

THE ECONOMICS OF INNOCENT FRAUD by John Kenneth Galbraith

1

p. 2 What I have read, heard, taught, was, I trust, well motivated. But there is always popular error. What prevails in real life is not the reality but the current fashion and the pecuniary interest. So compelling is this that, as the next chapter tells, even the everyday characterization of the economic system has been affected. When capitalism, the historic reference, ceased to be acceptable, the system was renamed. The new term was benign but without meaning. To this I now turn.

pp. 3-4 Once owners were in charge, now firms above a certain size and with tasks at a high level of complexity have management. Managers, we will later be emphasized, not the owners of capital, are the effective power in the modern enterprise. For this reason and because the term "capitalism" evokes a sometimes sour history, the name is in decline. In the reputable expression of economists, business spokesmen, careful political orators and some journalists, it is now "the Market System." The word "capitalism" is still heard but not often from acute and articulate defenders of the system.

pp. 4-5 Such was the response to the monopoly or near monopoly by John D. Rockefeller of the supply of oil, a product widely needed for illumination and other household purposes, of steel by Carnegie and tobacco by Duke. There was also the diverse power of the railroad

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2

magnates and of J.P. Morgan and his counterparts in banking and finance. In 1907, the seeming danger of widespread bankruptcy in Wall Street led to the belief that capitalism was not only exploitative but, with larger effect, self-destructive.

pp. 5-6 Later, and more destructive to the reputation of capitalism in the United States, was the visibly insane Florida real estate speculation, the rising corporate and industrial voice and, most important, the stock market explosion of the late 1920s. Then came the world-resonating crash of 1929 and, for ten long years, the Great Depression. Capitalism all too obviously did not work. So denoted, it was unacceptable.

pp. 6-7 In the conventional economic instruction of the past, the market had special identification with consumer sovereignty—with the controlling power of the consumer in deciding what would be produced, bought and sold. Here, it was said, was the final authority to which the producing firm, the capitalist, was amply subordinate. Economic democracy, however, was too contrived to last, even in the textbooks.

p. 7 So it is of the market system we teach the young. It is of this, as I've said, that sophisticated political leaders, compatible journalists and many scholars speak. No

THE ECONOMICS OF INNOCENT FRAUD by John Kenneth Galbraith 3
individual or firm is thus dominant. No economic power is evoked. There is nothing here from Marx or Engels. There is only the impersonal market, a not wholly innocent fraud.

p. 8 No individual firm, no individual capitalist, is now thought to have power; that the market is subject to skilled and comprehensive management is unmentioned even in most economic teaching. Here the fraud.

pp. 8-9 Another name for the system does come persuasively to the eye and ear: "the Corporate System." None can doubt that the modern corporation is a dominant force in the present-day economy, and certainly so in the United States. Nonetheless, allusions to it are used with caution or not at all. Sensitive friends and beneficiaries of the system do not wish to assign definitive authority to the corporation. Better the benign reference to the market.

pp. 20-21 To repeat, those who render physical and repetitive effort are good workers. Little mention is made of the more pleasant circumstances of those who enjoy work, who are also better paid, or those who do not need to work at all.

THE ECONOMICS OF INNOCENT FRAUD by John Kenneth Galbraith 4
It remained for the often perversely articulate John Maynard Keynes to cast doubt on the pleasure of toil. He quotes the words of an aged charwoman that were preserved on her tombstone. She had just been released from a lifetime of work:

Don't mourn for me, friends,
Don't weep for me, never,
For I'm going to do nothing
For ever and ever.

p. 53 The most controversial case for truth and reality emerges from the previously noted myth of the two sectors. Any expansion of the valid public sector and its social or economic support is well recognized. This the dominant corporate voice resists. Here, in the established view, is the ever-threatening government assault on private enterprise, which is condemned at the extremes of oratory as socialism. Private corporate movement into the public sector by conceded influence or activity is much less discussed or not at all. Here a compelling attitude and action of our time.

p. 57 One thing, I trust, has emerged in this book: That is the not-dominant role of the corporation and corporate management in the modern economy. Once in the United States,

THE ECONOMICS OF INNOCENT FRAUD by John Kenneth Galbraith

5

as told, there were capitalists. Steel by Carnegie, oil by Rockefeller, tobacco by Duke, railroads variously and often incompetently controlled by the moneyed few. Celebrated were the financial magnates, not for their economic performance but for their latent or active economic power and, not exceptionally, for their well-celebrated public good—the great foundations.

p. 58 One, as just observed, is the way the corporate power has shaped the public purpose to its own ability and need. It ordains that social success is more automobiles, more television sets, more diverse apparel, a greater volume of all other consumer goods. Also more and more lethal weaponry. Here is the measure of human achievement. Negative social effects—pollution, destruction of the landscape, the unprotected health of the citizenry, the threat of military action and death—do not count as such. When measuring achievement, the good and the disastrous can be combined.

p. 60 There is more. The one wholly reliable remedy for recession is a solid flow of consumer demand. Failure in such a flow is a recession. In the United States, especially with stagnation and recession, the lower-income citizen has an acute need for education, health care, a basic family income in one form or another. State and local governments, under the pressure of enhanced demand, cut social outlays. This is particularly evident as

THE ECONOMICS OF INNOCENT FRAUD by John Kenneth Galbraith

6

this is written. The overall effect has been reduced personal and family income and well-being—recession without effective curative action. So at this writing.

p. 62 The facts of war are inescapable—death and random cruelty, suspension of civilized values, a disordered after-math. Thus the human condition and prospect as now supremely evident. The economic and social problems here described, as also mass poverty and starvation, can, with thought and action, be addressed. So they have already been. War remains the decisive human failure.