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When Berle and Galbraith brought political economy back to life : Study of a cross-fertilization (1933-1967)¹.

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Abstract

This paper provides a reconstruction of the intellectual cross-fertilization between Adolf Berle and John Kenneth Galbraith to account for their institutionalist challenge against “conventional economics” so as to bring political economy back to life. To do so, I go back to the genesis of *Modern Corporation and Private Property* before analyzing Berle and Galbraith’s answers to a set of fundamentals questions. What is the nature of modern competition ? What is the nature of the modern corporation ? What is the role of the State ? Lastly, how should American liberalism be reinvented to cope with the social issues of an affluent society ? Their answers to these questions reveal the deep affinities between the theoretical and political dimensions of their works, so that this work lies at the crossroads of the history of economic thought and the history of American liberalism in the postwar period.

Résumé

Cet article propose une reconstruction de la fertilisation intellectuelle réciproque entre Adolf Berle et John Kenneth Galbraith, afin de rendre compte de leur critique commune envers « l'économie conventionnelle » et de leur volonté de revivifier une perspective en termes d'économie politique. Pour ce faire, je reviens sur la genèse de *Modern Corporation and Private Property* pour ensuite analyser les réponses de Berle et Galbraith à un ensemble de questions fondamentales. Quelle est la nature de la concurrence ? Quelle est la nature de la société anonyme ? Quel est le rôle de l'État dans l'économie ? Enfin, comment le libéralisme américain doit-il être réinventé afin de faire face aux questions sociales qui caractérisent les sociétés opulentes ? Leurs réponses révèlent des affinités profondes entre les dimensions théorique et politique de leurs travaux, de telle sorte que ce travail est une contribution à la croisée de l'histoire de la pensée économique et de l'histoire du libéralisme américain.

Keywords: institutionalism - managerialism - liberalism - political economy.

JEL Codes: B25 – B52 – D23 – M14

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Introduction

On April 29th, 1971, John Kenneth Galbraith (1908–2006) wrote a letter of condolence to Beatrice Berle, widow of Adolf Berle Jr. (1895–1971).² Galbraith lamented the “absence of emphasis on Adolf’s economic work” in tributes after his death. “Because Adolf was a lawyer and not an economist he never had the recognition in the economics profession that was accorded to others.” By “others”, Galbraith was referring to none other than John Maynard Keynes on the one hand and Edward Chamberlin and Joan Robinson on the other. This letter to Beatrice Berle, like other writings by Galbraith, set out an original interpretation of the dynamics of economics in the interwar period. Galbraith considered that economics underwent three revolutions during the 1930s: the Keynesian revolution, the monopolistic and imperfect competition revolution, and Berle and Means’s revolution. Three years earlier, to mark the 35th anniversary of the publication of *Modern Corporation and Private Property* (1932), Galbraith had paid an enthusiastic tribute to Berle and Means’s “assault on established belief”. He already believed that unlike Keynes they “have not received credit for the revolution that they initiated”³ and reasserted this judgement in *The New Palgrave Dictionary of Economics* (Galbraith 2008).

This paper provides the rationale behind this repeated judgment. Berle exerted at least as much influence as Keynes or any other economist over Galbraith’s project to construct an integral economics (Chirat 2021). By “integral economics”, I refer to Galbraith’s theoretical project, thought of as an alternative to “conventional economics”, which proposed integrated “pattern models”⁴ of the functioning of the economic system of postwar American industrial society. Galbraith used the label of “conventional economics” to amalgamate highly diverse economic analyses, which nonetheless shared three core postulates. There are the hypotheses of (i) *consumer sovereignty*, (ii) *citizen sovereignty*, and (iii) *profit maximization* (Galbraith 1973a, 5). These postulates led to the exclusion of power from economic theory, one of the typical features of the move from “political economy” toward “economics”⁵. It was against these three postulates that Galbraith composed his trilogy of *American Capitalism* (1952), *The Affluent Society* (1958), and *The New Industrial State* (1967). And in doing this, Berle and Means’s (1932) seminal contribution, Berle’s own postwar trilogy, composed of *The Twentieth Century Capitalist Revolution* (1954), *Power without Property* (1959), and *The American Economic Republic* (1963), as well as his magnum opus on *Power* (1969), proved to

² John Kenneth Galbraith Personal Papers (JKGPP), JFK Presidential Library, Boston (MA), Series 3, Box 77.

³ *The Antitrust Bulletin*, August 21st, 1968, p. 1526-1528, in JKGPP, Series 9, Box 942.

⁴ A “pattern model” is a holistic, systemic, and evolutionary model. The term characterizes the institutionalist methodology (Wilber and Harrison 1978, 71).

⁵ On this evolution, see Backhouse and Medema (2009).

be critical resources. This is not surprising. In front of the postwar transformation of economics, Berle shared Galbraith's will to bring power back into economic theory.

Berle's influence on Galbraith was mediated by his post-war published works but also by constant relationship among liberal networks as well as a close friendship. Both were involved in the activities of the Twentieth Century Fund, one of the main liberal think tanks. In 1953 Galbraith participated in a collective project, promoted by Berle, on the allocation of power in America.⁶ In 1960, as Chairman of the Board of Trustees of the Twentieth Century Fund for almost a decade, Berle asked Galbraith to become a trustee to give "greater vitality and realism to the study and eventual practice of twentieth century economics"⁷. Biographers of Berle (Schwartz 1987) and Galbraith (Parker 2005) both mentioned the impact of the elder on the younger. This filiation is always recognized in the literature on the so-called managerial revolution⁸. *The New Industrial State* (1967) has been thought of as an updating of both the argument expounded in *Modern Corporation and Private Property* (Berle and Means 1932) and *Absentee Ownership and Business Enterprise in Recent Times* (Veblen 1923)⁹. Berle's influence on Galbraith has, however, never been documented even though Galbraith's personal papers are very informative in this regard. This shortcoming explains another one. It has not been recognized that, in return, Galbraith also had a deep impact on Adolf Berle's evolving view of the workings of American capitalism. Consequently the study of their intellectual relationship is a study of cross-fertilization between two intellectuals sharing a common goal. They tried to build an institutionalist alternative to the dominating neoclassical synthesis.

This cross-fertilization between Berle and Galbraith also hinges on a common worldview. Characterizing it is not an easy task. Three labels prove useful provided they are clarified. Berle and Galbraith's convergent worldviews are rooted in managerialism, institutionalism, and liberalism. Berle and Means's (1932) contribution is a point of departure for the analysis in terms of the managerial revolution. Its main claim is that the economic system of modern societies experienced a qualitative change. It was increasingly ruled by managers of private and public organizations who had taken over from the owners of the corporations (Burnham 1941). In "The apologetics of

⁶ After his appointment as the Chairman of the Board of Trustees, Berle asked the organization to "support the work of political theorist Franz Neumann in writing a book on the nature of power and political institutions" (Schwartz 1987). Galbraith was missioned to write a memorandum on political power and the interrelation of the "three pillars" of the economy, namely big business, labor, and agriculture. This memo served as a support for a collective report on "The relationship of economic and political power in the United States" notably prepared by Galbraith, Hofstadter, and Neumann.

⁷ Letter from Berle to Galbraith, July 25th, 1960. JKGPP, Series 3, Box 59. On Berle's involvement in this think tank, see Schwartz (1987, 361-372). The Twentieth Century Fund was created by progressive industrialists, including Henry Dennison. Galbraith had work with him in 1936 (Dennison and Galbraith 1938).

⁸ The term "revolution", commonly used since Burnham (1941), is quite misleading, because of the gradual character of this evolutionary process.

⁹ There is a controversy over the nature of the filiation from Veblen to Galbraith between Evans and Leathers (1973, 1980) and Rutherford (1980, 1981, 1992). As an intermediary step in the analysis of the historical process between Veblen's "New Order" and Galbraith's "New Industrial State", Berle and Means's arguments are also at issue.

managerialism”, Edward Mason (1958) depicted Berle and Galbraith, as well as Burnham and Means, among the principal promoters of the view that American capitalism experienced such a change of nature¹⁰. But the term managerialism has also a more precise meaning (Machlup 1967). It refers to the managerial theories of the firm built as an alternative to the neoclassical theory hinging on the hypothesis of profit maximization. Berle (1959a) and Galbraith (1957, 1967) were two of the leading representatives of this research agenda - alongside Baumol (1959), Marris (1964), and Williamson (1964). But the particularity of their theory of the firm is that contrary to the three others’ one, they are not compatible with marginalism.

The second useful label to characterize Berle and Galbraith’s worldview, especially their economic analysis, is institutionalism. I accounted elsewhere for Galbraith’s participation in original institutional economics from intellectual, theoretical, and epistemological points of view (Chirat 2021). In doing so, I highlighted that Adolf Berle, John Maurice Clark, John Kenneth Galbraith, and Gardiner Means belonged to its Veblenian tradition - alongside (but without deep relationship with) Clarence Ayres and his followers from the Universities of Texas and Colorado¹¹. First, Berle and Galbraith both pursued Veblen’s ambition, as summed up by Walton Hamilton in his institutionalist manifesto, to provide “a generalized description of the economic order” as a “unified whole which is in process of development” (Hamilton 1919, 311-315). Second, both put the corporation at the heart of their pattern models. Third, both aimed at challenging the worldview of neoclassical economics because of its incapacity to account for the “managerial revolution”. Berle explicitly associated himself with the “institutionalist school” (Berle 1964, 571, 573). At the institutional level, he was a member of Columbia University, one of the main bastions of the institutionalist movement in the interwar period (Rutherford 2004, 2011). This context explains why he had been in touch with many participants in the movement, such as R. A Gordon (1939,1945), and considered as one of them, or at least a “first cousin” (Tilman 1974).

The fact that the works of Berle and Galbraith took their roots in Veblen’s work, however, should not be misleading. Malcolm Rutherford (2015b) has shown that after 1945, Ayres, as “a charismatic teacher”, was the main representative of the Veblenian tradition. His specific perspective on Veblen’s work based on the instrumental/ceremonial dichotomy, which has created many dissensus among post-war institutionalists, bears little relation to those of Berle and Galbraith. Moreover, they were not inserted in institutionalist academic networks, although

¹⁰ Burnham (1941) made explicit references to Berle and Means (1932). In his trilogy, Galbraith initially did not mention Burnham’s work, before paying him a tribute in the revised edition of *The New Industrial State*. See also Galbraith’s letters to Burnham from August 6th and 25th, 1971. JKGPP, Series 3, Box 77.

¹¹ It is common to distinguish the Veblenian tradition from two others, namely the Wisconsin school (behind Ely and Commons) and the quantitative tradition (behind Mitchell and A.F. Burns) at the NBER (Yonay 1999; Rutherford 2011). On the fate of these traditions after 1945, see Rutherford (2015b).

Galbraith supported the AFEE following requests by Gambs, Gruchy and Forest Hill¹². As Rutherford sums up, Galbraith could be considered “the highest profile institutionalist of the post-1945 period” but “he was a lone figure at Harvard and did not produce many academic followers” (2015b, 99-101). As for Berle, he does not appear to have had any notable relationships with institutionalist economists after 1945, with the exception of Galbraith.

The third label helping to characterize Berle and Galbraith’s worldview is liberalism, in its American meaning. Its affinities as a political ideology with institutionalism as a paradigm in economics are well known (Tilman 1987, 2008; Kloppenberg 1986, 1998)¹³. Indeed the mutations of the institutionalist movement in America can be divided into three generations and understood through the prism of the evolution of American liberalism, respectively prior to World War One, in the interwar period, and in the post-World War Two era (Chirat 2021). This label of liberalism is, however, even more equivocal than the previous two. In a recent controversy over the meaning of “cold-war liberalism”, Brenes and Steinmetz-Jenkins (2021) and Mattson (2021) recognized that the idea of a “liberal consensus” in the post-war period is “mythical”. For this reason, the clarification of the political dimension of Berle and Galbraith’s works, among the diverse lines of thought amalgamated under the label of “cold-war liberalism” is required.

Because of his inclusion in Franklin D. Roosevelt’s brain trust, Berle was one of the main figures of the New-Deal era and a transitory protagonist between interwar and post-war liberalism¹⁴. Belonging to the next generation, Galbraith was one of the main figures of post-war liberalism and a transitory figure regarding the emergence of the New Left. Galbraith’s intellectual relationship with the New Left emerging at the end of the 1960s was, however, ambivalent. His criticism of neoclassical economics converged with the political economy of many radicals (Lindbeck 1972). But he was criticized by them, as Berle had been, for being a representative of “corporate liberalism”. In a letter to Galbraith of May 8th, 1969, Berle explicitly dismissed that categorization¹⁵. Berle and Galbraith were considered as “corporate liberals” by American radicals and some liberals since both emphasized the economic success of America under the reign of great corporations concentrated in oligopoly markets¹⁶. Following the dichotomy between the

12 Letter from Gambs to Galbraith, March 26th, 1964. JKGPP, Series 3, Box 35. Letter from Gruchy to Galbraith, March 18th, 1968. JKGPP, Series 3, Box 68. Letter from Forest Hill to Galbraith, September 23rd, 1968. JKGPP, Series 3, Box 68.

13 On the specific affinities between Dewey and some institutionalists, see Bazzoli and Dutraive (2013). On the specific affinities between Lippman and certain institutionalists, see Goodwin (2013).

14 On Berle’s role in the Roosevelt administration, see Schlesinger (1956, 434-437) and Berle’s published paper (Berle and Jacob 1973). Between 1938 and 1943, as an active member of the State Department, Berle was one of Keynes’s main American correspondents on the international monetary reform that would eventually take shape at Bretton Woods (Thompson 2019).

15 JKGPP, Series 3, Box 76.

16 Like the works of Berle, Clark, Galbraith, and Schumpeter, Daniel Bell (1960, 81) had shown that *Fortune* magazine was the mouthpiece at that time for the efficiency of large companies and their role in economic dynamics. Berle

Jeffersonian and Hamiltonian traditions proposed by Michaël Lind in *Land of Promise*, both Berle and Galbraith were Hamiltonian rather than Jeffersonian liberals¹⁷. However, we shall see that their defense of big corporations was anything but unconditional, so that the label corporate liberalism, used by radicals as a semantic tool in their political struggle against liberals, proves misleading. My claim is that they are rather representative of “qualitative liberalism” (Mattson 2006).

The paper assumes that the worldview held by Berle and Galbraith was epochal. Many liberals, conservatives, and radicals felt the need to clarify their position by discussing their writings. Many works on American liberalism during the 1950s and 1960s, either written at the time or in later decades, also argue in favor of such an assumption¹⁸. The importance of Berle and Galbraith’s writings could be explained by the diffusion strategy of their works. In order to challenge conventional economics from a declining institutionalist perspective in academia, they purposely short-circuited academic journals to write book targeting a wider audience, so that they were often recognized as public intellectuals only. To account for Berle and Galbraith’s cross-fertilization to bring political economy back to life, I propose to study their respective answers to a set of fundamental questions. This method assumes the emphasis falls on their economic analysis rather than their political activities¹⁹. It provides a description of the connections between their understanding of the managerial revolution, their institutionalist challenge to “conventional economics”, and their interpretation of the dynamics of American capitalism.

My reconstruction, based on archival work, involves five steps. First, I go back to the genesis of *Modern Corporation and Private Property* and the influence the book exercised on Galbraith (Section 1). Then I analyze Berle and Galbraith’s intellectual cross-fertilization through the lens of their answers to the aforementioned set of fundamentals questions. What is the nature of modern competition (Section 2) ? What is the nature of the modern corporation (Section 3)? What is the role of the State (Section 4) ? How should American liberalism be reinvented to cope with the new social issues raised by the transformation of American capitalism in the post-war era (Section 5)? In doing so, I aim at providing a specific contribution at the crossroads of the history of economic thought and the history of American liberalism in the post-war period.

contributed to *Fortune* and Galbraith was an editor of the magazine between 1943 and 1947. This also explains why they were associated with the ideology of corporate capitalism.

¹⁷ The Hamiltonian tradition “identifies the wealth of nations not with small enterprises in lightly regulated markets, but with large-scale industrial production based on scientific and engineering breakthroughs that have usually originated directly or indirectly in government sponsored research” (Lind 2012, 12-17).

¹⁸ See for instance Grimes (1962), Sternsher (1962), and Beck (1987). Surprisingly, Galbraith and Berle are absent from Dorothy Ross’s recent work on liberal social thought in the fifties (2021a, 2021b).

¹⁹ If political issues are not excluded, I emphasize their thinking rather than their political involvement with the Democratic politicians they supported, since that involvement tells us less about their political economy and more about the contingent political struggles. I also leave aside their analysis of foreign relations, which would require a paper in itself.

Section 1: *Modern Corporation and Private Property* as a revolution.

In *Theory of Business Enterprise* (1904), Veblen argued that owner-directors controlled modern business enterprise. In *Absentee Ownership and Business Enterprise in Recent Times*, he argued that their discretionary power of control, because of a process of bureaucratization in financial management, had gradually passed into the hands of financial administrators of corporations, especially large-scale banks (Rutherford 1992, 270-271). By “absentee ownership”, he highlighted that the control had passed into the hands of men who were not involved in the productive activities of the enterprise. Veblen thus put forward a divergence of interests between the shareholders and financial administrators, embodying the business dimension of an enterprise as a going concern, and the engineers and workers of the enterprise, embodying its industrial dimension. With *Modern Corporation and Private Property* (1932), Berle and Means emphasized another separation, that between (absentee) ownership and control. Thus, Berle and Means, contrary to Veblen, considered the corporation to be a “managerial organization” in which the control of its activities fell to the directors and managers at the expense of owners (Hill 1967, 282)²⁰. That is the main reason why *Modern Corporation and Private Property* appeared to some as a revolution in interwar economics.

Because of its influence on American economics in general and Galbraith’s integral economics in particular, a word on the genesis of Berle and Means’s seminal contribution is of worth. Two facts should be recalled. First, Berle began his academic career the decade before. In his biography, Schwartz (1987) evocatively titled one of his chapters “Berle Without Means”. Second, five years before the publication of *Modern Corporation and Private Property*, William Ripley, a specialist in the study of corporations and trusts at Harvard, and a figure close to the American institutionalist movement, published *Main Street or Wall Street* (1927). He already gave an audience to the argument that it is the managers and not the absentee owners who concentrate the decision-making power inside corporations. He had developed this argument synthetically the previous year in a paper published for the Academy of Political Science. It is far from anecdotal that Ripley and Berle’s works became largely disseminated outside the economists’ community. Both argued the corporation should be viewed as a political institution.

²⁰ Rutherford (1980) showed how the terms “manager” and “owner” did not mean the same thing for Veblen, Berle and Means, and Galbraith. He rightly considered the term manager in Galbraith referred to the employees who managed the firm, whereas in Veblen, the term management refers to the owner-managers, that is to say individual main shareholders who exercised managerial functions (Rutherford 1992). These differences in meaning were mainly due to the fact that they described corporations of different epochs. On the evolution of institutionalist theory of the corporation, see Jo (2019).

Although Berle and Means acknowledged an intellectual debt to Ripley's work, *Main Street or Wall Street* was already based on papers published by Berle between 1923 and 1927²¹. Berle had been trained as a jurist and was a corporate lawyer as well as an academic. His papers published during the roaring twenties dealt with very specific topics related to the financial practices of corporations, focusing on legal aspects and their economic consequences. In particular, Berle studied new practices such as the issuance of stocks with a different par value than the original one (1923, 1925), the issuance of non-voting stocks (1926a), the segmentation of stocks into different classes giving different rights (1926b), the issuance of stock-options (1927), and the issuance of stocks reserved for bankers and promoters in the event of mergers (1929). All these changes in financial institutions contributed to reducing the control of outsiders (absentee shareholders) and to reinforcing that of insiders (directors, managers, and main financial partners). Those latter held privileged information. The moral disempowerment of shareholders toward the company, as a corollary of their loss of power, reinforced speculative movements that finally led to the 1929 crash.

At that time, Berle was already arguing that the new financial designs developed in the US during the 1920s contributed to the emergence of a "corporate oligarchy", which subverted all ideals of public responsibility and whose venality he feared. In 1931, in a letter to Ripley, Berle stated that he was looking for economists who would work "on the project of making the stock exchange more like a savings bank and less like a roulette wheel" (Schwartz 1987, 57). After attending Harvard and winning a Rockefeller Foundation fellowship to study corporations, Berle moved to Columbia in 1927. The fellowship indicated that the project required the collaboration of an economist. He turned to Gardiner Means, who had just received a master's degree in economics from Harvard²². There is a notable continuity between Berle's earlier work and that done in collaboration with Means (1930, 1932). Means' main contribution was the use of statistics on the importance of large firms in the economy and on the structure of ownership in the US.

The years 1929 to 1931 were very productive for the two collaborators. Sixty days after the financial crash of 1929, Berle presented a paper co-authored with Means at the December 1929 meeting of the American Economic Association²³. They set out the broad outline of their research agenda. While Berle's early works had been published in law journals, he now directly addressed at economists. Berle and Means argued that the joint-stock company, as a legal fiction, had two functions. Its productive function was to facilitate the management of the company. It was the

²¹ Berle was in contact with Ripley when he taught at the Harvard Business School in the mid-1920s. On their relationship, see Kirkendall (1961), Schwartz (1987, 52-57), and Rutherford (2011, 245).

²² Berle taught at Columbia from 1927 to 1964, in the law department. Means taught there from 1927 to 1935, before moving to Harvard where he had begun his studies under Ripley (Rutherford 2011, 225, 244). The relationship between Berle and Means dated from the First World War. They had met at a military camp designed to prepare young men for command and formed a friendship there (Schwartz 1987, 19).

²³ At the end of the paper, we read that it was written by "Adolph A. Berle, Jr, assisted by Gardiner C. Means".

work of managers. Its distributive function was to facilitate the collection and distribution of capital. The issue was to determine which agents had the power to distribute capital and, incidentally, incomes. Berle and Means' contention was that this power, formerly in the hands of owners of capital, had largely fallen to management, for the reasons mentioned above. Managers had "confiscatory power" over profits as well as the power to control the activities of the enterprise, unimpeded by the meeting of shareholders whose influence, exercised in the name of property rights, was waning. Hence their claim, already stated by Marx, that the corporation led to the suppression of individual property (Berle and Means 1930, 58-64)²⁴.

Berle and Means identified four factors that partially limited managerial discretion. These were external capital requirements; jurisprudence which considered shareholders to be the agents of managers; state control with respect to consumer protection; and public opinion, since popular beliefs established tacit rules that could guide managers' behavior. Their presentation ended with two major conclusions. The changes they discussed were not simply a "change in business" but "a major movement in civilization". Like Veblen (1923) and Burnham (1941), they diagnosed the rise of a new cultural complex. Corporations were political as well as economic institutions, so that "a Machiavelli writing today would have little interest in princes, and every interest in the Standard Oil Company of Indiana" (Berle and Means 1930, 65-71).

On his own, Gardiner Means published three articles in the *Quarterly Journal of Economics* and one in the *American Economic Review* based on statistical studies (1930, 1931b, 1931c, 1931a). He first noted the strong diffusion of stock ownership during the First World War and then over the period 1921-1926. Non-voting shares, voting collusions, and holding company now allowed minorities of shareholders or director-managers to control the corporation. Hence the argument of the separation between ownership and control (Means 1930). He also presented statistics on the importance of large-scale enterprise in the American system. He noted that 23% of corporations listed on the New York Stock Exchange controlled 80% of total assets. In the area of non-financial corporations, the 200 largest controlled 44% of industrial production. Those figures and the fact that 26 of the 200 largest companies merged or were taken over by companies of that top 200 between 1922 and 1929, led him to conclude that concentration was increasing. He also found that the earnings of the largest corporations grew two to three times faster than those of the others.

²⁴ Berle once told his wife that he wanted to be "the American Karl Marx", namely a social "prophet". Schwartz explained that Berle "wanted to arrest the flow of history and redirect it through his writings", especially to "redirect the flow of power from corporate managers and financiers in Wall Street toward popular control in Washington" (Schwartz 1987, 62-63). Berle had an admiration for Marx and his "flaming eloquence" (Berle 1950, 43).

Insofar as their profits were greater, retained earnings gradually became the main source for financing companies' growth (1931a, 12, 16, 26, 28)²⁵.

Gardiner Means drew two conclusions from his studies. First, at the theoretical level, Marshall's "representative firm" had "ceased to be a useful tool" of economic analysis insofar as competition had "changed its character". Second, the managers of the 200 large corporations exerted "a tremendous force which can harm or benefit a multitude of individuals" and "bring ruin to one community and prosperity to another". That's why they were no longer "private enterprises" but "social institutions" (1931a, 36-37). Reaffirming the argument of the separation of ownership and management, Means also presented for the first time the famous typology of the five forms of control of a corporation (Means 1931b, 68-71). This typology was reintegrated in *Modern Corporation and Private Property* (Berle and Means 1932, 69-90) and in later work by Berle (1959a, 71-77). They distinguished between firms where control was exercised by (1) a small number of associated shareholders; (2) a majority of shareholders; (3) shareholders without a majority thanks to legal mechanisms; (4) a minority that nevertheless held enough shares to exercise domination; and finally (5) by managers (Means 1931b, 71-83). The last two types of corporate control were those that were meaningful for understanding the transition toward managerial capitalism. They found almost 65% of the top 200 non-financial corporations were controlled either by a minority of shareholders (21%) or their management (44%) (Berle and Means 1932, 94)²⁶. They concluded that "the position of the owner has been reduced to that of having a set of legal and factual interests in the enterprise while the group which we have called control, are in the position of having legal and factual powers over it" (Berle and Means 1932, 119-120).

In 1931, Berle argued, contrary to Edwin Merrick Dodd (1932), that managers would be prone to form a self-perpetuating oligarchy promoting their own interests against those of shareholders (Berle 1931). Their debate about corporate social responsibility fostered the scenarios envisaged by Berle in the conclusion to *Modern Corporation and Private Property* (Bratton and Wachter 2009). To counter the risk that managers might undermine shareholders' interests, one could envision a first scenario where the "group in control of the corporation would be placed in a position of trusteeship in which it would be called on to operate or arrange the operation of the corporation for the *sole* benefit of the security owners." The opposing scenario was to recognize that "corporate development has created a new set of relationships, giving to the groups in control powers which

²⁵ Retained earnings lie at the heart of the managerial theories of the firm developed by Berle, Galbraith and Marris in the early 1960s.

²⁶ In *Business Leadership in The Large Corporation*, Robert A. Gordon (1945) showed that among the 176 largest industrial corporations, only 16 had senior management that held more than 20% of the shares. In march 1937, Berle had a meeting with Gordon and concluded in his diary that "the entire property structure of the country [was] changing" (Berle and Jacobs 1973, 124).

are absolute and not limited by any implied obligation with respect to their use". Since neither "strengthening the rights of passive property owners" nor "leaving a set of uncurbed powers in the hand of control" satisfied Berle, he invited his readers to reflect on a third scenario. Although the tradition of running the corporation in the interests of its owners was gradually breaking down, nothing provided a basis for justifying that it should be run for the sole benefit of the group in control. That was why Berle stated that the modern corporation could serve "the paramount interest of the community". He judged it "conceivable" that the group in control of the corporation "should develop into a purely neutral technocracy" who balance "a variety of claims by various groups in the community" (Berle and Means 1932, 356).

Modern Corporation and Private Property proved to be an extension of the earlier works of Berle and Means. Shortly after its initial publication, it was withdrawn from sale by its publisher following criticism from an executive of General Motors. The initial publisher was a subsidiary of the Corporation Trust Company, with General Motors one of its best customers (Berle and Jacobs 1973, 21-22). Eventually published by Macmillan Company and generating a strong press following, Berle and Means' book was immediately described as "epoch-making" in *The Nation* and "the economic Bible of the Roosevelt Administration" in *Time* magazine (Schwartz 1987, 61). But it also drew fierce criticism. Not only was the claim of the separation of ownership from control challenged, but so were some of the conclusions drawn from it. Socialists and radicals refused to endorse the thesis of managerial control. In his 1968 review of the reprint of the book, Galbraith recalled that Berle and Means "cast doubt on the omnipresence of the capitalist in capitalism" so that "no Marxist communicator could tolerate it"²⁷. As for the Republicans, they castigated the analysis of the malfunctions of the financial market system (Schwartz 1987, 62). Berle and Means indeed provided an analysis that led them to reappraise the classical model of competition, its theory of the firm, and consequently to throw out nineteenth-century laissez-faire in favor of national economic planning²⁸.

Already in the 1930s, Berle and Means were a major reference for Galbraith, who was a young instructor at Harvard (1934–1939) and then Princeton (1939–1941). Their work appeared in his teaching activities. *Modern Corporation and Private Property* was on the syllabus of the "Economics 519" he gave at Princeton University in 1939 and in the required reading mentioned in a 1940 memorandum entitled "The Regulation of Large-Scale enterprise"²⁹. In a 1939–1940 lesson entitled "Public Regulation and the Individual Firm", Galbraith's personal notes contained a detailed

²⁷ JKGPP, Series 9, Box 942.

²⁸ On Means's conception of planning, see Lee (1990b). On the various planning trends in the US interwar period, see Balisciano (1998). Berle and Means were mainly partisans of "social management planning" and "technical-industrial planning" (Balisciano 1998, 158).

²⁹ JKGPP, Series 1, Box 1.

discussion of the legal mechanisms put forward by Berle and Means to attest to the gradual end of shareholder control over the activities of the corporation³⁰. He already argued that the separation between ownership and control was “inherent in the existence of a corporation with widespread distribution of stock”. Like Berle and Means, he then turned to the question of the “social consequences” posed by this transfer of power. Galbraith dealt with the issue of corporate social responsibility and the effect of firms’ production and pricing policies on the distribution of incomes, business cycles, and allocation of resources. Discussing the issue of monopoly power, defined as control over “prices”, “costs”, “distributions of revenues”, and to some extent over “investment”, Galbraith also argued that “the separation of shareholder interest from control in the modern firm” increased the economic importance of the analysis of the administration of the firm. Thus, as early as 1940, the questions at the basis of his integral economics had been raised. Ten years later, while writing *American Capitalism*, Galbraith was teaching a course on “Consumption, Distribution and Prices” after his 1948 return to Harvard. *Modern Corporation and Private Property* still figured among the required reading³¹. This book that Galbraith would *a posteriori* describe as “one of the truly great documents in American social history” framed the worldview on which his trilogy as well as Berle’s own one hinged. The first challenge they both tackled was to reappraise the economic theory of competition.

Section 2: What is the nature of modern competition?

Berle and Means did not only stress the separation between ownership and management. At the ends of a chapter entitled “The inadequacy of traditional theory”, they argued that the view that competition is “the great regulator of industry” is obsolete (1932, 350-351). First, they put forward a change in the nature of competition because of the existence of “a few great enterprises”. A year later, Chamberlin published his *Theory of Monopolistic Competition* (1933) and coined the term oligopoly to characterize this particular form of competition. This convergence explains why Galbraith aimed at combining the contributions of these books he considered as revolutionary for modern economics. Second, traditional theory proved inadequate because of the increasing importance of “overhead costs”, a concept that came mainly from the institutionalist economist John Maurice Clark (1923a). It referred to “all costs not economically traceable to units of output, including those parts of cost that do not vary with output”, such as wages, interest, or marketing expenditures (Clark 1923b, 47). Third, Berle and Means argued that, on markets with few sellers, competition was not an effective regulator since it led either to cut-throat price competition, which would be ruinous precisely because of the importance of overhead costs, or monopoly-like

³⁰ JKGPP, Series 1, Box 1.

³¹ JKGPP, Series 9, Box 942.

situations, at the expense of consumers. Berle and Means were at that time more pessimistic than in their later works or than Clark (1940) and Galbraith (1952), who would explain that oligopolistic competition could be “workable” under specific conditions.

The main reason why competition between a few large-scale corporations and pure competition differed lay in the pricing behavior of large-scale enterprises, which was a burning issue because of the Great Depression. It was through this prism that the young Galbraith began to seize upon the analysis of Berle and Means and to combine it with that of Chamberlin. In “Monopoly power and price rigidities” (1936), Galbraith tackled the theoretical problem of explaining differential price rigidities, that is to say, the greater rigidity in industrial rather than agricultural sectors, that had been empirically observed by Gardiner Means (1935a). Whereas Means argued that prices in the industrial sector were more rigid because “administered” by large-scale enterprises, Galbraith specified that one should understand why a firm with discretionary choice over its pricing policy would prefer rigid prices. He put forward various explanations, such as long-run rather than short-run profit maximization; the existence of menu costs already discussed by Means (1935a); and the hypothesis, drawn from Chamberlin (1929, 1933), of the recognition of mutual dependence between oligopolists, that could lead to tacit collusion. Galbraith summed up his line of argument by stating that price rigidities acted on oligopolistic markets as a convention against the uncertainties of competitors’ behavior. He would maintain this explanation throughout his trilogy and Berle (1965, 36) would endorse it.

Gardiner Means explicitly related his argument on “administered prices” to the main argument of *Modern Corporation and Private Property* and was to develop this research agenda throughout his career (Samuels and Medema 1990, Lee 1990a). The control of the firm by directors and managers made the distinction between private and public property meaningless - a phenomenon both Berle and Galbraith would insist on. From then on, large firms no longer allocated resources through market mechanisms. As Means stated in *The Political Science Quarterly* (1935b), they exercised administrative control over the production process. Means also linked his argument about administered prices to the idea - previously developed by Veblen (1904) and then taken up by Chamberlin (1933), Schumpeter (1942), Galbraith (1948), and Berle (1954) - that competition in oligopolistic markets was competition by sales rather than prices. In this regard, he referred to “administrative competition” and “administrative inflation” (Means 1940, 1959, 1962). After World War Two, these mechanisms were at the heart of Galbraith’s explanation of the inflationary process, when he accounted for the cumulative loop between wage and price increases in the planning system (Galbraith 1952a, 1957, 1967).

It is widely acknowledged that both Berle and Means (1932) and Chamberlin (1933) fostered the development of the field of industrial organization (Backhouse 2015, Phillips and Stevenson 1974). Yet the issue of price rigidities was of the utmost importance in the development of this subfield of economics (d'Aspremont et al. 2011). Following on from an article he published in 1938 dealing with the problem of price inflexibility based on the work of Means (1935a) and Galbraith (1936), Edward Mason then published in the *American Economic Review* a founding contribution to industrial organization (Mason 1938, 1939). "Price and Production Policies in Large-Scale Enterprise" was an invitation to abandon the idea of a perfect market in order to focus on the pricing policies of firms. Discretionary pricing choices were determined by market power, which depended on "elements of market structure which include many more things than numbers and product differentiation". Drawing up a classification of market structures to explain the different pricing policies of firms according to their market power was thus necessary. But their pricing policies also depended on "the influence of the organization of a firm on the character of the firm's reaction to given market situations" (Mason 1939, 66). Consequently, it was crucial to determine whether an enterprise was ruled by and in the interests of its owners or its director-managers. Galbraith's *American Capitalism* (1952) aimed at reappraising the nature of competition. The book, which was built on a literature review on "Monopoly power" that he wrote in a *Survey in Contemporary Economics* sponsored by the American Economic Association (Galbraith 1948), directly hinged on the research characterizing the emergence of industrial organization at Harvard (Chirat and Guicherd 2021).

For Galbraith, the loss of realism of the classical competitive model was explained by its inability to adequately consider the phenomenon of power, in particular market power. He believed that the classical model had reinforced the belief in American society that it was desirable that no one should have power (1952a, 26-27). Yet Galbraith's experience as a journalist at *Fortune* proved to him that business leaders actively sought it out. The big companies they ran had control over prices. They attempted to shape the consumers' psyche. They acted as a function of their competitors. In the competitive model, these three phenomena were absent because they were unthinkable. Insofar as firms did not hold market power, they were not effectively assigned any strategic behavior. The decisions of entrepreneurs or managers are therefore dictated by market conditions³². Galbraith thought that the assumption of atomicity, which largely presided over this situational determinism and the absence of power in economic analysis, clashed with the growing

³² In the marginalist framework, the firm is only considered as a "theoretical link" to study the allocation of resources, but not an object of study in itself (Machlup 1967).

concentration of the American economy, which he presented as an organic phenomenon of the American industrial system (1952a, 20, 41-44, 51, 75)³³.

The chapter entitled “The Theory of Countervailing Power” formed the heart of *American Capitalism*. Competition was the main regulatory mechanism in the classical model, in the sense that it limited the market power of actors and thus promoted a balance of interests. In competitive sectors, the power of one firm was limited by the power of other firms on the same side of the market. In other words, it was competition between suppliers or competition between sellers that ensured that market power was limited. Countervailing power was the regulatory mechanism of the oligopolistic sectors. This mechanism was different from competition in the classical sense. In an oligopolistic sector, the limitation on the power of one agent came mainly from the power of another agent on the other side of the market. For instance, the market power of a large-scale enterprise was not limited by its competitors but rather by the market power of its suppliers or its customers. Thus, while a form of balance of power was achieved in both cases, the balancing mechanisms were not identical. Galbraith believed that the trends that generated the emergence of big sellers favored the emergence of big buyers or *vice versa*. To illustrate his claim, he applied it to four types of market: the labor market, the consumer goods market, the producer goods market, and the agricultural market (Galbraith 1952a, 108-134).

The objective of *American Capitalism* was to show that oligopolistic regulation had supplanted competitive regulation. Berle’s interest in Galbraith’s attempt led him to write a review of the book for *The Review of Statistics and Economics* (Berle 1953a). He explicitly recognized the filiation with *Modern Corporation and Private Property* and agreed with two arguments. First, competition between oligopolists was effectively competition by sales, not by prices (Berle 1954, 47). Second, the emergence of unions and the State as countervailing powers had indeed rendered the former passion for antitrust laws defended by some liberals, such as Thurman Arnold, largely obsolete. In *Power without Property*, Berle wrote that “it was absurd for liberals to swallow the fiction that all virtue lay in smallness, and that all vice inhered in size” (Berle 1959, 13).

Following Schumpeter (1942), Galbraith also argued that oligopolistic industries had greater productive efficiency, in terms of output generated, than competitive ones. On this matter, like George Stocking (1953, 437)³⁴, Berle suggested there was no empirical evidence for the productive superiority of large firms. If “Harvard professor J.K. Galbraith seems to believe” that “power is indispensable to productivity”, he recalled that “this relationship has definitely not been

³³ A shortcoming of the book is that Galbraith does not explicitly distinguish between financial and industrial concentration. If he had followed Veblen on this point, he would have said that financial concentration can be explained by predatory behaviors, whereas industrial concentration is required by the state of technology.

³⁴ Stocking conducted a famous empirical study into the changing structure of the American economy for the Twentieth Century Fund (Stocking and Watkins 1951).

established.” Berle nevertheless agreed to assume that “power and productivity go hand in hand, and that is all we need to know for the moment” (Berle 1954, 15). Later, he would argue that corporations had three essential qualities that could explain their productive superiority. These included the ability to organize production on a large scale, the ability to use large amounts of capital, and the ability to coordinate the activity of specialists and technicians (Berle 1959a, 124-125). This latter was crucial, as individual cognitive limits were hampered by the technical complexity of production processes (Berle 1959a, 66).

In the last part of his review of *American Capitalism*, Berle questioned Galbraith’s idea that power necessarily generated the emergence of countervailing power. Galbraith indeed gave to his regulatory mechanism a self-generating character that was dismissed by many commentators. Its presumed automaticity paradoxically recall the metaphor of the invisible hand of competitive markets. Berle judged this part of the book the “least satisfactory” though deeply interesting (1953, 83). He nonetheless concluded his review by arguing that “Galbraith has written an important book” and that “the new territory he has glimpsed must be explored, mapped, and occupied” (Berle 1953a, 84). His own book *The Twentieth Century Capitalist Revolution* directly followed Galbraith’s research agenda on the oligopolistic functioning of American capitalism and the political issues it raised.

Only the lone voice of J. Kenneth Galbraith has been raised to suggest that American capitalism will turn on the balance of institutional forces³⁵ - he, quite rightly, calls his study, *American Capitalism: the Concept of Countervailing Power*, and assumes that the principal power institutions will be, respectively, the great corporations operating industrial oligopoly on one hand and the great industrial labor unions on the other. [...] Clearly, if business organizations like the modern corporation are not automatically limited by economics, a political problem of first importance is in the making. (Berle 1954, 53-54)

Section 3: What is the nature of the corporation?

The questions of the nature of the corporation and the nature of competition were linked in *Modern Corporation and Private Property*. The research agenda of Berle and Means’s study was in line with Veblen, to whom they referred in order to assert that the corporation had become the “master institution” of the American system (Berle and Means 1930, 54-55). They concluded their book by arguing that the corporation “calls for analysis, not in terms of business enterprise but in terms of social organization” (1932, 352). Accepting the thesis of the separation between ownership and control without further inquiry, Galbraith was first interested in rethinking the nature of competition. In *American Capitalism*, he provided his alternative model in terms of countervailing

³⁵ The statement “only Galbraith” is questionable. A little further on, Berle himself mentioned Kenneth Boulding’s book *The Organizational Revolution* (1953).

power without grounding his argument on a deeper analysis of the nature of large-scale enterprise. In *The Affluent Society*, he provided a theory of consumption built against the principle of consumer sovereignty, but still without investigating the power relationship inside the corporation (Chirat 2020a). As soon as this second opus was published, Galbraith, however, felt that there was still a piece missing in the whole alternative theoretical framework he was trying to construct.

On June 20th, 1958, he mentioned to Adolph Berle a work in progress on the “personality of the corporation”³⁶. What was missing from his previous work was a theory of the enterprise as an organization and not solely as a productive entity, whose behavior was analyzed in relation to the characteristics of its environment, in particular given market structures. In his letter of June 1958, Galbraith also told Berle that the book he was preparing echoed his correspondent’s current line of research. He explained that it was “designed to be the third of a group of three of which *American Capitalism* was the first. [...] I must have a talk with you about this enterprise at some early stage. As you can imagine, I am drawing heavily on your work”. A year later, Berle wrote that he was “more than thrilled” to know that Galbraith was “proposing to tackle the job of a general theory of economics”³⁷.

Berle saw the emergence of joint-stock companies as the “first great twentieth century change” (Berle 1959a, 59). In the preface to *The New Industrial State*, Galbraith argued that we live in “a world of great corporations in which people increasingly served the convenience of those organizations which were meant to serve them” (Galbraith 1967). Both Berle (1954) and Galbraith (1967) emphasized that, historically, it was the successful entrepreneur, gradually becoming a captain of industry, who gave rise to corporations, and so doing contributed to his own destruction (Baudry and Chirat 2018). Sarcastically, Adolf Berle stated that if “Marx with his Communist Manifesto undertook to destroy property”, it was rather “corporation promoters and managers” who had “without any manifesto” changed “the nature of the beast” (Berle 1963, 21). The enterprise in the form of a corporation underwent a qualitative transformation process, so that economic theories of the firm had to be rethought.

In his trilogy, Berle constantly reaffirmed the need to study big business with the help of political science concepts, in particular that of power. Galbraith precisely integrated this vision from *The New Industrial State*. He summoned and syncretized the contributions of managerial (Baumol 1959; Marris 1964) and behaviorist theories (Simon 1947, March and Simon 1958) of the firm. Contrary to neoclassical theory of the firm, which postulated that “the conflict of interest” between

³⁶ JKGPP, Series 3, Box 13.

A year later, he explained to Herbert Simon that he was struggling with the theory and justification of the large-scale social organization. Letter from Galbraith to Simon, July 9th, 1959. JKGPP, Series 3, Box 13.

³⁷ Letter from Berle to Galbraith, October 2nd, 1959. JKGPP, Series 3, Box 15.

the management of the corporation and the owners “is assumed always to be resolved in favor of the owners” (Arrow 1971, 70), Galbraith sought, like Berle and Means, to determine who controlled the firm. But although he told Berle that he had drawn on his work, his perspective was slightly different. Berle and Means (1932) used the term “management” to describe those who controlled the activities of the firm. For Berle and Means, the concept of “managers” had a legal existence, namely the persons mandated by the owners of the corporation (1932, 126, 196). Galbraith emphasized the existence of a new group in charge of controlling the corporation’s activities, which he called the “technostructure” (1967). Galbraith’s concept had no legal existence. And although it included managers, it encompassed a wider range of occupations within the enterprise. In a paper following *The New Industrial State*, he specified that the technostructure included “engineers, scientists, the plant manager, the sales manager, the marketing specialists, the advertising manager, the controllers, the lawyers” (1972, 119). In his review of the book, Berle highlighted this singularity. “Galbraith accepts a theory of the corporate revolution. But he goes further”(Berle 1967, 29).

Despite this difference, Berle and Galbraith shared the view that the large-scale enterprise was a planning authority. And if a corporation actively desired market power, it was precisely in order to plan out its activities and to be able to best control its environment. In *Managerial Capitalism*, where he referred to both Berle (1954) and Galbraith (1952), Robin Marris argued that the management of the firm strove for a planning process for its expansion that “aims to minimize uncertainty, to minimize the consequences of uncertainty, or both” (Marris 1964, 232). Galbraith endorsed this view (1967, 29). He emphasized in particular that the planning of business activities, which enabled mass production and consumption, was required by the application of technology to the production process, which contributed to the lengthening of production deadlines (Galbraith 1967, 36). The planning function performed by members of the technostructure aimed at “minimizing uncontrolled market influences”. To do this, the technostructure used various means to “supersede” (vertical integration), “control” (exercise of market power) or “suspend” (long-term contracts) the market (Galbraith 1967, 30-38). The limitation of market influences made possible by these three means allowed for administered prices, stable expectations, reduced uncertainty, and so made it easier to carry out the production plan. One major component of a firm’s environment was expected demand. To control it, the technostructure supported state regulation of global demand to avoid sudden falls in consumption and tried to condition specific demand through advertising expenditure. Galbraith’s famous concepts of the “dependence effect” (1958) and “reverse sequence” (1967) were intended to convey the claim that it was the technostructure of

corporations rather than consumers that was sovereign in affluent society, meaning that large-scale corporations governed the allocation of resources within the planning system (Chirat 2020a).

Galbraith's vision of the corporation as a planning unit was directly rooted in the works of Berle and Means. During the interwar years, Means asserted that the phenomenon of price administration, which favored price rigidity, was essential in order to consider the problem of industrial planning, which he viewed as a third way, an alternative to the free market and socialism (1935b, 63). Means's perspective was interesting because he soon stressed that price administration was a source of stability in economic activity, a stability that would be highlighted by both Berle (1954, 1966) and Galbraith (1952a, 1952b 1967). In 1970, Galbraith confessed his intellectual debt to Gardiner Means. He told him that his argument on administered prices was a starting point for his analysis of the corporation. *The Affluent Society* had proposed to investigate the control that the firm sought to exert on the level of demand. *The New Industrial State* broadened the study to all the elements of its environment that the firm endeavored to control³⁸.

Berle's vision converged with that of Means and Galbraith. In *The Twentieth Century Capitalist Revolution*, he argued that "in a system of corporate concentration the result of competition is some sort of planning" since "great corporations, their labor and their suppliers" all wanted "the job of producing goods at a roughly predictable cost, under roughly predictable conditions, so that goods can be sold in the market at a roughly predictable price" (1954 52). Prefiguring Galbraith's analysis of the bureaucratic symbiosis, he wrote that "in non-statist Western Europe effective planning power was factually located in the business, industrial and banking groups rather than in the state, though their planning operations are permitted and commonly assisted by their national governments" (1954, 131). In *The American Economic Republic*, he restated his claim, arguing that the planning process of great corporations was sustained by public agencies, which accepted a high level of concentration despite the existence of antitrust laws (1963, 41-42). Berle was, however, less critical than Galbraith of antitrust laws³⁹.

As Berle and Galbraith shared a vision of the corporation as a planning agency, they questioned the objectives of this planification. These objectives could be explained by studying the motivations of the members who made up the group that controlled the firm, within the framework of a critique

³⁸ "I've often said how much I am indebted to you – and how much more the economic profession is indebted to you than it has ever confessed. THE NEW INDUSTRIAL STATE is built on the notion not of monopoly prices but broadly speaking of administered prices. It is administration which provides the certainty which the modern, very large technocratic organization requires. I have gone on from administration of prices to the management of the other economic parameters including that of consumer demand". Letter from Galbraith to Means, August 19th, 1970. JKGPP, Series 3, Box 136.

³⁹ Berle considered that "the United States has a certain schizophrenia; it wants the result of market power – stability, innovation, etc. – but it does not want market power that can be abused" (Berle 1966, 21). For Galbraith, since planning and the market power that foster its implementation were an organic feature of the system, "the antitrust laws, in seeking to preserve the market, are an anachronism in the larger world of industrial planning"(Galbraith 1967, 244).

of the neoclassical theory of the firm. As stated before, the writings of Berle and Galbraith were part of the managerial theories of the firm, alongside those of Baumol (1959), Marris (1964), and Williamson (1964). These managerial theories hinged on two main observations. Ownership of the firm in large public companies no longer necessarily entailed the power to control the firm. The complexity of the production process, especially due to the development of technology, required specific skills. For this reason, coordination of the company's different activities was a crucial function within the firm. Such a function gave to managers a discretionary power over the objectives of the firm as a complex organization.

Of course, each managerial theory of the firm has its own particularities. Five main propositions characterized those of Berle and Galbraith. Firstly, managers had their own interests, which potentially diverged from those of the shareholders. Secondly, and by virtue of the first proposition, profit maximization was not necessarily the end pursued by firms. All theorists of the managerial firm put forward objectives in terms of seeking security and fostering the growth of the firm's activities. They nonetheless considered a profit constraint, since a minimum of profit avoided the interference of shareholders in the management of the firm (Baumol 1959, Marris 1964, Galbraith 1967)⁴⁰. While the firm of neoclassical theory could only maximize its profits since it was constrained by competitive forces, Berle argued that large modern firms wanted market power, as an uncertainty-reducing factor guaranteeing their existence (Berle 1965, 34-36). Berle and Galbraith thirdly claimed that managers formed a social group in their own right within the firm, or even a social class within society. Fourthly, the large modern company operated using centralized decision-making, which was a matter of group action. Managerial work was becoming more professional and management methods more uniform. This explained why Berle and Galbraith supported the idea of a convergence in the functioning of Soviet and American companies. Fifth, since the modern managerial firm was large, studying the process of internal coordination within the firm and questioning the effectiveness of hierarchy and market as coordination devices are required.

There is one major difference between the works of Berle and Galbraith. As evidenced by the importance he ascribed to the role of engineers and scientists in his analysis of the planning system, Galbraith focused on the industrial dimension of the firm. But in doing so, he overlooked its financial dimension. This criticism cannot be levelled at Berle. In line with his articles of the 1920s, he cowrote a book on the liquidity of financial assets (Berle and Pederson 1934). This growing liquidity was one of the causes that contributed to the break-up of the individual property regime. Liquidity indeed implied the absence of an enduring link between the object of property and the

⁴⁰ The issue of such a profit constraint was at the heart of a correspondence between Baumol and Galbraith between 1958 and 1959. See Chirat (2020b).

owner. Following the crash of 1929, a series of legal measures, such as the Glass Steagall Banking Act of 1933 and the Public Holding Company Act of 1935, helped to regulate the functioning of financial markets and thus contributed to reducing the power of shareholders. But this did not prevent Berle, following Veblen, from continuing to deplore the fact that this “passive property”, which supported the existence of an “idle class”, was sometimes considered as a productive investment, whereas it merely “distributes wealth” (Berle 1963, 24-29, 221-223).

Although Berle never neglected to deal with the financial aspect of the post-war joint-stock company, he adhered to the idea that the power of bankers and shareholders had gradually disappeared (Berle 1954, 28). “You are right about stockholders. They cannot administer anything”, he wrote to Galbraith in a letter of July 31st, 1968⁴¹. One of the main reasons was that retained earnings were the primary source of financing for capital accumulation by large firms (Berle 1959a, 32-43). This explained why Galbraith largely neglected the external constraint of the capital market when discussing the objectives of the firm. Berle, however, pointed out the inexorable growth of the power of financial institutions as a result of the pension fund system developed in the US (1959a, 48-56)⁴². And Galbraith himself emphasized this point in a draft of his review of Berle’s book written for *The New York Times Book Review* in September 1959. “There is one looming threat to the autonomy of the professional managers and that is the accumulation of common stock (along with voting rights) in the hands of trustees or managers of pension funds, mutual funds and, to a smaller extent, of the life insurance companies”⁴³. Contrary to certain criticisms, institutionalist theorists of the managerial revolution easily integrate the process of financialization of the economy into their analyses.

As early as 1958, Edward Mason presented Berle (1954) and Galbraith (1952a), together with Kaysen (1957) and Means (1957), as representatives of the “apologetics of managerialism”. Mason referred to “managerialism” as the argument that managers had taken over the firm and, for a variety of reasons, were driven by a form of social responsibility, so that the behavior of large oligopolies did not necessarily have the harmful effects that neoclassical economic theory suggested. It was because they had dealt with the question of the goals of the firm on the one hand, and the relations that the large firm had with other organizations in the economic system on the other, that Berle and Galbraith took up the theme of corporate social responsibility. This expression

⁴¹ JKGPP, Series 9, Box 942.

⁴² Berle’s argument can be summarized as follows: pension funds have an obligation to pay a share of wages to future pensioners. Yet wages are increasing. Their activity, *i.e.*, the holding of assets, must therefore increase in order to be able to cover the future pensions to be paid. Pension funds thus see their stock of assets grow, and incidentally their relative influence as owners. Berle therefore foresaw the emergence of a time when they would have the decisive power to choose managers and influence policy in industrial sectors. Ownership had become diffused, but the element of power associated with it tended to be concentrated again in a few hands.

⁴³ Draft of Galbraith’s review of *Power without Property*. JKGPP, Series 9, Box 941.

suffered from many ambiguities. The first reason lay in the value attributed to it. The notion sometimes had a descriptive value. In this case, the idea was that the corporation assumed as a matter of fact a social responsibility. Such an assertion was explicitly made by institutionalist economists such as Berle, Clark, Galbraith, and Means. They believed, like Franklin Roosevelt, that by virtue of its size and power, the large corporation had a social responsibility since its decisions had consequences for the economic and social system as a whole⁴⁴. But the notion of social responsibility also conveyed a normative value. When it came to defining what the notion contained, by defining the contours of this responsibility and the nature of social goals, businessmen and intellectuals necessarily discussed the question of public purpose⁴⁵.

Section 4 : What role for the State?

The issues of planification, social control of business and corporate responsibility raise the problem of defining the notion of the “general interest” or “public purpose”. One major weakness of Berle and Galbraith, like many institutionalists, was the failure to provide any clear-cut criterion on which their normative economics was based on. So one way to better grasp their views on that matter is to understand their analysis of the role of the State in the economic system and society at large. To understand it, it is worth starting from the tensions running through the institutionalist movement. Participants in the various generations of the institutionalist movement have all stressed the positive role that the State can play in regulating the economic system. Hence the elective affinity between institutionalism and American liberalism. In this respect, Tilman (1987) has pointed out that the fusion between scientific reformism and social reformism is nourished by

⁴⁴ In a similar vein, Peter Drucker (1946) began *Concept of the Corporation* by stating that the private limited company now determined the standards and way of life of Americans (Kay 2019).

⁴⁵ On the famous controversy between Berle (1931a) and Dodd (1932) on corporate social responsibility, see Kirkendall (1962) and Bratton and Wachter (2008, 2009). Berle (1931a) had been described as a defender of the primacy of shareholders’ rights and interests. It is, however, worth recalling that Berle defended it since “the only restraints available in 1932 were the responsibilities to stockholders that judges would enforce” (Kirkendall 1961, 52). In the conclusion of *Modern Corporation and Private Property*, Berle reiterated his fear of the formation of an “oligarchy” within the corporation and the incompetence of management, but so that the state should probably be called upon to regulate their activities (1932). In *The New Industrial State*, Galbraith welcomed this “formidable conclusion” that had been largely “overlooked” by Berle’s “numerous critics”. As if he addressed himself to those accusing Berle of “corporate liberalism”, Galbraith even argued that his friend manifested an “early commitment to socialism”, because of being in favor of various kind of planning. But he also indicated that the gloomy predictions about management behavior “did not develop”. By the 1950s, Berle himself returned to the controversy with Dodd of twenty years earlier to assert that his interlocutor was right. Managers had used their powers for the benefit of the community as a whole and not exclusively for their own profit. Optimism was at that time quite widespread among liberals, as shown by some passages in *American Capitalism*. One of the reasons for the decline in Berle’s pessimism was his analysis of the factors that limited the power of large corporations and their managers : the countervailing power in oligopoly markets highlighted by Galbraith; “the political power of the state”; and the countervailing role of public opinion (Berle 1954, 52-60; 1959a, 89-92). On the debate over corporate social responsibility, Berle and Galbraith were in opposition with radicals (Sweezy 1942a; Kolko 1962), conservatives (Stigler 1952; Friedman 1962, 1970) and liberals (Levitt 1958; Rostow 1959). For more details, see Chirat (2021).

shared values. Self-criticism, freedom of speech, contradictory procedures, the search for better living conditions, and consideration of the general interest are the values shared by these two reformisms. Nevertheless, two major conceptions of the nature of the State emerge from the thinking of institutionalist economists. These are the “radical conception” and the “liberal conception” (Elliott 1978; Tilman 1987; Standfield 1991).

The radical view is inherited from the work of Veblen. He sees the State in democratic regimes as an instrument in the service of business interests (Leathers 1989). Such a view echoes Marx’s, who saw the State in the capitalist system as the executive committee of the bourgeoisie. But Gruchy (1974) rather explains the radicality of Veblen’s thought in terms of the historical context in which it emerges. It took root at a time when public agencies had only a relatively minor role in American economic life. Before the interwar period, institutionalists considered that the institution that governed the functioning of American capitalism was the large-scale corporation. Sometimes they saw the State as just another device to serve business interests. This radical view leads to a corollary for Veblen, namely the rejection of the possibility of capitalism being reformed. Capitalism cannot be transformed without radical changes in the institutional structure of the economic system. Yet the latter is not amenable to change by decree of reason, as it follows from a complex evolutionary process. Despite being representative of the Veblenian tradition of institutional economics, Berle and Galbraith distanced themselves from Veblen on this matter. The experiences of the New Deal and World War Two had definitely convinced them of the effectiveness of exerting a social control of capitalism⁴⁶.

The radical conception of the State was partly supplanted within the institutionalist movement, precisely in the interwar period, by the liberal conception, which is seen as a direct descendant of Dewey’s political philosophy⁴⁷. This liberal conception is particularly prominent in the Wisconsin school. Rutherford points out that the focus on legal institutions and legal change tends to move institutionalism away from “Veblen’s radicalism” and therefore connect it to “a reformist and pragmatic philosophy” (2011, 39). In this view, the State is essentially seen as a tool for institutional change. For institutionalist economists, the institutional structure is a major determinant of the distribution of power within society. The State is therefore seen as a body that can mediate conflicts between different vested interests and limit their influence (Petr 1984). This liberal view generally calls for policy recommendations at the federal level, especially in terms of national economic planning⁴⁸. Firstly it makes it possible to understand the involvement of institutionalists in the

⁴⁶ On institutionalist view of social control of business, see (Rutherford 2015a).

⁴⁷ For a discussion of the differences between Dewey and Veblen, see Tilman (1984).

⁴⁸ For general view on the institutionalist conception of planning, see Gruchy (1939a), Tugwell and Banfield (1951), Elliot (1958), and Copeland (1967). See also Ross (2021a, 11-12).

various public administrations. Secondly it makes it possible to account for the faith of some liberal institutionalists in the possibilities of rationalizing beliefs and habits in order to promote social reforms (Tilman 1984). In the face of these two conceptions, historiography does not adopt a univocal position. While Rick Tilman criticizes some institutionalists for not making a choice between the two conceptions they have inherited, James Stanfield indicates that they are in no way antithetical (1991, 775). The conception of the State developed by Berle and Galbraith corroborates Stanfield's judgement.

In *American Capitalism*, Galbraith presented the State as both a countervailing power to the power of big business and an actor that could support the emergence of other countervailing powers, especially in the agricultural field. In their reviews, Walter Adams (1953, 481-483) and Adolf Berle (1953a, 83-84) both reminded him, however, that the government was not a unit. It sometimes supported those who already enjoyed market power. Moreover, lobbies were important political actors and there often was a close relationship between regulated organizations and regulatory agencies. Regarding the dichotomy between the radical and liberal conceptions of the state, Galbraith was unquestionably on the side of the latter in the early 1950s. Earl Latham, contrasting Galbraith's vision with that of sociologist Charles Wright Mills⁴⁹, considered that *American Capitalism* proposed an "artificial separation between government and the social and economic groups it regulates" (Latham 1957, 305). Finally, in a letter from the summer of 1952, the Yale economist Charles Lindblom, although appreciative of the book as a resource for *Politics, Economics and Welfare*, which he was then preparing with Robert Dahl (1953), suggested that including the State among the countervailing powers ultimately weakened the idea that this mechanism automatically minimized tensions between social groups⁵⁰. In the course of writing his

⁴⁹ In the context of the Cold War, two main theses were in conflict regarding the allocation of power in Western societies. The pluralist thesis was to emphasize that, unlike the situation in the Soviet Union, the powers remained separate. We did not have one ruling class but several "ruling categories" (Aron 1965). This pluralist view was endorsed by Berle. In contrast to the pluralist thesis was the unitary thesis, of which Charles Wright Mills' *The Power Elite* was a paradigmatic illustration. This thesis stated that economic, political, and military elites had merged. Radicals and liberals shared the fear of a merger of these powers. But they disagreed on the state of the distribution of power in the United States, as illustrated by Berle and Galbraith's desire to position themselves in relation to Mills' work, which bemoaned the optimism of certain arguments in *American Capitalism* and *The Twentieth Century Capitalist Revolution*. "Neither the search for a new equilibrium of countervailing power conducted by the economist, John K. Galbraith, nor the search for a restraining corporate conscience, conducted by the legal theorist, A. A. Berle, Jr., is convincing" (Mills 1956, 133-134). In *The American Economic Republic*, Berle argued that *The Power Elite* was an "interesting but singularly inaccurate and unimpressive attempt to manufacture an interlocking oligarchy in the United States controlling, respectively, finance, business, the armed forces, and its government" (1963, 11). In *Power*, he asserted that "power is an attribute of man" and "does not exist without a holder" so that it is "exercised only by the decision and act of an individual". For this reason, he rejected the tendency to postulate the existence of an elite class or group and to attribute to them a collective exercise of power (Berle 1969, 60-63, 280-282). Initially, like Berle, Galbraith criticized Mills for seeing "too much contrivance" in the behavior of the affluent class (1958, 75). But insofar as Galbraith (1967, 1973b) thought of the convergence of interests between public and private technostructures, he feared that the unitary thesis would become a reality. This fear was reinforced by his analysis of the factors favoring the submission of intellectuals to the aims of the industrial system.

⁵⁰ Letter from Lindblom to Galbraith of August 25th, 1952. JKGPP, Series 3, Box 36.

integral economics, Galbraith took on board these criticisms of the somewhat idealistic, reductive and even naïve nature of the vision of the State he proposed in this first opus. He would increasingly borrow from the radical conception.

Berle's view of the role of the State was deeply influenced by his active involvement in the New Deal. Retrospectively he argued that the "American government changed direction" under Roosevelt since "for the first time in its history, it assumed direct responsibility for the functioning of the American economy" (1951). During World War Two, he wrote in *The American Economic Review* a paper entitled "Government function in a stabilized national economy" (1943). As John Maurice Clark already did during World War One (1916, 1917), Berle judged that the "modern state is under an irresistible pressure to assure opportunity for economic activity substantially to all of its able-bodied citizens" (1943, 38). This pressure led government to undertake, more than ever before, both indirect and direct public interventions to stabilize the economy. For this reason, he considered that economics "as a technical subject can no longer be divorced from the scientific study of governmental theory" (1943, 32). The question that should be addressed was to determine which actions should be undertaken, within what limits and by what methods.

In the post-war period, Berle argued that "the American economic republic" was gradually evolving into a mixed economy in which "private and state ownership will be inextricably mixed". He added that "this is not the result of any creeping socialism. Rather it is, a direct consequence of galloping capitalism" (1954, 109). The best example was the military-industrial complex and its aircraft industry, where "there is no definite boundary between government operations and private business" (Berle 1954, 82). In all private-public partnerships, the operations of federal companies and agencies were planned for the long term (Berle 1959a, 127-129). At the end of the 1950s, Berle proposed in an original way four prefaces to *Power without Property*, respectively addressed to businessmen, liberals, academics, and the lay public. In the second, he invited his fellow liberals, like Galbraith in *American Capitalism*, to recognize that the large-scale enterprise was the source of wealth, so that it was absurd to want to return to competitive capitalism between small production units. This is why Tilman (1987) denounced the "ambiguities" of Berle's and his apology for the corporation. Nevertheless, Berle would never cease to stress that inter-industrial production should be coordinated by government agencies in order to avoid waste. He also pleaded for public control of both the behavior and the accounting of corporations⁵¹.

Like Berle, Galbraith insisted in *The New Industrial State* on the merging of public and private organizations. At the end of the nineteenth century, the dominant figure in the economic system

⁵¹ Berle was, however, aware that the development of US multinational firms was gradually increasing their network of relationships with foreign corporations and governments, so that the place of the nation-state as the primary structure of economic life was gradually being called into question (Berle 1954, 193-212).

was still the individual entrepreneur. According to Galbraith, entrepreneurs had a rather conflicting relationship with the State. They were hostile to both taxation and interventionism. Moreover, individual entrepreneurs generally identified with the values promoted by the conservative party, so that their political influence was tenuous and closely dependent on the party in power. The emergence of large corporations managed by technocracies transformed the nature of this relationship (1967, 378-389). Galbraith coined the concept of “bureaucratic symbiosis” to refer to the close bounds between the members who controlled the large corporations and the members who controlled the various public agencies (Galbraith 1973b). The term captured the cooperative and subordinate relationships sometimes referred to as the “deep state”⁵². Galbraith’s constantly renewed analyses of successive wars and public orders for armaments in support of the planning system inform us of his critical view of the role that the State could play. In this sense, *The New Industrial State* was a warning against the tendency to subordinate and alienate the objectives of the State to the interests of large private companies and/or autonomous public agencies.

This theme was expressed by other institutionalists through “regulator capture”. This issue was not unique to schools critical of economic interventionism, such as the Public Choice school. Walton Hamilton (1957) dealt extensively with this problem in *The Politics of Industry*. In his view, there was a “strategic game” between business and the regulator, so that the only way to ensure “economic control in the public interest” was “eternal vigilance” (Rutherford 2011, 95). Galbraith reviewed Hamilton’s book for the *American Economic Review*. He highlighted that Hamilton described the blurring of the separation between business and public activities. Galbraith regularly supported this claim from *The New Industrial State*, a claim which was labelled as the “techno-corporate state” argument (Miller 1969). He depicted Hamilton as having a “nostalgic affection” for antitrust laws, while being “too realistic” to see them as a real instrument of reform. Finally, he stressed Hamilton’s fear that the state and its agencies might be mere instruments in the hands of the new ruling class (Galbraith 1957b, 1060-1061). This stance affiliated Galbraith with the radical tradition. At the same time, however, it reflected his conception of what the State should be, namely the representative of a general interest transcending particular interests by balancing countervailing powers. Galbraith’s work, as well as his involvement in federal agencies, was fully informed by the tension between these two conceptions of the State found in the institutionalist movement. “The government is a major part of the problem; it is also central to the remedy” (Galbraith 1973b, 242).

His radical approach was particularly evident when he dealt with the military-industrial complex, the functioning of which he observed during the Second World War, particularly during his missions within the United States Strategic Bombing Survey and then the State Department.

⁵²In *The Anatomy of Power*, Galbraith gave an excellent description (1983, 151-155).

On June 22nd, 1952, he published a piece in the *New York Times* in which he argued that military spending was not necessary for American growth. In other words, he expressed his opposition to what was known as “military Keynesianism”, notably promoted by Truman’s former chairman of the CEA Leon Keyserling (Brune 1989, Cypher 2015). Since the outbreak of the Second World War, the subject of arms spending as a means of countering the risk of secular stagnation and promoting full employment had featured prominently in the macroeconomic debate (Barker 2019). In *The New Industrial State*, the military-industrial complex was invoked to support the claim that bureaucratization had created an indistinction between the public and private spheres. In this respect, Galbraith followed Adolf Berle’s analysis (1954).

The military-industrial complex, as a system of arms production based on the convergence of interests between part of the military establishment, industry and politics, fitted into Galbraith’s overall pattern model via three links. First, arms spending represented a substantial share of federal government expenditure and was therefore an important sector of activity when it came to stimulating aggregate demand. Second, the relationship of the State to the defense industry tended to favor firms in the planning system at the expense of smaller ones. Carl Kaysen (1959) had shown that just ten firms received one-third of the US Department of Defense contracts between June 1950 and June 1956. Thirdly, there was a ratchet effect of military spending which took the opposite form of the political asymmetry of Keynesianism. It was difficult to reduce the defense budget because there was a worldview that provided a rationale for military spending. Galbraith saw the Cold War as the required belief that ensured the development of the planning system - both in the US and the Soviet Union (Galbraith 1967, 398-418).

From their respective analyses of the role of the State, we can finally see that Berle and Galbraith generally endorsed the argument of the irreducibility of inter-individual interests. Therefore, they shared the idea that the State should act as an arbiter of particular interests with the aim of promoting a balance of power. After the war, they called for national economic planning measures to solve the problems of inflation, distributional inequalities, and environmental degradation while warning of the dangers of the merging of political and economic power. The potential consequence of such a merger was, however, partly unthought of in their works. For instance, Arthur Schlesinger wrote to Galbraith, after reading the manuscript of *The New Industrial State*, that while Galbraith suggested “the gradual and mutual assimilation of the technostructure and the state”, the reader could not “come away with a clear picture of the implications of all this for democracy” (Schlesinger’s letter to Galbraith, December 5th, 1966)⁵³. For this reason, it is now time to present the content of their liberal political philosophy.

⁵³ JKGPP, Series 9, Box 1058.

Section 5: How should liberalism be reinvented in the post New-Deal era ?

There is a common thread between the legacy of the New Deal, the liberal ideology of the participants of the institutionalist movement and that of Berle and Galbraith. This is the idea that the public purpose necessarily transcends particular interests. Consequently, as we have indicated, it is up to the State, and in particular the executive branch, to establish the conditions for compromise and arbitration. It was in this spirit that Adolph Berle wrote Franklin Roosevelt's speeches in the same way that Galbraith wrote those of Kennedy and Johnson twenty years later. At the ideological level, Max Lerner (1935) asserted that the New Deal, via Roosevelt's Brain Trust, was definitely influenced by Thorstein Veblen's categories of thought. In particular, Roosevelt took up his denunciation of the "established interests" of business, whose struggle was at the expense of the technical efficiency of the productive system. Despite the absence of an ideological backbone, the New Deal was an experiment that was largely inspired by that of the progressive movement of the previous generation in that it involved finding a balance between big government, big business - that is Theodore Roosevelt's "Square Deal", to which Woodrow Wilson was to become a convert (Widmaier 2016, 31-35) - and a third entity, big labour. Thus, the originality of Berle and Galbraith's post-war liberalism lay elsewhere.

In *When America Was Great*, Kevin Mattson convincingly argued that Galbraith, being preoccupied by the cultural and social impact of capitalist growth on social ends, was, rather than a "corporate liberal", a representative of "qualitative liberalism" (Mattson 2004, 153). Arthur Schlesinger Jr.⁵⁴ (1956) defined qualitative liberalism as opposed to quantitative liberalism, namely the idea that economic growth could be a sufficient answer to social problems such as poverty and inequality. *The Affluent Society* might be seen as a manifesto of qualitative liberalism. Galbraith's opposition to quantitative liberalism was manifest in his controversies with other liberal economists like Keyserling, Heller, Samuelson, and Solow under the Kennedy administration⁵⁵. Highlighting Berle's influence on the activities of the Twentieth Century Fund, Mattson argued that "his thinking started to become remarkably similar to the qualitative liberalism of Schlesinger and Galbraith" (Mattson 2004, 162). This section indeed demonstrates that Adolf Berle endorsed Galbraith's social and cultural criticism of corporate capitalism.

⁵⁴ Arthur Schlesinger Jr. was the neighbor of Galbraith at Cambridge and one of his closest friends. Together, in 1947, they establish the American for Democratic Actions (ADA) around Eleanor Roosevelt. The ADA embodied the left wing of the Democratic Party. But it was clearly an "anti-communist organization" (Waligorski 2006, 10), like the Congress for Cultural Freedom in which both Galbraith and Schlesinger took part (Saunders 1999). Always opposed to communism, Galbraith, however, represented "anti-anti-communism" rather than "anti-communism" (Chirat 2019) in this post-war organization involved in the "cultural cold war".

⁵⁵ On the controversy between Galbraith and Keyserling, see Parker (2005), between Galbraith and Heller, see Cherrier (2019).

In 1950, Harvard economist Seymour Harris edited a book entitled *Saving American Capitalism*, which brought together contributions from liberals such as Adolf Berle, Chester Bowles, Alvin Hansen, Leon Keyserling, and Arthur Schlesinger. Harris believed that improvisation was the essence of the New Deal. The liberals now had to build a structured program of reforms. Adolf Berle, who presented liberalism in opposition to “reactionary circles” and “the extreme left”, believed that liberalism should be active and pragmatic rather than armchair and dogmatic (1950, 41, 46). In this vein, Schlesinger wrote *The Vital Center*. Published by the Houghton Mifflin company in Boston, this book was an attempt to build an ideological construct of post-war liberalism as a credible alternative to both communism and the political power of business. Schlesinger also attempted to define a “pragmatic liberalism” as opposed to a liberalism that was considered “utopian”, because of its belief in human goodness and reason to produce a convergence of interests (Lasch 1991).

American Capitalism followed in its wake. Galbraith received a \$1000 advance from Houghton Mifflin to work on it (Galbraith 1981). In a 1951 letter, Schlesinger, to whom Galbraith had sent the manuscript, declared that the book “ought to have a great impact on American economic and political thinking”⁵⁶. Galbraith strongly criticized the political sluggishness in the United States. He suggested that prosperity generated “retreat from social experiment”. He attacked both conservatives and liberals, whose policy recommendations he saw as deriving from their common belief in the competitive model. The former were still worried about the power of the State, which they wanted to see minimized. The latter were still worried about the power of big business, which they wanted to see dismantled. The liberals, with whom he had always identified, “have made scarcely a new proposal for reform in twenty years”, even though the nature of American capitalism has radically changed (Galbraith 1952a, 9-10). A better understanding of the nature of these changes, thanks to his new model of the functioning of the economy based on his theory of countervailing power, should help redirect government economic policy. Schlesinger agreed with Galbraith’s complaint about “the programmatic bankruptcy of the liberal”. But he found not much “programmatic help” in his friend’s book except the very general use of his “countervailing criterion”.

The year before the publication of *American Capitalism*, Galbraith wrote a draft entitled “Individualism, Collectivism and Economists” in which he discussed extensively the arguments of the representatives of the “old individualism” (Adam Smith, John Stuart Mill, and Alfred Marshall) and the “new individualism”(Friedrich Hayek, Frank Knight, and Henry Simons). Galbraith differed in three main ways from the representatives of the “new liberalism”. First, he proposed a

⁵⁶ Letter from Schlesinger to Galbraith, April 19th, 1951. JKGPP, Series 9, Box 600.

bimodal model of the economy, with a competitive system and an oligopolistic one. Using advertising practices and price discrimination as examples, he argued that such practices could exist in competitive markets. Second, though a staunch opponent of state intervention, Hayek himself recognized the need for some social security measures. Pretending to be more royalist than the king, Galbraith retorted that in a truly competitive economy, there would be no need for unemployment insurance. Third, he returned to the condemnation of corporations by Adam Smith and John Stuart Mill. These British classics emphasized the role of the State in their emergence and deplored that employee-directors sit at their head. Galbraith argued that his contemporaries who quote them “in defense of private enterprise” had not understood their message. They wanted “truly private” enterprises, that were not collective entities with legal personality. But the “modern individualist” had no choice. He “must accept the corporation as a fact”, even though he deplored its existence (Galbraith 1951). It echoes Berle’s repetition of Louis Brandeis’s slogan that liberals must “get the fact” - a slogan that led him to lament that some liberals condemned economic bigness *per se* (Berle 1950, 42; 1959a, 15)⁵⁷.

As stated before, Tilman argued that the “reformist potential” of Berle’s thought was abused by “excessive ambiguity” and “unjustifiable apologetics” in favor of big business. This was questionable in our view. Galbraith recalled, in his review of *The Twentieth Century Capitalist Revolution*, that “to concede the key role of the corporation in the economy is not, necessarily, to argue the universal value of its contribution to our culture” (Galbraith 1954, 40). On the other hand, Tilman rightly criticized Berle for his equivocal definition of the public purpose, in addition to the vagueness of the way in which public opinion influenced the behavior of large companies (Tilman 1974, 111). We defend the claim that the lack of a stabilized definition of the notion of public interest has a normative and political function in the thinking of institutional economists, insofar as it allows them to legitimize their public policy recommendations at a lower cost. This lack, which can also be explained by the desire to adopt a pragmatic posture, has undoubtedly been one of its weaknesses in its age-old struggle against neoclassical economics, where the principle of consumer sovereignty and Pareto-optimality have the merit of providing a far less equivocal - normative criterion - even though highly challengeable.

Galbraith’s *American Capitalism*, like Berle’s work, suffered from the same weakness. In a session devoted to his book at the annual meeting of the American Economic Association, George Stigler - a fervent opponent of both Berle, Means and Galbraith (Stigler 1962) - made this point.

⁵⁷ On Berle’s convergence and divergence with the “Brandeis school”, see Kirkendall (1961) and Lind (2012). The main difference, under the Roosevelt administration, between Berle and Tugwell on the one hand and Brandeis and Frankfurter on the other was that the former considered that economic bigness was inevitable and under some conditions desirable. On Berle and Brandeis, for whom he worked as a lawyer, and Frankfurter, who was his teacher at Harvard, see Schwartz (1987, 14-17).

Galbraith did not explain his rejection of the traditional criterion of welfare economics⁵⁸. This is all the more unfortunate since the heart of the book, as Berle himself pointed out, is how and why countervailing power can be “socially useful” (Berle 1953, 84). Galbraith was forced to acknowledge this absence. In a letter to Stigler dated November 4th, 1953, , Galbraith intended to clarify this point. His “value criteria involve minimization of social tensions rather than maximization of consumer real income” (Galbraith letter to Stigler)⁵⁹. He believed that the traditional neoclassical criterion was appropriate for a world of widespread poverty. “Increased real income of consumers was the simple test of improved welfare”. But he believed this was no longer the case. “An opulent society can afford to sacrifice material well-being for social contentment” (1954a, 2-3). However, it was not until *The Affluent Society* that he developed such a conventionalist approach to welfare, this time explicitly opposing the principle of consumer sovereignty that underpinned welfare economics (Chirat 2020a).

The arguments of this book and their reception deserve to be presented as it constituted, in addition to being one of the first postwar economic bestsellers, a manifesto for “qualitative liberalism”. Galbraith’s vision hinges on the concept of the “dependence effect”, that is, the idea “wants are increasingly created by the process by which they are satisfied”. He provides a conventionalist approach to welfare, hinging on the distinction between needs and wants and the hypothesis of a declining urgency of wants as their satisfaction increases. It leads him to assert that “it can no longer be assumed that welfare is greater at an all-round higher level of production” (Galbraith 1958, 129). Galbraith called for considering not only the level of production, as quantitative liberals, but also its composition. In *Poverty Knowledge*, Alice O’Connor showed how Galbraith’s view of poverty alleviation contrasted with that of the Council of Economic Advisers chaired by Walter Heller. For the latter, the key to poverty reduction was still increased production, *i.e.*, economic growth. For Galbraith, it required “a complete reordering of economic priorities” (O’Connor 2001, 146). In a memo to Kennedy dated 1962 and sent in the context of the tax rate cut, Galbraith bluntly stated his opposition to quantitative liberalism. “The matter of great urgency is not growth but to get the kind of setting in which growth is good. Economists of the old-fashioned Keynesian type have always had a fixation on furnishing more goods. This was once important. But it is no longer the problem” (Galbraith’s memorandum to Kennedy, in Holt 2017, 234).

Galbraith argued that the less urgent wants were, the more preferences to achieve these wants were liable to be shaped by emulation and advertising. Yet the more affluent a society was, the

⁵⁸ For a discussion of traditional welfare economics, see Galbraith (1952a, 17-19).

⁵⁹ JKGPP, Series 3, Box 9.

more unsatisfied wants of relatively little urgency were. Hence the idea that, in the opulent America of the 1950s, an increasing number of wants “depend on the process by which they are satisfied”. From this point of view, consumers did not appear sovereign. It was the supply side of the market that drove the economic process, since corporations tended to produce what they wanted, sell it at the price they planned, and attempt to make consumers desire what they had produced. This “reverse sequence” had two main consequences. First, growth could pave the way to more unsatisfied wants since they were stimulated by the production process. Second, it generated a social imbalance in favor of private goods and services rather than a public one. Galbraith lamented it and argued that the State had the duty to promote the services that would contribute to satisfying basic needs. In a conventionalist approach to welfare, basic needs were those that a society conventionally considered necessary for the existence of its members (Penz 1987). Thus, these needs were always relative to the degree of economic development of that society. When Berle, Clark, Galbraith Hansen, and Tugwell argued for public investment to fight the risk of depression, they pointed to certain sectors of activity to be prioritized such as infrastructure, education, and housing. The rationale for intervening in these areas was not only about the very lack of private incentives but also about the political duty to meet basic needs. In this regard, Berle and Galbraith’s view echoed the normative ideal of “merit wants” in the thinking of Galbraith’s Harvard colleague Richard Musgrave (Desmarais-Tremblay 2016).

The reception of *The Affluent Society* created strong divisions within the American left. In *Challenge* magazine, Theobald (1963) argued that Galbraith neglected the problem of poverty. He referred to Michael Harrington’s *The Other America* (1962) to point out that there were between 40 and 50 million people living outside the affluent society described by Galbraith. In *The New Republic* of October 27th, 1958, Leon Keyserling attacked the book on similar grounds. He had already clashed with Schlesinger the previous year, condemning his promotion of qualitative liberalism⁶⁰. In *The Sociological Quarterly*, another commentator asserted that “it is ironic that the term ‘affluent society’ derives from the book which, in 1958, effectively reopened the discussion of poverty in the midst of abundance” (Davis 1963, 338). He nevertheless intended to summarize the criticisms that could be made, less of the book itself, but more generally of the defenders of the abundance thesis. The latter thesis would be based on four assertions. Firstly, income was more equally distributed. Second, the concentration of wealth had decreased. Third, poverty had been drastically reduced, especially through welfare state programs. Fourth, government action was a major factor

⁶⁰ See Sharpe (1974, 39), Mattson (2004, 155), and Parker (2005, 330). On June 26th, 1967, Keyserling wrote a letter of congratulations to Galbraith. Despite some disagreements, especially over Galbraith’s analysis of the relationship between unions and the technostucture, he considered *The New Industrial State* a “master piece”. He added: “you may be sure that it will not direct against it the volume of vitriol which I directed against *The Affluent Society*”. JKGPP, Series 9, Box 1057.

in the redistribution of resources. For Davis (1963), the simultaneous publication in 1962 of Harrington's *The Other America* and Gabriel Kolko's *Wealth and Power in America* invalidate these four claims⁶¹.

Unlike some other liberals and former new dealers like Keyserling, Berle explicitly recognized that he was strongly influenced by Galbraith's arguments in *The Affluent Society* and stated, with reference to Galbraith, that it was now known that living in an affluent society did not in any way equate to freedom (1959a, 1959b). Emphasizing Galbraith's ability to reach a wide audience, Berle sent a letter of congratulations to him on September 17th, 1958⁶². In *The American Economic Republic*, he was grateful to Galbraith for showing that economists still mistakenly believed that "men do live chiefly on the economic plane", in a world necessarily marked by scarcity, and that this would always be the case (Berle 1963, 8). He similarly challenged this worldview by pointing out that post-war American society was qualitatively different from its predecessors. Economic problems had necessarily to be posed in new terms in an age of plenty, especially with regard to quality of life. Berle then took up Galbraith's claim that as a country "grows in density of population and in complexity of operation, public-sector necessities rise" (Berle 1963, 51). Berle then highlighted that economic growth could not be considered as an end in itself. Because "a system of political economy is only an instrument—a means to an end. It is not an end in itself". Although growth could be seen as a condition for the process of civilization, by offering "the materials from which men can realize and expand their individual conception of the good life", it "does not by itself create either a good life or a good society" (Berle 1963, 5).

The influence of Galbraith's qualitative liberalism was also apparent in a little-known paper by Berle published in the French review *Les Etudes philosophiques*. Berle (1964) argued that American economics was won over by a movement of contestation, which would be gradually institutionalized within the AFEE and the URPE, regarding the way the discipline was practiced. Berle pointed out that these economists were challenging a number of preconceptions such as the naturalization of the laws of economics, the abstractionism of reasoning, or the simplifying view of individual motivations (1964, 569-570). He added that many economists now assigned to the economic system the duty of satisfying "social and cultural needs". The "institutionalist school", which embodied this contestation, had in his view gradually gained a predominance that "was

⁶¹ It is ironic that Michael Harrington's book was often mentioned to criticize Galbraith's argument, since their correspondence suggest that the former perfectly understood Galbraith's aim. On April 4th, 1967, Harrington wrote to Galbraith to congratulate him on his election as president of the ADA, hoping that he would "revitalize[e] the American liberal movement". He also informed Galbraith that he had read half of *The New Industrial State*, and "[found] it the most brilliant book to have been published in years". In his reply of April 14th, Galbraith told Harrington that he "couldn't be more pleased" because his interlocutor was "one of the few who got [his] full purpose in The Affluent Society". JKGPP, Series 9, Box 1057.

⁶² JKGPP, Series 3, Box 13.

officially sanctioned by the economic revolution of 1935 known in history as President Franklin Roosevelt's New Deal" (1964, 573). While historians of economic thought agreed, in retrospect, that institutionalism entered a phase of decline after the war, Berle, as a contemporary, did not share this view⁶³. There was much work done by various heirs of the original institutional movement and Berle argued that John Kenneth Galbraith acted as a "spokesman" for this group of authors.

By this time, the economic and political-economic system has been sufficiently developed (and economic theory has begun to accept this fact) that the production of goods and services is, within practical limits, virtually unlimited. Now, the overriding goal of the economic system is to generate broad currents of social and cultural need in the American public. [...] *The Affluent Society* is, in fact, a critique of the results of the system. Pure production, he points out, is not in itself a 'good'. It can be a worthless object that the American public is nevertheless willing to buy under the influence of poor education, aggressive advertising, or a misrepresentation of the merits of the product in question. On the other hand, production can also offer achievements of great ethical and aesthetic value. The author of these lines, who belongs to the Galbraith school, takes this view, while maintaining that public tastes and desires cannot be controlled or dictated by the state, but must result from education, persuasion, free acceptance of cultural values. (Berle 1964, 572, 576-577)⁶⁴.

Highlighting the need for freedom from state control over "public tastes and desires", Berle emphasized here that the difficulty for institutionalists and liberal economists lay in "balancing individual freedom with planning for social justice" (Berle 1964, 579). This issue had already been addressed by John Maurice Clark (1948) in *Alternative to Serfdom*, a pamphlet published in response to Hayek's *The Road to Serfdom*. Liberals argued for state intervention to meet basic needs because they believed that an individual could only be free if these needs were met. They defined freedom, sometimes tacitly, as the ability to choose or the power to act free from the constraints of material life. They thus contrasted, as in the case of corporate control, *de facto* freedom with *de jure* freedom. In this sense, the implementation of national economic planning was not necessarily opposed to the freedom of the individual—quite the contrary. This was the position advocated by Galbraith in a lecture given at Chicago entitled "The meaning of Economic Freedom" (Galbraith 1953). In contrast, an author like Hayek rejected the definition of freedom as a capacity or power, the origin of which he explicitly associated with the "the leading philosopher of American left-wingism" John Dewey (Hayek 1944, 19). The conflicts among twentieth century economists on the issue of planning were largely rooted in opposing normative ideals, especially with regard to the meaning

⁶³ On post-war institutionalism and its gradual decline, see for instance Rutherford (2011, 2015b).

⁶⁴ Our translation.

of freedom as a fundamental value⁶⁵. Berle and Galbraith would regularly make Friedman, Hayek, and Mises the representatives of the conservative thought to which they opposed.

In *The New Industrial State*, when analyzing the pursuit of the various goals of the firm, Galbraith also addressed the formation of these goals, in the same way that he had been interested in the formation of consumer preferences. “To know how and to what ends we are governed, we must know what the goals of the technostructure are” (1967, 121). This was the point of his study of the motivations of the technostructure, that Berle welcomed both in his review of the book and in a letter of July 10th, 1967. “Your ‘General Theory of Motivation’ seems a long thrust in the right direction”.⁶⁶ It allowed Galbraith, through a “principle of coherence”, to derive a study of the “goals of the industrial system” as a whole. But to what social ends did the objectives of the technostructure identified by Galbraith lead? The mature corporation sought to increase its production and sales by attempting to control a continuous increase in specific and aggregate demand. The purpose of the economic system dominated by large firms controlled by the technostructure was incidentally economic growth as such. This argument was consistent with the study of social beliefs proposed in *The Affluent Society*. “The growth of the firm as a goal of the technostructure is strongly supported by the principle of consistency. No other social goal is more strongly avowed than economic growth” (1967, 180). Here we can see the integrated nature of his pattern model. The analysis in terms of producer sovereignty allowed him to unify his microscopic analysis (the goals of the technostructure within the corporation) with his macroscopic analysis (the dominant beliefs of the planning system and industrial society).

Conclusion : bringing back power into economics

With the publication of *Power* in 1969, Adolf Berle offered a study devoted exclusively to this subject, which as we have seen was already present in all of his work on corporations. On May 27th, 1969, Galbraith told him that this was his “best book” along with *The Modern Corporation and Private Property*⁶⁷. As in his writings from the 1930s to 1950s, Berle’s *Power* invited the reader to conceive of the corporation as a political institution. In his framework of thought, institutions were a structure for the exercise of power. As such, they predetermined the purpose for which decision-

⁶⁵ In an article dealing with the activity of the National Resources Committee and the influence of Gardiner Means’s thought on it, Allan Gruchy already explained the opposition between the two ideal-typical definitions of “economic freedom”. That paper was particularly interesting in that he proposed a historicization of the concept attached to the term freedom, the meaning of which had changed precisely because of the transformations highlighted by Veblen, Berle and Means (1939b, 70-71). See also the controversy over the meaning of freedom between Buchanan and Samuels (1975, 29).

⁶⁶ JKGPP, Series 9, Box 1057.

⁶⁷ Letter from Galbraith to Berle, May 27, 1969. JKGPP, Series 3, Box 76. The book did not receive the success Berle hoped for (Schwartz 1987, 369).

making power was allocated. In other words, an institution always delimited the space of objectives that could be pursued by those in control. While Berle believed that managers held power in the corporation, this power was by no means absolute. If they were to use it in a way that was too contrary to their mandate, they would necessarily lose it. Or the organization that supported their power would disappear (1969, 95-98). For Berle, this tension with the framework set by existing institutions was an inherent limit to the expression of the personal will of power holders (1969, 101). A second limit came from another foundation of all power, namely the system of ideas on which it rested. “Without an idea system, institutions cannot be constructed and certainly cannot endure” (1969, 84). This being the case, Berle concluded that a power holder would not be able to make decisions that went against the system of ideas underpinning the institution that gave rise to their power. It was precisely at the level of the system of ideas, which was a necessary support of all power, that intellectuals had the possibility of changing the power structure of a society. By formulating social problems and addressing their criticisms of existing institutions, they had the opportunity to question the idea systems that supported the institutions that were part of a society’s power structure (Berle 1969, 124-126).

Berle’s last book provided Galbraith with a key intellectual resource for his further research on this concept that enabled him to unify the pattern models of his integral economics (Chirat 2021). In “Economics as a system of belief” (Galbraith 1970), he endorsed Berle’s emphasis on the power of (economic) ideas. In *The Anatomy of Power*, Galbraith claimed that “it was Berle who, more than anyone else, stimulated [his] interest in the subject” (1983, xiv). Moreover, he placed as an epitaph to the first chapter Berle’s statement that the subject of power was not “remote, philosophical or esoteric” (1983a, 1). *The Anatomy of Power* also fitted with Berle’s claim that to study power was to study its sources, especially organization, and its forms (Chirat 2018, Kesting 2010). But here again, there was a cross-fertilization. For Berle did not fail to refer to Galbraith. First, he argued that Galbraith had shown perfectly well that big business and trade unions as organizations pursued their own interests and not a higher public purpose (Berle 1969, 230, 242-243). Secondly, he was grateful for Galbraith’s attempt to take into account the phenomenon of power, claiming that *The New Industrial State* was “the most ambitious recent exploration” of the analysis of economic power (Berle 1969, 577). Reciprocally Galbraith found in Berle the idea that the realism of economics implied dealing with the issue of power (Galbraith 1973a). *The Anatomy of Power* was thus an opportunity to stress that he shared with Berle a common desire to break intellectually with the preconceptions of modern economics (1983a, 69, 148). It was in this work, and not in the more sanitized entry written for *The New Palgrave Dictionary of Economics*, that Galbraith paid him the tribute that seems to be the most consistent in terms of the influence exerted by the latter on his thought.

He described his friend as concerned “more deeply than any other American writer with the nature of power” (Galbraith 1983, 48)

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