

FEW IDEAS INSPIRED BY J. K. GALBRAITH

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Abstract

The beginning of the 21st century seems to be challenging period for economics. The so called "financial bubble" which caused the deepest fall of worldwide economy in many decades is seen a new latent threat for future. Surprisingly, main stream economics responds to it superficially, it obviously does not perceive connection between the two "challenges" and does not accepted the J.K. Galbraith claim that technological progress is the bases for economic and social change.

From my point of view presented in this paper, the "challenges" are apparent. In fact, it is only the culmination of the process that begun in the late 1930s in the U.S.A. and approximately twenty years later in developed part of Europe and that J.K. Galbraith would call the affluently society. Since people have been living in the society where to create needs is the only means of achieving growth of wealth which is still an ultimate measure of progress. We live under the dictatorship of consumption and economic growth driven by multinational corporations. Right now, at the moment when we hit the boundaries of this stereotype, the Galbraith's visions, especially his concept of forced consumption and post-industrial society, can be very inspiring.

Key words: J.K. Galbraith, conventional wisdom, power, technostructure, new class

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Introduction

John Kenneth Galbraith is a distinct figure in the field of economic theory not only due to his height (over 2 meters), but namely for his unique approach to the subject of economics. His undeniable advantage was that in parallel with his lifelong academic career he was a man of many other faces and professions. (Hodgson)

He was not interested in economic models and the insisted that spending the time modelling in the conditions of perfect competition draws the attention away from the true economic

problems - the issues of power and political interests which drive the economy and society (Sirůček).

The Economist in its Galbraith obituary at 2006 used an Amartya Sen's, the Indian economist, note: "Reading Galbraith is like reading Hamlet. You realise where (all the quotations) came from". I had had the very feeling when I had got hold of a thin book of his named *Affluent Society* in the 1980's and I still feel it nowadays, as I consider his opinions and ideas as inspirational for my economic thinking as they were back then.

1 The instrumental function of neoclassical economics

Galbraith is often classified as an institutionalist or postkeynesian (Kesting), even though he personally had no desire to belong anywhere. What he undoubtedly has in common with the institutionalists, is his radical refusal of neoclassical approach.

However, the reasons of their refusal are specific. Unlike the other heterodox economists, Galbraith does not focus on the unreality of the assumptions rationality in his criticism of the neoclassical theory. He attributes an "instrumental function" to neoclassical economics. This instrumental function of the economics is neither a conspiracy, nor an evil intention, but rather a by-product of the history of economic thinking. The economic theory sprang up in the time when the economy was based on the competition of small businesses and the later implementation of the oligopoly model meant only mechanical transfer of the competing model to the behaviour of large corporations in Galbraith's opinion. The conditions only shift slightly while the essence remains the same. From the neoclassical theory point of view, a monopoly in the form of a single company in the field of business is such a strange and exceptional phenomenon that it is not worth any attention at all. (Galbraith,1952)

The neoclassical theory still clings to the original model of competition despite the fact that the real economics has changed fundamentally. Hundreds of thousands of students are exposed to its instrumental function to whom an inaccurate but still widely used set of ideas is instilled. The neoclassical model gives a description of a calm and peaceful life in which the market provides equity, thus drawing the attention away from any unpleasant activities and circumstances. The economists are thus taught to agree with something they would probably criticise otherwise and the instrumental function of economics thus serves those who hold the power. (We have to remark that the recency of these statements is extraordinary in the Czech reality of recent years.)

Another advantage of neoclassical economics is that it can theoretically be endlessly improved. With the growing complexity of the neoclassical models there is an impression of an increased precision and scientific background while the content remains unchanged.

The instrumental function of the neoclassical economics, as implies from the above, has evolved in connection with the economic changes to which the theory failed to react. Galbraith based his argumentation on the original neoclassics, as well as classical economics and Marx in the context of the period in which their theories were created. He, for instance, uses the marginal utility theory for his argumentation (see further).

The instrumental function of economics is actually included in the "conventional wisdom" previously defined by Galbraith (SH). According to him, conventional wisdom is a set of generally acceptable ideas and principles arguing the given condition. The conventional wisdom takes advantage of the fact that economics as a social science offers very few possibilities to verify what is really true and what is not; that the reality is no longer the criterion of truth and it is replaced with the acceptability of individual statements. One part of acceptability is understanding and people best understand things they have already learned. What they know is a sort of religion for them. The society clings to the conventional wisdom despite the changes taking place all around. According to Galbraith, conventional wisdom includes for example statements about free enterprise, the necessity to have a balanced state budget and, most of all, economic growth as a condition for the success of the economics.

2 The Free Market Religion

As has already been said, the system of free competition plays a fundamental role in the traditional economics. The honest ones compete against each other, sell and purchase for prices that are not influenced by anything else than offer and demand. The capable ones emerge from the market competition with a reward in the form of profit, the incapable ones are punished with bankruptcy.

Since the end of 19th century when the classical "iron law of wages" used in the economic theory was replaced with the marginal productivity theory, this system has been just to the employees, as well. They participate in the rewards and punishments of their employers through their equitable remuneration for the work done, concurrently solving the disturbing problem of the classical economics in the form of insufficient purchasing power to meet the growing productivity of manufacturing plants. In the neoclassical model, the market ensures fairness and symmetry of the market power, effectiveness and prosperity (Galbraith, 1952).

The Free market model resembles a fairy tale, unless we realise that, contrary to the fairy-tale one, the market fairness is blind, that an able and hard-working employee can be employed by an incapable entrepreneur, but mainly that in the neoclassical model, the revenue is rather a reward for being in the right place (i.e. market with growing demand) at the right time, rather than a reward for being capable and honest.

Moreover, this "fairy-tale" is associated with a great amount of uncertainty which the original neoclassical model ignores completely and later starts to perceive the uncertainty as a positive "driving force" and necessity of the economic system. The uncertainty of the textbook model of free market is substantially greater than anything that could be created through competition in real life where it would be limited by habits, monopolies, the trade union, stiffness, lawmaking and even pity to certain amount.

The clinging to the uncertainty can be considered one of the greatest errors of the conventional wisdom, mainly, as Galbraith remarks ironically, due to the fact that it is proclaimed by professors appointed for life, which they consider a prerequisite for their prolific research. The idea that economic uncertainty is a prerequisite for efficiency was a great - probably even the greatest - error in the whole history of economic thinking. (Galbraith,1967)

Regardless, whether the economic model ignores uncertainty or considers it natural and fundamental part of competition completely ignores the participant's attitude to uncertainty. A human being perceives uncertainty as unwanted and, contrary to the neoclassical market subject, it would do anything to protect him/herself against it. The first pioneers in the fight against uncertainty were business companies that saw its source in the prices and their unpredictable development. Monopoly and complete control over the offer are their aim and the final certainty in their effort to achieve control over the prices. A partial target on their way is then a situation when mutual dependency is acknowledged and respected in industry fields with a small number of companies and individual companies resolutely avoid such price policy that would increase the uncertainty of all. (Galbraith,1983).

This process of limiting uncertainty in the real American economy accelerated after the Great depression. The consequences of the Great depression led, among other things, to massive concentration of wealth and the establishment of the first gigantic corporations and subsequently, in the terminology of Marx who had predicted and described the process, to greater power of the financial oligarchy.

In the real development of the economics there is a demonstrable effort to eliminate the uncertainty both at micro- and macroscopic level in this period. On the microscopic level it

takes place away from the public eyes in a way that the management of corporations includes bonding of economic and political power, planning and management, pricing, founding of trade unions and negotiating with them. On the macroscopic level it is the inclination to the Keynesian economics.

In fact, the actual economics distinctly moves further away from the one described in the free market model. The corporations are getting bigger with more and more power being given to the managers - "technostructure" (Galbraith,1983). The process finally leads to the situation when a very small number of gigantic corporations, internally managed and free of uncertainty are responsible for a significant part of industrial activity.

Galbraith is no dogmatic; he draws attention to the fact that the corporate structure is heterogeneous, individual corporations differ greatly and conditions similar to free market model still exist in some fields. However, the corporate system based on the power of technostructure is the dominant pattern.

Galbraith attributes the key role in the creation and evolution of corporate economics to technostructure. With the concentration of capital the owner disappears from the production process; they become a passive stockholder and have no influence on the company activity. (Galbraith,1991) The corporations are managed by managers who endeavour after the company growth. Beside the reason mentioned above, i.e. ensuring certainty, there is probably even more important reason for concentration - the managers' lust for power.

According to the conventional wisdom, the concentration of production and reduction of competition should lead to backwardness and decline of efficiency. At this very moment it surprisingly (from the traditional economics point of view) shows that the planning system becomes the bearer of innovation and technical advancement and that the link between the concentration rate and the innovation rate is undeniable. The work productivity in the USA started to grow rapidly in connection to the transition of the economics into the corporative model. It has turned out that the proclaimed discrepancy between certainty and progress does not exist. According to Galbraith and in direct contradiction with the conventional wisdom, high amount of economic certainty is necessary for achieving maximum production. High level of production is concurrently a necessary prerequisite of economic certainty (Galbraith,1967). While in the past, when the growing production constituted a fundamental prerequisite for improving the life of the company, the focus of economists was divided between uncertainty and inequality, productivity and production arising thereof, now, in the period of prosperity, production and its growth remains the only central problem of conventional wisdom.

The importance of the growth of productivity and production is substantiated with a doubtful psychology of needs and even more doubtful psychology of national interest (Galbraith,1967). (at this point it is advisable to add another comment about the growing topicality of Galbraith's claims. In the recent years even innovations which were perceived as a mostly technological problem have become common subject of research by economists. (Soukup, Scholleová-Nečadová)

3 The offer determines the demand

As has already been said, intensive orientation of conventional wisdom on the production and its growth is substantiated by the psychology of needs. If neoclassical theory of marginal utility is a part of the conventional wisdom, its validity should lead to the conclusion that the growing volume of production leads to the satisfaction of needs, the needs become less urgent and the importance of production declines in the consequence thereof. Although we insist on the marginal utility theory, we do not acknowledge the declining importance of production. On the contrary, all economists' efforts and economic education spin around production. The production has a central position; the whole pedagogy and nearly all research focus on it. The growth of production is still unambiguously considered the main indicator of economic development. (Galbraith,1991)

According to Galbraith, the problem of production actually stopped being topical about a hundred years ago, namely at the end of 19th century when, after thousands of years of labour force being pauperized (in the sense of classical economics where wage constitutes the coverage of labour force reproduction cost and each salary increase leads to the increase of population), the labour force also becomes a consumer. The life of labour force is no longer so unbearable, its consumption is greater than absolutely necessary and free time becomes part of its life. This fact naturally comes as the reflection of the growing labour productivity and impending lack of purchasing power which even Smith dreaded. The neoclassical theory explains the new position of labour force, as has already been said, through the law of marginal productivity and free competition on the labour market which ensures fair remuneration based on the work carried out and which has a motivating character. The essential needs have been met.

Galbraith finds the idea of creating needs at Keynes who classifies the needs as absolute, spontaneously felt and relative, created by the surroundings, whereas the created ones are insatiable. Production has decisive share in the creation of needs, which, according to

Galbraith, nobody can contradict and majority of conventional economists concede it (Galbraith,1967). In contrast to the neoclassical theory which explains the effect of fashion and snobbish consumption through mutual interaction of consumers, Galbraith says that the pressure on the consumer is created by corporations and entirely for the sake of their interests, namely their growth and reduction of uncertainty. An influenced consumer consumes more and he/she is less unpredictable than the uninfluenced one. Persuasion of consumers is carried out through two basic methods: through the creation of social standards - consumption is the symbol of the standard of living - and through commercials and sales support. (Galbraith,1982a)

The quicker the productivity and production grow, the bigger and more powerful the corporations get, the wealthier the society is, the more the needs are created in the production process. (Galbraith,1967)

Galbraith considers creation and deepening of the discrepancy between excessive production of private assets on the one side and insufficient development of the public sector on the other side the key consequence of the fact that the demand is defined by the needs of corporations. He considers Los Angeles a laboratory of social imbalance between the consumption of private and public assets. Even though it might seem that the preferences between the private and social consumption is the consumer's choice, it is clear that the commercials explicitly aim at the private consumption and persuade the consumers to increase the consumption of beer rather than at the necessity to improve the quality of public schools; the car in which the consumer is driving is a part of the social prestige unlike the condition of the road on which they are driving. The consequences of social changes thus include not only the fact that people are dying of obesity rather than hunger but also the condition of public assets. (we have to remark that this problem is specifically American from the developed Europe point of view but even those Galbraith's words are still valid. Education and healthcare are the most expensive and least available assets in one of the richest countries in the world which considers itself the hegemon of the global development).

4 New society, new class

Despite the conventional wisdom, a clear tendency to shorten the working hours started to manifest itself in the American society in the second half of 20th century. According to Galbraith, this fact cannot be explained in any other way than by the fact that the opinion that the marginal need of goods was declining had been accepted in silence but without any doubt.

However, production has gained so much control over our thinking that the conventional wisdom refuses to accept what is happening in the real world. The importance and benefits of free time are highlighted but it is almost never said that free time should replace material consumption of goods which are not important.

The affluent society brings the shortening of working hours, making work more pleasant, reducing the number of employed namely as regards the overaged and the very young at the expense of pension and extension of studies.

Free time, education and increase in the quality of life are terms which the conventional wisdom naturally knows and uses but which it stubbornly refuses to accept as a target. What is more, they are considered undesirable. For the conventional wisdom, investments into material assets are the driving force of progress, as they are the direct source of the product. The product and means of its increase can be measured and are tangible. What can be measured, is better. The talks that more and more people who have been spending their lives in classical hard labour should have the possibility to spend most of their lives pleasantly, are not so precise in the terms of quantity.

Another dogma of the conventional wisdom is the perception of work as pain and that it perceives all labour - physical, mental, artistic, controlling - as indifferent.

Galbraith says that if we leave the conventional wisdom, we will find a "new class" whose sense of life is not consumption at the cost of backbreaking toil but rather the labour itself. This new class is quickly spreading and the effort of the many to get into it is indisputable (although, on the other side, there are still many of those wanting to toil). (Galbraith,1967).

With regards to the inception and development of the new class, Galbraith, in his own words, does not set any new economic and social goal. Instead, he draws attention to the target that is widely accepted even though it is not much discussed. An economist who is fully engulfed with conventional wisdom and who believes that there is no other more important life goal than aggregate and individual real pension would never get the idea to apply similar scale on themselves. In their own life they fully share all the yearnings of the new class. They themselves bring up and lead their children to the one goal, and that goal is not the divinization of income. On the contrary, they instil in them that such a thing is horrible. They namely want them to have an occupation which would be interesting for them and in which they would find the sense of life. And they firmly hope that they would take their enlightened parents for their idols (Galbraith,1967).

Conclusion

In his fundamental works cited in this contribution, Galbraith gave a comprehensive picture of the society based on the planning system controlled through the technostucture of the large corporations (Reisman). This system called the New Industrial State is the result of the growth of work productivity, cutting the owners off the company management and enforcing the interests of the ruling class - the class of managers, named "the approved contradiction" by Galbraith. (Galbraith,1983). Even though the conventional wisdom and the economic system have seen a partial change in the last 50 years, one of the errors of the system which has survived until the present day is that in conformity with the aim of the managers - increase of certainty and power - leads to further concentration of production and economic growth conditioned by the growing consumption of assets which the consumers are persuaded into. If the consumption growth hits the borders of limited factual demand, the condition for further creation of needs is the willingness of consumers to run into debt. The commercials result in the fact that even those who cannot afford it crave for consumption and it is in the best interest of corporations that even these individuals carry out their consumption. In The Affluent Society Galbraith describes a situation in the automotive market in 1950's when foreign pressure on consumption caused a year-on-year increase of credit in several billion dollars. If we replaced the noun automotive with the word real estate, we would feel like as if we were reading about the crisis of 2007 which, maybe symbolically, J.K.Galbraith did not live up to and died one year before that.

Galbraith's proposed reforms are nearly not as inspirational for me as his analysis of corporate capitalism. I fully agree with Galbraith that the time is already ripe to set a social goal of less work and less but more meaningful work, development of a new class, the quality of life and spare time. The current rate of innovations which are primarily not intended to serve a man but rather to bring more profit to corporations, inevitably leads to doom. The growth of consumption leads towards financial bubbles which the conventional wisdom has not and never will perceive as financial sector crisis but rather as an economic system crisis.

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