

13 Dec. 1967

DEPARTMENT OF HISTORY

Dear Professor Solter,.

I enclose clipping of my review of Galbraith's book as published in the Sunday Star of 25 June '67.

I also enclose carbon of my review as originally sent in, before it had to be drastically cut for lack of space. You may wish to read this carbon which may serve to amplify my reactions to the book.

You may keep these as long as you wish, but I should like the carbon to be returned some time.

Best wishes for  
the holidays  
Carroll Quigley



THE NEW INDUSTRIAL STATE. By John Kenneth Galbraith. Houghton, Mifflin. 427 pages, index. \$6.95.

This is an immensely important book. It should be read, analysed, and unemotionally discussed, not by economists, but by citizens. The economists, like most academicians, are hampered by their specialist training from seeing their subject in its full social context, and will be particularly offended by this volume, whose lessons, if generally accepted, would destroy economics as a separate intellectual discipline, or, at least, would reduce it back to political economy from which it emerged in the eighteenth century. But the warnings of this book should be considered by citizens who must pay the price in freedom, comfort, safety, and blood, if the description of our economy and of "the American Way of Life" presented here is true in only a major part. I do not think there is any likelihood of our citizens doing this, especially as the book is too long, repetitive, and even verbose, relieved only occasionally by the touches of verbal humor, clever phrase-making, and smart-aleck allusions of which the author is so capable. <sup>TH</sup> The volume is not as original as its readers will claim (or as it may appear to those who have not read Adolph A. Berle, jr.), although this is the first time, I believe, that many of these ideas have been brought together by an economist to give a picture of the American economic system as a whole. The effect is stunning. I myself have been teaching almost everything in its separate chapters since the end of 1943, yet the total picture as shown here was almost a revelation.

As I read this book, I kept thinking, "If only Galbraith could write like Robert Heilbroner". Or, "If only Heilbroner (whose THE LIMITS OF AMERICAN CAPITALISM, published last year, tried to look at the same subject as this volume) could look, as Galbraith can, through the



thickets of rationalization, verbiage, accepted myth, and stereotypes, which pass for truth in American academic life today. Lacking this, I can only hope that citizens may form small groups to read and discuss, in sequence, Heilbroner's brief 134 page book, then plow through this volume chapter by chapter, discussing and re-wording it as they go along, and end up by reading Eisenhower's last presidential speech warning us to beware of the "military-industrial complex".

These citizens would see an American economy of almost 12 million enterprises dominated by only a few hundred super-corporations. According to Heilbroner, the latter "tiny group of immense corporations constitutes a bastion of formidable economic strength within the sprawling expanse of the American economy -- indeed, that it forms a virtual economic system within an economic system". Galbraith contends that the motivations, methods, and "economic laws" which operate in these two systems are totally different, that economists are teaching myths and fantasies because they continue to teach the rules worked out to explain the behavior of the more than 11 million unimportant enterprises when, in fact, the economy and the future are being dominated by the small number of super-corporations, and that the failure of economists to look at the facts and their insistence on teaching what is little more than a justification of the economy as it was a few decades ago make it very difficult for anyone to see what the economy is like today and thus allow the managers of the super-corporations to carry on, almost unnoticed, a wholesale transformation of American life. I might add that the ignorance by most historians of economics put the historians in the same boat, in blinding students and the American people as to what is going on.

What is going on, according to Galbraith, is a total transformation of economic rules, motivations, behavior, and goals in the mega-economy



of the super-corporations (which he calls, rather limply, the "industrial ~~XXXXXX~~ economy") in contrast to the economy of the older system of the vast multitude of enterprises (which he calls, with more accuracy, the "entrepreneurial economy"). <sup>H</sup>The "entrepreneurial economy is based on decision-making through a management controlled by the owners; it seeks to maximize profits for these owners; its area of ~~aut~~onomy and free decision is narrow, hemmed in by government, labor, competitors, and the free choice of consumers; and its most significant decisions, such as levels of prices and production for its products, are almost completely out of its control in the "competitive market". Living thus, dangerously, almost like a beleaguered fortress in the jungle of economic competition, such enterprises die like flies, with only a very small minority surviving to celebrate a tenth or twenty-fifth birthday. These older forms of enterprise sought to maximize the ~~XXXXXX~~ the income of owners, that is dividends, by maximizing profits, and saw rising wages, or taxes, or interest rates, or shifting public tastes as direct and almost uncontrollable threats to the enterprise's primary aim, since these evils could neith<sup>er</sup> be controlled nor shifted to any weaker elements in the system but had to be paid out of the owner's share of the enterprise's income.

The super-corporation in the mega-economy is entirely different. It is controlled by its management (what Galbraith calls "the techno-structure"), who seek, not production nor profits nor higher dividends, and certainly not "maximization of profits" but seek POWER. To be sure, profits are sought, but only as an intermediate goal on the way to the organization's real goal, power. Such profits are used as means of building up the autonomy of that power by freeing the enterprise from interference by the owners or of the capital-markets, while dividends are declared only to the amount needed to keep the stockholders quiet, while the profits which are not distributed are available to be



used by the technostucture to free themselves from the need to seek outside capital, and thus free themselves from finance and banking, which, fifty years ago, <sup>was</sup> ~~was~~ able to dominate most large corporations. At the same time, the decline of competition in the mega-economy makes it possible for the technostucture to fix prices, to plan production and expansion, and to pay higher taxes, wages, or even dividends, simply by shifting the burden of these to outsiders by raising prices. This ends the struggles found in the older competitive economy and allows labor, owners, government, and fellow producers to stop fighting each other and to work out mutually beneficial divisions of wealth and power, in an economy which emphasizes hard-ware over people and at the expense of the conditions of life of the people as a whole.

In this new system (whose characteristics were described in Swiss and German publications more than twenty-five years ago), the two most significant elements which remain outside the control of the technostucture are: (1) aggregate demand, that is the total purchasing power available in the community to buy the products of the super-corporation; and (2) shifting consumers' tastes or needs, which could leave the corporation's products Unbought.

To protect itself against the former problem, the technostucture has worked out a modus vivendi with government, in which the government, in cooperation with the mega-economy, sees that aggregate demand is sufficient to absorb what the super-corporations produce. To some extent this is achieved by fiscal policy, but increasingly it is being achieved by the government itself buying what the mega-economy produces. This short-circuits any unpredictable consumer freedom by allowing the individual citizens to pay for what the mega-economy produces through the government in the form of taxes rather than by the super-corporation having to cater <sup>to the market or</sup> to take the risks of having to condition or ~~guess~~ <sup>anticipate</sup>



~~the~~ the buying reactions of millions of individuals. <sup>HP</sup> Since it would be no solution for the government to buy consumers' goods (such as passenger cars or TV sets), which would endanger the domestic market for such goods (unless they could be dumped abroad, which would injure the export market for such goods), there has been a steady tendency for the mega-economy to increase its production of those goods, such as armaments or aerospace equipment, for which only the government is purchaser and which do not return to the domestic market to use up domestic consumers' purchasing power (although these items often do re-appear in the international market for second-hand armaments to stir up political instability and provide weapons for potential guerrillas all over the world, a development which may seem regrettable at first glance to citizens but, in the long run, helps many corporations by stimulating the American government's demand for new "hard-ware" to help repress the resulting political instabilities. ~~the resulting political instabilities.~~

The mega-economy's response to the problem of shifting consumers' tastes and freedom of consumers' choice, or the more dangerous threat of the satiation of consumers' demand, has, according to Galbraith, been met by mental conditioning of consumers to the point where a well-financed advertising campaign can create needs, even urgent needs, which were never conceived of before in human history, such as changing <sup>the</sup> color, length, and straightness of women's hair to match her garments and varied daily activities. For this end we are systematically brain-washed, and our whole way of life is being re-shaped, distorted, and corrupted to provide markets for the meta-economy.

According to Galbraith, the technostructure which makes the decisions in the super-corporations does so, not by individual authority but through a group consensus achieved in committees at a relatively low level in the corporate hierarchy, and the officers of the company function as presiding agents, to ratify or promulgate committee decisions. This need



he says, is based on the wide range of specialized knowledge which has to be consulted in such decision-making. A similar process is used in government and in other economies based on advanced technology, as in the Soviet Union. This, according to the author, makes it possible not only for government and technostucture to make joint decisions, but also make it possible for the United States and the Soviet Union to agree.

Galbraith's title, THE NEW INDUSTRIAL STATE, rests on his belief that the older sharp distinction between private and public (or industry and the state) no longer is true of the mega-economy, in which, by a process of osmosis and mutual penetration, government and the super-corporations have arrived at a symbiotic system of tacit mutual reciprocal adjustment and understanding through constant conferences and interchange of personnel to reach mutually satisfactory decisions which are neither public nor private, but which determine the future for all persons (except the few who choose to "drop out" of the American way of life).

According to Galbraith, the goal of the super-corporations is power, to be achieved by growth, that is by the corporation's neurotic drive to expand without ~~stop~~<sup>limit</sup> in order to bring under its influence all the elements of its economic and social environment so that these can be controlled in an autonomous system by the technostucture. To explain this urge, which drives the members of the technostucture to longer and longer hours of work, and to deeper and deeper involvement in the "rat-race" which leads to the top, to ulcers, heart-failure, and to shattered family life, Galbraith examines, somewhat inadequately, the motivations of businessmen and firmly rejects the usual economic theory which holds that they are working to increase their monetary incomes. Instead, he finds their chief motivations in what he calls "identification" and "adaptation". He does not go sufficiently behind these words to link them with the corporation's drive for power and incessant



growth, as he should have, but the implication seems to be that men who have failed to achieve personal identity and are psychologically insecure in their personality patterns seek such security by identification with an organization in which they can share in a drive for power which helps to assuage their own inadequacies. These are, of course, the same paranoid motivations which were the basis for joining or condoning the Nazi Party organizations, although Galbraith, who makes much of the converging social patterns of the Soviet Union and the United States, makes no comparisons with Nazi Germany. This may be part of his growing verbal caution in the latter part of this volume, in which discretion frequently stops him from drawing the obvious conclusions of his own statements. To me his description of the American economy as he sees it has a very disturbing similarity to the impression I received in 1942 on reading Part Two of Franz Neumann's BEHEMOTH: THE STRUCTURE AND PRACTICE OF NATIONAL SOCIALISM. An economy driving neurotically for limitless expansion in a search for power and seeking to obtain total control of the factors which can influence its own activities (and which is blurring the distinction between the meta-economy and the government by constant interchange of personal, techniques, and joint or parallel decision-making) can hardly fail to lead to disaster, and the parallel should not be overlooked because the relative balance between mental-conditioning and compulsion is quite different in the two systems. Galbraith, however, stops well short of examining these possibilities.

On the contrary, the careful reader of this book will notice a rather drastic change of tone and expression about three-quarters of the way through the volume: the tone becomes more critical, even alarmist, but the wording becomes more circumspect and evasive. He puts the mega-economy in its social context and shows how, like a



cancerous growth (my words, not his), its search for power makes it necessary for it to take over all aspects of life: education, government, social living, our very thoughts and emotional reactions, in a gigantic brain-washing operation which will bring all life under the domination of the mega-economy. Strangely enough, he has little to say about one chief aspect of this, the influence of the mega-economy on the mass media, especially the press. But he is very concerned about its impact on the educational system, where he sees the mega-economy steadily modifying the process of education and educational administration so that these also adopt the mega-economic goals of endless physical expansion, financed by the system in return for educational efforts to shape and condition the young into <sup>the</sup> narrowly trained, uncritical, materialistic persons which the mega-economy needs for its personnel and its customers. He is equally alarmed at its effect on government and our foreign policy, taking over the one and directing the other toward increasing militarization of policy and all life. <sup>HP</sup> As in his earlier AFFLUENT SOCIETY, he shows that what the mega-economy wants done (like super-highways or moon-shots) is done, but what the mega-economy is not interested in (like legal, judicial, or tax reform, care of emotionally disturbed children, noise or pollution abatement, primary education or safety in the city streets) is not done. Galbraith implies that the influence of the mega-economy in these matters may well be unconscious, as simply unanticipated consequences of the technostucture's drive for its narrow and specific goals.

The critical tone of the latter part of this book is in sharp contrast with the earlier and major part of the volume, where he gives the impression that the development of the meta-economy is not only inevitable but also good. He attributes it to advancing technology and <sup>shows</sup> ~~shows~~ little real feeling that such technology and the resulting



mega-economy with its technostructure are either undesirable or dangerous. Basing these on growing technology, he assumes that this is inevitable and desirable, and even justifies the technostructure's striving for power on the ground that power in the economy has always rested on whichever factor in the productive process was most difficult to obtain, a condition which allowed those who controlled that supply to use that control as a road to power. Thus he lists the customary economic factors of production (such as land, labor, capital, know-how) and decides that power in the economy has always gone, in any period, "to the factor which ~~was~~ is hardest to obtain or hardest to replace". Thus power rested with land two centuries ago, shifted to capital, when the need for that factor became acute, a century ago, but now rests with know-how, since that is the factor in shortest supply today. Thus, the author justifies the dominant role of management, not only within the super-corporation but outside it, as the technostructure steadily extends the area and scope of its power seeking to control all our actions, patterns of living, values, and thoughts, so that the corporation may continue to grow.

In the same way, Galbraith justifies, in his early pages, the growth of the managerial bureaucracy as an anonymous group, for whose decisions no individual can be held responsible and which must be accepted as inevitable natural phenomena, on the ground that the management must function in committee in order to pool the diverse knowledge and varied talents of the many kinds of expertise necessary for modern technological complexities. I think this is rationalization and suspect that Galbraith does too. Committees do not function with the honest give-and-take of diverse real talents and knowledge which he pictures, except on the engineering level, and one of the basic things about the mega-economy is that the engineers are being shoved lower and lower down the totem-pole by the "stylists", salesmen, gadgeteers, ~~and~~



phrase-makers, and advertisers. This was shown long ago by Veblen in his *THE ENGINEERS AND THE PRICE SYSTEM* and is clearly shown to be true today in the dominant sector of the meta-economy, in the least discussed chapter of Ralph Nader's book on automobile safety. Galbraith's defence of the technostructure (chapters 5 and 6) as a mechanism for reaching a consensus of diverse talents and knowledge is another American industrial myth. All diversity is eliminated from the technostructure low down in the hierarchy to form a homogeneous general outlook with almost identical basic assumptions, and anyone who ~~can~~<sup>does</sup> not share those assumptions will not voice his divergence at policy-making committee meetings. The diversity which may be present is narrowly technical but not technological and is not concerned with what should be done but with how it should be done, so that the whole discussion is concerned with means, never with goals, just as it is in academic meetings.

The technostructure is not only fanatically devoted to growth but ~~has~~<sup>has</sup> set up criteria for measuring growth which fit what they want to do. They are concerned with quantity not quality, and then try to persuade us that the massive increase of quantity is really quality, whether it is or not. They have, assisted by economists, devised terms like "standards of living" or "affluence" in which almost everything which makes life worth living, such as leisure, love, peace, decency, nature, and all amenities, are excluded, and can then produce figures to show us how much better off we are when they have destroyed these things. Their obsession with mass material transformation buries us in traffic, pollution, erosion, and noise, but they ~~are~~ succeed in convincing most people, and can get economists, statisticians, and and government officials to produce figures to "prove" it.

In his last seven chapters, Galbraith looks at the future of this



"Industrial State" and makes suggestions to reform it. Here his alarm is apparent, but the discussion is both feeble and unrealistic. These last chapters could have been an alarm bell clanging in the night. Instead, they are a muffled drum, so muffled that neither the message nor the direction of the sound is clear. We can be saved, he believes, by "the intellectual and scientific estate", who must provide the necessary "political lead". The first task of these intellectuals will be to break the mega-economy's grasp on education, especially higher education. He warns that no reliance can be placed by these reforming intellectuals on economists, for the "economic stereotypes -- the productive models that lend themselves to assembly-line instruction -- insist on the approved sequence.... they will continue to do so. » Quite so, but what Galbraith ignores is that economists are no better and no worse than any other intellectuals, scientists, and academicians; they are all mostly narrowly educated men-of-good-will trying to make a living, products of the educational system and society whose condition, according to Galbraith, is so bad it must be reformed. Galbraith should guard himself against the normal human error of believing that the people one knows best are worst than ~~XXXXXXXXXX~~ those one knows less well. ¶ Even Galbraith, with all his broadness and background, is not able to offer a suggested reform nor even to see what is coming. His reform is old (and I had hoped discredited), that of more socialism (not his word) by trying to balance the mega-economy through increasing the sphere of action of the state. This is based on his belief that the state is independent of the mega-economy and can stand up against it, two points that his book shows to be untrue. In fact, his vision of the future, which sees the state and the mega-economy merging into symbiosis in which the distinction of public and private is no longer significant, sees this as a process by which the state is taking over the meta-economy. This is naive, for it is clearly a process by which



the technostucture is taking over the state by conditioning its major goals, motives, techniques, and personnel.

Galbraith's weakness in thinking on remedies and the future rests on two simple facts: he is too weak in history and in the social and psychological roots of our present crisis. He may distrust the economists, but he remains one of them. From the beginnings of economic thinking, six generations ago, economists ignored what every entrepreneur knew: that the "factors of production" included not only the "economic factors" of land, labor, capital, management, and the rest but required two preliminary needs : an acquisitive outlook in the people and domestic tranquillity in the land. As soon as economics ceased to be "political economy", the economists forgot these two, simply because the industrial system then had them, but, from before 1750 to after 1850, whatever economic thinkers believed, all business-men and politicians saw the need for these two. Capitalism and industrialism could not function without ~~these~~ the first: that subjective outlook and value-system which included self-discipline, punctuality, future-preference, and infinitely expandible material demand -- what historians call "the acquisitive outlook". Lack of this outlook has been the chief obstacle in the introduction of modern industrial society into Asia, Africa, and Latin America, despite our efforts, costing billions of dollars, to give these areas the "economic factors" of production. We have been equally unsuccessful in introducing this outlook to at least one-sixth of our own people, as can be seen in any American urban slum. The British however gave it to their own people , largely in 1820-1850, through what they call "Non-Conformist religion".

The other neglected, but essential, non-economic factor of production is what we call "law and order", but our wiser ancestors called "domestic tranquillity"; it covers personal physical security and safety, respect for property, and non-violent settlement of personal disputes.



The chief task of Britain, in the eyes of business-men in 1790-1850, was to obtain these two things. The economists ignore this fact. Today both are vanishing rapidly. On the one hand, the middle-class adolescents are contracting out of the acquisitive outlook, while the slum adolescents, who never had it, are turning our cities into jungles. Both groups show their resentments against Galbraith's "Industrial State" by vandalism, increasing crimes against persons, and vandalism on property. Many others are simply refusing to join the system, with neither violence nor animosity, turning away from it to try to make their own non-affluent, non-competitive life outside the "American way of life". In the last few years, middle-class young people have shown their rejection of it by decreased enrollments in engineering, exact sciences, and business studies, and, above all, by a 35% drop in applications for jobs in industry, at a time when total enrollments and applications to the Peace Corps are rising.

*H* The future of the Industrial State will not be settled by any superficial reforms by intellectuals in education or society as a whole, and not, I hope, by more socialism, but by <sup>many persons</sup> dropping out, in every way possible, probably by guerrilla <sup>warfare</sup> in American cities, and by the increasing numbers who come to believe that all vital reforms occur in peoples' minds and hearts. That was how it happened, to an oppressive system similar to ours, in the Roman Empire about 1700 years ago.

*Carroll Quigley*