
THE ANATOMY OF POWER

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Source: *Challenge*, JULY/AUGUST 1983, Vol. 26, No. 3 (JULY/AUGUST 1983), pp. 26-33

Published by: Taylor & Francis, Ltd.

Stable URL: <https://www.jstor.org/stable/40720154>

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Q. For decades you have grappled with the theme of power, from *American Capitalism: The Concept of Countervailing Power* to *The New Industrial State* and to *Economics and the Public Purpose*. Now you are about to publish a book devoted entirely to the analysis of power. I have been looking forward to hearing about it.

A. *The Anatomy of Power*, as I have ventured to call it, has just gone to press and will be out in October. I have been working on it off and on for three years; it will be published in a relatively short time by modern standards. Even as efficient a firm as M. E. Sharpe should be impressed. When John Stuart Mill finished his autobiography, he took it to the bookseller and had copies in two weeks. Now it would take around two years, and they would ask him to go on the *Today Show* to help sell it.

Q. In *Economics and the Public Purpose* you wrote that that book was the last in a line including *The Affluent Society* and *The New Industrial*

State. Yet *The Anatomy of Power* sounds as if it is a logical continuum from your earlier works.

A. No, this book is not especially concerned with economics or economic power. I'm concerned with power as Max Weber defined it—the submission of one person or group to the will of another person or group, wherever it occurs. There is some special concern with economic power, but I have tried to go beyond such concepts to see the common elements in the exercise of power, whether by a politician, a religious leader, a military commander, or a corporation. There is even a footnote somewhere on its exercise by a football coach.

Q. So this book is a general theory of power?

A. At one time I thought of calling it *A General Theory of Power*, but then it occurred to me that some ill-motivated critic would say it was an effort to capture the aura of Keynes and *The General Theory*. So I shifted to calling it *The Anatomy of Power*. A case of pure cowardice. The book looks first at the instruments by which power is

exercised—force or the prospect of punishment, which, taking some liberty with the language, I call condign power; the purchase of submission in one form or another, which, in an unoriginal way, I call compensatory power; and what I call conditioned power, which is power that is exercised when someone or some group accepts or is persuaded to accept the will of others in the belief that it is right, virtuous, or proper. Then I go on to look at the sources of power that make these instruments effective.

Q. When you say “instruments of power,” what are they really? What is the form of exercise of condign power?

A. Punishment of some sort or other. The ability to inflict punishment, as in the case of the whip on the slave, the parents’ rod on the child.

Q. That could also be through the judicial system or through the military?

A. Both, and much else. I extend the concept on to include the ability to invoke or destroy somebody’s standing in the community by verbal attack. Punishment has a wide range of aspects.

As there are three instruments of power, there are also three things that give access to these instruments. Sombart would like this rule of three; he always had three causes, three consequences. One of the sources of power, of course, is personality—the dominant, effective, compelling, sometimes intelligent, personal leader. By physical strength he once had access to punishment. Now personality gives him access to persuasion, to conditioned power. Then, of course, property is a source of power. This is central to economic power; it gives access to compensation.

Q. And the third, let me guess, is organization, as you argue in *The New Industrial State*?

A. Organization is the third source of power and the one which is of greatest modern importance, but which was anciently central to the power of the Church. It gives access primarily to conditioned power, to the ability to persuade. But in association with property it also gives access to compensation, and as manifested in the state, it gives access to condign power. The book might

perhaps be described by a deeply perceptive mathematician as a study in the permutations and combinations of the sources and instruments of power. Much of the three years I spent on the book I spent working out those combinations and permutations.

Q. Again, what exactly do you mean by “compensatory” power?

A. Buying submission.

Q. In what sense?

A. Submitting to a boss in return for wages. Or to a corporation for a salary or bonus. Or to a lobbyist in return for a bribe. There are numerous forms of compensation, the common feature being the purchase of the submission of some person or some group.

Q. What are some concrete examples of conditioned power?

A. When a politician makes a speech and persuades an audience that they should submit to his leadership.

Q. Why conditioning?

A. Persuading would perhaps have served. A narrower meaning, though.

Q. Advertising could be an example?

A. Advertising is an exceptionally prominent example of conditioned power. A singular political development of our time has been the movement from compensatory power—forthright purchase of political support—to conditioned power, where the politician seeks to persuade through television commercials and through the media generally. Here, of course, property and the resulting ability to buy that persuasion enter in an important way. You see again the role of permutation and combination among the instruments and sources of power.

Q. What made you come to this subject of power and to approach it in this rather abstract way at this point in your writing?

A. I don’t consider it at all abstract or abstruse. The ideas lend themselves to highly concrete ex-

amples. Citing them was a source of much of the pleasure in writing the book—at least so far as writing is ever pleasant. Years ago I concluded that economics divorced from the concept of power was extensively irrelevant. One can understand modern economic behavior only as one sees it not alone as a pursuit of wealth, but also as a pursuit of power. Also one can understand the limits on economic power only as one sees its dialectic—the tendency I’ve discussed in past times for one exercise of power to be countered and neutralized by another exercise of power. The employer and the trade union. The corporation and the consumer movement. Polluters and environmentalists. One has a very incomplete view of the modern corporation, in particular, if one thinks of it purely as a money-making enterprise. A complete or a more nearly complete view of corporate motivation requires also that there be a theory of power.

Q. Do you see this book as leading to something else now? A new beginning?

A. Certainly not. I am content to write one book on the subject. I doubt that readers would want more.

Q. Does it lead to new strategies for public policy or new strategies of interpreting economic developments today?

A. Oh, I hope so, yes. I’m always unduly optimistic in such matters.

Q. How?

A. I would hope that we now understand better the exercise of corporate power. I would hope devoutly that we would see much more clearly the nature of the modern exercise of military power. Military power combines all of the instruments with two of the three sources of power. It makes massive use of conditioned power—to oppose the Pentagon is to be thought reckless as regards national security, perhaps unpatriotic. It has a massive deployment of compensatory power—to weapons firms, scientists and engineers, the bureaucracy of the Pentagon, the members of the military services themselves. And the military services can enforce their discipline by punishment, by condign power. Going back to the

sources of military power, personality isn’t important. The military power is exercised by faceless men; no one knows any more the names of the Joint Chiefs of Staff; Secretaries of Defense disappear into a well-earned anonymity when they leave office. But property, in the form of disposable revenue, is a great source of power. The organization of the Pentagon, the armed services, and the weapons firms is the most extensive and disciplined in our time. I would hope that as the result of my treatment of military power we would have a much better view of its nature, how to contend with it.

Q. But look at the tremendous opportunity to use military power—condign, compensatory, and conditioned power, the sources you mention. How can an opposition which lacks organization cope with that kind of power? Or guide or channel it in the public interest?

A. A good question. I am not persuaded that it will be easy. But, again, there is the dialectic of power: any exercise of power of this sort tends to build a counter influence. This must be encouraged—a task for all of us. There must be a large constituency operating through the Congress and on the Executive to counter military power. We now see manifestations of the dialectic—in the nuclear freeze movement. There was an earlier manifestation in the opposition to the Vietnam War. It is one of my hopes that as a result of this book we’ll understand and use this dialectic a little better.

Q. Do you think your theory of countervailing power is still as relevant today as it was twenty to thirty years ago?

A. I do talk about that. It belongs with the dialectic of power to which I just adverted. As I’ve said, the answer to the power of the employer is the trade union, to the power of the Pentagon the arms control movement, to the power of the corporation the consumer and the pressure for regulatory support from the state. However, when I dealt with these ideas some thirty years ago, I argued, in effect, that countervailing power led to a generally benign equilibrium. This I no longer believe. Also, at that time, I had not yet explored the subject of power in a truly comprehensive way. At

that time, like many economists, I was a captive of the idea of an equilibrium. I've since emancipated myself, an effort, needless to say, that I recommend to all.

Q. In *Economics and the Public Purpose* you described the U.S. economy as comprised of a market system and a planning system, with concentrated power a formidable aspect of the latter. Since 1973, we have had two oil crises and what probably will come to be called the Great Inflation. Do you think that countervailing power has contributed to the inflationary process in the 1970s? Can countervailing power work in an inflationary environment, especially since you argued that the inflationary process really has its roots and gains momentum in the economy's planning system?

A. I argued in *American Capitalism*, more presciently than I then knew, that countervailing power did not work in an inflationary context. In

that context corporations do not fight the trade unions; the trade unions do not fight the corporations. They coalesce to raise prices, raise wages. The wage-price spiral is the result. What I did not realize in 1952 was how persistently inflation would be a problem of the modern economy. That is another reason why I now take a more reserved view of the idea of countervailing power than I did then.

Q. But if the inflationary process is essentially rooted in the planning system, and if policies themselves are designed to the advantage of the planning system, then how do we come to grips with the problem of inflation? Conventional restraints will simply plunge the market system into depression and do very little to hold down the process of inflation in the planning system.

A. That too is a highly valid question. It makes imperative a prices and incomes policy. The alternatives are either persistent wage-price inflation or inflation control that depends, as in these last

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years, on massive unemployment and much idle plant capacity—on recession as a form of prices and incomes policy.

Q. But the way the sources of power seem to be organized, do you think that's likely to happen in our system?

A. Sooner or later, I think.

Q. Why do you say sooner or later?

A. Action will come not so much from wisdom but from the nature of the alternatives. Either we have an incomes and prices policy in the highly organized sector by negotiation and government leadership and enforcement or we have one imposed as in these last years by recession or depression. Other industrial countries—Germany, Austria, the Scandinavian countries, free-enterprise Switzerland, Japan—have all, in one fashion or another, come to an incomes policy. The two English-speaking countries are the laggard cases.

Q. Do you think that conditioned power, to use your terms, is so great that Americans are not willing to give up the mythology that the free market pervades all and can achieve the full employment growth with price stability that we all look for?

A. I certainly recognize the problem. We have a passionate commitment to equilibrium economics—to the notion that markets clear. In microeconomic theory they do; in macroeconomic reality they most obviously do not. An interesting contradiction. In our microeconomic commitment some important social conditioning is involved. Economics instruction tells many hundreds of thousands of students every year that all corporate power is subordinate to the market. This directs their attention away from the reality, which is that the modern corporation has a very large independent exercise of power. Thus we tranquilize the young and keep them from seeing the actual expression of power in our time—the reality to which they will themselves have to submit.

Q. How would you respond to the economics student who would look at recent years and say, "But look, the steel industry and automobile in-

dustry were eventually subordinate to the marketplace, and are now in the process of contraction and adaptation to global change"? Ultimately aren't they all subject to global markets?

A. A very bright student. Certainly if you impose enough monetary constraint you can, through unemployment, idle plant capacity, and the threat of bankruptcy, force down prices and wages, in a sense, reassert market forces. This has been the singular achievement of modern monetary policy. It has also been, you will agree, a very painful exercise.

Q. But do you attribute the difficulties in the automobile industry simply to monetary restraint?

A. Of course not; I do not exclude the role of foreign competition. In economics there are no absolutes. But the greatest suffering has been in the so-called credit-sensitive industries or their suppliers; that, also, is where you would expect monetary policy to have the most repressive effect. So I would accord a major role to monetary policy. When the economy was functioning at or near capacity we heard much less—very little—about foreign competition.

Q. Moving to a different subject, in recent years the conservatives have gone to the American people with the idea that individual freedom is at jeopardy and the reason for that is the gigantic size and continual growth of government. You have posed the idea that there is a danger in all bureaucracies and all large organizations in that they restrict individual freedom. You argued that countervailing power was one way for individuals to offset that concentration of power. Now my question is, if we continually move in our society toward larger organizations in an attempt to balance out ever greater concentrations of power, where will that finally leave the individual, whether it is in the economy or in the political process?

A. All participants in organizations subordinate their own will to that of the organization; no group of people is more disciplined in the submission of their personal expression to organization goals than corporate executives. They would not dream of speaking out in public in criticism of the purposes of their organization. So it is also in the

State Department, the CIA, and the Pentagon. Even in the modern university there is a measure of self-restraint, however much that may be denied. This is the effect of organization. What I do not accept is the way numerous individuals, including some very solemn scholars, react to the idea of liberty. They weep that the liberty of the affluent is being jeopardized by taxes, regulation, the general apparatus of the welfare state. And likewise the liberty of business enterprise. They neglect to consider the way liberty is enlarged by giving people income—by welfare payments, medical care, food stamps, unemployment compensation, old age pensions. It is extraordinary how little in economic discussion we hear of the greatest of liberties, which is having some money to spend. Or how little of the way liberty is circumscribed by poverty.

Q. Liberty, you are saying, requires a reasonably equitable distribution of income and wealth?

A. Yes. But I am especially stressing the way liberty is enhanced by the possession of some income.

Q. So, you still say that the answer lies in organization then, the organization of those who probably are found in what you call the market system, in order to counterbalance the power of those in the planning system?

A. I don't say that's the only answer. It is certainly a major part of the answer.

Q. Do you have any hope that we can move in the other direction and dismantle large concentrations of power?

A. No.

Q. None whatever?

A. None whatever. One of the older policy fixations of economics was that large concentrations of corporate power would somehow some day be broken up. This was the case for the anti-trust laws; but even my most passionately archaic friends appear to have given up hope on that. The anti-trust laws inspire none of the affection they did fifty years ago. It has come to be recognized that a recommendation that the anti-trust laws be enforced is the last gasp of the bankrupt policy mind.

Q. There is no hope of controlling these conglomerations and mergers?

A. I wouldn't exclude that but I certainly wouldn't expect to do it through the anti-trust laws. We do need to have a close look at the takeover drive, the resulting conglomerates, and the opportunity this gives for manipulating investment and for quick disinvestment in low-paying industries. You do not try to improve their performance; you sell them off. This leads on to the larger issue of a publicly sponsored industrial and investment policy and to legislation making hostile takeovers more difficult. The anti-trust laws have no useful bearing on these matters.

Q. You yourself have pointed out that conglomerate mergers themselves often lead to poor performance of the firm that's acquired. Do you think that is one aspect of the stagnation we see in some of our basic industries?

A. Yes. I am impressed by my colleague Robert Reich's argument that intelligence in the modern conglomerate is devoted to the shuffling of assets rather than to their productive use. When the U.S. Steel Corporation acquired Marathon Oil, it was reducing its commitment to the steel business, shifting management effort and investment to—as it then seemed—the richer prospects of the oil company. If U.S. Steel did not own an oil company, it would be under greater pressure for improved performance in the steel business.

Q. When a relatively small number of firms, say 500, control two-thirds to three-fourths of the assets of the private economy, by what means could the rest of the system organize itself to bring about a slowdown or a halt to that process of growing concentration?

A. One cannot be too optimistic. However, I am not totally pessimistic about the democratic process. If the takeovers and the resulting conglomerates lead to neglect and disinvestment in our older industry, this will be of political concern. And there will be demands that something be done about it. I confess that I do not see this as an immediate possibility; but we do, as I've just said, hear talk these days of the need for an industrial policy. There is already some political response.

Q. But it seems to me that industrial policy could just as easily lead to a greater momentum in the formation of conglomerates. Maybe there wouldn't be disinvestment in the inefficient industries but simply an allocation of scarce capital to those industries that are already running inefficiently.

A. Your reference to scarcity implies a fixed supply of capital. This is a current cliché that is wholly inconsistent with our large supply of unused economic resources. Still, I would not exclude the possibility of a wrong industrial policy.

Q. So, you have hope for industrial policy?

A. If one gives up and says the prospect is hopeless, then one forecloses all thought on the problem. I am in sympathy with what Felix Rohatyn, Robert Reich, and others have been saying on this matter.

Q. What line of approach would you take to try to bring such a strategy to fruition? Would one propose a specific kind of institution? In Rohatyn's case it would be a financial institution, in another case it would be a planning institution. What route would you think would be best?

A. I would urge both. I've long felt that we need a high-level planning organization under prestigious public auspices.

Q. Within the government or outside?

A. Oh, it has to be done by the government. And it should draw on our best economic, scientific, and engineering resources with an eye also to the expanding role in economic life of the arts. I would also advocate a major financial institution to give investment support to horizon industries and to act against the conglomerate disinvestment of which we have been speaking. We accept that modern industrial trends impair the operation of the market. This being so we must have another mechanism. The only alternative is applied intelligence. We cannot accept the present mythology which causes us to say, "Yes, things are going very badly, but we must not interfere with the market."

Q. As far as the number of workers and firms are concerned, the majority really operate in what you call the market system, characterized virtual-

ly by competition, even though the vast weight of gross national product seems to come from your so-called planning system.

A. I agree. Small business, agriculture, the service industries, are still in the lesser part of the economy that I refer to as the market system.

Q. So maybe from the standpoint of these small entities and the masses of participants, the market system is reality, not just a textbook theory?

A. Yes. But at best it produces around a third of private product. Economists, a dwindling number, I trust, then apply to the whole economy the theory and policy that is more or less relevant to a third of the economy. The answer, obviously, is a bimodal view of the economy—one part that reflects a high degree of economic concentration, another that conforms more or less to traditional market structure and principles.

Q. Are there any new developments in the market sector?

A. There are, if not new, at least widely unrecognized developments. We ignore or greatly underestimate the role of the artistically based industries and the associated importance of design. The visual and performing arts are an increasing part of modern product—a growth industry, much as artists might dislike the designation. And from the artistic tradition come the quality and commercial effectiveness of design. The claim of Italian products on world markets derives not from their superior engineering but from their better design. This in turn reflects the strong Italian artistic base. When we talk about the importance of scientists and engineers, we must also have in mind the modern importance of artists.

Q. Going back to the market, does the sheer number of participants in the market system explain why it is so difficult to dispel the myth of the classical market—why it remains a popular idea among Americans?

A. Partly that, yes; the myth of the market depends on its continuing reality in one part of the economy. However, it also depends on the stereotypes of economic instruction. The textbooks are a great support to tradition. They are carefully crafted to reflect the reputable belief. That wins

their adoption. And as I said earlier, it would be quite inconvenient were students taught that power rested not with the market but with the great organization. Much better to have them believe that General Electric, General Mills, and General Dynamics have no independent power. Particularly General Dynamics with its interesting relationship to the Pentagon. Some things are better kept out of sight!

Q. What would be the fruitful lines for young economists to pursue in their research as they think of their professional careers as scholars, wanting to contribute to a better understanding of our system?

A. Oh, I have no doubt that a young scholar who pays proper attention to his career should get into the mathematical minutiae of equilibrium economics. That is the way he will establish his respectability. And there he is wise to remain until he gets tenure. More seriously, I would say the greatest area of *useful* performance is in the study of the nature and economic effects of industrial structure, the matter of which we have been speaking. The macroeconomic effects of microeconomic structure. We must never again suppose that macroeconomics and microeconomics are different subjects.

Q. Why has this line of work not been very interesting for Americans? In the last couple of decades in Europe there has been a greater interest in industrial structure as a focus of study.

A. Maybe this subject is becoming more central to economic discussion in the United States. More of my young colleagues are, indeed, venturing out from the framework of neoclassical and equilibrium economics. Respectability exacts a heavy price in boredom. And irrelevance.

Q. Is that what motivated you?

A. No. But I was helped by beginning academic life with a concern for agricultural economics. In that field we were permitted a certain empirical relevance that the equilibrium theorists were not allowed. The professional price, of course, was heavy. Agricultural economics had the low prestige of what Veblen called exoteric science as com-

pared with the high prestige of economic theory which he called esoteric science.

Q. Do you think it's possible that as our basic industries achieve great size and their optimal efficiency falls off, they will then contract and the economy will move back to a more competitive system characterized by larger numbers of units of small size?

A. I see no likelihood of that whatever.

Q. So you see the formation of conglomerates continuing?

A. Yes, as a practical matter, I do. I would hope, though, that we would become more aware of the bureaucratic tendency within the large corporation and of the impulse to corporate size for its own sake. Myron Gordon of the University of Toronto has done some interesting work in measuring the cost of the bureaucratic apparatus in modern manufacturing. He has shown that in the ten years for which the most recent data are available, it has commanded an enormously increased share of the income while that going for materials, for labor, and for profits has diminished. This is something of which we will perhaps become increasingly aware. One is fascinated to read that under the influence of this recession corporations have been shedding personnel and becoming more streamlined and efficient. It leads on to the question: What in the world were those people doing before? Here again power enters the picture as a motivating force. An executive wants a good salary; I don't deny that. But he also wants the prestige that goes with the largest possible number of subordinates. The measure of esteem in a corporation is not what salary the executive gets; the common reference is to how many people he has under him. Thus the bureaucratic dynamic. Thus, too, the thrust for corporate size—the conglomerate drive. To be bigger may not be better, but it is surely a major source of executive and corporate prestige. Better even to be International Harvester than a small, profitable firm in Dedham, Mass.

Q. Thank you.

JOHN KENNETH GALBRAITH is Paul M. Warburg Professor of Economics, Emeritus, at Harvard University. This interview was conducted by Richard D. Bartel, Executive Editor of *Challenge*.