

# Distant Proximity: Writing the History of American Business since 1945

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The history of the United States since World War II – in general and in the realm of business history – remains largely obscure. To be sure, each year brings another roster of specialized case studies; and we now have a handful of reasonably comprehensive general surveys of the period [Patterson, 1996; Diggins, 1988; Blum, 1991; Grantham, 1987]. But so far historians have failed to formulate deeper, analytical frameworks for understanding the postwar period, to tease out salient themes and critical turning points, to perform what an economist might call the “high value added function” in the historian’s task. We do not have for the postwar period the kind of synthetic analysis akin to, for example, Robert Wiebe’s *Search for Order* on the late nineteenth and early twentieth centuries [Wiebe, 1967].

The traditional excuse – that the developments of the postwar era are too recent to afford a sense of “perspective” – rings hollow. There is no fundamental reason why historians cannot apply to recent events the same methodologies they use to understand more distant times. To be sure, the risks of misinterpreting recent events are high; but so are the potential rewards of identifying broad patterns and agents of change in this crucial era. Moreover, the postwar period now extends more than half a century – hardly “recent” business, especially by the standards of U.S. history, which measures eras and epochs in increments as short as five or ten years. And as the demographics of the profession shift, with more and more scholars born after the 1940s entering mid-career, many surely will struggle to understand the deeper meanings of their own times. The turning of the century and millennium also inspire broad-gauged reflection.

For all of these reasons, I suspect that a major project of the next generation of scholarship will be interpreting more deeply the history of the latter half of the twentieth century. It is vitally important that business and economic historians play a key role in the endeavor. On a basic level, we need to offer something meaningful as U.S. history textbooks and survey courses are restructured with greater emphasis on the postwar period. What story will we tell to make claims on those pages?

More importantly, the intellectual vitality of business history scholarship – and in large measure the future of the discipline itself – will depend on its

success in this project. On the institutional side, business history has been a “first mover” in understanding the internal dynamics of large-scale business organizations and, to a lesser but still significant degree, their interactions with the state and labor. But on the cultural side, we are decidedly a “late mover.” Business history has been one of the last subdisciplines to incorporate race, class, and gender analysis; nor have we made much of a contribution in understanding the valuative, intellectual, and social dimensions of business activity, within the firm or within its cultural context; nor the dialectical process through which business and society are mutually constructed. For those whose agenda is to comprehend the American historical experience by interpreting its prevailing activity – business – the postwar era is fertile ground.

The contours of American business in this half century already are beginning to take shape. As a starting point, we can ask whether we see continuity or change between the early 1900s (or earlier) and the late 1900s. Was the second half of the twentieth century shaped mainly through the forward projection of earlier trends, such as the growth and concentration of corporate interests in core industries, the expansion and consolidation of federal power, the continuing shift of value adding functions toward educational and scientifically based institutions?

Alfred Chandler suggests as much in his recent work on the postwar period. For Chandler, the travails of the U.S. economy since the 1960s – reflected in slower rates of growth, loss of market share to foreign competitors, and corporate downsizing – stem primarily from a failure of big business to preserve and cultivate key “organization capabilities.” This is a powerful argument, and Chandler is hardly alone in emphasizing the importance of the internal dynamics and strategy of big business, particularly the harmful effects of unrelated diversification [Chandler, 1994, 1990]. But such interpretations presume a constancy in the context of big business, making its strategic shifts the salient feature of the story. Rather, the internal “logic of industrial capital” (Chandler’s phrase) may have changed dramatically as relations between big business and its environment evolved in significant ways.

A decade ago, Alan Brinkley contributed to *Daedalus* one of the profession’s rare historiographic considerations of postwar America, broadly conceived. Brinkley argued that interpretative frameworks quite useful for earlier periods of American history are largely irrelevant for the postwar period. One of Brinkley’s key targets was the “organizational synthesis” – a framework close to the hearts of many business historians – which, according to Brinkley, failed to account for the persistence and vitality of the vast non-hierarchical elements in pluralistic America. Although Brinkley sees *The Segmented Society* – one of Robert Wiebe’s lesser known works of synthesis, which extended into the postwar era – as pointing in a promising direction, the *Daedalus* essay is frustrating for disparaging so much yet offering little in its place [Brinkley, 1986; Wiebe, 1975]. In this essay I will argue, as Brinkley did, that the postwar period is distinctive and discontinuous with earlier times in significant ways. Unlike Brinkley, however, I will suggest several themes for interpreting business history in the last half century.

## Chronological Frameworks

I begin with chronology. Viewed from a high vantage point, there was a great disjuncture some fifty to sixty years ago. The turning point came – somewhat imprecisely – around the time of the Second World War. There is, of course, a considerable literature that points to the New Deal as the wellspring of the modern U.S. political economy. According to this view, an activist, administrative state dedicated to Keynesian fiscal economics, and the rise of organized labor as a credible “countervailing power,” joined with associationalist corporate interests in a great corporate-liberal triumvirate dedicated to the regulation of wages, prices, and output.

There are obvious flaws in this picture. The New Deal shifted its emphasis from associationalist planning for anti-trust at mid-decade. And FDR was an unwitting Keynesian, who – depending on which of his supporters you believe – either retreated treacherously from deficit spending to worship at the balanced budget altar as soon as the economy showed signs of recovery in 1937, or never really tried the Keynesian experiment until forced by world war.

The wartime economy looks more like something new, and not merely because of its huge budget deficits (as a percentage of GNP). The unprecedented high levels of deficit spending were spurred by global war – the kind of aberrant situation in which Americans typically have tolerated dramatic expansion of state power – and were rolled back soon after the war. As Brian Balough recently argued in his insightful contribution to the “organizational synthesis” literature, the war brought together hitherto independent streams of professionalization and federal statemaking, melding expertise and bureaucracy for the first time [Balough, 1991].

The political economy of the war was an experiment in semi-planning on a grand scale; and the demands of war brought together key institutions in business, government, labor, science, and higher education. But the immediate postwar period is remarkable – and my nomination for the beginning of the new era – because it was then, in peacetime, that the wartime inter-institutional mortar dried and stuck. Fearful of the return of depression, and buoyed by the roaring “guns and butter” economy of the early 1940s, U.S. economic policymakers committed themselves to fiscal and monetary interventionism. Passage of the Employment Act of 1946 – a watered down version of the Full Employment Act, to be sure – nevertheless reflected the remarkable consensus among labor and policy leaders that the federal government was chiefly responsible for the economic health of the nation, a view that has endured since [Stein, 1994, pp. 65-87; Chandler and Tedlow, 1985].

The role of the federal government in the economy and its relations with business evolved in other important ways in the late 1940s. The scale of federal participation in the economy in absolute terms and as a percentage of GNP became significant in peacetime for the first time in U.S. history. The number of federal employees, for example, climbed from roughly 1 million in 1940 to 2.5 million in 1962, by which time the federal budget comprised one-fifth of GNP [Galambos, 1987]. Part of this resulted from sustained levels of

military spending during the Cold War, which became a grand organizing principle in American institutional life. But the federal government also began to invest heavily in social capital (such as highway building and the GI bill) and to transfer wealth and income through middle-class-building welfare and tax programs. Significantly, both forms of heavy spending – military and social – were non-cyclical.

As for organized labor, the passage of the Taft-Hartley Act the year following the Employment Act helped solidify another crucial set of postwar institutional relationships in lasting ways. In some respects a rollback of the pro-labor Wagner Act, Taft-Hartley nevertheless did not cripple the labor movement as its leaders had feared. Rather, it gave labor a permanent yet subservient voice in business affairs; and, combined with the widespread diffusion of union work rules, helped reduce work stoppages while applying steady pressure for higher wages.

It is easy to imagine a counterfactual scenario. In this alternative postwar script, the United States retreats at the end of the war, as it had after World War I, into isolationism in the international sphere, while on the domestic side economic policymakers return to their traditional minimalist view of the state. (After all, 60 percent of Americans surveyed by the first Gallup poll in 1935 believed the federal government was overspending for “relief” [Samuelson, 1995, p. 12].) There is no Employment Act of 1946, no enhancement of Social Security, no “military-industrial complex” or heavy peacetime military spending.

In the real 1950s and 1960s, economic policymakers supported corporate-led growth, which they found few reasons to constrain. They saw their task as creating a macroeconomic environment that encouraged corporate expansion. Perhaps more than anything else, this macroeconomic environment was stable and predictable. Stability and predictability, in turn, resulted from the accepted policy goal – or, as many preferred to call it, “fine tuning” – balancing unemployment at one end of the economic see-saw against inflation at the other. Most of the time, the balancing act worked. With one or two exceptional years, inflation hovered around 2-3 percent and unemployment around 5 percent until the late 1960s.

This postwar framework came unstuck in the early 1970s, which brings us to the second part of my chronological argument. Beginning in the early 1970s – in fact, precisely in 1973 by most measures – the United States economy shifted abruptly from growth to stasis. In 1973, real weekly wages ended their long and steady postwar climb. After rising at a hefty annual average rate of 2.9 percent between 1948 and 1973, weekly wages adjusted for inflation *fell* between 1974 and 1991 by an average of 0.9 percent per year. Meanwhile, median family income, which similarly had increased 2.8 percent per year from 1947 to 1973, rose and fell sporadically thereafter. And the overall productivity of the economy (as measured by nonfarm hourly output per worker), after rising 2.5 percent on average per year between 1948 and 1973, increased an average of merely 0.7 percent per annum in the dozen years thereafter [Peterson, 1994, pp. 32-42]. Although it would take years to

recognize the fact, America's robust postwar economic expansion had come to an abrupt halt.

### **Business and the Performance of the Economy**

What is the significance of this reversal of fortune for the study of American business history in the postwar period? This great turnaround inspires two key questions. First, how did business *contribute to* the rapid waning of robust postwar economic expansion? Second, how did business *respond to* the coming of a low growth economy? Let us take each question in turn.

Explanations for the end of postwar expansion commonly center on macroeconomic factors. Among these, one stands out: the worldwide energy crisis precipitated by the 1973 Yom Kippur War and subsequent OPEC oil embargo. The economic effects of the Middle Eastern cartel's 300 percent crude oil price hikes – as they rippled through the global economy, boosting the cost of fossil fuel-based transportation, power generation, petrochemical plastics, and so on – are indisputable. But for the questions we have posed, such monocausal, macroeconomic explanations are unsatisfying. Because the effects of the energy crisis were global, they do not explain the decline of U.S. economic performance *relative to* that of other industrialized nations such as Japan and Germany.<sup>1</sup>

Let me suggest that the relationship between the 1973 energy shock and the dramatic slowdown of the U.S. economy has a historical analog in the stock market crash of 1929 and Great Depression. Just as most historians see the Great Crash, not as the cause of the depression, but as a precipitating event which jolted an economy already suffering from underlying weakness, so the energy shock should be viewed as the catalyzing agent for a vulnerable configuration of economic institutions and cultures. To supplement the story told by economists, business historians need to explore the institutional dimensions of the end of U.S. postwar expansion.

### **Institutions and Managerial Culture**

The outlines of this story are beginning to come into view. Many institutional historians point to the rise of unrelated diversification in the 1960s – epitomized by the conglomerate movement – as a misguided strategic and structural innovation that ultimately undermined American competitiveness. While this interpretation seems fundamentally on target – there is ample evidence that conglomerates performed poorly compared with related-diversified firms – it is too limited [Lichtenberg, 1992, p. 113]. Conglomerates were the extreme embodiment of a much broader movement toward unrelated diversification in postwar corporate America, a movement that embraced hundreds of large firms that never became conglomerates.

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<sup>1</sup>To be sure, the United States, as the world's leading consumer of oil, would have been affected disproportionately by the crude oil price hikes. I have not seen studies that attempt to correlate these factors.

The rise of unrelated diversification was driven by a common set of constraints, assumptions, and emerging methodologies. Among the key constraints were declining rates of return in mature industries and rising development costs in many technology intensive businesses. Just as important, however, were prevailing assumptions among U.S. executives that general management skills were 1) unsurpassed throughout the world, and 2) easily transferable across industry lines. The appearance of computers and sophisticated new quantitative techniques for evaluating business unit performance, the outpouring of graduates from engineering and business schools, and the growing prominence of professional management consulting, which favored formulaic, quantitatively based models of strategy and structure – all of these new business tools combined to reinforce these assumptions about how best to do business.

The result was not merely the meteoric rise of a dozen or so conglomerate Wall Street darlings, but also a widespread movement among leading firms in many industries into businesses completely unrelated to their traditional lines. Often this was accomplished through the acquisition of upstart entrepreneurial firms, which were seen as shortcuts to new product development and higher rates of return. For example, one firm that I have studied – Hercules Incorporated, a Delaware-based chemical giant – diversified in the late 1960s from chemicals into photocomposition printing, electronic credit card readers, medical supplies, “Hercoform” modular housing, and flavorings and fragrances. Only the latter – which was, not coincidentally, the most closely related to the company’s traditional businesses – lasted more than a few years and made a profit. In the same period, Du Pont, Monsanto, and other large chemical producers made similar moves with similar results, although none came close to conglomerate status [Dyer and Sicilia, 1990, pp. 363-373].

### **Business, the State, and Labor**

Beyond the boundaries of the large postwar firm lie further explanations for the nation’s declining fortunes. Indeed, the new postwar salience of government and labor has prompted some scholars to look toward a broader unit of analysis: business, labor, and the state and their interrelationships, which the authors of the Harvard study of the automobile industry dubbed the “American enterprise system” [Dyer, Salter, and Webber, 1987]. As that and similar studies point out, the economic competition between nations is not a matter of rivalries among the firms of those nations, but among their enterprise systems.

Three characteristics of America’s postwar enterprise system seem to have played a large role in our economic travails. The first – insularity – has remained relatively constant. Simply put, American business, state, and labor have not communicated or cooperated well ever since the state and labor became important players. The separation of powers, reinforced by a pervasive, deeply embedded anti-statist ideology, have worked against intra-government coordination, while business coordination and cooperation have been

perennially undermined by the chronic problems of overproduction in core industries and the diversity of technologies and markets, not to mention anti-trust laws. The chief result has been that each domain has pursued its interests largely independently of the others, and with little consultation.

Consider the stories of two key industries: steel and automobiles. In the postwar period, “big steel” operated in relative isolation from the federal government. The Justice Department periodically threatened antitrust action against the industry leader, U.S. Steel, for its “price leadership,” a euphemistic term for the company’s leading role in the industry’s informal domestic cartel. At the same time, another arm of the federal government was pouring money into the war-devastated economies of Germany and Japan in an effort to turn those two countries into strong bulwarks against the spread of communism. Few Washington Cold Warriors fretted about the structure of the steel industry within these recipient nations – such as Germany, where cartels were sanctioned and legally enforceable. But both sides complained bitterly and pointed accusing fingers when the revitalized foundries of Germany and Japan began to gobble up larger and larger shares of the world steel market [Tiffany, 1988].

The history of the postwar automobile industry (which similarly remained alienated from regulators), illustrates the risks of insularity between management and labor. The Big Three and the United Auto Workers (under Walter Reuther between 1947 and 1970) came together periodically to negotiate contracts. Wages and benefits were the primary concern; little else was on the table. Both sides remained suspicious of each other – in keeping with American tradition – yet they reached a powerful accommodation. In exchange for high wages and cost-of-living increases pegged to inflation and productivity, the UAW agreed to forego other demands and to keep workers on the job. For decades, this compact worked. American autoworkers benefitted from high wages and steady employment. For their part, the Big Three enjoyed a stable and cooperative labor force.

When superior foreign imports began to flood the American market – leading to loss of market share, layoffs, and plant closings – labor and management became focused on a host of issues that hitherto had garnered little attention: job security, plant location, and the adoption of new technologies, among others. But these were difficult to accommodate through the old, limited style of interaction. Relations between the two parties entered a new, more adversarial era [Dyer, Salter, and Webber, 1987, pp. 13-43, 183-209].

In these and other ways, the insularity of U.S. business, government, and labor bred rigidities. The successes of the postwar period laid the groundwork for future failures.

The second damaging characteristic of the postwar political economy on my list is indifference. Here I refer to the growing indifference of policymakers toward economic expertise. Consider the fate of the Council of Economic Advisors, established in 1946, the first independent advisory body staffed with professional economists and charged with advising both Congress and the president on key national economic matters. Perhaps it was the novelty of the institution, but the early postwar presidents seemed to pay a great deal of

attention to the CEA's recommendations. Walter Heller (chairman of the CEA under Kennedy and Johnson) and his ilk expressed great satisfaction that the economy finally was in the hands of professionals [Heller, 1967]. Through Kennedy, who favored academic types and assembled a New Frontier brain trust, the management of the economy was kept largely out of the White House.

The textbooks now blame LBJ for the onset of the Great Inflation (the product of Great Society spending, Vietnam spending, and low taxes), which soon was joined by stagnation to create "stagflation" [Ratner, Soltow, and Sylla, 1993, pp. 537-40]. Nixon seemed fairly sophisticated about economic matters, but – as in other realms – called too many of the shots himself, and paid precious little attention to the health of the economy as Watergate heated up.

But no modern president proved more adept at ignoring the advice of professional economists than Ronald Reagan. Although Reagan claimed to have studied Keynesian economics, the subject was not taught at Eureka College when Reagan was a student; indeed, Reagan graduated in 1932, four years before Keynes published his *General Theory*. Moreover, the president's relationship with his key economic advisors was thin at best. Donald Regan, whom Reagan recruited from Merrill Lynch to become Treasury Secretary, later recorded in his memoirs: "To this day I have never had so much as one minute alone with Ronald Reagan. Never has he, or anyone else, sat down in private to explain to me what is expected of me, what goals he would like to see me accomplish, what results he wants." Similarly, the first Chairman of the CEA under Reagan (Murray Weidenbaum) resigned in 1982 when he felt the Council's reports were being sculpted for public consumption; and his replacement, the outspoken Martin Feldstein of Harvard and the National Bureau of Economic Research felt the need to resign after going public with some unfavorable news about Reaganomics. For long periods, the president left the third seat on the CEA empty, and following his election in 1984 he spoke of abolishing the institution altogether [Norton, 1991, pp. 213-40].

I am willing to admit that this seems a lot, as David Stockman aptly put it, like "the triumph of politics" – and not merely the Reagan record. Johnson had his Vietnam, Nixon his Watergate, Reagan his wistful dogmas. One could also make a good case that the central reason for the growing indifference of policymakers toward economists was the failure of the profession to account for stagflation. (We know the old ways don't work, Reagan said when confronted with doubts about supply-side economics.) And I am also willing to admit that many readers can envision no spectacle more horrible than an economy run by economists! Still, there is something perplexing about a nation that puts its intellectual capital to such minimal use, especially as foreign nations continue to educate their elites in our universities. This is especially ironic, given the growing complexity of the economy and the growing sophistication of economics.

To be sure, there is ample evidence to support the flip side of this argument: that the economics profession had little to offer policymakers after the onset of stagflation. Once stagflation undermined the inverse action of inflation and unemployment on each other (in effect snapping the theoretical



see-saw), the economics profession suffered a crisis of confidence. Still, many fiscal conservatives became critical of the Republican party's embrace of supply-side economics in the late 1970s and 1980s. For the likes of former CEA chairman Herbert Stein, the abandonment of postwar "deep root canal" economics for the supply-side "economics of joy" – which enjoyed minimal support within the economics profession – was a critical policy failure.

The third defining – and undermining – characteristic of American economic life since the 1970s is unpredictability. Revisiting the domain of national policymaking for a moment, we can observe some striking patterns. As Herbert Stein has pointed out, a power consensus endured during the Truman and Eisenhower years, a consensus that acknowledged a role for both fiscal and monetary policy, but with limitations on their exercise. "Fears that a fiscal policy aimed at full employment might turn out to be destabilizing and inflationary and to yield excessive deficits and excessive government," notes Stein, "were recognized to have a real basis" [Stein, 1994, p. 83]. But this consensus broke down over the next decade. Struggling against stagflation, Jimmy Carter presided over the beginnings of a massive effort to dismantle the New Deal regulatory state. Nixon, a conservative to the bone, found himself a stranger in a strange land of wage and price controls. To be sure, these kinds of measures seem to be largely desperate responses. But they also amplified the problems plaguing American business to the extent that they created an environment of uncertainty.

The same phenomenon can be seen on a different level. The federal code governing corporate taxes remained constant from 1950 to 1963, the capital gains code from 1942 to 1969 – both the longest periods of stability in American history. Then began a roller coaster ride of ups *and* downs, regulations were changed like socks, and the tax code expanded many fold. The trend line reveals no clear correlation between low taxes or high taxes and prosperity, but shows a clear correlation between tax code stability and economic health [Stevenson, 1997]. Like children, investors and large corporations yearn to know what to expect; that matters as much as or more than the quality of treatment.

Macro- and micro-economy always have been woven together inextricably. But in the postwar period, macroeconomic conditions (foreign and domestic) largely determined the health of business, rather than the other way around. For that reason, the persistence of institutional insularity, the indifference of leading policymakers toward economic expertise, and the eruption of macroeconomic unpredictability had great consequences.

### **Business and Countercultures**

So far I have discussed institutions. Now I turn to culture. The chronological scaffolding I erected earlier will serve here as well. Sometime around the early 1970s, as the material conditions in American life shifted downward, popular perceptions of business and the economy also shifted markedly. To understand the nature of these shifts, we need to consider how cultural attitudes both contributed to and responded to the onset of economic stasis.

A promising entry point for this investigation, it seems to me, is the counter culture. Rather than defining the nature and origins of the counter culture with any precision, I shall note for the purposes here that I find convincing the arguments of John Patrick Diggins, who points to vital and iconoclastic elements in the arts and intellectual life of the 1950s as precursors to the 1960s; and Todd Gitlin, who has delineated not one but several countercultural movements [Diggins, 1988; Gitlin, 1987]. But my central interest lies with the countercultural elements that ultimately gained wide currency, and that reshaped American society and institutions, in the early 1970s.

The significance of this story for the study of postwar business history is that business stood at the heart of the countercultural critique of American life. This was true of influential playwrights, reformers, and beats in the 1950s; of New Leftists, yippies, and antiwar protestors in the 1960s; of ecologists and architects of New Social Regulation in the early 1970s. These kinds of critics – and a central core in the whole period of national self-examination and anxiety – targeted what they called “the establishment,” or what I have referred to as the American enterprise system. Seen in this way, the countercultural movement was a timebound response to a unique postwar development: the rise of the military-industrial-labor-university complex.

The ranks of influential public intellectuals of the 1950s were thick with critics of corporate America: Arthur Miller, William Whyte, C. Wright Mills, David Reisman, John Kenneth Galbraith. Whyte’s discussion of hierarchy, education, professional recruitment, and industrial relations in *The Organization Man*, and Galbraith’s portrayal of the nexus of relations among business, government, science, and higher education, pointed to the effects of postwar institutional developments on social and cultural life [Whyte, 1956; Galbraith, 1967]. In *Making America Corporate*, Olivier Zunz shows how middle managers created the corporate cultures of giant firms in the late nineteenth and early twentieth centuries. But his book opens with references to Arthur Miller’s *Death of a Salesman* and the works of C. Wright Mills, reminding us that the creativity and agency possessed by the founding generation or two of bureaucratic culture was largely extinguished in the postwar period [Zunz, 1990, pp. 1-3]. Before, men and women made organizations; now organizations made men and women. Similar themes emerged from very different quarters. Historians of the American civil rights movement, for example, are beginning to document the emergence of an anticapitalist thrust, particular within the Student Non-violent Coordinating Committee, in the late 1960s [Lawson, 1991, pp. 469-70].

In the 1960s, the anti-bureaucratic theme was directed mainly at big business and big government, especially the military, and at higher education for its complicity. It is no coincidence that student protests erupted at Berkeley, prime training ground for the nation’s technocratic elite. Significantly, the 50,000 or so protestors, pacifists, yippies, academics, wizards, acid heads, and mystics who attempted to mentally levitate a building in 1967 chose the Pentagon as their target. (I have no doubt that Jerry Ruben actually saw it rise.) When antiwar protestors got specific about “the establishment,” they often

pointed the finger at dishonest politicians and military leaders, but quite often at the manufacturers of Napalm and Agent Orange. Among the most thoughtful and reflective of the breed were the likes of Theodore Roszak, who saw “technocracy” as the enemy of spiritual fulfillment in modern times [Roszak, 1969].

Historians of technology are making progress in the study of countercultural critiques of postwar technological society. Thomas P. Hughes, for example, devotes the final chapter of his synthetic *American Genesis* to the writings of Roszak, Herbert Marcuse, Lewis Mumford, Jacques Ellul, and others [Hughes, 1989, pp. 443-70]. Business historians should undertake a similar project, for despite considerable commonalities, critiques of business and of technology were not identical. In this mission we can take direction from business history’s first great cultural historian, Thomas C. Cochran. Cochran reached the pinnacle of his career in the early 1970s, when he published his grand synthesis, *Business in American Life*, and served as president of the American Historical Association [Sicilia, 1995]. In his 1972 presidential address to the AHA, entitled “History and Cultural Crisis,” Cochran focused on the growing disparity between the nation’s shared values and its bureaucratic institutions. Cochran took a long view in trying to understand the social upheaval that surrounded him; and in the process, the seventy-year-old historian ended up sounding themes common in the counterculture. And for Cochran, business stood at the center of the story.

The loss of justification for authority, the decline of morale, and the rise of equalitarian protest could, of course, be illustrated in the history of other major social institutions. The same process of mounting skepticism and loss in the force of generally accepted values covers the whole social panorama from art to organized religion. But perhaps nowhere has the conflict between an old authoritarianism and the new equalitarianism, or its nonacceptance, been more sharp and dramatic than in business management [Cochran, 1973, p. 8].

Let me suggest another way in which counterculture ideology resonated with the end of postwar economic expansion. The counterculture’s rejection of positivist, reductionist thinking in favor of a holistic mentality fostered a broader public understanding of economic externalities. Stated another way, the counterculture convinced millions of Americans that they were part of a single organic system, and this in turn began to serve as a model for understanding the transition from growth to stasis.

As with the countercultural critique of business, the critique of the atomistic world – and, by extension, of the economics of individualism and sustainable growth – sprang from varied sources. The popularization of Eastern religion, particularly Zen Buddhism, by the likes of Alan Watts, D.T. Suzuki, and Aldous Huxley inspired millions of Americans to reflect upon, as the popular phase went, “the interconnectedness of all things.”

Some of the most penetrating challenges to the positivist paradigm came from voices on the fringe – or on the cutting edge, depending on one’s inclinations – of the scientific community. Rachel Carson’s *Silent Spring* indicted manufacturers of chemical agents for agriculture for their efficiency at tearing the intricately woven fabric of the ecosystem. R. Buckminster Fuller, the technical wizard who invented the geodesic dome, published widely on the subject of “spaceship earth,” an interconnected, finite system [Carson, 1952; Fuller, 1973]. Ironically, the era’s most powerful image of a holistic earth was a product of the establishment: the photographs of the earth taken by NASA astronauts in 1966. As historian William Bryant has noted, “the image of the Earth in space, coupled with the metaphor of Earth as a spaceship, became a pervasive and powerful symbol for the early environmental movement” [Bryant, 1995, p. 51].

As the economy slowed dramatically during this period, millions of Americans possessed mental constructs for interpreting the change. Many now understood the concept of social costs – that the cost of a McDonald’s hamburger was not limited to the price of the item to the consumer, but extended to the health care cost of clogged arteries, destruction of the ozone layer by the styrofoam container, and so on. Some reacted to this insight by boycotting such products and otherwise altering their lifestyles away from frivolous consumerism. By the mid 1970s, ecology and consumerism were thoroughly mainstream. Meanwhile, others responded to the realization that one person’s actions affected all others on some level by scrambling more aggressively for spaceship earth’s limited resources. The rising tide that had lifted all boats in the 1950s and 1960s gave way to Hitchcock’s lifeboat, with its limited supply of fresh water. By the 1980s, the economy seemed populated by those who pursued narrow economic interests and those who denied the expansion had ended in the first place.

The countercultural critique of American business also deserves attention because it played a key role in the third great wave of regulatory legislation in U.S. history. The New Social Regulation of the late 1960s and early 1970s included a dizzying array of laws and ten federal regulatory agencies, including the National Transportation Safety Board, the Council on Environmental Quality, the Environmental Protection Agency, the Occupational Safety and Health Administration, and the Consumer Product Safety Commission. This regulatory revolution had three main aims: environmental protection, consumer rights, and workplace safety. In other words, it placed greater controls on how corporations made products, treated their workers, and disposed of their waste. Unlike Progressivism and the New Deal, this legislation was not targeted at specific industries, but stretched across the industrial landscape [Vogel, 1981]. Clearly, the business critique at the heart of the countercultural impulse, as it diffused into the broader culture and back into its leading institutions, produced enormous tangible results.

The anti-bureaucratic theme in the countercultural movement in the 1960s gained wide currency during the economic crises of the 1970s, and even became a key component of neo-conservatism in the 1980s. Reagan’s attack on

“big government” resonated with a generation that recently had completed one of the greatest experiments in regulatory institution-building in modern U.S. history.

### **Recent Evolutions in Big Business**

For mainstream business historians, I shall conclude with a few reflections about a familiar subject, the strategy and structure of big business. Looking at the internal dynamics of giant corporations, does the postwar period appear to deliver much that is new or distinctive? I think the answer is yes. The spread of the multinational, multidivisional firm after the Second World War has been fairly well documented. And I have already discussed the wave of unrelated diversification beginning in the 1960s. But it seems to me that the course of big business in the last three decades promises to emerge as a richly rewarding field of research.

To begin with, developments since the 1970s may reinvigorate a longstanding discussion in business history about the boundaries of the firm. Why do firms internalize some functions and not others? Alfred Chandler provided compelling strategic explanations for why turn-of-the-century industrial corporations integrated horizontally and vertically (both forward and backward). Why, then, did so many integrated firms begin to dis-integrate in the '70s and '80s? There is ample evidence that much of this activity involved the spinning off of ill-conceived unrelated units – a kind of de-conglomeratization – a trend which supports the notion that Chandlerian firms represent best practice [Segal, 1989; Donaldson, 1994, p. 159].

However, other developments point to the emergence of a new kind of enterprise. Some of the most successful industry sectors in the postwar period have been organized and governed without large, hierarchical organization structures. In information technology and biotech, for example, relatively “flat” organizations have been the norm. Moreover, with the application of just-in-time inventory controls and other coordinating and allocating methods, managers in several key industries have moved toward outsourcing hitherto internalized functions, thereby redefining the boundaries of the firm so as to turn back the clock on the 1880s. Some firms have performed well in unrelated or semi-related businesses, challenging the notion that conglomeratization is undesirable in all guises. And a trend among many of the largest firms toward high-value-added specialty products suggests that an optimal strategy in a globally competitive business environment often may be flexible manufacturing for niche markets. This strategy has been dictated by the business environment in which advanced industrial economies have been competing for the last two decades or so – an environment characterized by intensifying global competition in core industries; information intensity; and narrowing margins for error.

Increasingly, large firms have been refocusing on their core competencies [Prahalad and Hamel, 1990]. The result is a variety of business enterprise that looks like a hybrid between the giant mass producers written

about by Alfred Chandler and the kind of more flexible, custom- and batch-oriented firms chronicled by Philip Scranton [Chandler, 1977; Scranton, 1991]. Many of the successful competitors in recent years have operated in a small number of discrete businesses in which they have cultivated core competencies in counter-cyclical businesses. And there has been a trend toward flexible production as globally competitive firms have sought niche markets, specialty products, and high value-added products.

Innovations in ownership structure are becoming apparent as well. Recoiling from the rough financial seas of the 1980s, many large corporations are now seeking tighter ownership structures. This does not mean a return to owner-manager control (which remain impractical in capital-intensive businesses); nor does it represent a flight from the discipline of capital markets, as some firms achieved through self-financing in the postwar period. Rather, it is an effort to forge closer relationships with customers and suppliers, and to link executive compensation more closely with firm performance. Meanwhile, in corporate governance, some of the largest firms are seeking ways to decentralize and increase flexibility – actions demanded by the global environment. In these and other ways, a growing number of giant corporations are beginning to respond to the principle-agent problem that became so obvious a decade or so ago.

Another hard-won lesson of the 1970s and early 1980s concerns the optimal time horizon for strategic planning. For a number of years, American corporations have sustained severe criticism for their “short-termism” – for being driven by the latest quarterly report and sacrificing long-term investments in plant and equipment and R&D in the interest of short-term financial performance [Jacobs, 1991]. At the same time, information technology, by making markets broader and more fluid, now places a premium on responsiveness. Moreover, the democratization of capital markets (through the mutual fund revolution, for example) has placed growing emphasis on ROR and related measures of corporate financial performance. As a result, many large corporations are looking to a medium time horizon.

In these and other ways, corporate strategy in the late 20th century increasingly has struggled with the fundamental tension between the need for high rates of return in the near term and the need to preserve and build core competencies in the long term. The firms that reconcile focus and agility, rather than those that wield the greatest manufacturing and marketing might, may be the strongest competitors in the next century. It will be the obligation of business historians who came of age alongside this new breed of global competitor to tell its story.

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