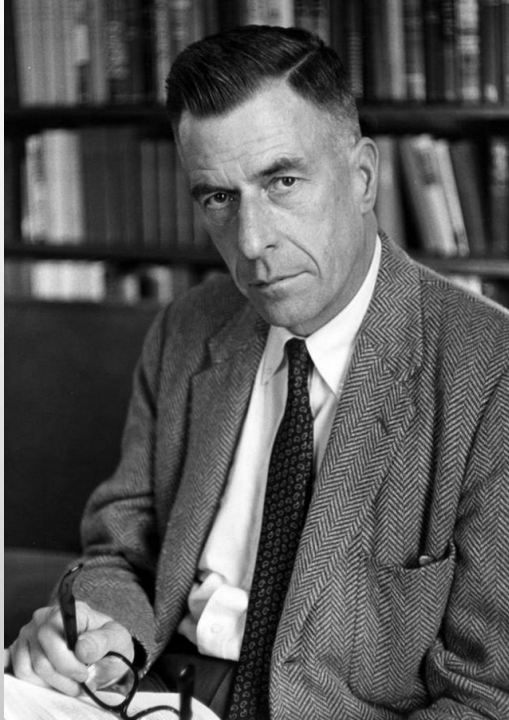


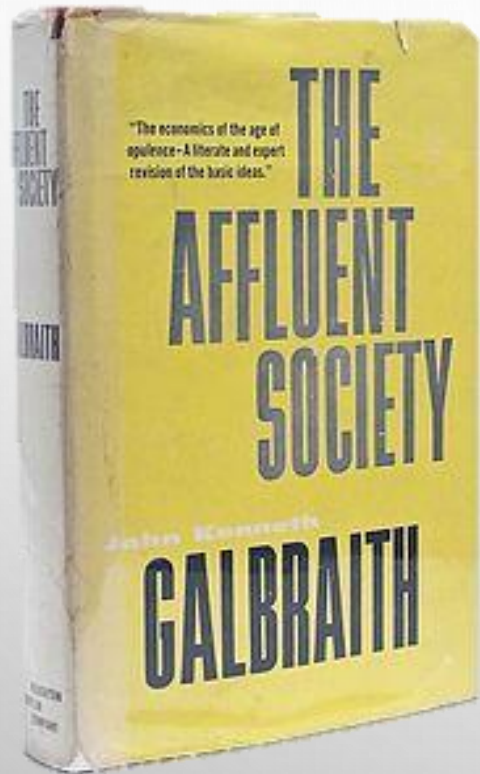


# JOHN KENNETH GALBRAITH



- John Kenneth Galbraith is one of the most influential economists of the twentieth century.
- A professor of economics at Harvard from 1949-1975.
- His more than forty books bridge the gap between academic economic theorists and the common reader.
- He has held various government posts and worked as a speech writer for United States Presidents Franklin D. Roosevelt, John F. Kennedy, and Lyndon B. Johnson.

# JOHN KENNETH GALBRAITH



- The Affluent Society was written to awaken American public opinion from its complacent worship of mindless economic growth.
- It succeeded in its purpose beyond all expectation. Almost immediately upon publication in 1958 the book leaped onto the best-seller list, where it remained for twenty-eight weeks.

# THE AFFLUENT SOCIETY

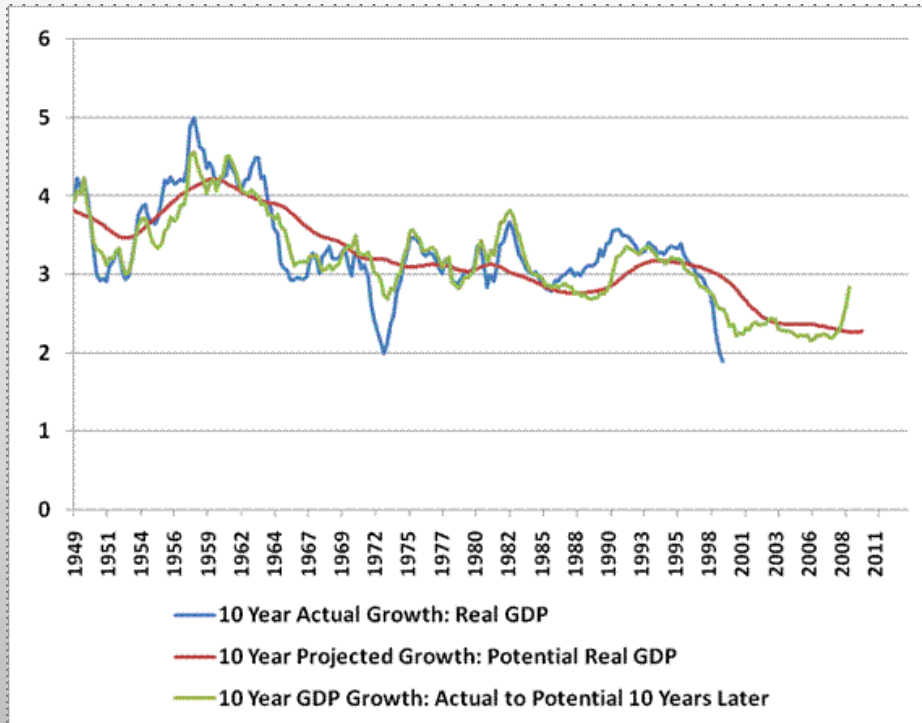
## A “Golden Age”?



- National Prosperity: Most Americans experienced an unprecedented level of prosperity in the postwar decades.
- Cold War Sense of Purpose: Many in American society felt the nation was brought together in a common purpose through its “struggle” with communism; others saw an alarming homogeneity and intolerance of difference.
- Blindness to Social Problems: Some argued that prosperity, self-satisfaction, an ever-expanding consumer culture, and anti-communist fervor brought about a blindness to social problems faced by large groups within the U.S. population.

# THE AFFLUENT SOCIETY

## The Economic “Miracle”



- **Booming Economic Growth:** The 1950s and early 1960s, the U.S. experienced a period of economic growth that surpassed that of the 1920s, and which was much more widely distributed. But it was not as universal as some believed.
- **Economic Expansion:** Beginning in 1949, the U.S. economy grew at an astounding rate over the next two decades. Between 1945 and 1960, the GNP grew from \$200 billion to \$500 billion, and increase of 250 percent. Unemployment remained at about 5 percent.

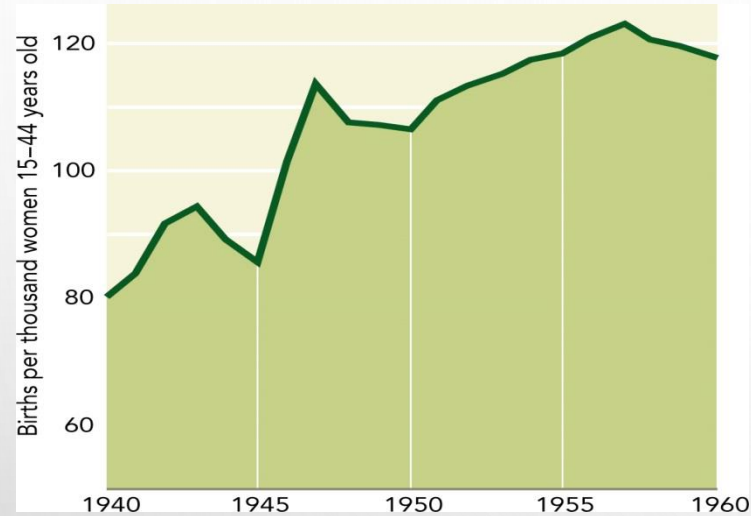
# THE AFFLUENT SOCIETY

## Government Spending:

- This had lifted the U.S. economy out of the Great Depression with World War II preparation; it continued to stimulate the economy in the late 1940s and early 1950s with funding for the building of schools and housing, veterans' benefits, welfare programs, interstate highway construction, and military spending, which remained high during the 1950s due to the Korean War.
- Oil Fields: The oil industry in places like Texas and Colorado fed growth.
- University Systems: Texas and California invested heavily in their state university systems, making them leaders in research and engines of growth.



# THE AFFLUENT SOCIETY



The American Birth Rate, 1940-1960



- **Birth Rate:** The “**baby boom**” of the postwar era reversed a long trend of decline, peaking in 1957. The population rose from 150 million in 1950 to 179 million in 1960, driving consumer demand.
- **Suburban Expansion:** People living in the suburbs rose by 47 percent and stimulated many sectors of the economy, but especially home and road construction, and the car industry. Private car ownership more than doubled in the 1950s.
- **Individual Prosperity:** While wealth was not evenly distributed, the average American in 1960 had 20 percent more purchasing power than in 1945 and twice as much than in the 1920s. Americans had achieved the highest living standard in the world.

# THE AFFLUENT SOCIETY



- **The Explosion of Science and Technology**
  - Men of the Year: In 1960, Time magazine made "U.S. Scientists" its "Men of the Year."
  - Development of Antibacterial Drugs: Louis Pasteur and Joseph Lister made the initial breakthroughs about bacterial infections in the nineteenth century, but it was not until the 1930s that European scientists made advances with "sulfa drugs" that were used to combat streptococcal blood infections.

# THE AFFLUENT SOCIETY



The Mercury Seven, including the future senator John Glenn of Ohio, who were selected in 1959.



The first moon landing, the Apollo 11 mission, in July 1969

# THE AFFLUENT SOCIETY



## ■ The Consumer Culture

- **Middle-Class Expansion:** The middle-class lifestyle and outlook came to be shared by a much greater proportion of the population in the postwar period.
- **Growing Focus on Consumer Goods:** Consumer credit increased by 800 percent between 1945 and 1957 through charge cards and easy-payment plans.
- Cars became even flashier and accessorized. Dishwashers, garbage disposals, televisions, and stereo systems were new items Americans embraced.
- National consumer crazes like the hula hoop and Mickey Mouse watches spread like wildfire.



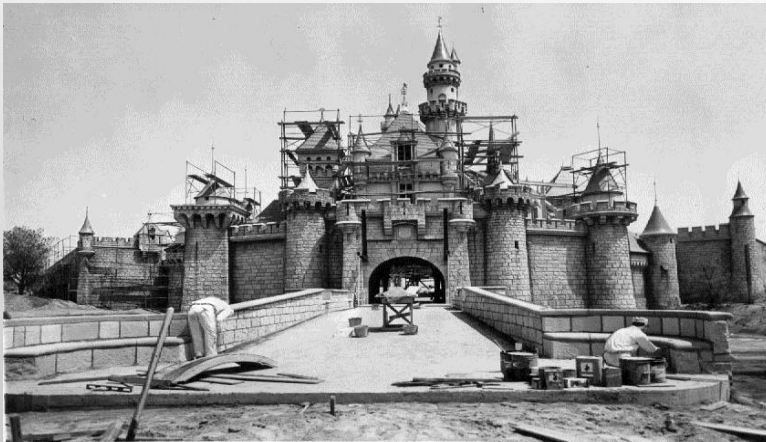
Tail fins on a 1957 Chevrolet Bel Air



A 1950s kitchen



Dick Clark hosting American Bandstand in 1957; the program ran from 1952 to 1959, with Clark as host starting in 1956



Disneyland's Sleeping Beauty Castle under construction before the park's opening in 1955.



A 1958 jukebox in a diner



Elvis Presley (1935-1977)

# THE AFFLUENT SOCIETY

*You get more to be proud of in a Chevy!*



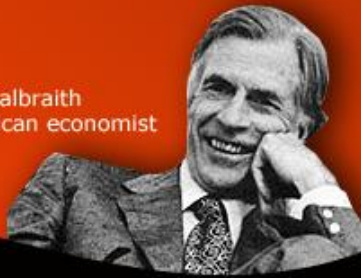
- In 1958 economist John Kenneth Galbraith published *The Affluent Society*, in which he claimed that the nation's postwar prosperity was a new phenomenon.
- In the past, Galbraith said, all societies had an “**economy of scarcity**,” meaning that a lack of resources and overpopulation had limited economic productivity.
- Now, the United States and a few other industrialized nations had created what Galbraith called an “**economy of abundance**.”
- New business techniques and improved technology enabled these nations to produce an abundance of goods and services for their people—all of which allowed many of them to enjoy a standard of living never before thought possible.



# CONVENTIONAL WISDOM

"The **conventional view** serves to **protect** us **from** the painful job of **thinking.**"

John Kenneth Galbraith  
Canadian-American economist  
(1908-2006)

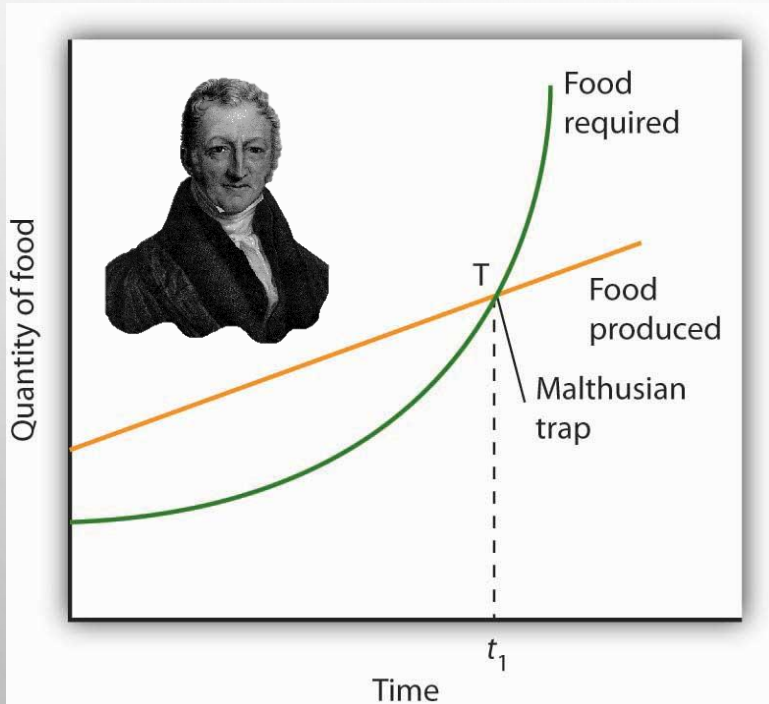


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- Galbraith introduces the concept of **conventional wisdom**, which refers to the generally accepted ideas within any given society.
- He asserts that conventional wisdom is based primarily on tradition and does not accommodate changes in society and so must be viewed with skepticism.
- Galbraith explains that the conventional wisdom about the economy stems from nineteenth-century economic conditions and is, therefore, no longer relevant to the American economy in the twentieth century.

# CONVENTIONAL WISDOM

- He states that economic theory up to this point is based primarily on societies characterized by poverty and is, therefore, inadequate to addressing the economic condition of the United States in the twentieth century.
- He observes that the early economic theorists—the leading figures being Smith, Ricardo, and Malthus—of the previous centuries based their theories in a world economy characterized by **poverty**.
- Many people in positions of power have a "vested interest" in the conventional wisdom in that it serves to maintain the status quo.



# CONVENTIONAL WISDOM



There are two main points about **conventional wisdom**.

- The **first** is **economists**, as well as **the general public**, must look beyond the outdated assumptions of conventional wisdom to formulate a more realistic assessment of the current American economy.
- **Secondly**, Galbraith points out that the conventional wisdom often functions as a cover for economic policies that in fact run counter to this "wisdom."
- In essence, Galbraith views conventional wisdom as a **mass delusion** that must be dissipated to gain a clearer picture of the current status of the economy.

# MARKET BELIEF



- A principal belief of the free market clearly peaked during the 1980s with the ascendance of monetarism, supply-side economics, and Reaganomics.
- But the popularity of this view has always been strong in policy circles, and has provided Galbraith with a consistent target over the years.
- *His assault on those wearing the Adam Smith necktie—advocates of laissez-faire and neoclassical economics—must have provided a particularly rich source of enjoyment.*

# MARKET BELIEF



- One of the oldest arguments in defense of markets rests on the belief that markets have an unrivaled capacity for meeting consumer needs and desires.
- But Galbraith argues that **firms** are in the business of shaping the very demands they are supposed to meet.
- It is no secret that large firms dedicate substantial funds to advertising and related selling efforts.
- The obvious conclusion is that actual production is some combination of what individuals desire, and of what firms want to produce.

# MARKET BELIEF

- Another problems with competitive markets are fundamental—they are ***technologically backward***.
- Preoccupied with ensuring their own survival, the typical farmer, the bituminous coal company, and the shoe manufacturer have little interest in devoting huge sums of money to risky endeavors with possible payoffs that are put off many years into the future.
- Hence, those industries that come closest to meeting the conditions of perfect competition also conduct the least amount of research.
- Even in agriculture, technological deficiency has been avoided only by the concerted efforts of government and large suppliers.



# MARKET BELIEF



- In addition, market defenders insist on painting a picture of firms as if they had no power over the government, consumers, or even their own prices.
- Once again, according to Galbraith, many large firms not only influence consumers and the state, they also exercise considerable discretion over the prices they set.
- The problem with power, according to Galbraith, is not that firms produce too little (as suggested by conventional monopoly theory), but that **they produce too much.**
- The result is that resources are not underutilized by large firms who make up the planning structure, but are overused.

# MARKET BELIEF

- While the planning sector may lose some sales by charging a higher price, the loss is more than offset by the additional sales arising from massive expenditures on advertising and research and development.
- Where the conventional monopoly model implies that the U.S. auto industry of the 1960s was underproducing, the reality, in this view, was just the opposite.
- At the time, more resources were devoted to the manufacture of automobiles than could be justified reasonably.
- The result was more cars and their complements—roads, parking lots, gas stations, pollution, and highway deaths—than would have existed in a more competitive and less profitable market that did not have the resources to put out a new model every year and advertise it on all the major networks.

# PRODUCTION



- Galbraith argues that the issue of inequality in the distribution of wealth has become less and less of a concern in American conventional wisdom.
- He points out that since the 1930s, economic security, both for the business owner and the worker, has steadily increased, as has overall production.
- **Production**, thus, has become the foremost concern in economic thought and the essential measure of economic vitality.

# PRODUCTION

- However, Galbraith notes that, in fact, this concern with production is irrational and inappropriate to the realities of the economy.
- According to the conventional wisdom, on the value of **high rates of production** to a healthy economy.
- He observes that the near worship of high production rates in the American economic attitude is a major hurdle that must be overcome.
- Galbraith points out that the focus on production causes most people to overlook other values, such as the importance of public services and job satisfaction.

# WORK

- Another fallacy of conventional wisdom is the assumption that a primary benefit of affluence is the opportunity to work fewer hours per week
- Working less is not necessarily the most greatly desired benefit of affluence; rather, he contends, the desire for enjoyable work is greater than the desire for less work.
- There is now a new class of workers who have the luxury of pursuing jobs that satisfy their own interests.
- He does not deny that income is an important factor in job satisfaction, but notes that interest and pleasure are of at least equal importance.

# WORK

- The most important factor in membership to this new class of workers is access to **higher education**.
- It is primarily with education that citizens are allowed the opportunity to pursue a career that involves work that is enjoyable.
- He argues that greater expenditure in the area of public education would make it possible for a larger and larger portion of the population to find occupations doing work they like to do. There is no reason an affluent society cannot afford to make this possible.



# CONSUMERISM



- According to conventional wisdom, production rates are determined by a society's need for various products, as indicated by rates of consumption.
- He points out that economists continue to overlook the power of advertising in actively creating artificially high levels of consumer demand.
- High rates of production do not simply satisfy preexisting needs or desires in the consumer; rather, the industries that produce consumer products simultaneously produce advertising campaigns designed to convince consumers of their need for this product.

# CONSUMERISM

- Among the various strategies devoted to marketing, one must include most research and development devoted to new products.
- The idea that firms engineer socially useful products is a comforting notion that appeals to industrial engineers and business economists.
- **But** the reality is that firms design new products because they are salable.
- Galbraith asserts that even a comparatively useless product can be salable when its demand responds well to advertising campaigns that promise "greater sexual opportunity, less obesity, or some significant escape from the crypto-servant role of the housewife."
- Product development and market research are seldom very distant from each other in the corporate organization chart.

# CONSUMERISM



- If many of the goods currently produced could not be sold without advertising, then how important are these goods?
- The possibility that some portion of private production is superfluous raises serious doubts about its virtue.
- We are led to the unavoidable conclusion that private businesses are just as capable of providing unnecessary goods and services as the commonly maligned government sector.

# INCENTIVES

- Supply-side economics of the 1980s was based largely on the belief that taxes sullied these pure incentives and resulted in a stark reduction of productive activity.
- But this notion has been around for a long time, or at least since 1956.
- In that year, an address to the National Association of Manufacturers claimed that the prevailing tax structure "destroys the incentive of people to work ... It makes it increasingly difficult, if not impossible, for people to save."

# INCENTIVES

- In response, Galbraith pointed out the obvious (if not inconvenient) fact that the tax structure had changed little for two decades; and yet, the country had enjoyed "years of rapid economic growth."
- The disincentives associated with the tax system were devastating in theory, but fortunately, nearly invisible in reality.
- Savings were not particularly low, observed Galbraith, nor would "many businessmen wish to concede that they are putting forth less than their best efforts because of insufficient pecuniary incentive."

# INCENTIVES

- Another violation of market incentives, according to government opponents, is **the welfare system**. Where is the motivation to work when one can remain idle and collect welfare?
- But in Galbraith's view, "The corrupting effect on the human spirit of a small amount of unearned revenue has unquestionably been exaggerated as, indeed, have the character-building values of hunger and privation."
- His proposal to alleviate poverty included a sizable increase in the average welfare grant; and rather than spending less on the education and development of poor children, as is the common practice, he argued that more should be spent.

# INCENTIVES

- While the poor are left to suffer the costs of a poorly functioning labor market, the rest of society has, in Galbraith's estimation, largely distanced itself from the insecurity and risk of the market.
- The planning system of large corporations and the complementary function of trade unions tend to push risk farther down the corporate ladder.
- Social Security eliminates much of the risk associated with old age, and federal farm-support programs greatly reduce the anxiety in agriculture.
- Even Keynesian macroeconomic policy alleviates much of the risk inherent in the overall economy.

# INCENTIVES

- But unlike most economists who lament the loss of market forces and their highly prized incentives, Galbraith recognizes this development as the product of a progressive economy.
- After all, human beings are strongly averse to risks involving serious deprivation—especially those related to unemployment, bankruptcy, or depression.
- It is understandable that a relatively affluent society would develop institutions with the explicit purpose of lessening the impact, or likelihood, of such calamities.

# INCENTIVES

- As for the incentives discarded with the risks, the loss is again hardly evident.
- "The most impressive increases in output in the history of both the United States and other western countries have occurred since men began to concern themselves with reducing the risks of the competitive system."
- But it will take more than obvious facts to break the spell that the concept of market incentives holds over the average economist.
- The preservation of market incentives has become a calling for many academics—even those on government payrolls, or with tenure.
- The irony was not lost on Galbraith, who noted, "Restrains on competition and the free movement of prices, the principal source of uncertainty to business firms, have been principally deplored by university professors on lifetime appointments."

# SOCIAL BALANCE

- Galbraith elaborates upon his argument that the conventional wisdom of American economic thought values high production in the private sector as a measure of a strong economy while denigrating the value of goods and services provided by the government.
- Thus consumer expenditure on personal goods and services is valued above government expenditure funded by taxes.
- Galbraith coins the term "**social balance**" to describe an acceptable relationship between private and public expenditure.

# SOCIAL BALANCE

- He argues that an affluent society is dependent, for the **public good**, on state expenditures in the areas of the police force, education, public sanitation, public transportation, roads, and the regulation of safety standards for air and water.
- He argues that **public education** is an area of government expenditure that is ultimately an investment in private-sector industry.
- In an age of technology, citizens with a higher education in the areas of science and engineering are necessary to the advance of industry.

# SOCIAL BALANCE

- However, the conventional wisdom, Galbraith observes, does not consider public education to be a valuable investment in economic prosperity.
- Galbraith further asserts that finding employment for the unemployed is not the best way to cure economic downturns or high inflation.
- Rather, he argues, an increase in unemployment benefits provided by government would accommodate the unemployed without adding to the problem of inflation.
- He further contends that a greater emphasis on sales taxes (rather than income taxes) would lead to a greater social balance of private and public sector production.
- He makes clear that income taxes should remain but that greater sales taxes would fund government at the state level, thus enabling greater expenditure on such vital public services as education.
- He asserts that greater government spending in the public sector is the most important factor in reducing poverty.

# THE POVERTY OF PUBLIC GOODS

- Among the most profound accomplishments of economic conservatives has been their ability to establish a positive image for private production, matched by an equally negative one for public production.
- While politicians are well-regarded for any increase of the gross domestic product that occurs during their tenure, they are attacked for expansions of government spending.
- The fact that government spending may be necessary to stimulate economic growth has never been sufficiently appreciated by the populace.
- The myth that private production is, in some way, superior to public production has persisted long past its usefulness.
- "Comic books, alcohol, narcotics, and switchblade knives are, as noted, part of the increased flow of goods, and there is nothing to dispute their enjoyment," added Galbraith.

# THE POVERTY OF PUBLIC GOODS

- He continued that the prevailing view flies in the face of common sense and makes "education unproductive and the manufacture of the school toilet seats productive ... presumably a community can be as well rewarded by buying better schools or better parks as by buying bigger automobiles."
- The results of such perverse priorities are occasionally so striking that they can't be ignored.
- In the 1950s, "Some ... even pointed out that, in the same week the Russians launched the first earth satellite, we launched a magnificent selection of automobile models, including the uniquely elegant new Edsel."
- But unfortunately, recognition of the problem has been infrequent and fleeting. Private production continues to enjoy an undeserved reputation vastly superior to its public counterpart.

# THE POVERTY OF PUBLIC GOODS

- What is the source of this discrepancy that Galbraith would call the social imbalance?
- One answer is that the private sector does a much better job of promoting itself.
- It leaves only positive images in the minds of consumers through extensive advertising, sales promotion, and company public relations. There is no comparable advertising by the public sector.

# THE POVERTY OF PUBLIC GOODS

- Elementary schools, police, social-welfare agencies, public housing, city parks and pools, public transportation systems, and state universities are not at liberty to spend large amounts of their budgets on self-promotion.
- An exception is the advertising conducted by the government for military recruiting.
- But, this exception only proves the rule, since military spending has traditionally enjoyed a deeper level of support and funding than other government activities.
- As such, the public sector is at a distinct disadvantage, leaving it especially vulnerable to the ravages of anti-government pundits.

# ECONOMICS

- Conventional economists routinely evaluate the merit of economic policies by determining how much the results diverge from those of a competitive market.
- But once one recognizes the shortcomings of such an approach, how does one distinguish between good economic policies and bad ones?
- Any economic argument should not only be believable, it should also hold up over time.
- "The enemy of the conventional wisdom is not ideas but the march of events."
- Similarly, "For being right, one may perhaps conclude it is better to have the support of events than of high scholarship."

# ECONOMICS

- In 1952, Galbraith described the inability of centrally planned economies to contend with the wide variety of consumer goods and services necessary to support a modern economy.
- The problem is largely resolved in the United States by a division of labor.
- A planning system that encompasses large corporations controls the production of consumer durable goods and natural resources, while a more decentralized market system handles the myriad complexities associated with smaller consumer goods and services.
- The Soviet economy had no comparable mechanism to handle these latter demands—a shortcoming that Galbraith claimed would only get worse with time.
- The eventual collapse of the Soviet system in the 1980s was widely believed to be related to this particular deficiency.

# ECONOMICS

- An essential lesson in the economics curriculum asserts that the only legitimate defense of a public policy is efficiency.
- Since efficiency and laissez-faire are often equated by definition, the bias against government intervention is assured.
- One way to escape this trap is to broaden the criteria for evaluating public policy. This solution is not unknown.
- The recently formed Society for the Advancement of Socio-Economics is committed to "alternative approaches" that are "morally sound."

# ECONOMICS

- For instance, we could apply compassion, thereby giving more weight in economic policy to those with the least income.
- It is a value that Galbraith has used effectively in his arguments for government intervention.
- "An affluent society, that is also both compassionate and rational, would, no doubt, secure to all who needed it the minimum income essential for decency and comfort."

# POVERTY AND ECONOMIC INEQUALITY



- While Galbraith asserts that the United States enjoys unprecedented affluence, he does not deny the continuing issue of economic inequality.
- He criticizes current attitudes about the economy, which reinforce a habit of discounting the issue of economic inequality.
- Rather, Galbraith believes that poverty should continue to be at the forefront of national concerns with the economy.
- He advocates diverting greater sums of tax revenue into public services to compensate for the disadvantages of poverty.
- Galbraith is especially concerned with providing the children of poor families with the public services, such as education, health care, and proper nutrition, which would allow them to overcome the poverty suffered by their parents.