5. The Galbraithian Solution

Reference has been made in previous chapters to Professor J. K. Galbraith and, in view of the frequent contributions he makes, in books and speeches, to the general debate on the state of nations, it is appropriate to devote some space to consideration of what he has to say.

Most of this, his general philosophy, was expounded in the book that first produced headline attention, *The Affluent Society*.[1] What he has said since its publication, except for a few original aphorisms, while entertaining — if one can ignore the serious implications — is not new. One may therefore concentrate on that book for a study of what Galbraith has to offer the world as a solution of its major problems.

Galbraith's theme and supporting arguments can be just as well judged against the background of the Australian scene as in the context of the United States. Australia is emulating many of the trends and processes by which Americans manifest at least the outward facade of affluence in the abundance of material possessions produced by their highly industrialised economy, symbolised by the two-or-three car garages, the television in every room, the domestic mechanical slaves, and so forth. And Australians have in common with them the other side of the brave facade, that annoying phenomenon to which the more concerned members of Australian society keep referring: the condition in which a large part of their people continue to exist, described unequivocally by social workers and others as poverty.

Galbraith draws, eloquently enough, the contrast between his kind of society and that from which, as he puts it, "the ideas by which the people of this favoured part of the world interpret their existence" — in which affluence was the prerogative of the few and poverty the lot of almost everyone else. "Not the elegant torture of the spirit which comes from contemplating another man's more spacious possessions, but the unedifying mortification of the flesh from hunger, sickness and cold." The world of which "poverty was the all-pervasive fact."

The point is made that "our economic attitudes are rooted in the poverty, inequality and economic peril of the past." And he states the purpose of his book as recognising this fact, noting the "partial and implied accommodation of these ideas to the modern condition of affluence, then to consider the devices and arguments, some elaborate, some meritricious, some dangerous, by which association with the older ideas has been maintained." Firstly, "as we escape from the obsolete and contrived preoccupations associated with the assumption of poverty, we are able to see the new tasks and opportunities before us."

One is primarily encouraged by the assurance at the outset that he thinks "very little of certain of the central ideas of economics" whose shortcomings, he says, are not "original error but uncorrected obsolescence — obsolescence because what is convenient has become sacrosanct." These are days, he goes on "when men of all disciplines and all political faiths seek the comfortable and the accepted; when the man of controversy is looked upon as a disturbing influence; when originality is taken as a mark of instability; when 'the bland lead the bland'." But the encouragement one derives from this is, unfortunately, not sustained.

He admits, as of course he must, the existence of poverty in his *affluent society*; he says of it that "it is a disgrace in the contemporary United States." And he discusses it in a chapter called "The New Position of Poverty" which he opens with a quotation from Marshall *(Principles of Economics):* "The study of the causes of poverty is the study of the causes of the degradation of a large part of mankind." The chances of their success, said Marshall, "Gave the economic studies their chief and highest interest." Galbraith says: "No contemporary economist would be likely to make such an observation about the United States. Conventional economic discourse does make occasional obeisance to the continued existence of some poverty: 'We must remember that we still have a great many poor people.' This usually allays uneasiness about the relevance of conventional economic goals and especially of economic efficiency." Remembering that this was written in 1957, it would be interesting to have Galbraith's views on the relevance of this passage to the current situation in the United States in which the poor are still being statistically described as around thirty percent of the population.[2]

Galbraith's main contention is that the conventional wisdom has persisted on the basic premise that the heart of the economy is *production and the ever-expanding economy, or 'growth'*, but that production (or rather 'private production', as he quaintly refers to it) has solved the problem of supply; in fact, has even gone further: it now creates its own demand through modern advertising techniques and social pressures; and that what is now essential is a new emphasis on *public expenditure,* in such fields as education and similar services.

Unemployment, a chronic factor in the United States economy, is the subject of a chapter intriguingly called "The Divorce of Production from Security" in which he says: "income and employment, rather than goods, have become our basic concern. The urgency of offering employment to all who seek it is probably increasing — a not unnatural consequence of affluence. When the income of the employed worker is high, it is not easy to defend a situation in which a small minority of workers have no employment income at all."[3]

So "Our situation is that of a factory which must be operated at top speed for three shifts a day, seven days a week, even at risk of breakdown, not because the product is in demand, but because any lower rate of operation will leave some of the people in town without a livelihood. If that misfortune is the alternative, the factory may have to be so operated. But the question of freeing the community from such dangerous dependence will unquestionably arise."

Galbraith's economic analysis is, to say the least, selective. He described the origins of the serious study of economics during the 18th century without a single reference to the great Frenchmen of the time, the 'Economists', later to be known as the Physiocrats. He quotes Keynes on the history of human societies from pre-Christian times up to the Industrial Revolution: "There was no great change in the standard of living of the average man in the civilized centres of the earth. Ups and downs, yes; visitations of plague, famine, war; golden intervals. But no progressive violent change." Some of the intervals seem to have been extended, says Galbraith: "for something over a century — from perhaps 1380 to 1510 — workers, or at any rate skilled artisans, seem to have enjoyed a period of considerable prosperity. But, as always before, the good times came to an end; by the close of the 16th century, the purchasing power of an artisan's wage had fallen by more than half. It remained low through the disorders of the Civil War and progress was uncertain for a long time thereafter. Then, early in the last century, these wages began the rise which, with slight interruption, has since continued."

The source he uses for that information is an article by E. H. Phelps Brown and Sheila V. Hopkins in *'Economia'*, New Series No. 92 (1956), entitled *Seven Centuries of the Prices of Consumables compared with Builders' Wage Rates*. He evidently found this easier reading than Thorold Rogers[4], whom he does not mention. However, he makes no attempt to discuss the reason for the fluctuations in artisans' wages, and the 'golden age', and the decline to half their value by the end of the 16th century, but proceeds to consider the changes wrought by the Machine Age. One must assume that the subject had no significance for him. Which is a pity, since a more than superficial study of the period — with Thorold Rogers' help — might have given him an insight which is plainly lacking from what passes for his general economic theory. This, sadly, is the main trouble with Galbraith; his is a brilliant and sceptical mind and a major talent for exposition, offset by a preference for the light and superficial rather than the study in depth despite his obvious erudition and his witty style.

His survey of the development of economic thought forces this conclusion. This survey is to be found in the four chapters beginning with the one headed 'The Concept of the Conventional Wisdom'.

Beginning with Adam Smith he considers Ricardo, Malthus, J. S. Mill, Marx, Marshall; then, turning to the American scene, he has this to say: "It was from Smith, Ricardo, Mill and Marshall that American ideas were derived. The ideas were written by Americans into the textbooks and enlarged and amended as to detail. *But in the last century not much was* *added by American theorists.*'' There were distinctly American figures, ''but compared with the majestic authortiy of the central tradition'' he says ''their influence was small.'' And who were these 'distinctly American figures' of little influence? They were three in number, of whom Henry Charles Carey (1793-1879), who ''voiced the buoyant optimism which one is obliged to think appropriate to the new republic'', he considered the most important.[5] The others ''did nothing to offset the presumption of privation and the sense of foreboding which lingered in the central tradition, but, on the contrary, did a good deal to accentuate it.'' Their names were Thorstein Veblen (1857-1929) and Henry George (1839-1897), both, in Galbraith's opinion, ''prophets of gloom more profound in some respects than Ricardo.'' George gets a page and a half of 'analysis' and Veblen three pages.

After quoting from the opening chapter of 'Progress and Poverty' the famous passage: ''Why, in a time of general advance, should so much labour be condemned to involuntary idleness . . .?'' Galbraith summaries George's answer thus: ''The reason for this perverse aspects of progress was again part of the infinite legacy of Ricardo. Labour and capital increased in productivity; the land supply remained constant in quality and amount. Rents, as a result increased more than proportionately and made the landlords the undeserved beneficiaries of advance. The anticipation of rent increases and attendant speculation in land values was also the cause of depression.'' It is worth noting, he continues, in parenthesis, ''that the 19th century was marked by recurrent outbreaks of real estate speculation, especially in the West, and that Henry George spent most of his life in California. Economic ideas, as ever, have their nexus with their environment.'' So might a glib first-year student of economics dispose of Henry George.

Two other men are mentioned as ''important figures of the latter decades of that century'' — Henry Demarest Lloyd and Edward Bellamy, ''whose conclusions were broadly similar — great inequality and great poverty were inevitable in the absence of great reform.'' Their words, he says, died with them, unlike, he admits, those of Henry George. He then goes on to discuss the essentials of Veblen's philosophy: ''Poverty, or more accurately both the moral and material debasement of man, was part of the system and would become worse with progress. There was an inescapable conflict between industry and business — between the excessive prevalence and efficiency of the machine industry and its deplorable tendency to over-produce and thus threaten the basic goal of business, which is to make money. In this conflict business always wins. Monopolistic restrictions are imposed where, on purely technical grounds, there could be abundance. This channels income to the owners. The public pays with relative impoverishment.''

But Veblen was more concerned with the cultural consequences. Industry degraded those engaged in it and undermined the ancient foundations of law and order. "Teachers influenced by Veblen" says Galbraith, "taught the doctrines of the central tradition but brought to it a disbelief, even a contempt for the notion that economic progress could much benefit the masses, or indeed that there was such a thing as 'economic progress'." Veblen's influence, it would seem was strong among American intellectuals up to the time of Roosevelt and his New Deal.

Galbraith's analysis of this 'central tradition' (traditional economic doctrines descended from Adam Smith, through Ricardo and Malthus, Mill and Marshall) is summarised in his conclusion that its central features were a profound pessimism and the concept of the market, both of which he attacks as *unrealistic;* which of course explains, in part at least, his writing-off of George. Incidentally, to describe George as a 'prophet of gloom' is merely to expose his deplorable ignorance of George's whole philosophy.*[6]

More importantly, for Galbraith's thesis, is the proposition upon which he bases his whole book: that far from production, in the United States he is examining, responding to the market in the manner of any normal body economic, the producers are busily engaged in *creating demand,* that is to say they have been telling people what they wanted, making them believe that this was what they wanted and then supplying the goods to satisfy their demands which, in turn, create new wants. By this process, Galbraith claims, the market concept has been superseded, and you have a kind of self-prepetuating production system which produces affluence, this material abundance, while the educational and cultural and other important services lauguish for want of the necessary funds.

One of the inevitable consequences of this concentration on production, he sees, is *inflation*. And the interesting thing is that he has a whole chapter on 'inflation' without uncovering its cause. This is his opening statement on the subject: "Through most of man's history the counterpart of war, civil disorder, famine, or other cosmic disaster, has been inflation. In recent times inflation has acquired new habits: it persists in periods of peace and high and rising prosperity. This tendency has been strongly manifest in the United States and especially in the decade and more following the Second World War. In these years the prices of a large range of industrial products moved steadily upwards. Steel prices, in the mid-fifties, were increasing at a rate sufficient to double their level every decade. In some years new high levels of living costs were posted month after month with monotonous regularity." He then discusses the reaction of businessmen and politicians to this phenomenon. All have warned at one time or another of the dangers of continued inflation. "Conservatives, anciently the self-designated custodians of 'the honest dollar' have continued to stress this tenet of their faith. Liberals have deplored failure to take effective action while proposing none themselves. Next only to the virtues of competition" says Galbraith, "there is nothing on which the conventional wisdom is more completely agreed than on the importance of stable prices. Yet, where inflation is concerned, nearly everyone finds it convenient to confine himself to conversation. All branches of the conventional wisdom are equally agreed on the undesirability of any remedies that are effective."

"However" he says, "there was never any equally dramatic assault on the older confidence that rising prices and inflation would cure themselves. Keynes led the attack on the conviction that depressions were self-correcting by picturing the possibility, indeed the probability, that the economy would find its equilibrium with an unspecified amount of unemployment. Dozens seized his point and sought to persuade the politicians and the public. The notion that, in peacetime, prices might as a normal thing rise continually and persistently has had no Keynes."

One could be drawn deeper into this Galbraithian analysis of inflation, which is as fascinating as it is question-begging and superficial. Suffice it to throw up a few Galbraithianisms to show how intriguing the man is in his hinting at solutions which, unfortunately, elude him. He speaks of "the common error in contemporary attitudes towards inflation: the almost inevitable temptation to regard increased production as a remedy for it." (What passes for economic wisdom in Australia continually harps on this idea.) Galbraith describes this hopeless proposition as a case of the cat chasing its own tail. Essential ingredients in this situation, he acknowledges, are conditions of privilege, of which oligopoly and protection are the chief features. But he fails to proceed from this to a condemnation of the system itself, a distortion of the true market situation. "In the inflation drama" he says, "it remains to introduce Hamlet" who, by common consent, he says is "the union — the instigator presumptive of that most familiar economic phenomenon, the wage-price spiral." Yet he says categorically: "price increase precedes and does not follow expansion of income."

Despite this, he is capable of such a solecism as this: *"In a free market, in an age of endemic inflation* — it is unquestionably more rewarding to be a speculator than a teacher, preacher or policeman." It is not unnatural, therefore, that instead of offering us a means of eliminating inflation, he offers "requirements for inflation control", one of which, he suggests, rather reluctantly one feels, is a "sufficently heavy reduction in the level of demand." On the other hand, he says: "It could be controlled *if something could be done* to arrest the interaction of wages, profits and prices."!

Galbraith then proceeds to examine the two popular methods then occupying — and still for that matter occupying — the arena of economic argument for 'containing' inflation: the 'monetary illusion', as he calls it, and 'fiscal policy' which, he reminds us, had the blessing of Keynes.

Having left us in the air, with no solution to the problem of inflation, Galbraith proceeds to discuss 'The Theory of Social Balance'. He begins the chapter with this statement: "The final problem of the productive society is what it produces. This manifests itself in an implacable tendency to provide an opulent supply of some things and a niggardly yield of others. This disparity carries to the point where it is a cause of social discomfort and social unhealth. The line which divides our area of wealth from our area of poverty is roughly that which divides privately produced and marketed goods and services, from publicly rendered services. Our wealth in the first is not only in startling contrast with the meagreness of the latter, but our wealth in privately produced goods is, to a marked degree, the cause of crisis in the supply of public services. For we have failed to see the importance, indeed the urgent need, of maintaining the balance between the two." A passage which could not have been better expressed by Marx himself.

A measure of Galbraith's peculiarly unscientific economic concepts is his use of sloppy, imprecise but 'original' terms. He talks of the 'private economy' as distinct from the 'public services', as he does of 'private production' indicating an acceptance of the phenomenon of 'nationalised industries' as a normal economic development. His preoccupation in this chapter is the attempt to arrive at a mechanism for bringing these two antagonistic sectors of the economy into harmony — 'social balance'. Incidentally, it is in this chapter that occurs the famous phrase "private opulence and public squalor" which has become a sort of slogan not, as one might expect, of the economists but of the town-planners. In this chapter, also, Galbraith himself wanders off into the domain of the sociologist and the town-planner. Here, also, we get perhaps the most succint statement of his credo that "demand is created by production", of which, incidentally, Keynes accused the classical economists. The idea of consumer sovereignty, according to Galbraith, "depends on the notion of independently determined consumer wants. But given the dependence effect — given that consumer wants are created by the process by which they are satisfied — the consumer makes no such choice. He is subject to the forces of advertising and emulation by which production creates its own demand. Advertising operates exclusively, and emulation mainly, on behalf of privately produced goods and services."[7]

We are offered two main mechanisms for restoring the 'Social Balance': a system of 'unemployment compensation' which equates with the movement of unemployment, that is to say when employment is high the rate of compensation is low and when unemployment figures rise the compensation rate rises with them. By which means the flow of purchasing power is maintained at a reasonably even level. The cost of this is borne, of course, by taxation, which Galbraith accepts without question as one of the fundamental pillars of the economy. Accepts to the point that his second mechanism for adjusting the 'social balance' is "a system of taxation which automatically makes a pro-rata share of increasing income available to public authority for public purposes." And his choice of tax for this special purpose is the local sales tax! (During a visit to Australia in September, 1973, he said, on this theme: "There had to be a willingness to use taxation, which he felt was the safest way to draw off surplus spending power."

Consistent, of course, with the author of *Economics and the Public Purpose*, in which he develops the thesis that 'economics is a branch of politics'.)

In Galbraith we have a man who has led the world to expect great things from him, and who undoubtedly has done much to shake the foundations of the conventional wisdom. His exposure of this generation's preoccupation with the hedonism of material production, and its down-grading of the needs of the mind and spirit, will prove to be his outstanding contribution to modern ideas. For the rest, if he makes men think more deeply about the economic basis of human society, this will be of no little value. But when one considers the man who propounded the only certain solution of the problems of poverty and inflation — the basic imbalance of society — Henry George, who by Galbraith was brushed aside as just another "prophet of gloom", it is hard to accord him the respect to which he is otherwise entitled.

As for his own solution, what does this amount to but an up-dated pseudo-socialism?

NOTES ON CHAPTER 5

1. The term 'affluent' is defined in the 1968 edition of the *Random House Dictionary of the English Language* as "(1) prosperous, wealthy; (2) abounding in anything, abundance; (3) conditioned by or based on prosperity or wealth — 'an affluent society'; (4) flowing freely. . ."
2. "To most people in the developing societies America symbolises the good life. Accordingly, the earnest discussion going on among thoughtful Americans on the great pockets of poverty that still exist in the U.S. were rather a surprise to me. But among the blacks, the Indians, the Spanish-Americans and the poor whites in Appalachia, a great many people in this wealthiest of nations still live in poverty. At least 30 million Americans, in fact, are classified as under-privileged or underdeveloped. That is almost as big as the population of the Philippines or Thailand — and bigger than the population of Malaysia or of many nations of Africa." Mocktar Lubis, editor and publisher of *Indonesia Raja*, writing in *Newsweek*, 15/10/73.
3. For a dissertation on this 'small minority' at the time, see Gabriel KOLKO's *Wealth and Power in America*: Thames & Hudson, London, 1962. (Five million were then unemployed.)
4. JAMES E. THOROLD ROGERS: *Six Centuries of Work and Wages*; 1885.
5. Henry George described Carey as 'the American Apostle of Protection' and exposed his confusion on the subject of 'capital'; see *Progress and Poverty*, Bk 1, chapter 2, p 35 (Schalkenbach ed. 1958).
6. George's dedication to *Progress and Poverty* is surely conclusive evidence of his deeply-held conviction that there was a better condition for mankind and that it could be realised: "To those who, seeing the vice and misery that spring from the unequal distribution of wealth and privilege, feel the possibility of a higher social state and would strive for its attainment."
7. ADAM SMITH, on the subject of inducements to buy: "Some (retailers) may sometimes decoy a weak customer to buy what he has no occasion for. This evil, however, is of too little importance to deserve the public attention . . . It is not the multitude of ale-houses, to give the most suspicious example, that occasions a general disposition to drunkenness . . . but that disposition arising from other causes necessarily gives employment to a multitude of ale-houses." *Wealth of Nations*, Vol. I, p 323, Everyman Ed.