

BOOK REVIEW
ON
THE NEW INDUSTRIAL STATE,
By : Dr. John Galbraith

By : Dr. Anwar Kassira

I. TECHNOSTRUCTURE

In the last two decades, there has been a dynamic evolution in the American economy. As a result of this evolution, here comes, today, in the United States, a new economic stage known by Professor Galbraith as "The New Industrial State", in which the conventional corporation has conceded to the mature corporation as the scepter of the social economy. This transformation is caused not very much by the changed characteristics of the corporation, rather by the need of advanced know-how in management as well as in production. Capital may be important, while technology is imperative. Accompanied with this setting, the mature corporation leans more and more to, instead of entrepreneurs, the group of executives composed of scientists and professionals. Naming this group of personnel, Galbraith coins a new word, "technorstructure", and regards it as the might of The New Industrial State: the technostructure may not be the one who has brought to the United States the New Industrial State, but the technostructure will be certain to lead the New Industrial State.

This is a fact derived from the technical requirements of modern industry which, in turn, respond to the consequences of social development. According to Galbraith, the following consequences are of immediate importance:

(1) An increasing span of time separates the beginning from the completion of any task. For the making of the 1st Ford, ordinary steels were obtained from the warehouse in the morning and shaped that afternoon, while, for the production of any of today's Ford, the provision of steel reaches back to specifications prepared by designers and proceeds through orders to the steel mill which, for delivery of

the order, will have to go through the same time-consuming and round-about process.

(2) There is an increase in the capital that is committed to production aside from that occasioned by increased output. The original Ford was assembled with tools, parts and materials available in the factory warehouse. But Ford Company today has to prescribe specifications for various respects of the vehicle and, for this matter, the development of process, tools, and equipments cost money.

(3) With increasing technology the commitment of time and money tends to be made ever more inflexibly to the performance of a particular task. The Dodge Brother's machine shop where the engine and chassis of the original Ford were made could have worked as well on bicycles, steam engines, or carriage gear and, indeed, had been so employed. In contrast, materials, parts, tools, and equipments specially prepared for Mustang will be scrapped, if its production plan is cancelled.

(4) Technology requires specialized manpower.

(5) The inevitable counterpart of specialization is organization through which the work of specialists is brought to a coherent result.

(6) From the time and capital that must be committed, from the inflexibility of this commitment, from the needs of large organizations, and from the problems of market performance under conditions of advanced technology, comes the necessity for planning. Tasks must be done so that tomorrow's demand may be foreseen, supply for that demand may be prepared and reconciliation between supply and demand may be adjusted as necessity arises.

II. MARKET

The consequences also affect the market which was and still is considered as the best means to provide for a just price system and assure an efficient usage of resources. In the market economy, the price that is offered is counted upon to produce the result that is sought; nothing more need be done. The consumer, by his offer to pay, obtains the necessary responding action by the firm that supplies his needs. By offering to pay yet more, he gets more. And the firm, in its turn, by similar offers, gets the labor, materials, and equipments that it requires for production. This is the ideal market behavior expected by those who believe in Say's Law. As economic activities become more and

more complex, the market behavior grows less and less ideal. This is another difficult situation with which the changing industrial system has to cope.

The changing market behavior gets industrial planning involved with mass production that takes both time and capital. Nowadays, modern corporations commit themselves in production basing upon anticipation of demand, for which, in many cases, consumers may have to be cultivated. Then, preparation of supply follows. This needs time and money. The more the corporations commit in investment, the more they want to be sure of a remunerative return. Thus, the corporations take into their own hands whatever they fail to expect from the market. For achieving this, a strategy has widely been used in replacing the market with an authoritative determination of price and the amount to be sold or bought at the price. Galbraith mentions three ways of doing this:

(1) The market can be superseded.

(2) It can be controlled by sellers or buyers.

(3) It can be suspended for definite and indefinite periods by contracts between the parties to sell and purchase.

The General Motors is a typical example where a producer makes good use of all the three methods in its business dealings by way of buying or not buying certain things with a certain specification at a certain price on a certain term from a certain firm. This restraint of General Motors can go vertically and horizontally as far as the confines of its business reach. This may not win for General Motors an absolute control of the market, but it really minimizes the market uncertainty for its input. Actually, a firm with the size of General Motors has also an efficient control over the market of its output through an oligopoly practice in the form of tacit agreement on pricing without an actual commitment of the agreement.

In the steel industry, the U.S. Steel Corporation has been noted as the price leader calculating the price that will best serve the interest of all members of the steel industry. Basing upon this price, each firm may compose its own price schedule according to different cost and demand factors. As for the three major firms in the automotive industry, they can do the same thing in an easier way: as the result of long and intimate study of each others' behavior within the confines

of a city, they have little difficulty in establishing, with considerable precision, prices reflecting the common interest of the industry. The main purpose of arrangements like these is to have, by way of price-making, some of the powers of a monopoly and some of the restraints of competition. Market is thus modified, and is modified to the suppliers' favor. This is the way the technostructure fixes price.

III. PROFIT-MAXIMIZING

As visualized by Galbraith, entrepreneurs seek for maximizing profit all the time. This is what we have learned from the textbook theory which gives also a formula for maximizing profit: $PRICE$ (or $MARGINAL REVENUE$) = $MARGINAL COST$. The theory is simple, yet its application is complex, because of the uncertainty of market and the unavailability of statistical information needed. Galbraith does not elaborate the way entrepreneurs maximize profit; instead, he describes in detail how does the technostructure make profit.

According to Galbraith, the technostructure is first, to minimize the risk of loss, and therewith of the damage to their autonomy, and secondly, to maximize the growth of the firm. Prices are so managed that competition with its attendant dangers must be prevented. Prices must be low enough to facilitate the recruitment of customers and the expansion of sales and at the same time high enough to provide earnings to finance growth and keep the stock-holders content.

I cannot see any difference in the profit pursuit between the entrepreneur and the technostructure, especially in consideration of the practical application of the economic theory on profit-maximizing. As a rule today, businessmen achieve profit-maximization through minimizing cost. That is why and how the contemporary accountants stress on breakeven theory and flexible budgeting. In fact, the technostructure's oriented price as mentioned above is nothing but pursuit for breakeven first and profit second. This has been the very principle of the cost accounting widely used even by the entrepreneurs who have deep faith in maximizing profit.

The basic purpose of a flexible budget is to realize and understand the effect of production on cost and on the resulting net profit of different volumes. Usually, it shows the sales, costs, and expenses at various operating capacities indicated as a percentage of the normal volume

of the plant. Thus, figures will show the budgeted cost and revenue at 50%, 60%, 70%, etc. to as much as 150% of normal capacity including the equilibrium at the breakeven point. With such a budget, few entrepreneur will maximize profit before they can be sure of a breakeven operation. What is understandable is that the technostructure may not, in pricing, squeeze for a profit to the extreme as an entrepreneur may do under monopoly. But, this does not mean the technostructure does not pursue as large a profit as possible. David T. Bazelon in his book, "THE PAPER ECONOMY", has this to say about the U.S. corporation profit:

"For example, it is reported that General Motors uses a 'standard volume' system for setting prices. It wants 20% profit after taxes, and figures its price in order to earn this on 'estimated average rate of planned operation'. This latter has been calculated on the basis of about 55% of capacity. Sales were higher than the standard volume in seven of eight years after 1950. So GM made much more profit than it had figured itself entitled to. Which has boosted its net worth \$3 billion in the decade 1947-57" (P. 211).

The results are, as everyone knows, that we junk more automobiles every year than what we should because the automotive industry produces more cars than we need and makes them to last not so long as we need them.

IV. CONCLUSION

Theory or no theory, this is not a plausible fact acceptable to those who have been occupied with ideas of consumer sovereignty and ideal market mechanism of free enterprise. Galbraith is a practical economist who knows there is no true existence of perfect competition that assures a fair price for all, nor is there a pure monopoly permissible for a price to make an excessive profit, except in a very few cases. So, in between, he believes in the oligopoly that may maintain a stable market that is necessary for the technostructure to plan for its firm.

I think Galbraith is right in saying: "More important, perhaps, to consider the future would be to fix attention on where it has already arrived. Among the least enchanting words in the business lexicon are planning, government control, state support and socialism." (P. 389). Thinking of these words, we can see a coincidental trend in Soviet Russia where has started, in the last two or three years, an economic reforma-

tion stressing on decentralization with a managed price system so that the firm may have certain autonomy. Of course, this autonomy is different from the autonomy the American firm wants to have over its planning. But, it is interesting to wait for another decade and see if there is still that much difference between these two different economic systems.