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Book Review: The New Industrial State, by John Kenneth Galbraith

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THE NEW INDUSTRIAL STATE. JOHN KENNETH GALBRAITH. Houghton Mifflin Co., Boston: 1967. ($9.25)

The New Industrial State looks at the American economy from an unorthodox angle, and thereby erects a new economic theory which, according to Galbraith, more accurately explains reality than today's textbook wisdom. Indeed, it is as an exercise in the correction of conventional wisdom that this book has its initial impact on the reader. A second reading reveals implications for future reform and social policy.

A preliminary limitation on Galbraith's thesis is its focus on what he calls the "Industrial System". It is that part of the economy which is composed of the "large corporations". Galbraith indicates that if pressed to specifics, he would place the two hundred largest U.S. corporations in this category. While he admits that this is not the only significant sector of the economy, it is clear that Galbraith sees it as the most dynamic aspect of modern economic life, perhaps the new norm, and increasingly the way of the future.

The factor which predominantly determines the character of the "Industrial System" is technology, "the systematic application of scientific or other organized knowledge". There are two prime imperatives which flow from the fact of technology, and which serve to explain much of the nature of the large corporation.

The first of these is *planning*. Because extremely complex factors must be combined and vast amounts of capital committed many years before the technologically sophisticated product reaches the buyer, careful planning becomes vital. Uncertainties are anathema to the planners; therefore, much of this planning consists in minimizing or removing market influences.

The absolute size of the corporation becomes a factor in its ability to control the market. The industrial giants by their sheer size induce a co-operative attitude in their smaller suppliers, and thus a source of supply is stabilized. Vertical integration is another technique used to eliminate the uncertainties of the market.

The size of these giants means in turn that there will be only a few major producers in each area of the economy. These oligopolies engage in tacit price equalization and a commonly beneficial eradication of competition, which is a source of uncertainty.

Finally, the big supplier must be sure of a consumer demand for the product before production of the good is commenced. Huge sums are therefore directed at controlling consumer responses through advertising.

In regarding the above practices not only as normal but as compelled by modern technology, Galbraith is spiking canons proclaimed in the textbooks. Gone is the view that great size is shameful and aberrant, and that oligopoly is inefficient and hurtful to the consumer. Instead of consumer sovereignty we have the "Revised Sequence" in which the corporation reaches forward to shape the market and the buyer's wants.

Acceptance of the second prime imperative of technology also means the discarding of oft-repeated economic "truths". According to Galbraith, technology compels the predominance of *group decision* in the industrial system. The business world at this level is not one of rugged individualism as our myths proclaim. It is the realm of the organization man. It is necessary to combine diverse and specialized skills in shifting committees and teams. The group as a whole can grasp what no single man, save perhaps an extraordinary genius, can comprehend. Committees are in far greater supply than are extraordinary geniuses.

Most important, in Galbraith's thesis, the power of decision in the large, or mature, corporation lies within this organized intelligence. This apparatus of group decision he terms the "technostructure". The technostructure is not synonymous with "management" but encompasses "all who bring specialized knowledge, talent, or experience to group decision making".

Given the nature of group decision making and the fact that the success of a particular business venture depends upon the correct mix of innumerable variables over time, the technostructure is best. External intervention is to be minimized, for it will "always be incompletely informed and hence arbitrary". The three sources of likely intervention are the government, the shareholders, and the financier or capital source.

The corporate charter and the tradition of non-interference in a company's internal affairs insulates the corporation from the state. However, tradition takes the opposite stance with regard to shareholder intervention. Custom and law seek to increase the effectiveness of the shareholder's vote. But working for the technostructure is the effect that dispersion of ownership has on shareholder control. This diaspora occurs naturally over time, and while it does not disenfranchise the shareholder, it does render his vote useless.

Galbraith does not feel that proxy machinery offers any serious threat to the autonomy of the technostructure. The inertia facing those who would persuade the myriad of shareholders to oust the management of a corporate giant is simply too formidable. Moreover, since the technostructure exists and holds power because of the complexity of modern technology, most issues are too intricate and require too much knowledge for any outsider to think of removing their decision from the technostructure.

It is clear from his thesis that Galbraith regards that which impinges the autonomy of the technostructure as detrimental to corporate efficiency. Ontario and Canadian lawyers ought to be aware of Galbraith's viewpoint as they carry out the impending reforms to our corporation legislation. Economists are not alone in their apparently uncritical acceptance of many concepts which would be outmoded if Galbraith is correct.

Most lawyers, courts, and legislators still retain the notion that shareholders are or ought to be in control of the corporation. No real regard is had for the size of the company. The more enlightened of the profession have come to say that in truth it is the board of directors which is the fount of power and direction; and generally, this is deplored. Some allowance is made here for size—it is recognized that board control is truer of a large rather than a small company.

It may, however, be the case that in our largest corporations neither of these entities has the power of direction. We may be mistaking the board of directors' acts of ratification for those of decision. If Galbraith's analysis corresponds to reality, the law may need to treat the giant corporation differently, grappling with the problem of controlling the conduct of the technostructure if at all possible.

On the oher hand, it may be that in Canada there are not yet corporations of sufficiently great magnitude to warrant a change in legal terms. This is an issue that can be resolved by empirical study. In any case, the point remains that such problems as Galbraith raises are not only for the economist. As dearly as we love our fictions, it is incumbent upon us as lawyers to test the social relevance of our laws with no less vigour than any other social scientist.

The New Industrial State offers a challenge to all institutions of thinking men to cope with the social effects of these iconoclastic economic notions. Galbraith sees the technostructure's goal of greater productivity (more and bigger) becoming the prime goal of industrial civilization. He contrasts the technostructure's goals with those of aesthetics.

Aesthetics is in fundamental conflict with the aims of the industrial system. On a concrete level when it comes to such practical choices as plant location, the mode of a plant's operation, and the shape and nature of a product, the predominance of the goals of one spell subordination and the loss of autonomy for the other. On a more basic level, Galbraith sees the dependence of the industrial system on organization in conflict with the essentially individual nature of aesthetic creativity. Artists do not, as a rule, work in teams.

Galbraith turns to the institutions of higher learning as means to break the industrial system's monopoly on social purpose. It is not a far-fetched notion to hope that Canadian law schools may be aroused to do their part to nurture the thinking, artistic individual. The temptation must be resisted, as I believe it is, to allow law schools to remain simply trade schools where an organization man can learn to manipulate the system.

Of course, it may be objected that the central position which Galbraith gives to economic factors of social determination is wrong. One will find plenty of fodder for philosophical dispute with Galbraith in this book. But that makes it a worthwhile tome.

One may take issue with some of his more specific economic pronouncements, such as the decline of the primacy of the market, for example. These are matters which remain for the detailed examination of economic scholars to prove or disprove. The layman's criticism is not really helpful.

However, since most educated laymen do have a notion of how the modern economy functions, I recommend this book as an antidote to the uncritical acceptance of that notion. At whatever level the lawyer reads it, *The New Industrial State* is an enriching experience, written in an unobtrusive and readable style. Indeed, the very ease with which profundities are explained to the reader makes one chary of what might be misleading oversimplification. On the other hand the clarity could be the result of the years spent honing bold and simple ideas.

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