

John Kenneth
GALBRAITH
ECONOMICS
& The Public Purpose

John Kenneth Galbraith

Economics

AND THE PUBLIC PURPOSE



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Once again for C.A.G. with love

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Foreword

THIS BOOK is in descent, the last in the line, from two earlier volumes — *The Affluent Society* and *The New Industrial State*. There are also some genes, though not many, from yet another volume — *American Capitalism*. The principal precursors each dealt with a part of the economic system; this one seeks to put it all together, to give the whole system. The earlier volumes were centrally concerned with the world of the great corporations — with the decisive part of the economy which the established or neoclassical economics has never ingested. There is also the world of the farmer, repairman, retailer, small manufacturer, plumber, television repairman, service station operator, medical practitioner, artist, actress, photographer and pornographer. Together these businesses supply about half of all we use or consume. This book seeks to bring them fully into the scene. In economics as in anatomy the whole is much more than the sum of the parts. This is certainly so when the parts are in support of each other or in conflict with each other or are otherwise shaped by the fact of their common existence. Also, a lesser point, the earlier books stopped at the water's edge. This one gives the first elements of the international system.

The New Industrial State pictures the world of the large corporation as the outgrowth of the neoclassical world of monopoly and oligopoly. At least by implication what was left behind was the world of the competitive market. That also I here correct; what is left behind is, in fact, something resembling the neoclassical admixture of entrepreneurial monopoly, oligopoly and competition. The consequence of so seeing matters is a better explanation of the behavior of the entrepreneurial firm and what I here call the market system. It shows, also, that the world of

the large corporation is something new — that it is a clear break with what is described by traditional doctrine.

The traditional economics assumes that economic institutions and the motivation of the people who comprise them change but slowly. As with physics or botany economic truth once established is largely immutable. This is agreeable but not so. Economic institutions change rather rapidly; the large corporation and its relations with the community and state are especially in flux. And with such change comes new information, new insight. In consequence the rate of obsolescence in economic knowledge is high. On many smaller matters such change and such information have nurtured a view that differs from that of the earlier volumes. And I must remind the reader, and more painfully myself, that on the present views time will also have its way.

There is also the disconcerting business, half euphoric, half depressant, of discovering what you did not see before. One such matter is central. Dominating this book as a drumbeat is the theme of unequal development and the associated inequality in income. The unequal development is unrelated to need; the inequality in income bears no necessary relation to productivity or efficiency. Both are the result of unequal deployment of power. Both are socially damaging. In the established economics these tendencies are mostly concealed and where not concealed are misconstrued. But I did not see them with sufficient clarity in the earlier books. In *The Affluent Society* I dealt with the starvation of the public services as though all services were alike. I did not see that this deprivation was great where public needs were involved, nonexistent where powerful industry pressed its requirements on the state. And perhaps partly because I was dealing only with the world of the large corporation, I did not identify adequately the systemic inequality in product and income as between different parts of the so-called private economy. Nor did I identify sufficiently the problem, unknown to orthodox economics but endemic to planning, of matching performance in related parts of the economy and the consequences of failure to do so. From this failure come blackouts and energy crises of which we will hear much more before we hear less.

This book also speaks in a somewhat different mood to a somewhat different audience. In recent years the ideas in the earlier books have won a certain measure of professional acceptance, especially among a younger generation of economists. It would be nice to think that this was the result of the logical force and clarity of the argument; more of my debt, alas, is to circumstance. In the earlier books I argued that the quality of our life would suffer from a single-minded concentration on the production of salable goods as a social goal; that the environment would be a casualty; that we would suffer especially from the disparate development of the services of the private economy and those of the state; and that some exceedingly somber problems were inherent in the growth of the power of the great private and public bureaucracies and their exercise of that power, including that over weaponry and other technical development, in their own interest. This bureaucratic power, not that classically associated with the sovereignty of the consumer, was now the decisive force in economic and political life.

The initial reaction to this argument, at a time when the prospect seemed more benign than now, was less than enthusiastic. Important economists, including many whose self-regard is widely shared, were sharply averse. They judged the traditional ideas to have survived intact. But events intervened, and with a force which I did not foresee. Problems inherent in my case — the decay of services and therewith of life in the great cities, pollution and environmental disharmony, the extravagances and dangers of the weapons culture, the seeming indifference to the public will of the great corporations — became ever more visible and the staple subjects of oratory and, on occasion, even of action. For being right, one may perhaps conclude, it is better to have the support of events than of the higher scholarship.

The notion that power in the modern economy lies increasingly with the great organizations and increasingly less with the supposedly sovereign consumer and citizen has also been making its way into the textbooks. Something here is owing to a vac-

uum. In recent years there has been a rapidly growing discontent with the established or neoclassical model of economic and political life. The way was open for an alternative. Still the inertial forces are great. The textbook writer is naturally a cautious fellow. Like liberal candidates for public office he must always have one eye for what is reputable and salable as distinct from what is true. And, as these pages will sufficiently emphasize, economics is not primarily an expository science; it also serves the controlling economic interest. It cultivates the beliefs and therewith the behavior that such interest requires. I would like to see economic instruction reflect the current reality. And it should be no part of its purpose to propagate the convenient belief. In writing this book, I have had the general reader in view. But I've also had the emancipation of the student from the textbook very much in mind.

Not that one can escape entirely from the textbook. Economics now brings its communicants to conclusions that are convenient for the great corporation but painful for the society. But the economic concepts and institutions that are explained by the textbooks — capital, rent, Gross National Product, index numbers, money supply, income tax, the capital market, the purposes of the Federal Reserve System — are essential knowledge. So is the capacity to visualize an economic system, provided always that one does not become a captive of a particular image. So we must still have textbooks — though hopefully we will not always have their present view of the economic system. And we must not be limited to the textbooks.

Perhaps it should be added that we must also still have diligence. In recent times the politically emancipated, or those who so regard themselves, have tended to identify difficult matters with the obscurantism of the Establishment. Study is a tedious disguise for wickedness, a way of diverting people from the simple disconcerting truth. This does not arouse my sympathy. It would not, the more radical may be reminded, have aroused the sympathy of Marx, for his was a notably demanding intellectual tradition. It is one thing to liberate man from physical toil. To exempt him from mental effort is premature.

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As noted, this book seeks to bring the market sector of the economy and therewith the whole economic system into focus. But if we are to see the whole, the highly organized sector with which I dealt in *The New Industrial State* must also be here. In consequence some chapters go over ground covered in the earlier book. Such repetition rightly arouses suspicion — few things are more tempting to a writer than to repeat, admiringly, what he has said before. Yet there was no alternative. Pleas to the reader to go back to an earlier book are poorly obeyed. However, I've greatly abbreviated the previous argument and, as noted, also altered the tone. Before, I was seeking to establish a bridgehead in existing belief. This, unless I am greatly mistaken, has now, at least partly, been won. Accordingly, where the earlier book argued (and in some degree shamed or cajoled), this one assumes a receptive audience and explains.

Once I considered publishing the part of this book dealing with the theory of reform as a separate volume. (For better or for worse I am a reformer and not a revolutionist.) It is a terrible and sobering fact that the first part of any book, and especially one on economics, is likely to be better read than the last. But I could not have two books without prefacing the second with a detailed and repetitious summary of the first. This would have been a heavy trial for the reader and a dubious enjoyment for the writer. (I recapitulate at intervals in this volume not for pleasure but because such reminder is recurrently necessary if the further argument is to be persuasive.) Had there been two books, moreover, I would have had to end the first with a request to the reader to buy another. Again one doubts the response. So there is only one book. But I beg the reader not to give up after the first twenty or so chapters. It is then that the book gets on to the questions of what to do. By these I set much store. For on no conclusion is this book more clear: Left to themselves, economic forces do not work out for the best except perhaps for the powerful.

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ONE

THE FOREST

The Uses of an Economic System — and of Economics

THE PURPOSE of an economic system would seem, at first glance, to be reasonably evident, and it is commonly so regarded. Its purpose is to provide the goods and render the services that people want. In the absence of such a system — one that grows food, processes, packages and distributes it, manufactures cloth and makes clothing, constructs houses, furnishes them, supplies educational and medical services, provides law and order, arranges the common defense — life would be difficult. Thus the function. The best economic system is the one that supplies the most of what people most want.

Though greatly celebrated in the textbooks this is rather too simple a view. Over the last hundred years numerous economic tasks have come to be performed by organizations — by industrial corporations, electric utilities, airlines, merchandising chains, banks, television networks, public bureaucracies. Some of these organizations are very large; as few would doubt, they have power, which is to say they can command the efforts of individuals and the state. They command these, most will agree, for their own purposes, these being the purposes of those who participate through membership or ownership in the enterprise. Perhaps by some miracle of accident or design these purposes are usually the same as those of the public. In the absence of such miracle or arrangement it is, not surprisingly, the purposes of organization, not those of the public, which are served.

So viewed, the function of the economic system is no longer simple — at least for anyone wishing to see the reality of things. Partly the economic system serves the individual. But partly it

is now seen to serve the needs of its own organizations. General Motors exists to serve the public. But General Motors also serves itself as well or instead. Not many will find such a proposition radically in conflict with common sense. To quite a few it will seem trite. It is only remarkable in being at odds with the main thrust of economics as it is traditionally taught. A shrewder view does, in fact, accept what is trite. It seeks to identify the interests the great organizations pursue, how they conduct the pursuit and with what effect on the public.

2

With a revised view of the purpose of the economic system goes a revised view of the purpose of economics. So long as the economic system is imagined to be in the ultimate service of the individual — to be subordinate to his needs and wishes — it can be supposed that the function of economics is to explain the process by which the individual is served. Economists, like other scholars, cherish definitions of their subject which convey a sense of profound and universal meaning. The most famous of these states economics to be “the science which studies human behavior as a relationship between ends and scarce means which have alternative uses.”¹ The most influential teacher of our time puts it a trifle more simply: “How . . . we choose to use scarce productive resources with alternative uses, to meet prescribed ends . . .”²

These definitions will seem admirably forthright. People are making decisions on what they will have; firms are deciding how these decisions can best be served. Economics studies the behavior of people so engaged. It is a science because it has no purpose except to understand that behavior.

But if it is assumed that the organizations that participate in this process have power — that it is their purposes that are served and that people are bent to these purposes — even the minimally alert must ask: Is it not possible that economics also

¹ Lionel Robbins, *An Essay on the Nature and Significance of Economic Science*, 2d ed. (London: Macmillan, 1935), p. 16.

² Paul A. Samuelson, *Economics*, 8th ed. (New York: McGraw-Hill, 1970), p. 13.

serves the purposes of organization? Organizations have power. Will they be without influence on the subject which deals with them and that exercise of power? Could the definitions just offered be a cover for that power?

People are right to ask. Economics provides them with their image of economic society. That image notably affects their behavior — and how they regard the organizations that comprise the economic system. If the image provided by economics makes goods or the capital, labor and materials by which they are produced scarce, it is because goods are important — the fulcrum on which well-being and happiness depend. The process by which goods are made becomes, thus, a matter of prime social urgency. Great importance will be attached to the organizations that produce goods, and much prestige will accrue to those who manage and lead these organizations. The burden of proof will be heavily on any action — any regulatory action by the government, any tax, any work rule of a union — that seems to interfere with production or which those concerned say will so interfere.

The imagery of choice has a yet more important effect. It means that this choosing — the decision to purchase this product, reject that — is what, when aggregated, controls the economic system. And if choice by the public is the source of power, the organizations that comprise the economic system cannot have power. They are merely instruments in the ultimate service of that choice. Perhaps the oldest and certainly the wisest strategy for the exercise of power is to deny that it is possessed. Monarchs, including the most inimical of despots, long pictured themselves as the mere projection of divine will. This the established religion then affirmed. It followed that their behavior, however scandalous, expensive and damaging to health, life, livelihood or common decency, could not be questioned, at least by the true believer. It was in the service of higher will. The modern politician perpetuates the same instinct when he explains, however unconvincingly, that he is only the instrument of his constituents, the expression not of his own preferences but of the public good.

Though avowedly more secular, economics and particularly