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Economic Record book review

Title: *The Affluent Society Revisited*

Author: Mike Berry

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The Affluent Society Revisited essentially examines how neoliberal economic policies changed the course of history. Mike Berry draws on the works of John Kenneth Galbraith from the 1958 publication of *The Affluent Society* to the more recent revisions of the volume providing a comprehensive explanation of how the Global Financial Crisis (GFC) of 2008 developed. Berry concludes that Galbraith's concerns with the ever-increasing reliance on debt to fuel demand and thereby economic growth were well-founded. Students of economic history will find this a particularly useful volume as it is written in an exceptionally readable manner. The author carefully explains the complexities of economics without resorting to highly technical jargon. Furthermore, Berry includes a readers' guide as well as an extensive reference list. This volume makes an important contribution to the literature on the economic history of advanced capitalism and its effects on the distribution of wealth within Western democracies. I have no hesitation in recommending this text to anyone, whether or not they are familiar with economics, with an interest in recent economic history and/or in the effects of changing economic policies on the structure of societies. Furthermore, anyone seeking an overview of the causes and consequences of the recent Global Financial Crisis will find *The Affluent Society Revisited* a useful reference.

In the first chapter, Berry outlines his rationale for revisiting Galbraith's 1958 text in order to provide an insight into the economic problems that threaten the 'affluent societies' of the world. He notes that in the mid-twentieth century, American society was predominantly middle class and affluent whereas in this early part of the twenty-first century, the middle class is in retreat and American society is becoming more like that of the early decades of the twentieth century. Rather than continually improving the lives of the majority of its citizens, the American economy is now polarizing them into the very wealthy and the very poor. Berry then proceeds to unpack each of the key themes of *The Affluent Society* and provide an update on how each has played out since the late 1950s. He examines how the effects of the oil shocks of the 1970s gave rise to stagflation and the abandonment of Keynesian economics, providing the opportunity for classical economics to resurface. Berry explains the development and consequences of neoliberal economic policies before focussing on the Global Financial Crisis of 2008. As Berry notes, writing during the height of America's boom, Galbraith could not have imagined how the neoliberal revolution and the tsunami it unleashed on global financial markets would wreak havoc on both the national and the global economy.

Throughout the text, Berry draws links between the failings of the affluent society to understand the danger of focussing on pure GDP(Gross Domestic Product) growth, irrespective of the source of growth, and central banks' preoccupation with controlling inflation (to between 2% and 3%) by manipulating interest rates. With GDP growth increasingly dependent upon consumption rather than production, and consumption increasingly dependent upon debt rather than income or savings, ignoring the role of interest rates as the price of credit undermined the natural workings of the market. Increasing demand for credit should have increased the price (that is, the rate of interest payable on loans) therefore, by keeping interest rates artificially low to control inflation, central banks contributed to the GFC. Berry also outlines the role that the deregulation of financial markets and the consequential increased mobility of capital played in developing the conditions that gave rise to the new financial products such as Collateralised Debt Obligations (CDOs) that confused investors and overwhelmed regulators. The failure of governments to regulate the markets for these products and the 'conventional wisdom' that markets were self-correcting created the descent into chaos that left governments around the world scrambling to protect their economies from the severity of the catastrophic freeze of global financial markets. Rather than hold banks and other financial institutions to account for the GFC in 2008, governments rewarded them by buying toxic 'assets' and providing hundreds of billions of dollars in liquidity in a vain attempt to stave off a prolonged recession.

Berry extends his analysis of the GFC by detailing the threats to democratically elected governments in Spain, Italy and Greece brought about by ongoing sovereign debt crises in support of Galbraith's argument that growth produced by consumption financed by debt is not sustainable over the longer term. As Berry notes, the stronger Eurozone member countries are desperate to ensure that Portugal, Italy, Greece and Spain do not default thus linking access further bailout funds to austere fiscal discipline, expenditure cuts and tax increases. However, as Berry argues, these measures are counterproductive and drive economies further into recession prolonging budget deficits. A return to Keynesian economics whereby growth, initially financed by government expenditure, coupled with economic restructuring would seem to be a plausible, and more palatable, option than driving the population into poverty. Although Galbraith was hard pressed to find poverty in the 1950s, Berry cautions that denying the existence of poverty within affluent societies exacerbates the divisions within those societies and may undercut continuing economic growth and social cohesion.

Although many economists may be somewhat dismissive of Berry's contribution, it is a timely reminder of how far the discipline has diverged from its roots. Economic debates would be far more relevant to society in general if they considered the impacts of economic policies on real people rather than being narrowly focused on theoretical models based on unrealistic assumptions. Berry reminds us that every action has consequences, some of which cannot be factored in to econometric models. As Berry concludes, 'The social and economic future is radically unpredictable. Orthodox economics struggles under the twin burden of a commitment to the ergodic fallacy that knowledge of the future can be gleaned from knowledge of the past *and* to a model of the discipline as a branch of classical physics.' (p. 186)