Galbraith on the New Capitalism
by Christopher Bliss

One of the fundamental problems that any critique of Capitalism must face is that such a critique should, if successful, isolate features of a capitalist society that are specifically 'capitalist' from, for example, general features of industrial societies. This problem is most acute in the case of the human implications of the system. After all, the quality of life of an industrial worker does not differ as greatly between the United States and the Soviet Union as ideology, official and unofficial, would have one imagine. Indeed an examination of numerous features of American and Soviet society reveals strong similarities in social organization, and the distribution of power and income. The existence of such similarities has sometimes led observers to conclude that a process of 'convergence' is taking place; that as the Soviet Union becomes increasingly industrialized and wealthy, and as technical change takes place in both countries, the systems continually produce similar solutions to similar problems.

In an extreme form such a view can become a kind of technological determinism. The vast and complex technology of our time determines for us power and social relationships and there is little we can do to change them. In such an extreme form this is akin to a rather crude Marxism, but one that logically applies the idea that the social structure is largely determined by the structure of production even to societies in which, officially, the means of production are in the hands of the people. However, even if one admits a larger role than this for political and social choice, there are clearly bounds on the social reforms and reorganizations that would be consistent with the continued working of the industrial system. At the very least, the technological structure imposes some constraints on forms of social organization. An understanding of such constraints is a pre-requisite for a morality of social organization or a political programme.

In terms of the above issues Galbraith's latest publication[1] is strangely at odds with itself. For a great deal of the argument is putting forward the theory of technological determinism, stressing the idea of convergence of capitalist and socialist systems, claiming that the industrial state creates, along with output, needs and aims of its own together with appropriate ideology. Yet, this is a man who dislikes many features of the system and who would like to change it in a number of ways so that it will better serve its real and fundamental end, of serving human welfare with as little trouble,

[1] *The New Industrial State*, John Kenneth Galbraith: Hamish Hamilton, 42s.

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pain and ugliness as possible. The result is a book that almost divides into two halves. The first a highly determinist section in which the suggestion is clearly that there is little room for choice, and in which reformers are more than once ridiculed for believing otherwise, and a second half in which one meets the civilized, critical and reformist Galbraith, wanting the State to take over as the guardian of aesthetics, showing how, with better ends, the system might be made more acceptable. And the conflict of this philosophy with the earlier point of view is left, seemingly deliberately, unresolved.

The New Industrial State will have influence beyond its immediate readership on account of last year's Reith Lectures in which the author presented a summary of the main ideas of the book. The book is quite long but the author writes with great fluidity and repeats everything several times for those who may have dozed off at some stage. So this is an easy book to read; it is not always so easy to understand. The text is broken up into short chapters, each so near in length to the others that the book almost has a slow insistent rhythm to it. The end of each chapter is on a rising note with the argument, at times deliberately, left hanging in mid-air, its fate to be determined in the as yet unseen next chapter. One feels that one is reading the complete version of an originally serialized work.

This book is often irritating, sometimes funny and always stimulating. The irritation is provided, for this reviewer at least, by the author's excessive vanity, his patronizing attitude towards almost everybody else and, most of all, by his constant resort to the popular intellectual indoor sport, chasing straw men. It is still more annoying to be told more than once that the author would regard one's irritation as being a confirmation of the truth of his views. Then there is the unfortunate habit of setting up false dichotomies; on the one hand some kind of naive and manifestly inadequate viewpoint, on the other Galbraith's own ideas. Then anyone who does not completely agree with the author's views is associated with the alternative view. It is a cheap intellectual trick but very effective if handled well. And everything about the writing of this book is handled most beautifully. Galbraith writes very well; the style clean, economical and humorous at times in a dry, sarcastic manner. With these spoonfuls of stylistic sugar the message slides down so easily. What need for long, perhaps difficult and inconclusive, argument about the exact form and strength of market forces in a modern industrial economy when the only alternative view to that of the author is a belief that large industrial corporations are in much the same market position as a small farmer? Yet, in spite of its faults, this is a stimulating and important book and there is much in it that is compelling and true. The world which we inhabit is nothing like as simple as the world of Galbraith's canvas, yet he has brought into focus features of our world which merit every bit of the attention that he gives to them.

Although this is a long book one can summarize the argument fairly easily. The modern industrial state is dominated by, and can be characterized as a collection of, large corporations the control of which is in the hands of managers. Technical progress has resulted in complex production processes and the necessity for costly and lengthy development programmes. Galbraith also strongly suggests that modern technology is not only very large scale but also very inflexible and sensitive to errors in forecasting. Modern production could not take place unless producers knew in advance how much they could sell, at what price, and how much the necessary inputs were going to cost. Given this imperative the corporation resorts to 'planning' as opposed to relying on 'the market'. Both the key words in the last sentence have special and somewhat obscure meanings in Galbraith's usage. Planning is not national planning, an attempt to mould the decisions of diverse producers into a consistent programme for the economy, as practised in the socialist economies of Eastern Europe, but rather planning within the firm. At least so it seems most of the time.

However, one of the major themes of the book is the view that modern industrial states, regardless of the ideological and historical features that separate them, are converging towards a common form; capitalism is becoming socialized by the managerial revolution and the growing power and influence of government. In particular, contrary to popular belief and official ideology, the American economy today is based on economic planning. This is associated with the demise of the market. Instead of buying inputs when they need them and selling their output for whatever it will fetch, much as a farmer does, those in control of a modern large-scale corporation behave quite differently. They engage in vertical integration, merging with firms that supply their inputs so that transactions involving the purchase of inputs are changed from market transactions to internal transfers in the firm. If this is impossible they contract for sales and purchases or control the market by their huge size or by the manipulation of demand. Thus firms are able to plan in the knowledge that they will be able to buy inputs and sell outputs at known prices. Extensions of this approach are self-financing (using retained profits to pay for capital investment for expansion) which removes the necessity to rely on the capital market, and the use of capital intensive methods which decrease the extent of reliance on the labour market. Power now lies with 'the Technostructure', the trained managers and scientists who really run a modern corporation. Land is no longer important and the power of labour is both low and declining. Capital is now forthcoming to anyone who has the organization to make use of it; indeed a successful corporation is its own supplier of capital through self-financing. The shareholder is powerless, a passive receiver of income who can be disregarded provided that he gets a minimal return on his shares. The traditional entrepreneur even if he remains in the saddle nominally, as Henry Ford II, is in fact a mere figurehead who can do no more than rubberstamp the Technocrats' decisions. If he insists on doing more, like the ageing Henry Ford, the result is financial disaster.

The managers of the Technostructure are paid salaries and have therefore no incentive to maximize profits since this will not significantly affect their own earnings. Hence the modern corporation does not maximize profits, it tries instead to grow rapidly. This is important because it is necessary that the corporation has a goal with which the technocrats can identify and this must be a 'socially desirable' goal. But growth is the unquestioned and unsurpassed aim of our time. One of the concepts that Galbraith is most eager to demolish is any notion of 'consumer sovereignty' or, as he calls it, 'The Accepted Sequence'—consumer tastes determining what is produced. In its place he puts 'The Revised Sequence'—producers' desires to sell determine through advertising and market management what consumers will demand. Finally, there is the State to which the industrial system is so closely allied that it is sometimes hard to see the dividing line, this particularly in the area of defence. The industrial system is such a powerful producer of ideology that it has moulded the state's philosophy. Hence, for example, the belief in economic growth and the lack of interest in 'the further dimensions'—leisure, beauty and resource conservation—which conflict with the Technostructure's aims and abilities. This is the bones of Galbraith's thesis. There is all this and more besides, plus prescription and prophecy. The government, though far from perfect for this task, must take over as guardian of the aesthetic dimension and the genuinely socially desirable ends.

Galbraith has a reputation for being a radical critic of the capitalist system. There is some truth in this but a full account of him would read differently. His attitude is a tough, critical and yet apologetic viewpoint. The system is misunderstood and most suggestions for its reform are profoundly ill-conceived and misguided. Since a socialist system would have most of the crucial features of the Technocracy—it would after all be an industrial state—socialism cannot profoundly change things. The vast industrial engine works beautifully for its own ends (though stupid economists believe otherwise). What is so awful about capitalism is that these ends are narrow and inadequate. The road to reform should be our taking hold of the machine and steering it a bit towards leisure and aesthetics; we probably cannot hope to do more. All this is reminiscent of Keynes's forty-year-old essay on 'The End of Laissez-Faire':

> 'Nevertheless, a time may be coming when we shall get clearer than at present when we are talking about Capitalism as an efficient or inefficient technique, and when we are talking about it as desirable or objectionable in itself. For my part, I think that

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> Capitalism, wisely managed, can probably be made more efficient for attaining economic ends than any alternative system yet in sight, but that in itself it is in many ways extremely objectionable. Our problem is to work out a social organisation which shall be as efficient as possible without offending our notions of a satisfactory way of life.'

Which would do quite well as a summary of Galbraith's philosophy.

The basic facts upon which Galbraith builds his argument are evident to all who care to verify them. The domination of the American and other advanced economies by a relatively small number of corporations is undeniable. The largest 500 U.S. business corporations account for about two-thirds of non-farm product and data on employment, assets, and such statistics as shares of defence contracts by value all confirm this predominance. The elimination of the influence of shareholders and the importance of self-financing are seldom seriously contested. Of course, Galbraith's presentation of the facts is selective. The reader will have to look outside this volume to discover that the predominance of the large corporation in the American economy does not seem to be increasing rapidly. There were important structural changes in the American economy at the turn of the century associated with the great merger movement, since when the growth of the major corporations has been about matched by the growth of the American economy. If the 'New Capitalism' is defined as the concentration of output in the hands of a relatively small number of corporations it is a good fifty years old.

A complete discussion of the issues raised in this plump volume would require another volume no less plump. Here I must select a few points where the argument seems particularly inadequate or misleading and let the rest go by default.

A good starting point is the role of the market and the *place of planning*. Here there is a central question which Galbraith leaves, literally, untouched. Take a small group of large-scale producers of an industrial product, cars, refrigerators or soap powder. Suppose, as Galbraith would have us believe, that these producers know for certain how much of this product, or group of products, can be sold at what price, given the level of expenditure on advertising and sales promotion. What mechanism ensures that these producers taken together will invest in plant and plan production so that their *joint plans* to sell are consistent with the total that would be bought without price changes or extra sales promotion? It is on the answer to this question that the whole issue of planning turns.

A planned economy is not an economy where individual producers look ahead and make plans for their own production in the light of their best, even excellent, guesses about what will happen elsewhere in the economy. In that sense any complex economy is 'planned'. A planned economy is one where there is some kind of moderately accurate mechanism which ensures that the plans of different producers are consistent with each other, that makes it impossible for three refrigerator manufacturers each to plan to sell half the refrigerators sold. In the Eastern European economies such checks on the consistency of individual plans, through economy-wide 'balancing relations', are an integral part of economic planning. In the American economy there is no such mechanism. This is not to say that the separately drafted plans of corporations will always be wildly inconsistent, though they sometimes are, for these are informed guesses. It is true, however, that if producers in a capitalist economy do draw up inconsistent plans, whether the inconsistency takes the form of sales forecasts or plans to hire labour, there is no mechanism that will put this error right rapidly without the plans actually being put into effect. This is more or less what economists mean when they say that the U.S. economy is a market economy.

Galbraith has fallen victim here to one of his own phoney dichotomies. The market economy, by which he means an economy of highly competitive markets on to which producers throw their output for what it will fetch, on the one hand; planning on the other. In the face of such fanciful argument it is necessary to reiterate simple truths. The King is almost naked; the American economy is unplanned. It is not, of course, an economy of small producers selling and buying in highly competitive markets. The big producers take care to guess as accurately as they can what the future will be and their guesses are not too bad much of the time. Since it is not true that any mistake spells financial disaster they can ride out many mistakes making the best of a less than perfect situation. Future forecasts are corrected and revised in the light of current experience. It is a workable system whose flexibility and adaptability are sometimes the envy of socialist planners, but it is not planning.

To a considerable extent Galbraith arrives at his conclusion that the modern corporation is not 'subject to the market' as a result of his own confusing use of such words as 'market' and 'planning', but there remains a genuine issue of some substance. To what extent are consumer demands pliable and *subject to manipulation by advertising*? Galbraith believes that demand is almost entirely pliable, this is his 'Revised Sequence'. His view is supported, for him at least, by a belief that it is inconceivable that large-scale advertising expenditure could be self-cancelling, like competitive armaments expenditure. This is a view commonly held by economists and Galbraith pours scorn on this idea: 'The present disposition of conventional economic theory to write off annual outlays of tens of billions of dollars of advertising and similar sales costs by the industrial system as without purpose or consequence is, to say the least, drastic. No other legal economic activity is subject to similar rejection.'

Now the extent to which consumer demands can be successfully manipulated is a matter of *fact*. Yet on this important question there is an extraordinary paucity of detached speculation and evidence.

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There is no shortage of people willing to answer the question; spokesmen of the advertising industry, anti-advertising economists, and those who on ideological grounds want to show that the American consumer is a puppet of Madison Avenue. But a cool, empirical approach, arguing from evidence, that is hard to find. Certainly it is not to be found in Galbraith's book. All that one finds is the assertion that consumer demands are more or less as malleable as one cares to suppose. To hide the fact that he comes to this section with his hands empty of evidence (the size of advertising budgets is not evidence that they are useful and effective to the industry as a whole, any more than the size of the U.S. defence budget is evidence that vast contributions are being made to the security of the United States), the straw men are chased across the pages holding views such as the belief that all advertising is informative. 'If advertising affects the distribution of demand between sellers of a particular product it must also be supposed that it affects the distribution as between products.' Just why it must be supposed is hard to see.

There is one matter upon which all who have concerned themselves with the managerial revolution are agreed; the changes involved call for a reassessment of the *motivation* of those that control the firm. This has certainly not resulted in agreement as to the correct answer to these questions, but it has often been held that the highest possible profits may not be (or in the case of more assertive writers, is not) the sole end of the firm. This is Galbraith's view. It is contrasted to a traditional entrepreneur who was interested in the greatest possible profit. If, however, one looks at the lives of the great American entrepreneurs, Carnegie, Ford, Rockefeller, it is hardly possible to view these lives as dedicated to obtaining the greatest possible profits, still less personal consumption. These men were empire-builders who were driven on, well past the point at which they could conceivably have much personal motivation to swell their incomes, by something which a phrase of Marx well describes, 'the urge to accumulate'. So it is not obvious that one could not describe the traditional entrepreneur as being dedicated to the growth of his firm. This would not seem compelling if it were the case that there is a strong conflict between high profits and rapid growth, but there is not. Whether it expands by external or internal finance the firm requires high profits for rapid accumulation to take place. Of course, this implies nothing as naive as wringing the last drop of profit out of today's market at the cost of spoiling tomorrow's. The implication is some kind of long-term profit maximization.

For years economists have been mesmerized by the discovery that the shareholder no longer has any voice in the running of a large corporation. If this is the case, they seem to have concluded, anything is possible. Once freed from the surveillance of the owners of the capital they manage, managers may seek their own gain, security, growth, or harmonious progress and the common good.

In an extreme form this gives us Kaysen's 'soulful corporation', an institution dedicated to advancing and reconciling the interests of shareholders, employees and the general public. Galbraith is not quite of this view, but like many who write about the corporation it is inconceivable to him that it might maximize profits. To assert that would simply be to claim that the managerial revolution had not occurred. He calls it the 'approved contradiction'. 'There is charm in discovering that their case for profit maximization must be combined with the assumption that the men who are said to maximize profits do not maximize their profits.'

One can debate at length the extent to which it is true that those who control the corporation have incomes that do not respond to the profitability of the firm. It is not simply a matter of salaries, but also of share-ownership and stock-options. But this is largely beside the point. It has been widely held that the modern firm does not maximize profits because writers have concerned themselves with the wholly peripheral question (here I include Galbraith) of whether the modern entrepreneur is heir to the traditional entrepreneur's dependence on profits for income. But what we need to ask is: *Given the aims of the Technostructure, does high profit assist the attainment of those ends, and is it in conflict with other aims?* Now this is not a simple question to answer, because any account of managerial motivation with any claim to realism is going to have to recognize that a manager has diverse aims. Furthermore, he is a human being and is likely to seek ends that he can reconcile, more or less, with his own moral views. Even if seeking profits he will often pass by profitable opportunities for fraud. It is likely that corporations would act in quite different ways if the general moral and economic aims of the society, of which they form a part, were to change, provided, of course, that there was not too powerful an economic carrot pulling them the way that they had previously behaved. At the moment, as Galbraith rightly argues, growth is important to the firm and is also a major socially approved aim, so that there is a pleasant lack of conflict between managerial and social aims. But high profits help growth through borrowing power and self-finance, and they make for survival in hard times. If a firm aims to grow it will seek profits in order to grow; there are good reasons, then, for supposing that the modern corporation seeks high profits. Galbraith concludes otherwise; but what we have here is, once again, the straw man game. Those who believe that firms maximize profits imagine that the modern corporate manager is a faithful replica of a mythical entrepreneurial type seeking his own personal gain. Ridiculous! If that is what profit maximizing is about then obviously we can dismiss it.

In the end it is the Galbraith of the last part of the book that seems to me to have most of value to say. This Galbraith has forgotten about the rigid economic determinism of the earlier chapters and is asking us to steer the system to more humane and civilized

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ends. Galbraith's abiding concern for genuine welfare, as opposed to national income statistics, his rejection of the cult of economic growth worship, his fears for the future peace of a world in which defence establishments play such a large part in steering international policy and disarmament discussions; in all these things this voice crying in the wilderness cannot be too widely heard. But on the way to this he has rejected fundamental reforms of the system, such as greater public ownership and control, on the grounds that these cannot make such a great difference. This seems to me to be profoundly wrong. Within the confines of a modern industrial state there are many possible, different, and workable systems of social organization and control. They are not as different as utopian ideologies would claim, but we have it within our power to effect great and far-reaching changes. This is the area of feasible social, political and moral decision. It is always the vanity of particular societies at particular times to believe their own institutions about as good as one could hope for. History is unkind to such views.