JOURNAL OF THE HISTORY OF ECONOMIC THOUGHT
PUBLISHED FOR THE HISTORY OF ECONOMICS SOCIETY

Dunn's "The Economics of John Kenneth Galbraith"

Journal:	*Journal of the History of Economic Thought*
Manuscript ID:	Draft
Manuscript Type:	Review Article

Book Review for the Journal of the History of Economic Thought

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February 2013

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Book reviewed: Stephen P. Dunn. *The Economics of John Kenneth Galbraith: Introduction, Persuasion and Rehabilitation*. (Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, Sao Paulo, Delhi, Dubai, Tokyo, Mexico City: Cambridge University Press, 2010), pp. xx, 477, US$115.00, ISBN 978-0521-51876-5.

Review:

Stephen Dunn describes this book as having its main goal to show that John Kenneth Galbraith's (JKG's) thought has been under-appreciated by both Post-Keynesians and Institutionalists in the history of economic thought. But in reality the book is really of two parts, the first is Dunn's very detailed and engaging description of JKG's thought *without* tying-in in any systematic way followers or precursors, the second is to relate JKG's influence on those that followed him, especially in Post-Keynesian Economics. It is only under this first part that the book fully succeeds, more on this to follow.

Dunn divides JKG's thought into to two main currents, the first is his "major trilogy" (p. 295) of the corporatization of the American economy. This trilogy being *The Affluent Society* (1958), *The New Industrial State* (1967) and *Economics and the Public Purpose* (1973). It is in these volumes that JKG proposes his theories of the "bimodal" economy where the large corporations (one-half of the economy) hold smaller businesses, the other half of the economy, in a "subservient" (p. 354) position due to the social power created by the "technostructure" in the large corporations. This current also includes JKG's well-known "social imbalance" narrative where society spends too much on personal consumption while there is the "under production of merit and public goods" (p. 89). It is the corporate technostructure which has harnessed the awesome technological powers of modern capitalism to produce "socially irrelevant commodities" (p. 89) while, unfortunately, power over this technology is not in the hands of those who provide public goods (Galbraith's main concerns were environmental degradation, militarization, lack of public housing, healthcare and transportation, and, an education system focused too much on economic production).

The second thesis, where Dunn attempts to show how JKG's thought has been influential on subsequent Post-Keynesians, plays less of a role in the book and in fact only is discussed in detail not until the last quarter of the book. The major works in this narrative are *The Great Crash, 1929* (1955), *Money* (1975) and *A Short History of Financial Euphoria* (1990). It is here that we are introduced to the Post-Keynesian tropes of endogenous (and non-neutral) money, the wage-price spiral, imperfect competition and excess capacity (only of course in the dominant large corporations), the failure of Say's Law in bringing adequate employment without government fiscal policy demand management, and, the fallacy of composition where debt at the macro (State) level cannot be compared to that of the household if that public debt is used to ensure adequate levels of employment, especially for public works during periods of recession and depression.

The two currents of the book then are held together under the "bimodal" theory. As one example we find that retained earnings reduce risk faced by the large corporations from the endogenous money instabilities created by a monopolized-centralized monetary authority, whereas manipulation of the interest rate can influence economic activity in the "market" (smaller businesses) as opposed to the "planning system" (the dominant large corporations).

Where the book might have been improved in Dunn's attempt to place JKG in the historical lineage of Post- Keynesian economic thought is in the chapter called "Money and the real world". It is here that Dunn describes JKG's ideas relating to today's current Post-Keynesian tropes as espoused by, for example, Victoria Chick, Paul Davidson, Paul Krugman, Hyman P. Minsky, Malcolm C. Sawyer, Paul Shiller and Dunn himself. (There is a curious lack of reference to Robert Frank in this book, someone whose views on consumerism and normative prescription closely follow JKG, though there are the necessary references to Veblen). Dunn describes JKG's ideas well, while mostly only giving relevant citations to these follow-on Post-Keynesian thinkers. What is missing in this chapter is analysis as to how JKG's ideas actually influenced these following thinkers. Describing JKG's ideas, then adding citations for further readings does not complete the argument that Dunn states he sets out to achieve. For a knowledgeable Post-Keynesian this approach might be sufficient but for a historian of economic thought new to and interested in, such a popular figure as JKG, this is insufficient and perhaps disappointing.

This being said, however, in the next chapter mostly about financial booms and busts called "A man for our times" Dunn is much more careful and thorough while at the same time using sparkling narrative in describing the commonalities (and some critique) amongst Post-Keynesians on the instability of endogenous money capitalism. It appears that Dunn is more interested in the analysis of this instability as opposed to more general Post-Keynesian economic theory. Whether or not one agrees that "greed", "speculation", "hubris", "deregulation" and the herd-like behavior of the "animal spirits" create recession- and depression-causing business-cycles, Dunn here has done well in presenting JKG's influence upon Galbraithian descendants (including Paul Krugman and Joseph Stiglitz). In this chapter we learn as well that financial institutions deemed "too big to fail" are part of the dominant sector in JKG's bimodal theory (that is until/if they are allowed to go bankrupt and become liquidated).

Dunn spends most of the book on describing the "planning system" used by corporations to minimize market risk, describing how these corporations have the ability, through monopolistic power, to manipulate, in fact "victimize" (p. 63) the consumer into buying their product. The planning system of these corporations (the tobacco, pharmaceutical, agro-business and automobile industries are described in the most detail) give them power over the consumer to where it is not price competition (nor consumer sovereignty) that determines supply and demand.

Large corporations support Keynesian demand management (government spending in times of economic downturn) in order to keep demand high enough to produce at their capacity (technological advance and concomitant investment leads to over-capacity), yet we find that Galbraith admits that these fiscal stimulus policies help the dominant sector over the general good. Large corporations, especially those in the military-industrial complex and those receiving the necessary stimulus spending (some corporations seek "a protective response from the state", p. 61) have social and economic powers over the other half of the economy which is dependent upon the market alone for survival.

Dunn proposes that this corporate "planning system" adds to what was missing in pre-Galbraithian Keynesianism; a microfoundation for stability to compliment the macrofoundations of the stability of monetary and fiscal policy. However, others may not agree with this as this was perhaps accomplished by Ronald Coase in 1937, albeit of course Coase is not considered of the Post-Keynesian school. Dunn places JKG's work in reference to that of Coase, but, at least to this reviewer, credits JKG with too much originality viz-a-viz Coase.

In Galbraith's "Revised Sequence" where it is not the consumer who is sovereign it is the dominant large corporate sector who receives the fiscal stimulus spending (and benefits of the "multiplier") needed to keep producing towards capacity while not having to lower prices and profits and who gain through the wealth created under capitalism and the affluent society. The technostructure is not out to maximize profits for the shareholders but to create wealth, power and survival for themselves.

As stated, one of the Galbraith's theses is that half the economy in the USA is dominated by large corporations. Dunn presents this data in Table 1, page 114 where we find that in 2002 (the book was in published prior to the 2012 census) self-employed people (those without employees) make-up around 17% of the economy's workforce. This then means of course that 83% of the workforce have 'jobs' and work for others. According to the table the dominant corporations, those around one thousand firms with market capitalizations of $1 billion or more, receive half the revenue of goods sold while the remaining around 5 million employer firms receive the other half. Dunn perhaps could have gone the next step and shown that the dominant firms received around $323,000 in revenues per employee while the "market" firms only received around $141,000 in revenues per employee. Whether this difference is due to the social power of the technostructure or simply economies of scale is another discussion and obviously not within the realm of this book review.

Dunn is careful to call attention to the fact that endogenous money (a defining commonality amongst Post-Keynesian thought, described here mostly as increased bank lending and innovative financial instruments to ensure consumption financing, means that inflation is a *real* economy phenomenon (for Galbraith meaning the dominant sector utilizing their market power to keep prices high) as opposed to a Friedmanite *monetary* cause. This means for Galbraith that inflation is to be tamed by wage and price controls. In historical context Dunn uses the fact that JKG was the "Price Czar" (p. 34) during WWII to help describe the formulation of JKG's views on price planning to control inflation (and in fact to help plan the economy using Keynesian macroeconomic tools). "Corporate power made comprehensive price control necessary in the Second World War but it also contributed to its success" (p. 321, from Galbraith 1975.) Dunn describes how JKG does not call for the commonly-accepted industrial organization economics break-up of monopolistic corporations, but rather for wage and price controls, finding large corporations, like Schumpeter, a source of economic dynamism.

Finally, this reviewer enjoyed most the chapter on JKG's methodology, where we learn that his method is not one of "imitative scientism", but "like Hayek, Keynes, Kaldor, Marshall, Marx, Menger, Robinson, Schumpeter and Veblen" (p. 77) Galbraith was an ontological realist, where the analyst's moral predispositions influence analysis. JKG was a social reformer, a man with a public purpose. For this reviewer then we can match-up his vision and some of the missing analysis of his critique of corporations. JKG was a believer in macroeconomic policy-making and a progressive income tax to create a more stable and equitable society. Perhaps this moral foundation prevented him from seeing one reason why there is absentee ownership of corporations. The federal income tax allows the write-off of corporate debt interest payments pre-tax. This of course creates incentives for debt-based capitalization over equity for those who are in the management class. JKG's "technostructure" gains its social power as debt to equity ratios increase and shareholders lose their incentive to monitor in detail their investments. This too might explain the huge and increasing pay differentials between the CEO and the person on the factory floor as described in the "A man for our times" chapter. In this regard it would have been nice to see some comparisons with other heterodox ideas for the corporatization and financialization of the economy in this otherwise engaging monograph.

Dunn writes,

> So while the grand sweep of Galbraith's analysis is often caricatured as conveying a world of durable, dominant American megacorporations surreptitiously manipulating gullible consumers, one should resist using this as an excuse for dismissing Galbraith's economic contributions without further and deeper considerations (p. 11).

Our author succeeded in doing just this and this book can be recommended to anyone interested in the intersection between economic thought and social engagement. Also of note that Dunn includes a bibliography of more than 350 "additional" works written by JKG (alone and with others) both in the popular and scholarly press. It is no wonder that John Kenneth Galbraith remains, even today, one of the United States' most well-known economists, even if, as Dunn proposes, under-appreciated by economists themselves.

References:

Frank, R. (2005). "Positional Externalities Cause Large and Preventable Welfare Losses." *American Economic Review* 95(2): 137-141.

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