Book Review: Concept of the Corporation, Financing American Prosperity: A Symposium of Economists, & Economics in One Lesson

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REVIEWS


The books noticed here, at different levels of communication, all attempt to state conditions of our material and social welfare. Mr. Hazlitt's message is pitched for anyone literate enough to absorb the Reader's Digest, where it has already received the accolade of condensation. The six distinguished economists who contribute to Financing American Prosperity address college seniors, with a wary eye on each other. Mr. Peter Drucker, who denies being an economist at all (he is a member of the department of Political Economy at Bennington College), takes a "social and political approach to the problems of an industrial society—as distinct from economics." His language is simple; his ideas are not.

The one lesson of Economics in One Lesson, the author says, "can be reduced to a single sentence. The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups." So far, so good. Mr. Hazlitt teaches his Lesson by exposing again the most glaring fallacies of those who have strayed from the principles of classical economics, to which he is a proud and confessed adherent. He uses these principles effectively for lucid analyses of such persistent though hoary heresies as protective tariffs, one-way foreign trade, spread-the-work schemes, parity prices, silver purchases and other subsidies to sick industries, and the cruder forms of purchasing-power theory—effectively, that is, within his basic assumptions, which again are those of the mid-nineteenth century. In his other capacities as publicist and literary critic, the author may not subscribe to the sway of Economic Man in human affairs, but in the brief pages of One Lesson he rules unmitigated. Thus to the author, as to his predecessors, "a mere recital of the economic policies of governments all over the world is calculated to cause any serious student of economics to throw up his hands in despair"—this with reference to protective tariffs. That protectionism may have its roots, not in a misunderstanding, but in a profound rejection of the anarchy of laissez-faire, a thesis brilliantly developed by Karl Polanyi in The Great Transformation, is beyond the scope of One Lesson.

Even within its limitations, Mr. Hazlitt's book sometimes does less than justice to the lost cause it espouses. For example, we have a chapter labelled "How the Price System Works." Through vivid thumbnail sketches of the
hardships of Robinson Crusoe and the Swiss Family Robinson we are brought to realize that "in the case of an isolated individual or family . . . one occupation can expand only at the expense of all other occupations." Straightarming without ever breaking his stride those who object to "Crusoe economics," Mr. Hazlitt hurries on to the great world, where the price system, now likened to the whirling balls of a steam-engine governor, adjusts the supply of every commodity and every service to the demand for them, in accordance with Crusoe's iron law that "in an economy in equilibrium, a given industry can expand only at the expense of other industries." The italics are the author's. One would have preferred to see "in equilibrium" emphasized; for if, by any possibility, Mr. Hazlitt himself could be the victim of a fallacy, I think his general preoccupation with a static economy is it. His concept of equilibrium is that of a goldfish bowl, where the tide is never felt. To be sure, the Victorian idea of progress is not, could not be, absent from such nostalgic pages. But on the whole his long view consists of a moralistic iteration that you can only pay Peter by robbing Paul, that A can do something for B only at the expense of C (Sumner's Forgotten Man revived again), that spending today invariably means taxes tomorrow.

In a word, no shortcuts to Utopia are allowed, though everything (in the long run) will be all right, provided no interference with the "quasi-automatic" mechanism of the price system is permitted. At this point we might expect and applaud a stern lecture to all who have smirched the purity of competition and introduced monopolistic elements into the market, whether they be politicians, labor leaders, farmers, or business men. However, the mistrust of some of Mr. Hazlitt's readers may be aroused when they find his finger pointed only at the bureaucrats, who "do not understand" the market and "are always trying to improve it or correct it." No doubt many bureaucrats do behave contrary to Mr. Hazlitt's admonitions and contrary to the best interests of a hypothetical laissez-faire economy. But they are in so many instances the target of his wrath that one begins to suspect Mr. Hazlitt of a distaste for recent administrations, a distaste which makes it easy for him to embrace another fallacy, in this instance Adam Smith's plausible assertion, which he twice quotes: "What is prudence in the conduct of every private family can scarcely be folly in that of a great kingdom."

This venerable half-truth serves especially well when the author moves to repel what he calls "The Assault on Saving." After a parable of two brothers—the profligate Alvin, who wound up broke, and the prudent Benjamin, who did not—it is hardly necessary to labor the point that great kingdoms should behave exactly like Benjamin. Nevertheless, Mr. Hazlitt manfully threads the maze of savings and investment, and even admits that in a downswing there is a serious shrinkage of both. This is not a cause of depression, however, but a consequence; the cause of depressions is "capricious government intervention in business," and it is no use for governments to embark on public works and such to check the depression; they will just burden posterity with taxes.
Such shallow analysis, and eye-catching chapter titles followed by innocuous conclusions (e.g., the chapter headed "Disbanding Troops and Bureaucrats" concludes that, "when we can find no better argument for the retention of any group of officeholders than that of retaining their purchasing power, it is a sign that the time has come to get rid of them.") may give the impression that *Economics in One Lesson* is all bad. But it is not; it is not even as bad as its admirers (e.g., John Chamberlain) have made it seem. It at least reminds us again and again that though economic progress has its rough edges, policies of restriction and scarcity not only fail to bring the security they seek but condemn the economy to stagnation and regression.

The scheme of *Financing American Prosperity* involves a considerable amount of repetition, but there is a certain sedate fascination in watching six eminent economists stand up one by one, each to speak his piece about the whole range of policies necessary to achieve and maintain a high level of employment and production. The title is misleading. Even taking finance in the broadest sense to include all fiscal measures public and private, the scope of the contributions is broader, since questions like monopoly, wage policy, and international trade bulk large in the discussion. The participants were given free rein to present independently their public policy prescriptions, with only a set of questions to prod them.

They were avowedly chosen, according to the Foreword, to "represent the whole spectrum of responsible economic opinion." One wonders how many colors are in the Twentieth Century Fund's spectrum. Dropping the spectrum metaphor, since in this context it would involve a departure from Newtonian physics and the use of such invidious shades as "pink" and "black," we find Mr. Benjamin Anderson, long of the Chase Bank, far to the right. The tone of his essay is indicated by his straight-faced statement that "the New Deal as a conscious and deliberate matter began in 1924, under the Coolidge Administration." Mr. Anderson wrote before a recent *New Yorker* quoted the Old Blue who put his finger on the federalization of the postal service as the source of all our country's woes.

The remainder of the contributors do not represent any great range of basic values. Somewhat to the left of center by conventional estimation is Professor Alvin Hansen of Harvard. His contribution is distinguished by a relatively full exposition of possible outlets for the program of public investment which his analysis assumes will be necessary to avert stagnation and underemployment. He suggests regional resource development, transportation, and urban redevelopment, including in the latter a sensible survey of the economics of slum clearance and public housing. Any radical tendencies in Hansen's program are balanced by the caution of two of his Harvard colleagues, Professors Slichter and J. H. Williams. Unlike Anderson—and Henry Hazlitt—they demonstrate that an intelligently conservative atti-
tude is not inconsistent with acceptance of many changes that have come since 1914. Hovering close to center are Professors J. M. Clark of Columbia and H. S. Ellis of California. The former's vein is discreetly whimsical; his preoccupation, the structure of costs and prices as the background of production and employment. Viewing proper wage-price relationship not as a cure but as a necessary condition for sustained prosperity, he finds a workable solution possible despite the hopeless imperfections of the competitive system and the increasing rigidity of wages. Ellis, who describes himself as "liberal, individualist, equalitarian, and internationalist," is the only contributor who takes up arms against the dragon of monopoly. He believes restrictions on output are responsible for "a large measure—perhaps much the largest share—of unemployment and idle funds," and he advocates a whole arsenal of countermeasures to restore a "workable competitive norm." Like Clark he accepts an unavoidable degree of imperfection in price competition.

These notes are intended only to indicate differences in emphasis among the several essays; it would be impractical and tedious to attempt to summarize the many common points covered by each. Of more interest are the areas of agreement or disagreement on crucial issues. These are neatly collated for us in a "Summary and Analysis" which is in fact a seventh essay by one of the editors, Professor Machlup of Buffalo. The counting of noses is even further simplified by a sort of super-select Gallup Poll in which, stripped of qualifications and caveats, the stand of each writer is condensed in a "Catalogue of Recommendations," of which this is an example:

"Government Guarantee for Full Employment
Assume responsibility for full employment: Hansen
Assume responsibility but avoid guarantee: Clark, Ellis, Slichter
Assume neither responsibility nor guarantee: Anderson"

All the contributors, I believe, warn against an obsession with full employment at all costs. It is indeed too bad that "full production" has not the same emotional appeal. We are reminded that in a labor market where mobility is impeded in so many ways, unemployment of at least 2–3 million out of a labor force of 60 million can be avoided only by the most elaborate control devices which would doubtless defeat their own end. After that important admonition, most of the authors attack with gusto the problems of a hoped-for national product half or two-thirds greater than in the best prewar years. There is on the whole agreement that the equation of investment to savings, which the classicists apparently dismiss as an automatic determinate of the interest rate, is the crucial problem. The six do not agree whether an era of postwar prosperity will increase or decrease the rate of saving; this is apparently an area where the economists badly need the aid of their brethren, the psychologists. In any event, no one doubts that the volume of savings will be tremendous. If these savings, individual and corporate, are not absorbed by an equal outlay for plant, machinery, construc-
tion and other components of capital goods, then the national product will shrink to the point where savings are squeezed into an equilibrium—with investment—the modern equilibrium of chronic underemployment, as relentless as any pronouncement of Ricardo.

Our economists have some hope that a dynamic increase in consumption of postwar wonders will prevent immoderate saving. However, they advocate as more dependable a resuscitation of private investment. The impediments to risk-taking, they find, are many; but with remarkable unanimity they converge on the tax system as the first goal of reform. Their proposals, necessarily briefly presented, run along the same basic lines as other programs, such as that of the Committee for Economic Development, to eliminate the double taxation of corporate profits, provide for a longer carry-over for losses, and the like. It is appreciated that increased profits will result in some degree of increased saving, and to that extent the revision defeats itself; but if the primary aim is to provide a better atmosphere for venture capital, I suppose that in the present climate, in which taxes seem to many more oppressive than death, any change is likely to raise expectations of gain from investment.

But suppose neither tax reform, nor an end to labor trouble, nor a soothing balm from Washington, raises the spirits of capitalists enough to provide a steady flow of replacement and new investment at a rate of twenty-five to thirty billions annually? What then, when the indices begin to coast downward? Shall we try spending? Except Anderson (and almost all these generalizations except Anderson) all agree, with varying degrees of reluctance, that deficit finance on a determined scale is the thing to do. But it must be as an anticyclical measure; and the expectation is that, after recession, good times will come again, when the government by prudent husbandry will prune the budget and trim the national debt.

The prospect of long-range compensatory deficit spending to make up for a permanent deficiency of investment is accepted with equanimity by Hansen alone; but Professor Machlup inserts a footnote to say that among economists his "ideas on this subject enjoy the widest following." To the other contributors, by and large, chronic deficits would be a confession of the failure of the capitalist system, and would be followed in due course by a collapse of the political system in which capitalism has flourished.

The views of the experts on one other issue of the day might be noticed. That is the question of "proper" wage levels and wage policy. Like the question of government fiscal intervention in the business cycle, this path of discussion leads unswervingly to political and social issues where the essayists tread cautiously. En route, they struggle manfully with the modification to a more humane view of orthodox wage theory, which sees in wages just another price. Clark and Hansen, accepting the fait accompli of downward inflexibility of wages, make the case that general decreases are in any event harmful to deflationary. As to overall wage increases, there is general agreement with the standard proposition that they should be limited by
overall increases in the productivity of labor. In other words, our system produces (cycles aside) a steady increase in per capita product, by virtue of incessant improvements in technique, organization, and mechanization of production. This increase can be taken in higher profits, higher wages, or lower prices. Higher profits have, I fear, no advocates. A rearguard defense of lower prices as more flexible and impersonal is made by Williams and Machlup. All face the current reality that the increase will in fact be taken in higher wages. A prophetic concern is shown, especially by Hansen, lest the groups with the strongest bargaining power force wage increases beyond productivity increases, and thus precipitate a wage-price inflation such as may now be upon us. And with the government committed to halt the downswing which would ordinarily be expected to follow, they see no check on such a riotous spiral, except "responsible union leadership."

It is his insistence upon describing our industrial order simultaneously in economic, political, sociological and psychological terms that distinguishes Peter Drucker's work from that of almost all economists, political theorists, sociologists, and psychologists. Those who, like the reviewer, lack the author's penetrating and encyclopedic command of all four fields, to say nothing of law and the arts, will find his latest book, Concept of the Corporation, easier to comprehend than its predecessors, because it centers on a single type and symbol of our machine civilization, General Motors. Skirting his huge subject cautiously, Mr. Drucker outlines three areas, equal and interdependent, in which analysis must proceed. First is the self-sufficiency and survival power of the institution, its ability to solve its internal conflicts. The second is the degree to which it satisfies "the beliefs and promises of the society which it [the institution] serves." The third is the economic functioning of the big corporation.

For the first two Mr. Drucker draws on his wartime experience as a management consultant to General Motors. Combined with a wealth of example and illustration is a skillful analysis of the roles of management and labor in the world's largest industrial corporation. First there is the question of policy—who makes it, and how is it perpetuated. The author describes an almost military organization of line and staff functions, with a high command insulated from routine duties, and a series of service commands—legal, accounting, research and the like—drawing on the operating units and supplying them in return with the combined experience of all plus the independent contributions of the staff experts. The lines of command to the operating units, however, emphasize the principle of decentralization. The autonomy and responsibility of the division managers, about thirty in all, and of the group executives under whom most divisions are clustered, are a remarkable example of the vitality of the company in overcoming its own giantism. Decentralization demands relatively large numbers of high quality leaders. The selection and training of potential executives is given consid-
erable attention, though nothing extraordinary is disclosed in the means employed. Finally, the weighty problem of measuring the performance of manufacturing divisions and their chiefs is explored. Here the solution is essentially to submit them as far as possible to the test of an independent market.

Moving from internal affairs to social values, Mr. Drucker postulates that, "If the big-business corporation is America's representative social organization, it must realize these basic beliefs of American society—at least enough to satisfy minimum requirements. It must give status and function to the individual, and it must give him the justice of equal opportunities." It is against this basic demand that the author develops his material on General Motors' foremen and labor. The status of the foreman is related first to the problem already mentioned of finding and developing leaders. Of more importance is the preservation of his special status as the special exemplar of the "middle-class concept of American life"—the belief that none of us is proletarian. It does not appear that General Motors, or American industry generally, has met this requirement. If the corporation has not preserved the individual dignity of its own middle class, it goes without saying that the failure is even more marked in the case of the toiling masses. Mr. Drucker suggests how the labor problem can be solved. Space prohibits even an outline of the spectacular way in which he juggles suggestion plans, the annual wage, the role of unions, the dispelling of monotony, the improvement of productivity, the creation of a sense of participation, and the preservation of free enterprise and the American way of life, all without ever fumbling an idea.

The third area, the chapters on economic policy, opens with a defense of General Motors against "the curse of bigness" which is perhaps the only weak part of the book. Here again the justification is chiefly in terms of the requirements of managerial organization, which Mr. Drucker considers an indispensable factor of modern production, on equal terms with labor, raw materials, and capital. Reversing the usual argument that mammoth units stifle talent, because a company like General Motors has room for only one man at the top, the author argues that there is always a place for good men somewhere in the organization—in fact more key jobs than key men—unlike the situation in smaller companies, where the heir-apparent must wait for the old king to die. Further, only giants like General Motors, it is asserted, can afford to support policy-makers who will promote social stability by subordinating short-term gains to long-range policies. But will they? Finally, technological advantages are claimed for the staff groups; it is scarcely provable, however, that only a colossus can achieve optimum efficiency in this respect.

Many readers will doubt that the supposed advantages of bigness counterbalance the economic and political dangers inherent in near-monopoly power. Mr. Drucker does not ignore the monopoly issue on the economic level. Indeed, he makes a telling case for the thesis that the classic tendency
to maximize profits by restricting output is wrong even for the monopolist; he can benefit himself and society far more by a policy of maximum output at decreasing price, such as Henry Ford forced on the automobile industry. It is one thing, however, to expose the shortsightedness of a policy; it is something else to suggest that the issue no longer exists, and that the public is right in viewing latter-day trust-busting with "polite boredom."

In his concluding chapters on the profit motive and full employment, Mr. Drucker drops General Motors and takes a general view of the economy. "The profit motive," he says, "is the most efficient and simplest mechanism for the conversion of individual drives into social purpose and action under the given conditions and beliefs of our society." The debated distinction between production for use and production for profit he dismisses as nonsense. If our society aims at economic advancement, it should support an economically rational test of the satisfaction of individual wants; profitability is such a test. Not that the satisfaction of individual wants invariably, as the utilitarians assumed, meets the requirements of society. The author strikes a neat balance between the virtues of the free market and the restrictions imposed on the market to protect groups like small farmers and marginal labor whom we wish to protect and whom the market would destroy. When he discusses the political forms regulation may take, a distressing vagueness creeps in: "proper and efficient economic regulation must not work through administrative control and interference but through the legislative and judicial determination of the limits and conditions under which business is to operate." No question about it—we must have a government of laws and not of men.

Accepting full employment as a political necessity, Mr. Drucker at last turns briskly to the solution of the business cycle. "The way out is to produce. A depression will not occur as long as the production of capital goods is maintained." Such a quotation makes either the author or the six eminent economists seem naive. It is doubtless unkind, since several prescriptions for production are given. They do not diverge remarkably from those of the six, and have the added attraction, as we might expect, of facing up to political requirements and limitations where the economists trail off in pious hopes. One thing, however, Mr. Drucker will not back down on—profits. In a refreshing restatement of the maturity thesis, he tells us that we have been living off our capital of natural resources, the great wellspring of profits in the last century. Profits are the only source of new capital now open to us except permanent deficit spending, which he, too, deplores. New capital is essential to maintain investment; therefore the rate of business profit is not too high; it is too low.

The cynical will think that the last syllogism alone repays General Motors'

1. This section of the book should be read as a reply to the argument of Polanyi's The Great Transformation that the self-regulating market is in its entirety an historical monstrosity.
investment in Mr. Drucker. This is unfair. While his pages necessarily exhibit a certain *politesse* owed recent associates, there is no question of the author's undivided devotion to an economic and democratic middle way. The timorous may wonder whether, in his reconciliation of the mass-production Leviathan to such a way of life, the author has not willfully ignored the concentration of naked power in our industrial overlords which so dismays Robert Brady in his recent *Business as a System of Power*. It is curious that practices which Brady views with perhaps undue alarm are at times the prop of Mr. Drucker's argument. Mr. Drucker does meet the issue at one point, when he suggests the pursuit of profit as a *relatively* harmless way of working off the lust for power. "It is no accident," he writes, "that the great villains of history are not found among the 'economic royalists' but among the 'incorruptibles', whose aim was power and power alone. Neither Robespierre nor Hitler could have been bought off by money." Could the Duponts?

To be sure, an exploration of interlocked power would require study of the whole financial and industrial structure. Even to show General Motors' place in that structure might make a bulge in a book so compact as *Concept of the Corporation*. Mr. Drucker has such an otherwise inclusive grasp of his subject, viewing it neither as economic abstraction nor legal fiction, that one almost regrets his conciseness. This is a remarkable complaint in an age and a profession overwhelmed with words.

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MAX WEBER'S important and provocative essay, *Die protestantische Ethik und der Geist des Kapitalismus*, with its thesis that Calvinism, and in particular English Puritanism, played a part of preponderant importance in creating moral and political preconditions necessary to the growth of capitalistic enterprise, is without doubt his best known work. Translated into many languages, it has evoked a voluminous literature, much of it controversial, but much of it beside the point, for the essay does not stand alone and was not intended solely as a simple contribution to economic history. It must be regarded instead as one of a long series of studies comprising a magnificent, if ultimately unsuccessful, attempt to formulate a sociology universal in scope. Concerned with understanding the growth of occidental civilization, of which capitalism (taken in its broadest sense) is pre-eminently characteristic, and rejecting the Marxian economic hypothesis which seemed

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