

MODERN LARGE-SCALE CORPORATIONS IN *INSTITUTIONALISM*

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I Introduction

The title of this paper suggests an importance of “institutionalism,” especially, in twentieth century American economic thought. In spite of its importance, institutionalism is little known outside the United States, much less as an indigenous American approach to political economy. In the view of Western scholars, the notion of political economy is predominantly associated with the Marxist school. But because of its ideological and political implications, Marxism has not been accepted in the United States. Under these circumstances, institutionalism has emerged as a critic of mainline economics — Neoclassical as well as Keynesian — and, thereby, as an indigenous approach to political economy. Thus, institutionalism employs a different methodology to the discipline of economics, and moreover, focuses upon the broader social and political character of economic life. Because it did not focus solely on economics, institutionalism has been often accused of not being pertinent to economics. Nevertheless, institutionalism as a critic to mainline economics has evolved its analyses according to what goes on in society.

This paper examines modern large-scale corporations in the Institutional school of economics, and, thereby, is divided into two sections: The first section clarifies the importance of modern large-scale corporations, which the Institutionalists have discussed in their theories of both dynamic and power systems. Here, its focus is upon classical Institutionalists, Thorstein Veblen and John R. Commons. The second section describes the Institutionalist views on changes, concerning modern large-scale corporations, since World War II. Here, the emphasis is upon the concept of John K. Galbraith and, then, an alternative to his concept.

II Classical Institutionalists on Modern Large-Scale Corporation

Thorstein Veblen and John R. Commons are today considered to be founding fathers of the Institutionalist school of economics. Both scholars have witnessed the breakdown of the classical system and the following emergence of contemporary capitalism with increasing threat of communism and fascism. As Institutionalists, they have thus identified technological advancement as an underlying dynamic of such capitalist transformation, and modern large-scale corporations as its locus of power which has spearheaded the transformation. However, there is a basic difference between Veblen and Commons, in terms of the conceptual approach to contemporary capitalism. The difference is that Veblen focused upon the dynamic process of capitalist evolution, while Commons emphasized contemporary capitalism as a power system.

(1) Thorstein Veblen: Evolutionary Capitalism

Veblen begins his analyses by questioning static assumptions of technology and institution in the Neoclassical/Marginalist thought, and, thereby, focuses upon the life-history of material civilization, in which the dynamics of development consists of the interacting changes between technology and institutions. From his viewpoint, the evolution of capitalism from competitive to monopolistic system is thus a study of institutional changes upon the basis of technological advancement. In the study of institutional changes, that of the most significance is undoubtedly the emergence of modern large-scale corporations and their consequent rise to a position of economic dominance, notably in the "key industries" of natural resources, power, and transportation.

Historically, the development of modern technology and its resultant application gave rise to the modern industrial system, as "a concatenation of processes which has much of the character of a single, comprehensive, balanced mechanical process."¹ While it rests with the businessmen to make the running adjustments of industry, a disturbance in such a system creates a chance for them to gain or lose, and, thereby, becomes subject to their shrewd manipulations. As the modern industrial system becomes dominant in economic production, the chances for gain or loss grow clearly in number and magnitude. By contrast, it is from the middle of the

nineteenth century that the productive capacity began visibly overtaking the market capacity. As a result, there arose risks of overproduction and falling price; so that free competition without afterthought becomes no longer possible for the businessmen.⁽²⁾ In order to avoid overproduction and maintain a profitable price, it became necessary for the industry as a whole to restrict the rate and volume of production, and, thereby, for the businessmen to concentrate business interest and capital. Given such a historical situation, the businessmen chose the most suited method, that is, the corporate form of business organization. Since the corporate form made the concentration of business interest and capital possible by issuing marketable stocks and bonds, the businessmen were enabled to create and maintain economic profit not only through the restriction of rate and volume of output, but also through greater control of resource markets. For Veblen, the corporate form of business organization was thus designed to pursue economic profit for the continuous investment.

As the scope of corporate finance was necessarily enlarged from common to preferred stock, from stock to bond, and lastly to "loan credit," the growth of modern corporations brought about two important institutional changes: One is the separation of ("absentee") ownership and management, and the other is the expanded business role of financial institutions, managing loan credit. According to Veblen, both institutional changes combined with technological advancement would lead the modern industrial system toward depression and monopoly.

As suggested above, corporate finance was essentially to concentrate business interest and capital, and, in turn, to capitalize "unmaterial earning capacity" based upon powers of monopoly and monopsony, rather than physical industrial equipments. For Veblen, such earning capacity of modern corporation was the economic basis to determine whether to invest in stock or bond and how far to extend loan credit.⁽³⁾ The enlargement in the scope of corporate finance served only to widen discrepancy between business capital and industrial equipment, and, thus, causes the corporation's over- and under-capitalization. As a whole, the modern industrial system results in creating business fluctuations, which would be led eventually toward depression. With the high fixed cost of

large-scale production and the decreasing cost of technology-based production, business fluctuations make cut-throat competition severe and, in turn, the industry monopolized.

While the enlargement in the scope of corporate finance also creates an ever-increasing volume of waste and misdirection in the use of equipments, resources, and manpower, the modern industrial system is increasingly alienated from the technological forces which are largely responsible for its emergence. According to Veblen, this raises the necessity of a new industrial order devoted to efficient maximum production.⁽⁴⁾ Because of underlying productive and technological factors of the system, a new industrial order should be laid down by "the Soviet of Technicians," not only who are directly responsible for, but also whose attitudes and habits of thinking are shaped by production and technology. An alternative scenario is the emergence of a business-military complex or, more strongly, the fascist regime in the modern industrial system. Whatever the prospective outcome will be, it is in Veblen's view that the modern industrial system is animated by the emergence and growth of modern large-scale corporations, though based upon the technological advancement.

(2) John R. Commons: Reasonable Capitalism

For Commons, institutional economics is the study of "collective action in control, liberation, and expansion of individual action."⁽⁵⁾ Notably, collective action in contemporary capitalism ranges ubiquitously from unorganized custom to many organized "going concerns," such as corporation, labor unions, and political parties. Collective action starts with "scarcity," as does individual action in the neoclassical analysis. But according to Commons, scarcity is the starting point of a negotiation process, but not of an economizing process. This is because the concept of scarcity includes here the ownership power to control things. Thus, Commons perceived the economy not only as a process for economizing, but also as a system of power.

For the purpose of investigation, the minimum unit of collective action is defined as a social relation of man-to-man or a "transaction," which "must contain in itself the three principles of conflict, dependence, and order."⁽⁶⁾ Because its interaction with scarcity creates conflicts of

interest "predominant in transactions," ownership thus becomes the basis for the study of collective action. As long as transactors are mutually dependent as well as conflicting, the transfer of ownership is most likely to be negotiated according to the working rule of the society. Notably, the negotiation process rests on the sovereign power of the state as exercised through judicial systems, because sovereignty as collective action in control of physical force interprets its lawfulness in correlation with law, economics, and ethics.⁽⁷⁾ As a result, the negotiation process does not create an equilibrium of the traditional economics, but a certain security of expectation or order — representing "reasonable values."

The transactions are classified in three ways: bargaining (transactors as legal equal), managerial (transactors as individual legal superior and inferior, for example, foreman and worker), and rationing (transactors as collective legal superiors and inferiors, for example, a state legislature and its citizenry, a labor union and its members). All the classified transactions characterize contemporary capitalist economy. However, the emergence and growth of modern large-scale corporations, which marked the transformation of capitalism, had the greatest impact on and, in turn, widened the dimension of "bargaining" among the classified transactions.

Even though transactors are legally equal in a "bargaining" negotiation, there are differences in their powers of duress (the use of physical power), coercion (the use of economic power), and persuasion (the use of moral power). Since its result is influenced by their differential powers, the balance of powers among transactors is a precondition for proper bargaining negotiations. But through using their monopolistic positions, modern large-scale corporations deprive the power of, especially, coercion from individual labors and consumers. For the balance of power, there arises a necessity of what are today known as "countervailing powers."⁽⁸⁾ For example, labor unions are organized as countervailing powers to face large-scale corporations with monopolistic power. As countervailing powers are organized, bargaining negotiation thus widens its dimension from individualistic to collective nature.

The success of large-scale corporations and labor unions in the

concentration of economic as well as political power stimulated the formation of many other affiliated interest of large-scale. For this reason, contemporary capitalism is characterized by organization pluralism. But because large-scale organizations embody the managerial transaction, which assumes efficiency as its principle and hierarchy as its order, such organizational pluralism is to widen the difference of political power between leaders and subordinates and, thereby, to increase the difficulty of internal control of organizational leaders. Based upon the concept of countervailing power, collective (national) bargaining provides here a ground for negotiation in the form of the reciprocal control of leaders. Thus, collective bargaining is essential for contemporary capitalist economy, as a power system and economizing process. In other words, contemporary capitalism for Commons is in "the age of collective action."⁽⁹⁾

III Institutional Views on Postwar American Economy

The most prominent, contemporary institutionalist is John K. Galbraith. Following the institutionalist tradition, Galbraith has identified large-scale corporations as the locus of contemporary capitalism, and technological changes as its underlying dynamic. While the development of postwar American economy has given rise to the term "planning," corporate planning is not only indicative of market power, which enables large-scale corporations to manage their profit. But it is also "imperative" because of the application of increasingly intricate and sophisticated technology to the production of things, in which the corporations have been involved since the beginning of World War II. In Galbraith's view, corporate planning is thus a core of the "planning system," which approximates a capitalist version of a planned economy.

(1) John K. Galbraith: Corporate Planning and Technostructure

Since the application of the technology is characterized by the increasing commitment of both time and money and the increased need for specialized manpower and organization, it is too risky and unreliable for the corporations to depend upon the market mechanism, which may cause serious flatering of product demand or resource supply if left alone to coordinate the economy.¹⁰ In order to face such a situation, large-scale

corporations employ various strategies, including sales promotion, vertical integration, internal financing (to insulate themselves from interventions of stockholders and creditors), imperial control over raw material in Third World countries, and multinational operations. Thus, corporate planning is "imperative" to avoid risks of market flaterings and to execute business strategies. In other words, large-scale corporations supercede, suspend, or control the market through, and, thereby, replace its mechanism with their corporate plannings.

As well as the enlargement of corporate finance with widespread stock ownership, the expansion of specialization based upon the application of the technology has stimulated the separation of ownership and management. But in Galbraith's view, the increased need for specialization gave rise to the "technostructure," that is, an organization embracing "all who bring specialized knowledge, talent or experience to group decision-making."¹⁰ Notably, the technostructure includes most of executive-management personnel.

The expansion of specialization involves great numbers of experts of both technology and organization. Being professional specialist, each expert accumulates knowledge and experience to supplement his talent. As a matter of fact, modern corporations cannot be operated without those qualities; in turn, this has reinforced an bargaining power of the management against the ownership. But at the same time, the expansion of specialization makes decision-making complex and beyond any individual's competence, while leading each expert to have only a fraction of experience and information about any other than his speciality. In order to make a meaningful decision for the whole, large-scale corporations necessitate an adept, organized, and collective committee of specialized experts, thereby, the technostructure. Not the management, but the technostructure is thus "the guiding intelligence — the brain — of the enterprise."¹¹

According to Galbraith, a goal of the technostructure is "the greatest possible rate of corporate growth as measured in sales," while a certain minimum level of earning must be maintained to pay reasonable dividends and, thereby, secure its managerial independence.¹² Notably,

technological progress is also listed as its goal, because capacity for corporate growth depends largely upon capacity for innovation.⁰⁶ On one hand, corporate growth means the same as expansion of the technostucture; in turn, such expansion results in "more jobs with more responsibility and hence more promotion and more compensation." On the other, corporate growth increases power and prestige of the corporation and its technostucture, politically as well as economically. Because of its great effects on "promotion, pay, perquisites, prestige, and power," corporate growth is thus identified with a goal of the technostucture. Moreover, Galbraith has contended both implicitly and explicitly that the growth orientation of the technostucture, coupled with its ability of corporate planning, has changed the relation of large-scale corporations with their unions and the government from "countervailing" to "symbiotic."

Concerning the relation with a union, there are three important facts: First, corporate growth increases its size and membership, and, thereby, provides great effects on promotion, pay, and job security of its administrators. Second, collective bargaining facilitates price-setting and maintenance for corporate planning. Third, large-scale corporations have the power to pass on wage increases in the form of price boosts while avoiding interrupted production caused by a prolonged strike. Thus, the unions have reasons to cooperate with the corporations and does not find themselves in the old Capital-Labor conflict.⁰⁹ In other words, the unions diminish their role as countervailing powers against the corporations and, in turn, their bureaucratic administrations enter into the symbiotic relations with the technostucture of their respectable corporations.

The modern state has its aims and goals, as explained by Galbraith: "The state is strongly concerned with the stability of the economy. And with the technical and scientific advancement. And, most notably, with the national defense. There are the national goals."⁰⁹ Accordingly, the government provides appropriate actions, which the corporations seek to reinforce corporate planning, for "the regulation of aggregate demand, the provision of trained manpower through the educational

system, the underwriting of new capital and technology, and to some degree, the promotion of wage-price stability."¹⁷ In the modern state, moreover, administrative bureaucracies are most dominant organs, because the executive cannot function without them, and the legislature cannot fulfill its particular interest without their backings. Since administrative bureaucracies are in charge of those appropriate government actions, it can be said that, given national goals, their size increases as the corporations grow larger and, in turn, seek more actions from the government. This symbiotic relationship between the technostructure and the administrative bureaucracies is thus described as follows:¹⁸

... The modern state . . . is not the executive committee of the bourgeoisie but it is more nearly the executive committee of the technostructure.

(2) An Alternative to the Technostructure

The development of technology and, thereby, the expansion of specialization have brought about the emergence and growth of large-scale corporations in contemporary capitalism. Here, the term "large-scale" is indicative of increases in the size and complexity; for the corporations, more people must be involved for coordination, and more variables and informations must be required for decision-making. Since corporate planings are successfully executed upon the bases of proper coordination and prompt decision-making, large-scale makes it not only difficult, if not impossible, but also ineffective or infeasible, to depend upon informal and spontaneous methods of control. Because of these difficulty and infeasibility, large-scale corporations institutionalize hierarchical control and, thereby, bureaucracy. However, bureaucracy involves an inherent weakness. That is, as a corporate size increases, the administrative load on managers may increase to such a point that they cannot perform their responsibility efficiently. In other words, the ability of the managers becomes strained and even collapsed because of the volume and complexity of the demands placed upon them. As earlier suggested, Galbraith has identified the technostructure as the latest stage in the shift of the locus of corporate power, and introduced its concept to deal with such a weakness of large-scale corporations. Even though the

technostructure is a committee of group decision-making, its concept presupposes bureaucratic structure for large-scale corporations. Thus, an alternative to the technostructure is also to bureaucratic structure; thereby, it must embody an organizational innovation.

The organizational theorists, A.D. Chandler and Oliver E. Williamson, have identified an organizational innovation in corporate structure with the multidivisional (M-form) structure. Notably, the bureaucratic organization is defined as the unitary (U-form) structure. While the U-form corporations were dominant in prewar American economy, the emergence of M-form structure among large-scale corporations is largely a postwar phenomenon — though its first implementation was at Du Pont and General Motors during the early 1920's. Moreover, it is said that, in the United States, the M-form “was substantially in place by the 1960's.”⁶⁹

The M-form structure involves “the creation of semi-autonomous operating divisions . . . organized along product, brand, or geographic lines.”⁶⁹ Also, there is a general office “consisting of a number of powerful general executives and large advisory and financial staffs.”⁶⁹ In order to eliminate inherent weakness of bureaucratic, large-scale corporations, the M-form structure thus promotes a division of labor between divisions and a general office. Even though this division of labor means decentralization, a general office exercises internal incentive and controls instruments in a discriminating way.⁶⁹ This is because a general office monitors the performance of each division in terms of overall financial returns, and in turn reallocates capital among divisions to favor high yield users. Thus, a general office exists as a financial capitalist within the M-form, large-scale corporations, though miniature in comparison with commercial banks and other institutions.

As a miniature capitalist, a general office organizes divisions in the pursuit of profit (or the rate of return); in turn, the M-form structure not only eliminates an inherent weakness of the U-form structure, but also alleviates the conflict of interest between stockholder and management. Even though this may be true, it is wrong to say that the M-form corporations have the profit, rather than the growth orientation. This

is simply because the growth of financial capitalists is generally calculated in monetary value. Especially, when a general office tries to insulate itself from outside creditors, the amount of profit determines that of investment fund and, thereby, the corporate growth. Under this cyclical relation, it is easy to assume that the M-form corporation develops into a conglomerate and/or engages in multinational operations. In contrast to Galbraith's concept of modern state, the dominance of M-form corporations in postwar American economy thus characterizes the transformation from industrial to financial capitalism.

IV Conclusion

While focusing its analyses on modern large-scale corporations, the primary purpose of this paper has been the exposition rather than the evaluation of the Institutionalist school of economics. As earlier stated, institutionalism is an indigenous American approach to political economy. But in comparison with such analysts as Karl Marx and Joseph Schumpeter, it is possible to criticize American Institutionalists because of their narrow analytical viewpoints. In other words, the analyses of American Institutionalists have been "framed within a limited time perspective and with reference chiefly to American conditions." Even though the criticism may be true for the individual analysis, the school of American Institutionalists has produced the comprehensive view on the institutional evolution of American capitalism. While repeated numbers of times in this paper, the conceptual core of institutionalism has been stated in the beginning of Veblen's book, *The Theory of Business Enterprise*, as follows:²³

The material framework of modern civilization is the industrial system, and the directing force which animates this framework is business enterprise.

Notes

- (1) Thorstein Veblen, *The Theory of Business Enterprise* (New York: Augustus M. Kelley, Bookseller, 1965), p. 25.
- (2) Thorstein Veblen, *The Engineers and the Price System* (New York: The Viking Press, Inc., 1933), p. 36.
- (3) Veblen, *The Theory of Business Enterprise*, pp. 129-131.
- (4) Veblen, *The Engineers and the Price System*, pp. 105-119.
- (5) John R. Commons, *The Economics of Collective Action* (New York: The Viking Press, Inc., 1954), p. 99.
- (6) John R. Commons, *Institutional Economics: Its Place in Political Economy* (New York: The MacMillan Company, 1950), p. 21.
- (7) Commons, *Institutional Economics*, p. 719.
- (8) See John Kenneth Galbraith, *American Capitalism: The Concept of Countervailing Power* (White Plain: M. E. Sharpe, Inc., 1980). In his book, Galbraith acknowledges the danger of collusions among countervailing powers, which threaten third parties, for example, corporations and unions against consumers. Here, the government becomes the important countervailing power to protect the third (unorganized) parties.
- (9) Commons, *The Economics of Collective Action*, p. 70.
- (10) John Kenneth Galbraith, *The New Industrial State*, Second Edition (Boston: Houghton Mifflin Company, 1971), pp. 13-17.
- (11) *Ibid.*, p. 71
- (12) *Ibid.*
- (13) *Ibid.*, p. 179.
- (14) *Ibid.*, p. 183.
- (15) John Kenneth Galbraith, *Economics and the Public Purpose* (Boston: Houghton Mifflin Company, 1971), p. 161.
- (16) Galbraith, *The New Industrial State*, p. 311.
- (17) John E. Elliott, "Institutionalism as an Approach to Political Economy," *Journal of Economic Issues*, Vol. 12 (March 1978), p. 97.
- (18) Galbraith, *Economics and the Public Purpose*, p. 172.
- (19) Oliver Williamson, "The Modern Corporation: Origin, Evolution, Attributes," *Journal of Economic Literature*, Vol. 16 (December 1981), p. 1559.
- (20) *Ibid.*, p. 1555.
- (21) A. D. Chandler, Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge: Belknap Press, 1977), p. 460.
- (22) Williamson, *op. cit.*, p. 1556.
- (23) Veblen, *The Theory of Business Enterprise*, p. 1.

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アメリカ制度学派の学説にみる 現代の大規模株式会社

〈要 約〉

大 森 達 也

制度学派(または制度主義)は、今世紀のアメリカにおける経済学説を語る時、忘れられないものではあるが、アメリカ以外においては、政治経済学と制度学派との関係は、あまり知られてはいない。一般に、現代の政治経済学は、マルクス経済学と結びつけて考えられる。しかし、アメリカにおいては、マルクス主義の持つ政治思想のため、受け入れられることはなかった。他方、制度学派は、新古典派・ケインズ派を批判する立場を取り、結果的に、アメリカの土着的な政治経済学の理論的フレームワークとして発展して来たのである。

アメリカ制度学派の“土着的”という意味は、一般に修正資本主義と呼ばれる現代アメリカの経済体制を研究対象としていることで、歴史的時間の制約と、国内の事象だけにたよることとなり、学説的には、普遍性を持ちあわせていないことである。しかし、現代アメリカの経済体制の成立過程が、大規模株式会社の台頭と、彼等の独占的地位の確立によって進んだと考えるならば、制度学派の学説の中で、現代の大規模株式会社は重要な課題でなければならない。と言うより、学説的展開を技術と諸制度の相互依存的な変化に重点をおくアメリカ制度学派にとって、現代の大規模株式会社は相互依存的変化の媒介の役割をしていると考えられるからである。また、代表的な制度学派(ここでは、ヴェブレン・コモンズ・ガルブレイス)の学説を、年代順に検討することによって、大規模株式会社のさまざまな変化を、分析することができるのである。