Presidential Address

Business History in an Era of Economic Transformation

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WE live in a period of great economic change, perhaps even an era of historic transition. The United States has undergone this kind of profound transformation before. During the first half of the nineteenth century, the economy shifted from small individualized craft operations to the factory system with its continuous processing, interchangeable components, and standardized products. During the last half of that century and into the present one, the great economic transformation involved the rise to prominence of large-scale enterprise, which brought with it the industrial corporation and bureaucratic managerial systems. During the decades after 1930, still another historic alteration became apparent in the nation's economic affairs, the increased economic intervention of government, particularly at the national level. More recently we have entered another era of transformation, one dominated by the emerging international economy, services, information, electronics and with new, lighter industry predominating. Concurrently, the traditional American heavy industries based on steel seem destined to play a comparatively less important role.

The American economic experience since World War II offers a study in contrasts. The nation emerged from that conflict politically, socially, and economically strong, both internally and in international affairs. The general growth and prosperity of the twenty-five years after the war represented the culmination of more than a century of industrial development and maturation. By the 1970s, however, the social fabric was no longer holding together so well, and many of the old economic strengths seemed to be failing. Sustained growth was replaced by various combinations of stagnation, inflation, and recession. To some extent, the past decade looks so bad because the years immediately preceding it had looked so good. But that perspective is a distorted one, based upon an exceptional period when energy was remarkably inexpensive, productivity rising rapidly, American goods gaining respect throughout the world for their quality, the dollar ruling the world currency, and the nation holding leadership in industrial technology. Presiding in Washington, the expanding federal government promised to "fine tune" away any irregularities, keeping the economy on a steady course toward a Keynesian pot of gold. In some years of the 1960s, the growth rate of real per capita income was more than double the long-term average, as the Great Depression faded from memory like a distant nightmare, being replaced by the newest dream of managed growth.

Somewhere in the late 1960s or early 1970s, something happened. The first Arab oil embargo is now taken as the turning point from dream back to reality, but in truth the historic origins precede that event. Energy suddenly and unexpectedly became more expensive, but that was not the full story. Americans also came to realize that government regulation, protection, and management were not free goods. Awakening drowsily from their postwar dream, they found an economy overlaid with a costly, cumbersome, and imperfect political mechanism; they discovered that the quality of domestically produced goods had deteriorated, and they saw inflation and higher taxes eating away at their material welfare. All of these changes were real and important, but perhaps the single most fundamental realization was that the American economy's relationship to the rest of the world had changed. After all, the oil embargo not only signaled higher fuel prices, it demonstrated that Americans were at the mercy of foreigners.

Although the apparent suddenness of this transition into international markets was novel, the underlying effect was not without precedent, nor is the public reaction. Historically, each period of transition to a spatially more encompassing geographic market has shocked the social, economic, and political structure. As highly localized manufacturing markets emerged early in the nineteenth century when the economy was almost totally agrarian, a new class of industrial producers emerged. These new business owners remained local figures, ones recognized and respected by the community. The firm was usually a proprietorship or at most a partnership, typically possessed of a substantial degree of local monopoly power.

After the Civil War, regional product markets began to replace many local ones. The shift into national ones soon followed. Even factor markets, particularly for capital, expanded toward a national scope. The last half of the nineteenth century became one of the most trying periods of economic adjustment in American industrial history, an era characterized by hostility toward the newly emerging large corporations and their leaders. There also was intense industrial competition, deflation, the final ensconcement of mass production, novel corporate managerial structures, and ultimately those seeds of regulated economy, the Interstate Commerce Commission and the Sherman Act. By the turn of the century, the stormiest interlude of adjustment then past, the United States had reached its lofty position as the world's industrial giant. By the time of World War I, the national market, which had long been the goal of American producers, was securely in place.

The evolution toward the global market became increasingly apparent after World War II. The corporation, with its bureaucratization, and in its form as a conglomerate or multinational enterprise, played a pivotal role in this change. In every year between 1960 and 1978, for example, the value of assets acquired (for firms exceeding $10 million in value) through conglomerate mergers was greater than those gained through vertical or horizontal acquisitions. The multinational firm with foreign subsidiaries was not a postwar organizational innovation, but it was after 1945, as new market opportunities opened around the world, that such operations gained public attention. As geographic market boundaries expanded, the corporation became increasingly significant as a form of organization, growing at a far faster rate than the more localized proprietorship or partnership (see Table 1).

Internationally, the United States since World War II has moved from being a relatively closed economy to an open one. Domestically it has shifted from a traditional reliance on agriculture and industry to one dominated, in terms of employment at least, by services (Table 2). It is hardly more appropriate today to perceive the United States as a manufacturing economy than as an agricultural one. Excluding governmental employment, more than half the American labor force now hold service jobs; including government the proportion jumps to about 70 percent. Considering both private and public employment, the United States has been a service economy (the majority being employed in such jobs) since the 1950s. Some regions provide an even more dramatic picture of the relative decline of the nation as a manufacturing economy. In the "industrial heartland" of the Middle West, where the traditional heavy industries have been concentrated, the proportion of national manufacturing output produced had remained relatively stable between 1920 and 1967, even before the foreign competition of the 1970s (see Table 3). It is difficult, thus, to attribute the problems in this region completely to foreign competition or to business cycles. Long-term historical trends have not favored the growth of traditional heavy industry in the Midwest or elsewhere in this country nor do they portend so for the future. Over the past five years, the worst record of sales growth has been in such fields as steel, automobiles, and household goods; the best is found in such service areas as health care, banking, specialty retailers, and computers. Should the leaders of industrial America, whether in the Midwest or in less economically troubled regions, take seriously the cries for "reindustrialization," it seems doubtful that they would pursue a path that pushed further into the older heavy industries. Instead the road would seem to lead toward lighter industry, the high technology products, information and knowledge industries, agriculture, and the general area of the services.

Thus, on several major fronts, our nation's economic realities are changing both rapidly and drastically. Americans are being forced to abandon the traditional ways in this uncomfortable period of adjustment and substitution. Most citizens, too young to recall the Great Depression, cannot remember such a disruptive period of economic readjustment, but we, as historians and economists, can. It is both our responsibility and our challenge to illuminate those dark and seemingly threatening events. History may not be repetitive, but it certainly can be enlightening. Unfortunately, during that prosperous quarter century following World War II, in too many American minds the law of scarcity was repealed and history placed on the mental shelf as a quaint collection of curiosa. Macroeconomics and economic growth became the new religions in the Age of Economic Aquarius.

All that has changed. Ours, for better or worse, is a time of great economic disequilibrium, one in which traditional macroeconomics and growth theory seem remote to real problems. Periods of disequilibrium provide investors with their greatest opportunities; they can also provide the historian's. As a chief explainer of change and transition, the historian is well placed to help society comprehend events and to provide perspective on change. It so happens that at the very core of contemporary adjustment sits the business and industrial system. As business historians, this is our moment.

We risk missing this opportunity, however, if we fail to adjust our own methodological approach. It is, in my opinion, time for a "new business history," one that parallels, but does not try to duplicate, the "new economic history" that emerged over the past quarter century. The underlying stimulus between the two is quite similar: just as the emergence of quantitative economics coupled with a growing interest in economic development after World War II fostered the new economic history, so can the advance of such areas as finance, behavioral accounting, or organizational theory support a different genre of research in our field, one more in accord with research in contemporary schools of business. Equally important, such an approach would advance the teaching relevance of business history for business students, the future business leaders who will be required to deal with powerful forces of change into the next century. In a more immediate sense, through executive programs or other avenues, it would benefit current business leaders who are having to deal with adverse changes as few of their living predecessors had to do.

Consider the research potentials for a "new business history." The new economic history emerged from a new methodological apparatus within economics and from a broader outside concern with problems of economic development. Mathematical economics, economic theory, and econometrics supplied the tools for a new approach to historical questions; a policy interest in development stimulated interest in the long-run, dynamic problems that an historical approach could handle best. Ultimately, the availability of the methodology in conjunction with new questions in the world at large nurtured a new breed of historical economics, one that the older approaches did not. The new questions produced new answers. Not everyone agreed with them, but no one could seriously contend that the resulting controversy did not inject a new vitality into the field of economic history.

What are the similarities with business history today? Consider first the new tools. Within the academic disciplines of today's schools of business an entirely new set of methodologies have emerged, or are emerging, after decades of ferment. The field of finance, for example, which as a research area bears little resemblance to that of even ten years ago, is advancing on both theoretical and empirical levels. It focuses on the very unit of economic activity that business history has traditionally studied, the individual firm. Its methodology, which to a large extent is microeconomics with a dash of risk and uncertainty added, could clearly be applied to historical studies. In turn, its empirical work would gain from the addition of an historical dimension.

Accounting, a field long perceived as a static arithmetical exercise, is also changing as it blends more closely with other disciplines and pursues analytical rather than purely descriptive answers. Managerial accounting incorporates concepts of economics and finance; behavioral accounting integrates psychology and sociology into its own body of knowledge. Marketing, production, and other traditional fields of business administration have undergone similar methodological transformation.

Some of the new business fields, while not so developed as their elders, are similarly striving for a more solid academic base. Here the relationship between business history and business administration can be more obviously a two-way one. In fact, one of our own colleagues has demonstrated this particular relationship well. Alfred Chandler's work is as well known in the area of organizational theory and organizational policy as anyone's in those fields. His contribution, through the "strategy and structure" framework as well as through his wider body of work has helped form the foundation of that field, and his publications are a standard assignment on reading lists in courses in this area as well as in some marketing and policy courses.

Nor are the potentials limited to the more purely business administration disciplines. Economics also offers methodological tools appropriate, but largely unused, for business historical studies. Any study of business or industrial history depends in its essentials on economic phenomena that are indeed quantifiable. Business firms are economic units as are the industries of which they are a part; business decision-makers are economic agents whose major function is the allocation of limited resources subject to certain internal and external constraints. Thus, any variety of economic history, including our own field, lends itself in some degree to the tools of economic analysis. As limited as its capabilities for historical understanding may seem to some, the cliometric methodology offers a preciseness not characteristic of alternative approaches. Applied microeconomics, managerial economics, and the theory of the growth of the firm, like the fields of business administration, tend to focus upon the individual business firm. Their techniques can be used to analyze the past as well as the present.

And finally, the computer has remained a stranger to business history, and it should no longer. Business records offer a huge source of data, as do federal and state censuses, credit reports, federal investigations such as that of the Temporary National Economic Committee and numerous others. The computer provides a means not only for organizing, rearranging and combining data sets, but for analyzing them in a search for understanding past business behavior. Present-day firms utilize computers to analyze problems, to compare alternatives, for simulation or for evaluation of past decisions. Historians of business could do likewise. Systematic collection of historical business data alone would be a significant contribution to our field, comparable to the accretion of qualitative company histories advocated by N.S.B. Gras, Henrietta Larson, and other early practitioners of the business historian's art in the United States. Yet that is only a hint at the computer's potential contributions when compared to the analytical possibilities it provides. Given appropriate business data, the full range of statistical techniques employed in modern business and economic research is opened to the historical scholar. An entirely new dimension would be added to historical research on business activity, including critical evaluation of business decision-making in the past. The model for this approach can be found in contemporary research in the functional areas of business administration disciplines — marketing, production, accounting, and finance — as well as in economic, and even sociological analysis.

Research in business history therefore can, I believe, follow a parallel, but in many ways quite distinct, path to that of economic history over the past quarter century. First, business historians can integrate theory into their work; not necessarily the traditional neo-classical microeconomic theory underlying most of the new economic history, but the emerging theoretical structures of the business disciplines, such as finance. Secondly, business historians can gather and analyze business data, not necessarily to explain economic phenomena at the aggregate level, as has much of the new economic history, but in order to understand and evaluate events at the level of the individual enterprise or decision-maker. Thirdly, students of business history can utilize new analytical frameworks in business research to formulate new questions for research, as economic theory has been used in economic history, and to formulate new hypotheses regarding business behavior in the past or over long time periods.

Finally — and I realize this is pushing my argument to a danger point — may I be so bold as to suggest the explicit use of the counterfactual proposition in business history research? Implicitly, the device has been used in many studies already. Judgmental statements regarding some key business decisions — to enter a new market, to finance with debt rather than with equity, to respond to governmental regulation in a specific way or to undertake some investment policy, for example — unavoidably involve counterfactual assumptions. A particular decision's merit can only be judged against some benchmark in the researcher's mind, usually either some theoretical abstraction or the alternative that could have been chosen in place of the one that actually was. If we are to bring our field into greater accord with contemporary business or economic research, and if we are to strengthen the analytical and critical component of our research, the explicit counterfactual, the theoretical, and the quantitative are inescapable concomitants of that goal.

Business history opened its doors to nontraditional practitioners during the 1970s, during a period that was unfortunately too brief. More recently we seem to have returned to our old ways. I do not mean to suggest that this resulted necessarily from a deliberate effort on our part to close the doors, indeed I think that the problem is more subtle than that. But that is not to let those of us in the field off too easily. Perhaps we simply have not posed the questions and provided the environment conducive to attracting new participants from disciplines different from our traditional ones. We should take the initiative to seek them out, to frame the important and unexplained areas in business or industrial history in ways that invite interdisciplinary participation, and to debate them vigorously when we think they are wrong but to accept their conclusions gracefully when we know that they are right. Ours is naturally an interdisciplinary field; we should encourage that inherent tendency, not fight it.

To whom should we reach out in our quest for methodological and disciplinary variety? Economists and other social scientists, of course, but our natural allies, as I said earlier, are our colleagues in the emerging and developing disciplines of business administration. Welcoming them into our fold would be valuable for two reasons: it would inject new vigor needed in our field and it would make our research and teaching more meaningful and acceptable to business schools as well as to business practitioners. In my opinion, only if we integrate the tools of the business areas into our own work can we ever hope to be accepted fully into the business curriculum. Even if we do not wish to use all their language, we should at least be able to speak and understand some of it. Indeed, we may even help them by adding an historical dimension to their sometimes sterile and truncated analyses.

We should also not ignore our potential friends in economics. The affinity between the work of Alfred Chandler and Oliver Williamson on corporate organization only hints at the potentially rich relationships between business history and economics. A true "theory of the firm," one that explores internal resource allocation within the business enterprise, remains only an embryonic creature. Who is better qualified than the business historian to analyze this dynamic process? Those who have studied the historical development of business firms obviously have much to contribute to that goal, but they can do so only in conjunction with those knowlegeable in economic theory.

Finally, and oddly enough, a field from which we risk estrangement is economic history. Rather than being tempted to build a "fortress business history," I feel that we should be working more closely with the general field of which our area is a part. As with economists and the business administration specialists, the relationship can be a two-way street. We can borrow from their tool kits and reframe our investigations in a way that invites their involvement — acts which I think will benefit business history — while lending them the valuable perspectives that the study of business history provides. It is imperative that our field not isolate itself from the broader developments in economic history, however unfavorably some of our colleagues may view the evolution of that field over the past quarter century. I am not suggesting the replacement of the traditional business history with some new experimental variety; on the contrary, what I advocate is a greater heterogeneity of method, not less. The old and new can be compatible rather than competitive. As historical scholars we know that change is inevitable; as economic history has changed so can business history.

What I have proposed above are the possibilities for a new business history. I am neither naive about the difficulties inherent in achieving them nor sanguine that such a turn of events can occur on the level suggested. Interdisciplinary cooperation is usually difficult. To master one field is challenging enough; to conquer and integrate two or more is almost unthinkable. But as economics teaches us, there almost always is more than one way to accomplish a given goal, and if ideal situations are not feasible under existing resource constraints, second-best solutions can be better than no solution at all. Presidential addresses are permitted to be idealistic; I have indulged in that luxury. Ideally we should seek out our colleagues from the related fields and move into a new, exciting era in the study of American business past. That is my challenge to all of us tonight.

On a more modest level, let me propose a few possible steps on the agenda. First, I believe we should return to our policy of the early 1970s of deliberately seeking out those who have never appeared on our Conference program or published in the journals of our field. Secondly, I would suggest that we sponsor an occasional symposium dedicated to a single topic to which historians, economists, marketing experts, scholars in finance, and others can contribute papers or serve as discussants. The Agricultural History Association has had notable success with its biannual symposium, even publishing papers as separate volumes that have become quite valuable research sources. Thirdly, we should as individuals aggressively seek out colleagues in business administration and economics at our own institutions to sponsor joint workshops, to invite guest speakers whose research has interdisciplinary appeal and to collaborate on joint research. And there are many dissertation topics in the functional business fields, especially in the areas of management and business policy to which business historians can contribute significantly. Individually we should also read in the literature of the business fields especially, and perhaps even sit in on the classes of our institutional colleagues in finance, management, marketing, policy, and accounting to familiarize ourselves with new techniques in those fields. Fourth, we need to publicize the large quantities of excellent research and publication in business history. We have perhaps been too modest about our accomplishments and the value they can have for both our professional colleagues in other fields and their students.

None of this can happen, of course, without a changed attitude among American business historians. Our field has an illustrious past; the wealth of our literature is substantial. But we risk slipping out of step if we lose touch with other fields and with our potential relationship to the age of adjustment in which we live. We need a shot of energy, a fresh purpose, and a different sense of direction. The new eclecticism I have proposed in this paper suggests one way to achieve these goals.

Table 1

Form of Ownership for All Business Enterprises

	Proprietorships	Partnerships	Corporations
1955			
Number (1000s)	8,239	n.a.	807
Net Income (billion $)	16	n.a.	47
1960			
Number	9,090	941	1,141
Net Income	21	8	44
1965			
Number	9,078	914	1,424
Net Income	28	75	74
1970			
Number	9,400	936	1,665
Net Income	33	10	66
1975			
Number	10,802	1,073	2,024
Net Income	45	8	143
1977			
Number	11,346	1,153	2,241
Net Income	51	13	219

Net Profit: Gross taxable receipts before deduction of cost of sales and operations.

Sources: *Statistical Abstract of the United States: 1980*, US Bureau of the Census, Washington, D.C., 1980, p. 556. The data for 1977 are preliminary.

Table 2

Nonfarm Employment: Goods Production Versus Services 1945–1980 (percentages)

Year	Mining and Construction	Manufacturing	Services[a]	Government
1945	4.9	38.5	42.0	14.7
1950	7.2	5.2	45.8	13.3
1955	7.2	5.6	45.8	13.7
1960	6.7	5.4	46.9	15.4
1965	6.3	5.3	47.3	16.6
1970	6.0	5.1	49.2	17.7
1975	5.4	4.6	51.6	19.1
1980	6.0	4.9	53.7	17.9

[a] Excludes government.

Source: Data from US Department of Labor. For additional detail, see *US News and World Report*, October 12, 1981.

Table 3

Manufactured Output as Proportion of National Production, The Great Lakes States 1920–70

Year	Region's Manufactured Output as Percentage of National Total (percent)
1920	30.4
1930	32.4
1940	32.4
1947	33.0
1958	30.4
1967	30.4

Source: Censuses of the United States.

Strategic Management as Institutionalized Entrepreneurship