

# The Economics of John Kenneth Galbraith: An Overview of the Book

Stephen Dunn

## Resumen

El texto de Stephen Dunn que corresponde a la primera de sus dos presentaciones en el seminario. Dunn nos distinguió con la primacía de la presentación internacional de su libro titulado *La economía de John Kenneth Galbraith* que una semana posterior se presentó en Inglaterra en la Universidad de Cambridge, en el Seminario permanente sobre Keynes que coordina M. Hayes. En estas notas, S. Dunn invita a los lectores a efectuar una relectura de Galbraith, cuyas aportaciones al pensamiento económico, después de la crisis, vuelven a ser vigentes, colocando sus libros en la lista de los bestseller. El libro de Dunn subraya entre otras características de la obra de J. K. Galbraith su visión de la economía como proceso, su crítica al sistema, su particular metodología y sus aportaciones a la teoría de la empresa. En esta obra, se presenta por primera vez un examen detallado de la economía monetaria y revisita el análisis de la explosión financiera.

## Palabras clave

- Enseñanza de la Economía
- Metodología Económica
- Estudios de política económica

## Abstract

The text corresponds to the first one of his two presentations in this seminar. Dunn distinguished us with the primacy of the international presentation of his qualified book "John Kenneth Galbraith's economy" that a later week I present in England in the University of Cambridge, in the permanent Seminar on Keynes that coordinates M. Hayes. Dunn invites the readers to effect Galbraith's rereading, which contributions to the economic thought, after the crisis, return to put in force placing his books in the list of the bestseller. Dunn's book underlines between other characteristics of the work of J. K. Galbraith his vision of the economy like process, his critique to the system, his particular methodology and his contributions to the theory of the company. In this work, one presents for the first time a detailed examination of the cash economy and re-visits the analysis of the financial explosion.

## Key words

- Teaching Economics
- Economic methodology
- Studies of policy

JEL Classifications: A22, B41, E65

## Lecture speaking notes

The recent financial crisis has once again seen John Kenneth Galbraith return to the bestseller lists. Yet, despite the continued popular success of his works, Galbraith's contribution to economic theory is rarely recognized by today's economists. My book *The Economics of John Kenneth Galbraith* aims to redress the balance by providing an introductory and sympathetic discussion of Galbraith's



social change. Galbraith rejected neo-classical orthodoxy because its theoretical core failed to explain real world phenomena.

Chapter five sets out Galbraith Theory of Advanced Development. Here I outline Galbraith's ramifications of the rise of large firm on modern advanced economies. are dominated by large firms. Galbraith argued that such large firms do not conform to the monopolistic and oligopolistic caricatures of the central tradition. The inefficiencies predicted by theory, of higher prices and lower output, have not been borne out in practice. Instead large, powerful corporations have ushered in an era of unprecedented wealth. This is because the planning of the modern firm has enabled enormous technical and productive advance. But such planning involves heavy upfront investment which must be recouped. Hence Galbraith argued the modern firm will increasingly seek to manage those factors that threaten such investment. To mitigate the various uncertainties that surround production, consumption and technological development. In doing so large firms seek to influence and control the response of the consumer, workers, other firms, as well governments and the media.

Chapter six sets out Galbraith's analysis of insular and mass poverty. Galbraith argued, however, that the modern mode of production, in ushering in great wealth, was far from uniform in sharing the spoils of affluence. For Galbraith it was the presence or absence of the large corporation, which impacted upon and influences the nature of economic development and the extent of poverty. In developed countries 'case poverty' had largely given way to 'insular poverty' –the pockets of poverty. This is the sizeable minority who have been variously excluded from the process of development and the democratic process. This is a poverty that is perpetuated by the social imbalance generated by the affluent society. And it is a poverty that Galbraith argues requires determined action.

Similarly, the 'mass poverty' of less developed nations also reflects a degree of social imbalance. Many less developed countries spend a disproportionate amount of arms and the military, failing to provide necessary public services like decent health care, adequate sanitation, and quality education (Galbraith, 1983c: chapter 4). The consequence is that is that the poor are trapped in a vicious cycle of cumulative causation that they cannot overcome on their own.

Chapter seven outlines Galbraith's original but largely ignored contribution to the theory of the firm, which shares many similarities with Nobel Prize winner Ronald Coase and Oliver Williamson the founder of the New Institutional Economics. Galbraith has typically been viewed as a great synthesizer, and system builder, and not as a theorist of the firm. In Chapter seven I outline Galbraith's contribution to the theory of the firm contained with The New Industrial State, paying particular



tobacco industry, which Galbraith identified in *American Capitalism* as exemplifying his analysis of the large firm, has sought to manage demand for its product. Based on an archival exegesis of previously secret industry documents, the range of consumer management techniques used by the tobacco industry is recorded and the correspondence with Galbraith's view is highlighted.

Chapter ten highlights the fact that Galbraith was a lifelong and prominent Keynesian who, like Keynes, acknowledged the primacy of the financial sector, emphasizing the distinctive nature of money in determining macroeconomic outcomes. Indeed although recognized as a prominent Keynesian, little serious reflection has been given to the views of J. K. Galbraith on the nature of money and a monetary economy. Reflecting on Galbraith's analysis in *Money: Whence it came, where it went*. Chapter ten highlights Galbraith's analysis of the endogeneity of the money supply, that is now an acknowledged cornerstone of the 'New Consensus' in macroeconomics. Chapter ten also identifies Galbraith's analysis of financial fragility and capitalism's susceptibility to manias that Robert Shiller argues characterize the modern global financial system.

But although over the course of this book I seek to strip away the populist cloak from Galbraith's writings in order to highlight the depth of his system of thought, it is important to acknowledge that Galbraith would not wish to be considered solely on such theoretical terms. He was a practical theorist concerned with practical policy. And the events of 2008 – on the hundredth anniversary of his birth – conspired to make his analysis more relevant than ever. In 2008, wherever one looked, familiar Galbraithian concerns were being wrestled with.

The malfeasance and dominance of the large corporation across the food, tobacco, pharmaceutical, automobile and alcohol industries was once again a source of public concern and anxiety. The explosion in greed and the cult of superstar celebrity, alongside the increase in national and global poverty was a staple of the broadsheets. Concern regarding the rise of excessive executive pay and the return of the 'robber barons' was being voiced. The loss and erosion of social capital was being lamented. The destruction of the environment and onset of climate change was finally stirring action by global leaders. The reticence of the automobile and oil industries to reduce the reliance on oil, in the face of major and variable price increases, harked back to the oil price hikes and stagflation of the 1970s. The resurgence of the Military Industrial Complex, after the lull of the ending of the cold war, and the anxiety generated by the first wars of the 21st century, in Iraq and Afghanistan, was widespread. The problems of the legacy of African debt, and the renegeing of the various G8 Gleneagles commitments, designed to ameliorate this, risked consigning a whole continent to poverty. And to cap it all the financial

