

## PHD THESIS SUMMARY: Galbraith's Integral Economics (1933–1983)

ALEXANDRE CHIRAT

*PhD in Economics, November 2020*

*Université Lumière Lyon 2, Laboratoire Triangle*

My dissertation studies the genesis, construction, and reception of John Kenneth Galbraith's *integral economics*. This term refers to his theoretical project—thought of as an alternative to conventional economics—which proposes integrated ‘pattern models’<sup>1</sup> of the functioning of the economic system of post-war American industrial society.<sup>2</sup> Galbraith's notion of “conventional economics” combines highly diverse economic analyses. But they share three core postulates: (i) the hypothesis of *consumer sovereignty*, (ii) the hypothesis of *citizen sovereignty*, and (iii) the hypothesis of *profit maximization* (Galbraith 1973a, 5). These postulates lead to the exclusion of power outside economics; and it is against these that Galbraith has built his own theories of corporation, competition, and consumption. My dissertation studies these issues in four separate parts.

The first part of the dissertation accounts for Galbraith's participation in *original institutional economics* from intellectual, theoretical, and epistemological points of view.<sup>3</sup> This allows me to situate his integral economics within the secular “struggle” (Yonay 1998) between original institutional economics and neoclassical economics (Rutherford 2011) and to show that his theory of the corporation, which lies at the center of his

---

<sup>1</sup> A ‘pattern model’ is a holistic, systemic, and evolutionary model. The term characterizes the institutionalist methodology:

Thus, institutionalism is holistic because it focuses on the pattern of relations among parts and the whole. It is systemic because it believes that those parts make up a coherent whole and can be understood only in terms of the whole. It is evolutionary because changes in the pattern of relations are seen as the very essence of social reality. (Wilber and Harrison 1978, 71)

<sup>2</sup> From a cross-reading of the works of Raymond Aron and John Kenneth Galbraith, I have shown that Galbraith is one of the main theorists of the concept of industrial society (Chirat 2019).

<sup>3</sup> The fact that I consider Galbraith as an institutionalist rather than a Keynesian explains many of the differences between my reconstruction and those by Dunn (2011), Laguérodie (2007), and Parker (2005).

pattern models, is heir to the theories developed by Veblen (1904), Clark (1923), Berle and Means ([1932] 1991), and Berle (1959).

The second part examines Galbraith's period of intellectual development (1933–1952). Academically, Galbraith quickly switched from agricultural economics at Berkeley to the study of the whole economic system at Harvard (Galbraith 1936, 1939, [1948] 1956). He endeavored to combine the insights of what he considered to be the three revolutions in economics of that period, namely Berle and Means ([1932] 1991), Chamberlin (1933), and Keynes ([1936] 2013).<sup>4</sup> But his theoretical project was also nourished by the practical lessons of a decade of extra-academic experiences, notably with the Office of Price Administration (Galbraith 1947, 1952), the United States Strategic Bombing Survey, and *Fortune Magazine*.

The third part, drawing on new archival materials as well as those published by Holt (2017), focuses on the construction of Galbraith's American trilogy, which forms the core of his integral economics (1952–1967). I show that *American Capitalism* ([1952] 1980) is constructed as a reappropriation of the works in the emerging field of industrial organization at Harvard.<sup>5</sup> It provides a “bimodal model” of the American economy, divided into a competitive part and an oligopolistic one. The latter is analyzed in terms of “countervailing power” which is presented as an alternative to the classical competitive model (Galbraith [1952] 1980, 108). I then demonstrate how various specialized works lead Galbraith to envisage the writing of “a new treatise on political economy”.<sup>6</sup> *The Affluent Society* (1958) conveys this ambition by providing a theory of consumption based on the rejection of the principle of consumer sovereignty (Chirat 2020a). *The New Industrial State* (1967), Galbraith's masterpiece in terms of his ambition to provide an alternative to the neoclassical synthesis, provides a theory of both the entrepreneur and the modern corporation, which were missing from the two earlier works (Baudry and Chirat 2018).

---

<sup>4</sup> Galbraith considered that Berle and Means' analysis of the separation between ownership and control in modern corporations directly challenges the relevance of the neoclassical theory of the firm. He reappropriated Chamberlin's analysis in terms of oligopoly and monopolistic competition to challenge the classical competitive model as well as welfare economics. He praised Keynes' work for providing theoretical justification for reasoning in terms of underemployment equilibrium and thus undertaking macroeconomic public policies.

<sup>5</sup> For a reconstruction of the emergence of the so-called Harvard tradition in industrial organization, see Chirat and Guicherd (2021).

<sup>6</sup> Unpublished manuscript, John Kenneth Galbraith personal papers, JFK Library, Series 9, Box 750.

The fourth and final part focuses on the impact of Galbraith's integral economics as a paradigm. I show how Galbraith (1970, 1973a, 1973b) strives to perfect a theoretical project that generates both enthusiasm and controversy at the precise moment when economics enters its "second crisis" (Robinson 1972), leading to a schism with the creation of the Association for Evolutionary Economics and The Union for Radical Political Economy. While he manages to integrate into a consistent whole his theories of corporation, competition, and consumption through a general theory of power (Galbraith 1983),<sup>7</sup> I conclude that his integral economics fails to meet the requirements of a scientific revolution since it fails to establish itself as a dominant framework in the discipline. External reasons explain this failure, such as the fact that his integral economics runs counter to the double movement of specialization and formalization in post-war economics. But internal reasons play a role too since the historical nature of Galbraith's pattern models make them hard to replicate.

My dissertation is not merely a study of Galbraith's project itself. I have also used his integral economics as a new lens for looking at the dynamics of American economics between the 1930s and the 1970s. First, I argue that Galbraith's early works both illustrate and support the thesis of "interwar pluralism" (Morgan and Rutherford 1998, 3-4); an argument that does not contradict the recognition of Galbraith's involvement in the secular struggle between institutionalist and neoclassical economists (Yonay 1998).

Second, I demonstrate how Galbraith, during the construction stages of his post-war alternative project, drew on the thinking of various economists. For instance, his theory of the corporation borrows from the managerial theory of the firm of Baumol (1959) and Marris (1964) as well as the behavioral theory of the firm of Simon (1962).<sup>8</sup> Despite their epistemological and political disputes, Galbraith's pattern model of the planning system draws on Theodore Schultz's (1961) pioneering economic analysis of education.<sup>9</sup> In brief, I explain that his trilogy is, without a doubt, heterodox regarding its theoretical and epistemological dimensions. This heterodoxy notwithstanding, an essential factor in the production of his integral economics was the perpetuation of forms of pluralism

---

<sup>7</sup> See Chirat (2018).

<sup>8</sup> For more details on the convergence between Baumol and Galbraith, see Chirat (2020b).

<sup>9</sup> For more details on the convergence between Schultz and Galbraith, see Chirat and Le Chapelain (2020).

until the 1970s, notably through the acceptance of variety and the maintenance of dialogue between economists with different methods or objectives.

This partial maintenance of pluralism in the post-war period obviously did not prevent Galbraith from entering into controversies with economists as diverse as Demsetz, Friedman, Hayek, Heller, Meade, Samuelson, Solow, and Sweezy. The careful study of the debates generated by the publication of each opus of his trilogy was particularly interesting. First, in aiming at providing a history of American thought through the lens of Galbraith's project, it lends a voice to a plurality of points of view among the profession. Second, the study of these controversies reveals the emergence and dynamics of the fault lines within economics. Finally, as I propose a reconstruction of Galbraith's work that is both historical and rational, his integral economics also constitutes a prism for understanding the changes in twentieth-century capitalism that it intends to report on.

## REFERENCES

- Baudry, Bernard, and Alexandre Chirat. 2018. "John Kenneth Galbraith et l'Évolution des Structures Économiques du Capitalisme: D'une Théorie de l'Entrepreneur à une Théorie de la Grande Entreprise?" *Revue Économique* 69 (1): 159-187.
- Baumol, William J. 1959. *Business Behavior, Value and Growth*. New York, NY: Macmillan.
- Berle, Jr., Adolf A. 1959. *Power Without Property: A New Development in American Political Economy*. London: Sidgwick and Jackson.
- Berle, Jr., Adolf A., and Gardiner C. Means. (1932) 1991. *The Modern Corporation and Private Property*. New York, NY: Macmillan. Reprint, New Brunswick, NJ: Transaction Publishers. Citations refer to the Transaction edition.
- Chamberlin, Edward H. 1933. *The Theory of Monopolistic Competition*. Cambridge, MA: Harvard University Press.
- Chirat, Alexandre. 2018. "When Galbraith Frightened Conservatives: Power in Economics, Economists' Power, and Scientificity." *Journal of Economic Issues* 52 (1): 31-56.
- Chirat, Alexandre. 2019. "La Société Industrielle d'Aron et Galbraith: Des Regards Croisés pour une Vision Convergente." *Cahiers d'Économie Politique* 76 (1): 47-87.
- Chirat, Alexandre. 2020a. "A Reappraisal of Galbraith's Challenge to Consumer Sovereignty: Preferences, Welfare and the Non-neutrality Thesis." *The European Journal of the History of Economic Thought* 27 (2): 248-275.
- Chirat, Alexandre. 2020b. "The Correspondence Between Baumol and Galbraith (1957-1958): An Unsuspected Source of Managerial Theories of the Firm." CRESE Working Paper No. 2020-07. Centre de Recherche sur les Stratégies Économiques, Besançon.
- Chirat, Alexandre, and Charlotte Le Chapelain. 2020. "Economic Analysis of Education in Post-War America: New Insights from Theodore Schultz and John Kenneth Galbraith." *Journal of the History of Economic Thought* 42 (1): 61-78.

- Chirat, Alexandre, and Thibault Guicherd. 2021. "Oligopoly, Mutual Dependence and Tacit Collusion: The Emergence of Industrial Organization and the Reappraisal of American Capitalism at Harvard (1933–1952)." Unpublished Manuscript.
- Clark, John M. 1923. *Studies in the Economics of Overhead Costs*. Chicago, IL: The University of Chicago Press.
- Dunn, Stephen P. 2011. *The Economics of John Kenneth Galbraith: Introduction, Persuasion, and Rehabilitation*. Cambridge: Cambridge University Press.
- Galbraith, John K. 1936. "Monopoly Power and Price Rigidities." *The Quarterly Journal of Economics* 50 (3): 456–475.
- Galbraith, John K. 1939. "Fiscal Policy and the Employment-Investment Controversy." *Harvard Business Review* 18 (1): 24–34.
- Galbraith, John K. 1947. "The Disequilibrium System." *The American Economic Review* 37 (3): 287–302.
- Galbraith, John K. 1952. *A Theory of Price Control*. Cambridge, MA: Harvard University Press.
- Galbraith, John K. (1948) 1956. "Monopoly and the Concentration of Economic Power." In *A Survey of Contemporary Economics: Volume I*, edited by Howard S. Ellis, 99–128. Published for the American Economic Association. Homewood, IL: Richard D. Irwin.
- Galbraith, John K. 1958. *The Affluent Society*. Boston, MA: Houghton Mifflin.
- Galbraith, John K. 1967. *The New Industrial State*. Boston, MA: Houghton Mifflin.
- Galbraith, John K. 1970. "Economics as a System of Belief." *The American Economic Review* 60 (2): 469–478.
- Galbraith, John K. 1973a. "Power and the Useful Economist." *The American Economic Review* 63 (1): 1–11.
- Galbraith, John K. 1973b. *Economics and the Public Purpose*. Boston, MA: Houghton Mifflin.
- Galbraith, John K. (1952) 1980. *American Capitalism: The Concept of Countervailing Power*. Boston, MA: Houghton Mifflin. Reprint, Oxford: Basil Blackwell. Citations refer to the Blackwell edition.
- Galbraith, John K. 1983. *The Anatomy of Power*. Boston, MA: Houghton Mifflin.
- Holt, Richard P. F. 2017. *The Selected Letters of John Kenneth Galbraith*. Cambridge: Cambridge University Press.
- Keynes, John M. (1936) 2013. *The Collected Writings of John Maynard Keynes. Volume II: The General Theory of Employment, Interest and Money*. Cambridge: Cambridge University Press for The Royal Economic Society.
- Laguérodie, Stéphanie. 2007. "John Kenneth Galbraith, Acteur et Libre Interprète du Keynesianisme." PhD dissertation, Université de Marne-La-Vallée.
- Marris, Robin. 1964. *The Economic Theory of Managerial Capitalism*. London: Macmillan.
- Morgan, Mary S., and Malcolm Rutherford. 1998. "American Economics: The Character of the Transformation." *History of Political Economy* 30 (Supplement): 1–26.
- Parker, Richard. 2005. *John Kenneth Galbraith: His Life, His Politics, His Economics*. Chicago, IL: The University of Chicago Press.
- Robinson, Joan. 1972. "The Second Crisis of Economic Theory." *The American Economic Review* 62 (1/2): 1–10.
- Rutherford, Malcolm. 2011. *The Institutionalist Movement in American Economics, 1918–1947: Science and Social Control*. Cambridge: Cambridge University Press.

- Schultz, Theodore W. 1961. "Investment in Human Capital." *The American Economic Review* 51 (1), 1-17.
- Simon, Herbert A. 1962. "New Developments in the Theory of the Firm." *The American Economic Review* 52 (2): 1-15.
- Veblen, Thorstein. 1904. *The Theory of Business Enterprise*. New York, NY: Charles Scribner's Sons.
- Wilber, Charles K., and Robert S. Harrison. 1978. "The Methodological Basis of Institutional Economics: Pattern Model, Storytelling, and Holism." *Journal of Economic Issues* 12 (1): 61-89.
- Yonay, Yuval P. 1998. *The Struggle over the Soul of Economics: Institutional and Neo-classical Economists in America between the Wars*. Princeton, NJ: Princeton University Press.

**Alexandre Chirat** obtained his PhD in Economics at the Lumière University Lyon 2 (TRIANGLE). He is currently working on the publication of his thesis as a book for Classiques Garnier and planning an English translation. His research in the history of economic thought mainly focuses on twentieth-century American economics, theories of the firm, and the 'managerial revolution'. In parallel, he has begun a new research agenda on the political economy of populism and democracy. Alexandre currently teaches at the University of Besançon (CRESE).

Contact e-mail: <[chirat.alexandre@gmail.com](mailto:chirat.alexandre@gmail.com)>