

Review of *The Affluent Society* by John Kenneth Galbraith

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Introduction

John Kenneth Galbraith's *The Affluent Society* is an observation of the tendency to highly regard aggregate output demand in western developed economies, and the institutional phenomena associated with the productive forces. Galbraith uses his mastery of the English language to finesse the reader along a historical account of the dynamism inherent in productive forces and the negative externalities that have persisted. Galbraith's analysis of American affluence results in a vital critique of the greater interest in private production over public investment and the consequences this division involves. His conclusions are that the fundamental solution to this problem is a higher focus on education in society to attenuate want creation in the production process.

This essay will evaluate the methods of analysis which Galbraith uses to come to this conclusion: the conventional wisdom, the dependence effect, and the theory of social balance. Further, this essay will contain an analysis of Galbraith's claim that education is considered a vetting into a coined "New Class" and what the imbalance of public and private expenditure means for the "New Class".

Galbraith's analysis is eclectic, composed of various disciplines other than economics; namely politics, history and sociology. Instead of using complex formulas and mathematical notation to convince the reader of his ability to arrive at an objective conclusion, Galbraith uses descriptive realism to describe the origins of economic phenomena, which the reader will agree, occur naturally. It is a welcomed approach given the diverse schools of thought also in bed with the broad range of topics covered in the *The Affluent Society*. As Galbraith says himself, every person frustrates themselves attempting to grasp the nature behind ordinary behaviour,

"Economic like other social life does not conform to a simple and coherent pattern. On the contrary, it often seems incoherent, inchoate and intellectually frustrating. But one must have an explanation or interpretation of economic behavior. Neither man's curiosity nor his inherent ego allows him to remain contentedly oblivious to anything that is so close to his life" ¹

Galbraith, like his institutional theorist contemporaries, is cognizant of the fact individuals are social beings under the influence of their environment, particularly the cultural, ritualistic, taboo-determined institutions that supervise our economic desires from birth. Galbraith discards orthodox hedonism from his analysis due to the many frictions of transactions being assumed away in the model of perfect competition. At times it seems Galbraith is formulating a wholly intractable set of notions in order to support his thesis regarding the flawed institutions that manifest an advanced society that primarily spends its income on consumption goods. However, he ends up doing so in quite a coherent fashion. Galbraith's analysis begins with an historical approach of describing the economy that becomes administrator to an affluent society, particularly American.

“He criticized economic theory for ignoring and obscuring the economic power accumulated by large corporations. He has criticized politicians who aligned themselves with the objectives of the large corporations instead of acting in the public interest. And, like Paul Krugman more recently, he censured those economists who perform sophisticated mathematical analysis but who do not seek to promote deeper understanding of the real world”²

Much like his contemporary John Commons, Galbraith would agree that institutions can attenuate natural conflict that occurs within transaction process. Much like a *visible hand*, institutions could be developed to ease frictions that occur in transaction processes. Due to the hierarchical structure of many firms and organizations operating within the transaction riddled economic system of capitalism, there are bound to be vested interests in the institutions which govern the forces of production. Galbraith would agree, that we may need to further develop institutions to attenuate the contradictory motivations of production forces, which Marx so clearly laid out in *Das Kapital*. Labour unions for example, may be an adequate response to the inherently conflictual relationship that occurs between the transactions of firms and workers.

There are striking similarities in Galbraith's scope to many of his contemporaries, although the methodology and content of their analysis is quite conflicting, the scope of Alfred Marshall has a strikingly familiar flavour to that

of John Galbraith. Harry Landreth describes Marshall's criticism of teleology in economic analysis that share very close similarities,

"Wants are not something that arise within us independent of our activities; on the contrary, many of our wants are direct outgrowths of our activities. It would be wrong to view a suburban family's desire for a station wagon in simulated wood as the starting point of economic analysis, since this want arises from the family's perception of its role in society." ³

Although, Galbraith unmistakably uses qualitative reasoning to render normative judgements of American economic society, whereas Alfred Marshall often backed his reasoning with in-depth positivist analysis. Overall, Galbraith's objectivity approaches zero, although there are times when vague statements regarding modern political parties can influence writing on a subject with a lot of room for political opinion.

Conventional Wisdom, Dependence Effect, and Theory of Social Balance

"The Conventional Wisdom" is considered the acceptable knowledge among social groups or within economic institutions, unable to be easily deviated from, it has held the vested interests of society at a steady pace along its historical path. Following an example of the complexities of social and economic behavior in relation to the reinforcement of the concept of the conventional wisdom, Galbraith goes on to say,

"This is a prime manifestation of vested interest. For a vested interest in understanding is more preciously guarded than any other treasure. It is why men react, not infrequently with something akin to religious passion, to the defense of what they laboriously learned. Familiarity may breed contempt in some areas of human behavior, but in the field of social ideas it is the touchstone of acceptability." ⁴

The preceding quotation from Galbraith is the essence of his methodology, it is his reliance on the consistency of the conventional wisdom which this economist holds *ceteris paribus* to observe the result of American Affluence. As Galbraith continues his analysis it becomes clear that loose rules within this methodology would result in the collapse of his reasoning.

Galbraith's "Dependence Effect" is the role which advertisement and class emulation play in the production process, specifically the creation of wants in the search of satisfying them. Displaying his literary genius Galbraith illustrates the root of the dependence effect with the following analogy,

"Were it so that a man on arising each morning was assailed by demons which instilled in him a passion sometimes for silk shirts, sometimes for kitchenware, sometimes for chamber pots, and sometimes for orange squash, there would be every reason to applaud the effort to find the goods, however odd, that quenched this flame. But should it be that his passion was the result of his first having cultivated the demons, and should it also be that his effort to allay it stirred the demons to ever greater and greater effort, there would be question as to how rational was his solution. Unless restrained by conventional attitudes, he might wonder if the solution lay with more goods or fewer demons." ⁵

It is quite clear that Galbraith understands the relationship between want creation and satisfaction to be inextricably linked. An exploitation of our instinct of acquisitiveness leading to predatory behavior by the firm through want creation by advertising and increasing incentive to emulate the better off neighbour. It is clear that Galbraith rejects the neo-classical notion that preferences are taken as given, for an approach akin to Veblen in his *The Theory of the Business Class* in which he explains that preferences are shaped through the ceremonial practices of marketing and advertising, which he believes have negative consequences in the promotion of welfare, a clear opposition to Adam Smith's belief in consumer sovereignty. Galbraith uses this realization to further argue that these practices, supported by the conventional wisdom, ensure a society which favors private consumption and is averse to public investment through taxation.

Galbraith's "Theory of Social Imbalance" is the epitome in the course of a society becoming affluent. The imbalance he describes involves the division of ideologies determining the focus of attention on public spending versus private investment in the overall economy. Galbraith describes on numerous occasions the dependence effect has on prioritizing private production over public investment due to the conventional wisdom employed to justify avoidance of the issue of burgeoning inequality and demonization of income tax increases.

“In such a world, one could with some reason defend the doctrine that the consumer, as a voter, makes an independent choice between public and private goods. But given the dependence effect ... the consumer makes no such choice ... The inherent tendency will always be for public services to fall behind private production. We have here the first of the causes of social imbalance”⁶

Galbraith notes in his historical account, the increasing ranks of those in primarily pecuniary and indolent type professions, which feeds the influence of the leisure class, and the spread of the conventional wisdom embodied in what has become the new class. The leisure class conventional wisdom is the epitome of the public-private spending dichotomy says Galbraith. Due largely in part to the democratic system, determining the variation between sectoral spending, within which competing institutions operate, and low taxation dominates. Particularly the institutions designed to attenuate frictions of democracy being ideologues, which the new class holds preeminent hierarchical influence.

Education, the New Class, and Debt

Galbraith concludes his analysis with a reasonable association of education and entry into a “New Class” which he says has merged from the classical leisure class, into a modern class which partakes in few laborious occupations. “the greatest prospect that we face – indeed what must now be counted as one of the central goals of our economic society – is to eliminate toil as a required economic institution. This is not a utopian vision. We are already well on the way.”⁷

The new class is the result of the rise of relative affluence, this can be seen in the middle class that we know today. In Canada, the conventional wisdom of Galbraith’s proclaimed new class manifests in Liberal politicians with cabinet posts such as Middle Class Prosperity.

“By virtue of position, certain individuals in our society are accorded the privilege of stating as fact what, in the nature of things, is unknowable. The tycoon and college president have well-recognized rights along these lines. Any candidate for public office may distinguish with clarity between actions which will lead to unlimited prosperity and those which will lead to utter ruin.”⁸

Galbraith associates an increase in education investment with freeing ourselves from the chains of the vested interest in output demand. Increased investment in education will accustom society to a more natural motivations behind pecuniary decisions. Following Galbraith's recognition that all investment in human capital must be within the public domain, he concludes that this cornerstone task will not be achieved due to the vested interest in output.

“Better education, one product of improved social balance, might well be expected to lessen the effectiveness of synthesis and emulation in the manufacture of new wants. ... The ultimate consequence is that the values of the affluent society, its preoccupation with production as a test of performance in particular, are undermined by the education that is required in those that serve it.”⁹

Although the task is far from complete, there are inherent problems that come to fruition when a society becomes devote to its allocation of resources, as Galbraith has made clear throughout the entire book, but particularly in education there are problems that may persist. Particularly a problem that may arise are the dependence effects which are associate with advertising the benefit of having university degree, Galbraith claims this is the conventional wisdom of the new class at work as it has increasingly become mandatory for entry to be highly educated. Veblen was a critic of higher education institutions which he claims use their power in the hierarchy that has developed under capitalism to exploit the resources available to them for pecuniary gain primarily at the expense of students.

“Our Leisure activities, too, reflect this desire for honorific status in the culture, says Veblen. Higher education, which makes a person unfit for honest work, is of great value.” ... “Knowledge is acquired and advanced through the institution of the university when free play is given to idle curiosity and the instinct of workmanship. But universities have become contaminated by the values of the culture, which give high place to ceremonial behavior and the pursuit of pecuniary employments.”¹⁰

It should be reminded that Veblen was most familiar with the intellectual hoarding at the University of Chicago following the robber-baron era of the united states, none the less, his criticism remains a prominent issue facing even the least hierarchical universities today. Both Galbraith and Veblen foresaw the plunge toward burgeoning

levels of student debt and tuition hikes due to the hierarchical power structure that is the institution of higher education.

“An increase in consumer debt is all but implicit in the process by which wants are now synthesized. Advertising and emulation, the two dependent sources of desire, work across the society. They operate on those who can afford and those who cannot. With those that lack the current means, it is a brief and obvious step from simulating their desire by advertising to making it effective in the market with a loan” ¹¹

Consumer debt has certainly not faltered since Galbraith made this prediction. In 2019 dollars, in the United States, consumer debt has risen 428% since 1967 from \$779 billion to \$4,120 billion in 2018. ¹² While disposable income between 1967 to 2018 has seen an increase of 244%. More pertinent to Galbraith’s focus on education in *The Affluent Society*, the years 2006 to 2018 saw student loans dramatically increase in-line with rising tuition fees. In the United States, outstanding balances on student loans has increased 155% from \$614 billion to \$1,569 billion. ¹³ Disposable income in the same period increased 23% from \$12,796 billion to \$15,742 billion in 2019 dollars. ¹⁴ Veblen’s critique of the higher education institutions he witnesses was a warning of the student debt levels to come.

Conclusion

Galbraith’s conclusion is a call for larger government to invest in education to deter from the negative externalities of the social balance by means of shifting the conventional wisdom from private consumption to public investment. It is through these means that Galbraith believes, with all the institutions embodied, investment in education is the logical solution when dealing with the dynamism of an affluent society. Nevertheless, Galbraith offers unique interpretations of economic behaviour that regulate the consumer economy and he provides a satisfying conclusion on a necessary step in the process of mitigating damage.

Landreth provides an excellent final reflection on Galbraith’s overall contribution, “While technological development has made it possible to solve our problems of production and scarcity, we now stand in great danger

of becoming servants of the industrial system rather than it's masters.”¹⁵ Landreth's statement resonates all too well with those among an affluent society bearing an inextricable load of consumer debt. It will not be long before the vested interests of an affluent society begin to corrupt the free will of those who tend more and more to be the product rather than producer, this will lead most likely to revolution.

Bibliography

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