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John Kenneth Galbraith: The New Industrial State

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1.

Change and the Planning System

A curiosity of modern economic discussion is the role of change. It is imagined to be very great; to list its forms or emphasize its extent is to show a reassuring grasp of the commonplace. Yet not much is supposed to change. The economic system of the United States is accepted by all but the malcontent as a largely perfect structure. It is not easy to perfect what has been perfected. There is massive change but, except as the output of goods increases, all remains as before.

As to the change there is no doubt. The innovations and alterations in economic life in this century, and more especially since the beginning of World War II, have, by any calculation, been great. The most visible has been the application of increasingly intricate and sophisticated technology to the production of things. Machines have continued to replace crude manpower. And increasingly, as they are used to instruct other machines, they replace the cruder forms of human intelligence.

Eighty years ago the corporation was still confined to those industries—railroading, steam navigation, steel-making, petroleum recovery and refining, some mining—where, it seemed, production had to be on a large scale. Now it also sells groceries, mills grain, publishes newspapers and provides public entertainment, all activities that were once the province of the individual proprietor or the insignificant firm. The largest firms deploy billions of dollars' worth of equipment

and hundreds of thousands of men in scores of locations to produce hundreds of products. At the end of 1974, the largest 200 manufacturing enterprises in the United States—one tenth of one percent of all manufacturing firms—had two thirds of all assets used in manufacturing and more than three fifths of all sales, employment and net income. Not only is the concentration great but so is the rate at which it proceeds. At the end of 1974, the largest 200 had a greater share of all manufacturing sales, employment and assets than the largest 500 had in 1955!¹

Eighty years ago the corporation was the instrument of its owners and a projection of their personalities. The names of these principals—Carnegie, Rockefeller, Harriman, Mellon, Guggenheim, Ford—were known across the land. They are still known, but for the art galleries and philanthropic foundations they established and their descendants who are in politics. The men who now head the great corporations are unknown. Not for a generation have people outside Detroit and the automobile industry known the name of the current head of General Motors. In the manner of all men, he must, on occasion, produce identification when paying by check. So with Ford, Exxon and General Dynamics. The men who now run the large corporations own no appreciable share of the enterprise. They are selected not by the stockholders but, in the common case, by a board of directors which, narcissistically, they selected themselves.

Equally it is a commonplace that the relation of the state to the economy has changed. The services of

¹William N. Leonard, "Mergers, Industrial Concentration, and Antitrust Policy," *Journal of Economic Issues*, Vol. X, No. 2 (June 1976), p. 356.

federal, state and local governments now account for between one fifth and one quarter (in 1976, 22 per cent) of all economic activity. In 1929, it was about eight percent.² This far exceeds the government share in such an avowedly socialist state as India, considerably exceeds that in the anciently social democratic kingdoms of Sweden and Norway and is not wholly incommensurate with the share in Poland, a Communist country which, however, is heavily agricultural and which has left its agriculture in private ownership. A very large part of all public activity (about one third of all government spending on goods and services) is for national defense and (a much smaller item) the exploration of space. These outlays are not regarded even by conservatives as socialism. Elsewhere the nomenclature is less certain.

Additionally, in the wake of what is now called the Keynesian Revolution, the state undertakes to regulate the total income available for the purchase of goods and services in the economy. It seeks to ensure sufficient purchasing power to buy whatever the current labor force can produce. And, more cautiously, sometimes only by incantation or prayer, it seeks to keep wages from shoving up prices and prices from forcing up wages in a persistent upward spiral. By earlier standards the production of goods in modern times has been relatively, though far from completely, reliable.

Previously, from the earliest appearance of capitalism until the beginning of Hitler's war, expansion and recession had followed each other at irregular intervals but in steady procession. The business cycle had become a separate subject of economic study; the forecasting of its course and the explanation of its irregularities had

² *Economic Report of the President, 1977*, p. 187.

become a modest profession in which reason, divination and elements of witchcraft had been combined in a manner not elsewhere seen save in the primitive religions. In the two decades following World War II, there was no serious depression. In the mid-seventies there was a sharp recession, very severe in such industries as housing. By wide agreement, however, it was the result of a deliberate act of policy to arrest inflation, those holding most vehemently that inflation was still a natural phenomenon being those responsible for the policy.

Three further changes are less intimately a part of the established litany of accomplishment. First, there has been a further massive growth in the apparatus of persuasion and exhortation that is associated with the sale of goods. In its cost and in the talent it commands, this activity is coming increasingly to rival the effort devoted to the production of goods. Measurement of the exposure, and susceptibility, of human beings to this persuasion is itself a flourishing science.

Second, union membership as a proportion of the labor force is no longer increasing. It reached a peak (of 25.2 percent) in 1956 and has since declined.³

Finally, there has been a large expansion in enrollment for higher education, together with a somewhat more modest increase in the means for providing it. This has been attributed to a new and penetrating concern for popular enlightenment. As with the fall in the proportion of workers enrolled by unions, it has deeper roots. Had the economic system need only for

³*Handbook of Labor Statistics, 1969* (United States Department of Labor, Bureau of Labor Statistics), Bulletin No. 1630, p. 351; *Handbook of Labor Statistics, 1976* (United States Department of Labor, Bureau of Labor Statistics), Bulletin No. 1905, p. 297.

millions of unlettered proletarians, these, very plausibly, are what would be provided.

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These changes, or most of them, have been much discussed. But to view them in isolation from each other, the usual practice, is greatly to minimize their effect. They are related to each other as cause to consequence. All are part of a yet larger matrix of change. In its effect on economic society this matrix has been more than the sum of its parts.

Thus mention has been made of machines and sophisticated technology. These require, in turn, a heavy investment of capital. They are designed and guided by technically sophisticated men. They involve, also, a greatly increased elapse of time between any decision to produce and the emergence of a salable product.

From these changes come both the need and the opportunity for the large business organization. It alone can deploy the requisite capital; it alone can mobilize the requisite skills. It can also do more. The large commitment of capital and organization well in advance of result requires that there be foresight and also that all feasible steps be taken to ensure that what is foreseen will transpire. It can hardly be doubted that General Motors will be better able to influence the world around it—the prices and wages at which it buys and the prices at which it sells—than a man in suits and cloaks.

Nor is this all. The high production and income which are the fruits of advanced technology, complex and effective organization and the ability of large groups in the society to make effective their claim on income have removed a great part of the population from the compulsions and pressures of physical want.

In consequence, their economic behavior has become in some measure malleable. No hungry man who is also sober can be persuaded to use his last dollar for anything but food. But a well-fed, well-clad, well-sheltered and otherwise well-tended person can be persuaded as between an electric razor and an electric toothbrush. Along with prices and costs, consumer demand has become subject to management. This adds an important further element of control over behavior.

When investment in technological development is very high, a wrong technical judgment or a failure in persuading consumers to buy the product can be extremely expensive. The cost and associated risk can be greatly reduced if the state pays for more exalted technical development or guarantees a market for the technically advanced product. Suitable justification—national defense, national prestige, deeply felt public need, as for alternatives to petroleum products—can readily be found. Exemption from the damaging charge that the action is socialist is automatically forthcoming. Modern technology thus defines a growing function of the modern state.

Technology and associated requirements in capital and time also lead even more directly to the regulation of demand by the state. A corporation, contemplating an automobile of revised aspect, must be able to persuade people to buy it. It is equally important that people be able to do so. This is vital where heavy advance commitments of time and money must be made and where the product could as easily come to market in a time of depression as of prosperity. So there must be stabilization of overall demand.

Affluence adds to the need for such stabilization of aggregate demand. A man who lives close to the margin of subsistence must spend to exist and what he

spends is spent. A man with ample income can save, and there is no assurance that what he saves will be offset by the spending or investment of others. Moreover, a rich society owes its productivity and income, at least in part, to large-scale organization—to the corporation. Corporations also have the option of retaining or saving from earnings—and can exercise it with the unique sense of righteousness of men who are imposing thrift on others. There is no guarantee that this personal and corporate saving will be offset by spending. In consequence, in a community of much well-being, spending and hence demand are less reliable than in a poor one. They lose their reliability precisely when high costs and the long period of gestation imposed by modern technology require greater certainty of markets. The Keynesian Revolution occurred at the moment in history when other change had made it indispensable. Like the other changes with which this chapter began, it is intimately a cause and consequence of yet other change.

III

In economics, unlike fiction and the theater, there is no harm in a premature disclosure of the plot: the central purpose of this book is to see the changes just mentioned and others as an interlocked whole. I venture to think that modern economic life is seen much more clearly when, as here, there is such effort to see it whole.

I am also concerned to show how, in this larger context of change, the forces inducing human effort have changed. This assaults the most majestic of all economic assumptions, namely that man, in his economic

activities, is subject to the authority of the market. Instead we have an economic system which, whatever its formal ideological billing, is, in substantial part, a planned economy. The initiative in deciding what is to be produced comes not from the sovereign consumer who, through the market, issues the instructions that bend the productive mechanism to his ultimate will. Rather it comes from the great producing organization which reaches forward to control the markets that it is presumed to serve and, beyond, to bend the customer to its needs. And, in so doing, it deeply influences his values and beliefs—including not a few that will be mobilized in resistance to the present argument. One of the conclusions that follows from this analysis is that there is a broad convergence between industrial systems. The imperatives of technology and organization, not the images of ideology, are what determine the shape of economic society. This, on the whole, is fortunate, although it will not necessarily be welcomed by those whose intellectual capital and moral fervor are invested in the present image of the market economy as the antithesis of social planning. Nor will it be welcomed by their disciples, who, with even smaller intellectual investment, carry the banners of free markets and free enterprise and therewith, by definition, of the free nations into political, diplomatic or military battle. Nor will it be welcomed by those who identify planning exclusively with socialism. The ideas here offered have, in one form or another, been gaining ground. There has been visible movement since they were first offered in the present form in 1967. But they are not yet the ideas of the consensus.

The continuing subordination of belief to industrial necessity and convenience is not in accordance with the greatest vision of man. Nor is it entirely safe. On the

nature of this subjugation, and its dangers, I shall also dwell at some length.

IV

The boundaries of a subject matter are conventional and artificial; none should use them as an excuse for excluding the important. Nothing so persists in modern social thought as the notion that decisions on public policy should somehow divide along the lines of university departments and curricula. They do not. In government there are no exclusively economic, political, not even any purely medical judgments. Nor can one be indifferent to the practical consequences of an effort such as this, whatever the tendency to celebrate such indifference as a manifestation of scientific detachment.

Accordingly, in the later chapters I turn to the effect of economic change on social and political behavior, and to remedy and reform. As noted, I am led to the conclusion, which I trust others will find persuasive, that we are becoming the servants in thought, as in action, of the machine we have created to serve us. This is, in many ways, a comfortable servitude; some will look with wonder, and perhaps even indignation, on anyone who proposes escape. Some people are never content. I am concerned to suggest the general lines of emancipation. Otherwise we will allow economic goals to have an undue monopoly of our lives and at the expense of other and more valuable interests. What counts is not the quantity of our goods but the quality of life.

Our present method of underwriting advanced technology by resort to military justification is exceedingly dangerous. It could cost us our existence. Here I suggest

alternatives. There is also danger that our educational system will be too strongly in the service of economic goals. Here I suggest safeguards. The analysis leads to conclusions on the relation of the individual to his toil and the community to its planning. These also are discussed. And I deal with the unrealized political opportunities that are inherent in the dependence of the modern economy on trained and educated manpower. This all comes in the later chapters. The man who wants a political platform must obviously work his way up the stairs.

V

Recurrently American business leaders are captured by the thought that if the system is to survive, there must be much better education as to its character. In the mid-sixties and again in the mid-seventies, even suspicion of government was suppressed, and the United States Department of Commerce was brought into the service of the educational effort. The reason is that the public image of economic institutions, based on everyday observation of modern corporate enterprise, does not conform to the executive's accustomed defense of himself. Not surprisingly, he reacts well to the thought that it is the public image, not his own, that should be changed. The business defense invariably emphasizes the vigorous competition of numerous firms, all subordinate to the market. The resulting education as invariably centers on the small enterprise—in a particularly compelling example from the Department of Commerce, it was on the operation of a lemonade stand conducted by two children under

the trees.⁴ This economic education holds, in other words, that capitalism can best be understood by examining enterprises with little or no capital, guided by one or two people, without the complications of corporate structure and where there is no union. Part of its appeal is in the way it removes from the corporate executive all power, including the power to do anything wrong. It also has firm historical roots: economic life began with small firms, with small capital, each one under the guiding hand of a single master. Finally, a systematic and internally consistent theory, that of the competitive firm in the market economy, is available for the explanation. This lends itself well to pedagogy.

But this view of the modern economic system is not sanctioned by reality. Nor is it now really sanctioned—a nostalgic, romantic and acquiescent minority apart—by economists. The changes mentioned earlier in this chapter have not spread themselves evenly over the economy. Agriculture, truck mines, painting, musical composition, much writing, the professions, some vice, handicrafts, some retail trade and a large number of repairing, cleaning, refurbishing, cosmetic and other household and personal services are still in the province of the individual proprietor. Capital, advanced technology, complex organization and the other hallmarks of what we have come, not accidentally, to consider modern enterprise are limited or absent.

But this, most now recognize, is not the part of the economy wherein occur the changes just mentioned. Equally it is not the part of the economy which

⁴ *Do You Know Your Economic ABC's? Profits and the American Economy*, United States Department of Commerce, 1965.

combines advanced technology with massive use of capital and of which the most conspicuous manifestation is the modern large corporation. Nearly all communications, nearly all production and distribution of electric power, banking and insurance, rail and air transportation, most manufacturing and mining, a substantial share of retail trade and a considerable amount of entertainment are conducted or provided by large firms. The numbers are not great; we may think without error of most work being done by a few hundred, at the most a thousand or two, large firms.

This is the part of the economy which, automatically, we identify with the modern industrial society. To understand it is to understand that part which is most subject to change and which, accordingly, is most changing our lives. No exercise of intelligence is to be deplored but to understand the rest of the economy is to understand only that part which is diminishing in relative extent (though it will not disappear) and which is least subject to change.

The two parts of the economy—the world of the technically dynamic, massively capitalized and highly organized corporations on the one hand and of the hundreds of thousands of small and traditional proprietors on the other—are very different. It is not a difference of degree but a difference which invades every aspect of economic organization and behavior, including the motivation to effort itself. It will be convenient, even in advance of more formulation, to have a name for the part of the economy which is characterized by the large corporations. One is readily at hand; I shall refer to it as the *Planning System*. The planning system, in turn, is the dominant feature of the New Industrial State.