Economics 331: Organization of American Industry

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Course Description:

President Biden (like President Trump before him) wants to make American Stuff...and the Pandemic exposed Supply chain issues across American Industries.

Today, What is going on with American business, and production? Do we make anything? Some of our major industries have been in trouble for years, and it has gotten considerable worse for many during the current recession. Are our firms even “American” anymore, and does that matter?

“As goes GM so goes the country” was a motto of the 1950’s and 60’s. If we apply it to today there is much to be concerned about.
Learn about business by looking back...

American Manufacturing dominated the world for most of the 20th century. We can understand the 21st century part by looking back to the 19th century to discover what set the groundwork for the success of the 20th. From this historical perspective we will trace the growth of American technological expertise and economic growth, to the decline in the 1970’s and the industrial rise of Italy and Japan in the 1980’s.
How did the U.S. lose their edge?

- How did the shift happen? The too typical story (and the one often told by GM and other American firms) is that U.S. workers cost too much (or their health care does). But workers in Italy and Japan make wages similar to those in the U.S.
How things really change...

In this class we will look at the competitive strategies used to make this a more competitive economy (or region) happen, and well as look at strategies that work here and overseas. What we learn will provide necessary information and perspective as to how the U.S. might revive.
Course Materials: Books

First Book:


I have copies that I will rent to you...You give me $10, I’ll give you $5 at the end of the semester when you return the book.
Course Materials: Books


**The New Competitive Advantage: The renewal of American Industry**, by Michael H. Best, Oxford University Press, 2001 (ISBN 978-0198297451). Available at ecampus. This one is ALSO available free as an ebook (as of this week!) from the UMass Library
Course Materials: ebook and other materials


All Readings are listed on moodle. If they are not in one of the books, they are posted on Library e-reserves (or on moodle!)
Course Requirements:

• Three exams
  ▫ The first two exams will be in class, each count for 25%
  ▫ Final exam will count for 35% of the grade.
• Six assignments on the readings, another 15%
• Participation - 1-3%
  • (If you do not attend lecture, your grade will be determined based on the other work. For each class/section you attend, ½% of an A will be weighted into your grade.)

Grades will be assigned according to the following schedule: 95-100(A), 90-94(A-), 87-89(B+), 84-86(B), 80-83(B-), 77-79(C+), 74-76(C), 70-73(C-), 60-69(D+), 50-59(D), below 50(F).
Course Outline

The course readings and topics will be organized weekly in moodle

• Part I - Division of Labor and Machine Technology, The Rise and Triumph of U.S. Manufacturing

• Part II - Dominance and Decline of the U.S Corporate Model in America 1939-1980

• Part III - The New Competition. ???
Any questions? Concerns?
Where we are going, economics and technology.

**Readings:**
Three phases of the course


2) Corporations - The working of science and technology
   New Management Structure
   Mass Production
   Marketing and Advertising
   New Finance Systems
   Rise and Power of Corporations

3) And Collapse of Modern Corporate Structure
   Challenge of Europe and Japan: It is about new production processes and the relationship of state and Industry. Decline of U.S. Manufacturing and Rise of Toyota System and Italian Industrial District.

Policy for the Future
Different Fields in Economics...

**Classical Economics**
Adam Smith and David Ricardo, J.S. Mill, Karl Marx -
Labor Theory of Value determines price.
Distribution of Income is a political and economic question.

**NeoClassical Economics  (Mainstream)**
Arose as a special branch of classical economics
Jevons and Marshall - price based on scarcity - supply and demand
determines price, neutral forces determine wages and the distribution of income.
Has no theory of economic growth because it is a Static model, not dynamic.
Has no theory of technological development.

**Institutional Economics (Heterodox)**
Economists who back away from mainstream economics to establish
attendance theories of the firm and development of technology.
Edith Penrose and Joseph Schumpeter, as well as Michael Best and William Lazonick are examples.
Technology presents a unique set of problems because:

- **Technology has diverse meanings:**
  - Technology: machine or tool to produce goods
  - Technology: a process in production, i.e. mass production
    - not an object but process - the organization of the production process - very difficult for neoclassical economic model:
    - \( y = f(K, L) \) ... where is the technology?

- **New Technology - how does it arise in the economic system?**
  - Is technology a natural process or an inspiration/feeling that some new way is needed?
  - Technology - does it arise as a product of science, or they in a dialectical relationship?
    - What is Technological inspiration? - is it value neutral? In other words - is technological progress always beneficial - should we always engage in all forms of new technology?

- Research has shown that close to 75% of improvement in quality of life (i.e. consumer goods and producer goods) has come for technological development - if this is true why does mainstream economics pay so little attentions to technology - more times is devoted to study of finance than technology.
The Wealth of Nations, by Adam Smith, 1776.

Written during a time when Mercantilism dominated, during colonialism, during emergent capitalism.
Recall Feudalism, Mercantilism...
Adam Smith:
Of the Division of Labor

• The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is any where directed, or applied, seem to have been the effects of the division of labour. (161)

• The division of labour, however, so far as it can be introduced, occasions, in every art, a proportional increase of the productive powers of labour. The separation of different trades and employments from one another, seems to have taken place, in consequence of this advantage. (163)

• This great increase of the quantity of work, which, in consequence of the division of labour, the same number of people are capable of performing, is owing to three different circumstances;
  1. First, to the increase of dexterity in every particular workman; (Improved dexterity)
  2. Secondly, to the saving of the time which is commonly lost in passing from one species of work to another; (saving of time)
  3. lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many. (application of machinery) (164)
Smith’s Pin workers and the division of labor

Smith saw his division of labor in pin factories. Making a pin was broken down to eighteen different operations, all performed by different people. Smith observed small factories of 10 men who, engaged in the detailed division of labor, could produce some 48,000 pins a day. This was 4,800 pins for each man. In traditional manufacture, with each man making a complete pin, they could maybe make 20 a day.

http://www.faculty.rsu.edu/users/f/felwell/www/Theorists/Essays/Braverman1.htm
Adam Smith:
Of the Principle which gives occasion to
the Division of Labour

- This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another. (168)
Adam Smith: That the Division of Labour is limited by the Extent of the Market

- As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or in other words, by the extent of the market. When the market is very small, no person can have any encouragement to dedicate himself entirely to one employment, for want of the power to exchange all that surplus part of the produce of his own labor, which is over and above his own consumption, for such parts of the produce of other men’s labour as he has occasion for. (171)
Again, Smith was a “worldly” philosopher...looks to other consequences of the division of labor:
In the progress of the division of labor, the employment of the far greater part of those who live by their labour, that is, the great body of the people, comes to be confined to a few very simple operations, frequently to one or two. But the understandings of the greater part of men are necessarily formed by their ordinary employments. The man whose life is spent in performing a few simple operations, of which the effects too are, perhaps, always the same, or very nearly the same, has no occasion to exert his understanding, or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life.

His dexterity at his own particular trade seems, in this manner, to be acquired at the expense of his intellectual, social, and martial virtues. But in every improved and civilized society this is the state into which the labouring poor; that is the great body of the people, must necessarily fall, unless government takes some pains to prevent it. (782)
Other Contributions of Smith -

• The *Invisible Hand* of the *Market*, which is the culmination of *economic individualism*, which leads to general prosperity and economic growth. *Laissez-faire* is the government keeping hands off production. (except....)

• Competition is the invisible hand
The Invisible Hand...

Corporate leaders gather in a field outside Darien, Connecticut, where one of them claims to have seen the invisible hand of the marketplace.

“The link between individualistic institutions and Britain’s rise to economic dominance can be overdrawn”. (1)
Lazonick on Smith

Smith argued: Division of labor limited by market, Division of labor can be coordinated by capitalist. Laissez-faire to Smith meant eradicating legislated barriers to the mobility of capital…institutional change.

But Smith lacked *dynamic historical analysis*; the world market was under the control of Britain in part because of the institutions of mercantilism. The firms (East India Company, Royal Africa Company) opened up markets and were international military and political power. Britain dominated the world, trade, etc, and thus could grow its economy.

Other government interference:
• The enclosure movement - “privatization” of agricultural property, creation of cottage industry. 18th century.
• Skilled workers very involved in early factories

Laissez-faire an argument by successful industries, after they already had the advantage

“*Britain’s problem in the twentieth century was not that it relied too little, but that it relied too much, on market coordination of its economic activities.*” (6)...businesses didn’t engage in planned coordination.
Lazonick on Problems with Neoclassical Economics:

Classicals focused a lot on the relevant issues:
- Marx - on the utilization of productive resources
- Schumpeter - on the development of productive resources
- Marshall - on planned versus market coordination.

Neoclassicals have underdeveloped history of economies, focused on marginalist and equilibrium solutions. And they have assumed that "market coordination determines the allocation of production resources, with business enterprises adapting to changes in market prices subject to given technological constraints." (11)

Neoclassical economists also have misconstrued the reasons for economic decline, and thus the way forward. Everything will be great if we get prices right. Historically, the most successful economies have moved toward planned coordination of their activities...not only the state, but the firm level...planning, not prices.
U.S. Economy was dominant with...

• Managerial firms with geographically diverse firms
• Internally generated funds
• Increase in funding for education, higher education
• Tariff protection
• Planned coordination of firms... *managerial capitalism.*
Great Britain had a market-coordinated economy...

Beat by U.S. managerial capitalism, which was beat by Japan’s *collective capitalism* (extending planned coordination across firms, within firms, to business-government relations)

“Although mainstream thinking has shown great ingenuity in considering the nature of “imperfect” markets and their impacts on economic outcomes, the unquestioned underlying assumption is always that the perfection of markets, if only attainable, would result in the most efficient economic outcomes.”

“I call this misguided assumption the “*myth of the market economy*” because it is contradicted by the reality of successful capitalist development in the twentieth century.” (16)