

RESUME

of the

CONTINUING GROUP OF THE INTERDISCIPLINARY PROJECT

Session No. 4

1. "The Affluent Society" - General Discussion.

Participants: Prof. Karl Polanyi  
Paul Bohannon  
George Dalton  
Terry Hopkins  
Paul Medow  
Harry Pearson  
Abe Rotstein

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1. "The Affluent Society" - General Discussion.

Galbraith has raised a number of radical issues indirectly. His reference to the new connection between growth and unemployment is the crucial one.

He has also posed the question of personal freedom. This has been promised to individuals by both capitalism and socialism, after affluence is attained. If one asks how much affluence is needed for personal freedom, Galbraith would reply, the affluence is now there, but the threat of unemployment, in the event of a cessation of the pursuit of further affluence, continues to render personal freedom unattainable.

The problem of costing social improvements now emerges as the principal one. Above all, this refers to the costing of measures that increase personal freedom.

In a recent article P. Sweezy considers the historical origin of the establishment of restrictions on the financing of the activities of the public sector. He notes that in the early stages of capitalism, such restrictions were needed to protect the funds from taxation that capitalists wanted to invest in the development of privately produced goods and services. At the present time, however, when these funds are so large and their productivity in the private sector relatively low, there is no longer that justification for opposing taxation.

The mastering of the new questions that Galbraith has now raised is not only a task that is important in itself, but it would represent a contribution of the West to the resolution of problems that also confront the underdeveloped countries.



Concerning the relation of "The Affluent Society" to "The Great Transformation" the latter is a good introduction to "The Affluent Society". It presents a broader picture.

On the issue of resubordinating the economy to society, Galbraith makes it clear for us that the time has come to turn to non-market societies for knowledge (on that issue.)

But since there appears to be a fundamental institutional distinction between non-market economies and market economies, it is important not to seek to employ some concept of the economy that would be all-embracing. Instead, we should proceed as we did in our studies of money. There we studied specific money uses, without defining money in a general way. This is the way to progress in science.

It appears to be true that Galbraith did commit some errors in his criticism of the creation of new wants by producers in the modern economy. The creation of new wants is not an objectionable thing in principle. It is rather the inability of the economy to satisfy important wants that cannot appear on markets that is the main defect. (This refers not only to the wants that only the public sector can provide, but also to the desire for personal freedom, whenever it conflicts with established institutional patterns. In this sphere it is important accordingly not only to find new methods of financing production by the public sector, but also to establish safeguards for personal freedom. There is the concept of the "niche", the extension of the principle of conscientious objection, etc..

What we think is affluence, has stopped us from thinking further. What difference does this affluence make?

It may be that the terms scarcity and surplus are being misused. It is not because of scarcity that the economy is unable to produce public goods, but because the institutional arrangement and the surfeit of goods make it obvious that it cannot.

Galbraith doesn't need the points he makes against economic theory. This weakens the position.

But shouldn't economic theory aim at something different from what it was aiming at? How should economics be broadened and enlarged and changed to take in these things?

We have a chance to redefine the position of the economy in society and the economics that goes with this.



The Affluent Society

George S. Adams

[by George Dalton]

Galbraith's Affluent Society is not a book on problems of technical economics, but rather on those of political economy. Indeed, in the wider sense it is a book on welfare economics concerned with the sociological, political, and human aspects of present-day economic organization and its results in the United States. Above all, it is concerned with policy. Galbraith describes what is, so as to get support for what ought to be: it is an essay in persuasion.

The thesis of the book can be stated simply. The United States has achieved a position of affluence, or material abundance. (Galbraith points out that those still afflicted with primary poverty are relatively few and belong to special sociological groups whose peculiar circumstances prevent them from sharing in the general abundance.) Despite the experienced fact of material affluence enjoyed by the many, our national and individual norms, attitudes, and ideology (our "conventional wisdom"), still reflect the Ricardian world of primary poverty and its crucial need for increasing production, which gave birth to the classical economics and its prime emphasis on efficiency and maximum output. Orthodox economic theory lends to the illusion that we are still living in the Ricardian world by maintaining that narrow framework of analysis in which maximum output and not the moral worth or the social utility of its components, or yet other socio-economic goals, is the central consideration.

According to Galbraith, economic theory ignores the fact that the increased output which is its overriding concern is increasingly used to serve unimportant ends.

Galbraith's book is concerned then, with two basic themes: the reasons why the central emphasis on the importance of maximum output persists despite the fact that our achieved affluence makes further material additions relatively unimportant; and, secondly, the costly socio-economic consequences of such blindness to our state of affluence.

Both points are well-taken. Galbraith performs a useful service in elaborating them at full length; indeed, he performs it with that elegant prose which graces each of his books and assures them the wide reading they deserve. However, the concluding portion of this review will argue that he is right for not wholly the right reasons.

A strong-point in Galbraith's essay is his explicit description of the economic changes which have occurred in the United States in the last twenty-five years, (changes in the "underlying reality"), and the future policy import of such change. (1) The New Deal and Keynes have become wholly accepted. The Federal Government--no matter which political party happens to be in office--is committed to using fiscal policy to minimize periods of recession and to diffuse material security through market controls and transfer payments: unemployment compensation, social security pensions, farm price supports, the legal recognition of trade unions, managed money supply-- are all permanent parts of the present-day structure. They are measures of economic



security equivalent in effect to other market control devices which yield security to property owners, e.g., retail price maintenance laws, and oligopoly. Also, they are alike in indicating the de Facto preference for material security to allocation efficiency. (2) The traditional liberal policy of income redistribution has been rendered obsolete by growing affluence. The absolute increase in real income experienced by the many has acted as an alternative to income redistribution, and so has been a solvent of social tensions associated with inequality of income.

Galbraith's policy proposals derive from his criticism of the traditional priority (in the United States) given to the material fulfillment of privately generated wants over social needs-- the recognized exception being in the government's acquisition of military goods. He regards it as both economic waste and moral disgrace that significant amounts of resources (including some highly skilled labor) are devoted to fabricating consumer demand for essentially trivial consumer products, while the nation suffers obvious shortages of educational and housing facilities and health services. This condition he regards as a social imbalance which should be redressed by fiscal policies enlarging those shares of output devoted to publicly provided services, social capital, and economic aid to underdeveloped areas. In good Keynesian fashion he points out that such increased welfare service provision and foreign aid-- in increasing effective demand--would also serve as deterrents to depression. Also for reasons of personal welfare and income stability, Galbraith urges a revision in the rules for unemployment compensation provision: an increase in the average

amounts paid, and the use of an anti-cyclical scale of variable payments. The scale to be increased in depression and reduced in times of high employment so as to minimize the temptation to abuse. Such a policy would also tend to make a somewhat larger volume of unemployment tolerable and so reduce the inflationary pressures inherent in a vigorously pursued full employment policy.

All this is not new but rather an extension in scope of the New Deal-Fair Deal programs of employment security and increased welfare service provision. Keynes and Beveridge are still the holy ghosts.

What is new--at least for an economist of repute--is the further policy advocated by Galbraith which explicitly recognizes the sociological and psychological implications of the work process. Galbraith points to the increasing membership in the "The New Class"--a group which is distinguished by the fact that its members find their work enjoyable independently of the monetary payments attached. Professors, scientists, business executives, social workers, engineers--in a word--the highly educated and trained have learned that work can be a meaningful and prime source of enjoyment in and of itself, and train their young so as to seek not the most lucrative work, but that which is intrinsically fulfilling. Galbraith urges that the expansion of this new class should be an aim of deliberate social policy the attainment of which requires widened access to higher education.\*

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\*Indeed, the policy of extended educational facilities performs a number of useful functions in Galbraith's scheme. Aside from reducing the number of jobs which yield disutility or negative psychic income, education will alleviate the condition of that unfortunate minority still experiencing primary poverty due to



~~Some~~ circumstantial debility or cultural immobility. Extended education will help redress the social imbalance, i.e., increase the proportion of national income devoted to social service provision. Also, of course, if subsidized by government, it will-- in shoring up effective demand-- diminish the frequency and degree of recession. Lastly, increased educational provision will enlarge the numbers of scientific and engineering personnel whose labors result in technical innovations.

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In all this Galbraith is to be commended. He presents liberals in the United States with a well-reasoned program of policies which are not unattainable politically. This last point is not emphasized by Galbraith, but should be. Liberals in the United States are suffering needlessly from nineteenth century Marxian and Fabian hangovers. Neither nationalization of industry nor extremely progressive income taxation in order to redistribute income is politically feasible in the United States. Nor indeed is either necessary to attain the socio-economic goals of liberals. The British experience has not been reassuring. Nationalization is not necessary to maintain full employment, to redistribute income, or to increase social services. In the United States, markedly less unequal income distribution to be achieved through confiscatory tax rates has been made unnecessary by the absolute real income increases at all income levels. Further upgrading of low income groups need not be accomplished by increased progressivity in tax rates, but rather through increased governmental outlays for health, education, housing, and other welfare services from which low income groups would benefit disproportionately.\*

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\*At present tax rates, the increased provision of welfare services and social capital could be financed out of additions

to National Income, or, if possible, by reducing military expenditures. On the state and local government levels Galbraith argues for increased sales taxation as a means of finance.

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There are a number of defects in Galbraith's argument which should not go unnoticed. Three especially deserve consideration.

Galbraith forgets at several points in his book that his problem and his solutions are relevant solely to the United States. He sometimes writes as though the empirical reality of affluence and its unlovely concomitants he so well describes, reflect some general law of development (see p. 158). Clearly, such is not the case. What is special to the United States is the traditional priority allowed to private consumption over public consumption, and a corollary, the reluctance to control the production of luxury goods of questionable utility, and their marketing in aesthetically dubious and costly ways. The result is a plethora of needlessly differentiated commodities marketed in offensive ways, which, as part of their sales effort, carry a message of crude materialism as a way of life. Neither the unquestioned priority of private over public consumption nor the reluctance to control output or its marketing exist in such other (relatively) affluent societies as Great Britain or <sup>those in</sup> Scandinavia--countries therefore, for which Galbraith's essay is largely irrelevant.

For a reason Galbraith mentions and another that he does not, his essay also is irrelevant for industrializing countries such as India. At the beginning of his book Galbraith points out that the underdeveloped areas are in the Ricardian world of primary poverty--the opposite of affluence--and so rightfully regard the achievement of maximum output and economic efficiency as primary



goals. What Galbraith does not point out is that the industrializing nations have no ideological tradition of laissez-faire, of orthodox finance, of minimizing government expenditures and taxation, of allowing the uncontrolled market to determine outputs and incomes-- an ideology which we in the United States have not wholly abandoned. Rather, from the start of industrialization, their governments have engaged in New Deal-Welfare State policies of control, ownership, and social service provision. Further, their sensitivity to the need of acquiring increasing quantities of social capital (schools, roads, sanitation, housing, hospitals)--both as a welfare goal and as means to aid industrialization--makes it unlikely that in their future approach to material affluence they will have those special conditions which, in the United States, result in pressing emphasis given to the unlimited acquisition of private consumption goods. The likelihood is much greater that they will follow the British-Scandinavian model than that of the United States.

Two further points of criticism should be considered. In trying to account for the persistence of absorbing concern with maximum output despite achieved affluence, Galbraith marshals an impressive number of socio-economic reasons. One to which he attaches some importance is his view of the role of economists and the theory of individual consumer (or household) demand.\*

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\*See, chapter 10, "The Imperatives of Consumer Demand."

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It is significant that those passages containing Galbraith's

interpretation of household demand theory and its social results carry no footnotes indicating literature in support. In a word, his understanding of demand theory is somewhat deficient.

The theory of consumer demand, as it is now widely accepted, is based on two broad propositions, neither of them quite explicit but both extremely important for the present value system of economists. The first is that the urgency of wants does not diminish appreciably as more of them are satisfied, or, to put the matter more precisely, to the extent that this happens it is not demonstrable and not a matter of any interest to economics or for economic policy. When man has satisfied his physical needs, then psychologically grounded desires take over. These can never be satisfied or, in any case, no progress can be proved. The concept of satiation has very little standing in economics. It is neither useful nor scientific to speculate on the comparative cravings of the stomach and the mind.

The second proposition is that wants originate in the personality of the consumer, or in any case, that they are given data for the economist. The latter's task is merely to seek their satisfaction. He has no need to inquire how these wants are formed. His function is sufficiently filled by maximizing the goods that supply the wants. (pp. 143-144)

Galbraith is right for the wrong reasons. Economists have not concerned themselves with the processes which create consumer tastes, or with indicating their qualitative preference among consumer goods, because economists are reluctant to substitute their own value preferences for those of the consumer actually buying goods. Economists do not regard themselves as in any way better qualified than consumers themselves to tell consumers what they ought to want. And why, indeed, should economists be better qualified?

The two halves of Galbraith's second proposition, "that wants originate in the personality of the consumer, or, in any case, that they are given data for the economist," are disparate. It is true that economists regard consumer wants (or better, tastes) as given data,



but it would be curiously naïve of economists to believe that "wants originate in the personality of the consumer." It becomes clear from Galbraith's elaboration of what he calls "the dependence effect," that he thinks consumer wants can be differentiated according to whether they derive from some basic set of individual physical-mental needs (those which originate in the personality of the consumer), independently of social dictates, or whether they are manufactured, or fabricated, or synthesized for the individual by social forces: "If the individual's wants are to be urgent they must be original with himself. They cannot be urgent if they must be contrived for him." (p. 152) This is an unfortunate<sup>n</sup> illusion which mars Galbraith's argument, and indeed at one point (p.279)<sup>-380</sup> is revealed in a glaring inconsistency. As the quoted passage indicates, Galbraith marks off those wants which do not inhere within the individual but which must be fabricated for him, as prima facie evidence of their unimportance. But all individual material wants are socially determined. If a person's demand for a television set or a car with tail-fins is regarded by Galbraith as synthesized--pressed upon him from outside of himself--and thereby unimportant, so must Galbraith regard the person's demand for books or for higher education, which also are synthesized for him. In each case it is social dictate which teaches him to want the commodity. Galbraith does not recognize that the real criterion he employs in differentiating between important and unimportant goods, is whether or not he approves of them morally. If Galbraith condemns such goods as tail-fins as unimportant he should do so on the grounds of

his moral preference or his estimate of their low social utility compared to other goods, not on the grounds that the demand for tail-fins is pressed upon the buyer by agencies outside himself. What is true, of course, is that the <sup>institutional</sup> apparatus constructed for instilling into individuals, demands for the private consumption goods of which Galbraith disapproves, is blatant, offensive, and costly, which are consequences of the traditional priority allowed private consumption goods in the U.S.



## The Affluent Society

Galbraith's Affluent Society is above all, concerned with policy. It describes what is, so as to get support for what ought to be. It is an essay in persuasion.

The thesis of the book can be stated simply. The United States has achieved a position of material abundance. These still afflicted with poverty are relatively few and belong to groups whose peculiar circumstances prevent them from sharing in the general abundance. Despite the experienced fact of affluence enjoyed by the many, our national and individual norms, attitudes, and ideology (our "conventional wisdom"), still reflect the Ricardian world of poverty and its crucial need for increasing production. This gave birth to classical economics and its emphasis on efficiency and maximum output. Orthodox economic theory tends to the illusion that we are still living in the Ricardian world by maintaining that narrow framework of analysis in which maximum output and not the moral worth or the social utility of its components, is the central consideration. According to Galbraith, economic theory ignores the fact that the increased output which is its overriding concern is increasingly used to serve unimportant ends.

Galbraith's book is concerned then, with two basic themes: the reasons why the emphasis on the importance of maximum output persists despite the fact that our affluence makes further material additions relatively unimportant; and, secondly, the socio-economic consequences of such blindness to our state of affluence.

Galbraith performs a useful service in elaborating both points at full length. He performs it with that elegant prose which graces his books. Nevertheless this review will argue that he is right for not wholly the right reasons.

A strong-point is Galbraith's description of the economic changes which have occurred in the United States in the last twenty-five years. First, The New Deal and Keynes have become wholly accepted. The Federal Government -- irrespective of party -- is committed to using fiscal policy to minimize recessions and to spread

material security through market controls and to transfer payments: unemployment compensation, social security pensions, farm price supports, the legal recognition of trade unions, a managed money supply -- are all permanent parts of the present-day structure. They are measures of economic security equivalent in effect to other market control devices which yield security to property owners, e.g., retail price maintenance laws, and oligopoly. Also, they are alike in indicating the de facto preference for material security to allocation efficiency. Secondly, the liberal policy of income redistribution has been rendered obsolete by growing affluence. The absolute increases in real income experienced by the many has acted as an alternative to income redistribution, and so has been a solvent of social tensions associated with inequality of income.

The policy proposals derive from Galbraith's criticism of the priority given to the fulfillment of private wants over social needs -- the exception being military goods. He regards it as economic waste and moral disgrace that resources are devoted to trivial consumer products, while the nation suffers shortages of educational and housing facilities and health services. He calls this a social imbalance which should be redressed by fiscal policies enlarging those shares of output devoted to publicly provided services, social capital, and economic aid to underdeveloped areas. In good Keynesian fashion he points out that such increased welfare service provision and foreign aid -- in increasing effective demand -- would also serve as deterrents to depression. Also for reasons of personal welfare and income stability, he urges a revision in the rules for unemployment compensation provision: an increase in the average amount paid, and the use of an anti-cyclical scale of variable payments. The scale to be increased in depression and reduced in times of high employment so as to minimize the temptation to abuse. Such a policy would also tend to make a somewhat larger volume of unemployment tolerable and so reduce the inflationary pressures inherent in a vigorously pursued full employment policy.

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