

J K Galbraith and Inequality: From Confidence to Misanthropy

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Introduction

To write an essay on John Kenneth Galbraith (1908-2006), even if only on one aspect of his extensive activity, is a challenge. He is after all one of the most famous and widely read economists of the 20th century. At the same time, it is a pleasure to approach his writings due to the originality of his views and the wit of his wordings.

Anyone interested in the life and work of Galbraith should start out with Richard Parkers monumental biography, which amply demonstrates all the economic and political issues on which Galbraith had definite opinions over the years:

[...] major reductions in military spending; greater international cooperation for economic development and political freedom; welfare reform aimed at poverty reduction, including a guaranteed annual income; increases in the minimum wage; democratic trade unions; environmentalism; racial equality, including affirmative action; feminism and gender equality; major federal aid to education; urban reform; campaign finance reform; aid to and support of the arts; farm price supports; limits on financial speculation; progressivity in taxation, including sharp limits on windfall profits and executive compensation; increased public regulation of certain concentrated industries such as transportation, finance, utilities, weapons and pharmaceuticals; and publicly financed health care. (Parker 2005, p. 303)

At the end of the biography, Parker (2005, p. 639) notes that the late Galbraith “hammered especially hard on income and wealth inequality.” However, as we shall see, inequality was not always at the top of his agenda.

Born on a farm in Canada (he started out as an agricultural economist) and professor of economics at Harvard for 25 years, Galbraith had an outstanding career in academic and public life.¹ He wrote

¹ He was “tsar” of consumer price controls during World War II; advisor and speech-writer to three American Presidents (Harry Truman, John F. Kennedy and Lyndon Johnson) and to several Democratic presidential candidates (Adlai Stevenson, Eugene McCarthy, Robert Kennedy, George McGovern); ambassador to India 1961-63; president of the American Economic Association in 1972; author and narrator in the BBC TV series “The Age of Uncertainty,” aired all over the world in the late 1970s.

some 40 books, of which more than seven million copies were sold during his lifetime, and eleven hundred articles. “His distinctive voice and imagination added a lengthy list of memorable phrases to economic argument and the English language – ‘the affluent society,’ ‘the conventional wisdom,’ ‘countervailing power,’ to name only a few.” (Parker 2005, p. 6)

Galbraith frequently questioned “the conventional wisdom” and moved against the stream in economics and politics. Two economists were of particular importance to him: Thorstein Veblen² and John Maynard Keynes. Galbraith spent a year (1937) at the University of Cambridge, where he “quickly became a full-fledged Keynesian” and adopted Keynes as a role model in two ways: “as an engaged and politically purposive intellectual” and through “a clear preference for expressing economics arguments in English rather than in mathematical models or equations” (Parker 2005, pp. 96-98). He also, perhaps somewhat surprisingly, held Adam Smith in great esteem.³

Galbraith was thus a combination of institutionalist and Keynesian. He ceaselessly accused mainstream (neoclassical) economists and textbooks, taking perfect competition as a point of departure, of being out of tune with reality.⁴ He was critical of the belief that markets can solve most problem by themselves and supporter of a strong welfare state, leaning towards Social Democracy of a Scandinavian brand. In the words of Parker (2005, p. 133): “The market has value, but so does the state when it acts in democratic interest. This is the core of the Galbraithian approach to economics.” “Galbraith was a champion of social democracy [...] but he was not an enemy of capitalism,” writes Jeff Madrick (2017, pp. ix-x) and adds that the political and economic development during Galbraith’s later years was frustrating to him: “Once he was among the most cited economists in the world, but as he continued to defend a robust welfare state, the evolving mainstream profession moved in the other direction.” Moving against the mainstream in theory as well as in policy recommendations meant that Galbraith became a somewhat “lone figure at Harvard and did not produce academic followers” (Rutherford 2011, p. 339).

² Galbraith (2001, p. 221) regarded Veblen as “a genius – the most penetrating, original and uninhibited source of social thought in his time”; his writings were “sardonic, laconic and filled with brilliant insights.” Galbraith to some extent identified with Veblen. They both descended from hard-working farmers of non-British descent (Veblen Norwegian, Galbraith Scottish), they both saw themselves as outsiders with more insights than insiders, even when they had become famous. When Galbraith (2001, p. 216) wrote of Veblen’s university colleagues he probably had his own in mind: “A man like Veblen creates great problems for such people. They cherish the established view and rejoice in the favor of the Establishment. Anyone who does not share their values is a threat to their position and, worse still, to their self-esteem, for he makes them seem sycophantic and routine, which, of course, they are.”

³ However, 200 years later, when in 1973 Galbraith gave an address, the world was quite different. “Smith is not a prophet for our time, but [...] he was magnificently in touch with his own time.” See Galbraith (2001, p. 166). Galbraith’s view of Marx was somewhat similar: not a contemporary prophet.

⁴ “The neoclassical system owes much to tradition – it is not implausible as a description of a society that once existed,” is one of Galbraith’s (1974, p. 27) laconisms.

Galbraith's particular style has already been mentioned. Andrea Williams (2001, p. x), editor of *The Essential Galbraith*, paints his style in the following words: "sardonic humor, felicitous phrasing, reasoned argument in reasonable words or, as he would say, clarity of thought reflected in clarity of prose."

The Way Forward

In view of Galbraith's enormous productivity, it would be suicidal to dive headlong into his writings in search for his views on economic inequality. I will therefore focus on three of his most famous books, in which he dealt with inequality, one from his earlier, one from his midterm and one from his later production: *The Affluent Society* (1958), *Economics and the Public Purpose* (1974) and *The Culture of Contentment* (1992); the first issue of *The Affluent Society* can furthermore be compared to the last revised edition from 1999.⁵ I will limit myself to displaying his views on economic inequality in western, industrialized nations, primarily the United States, not on inequality between rich and poor countries or within poor countries, nor race or gender inequality.⁶ I will quote him generously since his particular style may easily be lost when rewritten.

Early Days

In his first best-seller, *American Capitalism* (1952), Galbraith launched the concept of "countervailing power." The idea was that as competition subsided and private power in the form of giant corporations increased, countervailing forces arose in the shape of trade unions in the labor market and retail businesses (in the US) or consumer co-operatives (in Scandinavia) in the commodity market. This can perhaps be seen as an equality issue as it means that economic power becomes more equally distributed between different interest groups.

Inequality was no hot issue after the world war, not even among Keynesians:

Mainstream Keynesians after World War II would focus on full-employment growth, and mostly ignore the structure or income and wealth inequality, simply preferring to believe, as

⁵ Urszula Zagóra-Jonszta (2020) compares Galbraith's view of income inequality with Milton Friedman's. Except for *The Affluent Society*, she uses Polish translations of writings by Galbraith.

⁶ Galbraith devoted considerable attention to the latter issues. *The Nature of Mass Poverty* (1979) is concerned with less developed countries. "My concern is with the poverty in those communities, rural in practice, where almost everyone is poor – where, if there is wealth or affluence, it is the exceptional fortune of the few." (Galbraith 1979, p. 2). *Economics and the Public Purpose* (1974) includes two chapters (iv and xxiii) on the household and women as a "crypto-servant class."

President Kennedy put it, that ‘a rising tide lifts all boats.’ Galbraith would not, because he believed that the structure of inequality itself directly gave shape to different levels of aggregate income, and thus implied very different government remedies for achieving optimal economic performance. He most famously revisited this argument during the Kennedy administration’s debates over how to spur economic growth, arguing [...] that targeted deficit spending should be chosen over across-the-board tax cuts because of its distributive, along with its efficiency, effects. (Parker 2005, p. 99)

Galbraith was one of few economists highlighting poverty and inequality, not least in *The Affluent Society*, and in 1964 Lyndon Johnson appointed him to the White house task force charged with formulating policies for the Office of Economic Opportunity, a key player in the War on Poverty. Galbraith, unlike many other liberals, “always maintained a sharp distinction between the specific problem of poverty and the much larger issue of economic inequality” (Parker 2005, p. 482).

The Affluent Society

In the 1950s, Galbraith set out to write a book on poverty. However, he turned the idea around and wrote a book on *The Affluent Society*. Years later, in view of remaining poverty, he pondered whether he should have written a companion volume, *The Non-Affluent Society*.

The Affluent Society became Galbraith’s entry ticket to the public hall of fame. “The book spent nearly a year on *New York Times* best-seller list – unheard of for a book about economics – and the title itself swiftly gained a permanent place in the English language.” (Parker 2005, p. 311). Sales at home and abroad soon passed the million mark.

In the case of *The Affluent Society*, which includes a chapter on inequality, one can compare the first 1958 edition with his last revised 1999 edition to see how Galbraith’s views had changed over the years. In the introduction to the 40th anniversary edition, Galbraith (1999, p. viii) notes that although economic life had become more secure over the years, “I would now, however, more strongly emphasize, and especially as to the United States, the inequality in income and that it is getting worse – that the poor remain poor and the command of income by those in the top income brackets is increasing egregiously.”

Galbraith (1958, p. 3) states the purpose of his book as follows: “The first task is to see the way our economic attitudes are rooted in the poverty, inequality and economic peril of the past. Then the partial and implicit accommodation to affluence is examined.”

According to Galbraith people's minds were stuck in ideas from a time when poverty and inequality were permanent and inevitable conditions of life. People's thinking reflected "the conventional wisdom," a concept similar to paradigm. Galbraith (1958, pp. 25, 27) strove back in time to pinpoint these old ideas. He started out with the classical economists: Adam Smith "had little hope that the distribution between merchants, manufacturers and landlords on the one hand, and the working masses on the other, would be such as much to benefit the latter." And: "With Ricardo and Malthus, the notion of privation and great inequality became a basic premise." With the marginal productivity theory it was assumed that capital and labor are compensated at a rate corresponding to their marginal products. Still there was uneasiness about some facets of inequality.

The inheritance of wealth was a special source of discomfort. Perhaps one could justify riches as the reward for the skill, diligence, foresight and cunning of the original creator. None of this justified its high fortuitous devolution on the individual who happened to be his son. (Galbraith 1958, p. 39)

The American context was somewhat different. Wealth grew like nowhere else, but at the same time Social Darwinist ideas, preached by e.g. William Graham Sumner, had a strong footing.

Here, if anywhere, the ordinary man had a chance. Perhaps he did, but he also had to face the fact that all economic life was a mortal struggle. He might win but he might also lose, and for him to accept the full consequences of loss – hunger, privation and death – was a social necessity. Poverty and insecurity thus became inherent in the economic life of even the most favored country. So, of course, did inequality, and this was firmly sanctified by the fact that those who enjoyed it were better. If observation suggested that economic life might be less severe in the United States, Social Darwinism emphasized the contrary. (Galbraith 1958, p. 62)

In his chapter on inequality, Galbraith (1958, p. 78) returns to the central tradition of economics, focused on efficiency and competition: "The competent entrepreneur and worker were automatically rewarded. The rest, as automatically, were punished for their incompetence and sloth." If people were poor, their only hope, according to social radicals, lay in redistribution of wealth and income. The conservative rejoinder was that redistribution would take from a man what was rightfully his and that tampering with the system would make the lot worse for everyone, including the poor, by reducing the will to work, save and invest: "in the conventional wisdom the defense of inequality does rest primarily on its functional role as an incentive and as a source of capital" (Galbraith 1958, p. 80).

Galbraith (ibid.) illustrates the conventional wisdom with a quote from an address before the National Association of Manufacturers in 1954, according to which egalitarianism "destroys ambition,

penalizes success, discourages investment to create new jobs, and may well turn a nation of risk-taking entrepreneurs into a nation of softies.” Galbraith’s (1958, p. 81) counter-arguments are that not many businessmen would concede that they were holding back due to insufficient pecuniary incentive, that the rich man’s saving “is the residual after luxurious consumption” and that there are empirical examples to quote: Norway, one of the most egalitarian countries, had one of the highest rates of capital formation and economic growth.

Now, the paradox according to Galbraith (1958, p. 82) is this. On the one hand, “[n]o other question in economic policy is ever so important as the effect of a measure on the distribution of income.” On the other hand, “few things are more evident in modern social history than the decline of interest in inequality as an economic issue.”

In the first edition of his book, Galbraith (1958, p. 83) concludes that after World War II, no attempt had been made to make the tax more progressive and hence society more egalitarian. At the same time, conservatives had “not been able to mount any major attack on the tax itself.” In the last revised edition, Galbraith’s (1999, p. 70) conclusion is, not surprisingly, that “the income tax in the years since World War II has greatly regressed as an instrument for income redistribution.” In the first edition, he cites figures showing that in 1955 the tenth of the US population with the lowest incomes received (after taxes) one per cent of the total money income, whereas the tenth with the highest income received 27 percent of the total. In the last edition, the corresponding figures for 1970 were 2 and 27 per cent, respectively. Why he quoted such old figures is a mystery. He just notes that “In the years since, the share going to the very rich has much increased.”

In the first edition, Galbraith (1958, p. 85) hits a positive note: “While taxes have restrained the concentration of income at the top, full employment and upward pressure on wages have increased well-being at the bottom.” In the last edition, this paragraph is gone. Both editions include a sentence saying that “to comment on the wealth of the wealthy, and certainly to propose that it be reduced, has come to be considered bad taste” (Galbraith 1958, p. 87, and 1999, p. 71). In the first edition, he figures this could change if the rich became richer and the rest stationary. This is what has happened, but to complain about it still seems to be bad taste.

Being rich has, according to Galbraith, three basic benefits: power, possession of things, and esteem. Over time, these returns to wealth had been circumscribed. The power and prestige of the US government increased, trade unions appeared and the professional manager took power over corporations from the rich man. (One can note that this was written before the tycoons of Facebook, Amazon and the like entered the scene.)

In the old days, the rich liked to show off: “The great houses, the great yachts, the great balls, the stables, and the jewel-encrusted bosoms were all used to identify the individual as having a claim to the honors of wealth,” writes Galbraith (1958, p. 91) and continues: “Such display is now passé.” There were reasons for this change of mind: fear of expropriation, or, during the Great Depression, even revolution. “Purely ostentatious outlays, especially on dwellings, yachts, and females, were believed likely to incite the masses to violence.” Furthermore, display of wealth was deemed vulgar and lost much of its function as more people became rich.⁷ “Lush expenditure could be afforded by so many that it ceased to be useful as a mark of distinction.” (Galbraith 1958, p. 92) At the same time, meritocratic competition had reduced the threat to the rich, even though they had a head start: “Nothing could operate more effectively to dry up the supply of individuals who otherwise would make an attack on inequality a career.” (Galbraith 1958, p. 94)

At the end of the inequality chapter, Galbraith turns to the issue of growth versus redistribution. He concludes that increased production is an alternative to redistribution. This was understandable. “It is the increase in output in recent decades, not the redistribution of income, which has brought the great material increase in the well-being of the average man.” (Galbraith 1958, p. 96) Even liberals had come to accept this fact and the pursuit of economic growth had “become deeply embedded in the conventional wisdom of the American left” (Galbraith 1958, p. 97). There was even a belief that growth could eliminate poverty. Galbraith (1958, p. 97) adds that “[t]his latter, in fact, is suspect,” forty years later (1999, p. 79) that “[t]his latter is untrue.” There would always remain a self-perpetuating margin of poverty at the base of the income pyramid. However, the inequality issue was not at the forefront. “The oldest and most agitated of social issues, if not resolved, is at least largely in abeyance, and the disputants have concentrated their attention, instead, on the goal of increased productivity.” (Galbraith 1958, p. 97)

In other chapters, Galbraith wrote on economic security, the focus on production, poverty and other issues related to inequality. One strategy for those opposed to reduced inequality was to undermine the faith in government services:

[...] the payment for publicly produced services has long been linked to the problem of inequality. By having the rich pay more, the services were provided and at the same time the goal of greater equality was advanced. This community of objectives has never appealed to those being equalized. Not unnaturally, some part of their opposition has been directed to the

⁷ Galbraith’s views of the well-to-do were inspired by Veblen’s *Theory of the Leisure Class*, which he classified as “the most comprehensive ever written, on snobbery and social pretense. Some of it has application only to American society at the end of the nineteenth century – at the height of the gilded age of American capitalism. More is wonderfully relevant to modern affluence.” Galbraith (2001, p. 212)

public services themselves. By attacking these, they could attack the leveling tendencies of taxation. This has helped to keep alive the notion that the public services for which they pay are inherently inferior to privately produced goods. (Galbraith 1958, p. 136)

Galbraith to the contrary regarded many private goods as inferior – or rather less necessary – compared to public services. One of his most well-known arguments is that private production creates its own demand through massive advertising. “A man who is hungry need never be told of his need for food.” (Galbraith 1958, p. 158) The primary function of production was no longer, according to Galbraith, to supply goods for consumers but rather to supply income security for workers. He wished for a “social balance” between the supply of privately produced goods and services and those of the state. The good news was that government revenues grew automatically with the growth of the economy. The bad news was that a large proportion of the federal revenues were earmarked for military purposes.

What, then, were the most vital public services needed? Unemployment compensation was one. In the 1958 edition, Galbraith was concerned that a compensation level close to the wage would add inflationary pressure and argued that the level should vary with unemployment – high unemployment, high level, low unemployment, low level – and be provided by states. In the 1999 edition, he urged that the compensation be close to the wage and nationalized. In the case of people difficult to employ, he (in the 1999 edition) found Milton Friedman’s idea of a negative income tax interesting.

Galbraith discerned a conflict between the goals of equality and social balance. “All this – schools, hospitals, even the scientific research on which increased production depends – must wait while we debate the ancient and unresolvable question of whether the rich are too rich.” (Galbraith 1958, p. 313)

The only hope – and in the nature of things it rests primarily with liberals – is to separate the issue of equality from that of social balance. The second is by far the more important question. The fact that a tacit truce exists on the issue of inequality is proof of its comparative lack of social urgency. In the past the liberal politician has encountered the conservative proposal for reduction in top bracket income taxes with the proposal that relief be confined to the lower brackets. And he has insisted that any necessary tax increase be carried more than proportionately by the higher income brackets. The result has been to make him a co-conspirator with the conservative in reducing taxes, whatever the cost in social balance; and his insistence on making taxes an instrument of greater equality has made it difficult or impossible to increase them. (Galbraith 1958, p. 314)

For the same reason, Galbraith (1958, p. 315) favored the sales tax: “The community is affluent in privately produced goods. It is poor in public services. The obvious solution is to tax the former to provide the latter – by making private goods more expensive, public goods are made more abundant.” Public goods and services were needed to reduce poverty. In the 1999 edition, Galbraith added an afterword and in its last paragraph he pleaded the cause of the poor – “let us put elimination of poverty in the affluent society strongly, even centrally, on the social and political agenda” (Galbraith 1999, p. 263)

The AEA Agenda

In his second most well-known book (after *The Affluent Society*), *The New Industrial State* (1967), Galbraith investigated the world of large corporations and their management, the “technostructure,” not the world of inequality and poverty:

There are many poor people left in the industrial countries, and notably in the United States. The fact that they are not the central theme of this treatise should not be taken as proof either of ignorance of their existence or indifference to their fate. But the poor, by any applicable tests, are outside the industrial system. (Galbraith, second edition 1971, p. 320)

A basic argument in the book was that that the state and the large corporations would merge and that planning must replace the market. In that way the planning systems of US capitalism and Soviet communism would converge.

A few years later, when Galbraith became president of the American Economic Association (AEA), he put inequality on top of the agenda at the association’s meeting in December 1972.

This might have been seen as a personal mea culpa, since many people thought the subject had been minor to Galbraith’s writing. But in truth that charge better applied to the economics profession as a whole. Between the end of World War II and 1964, when LBJ’s War on Poverty began, of the nearly 800 articles in the *American Economic Review* only three dealt with poverty or inequality in the United States. (Parker 2005, p. 481)

In his presidential address to the AEA, Galbraith took aim at the neoclassical view of a competitive market complemented with some exceptions (monopoly, oligopoly). He could understand that economists stuck to this theory, fearing that “we shall lose the filter by which scholars are separated from charlatans and windbags;” however there was “more danger in remaining with a world that is not real” (Galbraith 2001, pp. 143-144). In reality, as he saw it, the economy was split in two. On the

one hand, there was the corporate sector, the planning system, offering its (unionized) employees good working conditions. On the other hand, there was the entrepreneurial sector, the market system, offering poor conditions. It was not easy to move from the latter to the former. Inequality was thus not any longer produced by the market, but by the division between the corporations (controlling their markets) and the smaller businesses (controlled by the market) and the difficulty for people to move from the latter to the former. “There is, accordingly, a continuing source of inequality between the two parts of the economy derived from the occluded movement between them.” (Galbraith 2001, p. 129)⁸

Economics and the Public Purpose

In *The New Industrial State* Galbraith had focused on “the world of the large corporation”, arguing that “it is more deeply characteristic of the modern industrial scene than the dog laundry or the small manufacturer with a big idea”, thus more or less dismissing the rest of the economy (Galbraith 1971, p. 398). In his next major work, *Economics and the Public Purpose* (1974), he wished to broaden his view to encompass the whole economic system and focus more on economic inequality. He now made great efforts to frame in detail his idea of an economy split in two: on the one hand the market system, small businesses, disciplined by market and state, aiming to maximize their profits; on the other hand the planning system, large corporations, able to control market and state,⁹ aiming to stabilize their profits and maximize their growth. In the market system, entrepreneurs and workers were prepared to reduce their income in order to remain in business. This was a major source of inequality.

That the market system survives, at least in part, because of its ability to reduce the reward of its participants leads on to an obvious and ominous conclusion. It is that there is a presumption of inequality as between different parts of the economic system. The convenient social virtue adds to this presumption by helping people to persuade themselves that they should accept a lesser return – that some part of their compensation lies in their social virtue.¹⁰ (Galbraith 1974, p. 77)

⁸ The last quotation is from a speech Galbraith gave in 1976 when he received the Veblen-Commons Award from the Association for Evolutionary Economics.

⁹ Galbraith (1945, p. 160) had regulatory capture in mind: “Public regulatory bodies, it has long been observed, tend to become the captives of the firms that ostensibly they regulate.” The mutual exchange of favors between corporations and government he (p. 143) labeled the “bureaucratic symbiosis.”

¹⁰ Social virtue was yet another of Galbraith’s catch phrases, similar to conventional wisdom, reflecting the idea that someone is doing some kind of sacrifice for the larger community or rather for the well-to-do section of the community.

This was not a temporary but rather a constant state of affairs:

In the market system managers and workers continue to supply products and services at levels of remuneration that are below those for comparable talent in the planning system. And this is a durable condition. It follows that equality is not the tendency between the planning and markets systems: the basic tendency is to inequality. [---] The relationship between the planning and the market systems, their unequal rate of development, the exploitation of the second by the first, the resulting inequality in return are central features of the modern economy. (Galbraith 1974, p. 132)

Neoclassical economists, who did not share Galbraith's view of an economy split in two, expected this inequality to be reduced since people could move up the payment ladder. Galbraith, on the contrary, figured the inequality would be ever worse as people who could not find employment in the planning system would become entrepreneurs in the market system and use their comparative "advantage" of self-exploitation.¹¹ "It means that the broadly equalizing assumption of neoclassical economics must be rejected; instead, in the absence of energetic reform, the tendency of the economy is to one comparatively affluent, one comparatively impoverished working force." (Galbraith 1974, p. 203)

The idea that people are rewarded according to their contribution to production did not, as previously mentioned, find sympathy with Galbraith. Remuneration depends on tradition and people's position in the pyramid of power. Galbraith (1974, pp. 203-204) noted the obvious, that "those who have the least pleasant jobs get the least" and: "The higher in the executive hierarchy, the greater, in general, the avowed enjoyment in work and the greater the pay."

Galbraith's reform agenda more or less turns on its head the normal antagonism between socialist planners and market advocates. It starts with "steps to reduce the inequality between the planning and the market systems – to improve the bargaining power of the market system and reduce its exploration by the planning system." This, Galbraith (1974, p. 222) exclaims, "is here called The New Socialism"! Next on the agenda were efforts to make the planning system serve, not define, the public interest.

Reform presupposed critical thinking to break the planning system's hold over people's minds. "This means the elimination of all distinction between useful and unuseful fields of learning" (Galbraith

¹¹ This scenario could be extended to a global level with the planning system dominating in developed countries and the market system dominating in underdeveloped countries. This, Galbraith (1945, p. 175) wrote, "is the true shape of modern imperialism."

1974, p. 227), fight against producer persuasion (advertising), disclosure of public policies serving the planning system.

Galbraith (1974, p, 229) compared the capitalist and the Soviet planning systems. While their ends were similar, their means were different. In the Soviet system critical thinking was suppressed. In the capitalist system it was “either ignored or stigmatized as eccentric, unscientific, lacking in scholarly precision or otherwise unworthy.” Nonetheless, the fight against the capitalist planning system should not aim for suppression:

The remedy is not illiberal suppression of the techniques for compelling belief but a truly liberal resistance to such belief. One does not suppress neoclassical economics; one shows its tendentious functions and seeks to provide a substitute. One does not prohibit advertising; one resists its persuasion. One does not legislate against science and engineering; one sees their eminence in relation to the arts as the contrivance of the planning system. (Galbraith 1974, pp. 229-230)

Galbraith (1974, p. 231) believed that such critical thinking was gaining ground and cited polls showing loss of confidence in leaders of industry, banking, education, science, advertising, military: “All these developments suggest,” he thought, “a healthy trend.” When Galbraith wrote these words, critical thinking was leaning to the left. Had he lived to see that lack of confidence in traditional leaders might lean in quite another direction, he would probably have been less amused.

The role of government was at the core of Galbraith’s (1974, p. 242) agenda: “The government is a major part of the problem; it is also central to the remedy.” Through its symbiotic relationship with the planning system it contributed to unequal income distribution and poor distribution of public resources. Thus, there must be an effort to free government from corporate domination; the public interest must be separated from the planning interest.

To overcome the inequality between the planning and market systems, Galbraith proposed a battery of measures to increase the bargaining power of the participants in the market system and thereby their income:

The key pillars are: organization by small businessmen and the self-employed to allow of some approach to parity of bargaining with the planning system; a far more vigorous use of the minimum wage; and strong support to trade union organization in those areas where, in the past, it has been least encouraged and where it is most needed. But adding strongly to the bargaining power these steps provide is the institution of an alternative income at generous levels. (Galbraith 1974, p. 263)

This alternative income, what today is called universal basic income, was supposed to be modestly below earnings in the planning system. This solution, Galbraith (1974, p. 263) well understood, would mean that some people would prefer not to work and that some services would disappear, but this did not bother him: “This should be viewed not as a loss but as a modest advance in the general state of civilization.” “It accepts that some work and pay are worse than unemployment.” (Galbraith 1974, p. 311)

Galbraith also took aim at income inequality within the planning system. The head of General Motors earned fifty times more than a worker at the floor. A reduction of this gap would cause no problem. There was no lack of executive talent and “[t]o be an executive would still be far better than fitting bolts on the shop floor” (Galbraith 1974, p. 265).

Some parts of the economy – housing, health care and transportation – was underdeveloped in the United States and should, according to Galbraith, come under public ownership like in most parts of Western Europe. Galbraith (1974, p. 283) was sure that socialism was the melody of the future. “Circumstances, it is evident, are not kind to those who see themselves as the guardians of the market economy, the enemies of socialism.” Circumstances, not ideology, would determine the way forward.

The final step in Galbraith’s reform agenda concerned fiscal policy, monetary policy and controls. Insufficient investment or excessive wage demands could trigger downward or upward cumulative spirals. The means to increase stability and equality was “a large and stable flow of public expenditures” and “a strongly progressive tax structure” (Galbraith 1974, p. 305). The use of expenditures and taxes should work systematically in one direction: “If demand is excessive, the *generally* appropriate procedure will be to increase taxes. [---] If demand is deficient, the generally proper procedure will be to increase public expenditure.” Galbraith’s critics of course understood where this was heading and he (1974, pp. 307-308) readily “confessed”: “It will be suggested – and by some trumpeted – that the policy here proposed means, over time, an upward drift in taxation. This is so.”

The use of monetary policy, on the other hand, should be reduced since it favored those in the planning system against those in the market system. Interest rates should be low and stable. Control of the volume of lending should be exercised through tax and expenditure policy. Finally, wages and prices in the planning system should be regulated. They should not be freezed but controlled in a way that increased stability and reduced inequality. Wage increases should be confined to average productivity gains and wage controls should aim at narrowing wage differentials. “There should be a strong and positive effort to narrow the present gap between worker and executive.” (Galbraith

1974, p. 314). Galbraith (1974, p. 316) ends his book with a *grande finale* which in retrospect sounds somewhat naïve:

Fortunately the rules that reflect the public interest are rather simple. If public expenditures are increasingly for public purposes, if taxes are increasingly progressive, if monetary policy is passive, if expansion of demand is accomplished by increased public expenditure and contraction of demand by increased taxes, if wage increases are kept in accordance with productivity gains, if increased equality is a major consideration in making wage adjustments and if price increases are allowed only in response to hardship resulting from the evening-up of wages and the absence of productivity gains – then an essential public management is being achieved.

The Culture of Contentment

In the 1970s, Galbraith radiated confidence. Things would surely move in the direction he hoped for. Very soon, however, things moved in a very different direction. Consequently, in *The Culture of Contentment* from 1992, Galbraith's sarcasm flowed. "It was easy to detect in the book a harsh note of dismay at the results of twelve years of the most conservative national leadership since the 1920s," writes Parker (2005, p. 623). In the foreword to a new edition, Jeff Madrick (2017, pp. x-xi), journalist and author of books in a Galbraithian spirit, similarly characterized the book as "an indictment of economic policies under Presidents Ronald Reagan and George H. W. Bush" and concluded that Galbraith's thinking "stood courageously in direct contrast to the antigovernment, allegedly scientific consensus that by 1992 leaned decidedly toward laissez-faire governance."

According to the updated figures Galbraith presented, the average after-tax annual income of those in the upper 20 percent of the income distribution had increased from 73,700 (constant) dollars in 1981 to 92,000 in 1990 whereas the income of the average manufacturing worker had declined. 12,8 percent of the population lived below the poverty line at the end of the 1980s and the top 1 percent controlled 13,5 percent of all income before taxes. At the same time, government support and subsidy for the poor were seen as "seriously suspect as to need and effectiveness of administration and because of their adverse effect on morals and working morale." Government support for the comparative well-to-do, like Social Security pensions and banking deposit insurance, was another thing. "The comparatively affluent can withstand the adverse moral effect of being subsidized and supported by the government; not so the poor." (Galbraith 2017, p. 12)

The economically and socially fortunate were now a majority, not of all citizens but of those who voted. These formed “the Contended Majority” or “the Culture of Contentment” (Galbraith 2017, pp. 12-13). Even though he was very critical of the political development in the United States, Galbraith (2017, p. 15) had to admit that it reflected the preferences of this “majority”: “In defense of Ronald Reagan and George Bush as Presidents, it must be said and emphasized that both were, or are, faithful representatives of the constituency that elected them.”

The contended majority was suspicious of government expenditure with some exceptions: “Social expenditure favorable to the fortunate, financial rescue, military spending and, of course, interest payments [on government loans] [...]” (Galbraith 2017, p. 20)

What remains – expenditure for welfare, low-cost housing, health care for those otherwise unprotected, public education¹² and the diverse needs of the great urban slums – is what is now viewed as the burden of government. It is uniquely that which serves the interests of those outside the contended electoral majority; it is, and inescapably, what serves the poor. (Galbraith 2017, pp. 20-21)

Instead of government action to bolster the poor, the prevailing idea was that tax reductions for the rich would benefit the poor. Galbraith (2017, p. 22) phrased this idea as “the doctrine that if the horse is fed amply with oats, some will pass through to the road for the sparrows.”

Galbraith figured there was no ambition to eliminate poverty because of the need for a “functional underclass” (comparable to Marx’s industrial reserve army). In his 1958 book, he had dismissed the idea that people are rewarded according to their contributions to the economy and he had not changed his mind:

It is a basic but rarely articulated feature of the modern economic system that the highest pay is given for the work that is most prestigious and most agreeable. This is at the opposite extreme from those occupations that are inherently invidious, those that place the individual direct under the command of another, as in the case of the doorman or the household servant, and those involving a vast range of tasks – street cleaning, garbage collection, janitorial

¹² Galbraith did not view education primarily as the way of getting people into the labor market and up the economic ladder but rather as a way to improve people’s critical thinking and, as Gruchy (1972, p. 155) puts it, to refine their wants into “the higher, non-commercial dimensions of life.” Galbraith was good at poking fun of commercial intrusions into these higher dimensions, as for example when he in a lecture/article on “Economics and the Quality of Life” wrote that “good theater and good music require the protection of a mood; they cannot be successfully juxtaposed to rhymed jingles on behalf of a laxative” (Galbraith 2001, p. 104).

services, elevator operation¹³ – that have an obtrusive connotation of social inferiority. (Galbraith 2017, p. 26)

In the 1990s the maxim that economic growth will lift all boats was widespread. In this maxim Galbraith (2017, p. 30) did not put much faith. Social mobility did not match the need for a functional underclass: “[...] the normal upward movement that was for long the solvent for discontent has been arrested. The underclass has become a semi-permanent rather than a generational phenomenon.” He was surprised that the underclass in the major cities did not react with more violence and found the explanation in the fact that parts of it (immigrants, blacks from the South) had escaped from even worse conditions.

In *The Affluent Society* taxation and public services had been Galbraith’s number one priority, a priority which could be jeopardized by too much focus on equality. In *The Culture of Contentment* (2017, p. 33) he concluded that “the only modestly fortunate” abstained from urging higher taxes on the very rich. “There is at work here a companionate acceptance of inequality in order to protect against the common enemy, which is higher taxes on all.” The fortunate did not want to pay for public support of the functional underclass and what followed was a resistance to all taxation. This was no surprise.

The fortunate pay, the less fortunate receive. The fortunate have political voice, the less fortunate do not. It would be an exercise in improbably charitable attitude were the fortunate to respond warmly to expenditures that are for the benefit of others. So government with all its costs is pictured as a functionless burden, which for the fortunate, to a considerable extent, it is. Accordingly, it and the sustaining taxes must be kept to a minimum; otherwise, the liberty of the individual will be impaired. (Galbraith 2017, p. 36)

In order not to arouse “moral disquiet” over the disparity between affluent and poor people, the argument had been developed that government is “inefficient, incompetent, in motivated assault on private well-being and, above all, a burden” (Galbraith 2017, p. 37).

Politicians like Reagan and Bush Sr, who cut taxes and welfare spending, had thus, in Galbraith’s (2017, p. 39) bitter words, “been reacting faithfully to the will of their constituency,” thus “been faithful to democratic principle.”¹⁴

¹³ One may wonder if there were any elevator operators left at the beginning of the 1990s. Anyway, anyone doubting that remuneration is to a large extent a reflection of social standing rather than of productivity may compare tips accruing to a waitress serving dozens of customers at a regular diner to a waitress serving a few noble couples at a finer restaurant.

¹⁴ Ronald Reagan, elected US president in 1980, was known for his humorous remarks. Galbraith was not amused. When Reagan’s presidency ended, Galbraith pinned the following legacy in the *New York Times*: “In

Inequality gaps were widening. In 1980, CEO:s of the 300 largest American companies had incomes 29 times that of the average manufacturing worker; in 1990, their incomes were 93 times greater. Galbraith (2017, p. 47) had no difficulty seeing through the arguments legitimizing such figures: Anyone borrowing a minor sum was seen as “a person of average intelligence” but the one who managed to borrow a very large sum was seen as a “financial genius.” The corporate executive, the top bureaucrat, was celebrated as the entrepreneurial hero once portrayed by Joseph Schumpeter.

Galbraith took aim at some of the conservative scholars who had reaped fame in the 1980s, like Arthur Laffer and Charles Murray. He did not think “that anyone of sober mentality took Professor Laffer’s curve and conclusions seriously” and with Murray’s *Losing Ground* (1984) “the doctrinal base of the age of contentment was complete” – “the rich needed the spur of more money, the poor the spur of their own poverty” (Galbraith 2017, pp. 81, 83-84).

Summing up his argument, Galbraith once more nominated progressive taxation and public expenditure as the only remedies for inequality and poverty.

The only effective design for diminishing the income inequality inherent in capitalism is the progressive income tax. Nothing in the age of contentment has contributed so strongly to income inequality as the reduction of taxes on the rich; nothing, as has been said, so contributes to social tranquility as some screams of anguish from the very affluent. That taxes should now be used to reduce inequality is, however, clearly outside the realm of comfortable thought. (Galbraith 2017, p. 139)

Public action was needed but dependent on higher taxes:

Life in the great cities could be improved, and only will be improved by public action – by better schools with better-paid teachers, by strong, well-financed welfare services, by counseling on drug addiction, by employment training, by public investment in the housing that in no industrial country is provided for the poor by private enterprise, by adequately supported health care, recreational facilities, libraries and police. The question once again, much accommodating rhetoric to the contrary, is not what can be done but what will be paid. (Galbraith 2017, p. 140)

However, not much would happen unless the age of contentment came to an end. Galbraith (2017, p. 122) could imagine this being accomplished by any of three possible shock scenarios: “widespread economic disaster, adverse military action that is associated with international misadventure, and

recent years, the rich have not been working because they had too little money, and the poor have not been working because they had too much.” (Quoted from Parker 2005, p. 577)

eruption of an angry underclass.” Decades later, all three scenarios have to some extent played out: the Great Recession after the 2008 financial crash, the US military debacles in Iraq and Afghanistan and the Black Lives Matter revolt. Not surprisingly, these events have not had any effects favoring economic equality or the poor. Rather, large segments of the middle and working classes have sided with the super-rich in anger over taxes, “socialist” public services (health care), immigrants, racial minorities and poor people. The age of contentment was replaced by the disgruntled age of Trump and voter suppression has been employed to keep the previously contended majority in power.

Concluding Remarks

In *The Affluent Society* (1958), Galbraith focused on “the conventional wisdom,” ideas rooted in 19th century classical, neo-classical and Social Darwinist thinking, which cemented the perception that inequality is inevitable and/or necessary for economic growth. Before modern growth set in, inequality and poverty were seen as natural conditions of life. After modern growth set in, they were seen as whips and carrots needed to keep the economy going. As people are being rewarded according to their contributions, the thrifty would climb the ladder and the lazy fall into the abyss. The fact that institutions, inherited distribution of economic and political power, habit and sheer prejudice to a large extent decide who will be losers and winners was not taken into consideration, particularly not by conservative pundits. Eventually, as the majority of people reached a decent living standard, those left behind were more or less forgotten.

In the first edition of the book, Galbraith noted that no steps had been taken after WWII to make the income distribution more equal by way of progressive income taxation. In the 40th anniversary edition, he could just confirm that reduced taxes on the rich had increased inequality. He readily admitted (in the early as well as in the late edition) that economic growth, not redistribution, explained the increased material well-being of the ordinary man. However, there would always be a margin of poor people. A rising tide on the market ocean would not lift all boats – some would be left in the mud. These boats must be made seaworthy through state intervention. This was to the Galbraith of 1958 the top priority. There must be “social balance” between goods produced by the private sector and services produced by the public sector. Discussions about the overarching and long-term – even “ancient and unresolvable” – issue of economic inequality to some extent hampered ambitions to solve the more immediate issue of reducing poverty.

There was, Galbraith asserted in his 1972 AEA address, an income inequality produced by the split of the economy into big corporations, dominating their markets and paying good and steady wages, and small businesses, at the mercy of the market and generating less good and reliable income,

particularly since it was very difficult for people to move from the latter to the former. Only five years earlier, in *The New Industrial State*, he had been fully focused on the world of big corporations and mentioned the rest of the economy in terms such as “dog laundries”. This left the impression that the modern corporation was the future and small businesses the past. Now he looked at the whole economic system and adjusted his views.

In *Economics and the Public Purpose* (1974), Galbraith elaborated his theme of a split between big corporations (the planning system) and small businesses (the market system) and launched an ambitious reform agenda, “The “New Socialism.” People’s eyes must be opened – critical thinking encouraged, belief in the Establishment undermined. Government must be divorced from its symbiotic marriage with big corporations and focus on support to small businesses, the self-employed and their workers with minimum wages and universal basic income. Housing, health care and transportation must be public sector commitments. Taxes and public expenditure must be increased, monetary policy limited to keeping interest rates low, and wage and price controls imposed to achieve economic stability and equality.¹⁵

Whether Galbraith’s view of the dual economy is as relevant today as it perhaps was half a century or more ago is hard to say. Some giant industrial corporations have lost much steam but new digital giants have arisen. Their power over people is greater and more subtle compared to the old ones. Old corporate slogans like “Juicy fruit, a packet full of sunshine” seem just silly compared to the new giants’ manipulation of people’s minds through algorithms.

In the mid-1970s, Galbraith seemed confident about the economic and political travel direction and in a self-assured mode launched a maximalist reform agenda. However, irrespective of whether it was circumstances or ideology that reigned, things took a very different turn from the one he had imagined. Socialist ideas did not gain terrain (at least not outside of universities), taxes were lowered and made less progressive, monetary policy became the main stabilizing tool, wage and price controls were scrapped, and income inequality increased. Galbraith referred to CEO:s in the United States earning 29 times the average worker in 1980. In 2018, according to news reports, CEO:s earned 278 times more than workers (*New York Times* 2020). The gap had widened tenfold!

When Galbraith wrote *The Culture of Contentment* (1992), his account of the Reagan-Bush era, these trends were obvious. The rich became richer and wages for workers stagnated. However, Reagan and

¹⁵ The similarities between Galbraith and his ten years older Swedish colleague Gunnar Myrdal (1898-1987) are all too obvious. Both had institutionalist and Keynesian leanings, both were reformist socialists and favored a long-term growing public sector armed with public enterprises, planning capacity, high and progressive taxes, a broad supply of services and low and stable interest rates. Myrdal (1944) even wrote an essay on “High taxes and low interest rates”.

Bush were hardly to blame. They had executed the will of the contented majority of voters who showed up at the polls. The only way to reduce income inequality was through progressive income tax. This way was blocked since “the only modestly fortunate” were allied with the rich in their resistance against higher taxes. The conventional wisdom was that lower taxes for the rich would somehow trickle down to benefit the poor. As Galbraith phrased this process: “if the horse is fed amply with oats, some will pass through to the road for the sparrows.”

Galbraith concluded that the will to equip the state with tools to raise boats from the bottom was weaker than ever. There was a need for a “functional underclass” and the opposition to increased taxes focused on painting public sector activities as inefficient and wasteful compared to private sector activities. He regarded some conservatives (like Charles Murray) as mere cynics: the rich needed the spur of more money, the poor the spur of their poverty.

Galbraith was now in a misanthropic mood and believed that only economic and military failures could tilt the development in a new direction. These kinds of events generally weaken people’s trust in politicians and government. Galbraith had long before played with the idea of sowing mistrust in “the Establishment.” He had been playing with fire. What he apparently did not consider seriously enough is that widespread discontentment and upheaval rarely favor economic stability and equality. Parts of the underclass may revolt, but the formerly complacent majority will hardly be in the mood to show increased generosity towards the poor but rather to degenerate into populist – mostly right-wing – fury: “drain the swamp.” The result: loot and shoot! At least, this is what has happened in the United States.

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