

Gäfgen, Gérard

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## On the methodology and political economy of Galbraithian economics

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320

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OF GALBRAITHIAN ECONOMICS

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Gérard Gafgen

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# ON THE METHODOLOGY AND POLITICAL ECONOMY OF GALBRAITHIAN ECONOMICS <sup>\*</sup>)

by Gérard Gäfen, Konstanz

## 1. Neo-Institutionalism or a new vulgar economics ?

Modern economic analysis with its sophisticated techniques has severe shortcomings in explanation and as a contribution to policy making, especially where we have new phenomena, e.g. the multinational firm, or new kinds of policy problems, e.g. the fight against stagflation. This gives rise to dissenting currents ranging from marxist thinkers to such lonely figures as Clarence A. Ayres, John Kenneth Galbraith or Gunnar Myrdal which A. G. Gruchy views as a sort of leaders of Neo-Institutionalism in the post World War II period. (see his book Gruchy, 1972). One can easily discern characteristics common to the whole group of dissenting economists; so they all emphasize the socio-cultural background of the economy. social change, and qualitative modes of analysis, yet not only do the neo-marxists differ from the neo-institutionalists proper, above all in their self justifying methodology and in their ideology of radical social change, but there are also wide differences between the individual thinkers seeking their own remedy to the

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\* ) Paper presented at the "Analysis and Ideology" Conference at Interlaken, June 1974. This paper and an accompanying paper by Hans G. Monissen, University of Konstanz, dealt with some major economical and political issues raised by John K. Galbraith latest book. The paper by Hans G. Monissen "Economics and the Public Purpose - Some Discussion Points Related to Chapter Three of John K. Galbraith's Homonymous Book -" is excepted for publication in Schweizerische Zeitschrift für Volkswirtschaft und Statistik.

deficiencies of conventional economics and their own cure to the pressing problems of contemporary industrial societies. So if one wants to demonstrate problems inherent in the dissenting mode of socio-economic thinking the best one can do is to choose one of the leading figures as an example.

One of the big problems of institutionalism has always been that it lends itself to an easy popularization or that it may even become identical with popular story telling. Therefore the extraordinary success of the writings of J. K. Galbraith and the resonance his ideas have found among economic laymen have led us to choose as a most relevant example of popular institutionalism the Galbraithian system as it now stands. The other reason is Galbraith's claim to have built up now a complete system of explanation:

John Kenneth Galbraith's new book "Economics and the Public Purpose" (Galbraith, 1973) is intended to form a sort of summa theologica of his thinking as developing from ideas expressed in American Capitalism (Galbraith, 1952), The Affluent Society (Galbraith, 1958) and the New Industrial State (Galbraith, 1967). He himself speaks about putting it all together or giving "the whole system" (Galbraith, 1973, p. IX). If his critics saw the emerging close of the Galbraithian system already in his New Industrial State (Scott Gordon, 1958) Galbraith has now corrected this view and is claiming to have built up a complete and consistent system eliminating errors, filling lacunae and adjusting contradictions in his

former writings. Since in the introduction to his new book he himself describes the relations between the old and the new ingredients of his mix of ideas we are dispensed with giving an outline of the history of his thinking and may concentrate on analysing the new old system as such.

Why do we choose the problem of vulgarization as a sort of point of attack ? Of course, there is nothing bad per se in a popular philosophy on the working of the social economy of so-called organized capitalism, but if it becomes politically influential and if it gets adopted by some schools or disciplines of the social sciences as the right new view of the economic system a critique of the methods employed and of the contents of the propositions becomes a socially highly important affair. Karl Marx knew very well the importance of popular writings on economics, when he denounced the writings of Frédéric Bastiat and of other late followers of the Classics as "vulgar economics" furthering only the interests of the ruling class and performing only ideological functions. Although, in a neomarxist view, contemporary economics too shows important traits of bourgeois vulgar economics, we have to examine this point only for Galbraithian economics. Galbraith's ideas certainly do not serve class interests directly (so they may do so for the interests of the author himself and some of his fellow intellectuals or politicians); only the marxist radical will reproach him with a reformistic apology of "late capitalism" (see e.g. Böhnisch 1969). But nevertheless his ideas may be profoundly misleading in theory and, being influential by vulgariza-

tion, in practice. Should this be the case, we are not entitled to ascribe this to the popularization as such - though a point could be made that any popular author in the social sciences must be a "terrible simplificateur" -- nor to the particular non-mathematical qualitative mode of analysis which Sharpe (Sharpe, 1973) has christened the "lower economics" and put identical with institutionalism. An approach describing the functioning of and the changes in the major economic institutions of a society has some problems in common with Galbraithianism, but does not necessarily share all his potential deficiencies. Even if some deficiencies should prove to result from the simultaneous description of the whole institutional framework this would be no argument against a socio-cultural view of economics or against an analysis of the interdependence between some bundle of important social regulations and the working of parts of the economy, e.g. between "property rights" and market processes.

So far, we have demonstrated the importance of a critical appraisal of the Galbraithian system. One difficulty we have met is that this critique overlaps with an appraisal of qualitative thinking in economics as such. Unfortunately, the language of qualitative reasoning explains at the same time the far reaching diffusion of Galbraith's ideas among the general public - which is still furthered by the quasi-rhetoric techniques he employs. Needless to say, it is just this style in which he presents his ideas, which makes it difficult to extract clear cut propositions and hypotheses from his work on which to base an argumentation. What serves the vulgari-

zation of his ideas seems to serve at same time to protect them against direct forms of critique. In spite of this difficulty we want to analyse his system just like any other systems of institutionalist economics. Even if some of the points to be made will appear rather obvious to the professional economist they were not always easy to extract from the metaphorical, satirical, paradoxical, aphoristic, in any case suggestive phrasing of J.K. Galbraith. The reader should also remind himself that even the trivial parts of the norms of scientific discourse are a valuable aid for discovering untenable propositions - though they may not prevent the use of these propositions in every-day politics or in small talk pseudo-literary conversations. No critic can hope to convince Galbraith who wants to stand as a lonely thinker against the whole economist profession, and who does not share Keynes' view about "what foolish things one can temporarily believe if one thinks too long alone, particularly in economics" (Keynes, 1936, p. vii), but a critique may perhaps contribute to a separation in Galbraith's work of what deserves attention and further investigation by the social scientist from what should be dismissed or even combated as misleading social thinking and public opinion.

## 2. Some characteristics of Galbraithian thinking

### a) Concept formation and structure of theories.

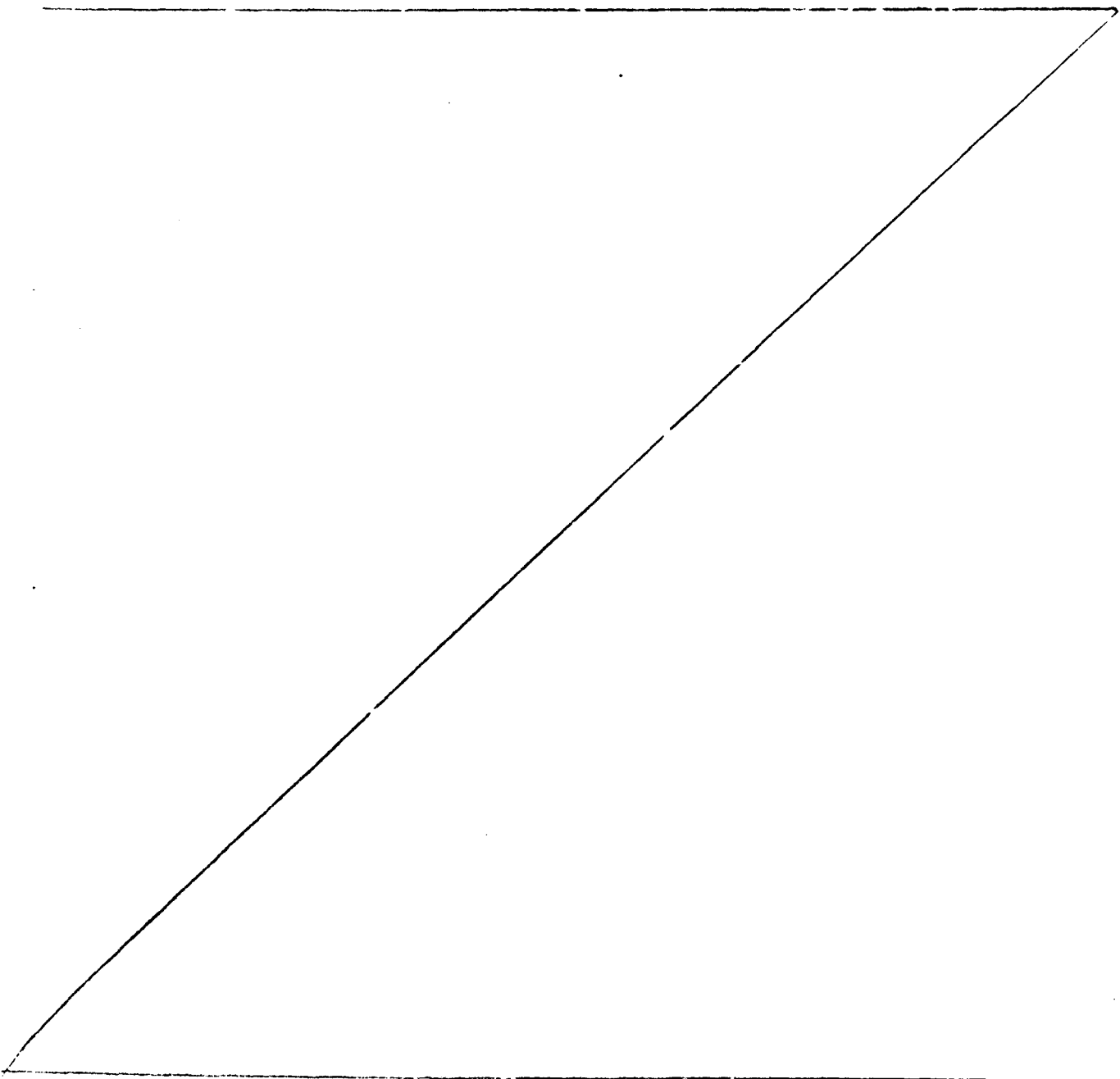
Galbraith's work rests heavily upon a mixture of wholistic reasoning, intuitive and impressionistic demonstration, and reference

to common sense. There are occasional remarks intended to justify this procedure or to refute what he thinks is the core of established economic theory. But in general, methods and contents of his analysis mutually support each other - as in radical economics: The correct view of economic society induces the initiate to accept the underlying methods of analysis and to reject other approaches as mere expressions of the real social forces discovered by the true doctrine. So one has to extract typical modes of reasoning out of Galbraith's intricate ideas and to sustain these assertions by citing examples from Galbraith's work. Proceeding in this way one may state as the principal characteristic that Galbraith pretends to have an implicit knowledge of the whole social system - without giving a definition of the concepts he employs and of the epistemological presuppositions. So his diagnosis of the defects of the American Economy is "that they are part of the system as they are part of the reality... They are deeply systemic." (Galbraith, 1973, p. 211). This systemic approach permits to postulate the system itself as a cause after having built this system upon a chosen aspect of society.

With Galbraith - as with Marx - this is the aspect of power "exercised in unequal measure by producers" (Galbraith, loc. cit.). Nobody would deny that this is an aspect of utmost importance, and marxist critics have praised Galbraith for having recognized this; but they have rightly criticized that he has arbitrarily located the center of power rather exclusively with the technostructure of the industrial corporation without basing this on a theory of



fundamental social processes, in a Marxian view for instance on a theory of class struggle (compare Böhnisch, 1962, 1969). Therefore Galbraithianism is not acceptable even for the adherents of a total and simultaneous analysis of society as such. We don't find in Galbraith's writings any thorough discussion of this problem, only a laconic rejection of the socialism of Eastern Europe and a plea for a necessary tendency toward his very personal version of



"socialism" (Gf. Galbraith, 1973, Chapt. XXVII). In his New Industrial State this view took the form of a convergence of all modern economic systems towards a planning system centered around the big industrial firm, but in his new book partial and total socialization is part of his political program remedying inequalities and disproportions. Neither this assertion of convergence, nor the idea of the death of the market as the main institution of the capitalist system or the systemic approach as such can claim originality because they have many predecessors which were philosophically better equipped. We said this already for Karl Marx, but in relation to Galbraith, Thorstein Veblen has been stressed more often. (see for instance H. Demsetz, 1968) as an antecedent whose vision of the present and future role of the engineer in modern industrial society rested upon considerations of human instincts - considerations which were completely at fault, but constituted at least a claim to a fundamental theory.

Beyond these considerations of a badly founded systemic view there are the well known arguments of Karl Popper against "holism" as an attempt to grasp at once the very essence of a whole culture or historical period. To meet the usual criteria of the philosophy of science, scientific propositions should lead to universal hypotheses subject to the possibility of falsification by empirical observation; in the social sciences, as a rule, this is so only for theories of the middle range. This renders difficult the analysis of complex social phenomena, but does not restrict us to small problems, because we can put together particular theories or

hypotheses to form tentative models of larger dependencies - models which than have to be subjected to further tests, for instance also by way of political experiments. But this is just the contrary of the Galbraithian approach which presupposes, as the French would put it, "la science infuse"; the reader of Galbraith, if a bit sceptical, always wonders about how Galbraith comes to know all this.

To prevent this last argument Galbraith employs a certain range of techniques of suggestion and of pseudo-validation which are intended to make his assertions look like carefully derived and empirically well established hypotheses. The aims of these techniques seem to be in a certain contrast with his principal aim of originality which he seeks to attain by formulating even relatively trivial sentences in a provocative manner. But this contrast disappears or diminishes when one sees that many of his assertions are rather weak and others are only supported by an interpretation of reality working through one-sided abstraction, exaggeration, false generalization, i. e. what Scott Gordon calls the simplism of Galbraith (Gordon, 1968, p. 636). So Galbraith concedes that there exists a continuum of very different types of economic units in the United States, but he pretends that "Little is lost and much is clarified by dividing business organizations between two classes, those that deploy the full range of the instruments of power.... and those that do not." (Galbraith, 1973, p. 10). Now one can clarify many logical and conceptual problems by constructing extreme types of behavioral units, but this is only a heuristic device and not a means to construct a

big system from parts which have already stood the test otherwise. With Galbraith, his whole system consists in this dichotomy between two classes of economic units; it is nothing but a classification elevated to the dignity of a system.

Galbraith himself knows this fundamental weakness of his approach very well. Therefore he has built in some precautionary measures against the reproach of overstatement which he expects to be advanced against him by a "person who is resisting truth" (sic! Galbraith, 1973, p. 87). His anticipative response to such a reproach consists in restricting the scope and content of previously advanced propositions but continuing to deduce the working of the system from the stronger form of the proposition. So he concedes that his assertions about the power of the managing technostucture are fully valid only for the largest corporations and that even there we observe some reactions of the stockholders (Galbraith, 1973, p. 87 - 89), but he then returns to the predominance of the technostucture over the capitalists and to the fictitious omnipresence of the mature corporation in the industrial sector of the economy, provoking the attack of the conservatives as well as of the marxists and adding thereby to the impression of being

the only person in possession of the truth. After having made some concessions in descriptive details, the big vision is maintained and simplified to such a degree that even the international monetary crises can be attributed to unintended cumulative effects of the machinations of the technostucture (Cf. Galbraith, 1973, p. 322). Let this last example serve at the same time as an instance for Galbraith's simplistic view of causation where he

prefers to see monocausal relations instead of complex sets of conditions which neither his stereotyping conceptual apparatus nor his propagandistic intentions permit him to describe or to handle adequately.

Not only "simplistic" and "wholistic" conceptualizations are well suited to deduce at will propositions about disfunctions of a system, but also theories of behavior which put no limits to the type of behavior producing the negative effects one wants to criticize. This is particularly true for the behavior of social units which alone are claimed to possess power, for this then means power without limitation. Repeatedly critics have charged Galbraith with advancing a theory of behavior of the big firm which just states that the firm will impose its will on its environment, on consumers, on stockholders, on the government, etc. Although Galbraith sketches some primitive mechanisms like advertising, channels of political influence, complacency with the nominal wage demands advanced by labor unions, there are no clear restrictions under which managerial behavior stands, i. e. there are no costs to incur for the advantages brought about by a certain behavior. Galbraith did never react to this criticism because his conception of behavior seems essential for the conclusions to be derived. He thereby neglects all the results of long debates in the social sciences about behaviorism and motivation theories as well as economic theories of behavior, for which he has nothing but disdain. As a rule, in the behavioral sciences behavior is derived from the interplay of at least two factors: motives or preferences of the actor at the one side and

the situation perceived or the restrictions at the other side. The social environment constitutes an important part of these restrictions, and in his American Capitalism Galbraith identified even countervailing institutions like labor unions and government which constrain the behavior of the firm. Since his New Industrial State these institutions have become auxiliaries of the corporate enterprise helping it to dominate its environment. Perhaps there really has been a process by which the 2,000 largest enterprises have gained more power over the market and more influence over some institutions of the state; but why not describe such a process by using an operationally meaningful index of power and by specifying the restrictions which have been removed or weakened? There are some traces of such an approach in Galbraith's description of the inside evolution of the modern corporation: the weakening of stockholder control, the emergence of a managerial bureaucracy, the self supply of large parts of the capital requirements. But externally the firm controls completely all important elements of its environment, and nobody knows why General Electric has not yet taken over all of the United States.

Galbraith believes that when the technostucture of the corporate firm is no longer subject to the market and no longer guided to maximize profits for others, it can not only pursue its own goals and transcend the market in its influence on the attitudes of society and on the actions of the state, but can do so without encountering any obstacle, for instance without acting upon other markets with other competitors or without rivalry in political influence (Cf. Galbraith, 1973, Chapt. IX). Any contrary influence

by stockholders, creditors, consumers, government and unions can easily be overcome (Galbraith, 1973, Chapt. X). Perhaps it should be stressed that Galbraith refuses to give a unified theory of the behavior of the technostucture pretending that in every industry or firm the compromise between the different inconsistent purposes pursued will be different (Galbraith, 1973, p. 108 - 109). How this fits with the idea of pervasive power remains an open question, for a compromise presupposes restraints on the possibilities of goal attainment. The main area of power seems to be the control over the prices with price competition completely excluded; other forms of competition which persist are regarded as usually furthering the purposes of all competing firms (Galbraith, 1973, Chapt. XI). Apparently this must be so only to get rid of still persisting restrictions of market power.

A striking example of the Galbraithian theory of unrestricted power is the apparently costless manipulation of consumer wants by advertising. Nobody would deny that advertising plays an important role in want creation, but it has no unlimited resources to rely upon and its effects are heavily diminished by actions of rival firms. Alfred Marshall knew this very well as he knew also the cultural character of want formation of which actual influence by advertising is only a small part. There are at best but a few "natural" or "original" wants and, in a civilization in which the production of material wealth has grown

to a high level, economic activity, e.g. by specifying place and kind of work of a person, possibly determines more and more the character of our wants. This poses serious problems for the meaning of economic welfare and for the "right" direction of production. Mere prejudice against material production which Galbraith seems to share with some 19th century Romantics does not solve these problems. This prejudice rests upon a theory according to which false and artificial wants are created only by the modern industrial corporation, a theory which neglects the most simple anthropological literature on the subject and obscures the real problem of how to select and articulate the wants which should be satisfied in a modern industrial society.

b) Validation and evidence.

Galbraith's concepts and theories do not lend themselves to easy testing nor does he want to formulate them in such a manner that falsification would become possible. But since he wants to present them as a good description of the reality of every day life under industrial capitalism, he uses such surrogates for empirical validation as are plausible for the common reader. There are several of such strategies

- common sense evidence: the suggestion that "everybody knows",
- practical relevance: reference to political action presupposing the existence of the assertion ("there you see it"),
- immunization against contrary evidence: conceding exceptions and unimportant deviations from the essential truth.

Because everybody can see the areas of abundant production in the United States, i.e. automobiles, weapons, soaps, etc., and



because Galbraith pretends that abundance is a result of power, "A moment's thought .... will suggest that the present analysis is not in conflict with common observation and common sense" (Galbraith, 1973, p. 145). Everybody also knows the disproportion between the railroads and the road transport industry which, of course, **m u s t** be a triumph of the powerful technostructure of the automobile industry (Galbraith, 1973, p. 317).

There is a whole chapter (in Galbraith, 1973, Chapt. XX) devoted to the "ultimate test of a set of economic ideas" and the criterium used for this purpose is "whether it illuminates the anxieties of the time" (Galbraith op. cit., p. 198). According to this test any idea explaining the existence of problems which public opinion regards as politically important issues or which the reader is persuaded to regard as the main anxieties of our time must be not only a valuable contribution but must be **t h e** truth about the issues in question. Galbraith just has to point to disproportions between the public and the private sector, to the existing structure of public expenditure, to inequalities in the distribution of income, to the pollution of the environment etc. - all phenomena he has previously declared to be a consequence of systemic properties of a system with predominance of the sectors governed by a technostructure. So the existence of a women's liberation movement "proves" that Galbraith's analysis of the crypto-servant role of women in our society must be right. Again we have what he calls "the validating reaction" (Galbraith, 1973, p. 233). Even for the appropriateness of policy measures, e. g. prohibition of particular types of production and consumption

to avoid pollution, Galbraith's most important argument is that they correspond to "what is already being done" (Galbraith, 1973, p. 289). This has to be seen together with his attitude towards existing tendencies which he confounds with the normative and the recommendable (see the Galbraithian policy implications stated below). His "new socialism" which consists in the socialization of the underdeveloped sectors is also founded on the "most reliable of tendencies - and the best of tests of the validity of social diagnosis - which is that circumstance is forcing the pace" (Galbraith, 1973, p. 279); this means that governments are already taking action in this direction. In this way, Galbraith's diagnosis becomes an apologetic justification for any political tendency which he declares progressive - and over and above this procedure is even declared an empirical test. This is really an exercise in the art of persuasion procuring the lay reader an experience of self-evidence and of easy understanding.

Analogous effects are attained by Galbraith's strategies of immunization. By employing a non-operational concept of power which is not defined referring to specific dimensions (pecuniary, physical etc) nor by its scope or its limits, he can attribute any evil to the power of the technostructure. In scientific explanation, the use of unexplained terms or entities is inevitable for any theories of higher degrees of refinement or abstraction, but then the propositions containing these terms must impose clear restrictions on the hypotheses to be deduced from them. This is not the structure of Galbraithian theorizing which uses the undefined terms in a way which fills them with intuitive content while deducing from them other propositions. There are other related forms of immunization: Galbraith rather often gives a seemingly

stronger even extreme description of a case and then slowly adds a lot of qualifications until the previous assertion is weakened to a degree that no observation may contradict it. So the purposes pursued by the technostructure, like growth of the firm, minimum profits etc. imply certain types of behavior, but finally these are declared compatible with any behavior observed in different firms or industries (Galbraith, 1973, Chapt. X and XI). The same pattern of reasoning is applied to price setting behavior (Galbraith, 1973, Chapt. XII). In Chapter XIV (Galbraith, 1973) the assertion that firms have power over the consumer is attenuated by alluding to the costs and difficulties of the task of controlling consumer reactions, but if such obvious limitations of power must be conceded Galbraith quickly finds other ways firms are profiting by advertising: advertising of all firms together serves the whole industry and encourages the false belief of happiness through consumption. The thesis of <sup>the</sup> mutually neutralizing effects of oligopolistic advertising must be false, because were it true "steps would long ago have been taken to limit advertising outlays by common agreement" (Galbraith, 1973, p. 141). This is a typical Galbraithian argument because it presupposes what has to be proved: the power of the technostructure to take not only individual action, but also collective action be this even illegal or yet to be legalized. Further: Must we take for granted that advertising affects also the average propensity to consume out of total income? There is economic and econometric research on this subject, but still no conclusive results. In a very intricate manner arguments are supporting one another though the one is only a new form of the other disguised as new evidence.

Multinational firms are another example: according to Galbraith they form a transnational system and it is the technostructure as such, not the foreign firm which menaces the sovereignty of the national governments. This proposition is not in full accord with the predominance of american firms in this field, therefore the true evidence must lie in the future when the technostructure of the other countries will have developed to the same degree as it is already the case today in the United States (see Galbraith, 1973, Chapt, VII).

If there is a sort of law asserted by Galbraith and reality does not conform to it, he simply adds exceptions to the law - a technique which, if completed, is well known in the philosophy of science as the principle of "exhaustion". At the end of a chapter treating of the pervading political influence of the technostructure Galbraith hastens to add that this power is not plenary and occasionally even breaks down (Galbraith, 1973, p. 163). Nobody should say that Galbraith has set up untenable propositions or that he has not seen important aspects of reality. Unfortunately he cannot exhaust all exceptions to his laws; for instance, some developments in the capital markets and in management techniques are contrary to his idea of a centralized and powerful technostructure: tendencies of decentralization in modern management organization, the rise of the conglomerate type of the corporation, the appearance of big institutional lenders in the capital markets (this has already been an objection against the New Industrial State; see for instance Scott Gordon, 1968, p. 638 - 639). Even a great many exceptions of this sort do not discourage Galbraith who seems to think that his own truth "has winged feet

as compared with a qualification in pursuit of a bold proposition" (Galbraith, 1958, p. 30). Anything which does not fit the grand vision is declared to be a minor qualification. So the mass media are subject to the interests of the technostructure, but they show a certain degree of non-conformity because, to be successful, they must satisfy their customers (Galbraith, 1973, Chapter XVI). If the technostructure does not use direct repressive techniques, this is no sign of a limitation of power, but it must be attributed to the ineffectiveness of such techniques, because otherwise the technostructure would have made use of them (so Galbraith, 1973, Chapt. XXII). So limitations, qualifications, and exceptions serve only to reaffirm the "bold propositions" forming the core of Galbraithian system construction.

c) Critique of economic theory and related ideologies.

Galbraith exposes his own ideas by contrasting them with established economics or what he thinks or pretends established economics to be. For him it consists of extreme neoclassical propositions and - for purposes of macroeconomic stabilization - of a bit of Neo-Keynesianism and it performs only ideological functions in favor of the ruling technostructure by removing power from the image of the economy (Compare Galbraith's<sup>15</sup> presidential address, Galbraith 1973 a). To support this suspicion he must give an account of economics presenting it as built upon the profit maximizing firm subordinate to the instruction of the autonomous consumer and upon the state subordinate to the interest of the citizen (see Galbraith, 1973, Chapt. II and III). Such an economics does not

serve the understanding of the system but guides away attention from inconvenient facts and assures a quiet life to economists (Galbraith, 1973, p. 26 - 27). Obviously Galbraith's sketch of modern economics does not take into account many developments which have taken place during the last 40 years, e. g. in the fields of the theory of the firm, the micro- and macroeconomics of disequilibria, elements of power in the theory of distribution etc. There does not exist Cambridge (England), nor a monetarist counterrevolution, nor European thinkers like Myrdal or Preiser etc. This is not to defend the failures of economics which Galbraith is quite right to stress, its lack to take full account of the growth of the large firm, of phenomena of unequal distribution, of permanent inflation and stagflation. But contemporary economics has made many efforts in these directions and cannot be treated simply as a mere assemblage of "vulgar" neoclassical ideas. To justify his own vulgar economics Galbraith apparently needs a dummy of economics representing the same level of popular understanding.

Just as ideas serve to conceal the reality of power relations so must do some institutional arrangements: the power of management is elaborately disguised by "elderly boards of directors, ... the solemnity of corporate liturgy, .... board chairmen or presidents" (Galbraith, 1973, p. 86 - 87) which all have no real competence or information. Policies of the state like antitrust measures serve the same purpose of disguise, because they pretend - assisted by neoclassical economics - that monopoly is the only problem of power whereas the real power is exercised by the whole managerial class. This resembles neomarxist ideas according to

which policies to enforce competition are ineffective,

and even if they hit single capitalist firms they serve the interest of Capital (as an ideal entity). The separation of micro- and macroeconomics and the ensuing Keynesian policy are interpreted in an analogous way: because stabilization policy is shaped in a way that leads to<sup>a</sup> permanently high level of government expenditures and to adjustments of taxes (but in a way that does not hurt the pecuniary and other revenues of the technostucture) it is proved thereby that Keynesians are servants of the technostucture. This is strengthened by the neglect of entrepreneurial influence upon the state in economic theory - a consequence of the separation of macro- and microeconomics. Economists pretend to combat underemployment by Keynesian policies and they deny the necessity of purchasing weapons in execution of this policy; this renders their political propositions all the more suspicious. To insinuate ideological purposes is a very easy way to discredit ideas and theories; we do not want to apply this device to Galbraith himself who has important interests as best seller writer and as a spiritual leader of American Democrats to write as he does. Moreover, an ideological background of ideas is no proof of their invalidity in the sense of the empirical sciences. Galbraith is firmly convinced that only others are ideologists, therefore he even takes the fact that his ideas are criticized by most of professional economists as a proof for having hit on the important points and thereby having discovered the truth. This denies in advance any value to

what we could still advance in favor of other efforts to overcome the traditional bias of conventional economics.

### 3. Galbraithianism as an approach to political economy.

#### a) The Galbraithian state.

The rationale of Galbraith's thinking is the rediscovery of power in economic and political life which, by introducing even this idea, become inseparable. Established economics and even political science have to be overcome by this new approach, for political science "is also the captive of its stereotypes - including that of citizen control of the state" (Galbraith, 1973 a, p. 6) - a phrase which shows a complete neglect of recent developments in political sciences too. For politics to "become a part of economics" (Galbraith, loc. cit.) Galbraith offers an eclectic description of possible channels of contact and influence between the technostructure of the corporations and the institutions of the state and of society which all may take action in a sense serving the interest of the technostructure. This should replace the false image of the state underlying neoclassical reasoning (we would prefer to speak of a lacking image of the state in most of neoclassical theory, a deficiency which the New Political Economy has long begun to remove).

The building-blocks which form the system of political influence as partners of the technostructure are: the bureaucracy of the state, the legislative, the mass media, the intellectual establishment. The agencies and bureaus of the state live in a bureaucratic



symbiosis with the technostructure interchanging persons with it, intervening with policy measures to maintain favorable market conditions, purchasing the goods which technologically advanced corporations are particularly able to produce, exercising state power in a way that produces a need for these goods, for instance fostering an aggressive foreign policy which leads to large expenditures on weapons. Via the dependence of the legislative, above all of the parliamentary committees and their chairmen, from the bureaucratic institutions of the state, also the influential parts of the legislative further the interests of the technostructure. All this is not based on a theory of the functions of the "capitalist state" as is the case in neomarxian theories, but constitutes a simple collection of assertions and occasional observations. Where is the worldwide environment which imposes restrictions on the foreign policy, where are the new demands addressed to the state from different parts of society? How to avoid empirically <sup>empty</sup> reasoning which attributes every action of redistribution, health policy etc. the only aim of maintaining the essential parts of the system and thereby serving the interests of the technostructure? We saw already the danger of such arguments in the case of mass media depending for part of their revenues on the advertising expenditures of the firm (Galbraith, 1973, Chapt. XII). If public opinion under the influence of the media, but also of opinion leaders, is critical in many points concerning product quality, pollution etc., then for Galbraith this is only to divert attention from the true center of power; if it is favorable to the purposes of the technostructure,

the same point is proven. (For these functions of public opinion, as for instance disguising decreasing marginal utility of further goods, see Galbraith, 1973, Chapt. XVI).

What Galbraith regards as the most important source of influence on subjective beliefs is the establishment which consists of allies and acolytes of the technostructure and also belongs to the wealthy classes because its qualifications are defined according to the needs of the technostructure.

This too has been better described by Karl Marx who also knew better the difficulties of this view: there must be intellectuals of the left who do not exert their profession as producers of ideologies in the interest of the ruling class; how does this division of opinions and beliefs take place? The educational system must be viewed as a subsystem performing, as Talcott Parsons would put it, the function of pattern maintenance (of beliefs and qualifications) needed for the purpose of the total system and thereby for the purposes of industrial corporation. The educational system and every institution contributing to the formation of values and attitudes must therefore be dominated by docile servants of the technostructure. Galbraith describes some degrees of freedom left over in this subsystem because he needs this as a point of departure for his strategy of reform. This is no new idea, but it "explains" progressive and leftist tendencies in the universities and elsewhere, it gives again an impression of deep understanding to the reader and it secures new acolytes of Galbraithianism from among progressively minded intellectuals lacking economic and social perspicacity.

{ Other phenomena of our time are explained too by the conspiracy of the technostructure with other groups or institutions: not only the form of stabilization policy by demand management is an outflow of such a symbiosis, but also the permanent inflation which does not respond to a policy of demand contraction. It cannot respond because it is necessary to the functioning of the system, for the technostructure is allied with the industrial labor unions to whom it concedes periodic increases of nominal wages which it has the power to pass on to the product prices. The prices administered in this way do not respond to variations in demand; any attempt to fight inflation by demand management must lead to stagflation. Neither inflation nor restrictive policies are dangerous for the big industrial firm since such policies hurt only other parts of the economy. Therefore we observe permanent inflation and inefficient anti-inflationary actions. Because of the social consequences of inflation as well<sup>as</sup> of politically induced underemployment this must eventually lead to wage and price controls the beginnings of which we can already observe. Here too, Galbraith seems to see the beginning abolition of the system; he does not ask whether there are other alternatives of an anti-inflationary policy which comprise perhaps wage and price controls as a transitory component. It seems that he wants to maintain his predilection for direct controls (stemming perhaps from his successful practice as a price controller) although the system dominated by the technostructure could perhaps be changed in many other ways. All these ways presuppose a change of the subsystem of political power and influence; it is difficult to see how this can take place if the system is really so closed as Galbraith

views it. We shall see that Galbraith's own strategy of reform is not compatible with the strength of the system as previously described.

b) Dualism in the Galbraithian system: Inequality and asymmetry of power.

Theories identifying only one center of power in society must view the rest of society as dominated by this center; they construct a dualistic system with asymmetric power relations. By this they are in sharp contrast to theories of pluralism presupposing at least two sectors of equal power or the always renewed formation of countervailing power, as did Galbraith in his American Capitalism of 1952. By describing now only the relations of the dominant technostructure to other parts of the economy, Galbraith can no longer explain what happens between the technostuctures of different firms; if in the outer relations to the rest of the economy the market has disappeared and has been replaced by the dictatorship of the technostructure vis-à-vis the consumer and the state, the terms of exchange between the firms <sup>themselves</sup> must be determined by a market relationship be it oligopolistic or to a certain degree bilaterally monopolistic. Galbraith is unable to say anything about this, he only knows that the firms make "contracts". If one abstracts from this inner problems of the dominant sector, the other sectors can safely be described as underlying exploitation by the technostructure. They are: the rest of the producing private sector, called the market system in contrast to the planning system

of the large industrial firms; the households of the consumers; the state institutions; in part foreign countries in which the sector of large industrial firms is not yet sufficiently developed. Curiously enough, the worker's class does not belong to the exploited groups because of the strange alliance between the technostructure and the labor unions. This is difficult to understand, for the technostructure lowers the real wages every time it rises the prices in response to a wage increase. So it must exercise exploiting power vis-à-vis the workers too as is always the case if we have only one privileged economic class, be this the class of Ricardo's land lords or that of Marx' capitalists.

On the other side, Galbraith has added an exploited group whose relation to the functioning of the system is a bit far fetched: the crypto-servant class of the women. As he views it, there must be someone accepting the charge of administering the growing consumption of material goods which demands much time and labor; this is a conditio sine qua non for the growth of consumption and thereby for the power of the technostructure. The activities of the housewife are regarded as a high social virtue which constitutes at the same time the non-pecuniary reward for women's labor. Galbraith tries to show the persisting dominant role of the husband in household matters and to unveil the related ideological attitudes, but he cannot explain why the system requires that a pecuniary salary be refused to house-wives (cf. Galbraith, 1973, Chapt. IV). So there are two groups forming the overwhelming part of the population whose role in the system dominated by the industrial corporation remains analytically obscure.

As for the people occupied in the services industry, in construction and in agriculture - the domain of the small firm - they form the logical counterpart to the mighty managerial class for they are subject to the fate of the market and to the adversities of restrictive stabilization policy. Galbraith gives a sometimes striking description of the characteristics of these economic sectors including his favorite activities: the arts. His contention is that these are sectors of sharp competition, of relatively low prices, of great efforts by the small independent entrepreneur leading to self-exploitation, of low wages expressing exploitation and of lacking power of the labor unions (see Galbraith, 1973, Chapt. VI, VII, VIII). Of course, he knows exceptions in the form of well organized markets as in the medical profession, or in the form of state aid as in agriculture. It would be easy to cite still other exceptions until there are left some marginal groups which no longer can represent one half of a dual system. This is not to deny the existence of many underprivileged groups, but only to question the usefulness of Galbraith's classifications. Exploitation of the consumer and of the citizen is a genuine consequence of his system; so dubious innovations are forced upon the manipulated consumer by the technostructure just as they are introduced in the provision of public goods even if they do not serve the citizen (e. g. new weapon systems, see Galbraith, 1973, Chapt. XV); but the exploitation of the other groups mentioned is no necessary factor for the working of the system.

Since the market sector is a heterogenous group, the arguments for the existence of terms of trade working against the under-

developed countries as belonging to the market system are weakened. There remain some forms of "imperialism" by single firms which are interested in vertical integration and long range contracts to ensure the supply of raw materials at stable prices (see Galbraith, 1973, Chapt. XIII); and there remains the abolition of the old international market system by the multinational firms exploiting those countries which have not yet developed the giant industrial organizations. But even there strong forces may work against the highly developed industrial sector, as demonstrated by the rising prices of goods of the primary sector during the last years and by the organizational possibilities of monopolizing the market for raw materials. Since according to Galbraith incomes are not related to functions but result from an arbitrary exercise of power, income differences within the technostructure between positions and levels are arbitrary too. Again we have an observed inequality which remains nearly unexplained and is not necessary for the functioning of the system (cf. Galbraith, 1973, Chapt. XXIV). As regards dualism and inequality there is not much left of the systemic character of Galbraith's analysis.

#### 4. The dubious policy implications of Galbraith's analysis

##### a) Values and facts

The man of letters - as opposed to the man of science - sketching a grand diagnosis of our time is not only exposed to the dangers of uncontrolled holism but also to the confusion of values and facts, be it wishful thinking interpreting reality so that it can be condemned or praised or be it its inverse: fatalism which takes for recommendable what is viewed as existing or evolving. As Gordon has put it in his comparison of Galbraith and Veblen: "There is no practical (and perhaps no philosophical) difference between asserting that something is inevitable and considering it to be desirable" (Scott Gordon 1968, p. 658). What Galbraith describes as the planning system is viewed by him as an inevitable tendency of contemporary history to which all measures of policy must be adapted: since overall coordination in the system is not assured - with exception of the "contracts" concluded by the technostructure with its partner suppliers or the state - coordination by the state must be introduced (in the New Industrial State even this seemed to be implied automatically in the planning system of the technostructure). Since the planning system is conducive to stagflation it must be supplemented by new ways of price control. What then is inevitable and what can be changed depends on what is regarded as constituting the essential characteristics of the system. Of course, in any policy problem, there is a previous decision about what are to be viewed as the constraints and what as the political parameters.



This is partly a constitutional question about the norms and institutions to be conserved, but the rest is a question of feasibility: what do theory and observation predict to be the consequence of different policy actions? Are there empirically founded theoretical beliefs far reaching enough to remove even some of the restrictions or not?

In Galbraith there are no such distinctions to be found, and there remains a fundamental contradiction between his determinism relating to the main tendencies of contemporary society and his "General Theory of Reform" constituting the last third of his new book (Galbraith 1973, Chapt. XXI to XXXI). No wonder that his strategy of reform and his measures to correct the evils of the planning system lack theoretical foundations and leave the reader unconvinced as to their efficacy. Again a comparison with neomarxian thinking shows that Galbraith is not successful in choosing his standpoint beyond the alternative positions of a "bourgeois" objectivism with an open society and marxist partiality with a <sup>largely</sup> deterministic view of evolution: If there are inevitable tendencies in the main traits of capitalistic societies the only consequence can be passive description or revolutionary action to precipitate evolution. But Galbraith does not want to be a mere radical, he only applauds to radical critiques of economics when this fits his intentions (see the citation of Gurley, 1971, in Galbraith, 1973, p. 27).

Disregarding the problem of giving direct normative content to propositions about "discovered facts" there remains the problem of choosing the fundamental values governing the choice of relevant aspects of reality and of the policies to be derived. In a very suggestive manner Galbraith tries to convince the reader that he has discovered the relevant problems because his propositions relate to the very needs of our time as everybody perceives them. But in this respect too, the radicals would be more consistent by showing their own position in the social context they analyze; this must be the standpoint of someone who wants to treat analysis and valuation with the same method. In the valuations of Galbraith there is a marked predilection for aesthetic values combined with a vague egalitarianism. But he does not tell how we can reconcile a disdain vis-à-vis mere goods, above all private goods, with a better standard of living for the average man. This is the attitude of an intellectual leader who, residing in one of the highest percentiles of the income pyramid can easily give way to his preferences for the fine arts and for public goods, above all for those of aesthetic character whose distributive effects are known to be for a good part in favor of the rich. But let us not make out of this critique a study in prejudice; it suffices to restate that the value foundations of Galbraithian policies are not well laid open and are lacking consistency.

b) Deficiencies of underlying analysis.

While Galbraith declares other lines of economic analysis as totally irrelevant and even misleading he does not offer an alternative analysis of social phenomena that would enable him to construct feasible and efficient policy measures. The study of market processes can be employed according to Galbraith only for part of the whole system, and even there his program would demand that account be taken of the power relations to the other parts of the system. The functioning of the planning system itself is seemingly explained by the contracts to be concluded between the giant firms themselves and between them and the government agencies, but there is no mechanism of bargaining, arbitrage or competition to fix the terms of these contracts. From the lack of coordination between the market and the planning sector conducive to structural crises Galbraith concludes that coordinating activities must be introduced on the national and even the international level. But since he is not able to analyze the existing organization of the economy as a whole - and by just this deficiency cannot claim to use a really systemic approach - he also cannot derive propositions enabling him to organize his new economy into a coherent system. There are neither institutions analogous to those of the French Planification nor any criteria for guiding intersectoral investment decisions or incentives and norms of behavior which would make such a planning machinery work. He does not even touch upon experiences which have been made with planning institutions and mechanisms

of coordination under different circumstances; so his last chapter (Galbraith 1973 Ch. XXXI) that ought to describe the mechanisms of a better regime only vindicates the possibility of such an order.

The same has to be said about his proposals for a combination of monetary and fiscal policy with direct controls which looks rather sophisticated at a first view and even contains indicators for stabilization measures. (Cf. Galbraith 1973, Chapt. XXX). His mix of policies rests upon the dichotomy between the market and the planning sector, the ineffectiveness of antitrust policy and even of all conceivable measures to strengthen competition, ineffectual monetary policy, an inalterable pattern of behavior in the domain of collective bargaining etc. There are some realistic traits in this picture, but it definitely lacks a solid theoretical base at the micro level as well as at the macro level. For instance, his program of stabilization consists of permanent price and wage controls in the planning sector, low interest rates, minimal wage legislation and some demand management which tolerates a certain degree of unemployment but tries to avoid at the same time a shortage of qualified workers in the planning sector and an upward pressure of prices in the market sector - or the inverse in case of a recession. There are no reflections on adverse effects of minimum wages <sup>(for Galbraith/</sup> because <sup>redistribution</sup> makes obsolete the goal of high employment; there are no rules governing the optimal supply of money; there are no possibilities to compensate an excess supply in the planning sector combined

with inflation in the market sector.

Galbraith's policies to equalize power and income contain massive protection, state aid, and weakening of competition in the market sector; he has, however, no theoretical framework to analyze the far reaching consequences of this for providing the population with a sufficient, secure, and cheap supply of services of this sector. Galbraith ignores completely recent research on the economics of discrimination, on minimum wages, on collective monopolistic practices in the liberal professions etc. and takes into account only the immediate effects of protection and control whereas it has always been regarded a virtue of the economist to consider the whole set of consequences in a systematic framework. (See his superficial treatment of "Policy for the Market Sector" in Galbraith 1973 Chapt. XXV). One of the surest signs of policy without theoretical refinement seems to us the recommendation of purely compulsory measures; Galbraith sees no other way to combat the male privilege in the technostructure than to order compulsory quotas for women at all levels of management and a compulsory overrepresentation of women in the educational institutions. As regards the protection of the environment Galbraith is right in stressing that we lack above all an appropriate system of information, but here too he could recommend really more than restrictions, prohibitions and pollution norms. To recommend an expansion of the supply of public goods, particularly of the publicly subsidized arts, means to lift the planners to the role of guardians to the well being of others; in this

respect there are no mechanisms recommended for the articulation of preferences by the citizen - a main problem in the expansion of the public sector. So a deficit of theories is supplemented by presupposing a benevolent and omnipotent policy maker (or one who underlies the inspiration of wise intellectual leaders).

In a work pretending to analyze the hitherto neglected power relations in society, a strategy of reform has to demonstrate how to change the distribution of power which till now has prevented the realization of these reforms. For this purpose an empirically valid economic theory of political processes would be necessary. In spite of his claims to have constructed such a political economy, Galbraith cannot make use of his own analysis to derive a political strategy which in practice would render feasible the realization of his policy proposals. Apart from the rather pleonastic insight that the reformers must get influence over the legislative and the administrative institutions of the state - which then would have to execute the whole programme of reforms - Galbraith proposes a campaign for the "Emancipation of Belief" (Galbraith 1973, Chapt. XXII). A changing conscience which - according to his reflections on the anxieties of our time - is already under way should lead to a changing composition and behavior of the political bodies. One may agree with his view of the pivotal role of the state machinery - although according to his analysis the state is not the true source of power; one may also concede the importance of agitprop emanating from the

campus and other centers to which the technostructure was obliged to leave a certain degree of freedom. But if the network of power is really so intricate and firmly established as Galbraith asserts, then his proposals for reform have a background of voluntarism and subjectivism preventing the construction of a truly realistic strategy: Where are the social strata serving as a socio-structural base supporting the propagation of the reforms ? Where are the political allies of Galbraith if he weakens the power of the industrial labor unions ? How can different pressure groups be motivated as supporters of his programme ?

not only

These questions are asked by those who would conclude that only revolutionary conspiracy can break up the existing power system but also by political analysts who have observed the mechanisms of reform mongering. For instance by propagating a moderately reformistic platform one may bring about an alliance of reformers with members of "ruling classes" who must fear that in the absence of reforms revolutionary forces would eventually take over. Galbraith's neglect of advances also in the political sciences prevents him from considering strategy choice as a problem of applied social sciences. What he has written in this respect must be regarded more as a left wing pamphlet intended for party politics within the U.S. Democratic Party. Though there exist quite different concepts about what belongs to a modern conception of political economy the political programme of Galbraith is difficult to reconcile with any of these conceptions as long as we want to regard them as belonging to the social sciences.

Whereas from a standpoint of social theorizing a critique must advance many objections against the last version of the Galbraithian system it cannot deny the stimulating and provoking effect of Galbraith's writings. Galbraith reminds us the need for

putting together our usual piecemeal theorizing and for developing an all embracing view including the problems of power and political feasibility and conducive to a consistent programme of reforms. So economic theorists like Meade have been inspired by Galbraith to sketch a programme of social and economic policy evolving from a critique of the New Industrial State (J.E.Meade 1969). If relevance of the problems raised is a criterium by which to judge the writings of a social scientist, then Galbraith surely has won a point. If we add realism and usefulness of the propositions for policy purposes then the direct judgement may be rather negative, but as with any important piece of literature we must not forget the indirect effects emanating from the reception or rejection of the ideas produced. In this latter respect, there remains a lot of enlightening responses to be hoped for, preventing too strong an influence of the new vulgar economics.



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### Zusammenfassung

Als ein Beispiel popularisierenden Institutionalismus wird J. K. Galbraith' jüngste Gesamtschau des Wirtschaftssystems der U.S.A. einer kritischen Analyse unterzogen. Die Bedeutung einer Kritik ergibt sich aus Galbraith' Anspruch auf eine geschlossene und vollständige Doktrin sowie aus dem Einfluß, welchen diese neue Art von Vulgärökonomie zu gewinnen scheint. Die Untersuchung seiner Methoden ergibt Mängel der systematischen Totalbetrachtung, Unklarheiten der Konzeptualisierung, Willkürlichkeiten bei der Aufstellung von Verhaltenstheorien, rein suggestive Argumentationsstrukturen und Techniken zur Immunisierung der Aussagen gegenüber falsifizierenden Erfahrungen. Inhaltlich zeigt sich, daß in Galbraith' politischer Ökonomie eine eigentliche Staatstheorie ebenso fehlt wie eine konsistente Erklärung der ungleichen Machtbeziehungen. Auch sein Programm von Reformen und wirtschaftspolitischen Abhilfen erweist sich entsprechend als methodisch und theoretisch schlecht abgesichert.

## Summary

The paper analyzes J. K. Galbraith's new vision of the economic system of the U.S.A., seen as an example of popular institutionalist thinking. Such a critique seems important because of Galbraith's claim to a closed and complete doctrine and because of the growing influence of his vulgarized economics. An examination of his methods discovers deficiencies of the systemic approach, obscurities in concept formation, arbitrary formulations of behavioral theories, purely persuasive modes of argumentation and techniques of immunization against contrary evidence. An analysis of his system of political economy shows that it lacks a genuine theory of the state and a truly consistent explanation of inequalities of power. So his programme of reforms and of measures of economic policy rests upon rather weak methodological and theoretical foundations.

## Résumé

L'article présente une analyse des idées récentes de J. K. Galbraith sur le système économique des Etats Unis regardant l'oeuvre de Galbraith comme un exemple de pensée économique populaire et institutionaliste. Une telle critique s'avère importante parceque Galbraith prétend à avoir créé une doctrine close et complète et que ses idées semblent gagner une certaine influence. Examinant les méthodes employées on découvre des défauts de l'analyse systémique totale, des obscurités dans la formation des notions, des procédés arbitraires dans l'élaboration des théories, des discours purement persuasives ainsi que des techniques propres à immuniser les propositions contre une expérience contraire. Analysant le système de politique économique de Galbraith on cherche en vain une vraie théorie de l'état et on trouve des contradictions dans son explication des inégalités économiques et politiques. C'est pourquoi aussi son programme de réformes et de mesures économiques reste plutôt mal fondé du point de vue méthodologique et théorique.