

The Economic Embarrassment Of America's Riches

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THE AFFLUENT SOCIETY, by John Kenneth Galbraith. Houghton Mifflin. \$4.

"To create the demand for new automobiles we must contrive elaborate and functionless changes each year and then subject the consumer to ruthless psychological pressures to persuade him of their importance. Were this process to falter or break down, the consequences would be disturbing."

This quotation gives at once the major theme and the literary flavor of Professor Galbraith's new book about the American economy. It is a study both witty and profound, and it will probably be more popular with observant laymen than with the specialists of the learned faculty. It throws a new light on the complicated and paradoxical problems of the postwar age, a light that some may find blinding.

The paragraph I have quoted was written in the fall of 1957, when the cloud in the economic sky was no bigger than a man's hand. Today the process of persuading the consumer of the importance of the unimportant has faltered very badly indeed, and the consequences are more than disturbing—with one Detroit worker in five unemployed.

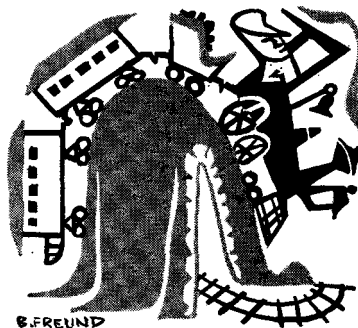
Gross Tonnage and the Good Life

Some of us lay economists were wrestling in the 1930's with questions of affluence and abundance, but Professor Galbraith brings the analysis up to the moment, noting new factors and trends—such as creeping inflation, the reversal of the population growth-rate curve, and the massive increase in consumer credit. He speaks, furthermore, from within the academic grove rather than outside it. Only Thorstein Veblen, sometime president of the American Economic Association, ventured a similar non-conformity in biting the hand that fed him; and only Veblen, of all the heavy artillery of a generation

ago, is clearly remembered by the layman today.

Galbraith's *American Capitalism*, published in 1952, advanced the theory of "countervailing power." Big Industry, Big Distribution (mail-order houses and chain stores), Big Agriculture (with the most puissant lobby in Congress), Big Labor, and Big Government were described as five mighty power centers, grinding one another down and preventing any one from emerging as czar of the economy. None lost an opportunity to call another czar—but that was part of the countervailing process.

Mr. Galbraith's theory was widely discussed at the time. Many found it persuasive, though applicable to a more or less temporary situation. In *The Affluent Society*, the analysis runs deeper and the view is longer. This book is the first comprehensive attempt to describe a phenomenon



unknown in any society since civilization began, and to formulate its trends and rules—"laws" may be too strong a term. In all previous societies, and in most societies still, material poverty has been the common lot. The two great theoretical structures of *laissez faire* and Marxism are based squarely on the assumption of poverty for the majority.

The United States has shattered all tradition and all previous theory by providing a majority of citizens with goods well above the line of

subsistence, leaving only a minority still poor—"case" poverty, where the breadwinner is sick or feeble-minded or alcoholic, and "insular" poverty, as in the Ozarks.

Affluence has been won in one society at least—Canada, Australia, and western Europe are following a similar trend—but it is not to be confused with Utopia. The formula, or better the behavior pattern, by which the United States maintains its affluent supremacy is shaky; while the good life, in the sense of a balanced supply of goods and services, still eludes most of us. We are at once affluent in gross tonnage of fin-tailed cars and poverty-stricken in the more lasting forms of satisfaction—a lopsided society in a lopsided economy. Television for everybody; inadequate schoolrooms and teaching staff for hundreds of thousands of children.

CAN THE BALANCE be righted? Galbraith believes there is a possibility, not so much by virtue of reforming zeal but because trends are running in that direction. (And, I might add, because of Russian competition.) He offers some stimulating proposals to bring the economy into balance, but warns that they will be fought by the "conventional wisdom"—a spook that haunts this essay. New Dealers will combine with classicists in objecting to some of the proposals.

The study accepts no ideology, Right, Left, or Center. It cuts through the words and slogans to discover what is actually going on out there in the market place. Some such course as the book outlines may turn out to be the only possible way for an open society to keep its affluence—the only way for a modern democracy to adjust to an economy of abundance. Certainly this sort of objective examination must be made before a course can be charted.

The argument follows an orderly pattern, alternating between closely reasoned technical analysis and illuminating cases often imbued with irony and wit. Galbraith takes the dismal science out into the sunlight. A good deal of the argument is addressed more to his confreres than to the general reader, and much effort is expended digging foxholes for protection against the academic

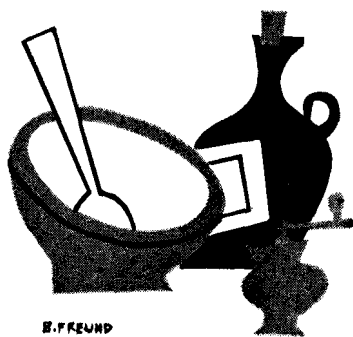
brickbats that are bound to be thrown. Veblen too was a foxhole digger; but I wonder if such shelters are still necessary. I wish some of the energy that went into defensive strategy had been devoted to a comparison of American affluence with the Russian performance in a closed society, especially the allocation of capital goods, and the chances for affluence in other open societies of the West. The reader is sometimes in doubt, moreover, as to whether conventional wisdom or the author is speaking, and has to retrace his steps to find out. But we can't have everything, and I suspect that no sensible plans for the future of democratic societies can be made without reference to this analysis.

THE STORY BEGINS with the great traditional assumptions in economics, outlined by Adam Smith, then made precise by David Ricardo and ferocious by Herbert Spencer. It is interesting to remember that Marx built solidly on Ricardo, and was so convinced of the latter's validity that he thought the only escape from the relentless laws of capitalism was violent revolution. Ricardo and company assumed: (1) poverty for the majority; (2) inequality enforced by the iron law of wages; (3) insecurity for both entrepreneur (the risk taker) and worker; (4) the beneficence of private production in any amount and any variety; (5) the insatiability of human wants; and (6) the necessity of free competition to insure maximum output, government to act as arbiter only. Herbert Spencer even demanded that governments get out of the business of running schools and delivering mail.

Some of these assumptions still exist in Asia today—mass poverty, for instance, and inequality between sheik and shepherd. In the West, however, and especially in the United States, we have been veering away from them for a hundred years, until now a vast gulf separates the conventional wisdom from actual behavior. Mass poverty is gone. Inequality has been profoundly modified, especially by the graduated income tax—a mechanism that would make Ricardo turn in his grave and Marx refuse to believe his eyes. Insecurity for the rank and file has been reduced by social-security legislation,

fringe benefits in industry, and the manifold provisions of the welfare state. The free market has been profoundly altered by the administered prices of Big Business, by the contracts of Big Unions, by subsidies to farmers, and by increasing governmental regulations.

Galbraith devotes a fascinating section of his book to the trans-



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formation of the risk taker, the "venture capital" man, into the keeper of a corporate fortress that is well-nigh impregnable to risk. For many years the managers of large corporate enterprise have been trying, with the utmost prudence and diligence, to eliminate risk, until now they have only a major depression to fear. (Note how prices have continued to rise in the current recession even as demand declines; the big boys have driven risk taking to the ropes.)

All Hail the G.N.P.!

But it is against the classical assumption of an abstract and limitless "production" that Galbraith makes his most novel and striking contribution. Conservatives and liberals alike, the N.A.M. and the A.D.A., genuflect before G.N.P.—Gross National Product. "We'll hit \$600 billion by 1970" seems to be all we know, and all we need to know. The classical assumption stands firm, but the facts of economic behavior are anything but firm. To boost the G.N.P. every year demands that consumers must be bludgeoned by ever more frenzied publicity, including motivational research, into accepting the importance of the unimportant. This acceptance entails a mammoth increase in consumer credit to finance the purchase of the unimportant, at least in the areas of planned obsolescence. Creeping in-

flation becomes inevitable, together with a staggering waste of good iron, copper, oil, and other natural resources.

But human wants are *not* insatiable. As one's income grows, one's wants shift, and at certain limits tend to cease altogether. Poverty-stricken societies may talk about insatiable wants; affluent societies should be more discriminating. There is a limit to what a human being can eat, a limit to the number of cars one can cram into a garage, a limit to the number of television programs that can be watched simultaneously on separate sets for each member of the family.

Veblen in 1900 could talk about conspicuous consumption, but Galbraith talks about the growing enclaves of inconspicuous consumption, where a Volkswagen is a better symbol of prestige than a Cadillac, where—heaven help Madison Avenue—one keeps down with the Joneses. Our author describes the emergence of a new social class that cares more for the interest of the job than for the pay, in which satisfactions run more in professional work well done than in gross tonnage of stuff consumed.

ANOTHER IMPORTANT change has occurred in the conventional wisdom since Ricardo's time, primarily as a consequence of the great depression. The goal of full employment and high wages is now supported by practically everybody in America. How else indeed can the affluent society absorb its own production? This goal entails, however, a painful side effect in the wage-price spiral and more inflation. "Where inflation is concerned," Galbraith notes, "nearly everyone finds it convenient to confine himself to conversation. All branches of the conventional wisdom are equally agreed on the undesirability of any remedies that are effective." Effective means of combating inflation conflict with the ideal of production for the sake of full employment, and a bigger G.N.P.

There is a theory that advancing the discount rate by the Federal Reserve will check inflation, but recent monetary history, alas, shows this to be an illusion. Such changes, furthermore, can be dangerous by

checking business investment and encouraging unemployment, while administered prices soar majestically upward. The same attitudes that lead us to advocate full employment and the use of industrial plant at capacity "deny us the measures to prevent inflation." This is a shattering conclusion, but I am afraid it is true.

Surfeited Yet Still Hungry

Conventional wisdom maintains that wants originate in the breast of the consumer, and that business should employ all available resources to satisfy them. Galbraith takes a close look at the advertising pages of our slick magazines and comes to the more realistic conclusion that the producer now manufactures not only the goods but the wants. Independent choice rules undefiled in the textbooks but not in the market place, and certainly not in the offices of B.B.D.O. To this method of packing goods and wants in one blunderbuss he gives the name "dependence effect," and it is cardinal in our affluent society.

As sane men, however, do become surfeited, the difficulties and costs of manufacturing the wants mount steadily. If sane men really desired unlimited production as an end in itself, the hours of labor would not have been cut in half since the Civil War. Think of all the stuff we might be able to produce on an eighty-hour week!

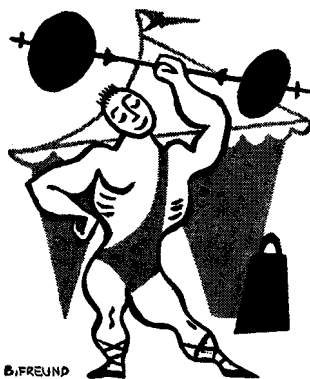
Our affluent society suffers from another serious malady—its neglect of what Galbraith calls "social balance." Even the sanest American is not surfeited by certain kinds of goods; as a matter of fact, he is starved for them. They lie, however, in the public rather than in the private sector. They cannot be wrapped in cellophane and sold. They include such things as schools, scholarships for bright youngsters, research in pure science, parks, playgrounds, hospitals, mental-health research, care of the aged, safer highways and airways, urban redevelopment, conservation, open spaces, clean rivers, the arts, the opportunity to relax and invite one's soul. Massive as the G.N.P. may be, it is remarkably deficient in many of the things that make life worth living.

Conventional wisdom holds that only private output constitutes wealth; public output is at best a necessary evil. So we picnic on exquisitely packaged foods, from a portable icebox, beside a polluted stream lined with empty beer cans and billboards. "The counterpart of increasing opulence will be deepening filth," of which the smog of Los Angeles is perhaps the supreme example.

If we could achieve a balance of true wealth, the range of true wants would expand, leaving less to be contrived by the higher salesmanship. Or, as Galbraith concludes, "At least this is a plausible hypothesis."

The Doctor's Prescription

With this plausible hypothesis the book might well end. Galbraith has taken the affluent society apart, to



find that it cannot continue indefinitely on its present course; inflation, unbalanced output, and consumer rebellions are becoming unmanageable, and a new formula must be found.

He then proceeds to make five suggestions for recovering balance. I did not find them as exciting as the analytical work, but I believe they indicate the sort of thing that must be done. Galbraith advocates:

¶ A flexible system of unemployment compensation, financed outside of actuarial standards by the Federal government, on top of what the states may do. As unemployment increases, scales of compensation go up until they are just under weekly earnings. As unemployment declines, scales go down. Thus when jobs are plentiful the system will provide little incentive for malingering; when jobs are scarce, no useful dis-

inction can be made between those who are idle voluntarily and those unable to find work. A full head of consumer demand is meanwhile maintained, and "the effect . . . is to make tolerable the unemployment which is associated with price stability." We cannot hope to check inflation without having some unemployment from time to time; this fact must be faced.

¶ Limited price and wage controls. Not nearly so drastic as during the war, but enough to stop the wage-price spiral.

¶ A Federal tax system that will automatically divert a share of increasing income taxes to public authority for public purposes—schools, roads, hospitals, and the rest.

¶ An expanded sales tax for maintaining social balance in states and cities. Liberals will cry havoc. A sales tax hurts the poor! But there are no poor in affluent societies; at least almost nobody is below the line of subsistence. "A poor society rightly adjusts its fiscal policy to the poor." Wake up, friends—it isn't that kind of economy any more!

¶ Good schools, public services, medical care, and scholarships guaranteed to the children of that minority which is still poor—the "case" poor and the "insular" poor. The children must not suffer. In Russia today, every gifted child is given all the education he can absorb. Can we do less?

THese five proposals, while novel, are comfortably within the limits of an open society, far short of socialism, defined as the public ownership of the means of production.

The sober reader, while admitting that there is nothing subversive about Mr. Galbraith's program, may say the time is not ripe for such drastic changes. The sober reader should remember, however, that we are in an economic race with Russia and China for the uncommitted peoples of the world. Unless we are ready to experiment with new ideas and new machinery to preserve our open society from disastrous inflations and depressions, we shall surely lose the race, and perhaps our democracy along with it.