reviewed by ALAN REYNOLDS

Irrelevant Anachronism

Economics and the Public Purpose, by John Kenneth Galbraith. New York: Houghton Mifflin, 1973. 334 pp., $10.

ROBERT Lekachman, the other member of the Galbraithian School, once complained about "The Conservative Drift in Modern Economics" in *Dissent*, a journal of comfortable socialism. "Among economists," Lekachman observed, "Galbraith is generally held to be an excellent polemicist and a superior writer but a poor technician." Yet Galbraith himself would have us believe that (a) the "drift" is toward his ideas, and (b) his unpopularity among economists is simply due to the stubborn conformity of the profession, and to its subservience to corporate interests. A more plausible explanation of Galbraith's professional disrepute is his disdain for inconvenient factual evidence ("those dreary studies," he once confessed, "that I have not read"), and his immodest habit of simply ignoring scholars whose ideas contradict the revealed faith.

Galbraith is a master of the art of intimidation: His diverse critics are rarely answered within his books. They are simply dismissed—Marxists, Keynesians and Friedmanites—as "orthodox" or "conventional." Yet, it is Galbraith, not his critics, who is defending antiquated ideas. Thorstein Veblen, R. H. Tawney, Adolph Berle, and Gardiner Means, Joseph Schumpeter, and John Maynard Keynes, had completed the essentials of Galbraith's themes before World War II, and done a better job of it. But they weren't new ideas even then, and despite what a British Marxist, Ralph Miliband, aptly described as Galbraith's "self-conscious *enfant terrible* posturings" they haven't gotten any newer since.

Galbraith argues that companies become ever-larger in order to provide greater numbers of secure and lucrative positions for the specialists, who really make the decisions. Since such technocrats are similarly motivated within all large institutions, the distinction between "public" and "private" becomes blurred. That "half" of the economy which is allegedly dominated by large firms is dubbed "the planning sector" because its firms manipulate markets (by advertising and price-fixing) and politics (by campaign contributions and lobbying). Such planning is socially valuable, says Galbraith, because it permits long-range technological development, but its vast powers must be brought under political control by the educational and scientific elite. "Neoclassical" economists, according to Galbraith, unwittingly serve the planning sector by pretending it does not exist. Small firms in the market sector, and their employees, are at a tremendous disadvantage relative to the planning sector, and must be helped by the state to emulate the powers of giant corporations.

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THAT Galbraith criticizes as "neoclassical" economics is in reality a caricature of neo-Keynesian liberalism "as it is traditionally taught"—*e.g.*, Paul Samuelson's oppressively catechismical text. Galbraith explicitly says, "the belief required by the planning system is achieved in the name of liberalism." Thus: "The firm in the neoclassical model is also assumed to be fully subordinate to the state. The economic management of the state is responsive to the needs of the public as a whole and not of the business firm." And: "Defenders of the neoclassical orthodoxy have been persuaded of the importance of the small firm to their system." Libertarian economists hold no such naive view of the innocence of state intervention, nor do they hold the Naderite view of competition as synonymous with small firms. Free market economists don't believe that information is free, or that consumers care *only* about price—so they have no trouble explaining advertising and other nonprice competition. The only forms of nonprice competition that are clearly wasteful are in industries where price competition is banned by law—banking, airlines, stock brokerage, etc. Yet, what Galbraith demands under the rubric of a "socialist imperative" portends much more of this sort of waste, and more incentive for deceptive advertising—by politicians. The rest of Galbraith's complaints about the neo-classical model are too archaic to be taken seriously: *e.g.*, "nothing is so important as the consumption of goods" or "the separation of ownership from control involves a sharp challenge to the assumption of profit maximization" (stockholders can't shift funds to firms and managers who maximize profits?).

Galbraith is certainly right to expect that (to the extent that we abandon *laissez faire*) the state will be in the service of monopoly. But he glosses over the areas where such power is demonstrably most significant: Government-enforced cartelization of transportation and communication, occupational licensing, labor legislation, bank and securities regulations, patents, import quotas, "fair trade" laws, and myriad subsidies. Many of these private uses of public authority are in industries characterized by many firms (trucking, farming) or in industries subject to exactly the sort of regulation or quasi-nationalization that Galbraith favors (stock brokerage, banking). Congress passed these laws. It is simply utopian of Galbraith to assert that "the legislature . . . is the natural voice of the public purpose against the technocratic purpose."

The old trick of blaming the vices of half-socialized industries on the non-socialized half—*e.g.*, the regulated natural gas industry's "failure" to keep up with the unregulated producers of gas ranges and furnaces—is none too convincing. If existing government economic powers are typically abused, and the worthwhile portion of tax-supported services are chronically underfed, doesn't it follow that we should consider returning more politicized decisions to the realm of private choice? Whatever power a firm may have over politics is of importance only to the degree that government intervenes in economic contracts. And the services that Galbraith arbitrarily categorizes as "public" are deficient precisely because they have been consigned to the public sector, with its inherent lack of responsiveness and inability to cater to subtle variations in demand.

Galbraith is aware that "collective efforts at market control are numerous and frequently invoke the assistance or initiative of the state," and that "regulatory agencies tend to become the instruments, even the puppets, of the industries they are supposed to regulate." Far from deploring this, however, Galbraith thinks it ought to be universal—that the whole economy ought to run on the model of the Post Office, and that failing firms and individuals ought to be bailed-out, or propped-up, a la Lockheed or Penn Central. Where it isn't already doing so, Galbraith wants the government to: (1) "stabilize prices and production and regulate entry into the business," (2) provide "direct government regulation of prices and

production," (3) provide "strong and effective encouragement to trade union organization," (4) use the minimum wage "aggressively," without regard to the survival of small firms, thus "forcing those who patronize the market system to pay the full price for the product" (or do without), (5) protect any remaining small firms from international competition "by official action or a tariff," and (6) provide small firms with research and technical support, capital and qualified talent. . . ."

True, many will be unemployed as a result of all this—"kept out because they are no longer allowed to offer their services at a lower rate." But they will receive a guaranteed income "as a matter of right" at a level "modestly below what can be earned in the planning system." (he hints at $5,000 a year). Might as well be generous with the money (the Fed can always print more), since with such a policy of discouraging work there won't be any goodies around to buy with it.

The whole thing sounds very much like Roosevelt's N.I.R.A., Mussolini's syndicates, or the medieval guilds. Galbraith has emerged as the supreme spokesman for the special interests. As producers and workers, we all want our own goods or services to be scarce and, therefore, *relatively* costly. But a policy of raising incomes *generally* through contrived scarcity and high prices, confuses relative money income with total real income. We can all have more goods and services only if more are produced. Redistributing the existing stock of, say, housing and furniture would not provide any more housing and furniture. And the resulting disincentives to work and save would decrease the flow of future production.

Surrealism

DESPITE Galbraith's constant reassurances that "realism" is on his side, there are ample grounds for doubt: Does history present any reason to believe that any government can be "emancipated" from special interests? Is it plausible that higher incomes are mainly due to the sheer luck of falling into the planning system rather than to effort and ability? Can one believe that corporate hierarchy (Henry Ford, Harold Geneen) doesn't really manage at all, but merely blesses the decisions of lowly technocrats? Is persuasion (advertising) rather than force (taxes, prisons) really "the basic instrument for the exercise of power"? Can corporate directors (themselves substantial stockholders) really pursue growth at the expense of profits without investors shifting their money elsewhere? How can the technostructure seek only "to secure a *minimum* level of earnings," and yet consistently earn more than the profit-maximizing market economy? Does anyone still believe that if we simply controlled the prices of a few industrial corporations (prices that have lagged behind the average for decades), there would be no troublesome price increases in unconcentrated industries, such as soybeans, hospitals, used cars, fashions, lumber, land, and leather? Is there any evidence that the Federal Reserve has the power simply to "set" interest rates "on the low side" without causing inflation and thus adding an inflationary premium to real rates? Would small businessmen continue to "exploit" themselves for the sake of "social virtue" if, as Galbraith's definition of exploitation implies, they could do better elsewhere? All this, and more, the reader is asked to swallow on faith.

Not that the stuff isn't beguiling. And, like any rationale for expanding government favoritism, it sells ("Economics," Galbraith confides, "is not primarily an expository science, it also serves the controlling economic interest"). It is terribly easy to drift from the truism that businessmen "plan" (*e.g.*, conduct market research) to the unsupported confusion that such competing plans are comparable to socialist plans in being able to defy or manipulate markets. Or . . . from the commonplace that advertisers inform people of wants they never knew they had to the *non sequitur* that such wants are any less real or less important than others. Or . . . from the tautology that big

institutions are more powerful than small ones to the inanity that only the power of the single firm really counts (one farmer) rather than the power of industries (farm subsidies). Or . . . from the unstartling observation that there are more cans of deodorant produced than houses (which are somewhat more costly) to the strange implication that this is because housing isn't advertised.

Following the Fads

GALBRAITH displays his own vulnerability to crass commercialism in his timely conversion to feminism: "Menially employed servants were available only to a minority of the pre-industrial population; the servant-wife is available, democratically, to almost the entire male population." The historical comparison is, of course, absurd. It implies that most women in pre-industrial households did not do servile work. The notion is also difficult to reconcile with the dramatic increase in employment of working wives. Actually, expansion of women's opportunities and choices would never have been possible without the economic growth and labor-saving gadgets that Galbraith abhors.

In imposing his criteria of how others ought to live, Galbraith imagines "a family which sets an income target as its goal; which has a husband and wife share in the provision of that minimum . . ." Among more-ambitious families, the usual "target" is to attain some fraction of Galbraith's income, and to thereby give our wives the freedom to decide whether they would rather work outside or within the home, rather than to have the "choice" of outside work imposed by circumstances.

Anyone who attacks Galbraith had better be skilled in hitting moving targets—he's slippery. The complacent standpatism of "Countervailing power" doesn't sell any more, so Galbraith dropped it. Nor is there much demand this year for books decrying our excessive wealth, claiming that government is undernourished, that education can solve all problems, and that regressive taxes are the best kind. (Galbraith's idea of a "radical" notion, in the *Affluent Society*, was to increase sales taxes to finance grandiose public buildings, subsidize the fine arts, and provide cheap doctorate degrees for rich kids). "Economic institutions change rather rapidly," Galbraith explains. "In consequence the rate of obsolescence in economic knowledge is high." Sure. That must be it.

A Reader's Guide

TWO recent books—Myron Sharpe's *John Kenneth Galbraith and the Lower Economics*, and Charles Hession's *John Kenneth Galbraith and His Critics*—map some potential pitfalls for the uninitiated:

(1) Galbraith, in Sharpe's phrase, "hedges." "The average reader," explains Hession, "is likely to be impressed with the first strong, affirmative statements and miss the significance of the qualifications."

(2) Galbraith sets-up false dichotomies: Either the consumers are sovereign or the producers are; "either the largest corporations are an extension of the state and part of one unified planning system," adds Sharpe, "or they are not."

(3) Galbraith ignores contrary evidence: "One is puzzled," writes Hession, "that he did not see fit to consider at least Professor Bain's empirical work. . . . There are also other books and journal articles that are relevant to his hypothesis. Telser, for example, in a much-cited 1964 article, reached a conclusion that runs contrary to Galbraith's reasoning about advertising."

Counting the Horse's Teeth

MOST of Galbraith's generalizations are significantly qualified (if not subverted) in footnotes and brief asides, leaving little in the way of firm, testable propositions about the primacy of technology, the malleability of consumers, or whatever. Nonetheless, it is instructive to compare the theory with the facts whenever possible.

If the industrialized "planning" sector

has a tremendous advantage over the non-industrialized "market" sector, as Galbraith claims, then the share of national income going to the most industrialized sector must surely be rising. Yet the share is actually falling rapidly. Manufacturing, transportation, communication and utility industries produced 38.5 per cent of national income in 1950, and 34.5 per cent in 1970. (Galbraith calls this "the lion's share of the consumers' goods and services"). This should come as no surprise, since the supposedly "subordinate" market sector include such notoriously deprived souls as doctors, lawyers, construction workers, Texas cattlemen, owners of TV stations, and local bankers. But Galbraith has hedged here too by saying, "development in the market system will be inferior to that in the organized sector of the economy. But this could be in relation to a need for development that is much in excess of that in the planning sector." That is, the notion of "inferior" development is applicable only to some subjective notion of what *ought* to be developing at a *relatively* faster pace.

Galbraith attributes remarkable powers to advertising, especially in increasing sales and at the expense of profits. The technostructure, it will be recalled, supposedly prefers growth stability to profits. Yet Professor Harold Demsetz of U.C.L.A. studied seventy firms and found that those with the highest ratio of advertising to sales ranked *lowest* in sales gains relative to profit rates and were no more stable than other firms. Other indices of technostructure-orientation showed no correlation with the degree to which firms realized large sales gains relative to profits. In short, technostructures, if they have any real power, do not behave the way Galbraith says they do.

On those rare occasions when Galbraith does provide evidence, it is of the selective and deceptive sort made famous by Nader's "reports." He drags up the old red herring of aggregate concentration: "The largest 200 (firms) are now estimated to control nearly two-thirds of the assets of all companies engaged in manufacturing." But the "largest 200" differ each year, and also differ depending on whether they are ranked by sales, profits, value-added, employment or assets. Polemicists like assets because they can sneak international and financial assets (*e.g.*, ITT's insurance company premiums) into an alleged measure of domestic "manufacturing." Even if the "top 200" were the same firms from year to year, and if inflation didn't bloat their assets, their share would probably increase—because manufacturing commands a smaller share of GNP each year (currently under 25%—about the same as health, education and welfare). In any case, the share of the "top 200" tells us nothing about how many choices consumers have in each particular market.

Galbraith's armchair reflections would lead one to expect that used car lots don't advertise, that farmers have no political influence, that corporate managers are downright underprivileged ("their fruits go to the owners"), and that "no important technical development of recent times . . . is the product of the individual inventor in the market system." None of this is true, of course, but though the list were expanded by a thousand it would not shake the faithful. Each factual error would be considered merely an exception to the rule, or a misinterpretation, and Galbraith's arguments would be salvaged with some *ad hoc* excuse or another. Such is the strength of the will to believe, and the weakness of training in the rules of logic and empirical investigation.