Economist out on a Limb

In our editorial last month we dealt generally with the ideas of Prof. Galbraith as presented by him in his Reith Lectures. Here A.J.C. looks more closely at some of the Professor's arguments and skilfully reveals their weaknesses.

What is a Market?

IN PROFESSOR GALBRAITH'S Reith Lectures the themes of the trend towards bigness and the need for economic planning are combined. Both are seen as an inevitable consequence of modern technology. It is an appealing theory, rendered still more fascinating by the dry wit of its originator, but as a reasoned argument it is very rickety. Professor Galbraith emphasises certain facts about the economic scene, ignores other facts, and not surprisingly, proceeds to draw false conclusions.

In the first lecture Galbraith compares the manufacture of the early Ford with that of a modern motor car and describes the main differences: "large commitments of capital, a great elapse of time between the initiation of production and its completion, extensive reliance on specialised manpower, intricate organisation and—as an ultimate consequence—diminished effectiveness of the market."

With the list of changes in production and the inferred need for detailed forward planning one can agree, but the so-called consequence does not follow. If the market is now regarded solely as a place where housewives can spy out the best and cheapest tomatoes, then to a large extent the market has gone (though to a large extent also, it remains as Galbraith later admits), but the market should not be so regarded. The distinction that Galbraith is making is that whereas in the days of the first Ford, materials could simply be bought "off the peg," nowadays many commodities required for manufacture are so specialised in design that they have to be ordered in advance. Nevertheless, they are still produced to meet a consumer preference, they can still be ordered from another supplier, and there is still the same incentive to keep custom that may be lost.

Although in the sphere of industry about which Galbraith is talking the number of business units is much smaller than in the past, the market for their products (he neglects to tell us) is very much larger and often world-wide. There are not many major groups manufacturing motor cars in Britain today but despite tariffs they are in direct competition with groups in other countries of western Europe and in the United States. Similarly, Galbraith remarks that when the original Ford was produced, a labourer or a machine operative could probably be hired at the nearest saloon, whereas a systems engineer cannot. He does not mention that newspapers enable a modern large company to look for its systems engineers not only in the nearest town but over a whole state or country.

The need for a period of planning, the argument runs, begets the need for prices to be fixed in advance, and kept stable. Accordingly, prices are determined by the large corporation and no longer left to the market. However, everyone having something to sell fixes its price, just as everyone tries to persuade the public to buy (the tomato seller usually cries his product's virtues with great gusto). Experiments with price may take place after the goods are on sale, or in the planning stage before they go on sale. In some cases sellers will try alternative tactics, such as an increase in advertising, before altering price, but in the last resort either price must be adjusted or the product itself modified. The consumer is therefore still sovereign, and competition among the giants themselves is a good protection against hypnotic persuasion.

Galbraith contrasts a free market in which, he says, "the initiative lies with the individual" with the creation of an elaborate new product where the initiative lies with the producer. They are produced and tried out and if they sell well more are produced. It does not often happen that consumers ask for a non-existent product which someone then manufactures, except precisely in the areas of greatest technological complexity. The argument is stood on its head!

Division of Labour Overlooked

About a market economy, muses Galbraith nostalgically, there is "something admirably libertarian and democratic" but the market is being overtaken by the evolution of modern business. Big units come about not only to achieve economies of scale, or to attain a monopoly position, but to meet the demands of planning itself. and for this purpose "it could be that the bigger the better."

Once more, one trend is being emphasised at the expense of another. The tendency to increased size has been accompanied for centuries by the opposite tendency of the division of labour, and this has been greatly stimulated by advancing technology. Galbraith should have compared the manufacture of the original Ford by one firm with the fact that today some two-thousand firms may participate in the manufacture of a motor car. The development of technology can result in more planning within an organisation but can also lead to a more highly articulated and co-ordinated free market.

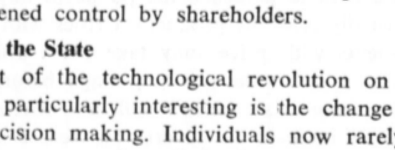
Galbraith quotes a United States Steel Corporation annual report: "The American competitive enterprise system is an acknowledged profit and loss system, the hope of profits being the incentive and the fear of loss being the spur," and regards this statement as nonsense because nearly all the largest firms make profits. Certainly, a large company will not easily make an overall loss, but it may lose in a branch of its activities, or on a single product, and although it makes an overall profit, the rate of profit might be decreasing. Galbraith argues that the growth of the corporation, which brings new opportunities and prestige for the executives who manage it, is now more important than the maximisation of profit, in which the executives do not normally share, but it is difficult to see how growth can come about except through success as measured by profit. If the desire by executives for *secure* earnings is making large corporations less adventurous than they should be, the remedy lies in increased competition, revision of the patent laws, and strengthened control by shareholders.

Functions of the State

One aspect of the technological revolution on which Galbraith is particularly interesting is the change in the nature of decision making. Individuals now rarely have the knowledge to appreciate all the facts on which recommendations are made and frequently have to accept the conclusions of groups of experts, who have to be shielded from amateur interference even by the company's owners. Nonetheless the responsibility and risk are taken by the individual at the top — and it is he who decides on timing, and allocation of money, in relation to other priorities, and it is he, not his experts, who will most suffer the consequences of failure.

The essence of the Galbraith thesis is that the planning in the large corporation has to be supplemented by the planning of the state. The state has three functions: to control prices and wages and aggregate demand generally; to supply the specialised manpower that industry requires; and to underwrite very large technological projects.

It is a proper responsibility of the state to regulate



"aggregate demand" if by that is meant the supply of money. Control of prices and wages is not necessary to achieve this; on the contrary it is a sign of failure to achieve it.

The state does not supply specialised manpower. A young man's decision to follow a trade is governed by his assessment of the prospects in that trade, not on what skills the state thinks are needed. These prospects including remuneration, are better when industry requires more men in that line than are available, but that is the beauty of the market.

The technological projects underwritten by the state can be divided into two kinds: those where state intervention is unnecessary, as with aircraft (some aircraft are not supported by the state), and those, like space research, where private industry could not hope to make a profit — a sound indication that people would rather be free to spend their money on other things. (Defence is in a separate category because it is an essential function of government itself.)

No reconciliation

Attractively, Galbraith suggests that just as organisations in the private sector become independent of both consumers and shareholders, so public corporations become independent of public control, whether that control be democratic or not. It follows that the old labels of capitalism, democratic socialism and authoritarian communism are becoming meaningless, and that there is in reality a convergence between the different systems. The idea of convergence is popular since the re-introduction of the profit indicator for factories in the Soviet Union, but Galbraith is careful to point out that this decentralisation is not a return to the marked but "a shift of some planning functions (including some control of prices) from the state to the firm". One continuing difference is that in the private sector there is a means of checking on the decision making of a large corporation — by consulting the decision-making of its competitors. In a nationalised industry there is no such check.

Professor Galbraith's conclusion is that the development of the partnership between the large corporation and the state could tend to make the needs of the industrial system so dominant that all else will be subordinated to it. His plea for the aesthetic dimension of life to be preserved will be echoed by many who do not share Galbraith's theories.

The industrial system will be seen in perspective only when men are not compelled to think always of their material wants, when the world economy has become so efficient that a high material standard is available to everybody. When that happens a fuller and richer life will be possible for all of us, but only if freedom is maintained. It is doubtful indeed whether freedom can be reconciled with economic planning.