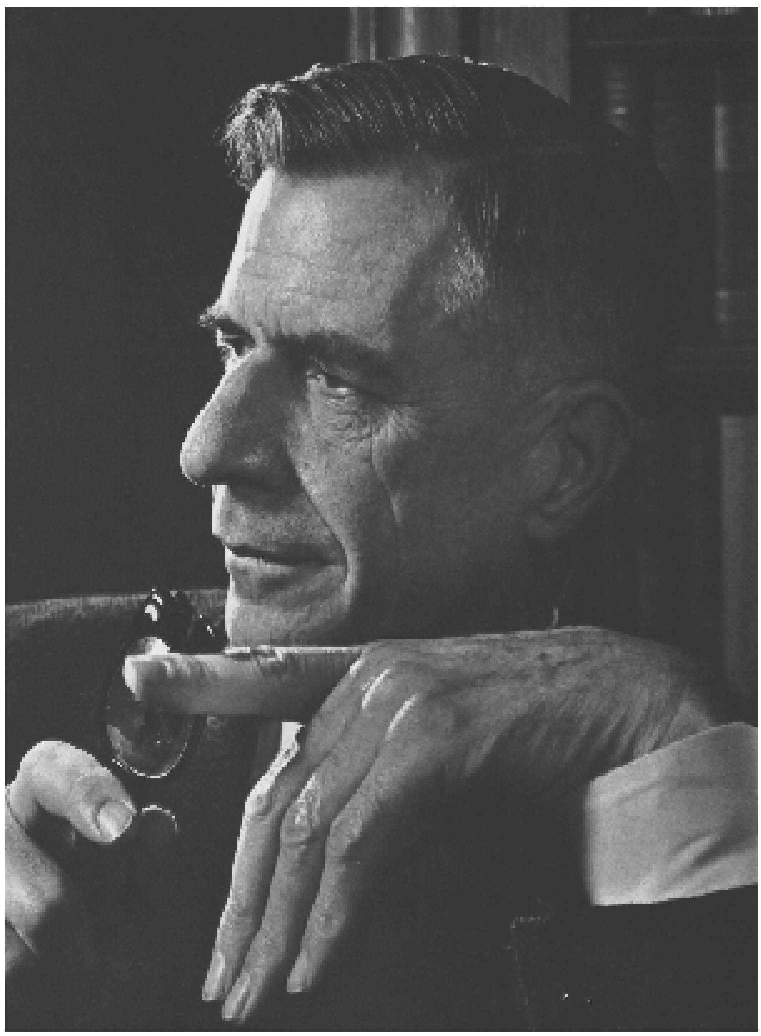
John Kenneth Galbraith
1908-2006



John Kenneth Galbraith

- *Modern Competition and Business Policy*, 1938.
- *A Theory of Price Control*, 1952.
- *American Capitalism: The concept of countervailing power*, 1952.
- *The Great Crash, 1929*, 1954.
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Countervailing Power

- Galbraith argued that capitalism does *not* lead to greater and greater levels of competition among producers.
- Instead, it leads to the gradual emergence of *monopoly* (a market with one seller) or *oligopoly* (a market with a handful of sellers).

Countervailing Power

- However, the monopolists and oligopolists do not get to do whatever they want.
- Workers form *unions*, buyers form retail *cooperatives* and retailers form large *chain stores*, all to balance the huge power of the producers.
- Capitalism, in other words, fights monopoly with monopoly.

Countervailing Power

- Galbraith went on to argue that it was pointless for the government to try to encourage competition through its anti-trust policies.
- That approach would not work because modern capitalism has a tendency towards monopolization.
- A more practical approach would be for the government to encourage and strengthen all sources of countervailing power.

Dependence Effect

- Galbraith argued that the notion of *consumer sovereignty*—central to neoclassical economics—is largely untrue.
- Large corporations with huge advertising budgets are by and large able to persuade consumers to buy whatever they want to sell.

Dependence Effect

- One consequence of the power of advertising in determining our tastes is the existence of "public squalor amidst private affluence".
- We pay too much attention to goods that are advertised and ignore those that aren't, including public amenities such as good roads, clean subways, etc.
- We end up with nice and clean homes on the one hand and nasty subways and broken highways and bridges on the other.

The Modern Corporation

- The modern corporation is characterized by the *separation of ownership and control* in business firms.
- Galbraith argued that modern economies are dominated not by small mom-and-pop stores but by large corporations.
- These corporations are owned by millions of shareholders who each own a tiny portion of the firm.
- It is not possible for them to run the day to day operations of the firm directly.
- Therefore, they typically hire a professional manager (the CEO) to run the company.

The Modern Corporation

- As the person who *controls* the firm does not *own* the firm, it no longer makes sense, according to Galbraith, to assume—as neoclassical economics does—that firms maximize profits.
- Modern corporations tend to be more interested in maximizing *sales*, not profits

The Modern Corporation

- Of course, the CEO cannot ignore profitability altogether for fear of being sacked by the shareholders.
- But the CEO does not have to *maximize* profits either.
- All that the CEO has to do is ensure an adequate level of profits to keep the shareholders happy.
- Galbraith argued that after reaching that adequate level of profitability, the CEO turns his or her attention to other goals, such as the firm’s sales, size or market share.

Sources

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