it necessary to have a bimodal view of the economy, comprised by a sector dominated by the great corporations and another more or less governed by market forces. He also emphasized the need to recognize managerial discretion in the corporate sector and to face the 'approved contradiction' between profit maximization and managerial control. For him, emphasis on power was crucial because it was needed for recognition of the influence of the great corporations on consumer preferences and public policy. He emphasized that a matter of particular concern is the military sector, which, while nominally private, is largely if not almost entirely oriented to sales to the public sector (see also *Innocent Fraud*, ch. 7). Galbraith noted that a theory of managerial power was also necessary to examine the variation in competitive success among corporations and nations. This variation reflected differences in managerial competence and corporate cultures (note also Loasby, 1986). Finally he noted that the neoclassical view offers no explanation of the bailouts of the too-big-to-fail enterprises.

The Galbraithian Legacy is not simply his very important contributions to the research tradition of heterodox political economy. It includes as well his exemplary engagement as a public intellectual. These considerations make it evident that a primary need for meeting the Galbraithian Challenge is to move forward on his efforts to develop a viable and persuasive heterodox political economy (HPE). This HPE must be focused on real-time phenomena and issues, notably on the great organizations, public and private. It must also be based upon a theory of the heterodox economic person whose complicated and uncertain exercise of agency is enmeshed in an evolving socioeconomic context. This HPE must serve as the foundation for a cadre of public intellectuals who are cognizant of and willing to address the valuations and aspirations of a good society and who do not shy away from political discourse on a relevant and progressive reform agenda.

Organization and adaptive efficiency

First and foremost, to launch the necessary confrontation, a viable, critical HPE must be developed. A primary preoccupation must be to examine the nature of the great corporation as an organization and to account for its place in society, including its relation to the state. This analysis must emphasize the evolutionary character of the social

economic process. In turn, a more concrete, more dynamic conception of economic agency will be part of the development of an evolutionary comprehension of the tendencies and problems of the great corporations and society going forward. The theory of the great corporation as an organization must account for the nature and behavior of the great corporation and its place in society. In particular it must account for its role in the dynamic efficiency of the economy and the quality of life in society.

Galbraith insisted that the great corporate organization is among those institutional fixtures that must be accepted by the pragmatic socially concerned (*Good Society*, p. 3). Dunn and Pressman (2006–7, pp. 183–4) noted that, as an institution, the great corporate system is malleable to a degree, and that Galbraith's 'view is that it allows policy makers to ascertain and respond to the planning system's [or administered sector's] dominance over society. The evolution of the "modern corporation" is not wholly malign ... [It] can make the large-scale investment in new processes, expensive equipment, and basic research required' to improve the standard of living. Of course for this improvement to be socially balanced and serve to enhance the quality of life, the corporate system would have to be disciplined by public policy so that its purposes served rather than defined the public purpose.

Elsewhere Pressman (2006–7, p. 84) observed that '[w]hen the state counters the power of the large firm, an independent and educated set of public servants are needed who will not be pressured or coerced by large business firms to make decisions against the public interest.' The enormous complexity and difficulty of the problem of emancipating the state is manifest in Galbraith's insistence that 'the role of government when one contemplates reform, is a dual one. The government is a major part of the problem; it is also central to the remedy' (*Public Purpose*, p. 242). Though essential to the reform necessary to institute social control of the great corporations, presently the state is co-opted by those corporations (see also Stanfield, 1991). As noted above Galbraith conceded in his memoirs that he had faced but not resolved the problem of the contradictory position of the state in his schema. The task of emancipating the state compels HPE to examine the nature of great organizations, their relationships, and their tendencies; there is no more essential part of the Galbraithian Challenge.

It is no surprise that James Galbraith (2006) insisted that, while *The New Industrial State* was not his father's best-selling book (*The Great Crash*) or his 'finest literary achievement' (*The Affluent Society*), it was his 'major work of new theory' because it sought to provide an

organizational model of advanced capitalism. This echoed his earlier message (James Galbraith, 1984, p. 43) that 'Galbraith's most important concept is his corporation ... the centerpiece of his most sweeping analytical book, *The New Industrial State*.' The great corporations evolved to meet the imperatives of technology and organization, to exercise 'imperative control' of their boundary conditions in order to secure their continuity as going concerns. Efforts to interpret corporate behavior in terms of traditional theory that wraps price, cost, and value into one bundle are not useful. The economy of great organizations is not held together by cost/price/value relationships. Instead the corporation as an organization led Galbraith to an analysis of power, and thus to *The Anatomy of Power* (James Galbraith, 1984, p. 59). Power relations integrate the system of large interdependent organizations. Costs and relative prices thus became ambiguous with regard to the doctrine of scarcity. No viable claim could be put forward that prices or costs represented necessary supply price (Papandreou, 1972; Stanfield, 1995b).

An analysis of power necessarily leads to a consideration of culture. Hence Galbraith's analysis pointed toward the study of corporate culture. What was demanded was no less than an ethnography of the great corporations, which Galbraith provided in rudimentary terms for the corporations of the time of his trilogy. At that time the great corporations of America had much softer budget constraints than those postulated by conventional theory. Not unlike the Soviet firm and industrial ministry, their need was for control and stable prices and costs rather than low costs and low prices. Like the Soviet firms, corporations needed control so that they would meet the expectations of external principals, however lax the relationship. There was another trait in common, essentially a principal-agent issue within the organization. Sub-optimization occurred when a lower echelon in the hierarchy could pursue its own purposes that were incompatible with those of the organization's center. But as Galbraith often noted, a substantial measure of consistency was required to permit the consensual team process of decision-making. Moreover, he noted that the great corporation was subject to a degree of discipline as to its costs and earnings, so his was not a theory of corporate 'giantism.' The corporation had to produce output and manage its specific demand so to sell it in order to secure earnings to support its further investment by retention or qualification to borrow funds.

Galbraith's work also led to the cultures of consumption and political activity. Organizations necessarily endeavor to shape these cultures to serve or at least not to impede their interests, that is, not to contradict

their need for stable parameters in which to conduct their planning. Organizations and cultures necessarily evolve. As the corporation was conditionally evolved, it will continue to evolve to fit, and to cause, changing conditions. The challenge posed to HPE is to continue the development of this ethnography. This will be no small challenge because the existent pedagogy of economics does not offer training in the methods of ethnography (James Galbraith, 1984, p. 57). For example, economists tend to read past the many stories with which Galbraith exemplified his points; they are entertained by the amusing anecdotes but scarcely mindful of the point, which was ethnographic: such stories, as also the history of economic thought, to which Galbraith frequently adverted, are pieces of the ethnographic record. As such they are planks in the inductive foundation upon which to construct a grounded heterodox political economic (meso-)theory.

As noted, Galbraith emphasized the principle of consistency internally and externally. In both realms, he was dealing with what has come to be called the principal-agent problem. Internally, the major principal was the technostructure overall and the agents were the subunits of the technostructure. Internally he argued that the principle of consistency required that individuals either identify with or seek to change the missions of the organization. Loasby (1986, pp. 51–6) pointed out that within an organization, individual actions have to be consistent, but not their specific mental models. Indeed these must be different or there would be no gains from combining specialized knowledge. But organizations are complex entities with many subunits whose interests and expectations vary and the potential for conflict is evident. This potential is held in check by a social compact as to how things are done and toward what ends. This compact is largely tacit and likely subsumes potential conflicts under an ‘organizational truce’ or ‘implicit treaty.’ Problems may arise when external change requires adaptation. Organizations have the advantage of restructuring teams in order to adapt, but restructuring requires that at least some mental models change. Reorganization of teams and departments must generally be part of adaptation. Galbraith’s economies of experience must undergo retesting of the fitness of individuals and subunits for the reoriented tasks of the organization. This may bring what was tacit out into the open, including suppressed conflicts.

We have seen that Galbraith emphasized dynamic rather than static efficiency and argued that in early postwar America the former was strong enough to offset apparent problems in the latter. A focus on adaptive efficiency is an integral part of heterodox political economy.

Adaptive efficiency is concerned with 'the way an economy evolves through time ... with the willingness of a society to acquire knowledge and learning to induce innovation, to undertake risk and creative activity of all sorts, as well as to resolve problems and bottlenecks through time' (North, 1990, p. 80). As Demsetz (1969, p. 20) has emphasized, an adaptively efficient society would include institutional arrangements that encourage experimentation, channel investment to promising results, and widely diffuse the advances in knowledge that follow. Such a society would also include institutional arrangements that assimilate change because it is inevitable that economic agents will come into conflict along the edges between past and future knowledge and practice.

As indicated by Galbraith's concept of conventional wisdom, institutions may obstruct rather than promote adaptive efficiency, indeed if Veblen's (1964, p. 25) celebrated passage on imbecile institutions be any guide, obstruction may be the rule. Institutionalized rules and customs congeal in the mental models of economic agents and organizations and define their purposes and instruments, shape their attitudes toward novelty, and guide their responses to successes and failures. Loasby (1986, p. 52) observed that the 'growth of knowledge is a response to the failure of our existing theories to predict and control, a mismatch between expectations and perceived relevant events ... If we are going to explain why some people, some firms, some countries seem to be much more effective in generating new knowledge, must we not seek part of the explanation in the differences in the way that they define their situations?' Agents make economic decisions based upon mental models that are at best probabilistic and subject to 'built-in hysteresis,' in that such a 'model is clung to not because it is "correct" – there is no way to know this – but rather because it has worked in the past and must cumulate a record of failure before it is worth discarding' (Arthur, 1994, p. 407). Nor is experiential error of this type the sole change-resistant force, 'errors may be not only probabilistic but also systematic, due to ideologies that may give people preferences for the kinds of solutions that are not oriented to adaptive efficiency' (North, 1990, p. 81).

The adaptive efficiency focus transforms the analytic economic problem from the static theory of choice to the process theory of institutional adjustment. The implication of Veblen's (1898) classic article is that human wants and technology change as a consequence of human agency. This sets the task of individual and collective agency as the process of identifying the institutional reforms that lead to more effective use of expanding technological possibilities. This is *the* economic

problem, a process of problem solving within which individuals struggle for identity and self-realization.

The ability of organizations and societies to adapt is a reflection of their culture, especially the strength and functionality of the shared meanings that integrate those within it. This includes modes of resolving conflict, assimilating change, reaching decisions, and generating revitalized meanings to work through crises when necessary. As cultures are the more or less effective fusion of individual mental models, much individual psychology will be pertinent to the organization. The pathological psychology of individuals who cannot adapt is well known. Such a person has insufficient contact with reality and cannot abide change. The authoritarian personality can become pathological and the individual thrown into personal crisis in the face of changing rules and norms. On the other end of the spectrum, there is the individual who can change willy-nilly, taking on new personas with ease. This is a socio-pathic malady of great danger to the person and to society. Somewhere in between is the healthy person who can adapt but only to the extent that her personality or integral sense of self endures. Since an organization reflects to varying degrees the mental models of its constituents, it must be able both to adapt and to retain its integrity, its core capabilities and procedural canons, in the face of changing circumstances. Failure to adapt or failure to inhere lead to dysfunction and failure. Whether the organization folds or revitalizes and reintegrates itself through some more or less fundamental institutional adjustment, it is no longer the same going concern. The frequent corporate shedding of the capabilities acquired during a period of agglomeration indicates an effort to restore integrity just as the original acquisition was an effort toward adaption.

Clearly a primary aspect of economic progress is the resilience of the economy and its capacity to respond effectively to an ever-changing technological and social context. The broad social and institutional setting of an economy is a crucial part of its assets or capabilities and exerts a powerful influence on its success and competitive position globally. Heterodox economists have long been critical of the conventional emphasis on comparative advantage in any discourse on trade or international competitiveness. They consider it to be static and grossly oversimplified, insisting that, much like the conventional treatment of the firm, the concept is all too readily collapsible into a production function. Such treatment banishes much that is important to exogeneity (see James Galbraith, 2008a, ch. 6). The socioeconomic context that structures cost and demand is neglected and the analysis is focused

upon the merely epiphenomenal (see Stanfield, 1995a, ch. 1). Schneider (2007, p. 419) has suggested that heterodox economists use the term 'comparative *institutional* advantage' to direct attention to the socio-economic context of global competitiveness and dynamic efficiency.

Many observers have argued that Galbraith's model was flawed because he failed to predict the weakened position of corporate America since *The New Industrial State* was published. We emphasize Solow's (1967) critique not only because of his stature in the discipline's neo-Keynesian synthesis and modern liberalism but also because, despite the acrimony in the original exchange between him and Galbraith, their dialogue raised many important points relevant to the Galbraithian legacy (Parker, pp. 437–51). In the end, the extended discussion became far less rancorous. In a retrospective session two decades later, Solow (1988), noting that neither he nor Galbraith had conceded much ground, observed in evident good humor that this 'is merely another confirmation of the Law of the Measured Approval of One's Own Recorded Words, of which you see at least two examples on this platform. I wish any proposition in economics were so secure.'

In addition to the argument that the great corporations were subject to more market discipline than Galbraith asserted in *The New Industrial State*, Solow expressed doubt that Galbraith's explanation with regard to the bureaucratic tendencies of the great corporations and the incompetence of their technostuctures was sufficient explanation for declining American competitiveness. Noting that the American technostucture was not sustaining its technological virtuosity or rising market share, Solow said: 'One wonders how they get their kicks now. I doubt that this failure can be explained away just by latent bureaucratic tendencies.' Solow also insisted that Galbraith, both in 1967 and at the 1987 AEA session, was wrong as to the political power of the great corporations. He argued that American corporate power had receded under rising competitive pressures from abroad and that 'Big American Business could not keep the internationalization of manufacturing from happening.' Solow also expressed doubt that the political power of the great corporations was in evidence in the conservative political drift. His impression was that the executives of the great corporations were 'on the whole traditional fiscal conservatives' more likely to agree with Martin Feldstein than with the policies of the Reagan administration. He concluded that it 'is not the case that the corporate establishment adopted an irrational macro policy; it was not their policy that was adopted.'

Solow (1988, p. 380) also indicated his agreement in part with the thrust of Galbraith's *The New Industrial State*, which he noted could be

interpreted 'as a dramatic monologue in favor of a broader view of economics: one that accepts imperfect competition as a fact of life and views economic motivation and behavior as embedded in a social-political-ideological context.' Solow found that interpretation 'quite acceptable,' but he lamented that Galbraith seemed not to recognize the difficulty of addressing this world of greater complexity 'with an acceptable degree of rigor.' In this regard, in an Association for Evolutionary Economics session one year later, Galbraith (1989, p. 415) observed that Heilbroner 'suggests that I have fallen short of quantification and formal theory.' It is notable that Heilbroner (1989, p. 376) also commented that while such meta-theories as Galbraith offered in *The Affluent Society* 'may not have the rigor of the models of conventional economic theory, ... [they] may also escape the fate of such models, which is mortis.' Galbraith's (1989, p. 415) reply covered Solow's plaint as well as Heilbroner's. He accepted that his work was short on formalization, but urged recognition 'that formal theory can be, and is, an escape from truth.' As Gordon (1976) made clear, this discussion was part of a long evident *methodenstreit* with regard to the methodology of economics.

Clearly Galbraith initially overestimated the diligence and foresight of the early postwar technostructure and neglected the factor of bureaucratic sclerosis. He later conceded that globalization reintroduced market competition in corporate America. Nonetheless the need for a theory of organization and the relevance of countervailing power remains. Nor should the question be evaded as to why organization developed in the first place and thus the need to trace and evaluate the evolution of the great corporate system (Kuttner, 2008, chs. 2, 3). Galbraith's explanation in *The Culture of Contentment* of shifting political commitments and the rise of the Conservative Hour should not be neglected. Moreover, responding in a general way to the many critics of Galbraith's work, James Galbraith (2006) noted that, though often expressing the view 'that corporate power didn't exist,' critics then seemed to scold Galbraith (the elder) 'for failing to predict its decline – which was said to prove, somehow, that the power had never existed.'

The American deindustrialization of the 1980s was certainly damaging to the Galbraithian model of administered corporate America. But it was to a large extent a political phenomenon that reflected the shifting politics of the contented electoral majority. It also was a response to the inflation that Galbraith expected in the absence of controls and that he considered to be a very serious threat to democratic capitalism. That corporations would suffer from rising interest rates at some levels had been noted by Galbraith in the early 1950s, together with the issue

of inflationary expectations and the observation that enough slack in the economy would defeat the inflationary impetus of countervailing power. In these regards we note Bluestone's (1988, p. 377) observation that the stress on corporate America after the mid-1970s led to a shift from a profit-satisficing *modus operandi* to one of cost reduction in the pursuit of short-term profitability. The eventual rise of the regime of so-called financialization accelerated industrial restructuring in the United States.

It has been long recognized that financialization tends to envelop enterprise behavior in a web of short-term profit considerations, to the neglect of long-term development of products and market share. Keynes (1964, ch. 12) expressed concern that sophisticated capital markets with a high degree of liquidity would lead to the predominance of short-term investment behavior and generate a casino atmosphere. He viewed such impatient capital, dedicated to short-term returns, as detrimental to the social interest in long-term investment behavior necessary for enterprise and economic development. He was especially concerned about the American case and suggested consideration of a 'substantial ... transfer tax' to discourage speculation. Minsky (1996) also noted the problem of impatient capital in the 'money market capitalism' that had evolved in the United States. Thurow (1989) argued for re-regulation of American financial markets to generate more patient capital.

The earliest indication of the emergent woes of American industry was the rise of Japan and Germany. While not forecast by Galbraith, this surge of America's industrial competitors was not entirely contradictory to the model of *The New Industrial State*. As noted above, patient capital was a key ingredient of the great corporate system that was largely self-financing given managerial control and retention of profits for internal investment funds. As also noted, great corporate size and power provided many instruments of control and planning. Scherer (1988, p. 380) insisted that Galbraith's organizational model might have applied with more force than elsewhere to Japan, Inc., which was certainly not a paradigm of competitive market capitalism. Administrative control was apparent in its melding of big business and the state, subordinate unions, and very patient capital. The finance ministry and the *keiretsu* assured very patient capital, as did the absence of countervailing power by retail firms since producer control in domestic markets generated excess profits with which to finance product development and expansion of overseas market shares. Germany was also known for the patient capital supplied to its industrial corporations by its banking system and by the administrative elements of the concerted union

agreements reached in its co-determination system. China today also benefits greatly from patient capital and other control functions exercised by its developmental state. Its banks are widely regarded to be insolvent but state support sustains their ability to finance industrial development.

There is no doubt that vast changes overtook Corporate America and indeed the global economy after the early 1970s. Nor is there doubt that these changes debilitated the postwar social compact that Galbraith typified so well. Galbraith later noted that the great corporate organizations had succumbed to bureaucratic stasis or sclerosis and other factors that had impeded dynamic efficiency in the American economy. Economic stress enervated the postwar consensus and the social compact it sustained. Social conflict and political turmoil ensued. The 'art of controversy' took on much weight as the stakes of political outcomes increased. The winners in this fray were those who saw it coming and were well prepared, having garnered political influence and achieved clarity as to the outcomes that served their interests. As always in important social change, the causes are many and they unfold in a cumulative and circular process. There were certainly notable advances in technology, significant modifications of politico-legal rules, and changes in social and cultural attitudes and norms. This process embodied institutional changes that dramatically altered the conduct of business and politics. Robert Reich (2008) covered this transformation with such acuity, clarity, and wit that one cannot avoid comparison to the subject of the present book. Reich's 'supercapitalism' portrayed an intensified competition of global scope that more or less completely revamped the cozy Galbraithian world of postwar negotiated capitalism.

The point is that although Galbraith did not anticipate many of the changes after 1970, this does not mean his model was wrong because the world he was analyzing changed. It is important to remember that evolutionary economics insists upon Veblenian 'antecedence and consequence.' As noted above, Galbraith maintained that economic theory could change not simply because its methodological procedures improved but because its very subject matter changed. He insisted on the need to 'think of economic life as a process – a continuing, ongoing process of change' and took 'stringent exception' to the 'empty, invalid effort' of seeking 'to find its ultimate, enduring, stable, unchanging truths' (Galbraith, 1994b). It follows that the question is not what he did or did not envision but how correspondent is his model to what happened. Does it guide understanding?

Reich's 'supercapitalism' does not seem contradictory to the dual economic structure and transnational corporate reach that Galbraith noted. A substantial portion of the imports that flooded America was purchased from American firms producing abroad. The large retail corporations, such as Wal Mart, and the powerful institutional investors, which drove the CEOs of production companies to cut costs and generate competitive quarterly returns, were large organizations that applied countervailing power to the original power of the production companies. Galbraith had specifically abandoned any benign equilibrium tendency and allowed for the possibility that countervailing power organizations could become too powerful relative to original power, generating a need for original power to mount a defense. He also allowed for the possibility that countervailing power would not in some instances arise without state support. The support in this case would have to have come in the form of public action to improve social balance and stabilize the economy. This was well nigh impossible in Reich's view in the supercapitalist era in which corporate money inundated capitols in super battles among corporate interests. This deluge swept away the terrain on which to conduct a measured democratic discourse on the reregulation and fiscal strategies necessary to pursue social balance. Reich (2008, p. 163) observed that 'our voices as citizens ... were simply drowned out.' This political economic 'crowding out' suggests that Galbraith's dilemma of emancipating the state that must enact the reforms necessary to secure political economic progress has evolved and become even less tractable.

James Galbraith (2008a), in his survey of the same ground, added insight to the altered context of his father's legacy and the plight of democratic capitalism. His 'predatory state,' the systematic deployment of the state to create or protect corporate profits at the expense of public goods, services, and regulatory activity, certainly attested to the obdurate problem of restoring the attention of the democratic process to the public purpose. David Cay Johnston (2008) provided detailed anecdotes of the pervasive plunder by the rich and powerful of the public weal for their private weal. Johnston's comprehensive exposé rises to the level of ethnography.

Enough commentary has been made on corporate America and its place in Galbraith's *oeuvre* to establish that, as one should expect from his evolutionary economics, political economic relationships and their place in society have moved on. From any angle, there is no doubt as to the continuing relevance of the Galbraithian Legacy's insistence upon the need to account for and interpret this evolution and to anticipate to

the extent possible the trajectory of its cumulative and circular tendencies. American corporate power and political influence continues to be a major social concern (Arndt *et al.*, 2000). It should also be clear that the Galbraithian Legacy is spot on with its insistence upon the need for an evolutionary, organizational approach to focus the great social concern and palpable anxiety about the ways and means by which America makes its living and its effects on the way it lives. Perhaps more than ever, there is need for a *useful* political economy to address the problem of lives and livelihood, that is, of the place of the economy in (the good) society.

Heterodox economic agency

To rise to the occasion and provide a useful economic analysis, HPE must provide a more concrete and more dynamic conception of political economic agency. The economic man of conventional economics simply will not serve. His goals are too simplistic and his cognitive competence exaggerated. In criticizing the rationalistic psychology and abstract given wants that characterize mainstream economics, including the insatiability of wants, Galbraith added his voice to a long evident stream of criticism. As noted in the epigraph to Chapter 4, John Stuart Mill was critical of wealth seeking for purposes of invidious representation. Marx began the important introduction to the *Grundrisse* by emphasizing materiality and sociality: 'To begin with, the subject to be discussed is *material production*. Individuals producing in a society – hence the socially determined production by individuals is of course the point of departure' (Marx and Engels, 1975, vol. 28, pp. 17–26). Marx criticized Smith and Ricardo for regarding economic man as the starting point of history rather than its result, and insisted that a distinction must be drawn between the universal and specific historical aspects of the life process. To Marx, the fact that consumption appeared to Smith to be 'the sole end and purpose of production,' reflected the historical context of alienation. All human production involves activity to apply tools to transform resources into forms more appropriate to human purposes, but one who leaps from this to identifying labor, capital, and land as universal categories confuses the specific with the general character of production. Marx viewed wants in dynamic evolutionary terms, emphasizing the active, developmental character of the human being. The primary historical action of the human being is producing the means to satisfy primary needs, and in the process of satisfying these needs generating new needs (Marx and Engels, vol. 5, p. 42).

Along similar lines, Veblen (1898, p. 389) sharply criticized the hedonistic conception of man for its neglect of the active character of human beings. He lamented that hedonistic man 'has neither antecedent nor consequent,' which is to say that the economic agent, thus conceived, *has lived* no history and *lives* no history. Veblen (1898, p. 390) objected to the passive characterization of the human being in the hedonistic conception. He noted that 'it is the characteristic of man to do something' because he is 'a coherent structure of propensities and habits which seeks realization and expression in an unfolding activity.' He also emphasized that activity leads to change: 'it is the human agent that changes – his insight and his appreciation of what these things can be used for is what develops' (Veblen 1898, pp. 387–8). Economic agents *have* and *make* history. Their actions are conditioned by that which has gone before, they have antecedence, and their actions in turn condition that which is yet to unfold, they have consequence. Veblen, of course, in *The Theory of the Leisure Class*, provided the classic discussion of invidious distinction and its relation to insatiability, insisting that 'no general increase of the community's wealth can make any approach to satiating this need, the ground of which is the desire of everyone to excel everyone else in the accumulation of goods' (Veblen, 1953, p. 39).

Keynes (1963, pp. 364–65) similarly attributed insatiability to invidious distinction: 'Now it is true that the needs of human beings may seem to be insatiable. But they fall into two classes – those needs which are absolute ... and those which are relative in the sense that we feel them only if their satisfaction lifts us above, makes us feel superior to our fellows. Needs of the second class, those which satisfy the desire for superiority, may indeed be insatiable.'

Although the issue of insatiable wants is not our focus at this point, it illustrates the socially interactive, dynamic character of wants. Pressman (2006–7, p. 83) emphasized the importance to Post Keynesian economics of Keynes's insistence upon the interactive social character of wants by observing that preferences are not given but 'are formed during the decision-making process, because in an uncertain world the consequences of most actions are unknowable so economic agents form expectations via social convention. These preferences then drive spending and also affect economic performance, according to Keynes.' Apparently Pressman believed that Keynes's (1964, ch. 12) discussion of interactive investment behavior applied to other decisions, and we agree (see also Clark, 1997). Consumers who want to be *au courant* must render judgments on what convention will deem to be 'with it.' Those who entertain at home for business purposes certainly must consider

this element, so must those contemplating the purchase of resalable durables (e.g., autos) or any durables that might need repairs or spare parts.

There are other ethical and cognitive dimensions of agent choice. As emphasized by social and socio-economics, agency must be understood to include a socio-ethical context (Etzioni, 1988; Lutz and Lux, 1988; O'Boyle, 2001). Individuals face ethical prescription and proscription of both ends and means. Realistic depiction of the agent must also face issues of inadequate cognitive skills and complex motivation. The insistence upon socially structured, conditioned, or contingent agency is no denial of individual freedom, merely recognition that the individual emerges from and at all times acts within a social setting. Williamson (1986, p. 177) expressed it quite well with his insistence that the economic agent is motivationally more complex and computationally more limited than the traditional economic man of conventional economics. Thus there seems to be a convergence in heterodox economics toward the importance of social interaction, mental models, cognition, and computation in understanding economic behavior. Therefore the analysis of individual agency must be open to the cultural influence of powerful organized agents that Galbraith emphasized. Political economy as he practiced it was clearly the examination of power and culture in the economic process (Stanfield, 1995a).

In addition to the significant points he made that were discussed above, Solow (1988, p. 380) raised two additional points that illustrate the Galbraithian Challenge in this regard. Advertising and other forms of propaganda do not operate in a vacuum: 'the adman acts on something that is already there.' The sales pitch is aimed at agents who operate in context of evolved mental models of fact and judgment. Solow queried, '[i]f today's tastes are not to carry much weight in the making and judging of policy, what should take their place?' Though he opined that Galbraith caricatured the mainstream view he was tougher on the latter in his observation that it responded weakly with a caricature charging Galbraith with wanting to be a cultural czar or something to that effect. Solow further admonished that the mainstream is avoiding 'a genuine intellectual problem' and 'hiding its discomfort behind glibness.' He concluded that 'I suspect policy has to be made and judged by teasing out from changing fashions an interpretation of the bony structure of underlying preferences. How to do that is not easily taught, because it is not easily understood.' Notably Solow does not fall back on delegation of the matter of values and tastes to sociology or anthropology.

That consumers operate on the basis of malleable, evolving tastes makes it imperative that the ideology of consumption, and related issues of commodity fetishism and alienation, be documented, analyzed, and interpreted. Carefully handled, it may be necessary to deal with false consciousness. This does not imply irrational behavior if one means by that a lack of interest in judging means in relation to ends. As Fushfeld (1989) indicated, rationality and optimization are not the same. It is the groundless assumption of optimization that must clearly be discarded. Cognitive limitations and social interactions render it nonsensical in real-time decision-making. Rationality must then be analyzed on its own, in full light of interactionist and cognitive complexities. Fushfeld noted that a procedural, adaptive rationality must be the focus of analysis (see also Simon, 1978).

In this reconsideration of rationality in context of complexity and cognitive limitations, it is necessary to examine the cultural conditions that may generate confusion and misinform consumers about their needs and the paths to their satisfaction. As Leiss (1976) indicated, consideration must be given to the probability that a 'double ambiguity' attends the relation between needs and commodities. There is first the problem of separating commodity and non-commodity needs. The ideology of consumption that concerned Galbraith systematically indoctrinates people to seek all need-satisfaction through commodities. This can at minimum confuse individuals as to the relation of commodities to their non-commodity needs. Even satisfaction of commodity needs is problematic, despite the capacious information available, because the quality of information is suspect; indeed much if not most of it is intended to misinform or misdirect need satisfaction. Agents face formidable uncertainty in making complex decisions on the basis of mental models formed interactively and continuously by experience and cognition (Arthur, 1994 and 1997). There is no doubt that much of this uncertainty stems from the opportunistic 'self-interested guile' of other agents who engage in deception and manipulation (Williamson, 1986, p. 175).

As Galbraith ably demonstrated, the great corporations evolved to accommodate technical and organizational imperatives and they behave as they think serves their interests through organizational continuity and progress. The record does show that they have on occasion violated legal and ethical norms, but it is important to note that sinister results may follow from agents playing more or less within the rules. Advertising and lobbying in an effort to influence consumer choices and political decisions have protected status in political and

legal doctrine. The issues at hand, as Galbraith insisted, are matters of a governance regime that has its institutional rigidities but is nonetheless malleable to a degree. The pragmatic socially concerned accept both the limits and the opportunities of change.

North (1990) has clarified our point with his important distinction between an organization and an institution – it should quickly be said that everyday parlance makes no such distinction. An organization is a more or less formally arranged entity by which a few or many individuals pursue more or less common aims. A corporation, a household, a church, an NGO, a state, even a society are organizations. Institutions are rules or norms that prescribe and proscribe the activities of individuals or organizations. A sports metaphor may help. Teams are organizations that vie against each other within a set of rules or institutions. A corporate system, family system, or governance system are examples of institutional complexes that provide rules and norms for the conduct of corporate, family, or government organizations. Organizations must be instituted internally and externally, that is, there must be more or less sanctioned standards of conduct that arrange the relationships within the organization and among organizations. The institutions may be formal rules embodied in politico-legal codes or informal norms of custom and habit. The degree of consistency or mutual reinforcement between formal and informal canons of conduct varies. A law may be widely accepted and strongly reinforced by social opprobrium or approbation for violation or obeisance, or not. Prohibitions of alcohol and recreational drug use in the United States have been resented and resisted by a sizeable portion of the population. Efforts to mandate change by imposing substantially revised formal rules may face inertia or lack of understanding. The transitioning economies provide spectacular examples of revised formal rules that took substantial time to be matched by informal norms and habits. In any case, as noted herein in other regards, effective institutional cognizance in the face of substantial change requires adjustment or learning time (Stanfield, 1998).

North pointed out that successful organizations that draw upon the rewards of success often strive to maintain the rules within which they have succeeded or even to change the rules to extend their advantages. The efforts of agents or organizations to gain favorable legal and political terms are commonplace. Under the general category of rent-seeking, there is a vast literature on litigation proceedings, bureaucratic agenda control, lobbying efforts, regulatory capture, campaign contributions, or public relations 'spinning' to secure favorable politico-legal terms. The recent books by Johnston (2008), Reich (2008), and James Galbraith

(2008a) provide eye-opening testimony to such efforts. The parallel discussion of private agency or organization attempts to change informal rules is too often neglected. But in a world of decision-making in context of complexity, uncertainty, and contingent mental models, how else should we view an organization's advertising except as an effort to achieve favorable changes in habitual and customary mental models? Surely the rent-seeking analysis applies with unmitigated force in this regard. If the use of private resources to secure political advantage resides under suspicion of diverting resources to unproductive use, should not the same suspicion attend advertising? Perhaps neither should be judged *a priori* but approached in pragmatic fashion on the merits of the particular case.

In any case, we believe that a self-evident concern of great importance arises. Given the enormous responsibility that democratic capitalism assigns to citizens and consumers, their competence is a matter of great importance. The most fundamental validation of choice in any context is the self-authenticity of the agent's mental models. The Galbraithian Challenge insists that heterodox political economy pay attention to the cultural impact of advertising and business intrusion into political discourse. The matter of the cognitive competence of citizens and consumers requires attention and it is only in part a matter of improved information. Indeed, as Loasby (2002, pp. 125–7) insisted, the cognitive process relies more on *imagination* than information. Creative reconstruction is the cognitive problem of interpreting and applying information; this is the problem of craft knowledge. Having time to pursue this information and to develop the capacity to interpret it are prerequisites. Craft knowledge is a comprehensive concept; it goes beyond information and skill to the self-authentic wisdom of the 'mature person.' To understand and resist the invidious tendency of today's culture will require critical consciousness to identify obstacles to self-authentic participation in the many realms of social life.

Measures to lower the time committed to participation in the paid labor force (LaJeunesse, 2009) should be considered as well as measures to countervail the conditioned power of the great corporate organizations. No one denies the complexity of counteracting the 'pathologies of persuasion' (Boulding, 1989, pp. 15–19). Substantial public action will be required to develop alternatives to the unmitigated message of commercial media that one should BUY! Only enhanced craft knowledge will provide the opportunity for emancipation from the treadmill of the earning-and-spending-incomes rat race (in which even the winners are still rats). Given the complexity, ambiguity, and

significance of agents' mental models, at the very least it should be agreed that serious issues abound as to the ambiguity of the relation of household needs and capabilities to the output structure of private and public goods (Leiss, 1976; Stanfield and Stanfield, 1980 and 1997; Stanfield, 1995b).

Galbraith's emphasis on the problem of social imbalance requires no less, especially when considered in light of Heilbroner's (1989, p. 373) insistence that social imbalance 'constitutes more than a static "mis-allocation" of resources. It contains the basis for a self-induced qualitative decline in the standard of living... [A]n important malfunction of advanced capitalism may lie in a deterioration in the quality of life brought about by an endemic tendency of the output of public goods to lag behind that of private goods ...' Moreover, this lag 'becomes more aggravated as a capitalist society achieves higher levels of private affluence.' Heilbroner noted that evidentiary support of this dynamic view of social imbalance was readily available in the 'near total lack of understanding between the scandal of inadequate infrastructure and the encouragement of private consumption.'

Some two decades later, and only under the duress of the Great Recession, and subject to surly dissent, American political discourse has at last begun to recognize the alarming underinvestment in public goods and services. Social imbalance assumes especial import if designed institutional change comes under consideration, whether it is aimed at global warming or socially obstreperous behavior. North (1990, p. 24) noted that it is impossible to explain the end of slavery in the nineteenth century without taking into account historically changing attitudes toward its institutional legitimacy. At present it appears that the institutional legitimacy of ecologically and socially corrosive political economic practices must be comprehensively called into question. If Galbraith is correct about institutional accommodation necessarily responding to circumstances, it would seem that change is inevitable but even if so the nature of the accommodation will be shaped by the governance regime. As often noted in these pages, reform of governance regimes can proceed only as fast as the capacity of the population to adjust. Ultimately, the necessary 'fundamental institutional change' must grow by 'aggregation of literally thousands of specific small alterations' (North, 1990, p. 89). Thus the present need is to enhance and engage consumer and citizen craft knowledge in the pursuit of ecological and social sustainability, so to emancipate belief, so to emancipate the state and enable it to serve as the instrument of reform.

The cadre of progressive public intellectuals

In addition to the development of a heterodox political economy capable of understanding the corporation as an organization and the complexity of agency, the confrontation with the cultures of commodity consumption and affluent political contentment will require effective political organization. As noted Galbraith thought the counter-culture represented energy for change but needed leadership from the scientific-intellectual estate. Though his optimism in this regard dimmed as the decades rolled by, it remains a fundamental aspect of the Galbraithian Challenge to revitalize liberalism. Galbraith emphasized that the scientific-intellectual estate would first have to regain control of the administration and budgets of the research and educational organizations in which it resides. Beyond that he urged that research and teaching must be supplemented with political organization to develop countervailing power to the great corporations and to dispute the ideology that serves their interests. The legacy of Galbraith also makes clear the requirements for effective political organization. He was an exemplary public intellectual and his example speaks to the necessity of a cadre of public intellectuals actively engaged in public discourse. Galbraith's willingness to assert the values he employed in his political economy suggests that this cadre must be guided by core principles upon which they focus their engagement in the discourse of politics and policy reform.

Galbraith was a leader in the tradition of American public intellectuals who wrote in a 'public idiom' that was both topical and accessible for a broadly educated audience. Russell Jacoby referred to Galbraith and his cohorts, born in the first few decades of the last century, as the 'last intellectuals' because he thought the cohorts born after 1940 had failed to replenish the cadre of public intellectuals that went before. This is a startling finding considering these were the intellectuals who came of age on college campuses in the furiously activist 1960s, an era of frenetic public engagement (Jacoby, 1987, p. 8). In Jacoby's (1987, pp. 16–7, 124ff.) view, this generation slid into a black hole of academic life and careerism, rarely to be seen in public again. He offered no simple explanation of 'the transformed social realities ... [and] desires' that brought this about, but noted that the expansion of higher education and less censorious atmosphere after the scourge of McCarthyism made academic slots much more readily available than for the turn of the century cadre. At the same time, the requirements of academic life became more stringent and its routines more insular. Jacoby (pp. 135–9) was convinced that partisan political engagement, even non-partisan

journalistic engagement, outside the academy became unacceptable, especially after the 'conservative onslaught' took hold. As noted in Chapter 1, Box (2007) indicated that academic social scientists were often reluctant to speak out on the public interest for fear of running afoul of powerful interests to the detriment of their careers.

If Jacoby is correct, it is a great irony or maybe simply tragedy that the public intellectual was vanishing at precisely the moment when Galbraith urged and foresaw their taking the 'political lead.' If Jacoby is correct, atmospheric considerations do not seem to fit the bill of explanatory particulars. True the earlier cadre was formed in the cauldrons of Depression, world war, and the postwar Great American Century, but the lunacy of nuclear brinkmanship, the moral confusion of the sexual revolution, the debacle in Vietnam, the tragicomic farce in Watergate, and the acceleration of globalization were not lacking dramatic historical resonance. Perhaps the more recent milieu of global warming, global economic crisis, and exponentially increasing inequality will bring forth another involved cadre. It should be said that Jacoby may not be correct, or at least that he may be far less so than two decades ago when the book was written. At least, there is now an engaged and involved group of political economic authors who are reaching for a general educated readership. Whether their numbers are sufficient and whether they will reach their intended audience is not yet known.

What is clear is that the confrontation implicit in the Galbraithian Legacy requires a network of public intellectuals who are continuously engaged in discourse on policy and the public purpose, drawing upon and working with the research and education activities of heterodox political economists in universities and research organizations. Charles Gattone's book provides useful insights in this regard. Gattone (2006, pp. x-xi) does not comment on the number of public intellectuals at the present time; instead, his remarks focus on their roles and the need for them, especially given the increasing complexity of political discourse and the 'tension between democratic and authoritarian forces.' He was particularly concerned with the tendency for 'political and economic organizations [to] undermine ... democratic participation, and the bearing of this dynamic on the work of social scientists in the public realm.' Gattone (ch. 7) provided an excellent discussion of the nature and pressures of engaged public intellectuals. He argued that its 'underlying values and practices' provide a solid foundation for social inquiry but that careerism, insularity, specialization, and the heavy reliance on external funding for research threatens to erode this foundation. The need to resist co-optation is ever present in his view because there

are continuous threats to the independence of scholars as researchers, teachers, political actors, or opinion leaders. The increasing organization and bureaucratization of political economic life promotes a shallow gamesmanship to the detriment of statesmanship and threatens to undermine viable democratic discourse, making the role of the public intellectual all the more necessary even as it becomes all the more difficult. All of this speaks to Galbraith's concern as to the difficulty of the scholar's ability to maintain an independent critical attitude focused upon the longer term and embodying the meta-values of liberal, democratic culture. James Galbraith (2008a, ch. 2) has made a strong case that this situation has greatly deteriorated since his father wrote his trilogy.

Can we suggest how many public intellectuals would be enough? Galbraith often indicated that there could be too many and expressed his relief that most economists pursued careers within the ivy halls, lest his own political voice be lost in the cacophony. He lamented the pedagogy of his more conventional peers and its convenient social virtue, and as Marris (1968) noted, insisted they must take responsibility for the free enterprise drivél promulgated by conservative business organizations, but he did not suggest that they all become public intellectuals. There could of course be too few public intellectuals but judging from Reich's (2008, pp. 158–63) account of the intellectuals who sell out to corporate interests, that is not the relevant question. Rather, given this plethora of non-public, or even anti-public, intellectuals, the real question is whether there could conceivably be enough public intellectuals to countervail the voice of the crowd that money can buy.

Undoubtedly, for progressive public intellectuals there is the need to refurbish the modern liberal creed. There persists the bankruptcy of liberal thought that concerned Galbraith, that allowed the second crisis of economic theory to unfold, and that at the very least was not prepared to resist the 'conservative onslaught.' Resistance might have been impossible but that we cannot know for sure since there was no visible, well-articulated framework from which to mount it. Without adequate cover from liberal economists and matched against an enemy with superior financial armaments, the Democrats broke ranks and retreated. That the ideas of market zealots were quickly shown to be useless to actual governance came to naught, there being no liberal politicians willing to shout as much from the rooftops (James Galbraith, 2008a, ch. 1; Kuttner, 2008, pp. 272–84). The new breed of Democratic liberals were centrist, unwilling to assert that the free market alone is no basis for the good society without a substantial public buttress. Their triangulation

tactic led them to moderate their message to claim that intervention was to make the market system work better. Polanyi (1957, p. 177) long ago emphasized that the point of the socially protective public intervention had to be displacement of the market in important areas, and to replace it with redistribution and reciprocity, both of which can be structured by social and political criteria, having no inherent logic of their own. Polanyi also insisted upon a point made emphatically by Galbraith, the market mentality is a particularly lame doctrine when markets are already administered to a large degree (see also James Galbraith, 2008a, pp. 12–14, 20–4, chs. 4, 5, 6). The Democratic center came to embrace ‘free trade,’ monetary policy, and budget deficit reduction, mostly it seems in a vain effort to distinguish themselves from conservatives. Galbraith (the younger) made a strong case that the US budget deficit is a fact-of-life so long as the dollar remains the global reserve currency.

From the Galbraithian Legacy it is clear that little can be accomplished without a revision of economics pedagogy. Ultimately, it would be necessary for heterodox economics to be ensconced in university curriculum, that is, for the educational-scientific estate to assert its independence and liberate the academy from its subservience to the economic doctrine that conveniently serves the interests of the great corporations and the more comfortably situated. We concede that there was no visible Galbraithian School of political economy, but we take issue in part with DeLong’s (2005) observation that ‘what a “Galbraithian” economist would do, however, is not clear. ... He starts from the ground and works up: What are the major forces and institutions in a given economy, and how do they interact? A graduate student cannot be taught to follow in Galbraith’s footsteps. The only advice: Be supremely witty. Write very well. Read very widely. And master a terrifying amount of institutional detail.’ In considering what sympathetic readers of *The New Industrial State* should do with its legacy, James Galbraith (2008b, p. 496) observed in a somewhat similar vein that ‘the answer will not be found in wit, in literary genius or political celebrity. It can only be found in research. And one thing my father did not do – one thing that he never seriously attempted – was to build a research tradition that would carry on the spirit of his work.’

We disagree with regard to the lack of clarity as to the task of a Galbraithian political economist and with the impossibility of instructing students in that regard. We agree with DeLong, and several generations of institutional economists, that a great deal of institutional history and detail would be necessary, but we insist that Richard Ely’s ‘go-and-see’ method would retain its resonance in economics pedagogy.

We also note Schumpeter's (1950, pp. 12–13) view that economic history is essential to competence in economic analysis and that of Karl Polanyi (1957, ch. 4) with regard to the need for an economic anthropology perspective to understand the peculiar and untenable place of the market economy in modern society. Thus we also disagree with James Galbraith's assertion with regard to his father's research tradition because we believe his father was working in, and indeed substantially advanced, the research tradition of pragmatic American institutionalism. Indeed Galbraith (2008b, pp. 497–9) went on to urge the development of an alternative economics that presumably reflected the 'abiding economics' of his father. This new economics would not separate macroeconomics and microeconomics; it would use mathematics with care and define its use by the problem at hand rather than a favored mathematical technique; it would reduce the textbook tradition and teach the history of economic thought so that students could gain from knowledge of the efforts of the great thinkers to explore and understand the economy, and why they did so; it would avoid using such terms as 'social capital' or 'natural capital' either in a lame attempt to reconcile orthodox economics with social issues, or to seek gratuitous attention to these issues by linking them to the authority of conventional economics; and it would emphasize empirical research on actually existing capitalism, utilizing various data sources and new empirical techniques. And, of course, overall the new economics would be relevant to social problems and policy. This seems to be a clear research and pedagogical agenda and it also seems to accord very closely with that of pragmatic American institutionalism. But perhaps James Galbraith's point was that this research tradition has been undernourished and underdeveloped; if so we agree with that.

The good society and the reform agenda

Galbraith's very evident willingness to make explicit his value judgments is an important part of his legacy. The cultural confrontation demanded by the Galbraithian Challenge must be based on a vital HPE that clearly indicates its conception of the good society. Galbraith's evaluations are systematic and consistent; clearly he valued equality and inclusiveness with regard to opportunity and life chances; 'individual freedom and democratic process'; economic stability and security of income from the scourge of inflation and especially the devastation of unemployment; improvement in the aesthetic and cultural dimensions of existence; and international harmony and cooperation. Galbraith's

views in these regards conform broadly to the reasoning of several strands of left-wing thought, including pragmatic American institutionalism, with its roots in Veblen and Dewey and its articulation in the postwar period by Clarence Ayres (1961), Marc Tool (1979), and Dale Bush (1987). Similar statements of guiding principles can be found in the radical democratic classic by Sam Bowles, David Gordon, and Tom Weisskopf (1983) and in the exposition of the values of the welfare state by Norman Furniss and Timothy Tilton (1977). Of course, such statements are just the beginning, merely useful frameworks for discovery of the ever-changing problems that obstruct well-being and the responsive institutional adjustments.

It follows that any statement of a policy agenda must be tentative and contingent. The reform discussion must accommodate changing circumstances and the priorities of the progressive agenda must be adapted on an ongoing basis. Sorting out such matters is the rationale for public intellectuals, whose task is to draw upon progressive economic thought, especially heterodox political economy, and support liberal policy discussion in the context of changing circumstances and progressive liberal values. This is true of Galbraith as for others, and his view of the definite tasks that remain undone in American democratic capitalism was no more than the initial groundwork for meeting the challenge that is his legacy.

With 'democracy overwhelmed' by a 'flood of corporate money' into political life, even in the intensified competition in Reich's (2008, pp. 211–12) era of 'supercapitalism,' it is necessary to scrutinize the power of great organizations and examine options for improving social governance. Troubling issues regarding executive compensation and its tax treatment continue (Johnston, 2008, pp. 211–12 and *passim*). The dangerous power of the military-industrial complex continues to pose issues of massive piles of weapons, strained public budgets, and continued social imbalance in resource allocation. It would seem that the task of nuclear disarmament, in particular, should be ever present in public discourse. The scandalous arms trade to and among the developing countries also persists.

Achieving improved organizational governance, reduction in militarism, and virtually every other important initiative requires political reform. Kuttner (2008) carefully documented the political failures that have 'squandered' American prosperity and reinforces Galbraith's argument that the emancipation of the state is a requisite step to reform. Galbraith noted that declining political participation, especially among the underclass, would have to be reversed to reinvigorate the liberal

cause. In recent decades the issues that liberals should be raising have fallen even further from America's political radar screen (Kuttner, ch. 10). It would seem that strategies must be devised to enlist the academic community, Galbraith's educational-scientific estate, in the cause of reinvigorating democracy by increasing participation. Efforts should be made to improve the technology of voting and to ensure its equitable distribution. Imbalance in the technology of voting is effectively vote suppression and should not be tolerated. In its more overt forms, vote suppression should be a serious crime with adequate public investigators and special prosecutors assigned. Public agencies and NGOs that seek to increase legal aid or voting rights for the poor will, it seems, always be under attack from the right, for evident reasons. But it is just as evident that they should be an important priority for liberals, for even better reasons. Election schedules should be closely examined as to possible ways to increase turnout.

No one who is even minimally informed can be unaware that the distribution of wealth and income has been greatly aggravated over the last several decades. The once common skills mismatch or education bias explanation does not hold up under critical scrutiny (James Galbraith, 1998). Kuttner (ch. 2) carefully details the policy and institutional changes, 'the assault on the good society,' that stripped the economy of the ramparts that had constrained inequality in the postwar period. He emphasized the assertion of political influence by business interests and financial deregulation. Galbraith (2008a, ch. 7) also emphasized political shifts, observing that 'public policy can move wealth around in spectacular ways.' But he also noted that the two eras of rising inequality, during the Clinton and second Bush administrations, involved distinct sets of elites who were enriched and had different effects on economic performance and the fate of working America. Another lesson is that serial episodes of financial bubbles are destabilizing and produce unacceptable concentrations of economic and political power. It is essential that public policy pursue greater equality, for maintaining aggregate demand, investment in popular opportunity, reduced social conflict, and widening participation in the process of invention and innovation.

As is evident from *The Culture of Contentment*, political reform and rising participation should go a long way toward reversing the disturbing trend toward greater inequality. The measures to achieve this are not in doubt: progressive income taxation, elimination or reform of the payroll tax, improved public services in areas populated by the underclass, and increased minimum wage. The common opposition that the last

would increase unemployment fails in many regards. While the logic is coherent, the empirical evidence simply does not support the hypothesis. Even if it did, thereby decreasing static efficiency, one should remember the lesson of *American Capitalism* that static efficiency is far less significant than dynamic efficiency. An increase in the minimum wage may well incentivize adaptive efficiency in that it would be better for all concerned that those who are lowly valued in the marketplace seek increased education and skills. Generous unemployment compensation or guaranteed income, useful for stabilization purposes anyway, could finance workers seeking to improve their marketable skill sets. Registration in an approved program could be requisite for higher unemployment compensation or guaranteed income. Public policy should not ignore incomes at the other end of the spectrum. Exorbitant executive salaries could be subjected to high income tax rates. If indeed executive talent is so limited as to require competitive remuneration in order to sort its allocation among organizations, then it is also highly inelastic in its total supply and unlikely to depend on after tax income (Reich, 2008, ch. 3). The same most likely applies to media celebrities and prominent sports figures. If international flight is a problem, then the argument is simply that we need to coordinate social and economic policies globally, a frequent Galbraithian point of emphasis for many reasons.

Macroeconomic stabilization policy should be placed within a long-term context and moved beyond the mode of short run neo-Keynesian crisis management. The tactics of functional finance should be placed within a long-term fiscal policy strategy that is focused on improved social balance. Public expenditures and revenues can be structured to serve social balance if they are carefully scrutinized with regard to their effects on income, wealth, and power distribution; their correspondence to each other in the system of fiscal federalism; and their systematic if selective deployment toward reorienting private actions. Progressive income and wealth taxation, automatic block grants in recession from the national to state and local governments, and excise taxation for purposes of environmental protection are well-known examples. So also are negotiated or mandated wage and price restraint coupled with indexation, especially of minimum wage, unemployment compensation, and other income protection measures. Making government the employer of last resort is likely necessary but given the need to greatly expand public goods and services in pursuit of social balance, its significance may be less than presently thought, especially if the public cognizance comes to see the ecological problem as one requiring total

economic mobilization (James Galbraith, 2008a, pp. 169–75). For this and many other reasons macroeconomic stabilization cannot be separated from attention to the structure of the economy and the need for public planning (Stanfield, 1979, chs. 5, 6 and James Galbraith, 2008, chs. 11, 12).

It is evident that macroeconomic stabilization has to be considered in a global context because it is inseparable from the framework of international trade and payments integration (James Galbraith, 2008a, chs. 5, 6). Of course, a narrow economic focus on the trade and payments process is not sufficient.

Galbraith (1999) emphasized the need for a broad view globalization, or internationalism, as he would prefer it be named, and insisted that much of its promise lies in the social, cultural, and political realms. He was particularly concerned that the gains made by the welfare and regulatory state apparatus not be undermined by narrow economic considerations. A broader focus is necessary not only to secure these broader amenities, to protect them from undisciplined trade and payments integration, but also to secure the increased economic integration by reducing backlash (see Barber, 2001 and Chua, 2004). The necessity of Galbraith's pragmatic problem-by-problem approach has been evident in the absence of any overarching ideological outlook on the part of those who have taken to the streets to protest globalization in Seattle and Prague and elsewhere (see Stiglitz, 2002, chs. 1 and 9). The protests were driven not by ideology but by the demand for remedies to many forms of social distress. This variety of issues and frames of reference indicate the need for the broad view that Galbraith emphasized.

A major area in which social balance requires improvement is in education funding and reform. Education to accommodate the changing technical basis of the economy is essential to maintaining dynamic efficiency, macroeconomic stabilization, and providing opportunity to the underclass. But we should be ever mindful of Galbraith's call for removing narrow economic considerations from educational priorities as part of the organized effort to break the hold of powerful economic interests on public priorities. In particular it would seem that we need to resist the drone for increased attention to education in mathematics, science, and engineering. No doubt there is a need to do so in absolute terms but not at the expense of the humanities and social sciences. The goal should be to improve education across the board. If anything, a broad, evolutionary view of our problematic suggests that our ability to manage the social consequences of our technical capacity is most in need of improvement. Accreting greater scientific and technical skills is

not likely to spearhead progress on Galbraith's number one concern of arms control and reduced military spending. Nor will it stop the arms trade in the less-developed countries. The path to enlightened governance and cooperation is more social than technical in nature which suggests that we need to boost research and education in the social scientific examination of socially structured patterns of interaction and in humanistic, aesthetic studies of that which enhances human lives. This is not to suggest an inherent conflict between technical and humanistic studies, between two cultures as it were, clearly such problems as global warming require effort in education across the board and at all levels.

Care should be taken to avoid confusing raising the quality of education with increased time in the classroom. In light of time stress, one suspects that the one thing we certainly do not need is socialization to work longer hours (Schor, 1991 and LaJeunesse, 2009). Care must also be taken not to confuse education with increased public support of quality childcare in this age of dual-earner families. Decisions about extending the school day, week, or year should be focused upon educational priorities. Recruitment and retention of better-qualified teachers may be the key to improved educational productivity. It may also have more to do with critical analysis and creative craft and thought and the leisure time to practice them than the hours spent in the classroom. Nor should we be concerned solely with formal education of children. Attention should be given to lifelong expansion in knowledge and skills and therefore to public broadcasting and other alternatives to the present commercial media.

Conclusion

The current crisis of worsening inequality and increasing macroeconomic instability is a matter of imminent concern. But it should be recognized as a manifestation of long-term crisis in social imbalance and inadequate political participation. Rectification of these problems will not be made by a political system dominated by corporate and financial interests, overseen if at all by a comfortable and myopic affluent community. Yet the Galbraithian Challenge requires making democratic capitalism work, not least by recognizing that today's predatory (James Galbraith, 2008a), squandering (Kuttner, 2008), overwhelmed (Reich, 2008), morally bankrupt (Johnston 2008) broker state (Stanfield, 1995a, pp. 147–8) enjoys the stamp of democratic legitimacy. It is the responsibility, if not truly the result, of the actions and inactions of American citizens and consumers. The crisis of illegitimacy of those atop the

corporate, financial and state bureaucracies is also a crisis of character of the American public. It is there that change must begin. Reich's suggestion that consumers have been empowered at the expense of the enfeeblement of the American citizen is partially correct in that the American public has taken the opportunity to buy commodities at low prices with too little attention to their hidden costs. Kuttner (p. 25) is also partially correct in his ridicule of the 'affluenza' argument that he found to sidestep the real issue of declining real wages. But Kuttner immediately referred to the 'instant gratification promoted by our commercial culture' that combines with low income for young wage earners in causing their low saving rate.

We find that Galbraith's lesson is that empowerment of the citizenry requires genuine empowerment of the consumer. As always power stems from technology. As noted in Chapter 5, technology is the 'systematic application of scientific or other organized knowledge to practical tasks' (*Industrial State*, ch. 2:2). As emphasized above, for there to be confidence in their choices, consumers must have craft knowledge, including self-authentic cognizance. The same is true of citizens. Acquisition and application of craft knowledge takes time. Thus the 'affluenza' and time-stress crowd make an important point (reference is to three PBS programs: 'Running out of Time,' 'Affluenza,' and 'Escape from Affluenza'). The process of empowerment of consumers and citizens must include a cultural confrontation with self-justifying commodity consumption, which is very similar to Marx's demystification of commodity fetishism.

The bulk of Galbraith's writing suggested the obsession with private commodity consumption was an important cultural obstacle to progress. He stressed the importance of liberal education to the resistance of 'organized bamboozlement' and the improvement of democratic discourse so that social imbalance can be reduced. Improving social balance requires increased political participation based on the public cognizance or reasoned understanding of political economic issues. Enhancement of the aesthetic dimension requires the reallocation of time from automaton consumption.

Galbraithian evolutionary political economy is open-ended. In recognition that human life is an unfolding stream of tendencies, and that human discretion configures this incessant change, always with unforeseen consequences, its research and policy agenda must always be subject to revision in the wake of changing circumstance. The resurgence of finance capitalism, the narrow globalization of the economy, the oligarchic confiscation of political and economic power, the

sometimes violent cultural backlash of identity politics, and the deepening problems of ecological sustainability, all demand the attention of the Galbraithian Challenge, as do the responses in the form of a revitalized progressive liberal movement based upon widening political economic participation of citizens and consumers who are well endowed with craft knowledge and mindful of the joy of self-authentic expression and development.

As noted, the Galbraithian Legacy is only the groundwork for the social reconstruction that is needed to rise to the challenge of continuous reform. But it *is* a solid foundation, not least because Galbraith never lost sight of the human capacity to adapt creatively to accommodate changing circumstances, and thus never abandoned his inveterate optimism. In this, the darkness of the Conservative Hour, one recalls the old adage that it is darkest before the dawn. The present turmoil may signify a new dawn. Heterodox political economists must meet the Galbraithian Challenge and contribute to the discourse on political economic reform.

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