ECONOMICS IN THE INDUSTRIAL STATE: SCIENCE AND SEDATIVE

ECONOMICS AS A SYSTEM OF BELIEF

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I

A recurring and not unsubstantiated charge against economics over the last century has been its employment, not as a science, but as supporting faith. In this latter role it is held to serve not the understanding of economic phenomena but the exclusion of lines of thought that are hostile or unsettling to the discipline or, a related matter, to an influential economic or political community. "Economists" Marx described as "the scientific representatives of the bourgeois class,"[1] and he held that after the bourgeoisie conquered power in England "it was no longer a question" for political economy "whether this theorem or that was true, but whether it was useful to capital or harmful, expedient or inexpedient, politically dangerous or not. In place of disinterested enquirers there were hired prize-fighters; in place of genuine scientific research, the bad conscience and the evil intent of the apologetic."[2] Veblen, after saying that the competitive model of classical economists "affords the test of absolute economic truth," went on to assert that "the standpoint so gained selectively guides the attention of the classical writers in their observation and apprehension of facts . . . . "[3] Tawney observed that during most of the last century the conflict between "individual rights and social functions was marked by the doctrine of the *inevitable harmony* [my italics] between private interests and public good."[4]

This view of economics is not confined to the great dissenters. There would now be considerable agreement that economic theory before Sraffa, Chamberlin, and Robinson excluded from consideration market structures which could not readily be reconciled with the competitive model or the limiting case of single-firm monopoly. This affirmed a view of economic society in which firms (by implication small) were numerous in the market and without market power and in which the tendency was to an equilibrium of normal profits and optimal resource allocation. This in the United States was over a period—say from 1880 to 1930—when industrial firms were becoming very large and, by all outward sign, wielding great market and political power. In denying scientific recognition or legitimacy to this trend economic theory was not being politically and socially neutral. It was persuading its communicants to avert their eyes from reality. Except where monopoly or intent to monopolize could be shown, the theory denied the need for any social response to economic power. It was playing an active—an actively conservative—role in the political process.

The social and political role of economic belief was at least equally great in the case of Say's law of markets. We now marvel at the hold exerted by this proposition on economic thought before Keynes. And the practical and political consequences (again conservative) were equally profound. If there could be no deficiency or excess in aggregate demand (if any other solution meant that a man was unlearned in the fundamentals of economics)[5] there could be no case for increasing or decreasing public outlays or revenues to affect the level of output or employment. The alternative possibilities allowed only for a self-correcting theory of the business cycle or one that permitted (or encouraged) the adjustment, i.e., reduction, of wage levels or the correction of other special equilibrium error. On avowedly scientific grounds the discipline thus helped to exclude from consideration what are now commonplace measures of fiscal policy and, *pari passu,* to defend a minimal role for the state. This was accomplished by a

[1] Karl Marx, *The Poverty of Philosophy,* Chap. II (1847).

[2] Karl Marx, *Capital* (author's preface to the second edition, 1873).

[3] "The Place of Science in Modern Civilization: The Preconceptions of Economic Science," in *What Veblen Taught* (Viking Press, 1947), p. 111.

[4] R. H. Tawney, *The Acquisitive Society* (Harcourt, Brace and Co., 1920), p. 27. He added that it was the further achievement of economics that "competition was an effective substitute for honesty."

[5] To be consigned, as Keynes suggested, to "live furtively, below the surface, in the underworlds of Karl Marx, Silvio Gesell or Major Douglas." John Maynard Keynes, *The General Theory of Employment Interest and Money* (Harcourt, Brace and Co., 1936), p. 32.

proposition which, in the context of the modern industrial economy, virtually all economic scholarship holds to be wrong and even derisory.

One further aspect of this history is important. Popular perception of the shortcoming ran well ahead of the theoretical economic accommodation. While economic theory had no appreciable reaction to the rise of the great industrial firm prior to the 1930's, the case of single-firm monopoly apart, the ubiquity and omnipotence of "big business" had been a source of popular discussion and concern for forty years. It was the basic fare of the muckrakers and the political base of the populists. Journalists and politicians and the public at large had sensed what the theory denied or ignored; namely, that where the participants in an industry were large and few they wielded great power not explained by the occasional case of single-firm monopoly. Similarly, long before Keynes made it reputable for economists, the lesser breeds without the discipline—politicians, journalists, liberal businessmen as well as Gesell, Major Douglas, Foster and Catchings and the other members of the pre-Keynesian underground—had argued that in depression affirmative action should be taken by the state to increase aggregate demand.[6] A not wholly irrelevant consequence of the rigid and enduring commitment to Say's law was that the economics profession, through the early years of the Great Depression—indeed until rescued by Keynes—had a reputation for doctrinaire negativism. And those who continued to find truth only in the established belief were doomed to live out their lives in a state of obsolescence that was all too cruelly manifest and which, one trusts, will be a sobering lesson for the future.

In yet other instances economics had excluded socially inconvenient analyses, at least until some combination of pressure—the need for practical action, the social intuition of the nonprofessional, competent heresy within the profession—has upset the accepted view.[7] But I am not concerned with making a catalogue. I wish to argue that present professional belief—the neoclassical model of economic process—as profoundly accepted as was once the competitive model or Say's law, is now similarly excluding urgent as well as politically disturbing questions from professional economic vision. It is important that all be reminded that there is nothing novel about this. On the contrary, it is quite normal—a commonplace aspect of the sociology of the discipline. So, also, is vehement insistence that economics is wholly scientific and neutral when it is being politically quite purposeful. Say's law was most indignantly asserted as a test of professional respectability in the years just before it demise. It was then that it most needed energetic defense. But let me summarize. The accepted economic models, in the past, have not necessarily been the ones that illuminated reality. They have frequently served to divert attention from questions of great social urgency which, in the established view, had alarming implications for political action. In doing this, economics has served a political function. It has been not a science but a conservatively useful system of belief defending that belief as a science. And knowing, and indeed agreeing, that this has occurred before, our minds must be open (or less incautiously closed) to the possibility that it may happen again.

II

The assumption that economics must now abandon, subject to some later definition, is that of consumer sovereignty—and, in light of the role of the modern state in the economy, what might also be called "citizen sovereignty." If this is not done, the discipline will serve, indeed is now serving, not as an elucidation of social phenomena but as a design for suppressing inconvenient social conclusions and action. And given the pressure of present circumstance, that of popular intuition and (one trusts) the growth of intradisciplinary dissent, it will not so serve for very long. My in-

[6] It was, one senses, the desperation bred of the Great Depression and the willingness so induced to look anew at old truths, as much as the cogency of Keynes's argument, which led to the rejection of Say's law. Before *The General Theory,* liberal reformers such as Paul Douglas in the United States and William H. Beveridge in Britain prescribed for the depression within the framework of Say's law. Not budget deficits to expand demand but wage reductions to increase employability were urged. In the United States both Presidents Hoover and Roosevelt (and also the Hearst press) had embraced a policy of either tax reduction or public spending to raise the level of aggregate demand before Keynes made the idea generally accptable to economists.

[7] Including the commitment of the theory of the firm to the entrepreneur who combines ownership with direction of the business enterprise. With this goes a greatly strengthened commitment to profit maximization as a goal, a determinant market response in pursuit of that profit and an effective exclusion from consideration of other social and political constraints by the corporation on its participants or the public. On this see R. A. Gordon, *Business Leadership in the Large Corporation* (Brookings Institution, 1945), p. 11 *et seq.* Also Robin Marris, *The Economic Theory of 'Managerial' Capitalism* (Free Press of Glencoe, 1964), p. 62 *et seq.* I discuss this at some length in *The New Industrial State* (Houghton Mifflin Co., 1967), Chap. X.

tention in this paper is to put the case for, and consequences of, the changed assumption in the shortest form consistent with necessary qualification and technical precision of argument.[8]

There are three plausible views of the individual in economic society of which two are broadly consistent with the neoclassical model. In the first the individual is regarded neutrally as a participant in a process for transmitting change. The change may be autonomous with the individual—a change in taste reflecting some change in his life design—and its effects are then transmitted through the market to the producer. Or change may originate with the producer, e.g., some change in the production function arising from spontaneous technical innovation, and it is transmitted through the market to the individual. In each case there may be secondary or tertiary reverberations. In each concern is with the process; no special assumption is made as to the source of the change or the purpose of the process. It should be noted that all changes are transmitted through the market; there is no significant extramarket process by which the producer is brought to accept changes sought by the consumer or by which the consumer is conditioned to accept changes sought by the producer. Most modern mathematical models of microeconomic relationships are, broadly speaking, of this kind.[9] Public goods are not very satisfactorily embraced by this model.

The second possibility involves a substantial measure of implicit theorizing. The view is still of a process. The process is still a neutral transmitter of change including that originating with the producer. But the ultimate guidance is seen very clearly as coming from the individual; it is to him that the ultimate accommodation is made. The accommodation to changes in the producer's cost function is neutral and technical; the accommodation to changes in the consumer's demand function is functional and moral. It embodies the purpose of the system. Borrowing from political theory a similar though less precise accommodation is made to the changing preferences of the individual citizen-voter for public goods.

None of this need be absolute. The consumer is admitted to be subject to influences that are external to the market. Some of these originate with the producer or the process by which he is supplied. These include specific persuasion by the producer, the more general effect of the cultural emphasis on goods and the competitive and emulative influences which bear on consumption and which, as Professor Duesenberry pointed out many years ago, associate consumption with success in life and thus make it an end in itself.[10] And for private—and, even more especially, public—goods information is transmitted imperfectly by the market. In consequence, welfare economics concerns itself with how the process can be corrected and the consumer equilibrium be made to serve more precisely the individual's preference for kinds and quantities of goods. However, both the extramarket effects and the shortcomings are peripheral; one concedes them in order to protect the larger fact. That larger fact is the ultimate accommodation of the economic system to an individual choice that is original and innate. That accommodation is inhibited and diverted and

[8] The surrender of the sovereignty of the individual to the producer or producing organization is the theme, explicit or implicit, of two books, *The Affluent Society* (2nd ed. rev., Houghton Mifflin Co., 1969) and *The New Industrial State* (Houghton Mifflin Co., 1967). In both of these books I faced the problem of discarding ideas, much beloved, that had long been part of my habit of thought and also the terrible tendency to recoil when one's analysis suggests or seems to imply practical action well outside the accepted modalities. I was also, as I have said before, faced with the peculiar problem of persuasion that is here involved. A scientific proposition is refuted by proof to the contrary. Belief, especially if it is playing a functionally protective role in the society, is by no means so vulnerable. The strategy of persuasion thus required, as I have also elsewhere made clear, repays some thought. All social disciplines, and perhaps especially economics, are naturally jealous of the larger framework of assumptions in which they operate. For if assumptions become obsolete, so does the knowledge subtended thereon. This vested interest is further reinforced by the functional role of the ideas in excluding inimical lines of thought and action. It follows that to attack such a framework of assumption from within the discipline 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. The 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. So will be that of the social radical. And if enough such support can be enlisted, the old framework can be broken. The use of this technique naturally incurs a certain measure of professional discomfort. It bypasses the system by which ideas and innovations are submitted for professional scrutiny and winnowing before being passed along to students and the lay public. And it similarly renders nugatory the process by which the intellectual vested interest is protected. To the legitimate rebuke for the first is added the more personal discontent inspired by the second.

[9] I am grateful for suggestions here from my colleague, Leonid Hurwicz.

[10] James S. Duesenberry, *Income, Saving and the Theory of Consumer Behavior* (Harvard Univ. Press, 1949), p. 28.

modified but only as the brush along the banks and the rocks along the bottom inhibit and divert and modify the flow of a stream.

This accommodation, it should specifically be noted, is broadly consistent with the accepted theory of monopoly or oligopoly. The demand function of the individual is given, which is to say that it originates independently of the producer. The producer seeks to maximize revenues—a vital point. Changes in individual demand when aggregated lead accordingly to responses that are no less reliable than those in the competitive market. The resulting distribution of resources and income is different and so is the resulting consumption. By welfare standards it falls short of an ideal. But it is not different in being less responsive to the ultimate authority of the consumer.

The third possible view sees the process as one in which the ultimate accommodation in a significant part of the economy is to the producer. The individual's wants, though superficially they may seem to originate with him, are ultimately at the behest of the mechanism that supplies them. In the most specific manifestation, the producing firm controls its own prices in the market and goes beyond to persuade the consumer to the appropriate responding behavior. But it also selects and designs products with a view to what can be so priced and made subject to such persuasion. And it does this in a society in which the strongly iterated and reiterated praise of goods makes them seem important for happiness and thus makes the individual attentive to claims in this regard. And the persuasion proceeds in the context of a generally affluent supply of goods, which means that their contribution is to psychic rather than to physical need. The further consequence is that the individual is open to persuasion—to appeals to his psyche—as he would not be were physical effects alone involved.[11] On occasion the state will supply ancillary services that are needed to obtain the sought-after behavior of the individual—the provision of highways as an aspect of the management of consumer behavior by the automobile industry is an obvious example. By regulating aggregate demand the state also insures that the microeconomic management of demand will not be nullified by macroeconomic movement.[12]

This view of economic process extends with emphasis to public goods. Here for important classes of products and services—weapons systems, space probes and travel, a supersonic transport—decisions are taken by the producers, i.e., the armed services and the supplying firms, in pursuit of their own goals. The Congress and the public are then accommodated or commanded thereto.[13]

The need to manage consumer behavior, as I have argued in detail elsewhere,[14] arises from the circumstances of modern industrial life—sophisticated technology, large commitments of capital, long-time horizons in product development and production and, in consequence, large, inflexible and vulnerable organization. These lead, in turn, to the need to control as many as possible of the parameters (costs, prices, demand, costs and risks

[11] Some will be aware of the energy with which I have pressed this distinction. Cf. *The Affluent Society* (2nd ed., *op. cit.*, p. 134 *et seq.*). It is one of those naively crucial matters (as Keynes earlier held) on which much turns. Economics generally denies the distinction between physical need and psychic satisfactions—taking advantage in part of the undeniable fact that the line between the two lends itself to no precise conceptual demarcation. Thus, it excludes from consideration the notion of a class of wants which, originating in the psyche, are subject to management by psychological means as wants originating in physical need are not. This greatly defends the values of a society which measures achievement by output. There being no valid difference in the wants being served there is no lessening of the urgency of output. The notion of production for frivolous purposes is almost completely elided. Thus, the importance of production remains above question. Once again one sees economics overriding a commonsense view to defend what is, unquestionably, a most convenient conclusion.

[12] The one is obviously dependent in a highly practical way on the other and it is a curiosity of economics that the two—the need to insure that people will want G.M. cars and the need to insure that they will be able to buy G.M. cars—has been so little associated.

[13] The most meaningful distinction between a market and a planned economy, so it seems to me, turns on whether and to what extent accommodation is to producer or consumer choice. The more responsive the producer must be to consumer choice, the more it is a market economy. The greater his power to establish prices and to persuade, command, or otherwise arrange the consumer response at these prices, the more it is a planned economy. Intervention by the state does not alter the fact of planning; it changes only its nature, extent or efficiency. In everyday language, planning means the systematic exercise of foresight. This is a source of ambiguity for even within narrow market parameters there can be exercise of such foresight—specifically to anticipate market behavior or make more efficient the firms' response. James E. Meade, in his review article, "Is *The New Industrial State* Inevitable?" (*Econ. J.*, June, 1968), rightly points out that I do not distinguish adequately between such planning within the market instruction and planning which embraces the decisions of the consumer or citizen.

[14] *The New Industrial State, op. cit.*, pp. 1–97.

of technological innovation) within which the firm operates. This development is greatly different in different parts of the economy—the range is from the producer of modern weapons systems or automobiles at one extreme to the vegetable farmer or small shopkeeper at the other. The extent of the accommodation of the individual to producer need varies accordingly. This difference is not something to be minimized; on the contrary, it is itself of practical consequence for economic behavior, as I will argue in a moment. The efficacy of the management of the consumer or the public in any industry will also vary over time and, on occasion, will partly fail or be frustrated. This management is exercised at increasing cost which varies as between products and market structures.[15]

Maximization in this model is not of profits alone but of the panoply of organization interests—security and autonomy of the organization, growth (and consequent increase in pay and opportunity), technical achievement, public prestige, as well as profits. The priority accorded the several goals will plausibly differ somewhat for different organizations.

Finally, it remains possible, at least in the private sector of the economy, for the individual to contract out or partially out of the management to which he is subject. (This, more than incidentally, may allow him to deny the existence of such management and to point to his own immunity as proof. A certain part of the case for unmanaged consumer choice rests subjectively on such grounds.) All of these qualifications are essential for only the inexperienced rejoice those who are resistant to an idea by allowing themselves the catharsis of overstatement.

III

So far as anything in economics is certain, it is that the first two of the foregoing views have a monopoly of established belief. Formal microstatic models emphasize the first view; the less formal, more intuitive and more influential writing and instruction assumes the second. It is not impossible (though not altogether easy) to find work that concedes producer management of consumer taste. Tibor Scitovsky[16] has dealt interestingly with the management of consumer markets on behalf of the majority taste—an argument with more than parenthetical importance for the economics of the arts. Jerome Rothenburg[17] has held of advertising that, although it "is probably not accountable for drastic changes, it is reckless to assume only trivial impact"[18] and noting that there are "endogenous taste changes—changes induced by producer investments designed to effect such changes," he has concluded that "few would insist that the consumer is sovereign in any useful sense."[19] A number of other scholars, some in more recent times accepting my arguments, have agreed. But these are exceptions. In the general view economics is a process by which the individual imposes his will on the producer—as put matter of factly by Fisher, Griliches, and Kaysen, "there *is always* an assumption of consumer sovereignty in the market economy."[20] (My italics.) And, although the process is confused, indirect and inefficient, the citizen is equally assumed to impose his ultimate will as to public goods on the state. When one comes to the world of the textbook, an important matter when, as here, one is concerned with economics as it serves functionally through its assumptions to influence belief and thus action, the commitment to consumer (and citizen) sovereignty becomes virtually absolute.[21]

IV

It is not my purpose here to argue that the accepted views are incognate with reality, that the

[15] Slowly increasing costs of persuasion for (e.g.) automobiles or soap partly distinguish these industries from vertically increasing costs in, say, agriculture.

[16] *Papers on Welfare and Growth* (London: George Allen and Unwin, Ltd., 1964), pp. 241–49.

[17] "Consumer's Sovereignty Revisited and the Hospitality of Freedom of Choice," *A.E.R.*, May, 1962.

[18] *Ibid.*, p. 280.

[19] *Ibid.*, p. 279.

[20] Franklin M. Fisher, Zvi Griliches, and Carl Kaysen, "The Costs of Automobile Model Changes Since 1949," *J.P.E.*, Oct., 1962, p. 434.

[21] "What things will be produced is determined by the votes of the consumers—not every two years at the polls but every day in their decision to purchase this item and not that." Paul Samuelson, *Economics* (7th ed., McGraw-Hill Book Co.), p. 42. However, in this edition, Professor Samuelson subsequently softens this proposition and I sense, otherwise, that his commitment to consumer sovereignty is far from rigid. Others are more categorical. ". . . only [the consumer] can make the crucial decision on what goods he most prefers; thus, in the final analysis, consumers collectively decide what industry is to produce. The choices of consumers provide the basis on which business makes its decisions." C. E. Ferguson and Juanita M. Kreps, *Principles of Economics* (2nd ed., Holt, Rinehart and Winston, 1965), p. 80. "As buyers, individually but totaling millions react to prices, they also change prices. Consumers vote with their dollars. The buyer, himself guided by relative prices in making his choices, is directing the allocation of productive resources." C. Lowell Harris, *The American Economy* (4th ed., Richard D. Irwin, Inc., 1962), p. 380.

third view is right. This I have done at length elsewhere.[22] It is hard to believe that the uncommitted reader will find the case for producer sovereignty in the form in which I have just outlined it wholly implausible. The case is perhaps strongest for public goods; there can be few men of available mind who have recently looked at the process by which the national defense is provided without wondering if the conventional view of ultimate citizen sovereignty is acceptable. This is not a detail; it is half the federal budget. And many must have wondered if the conventional view, indistinct as it is, might not be serving to divert attention from the disenchanting reality—if it did not accord the public the mythology of power while giving the military bureaucracy and associated industries the reality of power. But in the large-scale consumers goods industries the case is not greatly less convincing. There is the massive outlay on persuading the consumer.[23] There is also the general increase in the persuasive effort paralleling the development of increasingly complex technology and organization. It is a tenet of the more developed consumers goods industries that products must be selected, designed, and produced with a view to what lends itself to persuasion. Accordingly, it involves an exercise of imagination to suppose that the taste so expressed originates with the consumer. What the consumer deems to be a desirably shaped and chromatically compelling automobile is substantially different this year from what it was five years ago. But few would wish to argue that this represented a change in the consumer's intrinsic and improving vision of a vehicle—that, indeed, it was other than something accomplished with no slight skill, art and expense by the automobile producers. It is not necessary to argue that the management of the consumer by the producer is complete, only that it makes consumer behavior conform in broad contours to producer need and intent. This is plausibly in accord with everyday observation of marketing practice and the commonplace claims of its practitioners.[24] Nor will many resist the idea that these industries can bring the state to the support of their efforts in creating and managing consumer wants—that the automobile companies can get the highways that are essential for a consumer preference for automobile transportation; that the airline and aircraft manufacturing companies can win public financing for the development of new types of aircraft, in the past under military guise but now quite overtly in the case of the SST; and that the tobacco companies can obtain extensive governmental immunity from the scientific evidence on the causes of cancer.

Finally, few will doubt the enormous stress which the process of persuasion places upon the importance of goods and the belief so created of the nexus between goods (including those that are technically innovative or can be so represented) and happiness. This, most will suppose, increases the susceptibility of consumers to persuasion. If goods are firmly established as the cause of happiness, the public will be attentive and responsive to claims to reward on their behalf, and certainly

[22] *The Affluent Society, op. cit.,* especially pp. 134–67 and *The New Industrial State, op. cit.,* especially pp. 159–218.

[23] There is a marked tendency, especially among the unconsciously tendentious defenders of the market and thus of consumer and citizen sovereignty, to denigrate and even dismiss the role of advertising. One recent critic disposes of my interest in it by saying that it is concerned with "the most hackneyed theme in modern social literature—the power of advertising." (Scott Gordon, "The Close of the Galbraithian System," *J.P.E.,* July-Aug., 1968, p. 642.) So to minimize the role of so vast, obtrusive, expensive, and integral an aspect of the modern market must surely provoke question. One notes also that advertising has continued to be a somewhat indigestible lump in conventional microeconomic theory. To see it, as does the most commonly accepted oligopoly theory, essentially as a functionless but safe alternative to price competition which ultimately cancels itself out, is not altogether satisfying and leads inevitably to the question, ill-received by advertisers and media when not tactfully elided by economists, as to why such a portentous waste is not prohibited or mightily taxed. But there is also the fact, as Professor Rothenburg points out, that advertising is the most direct and visible attack on the concept of consumer sovereignty. This, one at least suspects, may be a reason for wanting to ignore it or, failing that, to follow Professor Gordon in suggesting that concern with it is unfashionable or otherwise intellectually unworthy. I count it an important part of the case for producer sovereignty that its exercise gives to so important an activity as advertising a wholly functional role in economic life.

[24] Consumer management is a more complex business where, as in the characteristic oligopoly case, a few large firms produce a closely substitutable product. Here predictability of consumer behavior is enhanced by the management of consumer taste and, of course, reduced by the fact that others are seeking to do the same thing with greater or less effect. However, as I have elsewhere argued (*The New Industrial State, op. cit.,* p. 206 *et seq.*), from the aggregate of this effect—the general attraction to the common products of the industry and the success of one firm, the inevitability that it ride with success, the stimulated response of others—comes an equilibrium more predictable for any fully participant firm than would result from unmanaged demand. And, as I note above, there are further important effects from this process and the effort expended upon it on the general social attitudes toward goods and their producers.

the relentless propaganda on behalf of goods must greatly increase the importance attached to production. This, in turn, strengthens the position of producers in the exercise of their sovereignty especially as regards the community and the state. What can be so important as what they do? Economics again assists by making the level of output the formal, measurable accomplishment of the society. But my purpose is not to argue the case for producer sovereignty but to assume it (though less comprehensively) as consumer sovereignty is now assumed. And assuming producer sovereignty I want to look at the features of the society which, excluded from view by the assumption of consumer sovereignty, then swim almost majestically into view. What is so solved makes my case.

V

The first and by far the most important matter that thus becomes clear concerns the relation of the individual to industrial society in the largest sense. In the accepted economics, no general conflict can arise here. The individual or citizen is sovereign. There may be differences between different individuals as to whose commands are heeded. By ancient classical assent, the rich speak more authoritatively in markets than the poor. And there may be friction or aberrations in the response of institutions to the ultimate authority of the individual. But none of this is systemic. The individual is ultimately and fundamentally in command; he cannot be at war with himself.

When producer sovereignty is assumed, the result is very different. This sovereignty is exercised, we have seen, by large and complex organizations. This exercise of power is to serve their own goals—goals that include the security of the organization and its growth, convenience, prestige, commitment to technological virtuosity as well as its profits. There is every probability that these goals will differ from the aggregate expression of individual goals. Individuals are then accommodated to these goals, not the reverse. This normally will involve persuasion. But it may involve resort to the state or, in the manner of a utility marching its lines across the countryside, to power that is inherent in institutional position.

The consequence of economic development, so viewed, is not of harmony between the individual and economic institutions but of conflict. The conflict is modified by the persuasion—but not for the unpersuaded or those who sense what is happening. This conflict is sharply at odds with accepted economic (and political) interpretations of the reality. But it is not at odds with the reality. If there is an agreed diagnosis of contemporary discontent both in the United States and the other industrial societies, it is that the individual feels himself in the grip of large, impersonal forces whose purposes he senses to be hostile and in relation to which he feels helpless. The Pentagon pursues wars and builds weapons systems in accordance with an inner dynamic. Similarly NASA. So the Department of Transportation in relation to the SST. So General Motors as a producer of automobiles that threaten to smother cities and as a sponsor of highways that have already gone far to devour them. So industry generally as it subsumes countryside, water and air.

This conflict comes to a peculiarly sharp focus in the universities. This also is what the model would lead one to expect. In the universities large numbers of students are brought together by the unprecedented demands of the industrial system for qualified manpower. They are given a sense of personality as the older industrial proletariat was not; the older proletariat, indeed, was taught by the unions to submerge personality into a sense of class. And students are also exposed with some sense of righteousness to social doctrine—economic and political theory—which holds that the individual is possessed of ultimate power. And, in contrast, they see a 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. None of the resulting discontent could occur in a society in which the consumer or the citizen is sovereign. It is surely probable, even predictable in a society in which producing organizations are sovereign—in which they have power to pursue purposes of their own that are different from those of the consumer or citizen.

The notion of producer sovereignty, then, is not only empirically plausible—a seemingly logical response to the needs of the modern, highly technical, highly capitalized, very complex industrial organization—but it also sharply illuminates our major present concern. This is a good thing for any social theory to do. But economic and associated political theory in remaining with the notion of consumer and citizen sovereignty are not merely failing to interpret reality. By contributing to a contrast between what is taught and what exists they are weakening confidence in the objectivity of social science—and perhaps even in education itself. They are making these the servant not of an understanding of reality but of a conservatively useful myth that conceals the reality. But since, in fact, this cannot be concealed they are adding to frustration and conflict.

But this is not all. In other respects the notion of consumer and citizen sovereignty is diverting attention from fundamental problems of the economic and political system in a fashion that serves to strengthen the very producer sovereignty that the discipline denies. Let me cite eight specific examples, each of them of no slight contemporary concern.

If the mix of goods being produced at any given time seems unsatisfactory—if there are too many automobiles, too little mass transport—consumer sovereignty holds that this reflects the dominant consumer will. Similarly, if housing is scarce and poor, housing appliances abundant and efficient. The person who expresses doubt is seeking, in undemocratic elitist fashion, to substitute his taste for that of a majority. But if producer sovereignty is assumed the product mix will be the expression of its comparative power. If there appear to be too many automobiles, insufficient intercity or commuter rail service, or urban rapid transit, this will plausibly be because the automobile industry exercises its sovereignty (including its power to persuade people that they want automobiles more) more effectively than do the producers of alternative transport. We have more appliances than houses because General Electric is more powerfully sovereign than the house builders. Except to the exceptionally devout, none of this, I venture to think, will seem unreasonable. But economics as it is taught, by emphasizing consumer sovereignty, makes itself a shield for the exercise of producer sovereignty by the automobile industry. For by making questions about too many automobiles an elitist and undemocratic interference with consumer choice, it effectively excludes questions about the power of the automobile industry to impose its preference. In effect, it gives high moral sanction to social indifference.

The concept of consumer sovereignty acts with marked force to inhibit questions concerning the cultural achievements of the system. It will surely be agreed that whatever the effects of advertising its ultimate effect is an extremely powerful and sustained propaganda on the importance of goods. No similar case is made on behalf of artistic, educational, or other humane achievement, The notion of consumer sovereignty suppresses the response.[25] While it may be conceded that the popular taste is biased toward goods, it insists that the popular taste be respected. The notion of producer sovereignty, by contrast, forces recognition of the inconvenient certainty that the source of much of the taste is in the producing organizations that promulgate it for the community. Economics renders a further conservative service. To the microeconomic doctrine of consumer sovereignty it adds the macroeconomic test of output not art as the measure of social achievement.

The concept of consumer and citizen sovereignty allows of no organic likelihood of a bias in the economy for private as opposed to those public goods that do not serve producer sovereignty. At most, there will be blockages and error in the allocation of resources to the public sector. Producer sovereignty, coupled with the fact that the instruments of its exercise, advertising for example, are elaborately and expensively available to the private economy and not available in any similar fashion to the public sector, makes this bias systemic. In these past weeks the United States Senate has been hastening to reduce taxes in face of the seemingly unprecedented need of the civilian public services. And in the background has been the doctrine that, unprecedented private consumption notwithstanding, taxes now bear on people with unprecedented weight. Something must surely be attributed to the superior ability of producer sovereignty to persuade as to the urgency of private goods. If this be agreed, then again it cannot be entirely bad to have a theory that explains the contemporary reality.

Consumer and citizen sovereignty sanctions the current claims on resources of the military industrial power—it is in response to the perceived need and expressed demand of the public. Or, alternatively, it is a *sui generis* error—a fault in an otherwise workable system. The first view will tax belief of even the most committed supporters of the received model; the second, as an explanation for any part of the economy that is so large in both claim on resources and social portent, must lack something in scientific appeal. The notion of producer sovereignty increasing in effect with increasingly complex organization and technology brings the power of the producers of military goods and services wholly into focus.

Consumer sovereignty makes pollution and other environmental disharmony an external diseconomy. The cost of damage to air, water, and

[25] With a peculiarly righteous indignation, in fact. I made this case in less sharp form and with much stronger emphasis on public goods in *The Affluent Society*. The rebuke differed only in emphasis. A few held that I was presuming to set an admittedly attractive judgment against the democratic manifestation of the market. The rest held that I was presuming to interpose a precious, narcissistic, arrogant or otherwise grossly pretentious judgment for that of the market.

surroundings is borne by the community, not by the producer. Since the market is assumed to be an efficient expression of public taste and need, external diseconomies have long been viewed as of peripheral significance to be corrected by essentially cosmetic public action. With producer sovereignty environmental damage becomes a normal consequence of the conflict between the goals of the producing firm and those of the public. Its particular focus is the emphasis which the firm places on growth and freedom for its organization for autonomous decision unhampered by community or public constraints. Here again economic theory in its macroeconomic norm strongly supports producer sovereignty. It powerfully supports the argument, commonplace in these matters, that nothing and certainly not the minor ecological preferences of the community, should interfere with the stern needs of production and productive efficiency. These give the power line or the industrial effluent a natural priority.

Consumer sovereignty allows of no question as to a socially desirable upper limit to the consumption either in general or in particular products. The consumer wants more; theirs not to reason why, theirs but to satisfy that want. With producer sovereignty the level of consumption is seen to be a derivative of producer goals including the producer commitment to growth. Consumer attitudes are seen to be substantially formed by producer persuasion on behalf of goods. The question must then arise as to whether General Motors is the proper agency to decide the proper level of consumption for its products. And since the matter is not decided by the collective inner will of the public the question also arises as to the optimal upper level of production and consumption in general. This question should, perhaps, have been faced before now. For a host of reasons, including the effect on environment, it is unlikely that we can continue to increase physical output at recent past rates for the next (say) twenty years. It is easy to see how, once again, economics has rendered conservative service. By holding this matter to be resolved by the inner collective will of the public, it has effectively banned from public discussion all question as to how much a community should produce or consume.

In the conventional model differences in income for personal services reflect ultimately the willingness of the community to pay for such services as derived from market desires and preferences. Inequality in nonproperty incomes thus derives a substantial measure of functional sanction—a not unimportant matter at a time when the inequality of income distribution is increasing.[26] Producer sovereignty makes this income inequality, at least in part, the product of bureaucratic design, tradition and self-arrangement. Such a cause of inequality enjoys no similarly high sanction. It does correspond, however, with the everyday appreciation of the matter by the participants.

Finally, a more immediate point. If consumer sovereignty is assumed, there will be a strong presumption that actions directly or indirectly affecting the consumer's market behavior will have a strong and reliable market response. It is to the consumer that the market responds. If by either fiscal or monetary policy his outlays are directly or ultimately curtailed, there will be confidence in the ensuing effect on prices and production. With producer sovereignty there will be no similar confidence. The producing firm is pursuing its preferred goals which is to say that it is maximizing not necessarily its profits but its organizational interests. If this has caused it to subordinate profit maximization to growth, it can, if it must, increase revenues by increasing prices. And its organizational interests will include the security of the organization as opposed to the dangers inherent in labor conflict or interrupted production. So, given producer sovereignty, it is quite predictable that efforts to limit consumer expenditure in an inflationary context, even if successful, will be accompanied by continuing price and wage increases in the highly industrialized, highly organized sector of the economy. The fact that this sector is not coordinate with the whole economy is of especial importance here. It means that the part of the economy characterized by producer sovereignty in effect exports its tensions to the more vulnerable sector where consumer sovereignty is still relevant.[27] A measure of index stabilization may even be accomplished at the expense of the latter.

I say that this is a more immediate point. It is an unduly succinct but wholly accurate descrip-

[26] Joseph A. Pechman, "The Rich, The Poor and The Taxes They Pay," *The Public Interest,* Fall, 1968, pp. 21–43.

[27] In *The New Industrial State,* influenced by the comparative success in the first half of the 1960's, in stabilizing prices in the organized sector of the economy through the guideposts and by the parallel resort of numerous other industrial countries to some form of wage-price restraint, I concluded that this was one of the parameters (like minimum prices or stable aggregate demand) where large organization would accept and even seek public stabilizing action. I still think public opposition to inflation as well as balance of payments and other reasons will eventually force such action. I am no longer so certain that it is one of the things that large organization needs.

tion of what is now happening. And here accepted economic theory serves not only to divert public attention from requisite action—the replacement of the sovereign producer with the sovereign state in the process of price determination—but it clearly blinds the eyes of the economists who are responsible for policy. In consequence, month after month, they continue optimistically to avow their hope and intention of ending inflation by measures appropriate to consumer sovereignty. And not surprisingly, month after month, they are roundly defeated by a reality reflecting producer sovereignty.[28] In an age when public officials are often thought averse to personal sacrifice or immolation in pursuit of principle, it is gratifying in a way to find that economists are still willing to surrender their professional reputations on the altar of established doctrine. One regrets only that it is not in a more useful cause.

VI

None will doubt that this paper leaves many important questions unanswered. There is, notably, the question as to the theory of the state that is here implied. The state as here envisaged comes close to being the executive committee of the large producing organization—of the technostructure. It stablizes aggregate demand, underwrites or socializes expensive or risky technology, reflects the will of large organization in the mix of military and nonmilitary public goods, provides such needed public artifacts as highways for the management of specific consumer demand, supplies qualified manpower, otherwise stabilizes those parameters or does that planning which the large producing organization cannot do for itself. This being so, one must ask if the industrial state can separate itself from organization—if it can be the instrument of individual will. Let us not imagine that it will be easy.

One must ask also if there is a choice or a trade-off between increased technology, increased complexity of organization, and increased production on the one hand and increased power of individual expression on the other. If so, is there a substantial measure of social perception in the behavior of the young who (at least while young) see in the rejection of physical artifacts an avenue to greater self-expression?

One must ask further if there is a possibility of meeting the power of organization with the power of anti-organization. If the automobile industry is sovereign in the market and thus in its decisions on automobile population and their effect on environment, can it be made less sovereign by countering organization—by organization to exclude the internal combustion engine from urban areas? If the weapons industry is sovereign in the Congress, can it be made less sovereign by countering organization which removes its servants from Congress?

Finally, and of high interest for this paper, what is the effect on economics as a discipline, after years of comfortable coexistence with industrial and associated public bureaucracy, if it makes exercise of power by such organization in its own behalf an accepted and central preoccupation? What happens when it views the mix of products, the level of production, the autonomous exercise of power by the weapons industries, the effect on the environment not to mention the resolution of the wage-price bargain as an exercise of bureaucratic power in the interest of bureaucratic goals and not as a reliable if sometimes obstructed response to the ultimate consumer will? Can economic theory embrace such issues? Can it stand up to the resulting contention? Clearly these matters have consequences for economics, as for the society at large, that are not slight. They present an interesting choice for our discipline. Economics can remain with consumer sovereignty and be comfortable, nonconrtoversial, increasingly sophisticated in its models and increasingly, and perhaps even dramatically, unrelated to life. Or it can accept the implications of producer power—of the sovereignty of the great organizations. Then it will be contentious, politically perilous and for a long while, perhaps, intellectually inelegant in its models. But it will in compensation be relevant to the most immediate and formidable concerns of the industrial society.

I have little doubt as to the choice. Among my generation it will be, in principle, for comfort and its associated refinements. We have had one revolution; Keynes was enough. There are elements of truth in this model, it will be said, but nothing that should require one to change his mind or his pedagogy. I say this will be the choice in principle for it will not be so in fact. Mention of Keynes reminds us that he stressed 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. They have great and evident power. Divorced of this circumstance—as an abstract model interesting for itself—the ideas I am urging here would be nothing. Reinforced by such circumstance they are ineluctable.

[28] Until, quite possibly, they achieve stabilization, as previously noted, at the cost of the nonindustrial and vulnerable sector of the economy.