The Prescriptive Role of Firm Size, It's Relationship to Business History

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"Every now and then a man's mind is stretched by a new idea...and never shrinks back to its former dimensions"

Oliver Wendell Holmes;
The Autocrat of the Breakfast Table

In the highest state of its development the historian's art reflects the interplay of economic, social, and political factors over time. Since each factor influences, and, in turn, is influenced by each of the others, real world events may be viewed as a web of causative elements - a mutually determined system with no beginning and no ending. As historical events are probed, however, they reveal both structure and connected sequence. The resulting structure and connected sequence arises from the nature of the investigative process itself - habits of mind governing selection criteria for problem definition, evidence sources, ordering of and emphasis on determining variables or events, broadly speaking, methodological considerations - it is a stylized view of reality, a partial picture of the whole. It often happens that the description of that connected sequence is subtly transmitted into a unique causative chain where virtually exclusive emphasis is given to one determining factor. Thus history becomes either social, economic or political. This is not only a matter of convenient categorization, it is a question of how the historian sees the world, so to speak. More is involved here than a lexicographic or taxonomic exercise. What is at issue in all historical writing is the choice of prime, determining variables (factors) and, moreover, how they enter into the description and interpretation of events.

Recently Alfred Chandler and Louis Galambos have advocated the use of a framework for historical analysis of the organizational dimensions of modern industrial economies which focuses on organizational evolution and development.[1] The principal intellectual roots of this organizational synthesis derive from Max Weber's, _The Theory of Social and Economic Organization_. There are two claims advanced by Chandler and Galambos, however, that are of special interest in that they highlight some very important problems in the writing of business history. The first is that organizational analysis offers an intermediate position between the generalizers and the particularizers, between the overbroad, deterministic, and speculative synthesis on the one hand; and the unique, phenomenological and fragmented case studies on the other. Secondly, as Galambos states, "The new organizations are characterized by bureaucratic structure and authority. _This shift in organization cuts across the traditional boundaries of_ political, economic and social history."[2] and "The chief strength of the organizational approach is a mode of analysis which blends the traditional tools of historical thought with ideas from the behavioral sciences. Organizational history spreads a very broad net."[3]

Thomas Cochran, whose work has stressed the critical interaction between business organization and its social environment, has probably displayed the most enduring concern for a history of business enterprise that deals with the social and cultural significance of business organization.[4] To Cochran business history is much more than the internal functioning of a firm or an industry, and it is not surprising that he should emphasize the need for "inter-institutional history."[5] In addition to the general thrust and cast of mind of this scholarly opinion, Ralph Hidy in surveying past and future trends in business history has offered the extremely interesting suggestion that, ". . . the most dynamic area, I think, is in the field of government-business relations."[6]

By the foregoing summary statements drawn from these respected scholars it is not intended to claim that the preponderant weight of professional opinion, much less, substantive work is adhering to either the inter-institutional position of Cochran, the organizational synthesis advocated by Chandler and Galambos, or government-business investigations suggested by Hidy. What does appear to be the case is not so much a thorough-going revolution in the field of business history, as a strong new current or trend which by its very nature tends to shift the principal historical focus away from the traditional firm or industry study toward an interdisciplinary view of the business process.

The mainspring for this newer view can be glimpsed in this statement from Chandler, "On the other hand, the overwhelming dominance of the large corporation in the modern American e-conomy has raised problems and issues, some of which are still totally unresolved."[7] The problems Chandler refers to might be categorized, broadly, as the mutual impacts between large scale corporate enterprise and the social and political in-stitutions that, in large measure, have formed the central materials for American history over the past century. All of this might be termed modern American history with business and other large scale institutions at the vital center. What-ever else it might mean, it is sure to be the case that business history will have a large and important role to play in this "new synthesis"--at least the claim has been properly staked--and that business historians will be gazing out upon larger frames of reference as substantive interest shifts, in time, from the nineteenth to the twentieth century.

As historians settle down to the serious task of probing the business and organizational structure of twentieth century America, it is safe to assume that this newer synthesis will cleave, very simply, along pro-and anti-business lines. The reason for this most likely has to do with motivation. After all why would one be concerned with the subject at all if it were not for the advancing of some "case" either explicity or implicitly? American business has not, does not, and probably never will elicit indifferent, dispassionate, objective responses--

be they scholarly or popular. As Edward Mason relates, "This view (historical) or the proper approach to the problem of the large firm and monopoly takes the question pretty much out of the area of economic analysis and into one that Schumpeter was accustomed to call ideology. In fact, he (Schumpeter) once indicated to the author that he was anxious to clear existing work out of the way in order to undertake a study of the question of whether anything could be said about the 'monopoly problem' that was anything other than 'sheer ideology'."[8] It should be noted that Schumpeter never did find a value-free approach to the "monopoly problem," nor has anyone else for that matter.

In the matter of attitudes toward American business there is nothing quite so boring as the polar extremes. On the one hand, pro-business writers are forever emphasizing the dynamism, cornucopic productivity, and implicit miraculousness of the Captains of Industry and their respective business institutions. Generally suppressed in these works are the trade-offs involved in mature industrial economies in terms of social costs as against private gains--all gains from corporate enterprise are treated as net of social cost. In a sense this "accounting failure" stems from the fact that a good number of the pro-business works are focused on the firm or industry. As a result the well-known biographic syndrome comes into play. The object of attention is viewed in isolation from its larger environment, ever influenced and seldom, if ever, influencing because the institutional unit of attention is very, very small in relation to the whole. Crudely put, all the less lovely aspects of capitalism cannot be laid at the doorstep of a single firm or industry. Anti-business writers, New Left historians, and some Radical economists, on the other hand, very often display a curious inversion of the foregoing malaise. Capitalism, in the American experience, is just one enormous social cost, with little, if no, attention paid to its positive achievements. Another characteristic attaching to these polar positions is that the pro-business group is often quite expert in terms of knowledge of the business process in one or more of its functional aspects, while the anti-business group if largely innocent of any specific knowledge about how businesses are actually run in practice. This characterization of the Chandler-Galambos generalizers and particularizers drawn largely in terms of attitudes and viewpoints toward business is not meant to be taken as exact or all-encompassing; however, this dichotomy is sufficiently accurate to serve as a useful point of departure in discussing some trends and prospects in the field of business history.

Of course, it is futile to suggest to the many scholars working in business history or related fields that their values need reforming. In discussing the type of work that is likely to appear in the middle ground of organizational synthesis, Louis Galambos offered a relatively agnostic appraisal, "Even more difficult to predict are the values, the moral judgments, which will be adopted by the students of bureaucracy...The experience os business history suggests that this could be a major problem."[9] While the movement to a middle, methodological ground, in terms of the unit of history, offered by the organizational synthesis is a promising development in itself; one cannot be so sanguine about its scholarly future if, either, it becomes a new romping ground for the polarized viewpoints discussed above--and, hence a polemical battleground--or, alternatively should it be firmly held by either of the two opposed points of view. The first outcome would be a shouting-match, pure and simple, the second would be a perpetuation of one or the other set of conceptual defects; and the newness (or novelty) of the new synthesis would consist chiefly in the technical, rather mechanical, and functional changes in frames of reference and categories attending the shift to the new unit of analysis rather than in the deeper and more thorough-going change in intellectual balance and perspective. This question of values and attitudes--ideology, if you like--can be usefully thought of in Schumpeterian terms. In Schumpeter's later years he devoted considerable time to the question of "ideology" in relation to scientific research. This, in fact, was the subject of presidential address before the American Economic Association in 1948.[10] To Schumpeter ideology was, "the initial vision of the phenomenon we propose to subject to scientific treatment."[11] Not only did it provide the impetus for new avenues of approach in scientific work, but, more importantly, in his view it was not necessarily incompatible with objective research. "I am not going to reopen the old discussion on value judgments or about the advocacy of group interests. On the contrary, it is essential for my purpose to emphasize that _in itself_ scientific performance does not require us to divest ourselves of our value judgments or to renounce the calling of an advocate of some particular interest."[12] Ideology then has a creative role in scientific research, or "more bluntly, advocacy does not imply lying," but Schumpeter clearly saw the dual nature of this beast, "It spells indeed misconduct to bend either facts or inferences from facts in order to make them serve either an idea or an interest."[13]

From Schumpeter's scientific point of view, then, ideology is not an inhibitor of objective research, but, rather the catalyst. For business historians confronting "Big Business" in the twentieth century, this matter of ideology or values should be much less controlling than questions relating to scientific spirit or scholarly methodology. Business history can embrace a variety of ideologies or attitudes toward, say, "Big Business" so long as its practitioners insist upon one, universal rule-of-the-road--namely, _that issues be analyzed and discussed with reasonably full disclosure of the private and social benefits and costs involved_. Where the balance point is struck is, of course, a matter of individual preference; but costless gains or gainless costs are equally unacceptable in appraising business performance—in the small, in the large, or in the newer middle ground. A balanced appraisal of all costs and benefits in questions involving either an individual businessman, a firm, an industry, or the industrial economy as a whole is, as a working rule, a necessary and probably sufficient, condition to insure the intellectual vitality of business history. The sufficiency of such a seemingly, simple expedient is open to question; but I am convinced it is a necessary one if the discipline is to avoid the intellectually enervating morass of unadorned advocacy.

It is both desirable and inevitable that business history should assume a broader scope and address itself to a wider range of issues as appears to be the case in the newer organizationally oriented studies. But I share some of Harry Magdoff's skepticism that Weberian concepts of organization will provide answers to questions of the social, economic, and political significance of business bureaucracies and other institutions. My reasons for this skepticism differ, however. First, I doubt that one intellectual wellspring such as Weber is likely to offer a conceptually complete framework for treating all the issues that arise in connection with large scale business enterprise and other institutions of interest. Second, I share some of Stigler's misgivings about interdisciplinary enterprise:

> Such remarks (interdisciplinary advocacy) almost always rest on one or both of two propositions. First, that most real problems cross the boundaries of the specialties, i.e.,

> the specialties are wrongly defined. Second, that all specialists of a given genre have the same knowledge and competence. Both of these propositions are wholly wrong.
>
> The border "lines" of specialties are really zones, but let us ignore this for a moment. It should be obvious that the lines of division between specialties arose out of experience. No congress of academicians drew up the present lines of division. Instead, these lines of division developed pragmatically because they proved tenable and useful limits at which the investigation of considerable sets of important problems could be dropped without vitiating the results.[14]

It is probably the case, however, that as business historians undertake to analyze problems of considerable social significance some exactness that derives from a single disciplinary point of view and technique will have to be sacraficed to make any progress at all. Exactly what the prevailing rate of exchange in terms of precision versus broad guage intellectual focus is likely to be cannot be specified. Clearly, there must be some substitution, and hence some cost in terms of the foregone benefits of specialization. On the other hand, in view of the prevailing conception of "science" in some of the social sciences historians should not be overly concerned by the presumptive loss in precision. In the context of the foregoing remarks, I have chosen for discussion three points of view on the question of Big Business in the twentieth century - all of them economic. They are drawn from the work of Schumpeter, Veblen, and the writings of economists in the field of industrial organization. One reason for this selection, in terms of the earlier remarks on the role of ideology is that these viewpoints represent pro-(Schumpeter), anti- (Veblen), and, more or less, neutral (at least self-consciously attempting to be "value-free") attitudes roward large scale business enterprise. Secondly, while these viewpoints are broad enough to embrace a number of interesting and significant issues relating to the business system in America, they adhere sufficiently close to a single disciplinary point of view, economics, to be coherent, logical, and to have testable (researchable) implications.

II

Joseph Schumpeter:

Since Schumpeter's work is so well known to most business historians, I will set down only a few of his basic ideas for use later in the paper, In the main, the Schumpeterian view is an historical interpretation of the process of capitalistic development with special emphasis on the evolutionary character of that process.[15] There are two corollaries which follow this main premise. "First, since we are dealing with a process whose every element takes considerable time in revealing its true features and ultimate effects, there is no point in appraising the performance of that process *ex visu* of a given point of time; *we must judge its performance over time*, as it unfolds through decades or centuries. Second, since we are dealing with an organic process, analysis of what happens in any particular part of it--say, in an individual concern or industry--may indeed clarify details of mechanism but is inconclusive beyond that." (p. 83)

These ideas from the core of Schumpeter's view that the effects of any economic arrangement must be judged on the basis of dynamic, long-run performance, and not on static and short-run criteria. Because Schumpeter's frame of reference was long-run, evolutionary, and organic, he did not accept the standard point of view in economics that monoplistic elements were undesirable because they brought about allocative inefficiency since the latter point derived from comparative static, short-run considerations. More to the point in Schumpeterian terms, "A system--any system, economic or other--that at _every_ given point of time fully utilizes its possibilities to the best advantage may yet in the long run be inferior to a system that does so at _no_ given point of time, because the latter's failure to do so any be a condition for the level or speed of long-run performance." (p. 83).

Without developmental forces, i.e., innovation, the capitalist system would settle into a stationary Walrasian equilibrium with the whole of national product being distributed to land and labor. The entrepreneur seeking profits interrupts the circular flow in this stationary state by introducing new products and processes. The tendency toward equilibrium derives from the notion that the social environment is resistant to change and tends to continue to organize economic activity along traditional or accustomed lines. Hence the exceptional ability of the exceptional man, Schumpeter's entrepreneur, is required to transform the inherently static situation and carry out innovation.

Interest does not arise in the stationary circular flow since its only source is entrepreneurial profit. As long as entrepreneurs have prospects for profit they may obtain credit from the wealth holders to carry out their plans. As entrepreneurs do so they encourage imitation which causes the clustering of innovations. In this climate the creation and expenditure of new purchasing power takes place which lifts the system toward a boom as profits rise and income expands, the latter two features, in turn, trigger a secondary boom. As the boom proceeds it generates conditions unfavorable to its continuation, investment is deterred by the rising prices and the presence of new products and processes occasion losses for established or traditional producers. Repayment of business debts signal the start of a deflationary period.

In the Schumpeterian system, fluctuations are the result of adaptation to innovations, hence it is this rather than "financial crisis" which is the mechanism causing depression in a capitalistic economy. Progress and instability stem from the same source--adaptation to innovation. To this point there are no internal contradictions of the Marxist type present in Schumpeter's system which would tend to impede the development and progress of the capitalistic economy. In fact, if such a system were left alone, Schumpeter believed, it would provide spectacular increases in total real income and behave in a powerfully redistributive fashion. However, the complicated interaction of social, economic and political forces endemic to a mature capitalistic system brings about an essentially socio-political disintegration that economic factors, by themselves, could never bring about. The first enervating element is the obsolenscence of the entrepreneurial function, "Since capitalist enterprise, by its very achievements, tends to automatize progress, we conclude that it tends to make itself superfluous." (p.134) Secondly big business becomes increasingly vulnerable politically as it destroys small and medium-size firms. There is a numerical decline in the natural defenders of big business due to these first two factors leading to the growth and diffusion of the employee mentality, "Whether a stockholder or not, his will to fight and to hold on is not and cannot be what it was with the man who knew ownership and its responsibilities in the full-blooded sense of those words." (p.156) Finally, the very economic success of capitalism supports a large intellectual class which foments hostility to big business by tongue and pen -- leading to the worst of Schumpeterian evils, democratic anti-monopoly policies. In its final state, capitalism becomes "guided" or "capitalism in an oxygen tent" kept alive by public income generation devices, but with all of its developmental forces paralyzed.

Thorstein Veblen:

Like Schumpeter, Veblen's work is contained in numerous monographs and articles. However, it is also possible in this case to present an outline of his views on the business system as contained in one work, The Theory of Business Enterprise, because the views contained therin are not seriously at odds with his later work.[16] Veblen's theory of business enterprise is a theory of exploit and predation which accords the machine process the critical role in the modern industrial system. The theme that runs continually through the work is the distinction between making goods and making money--pecuniary and industrial employments. Whereas industrial pursuits result in the production of serviceable and useful commodities that meet real, human needs; business pursuits actuated solely by pecuniary principles are often inimical to community welfare. Veblen characterized the technological system as an organic whole which, ". . . bears the character of a comprehensive, balanced mechanic process. In order to insure an efficient working of this process. . . the various constituent sub-processes must work in due co-ordination of this industrial process . . . hinders its working." (p.16) This running adjustment of the industrial system is within the power of the business man to make or mar, and "to the business man who aims at differential gain arising out of the interstitial adjustments or disturbances of the industrial system, it is not a material question whether his operations have an immediate furthering or hindering effect upon the system at large. The end is pecuniary gain, the means is disturbance of the industrial system." (p.28)

Veblen saw the industrial system controlled by a strategic few, Captains of Industry, as he called them, who used their domination of financial institutions to acquire control of the key industries--raw materials, energy production, transportation--and, hence gain hegemony over the entire industrial organization of the economy. The will and the means to sabotage are thus fused in the Captains of Industry by their advancement of pecuniary (business principles) and their control of the industrial process. "Chronic perturbation is so much a matter of course and prevails with so rare interruptions, that, being the normal state of affiars, it does not attract particular notice." (pp.35-36) In other words, the modern industrial system tended toward a chronic state of depression because, "The true, or what may be called the normal, crises, depressions, and exaltations in the business world are not the result of accidents, such as the failure of a crop. They come in the regular course of business." (p.183) Periodic crises arise because business men overcapitalize assets, which leads to the inflation of credit because the overvalued property rights are used as loan collateral. "The immediate occasion . . . of a crisis is that there arises a practical discrepancy between the earlier effective capitalization on which the collateral has been accepted by the creditors, and the subsequent effective capitalization of the same collateral shown by quotations and sales of securities on the market." (p.293) Assets must be re-rated in terms of price, devalued, in order to maintain the normal rate of return that is expected according to "prudent business principles."

There is a continual dichotomy between what is an acceptable use of the industrial system according to the pecuniary canons of business principles and the welfare of the community which rests on the output of that system. These principles, "are corollaries under the main proposition of ownership; they are principles of property--pecuniary principles." (p.66) Such habits of thought (institutions) carried over from the English doctrines of Natural Liberty and Natural Rights, which were appropriate to an economy organized along handicraft lines where men invested a workmanlike competence, a creative imputation in the direct fruits of their own activity, i.e., the production of serviceable goods. Under modern conditions, however, "serviceability, industrial advisability, is not the decisive point. The decisive point is business expediency and business pressure." (p.39) Vendibility is enhanced at the expense of serviceability, and hence the working rule of the business man is to "deliver a minimum, and exact a maximum." (p. 151) "The interest of the business community centers upon profits and upon the shifting fortunes of the profit-maker, rather than upon accumulated and capitalized goods. Therefore the ultimate conditioning force in the conduct and aims of business move, rather than the aggregate holdings or the recorded output of product." (p.90)

Habituation to the machine process is the, "tone giving factor in men's scheme of thought." (p.355). Modern technology breeds matter-of-fact, scientifically-oriented, change-accepting, _de facto_ habits of mind. For the business man, on the other hand, "The spiritual attitude given by . . . training in reasoning _de jure_, from pecuniary premises to pecuniary conclusions, is necessarily conservative." (p.321) The widening difference in the habits of life of the two classes, business and industrial, act as a disintegrating influence on the business system; and the "modern socialistic iconoclasm follows by easy consequence" (p.375) "except insofar as some other cultural factor, alien to the machine discipline, comes in to inhibit its spread. . . ." (p.373).

The inhibiting factor is business politics. "Business interests urge an aggresive national policy and business men direct it. Such a policy is warlike as well as patriotic. The direct cultural value of a warlike business policy is unequivocal. It makes for a conservative animus on the part of the populace." (p.391) Politics is viewed as an extension of the system of business control whereby the industrially habituate populace is subjected to various forms of propaganda tending to emphasize patriotism and warlike nationalism which inhibit the spread of materialistic, matter-of-fact modes of thought, i.e., the socialistic iconoclasm.

Industrial Organization:

While within this field there are many points of view with respect to policy proposals, in the main, the statistical evidence on monopoly and concentration in the United States economy is fairly well agreed upon. According to Joe Bain, the principal trends in concentration changes in this country since 1870 are:[17]

a) The rapid growth of concentration, featuring the merger movement, from 1870 until about 1905.

b) The relatively slower and more selective increase of concentration from 1905 to 1935.

c) The relative stability of concentration since 1935.

Whether concentration is measured by assets, sales, or employment the available evidence does not point to an unequivocal increase in either concentration or monopoly in the twentieth century. After carefully surveying the evidence, Morris Adelman concludes, "The odds are better than even that there has actually been some decline in concentration. It is a good bet that there has at least been no actual increase; and the odds do seem high against any substantial increase."[18]

The most concentrated areas of the economy are in manufactures, mining, public utilities, and financial institutions. Wholesale and retail distribution, the service and agricultural sectors, and professional and other self-employed groups are much less concentrated. Overall, Edward Mason concludes, "If all areas are lumped together, some sense of the position of the largest private enterprises in the economy is given by the fact that in 1948, the 260 largest accounted for 13.2 per cent of the employment of the total labor force."[19] After surveying the available literature on the problem, he concludes, "It is clear now, as it was not clear before, that there is no inevitable historical force at work that must produce, over any extended period of time, an increase in the per cent of economic activity accounted for by the largest firms either in American manufacture or in the economy as a whole. . . but I think it is impossible to draw from these data conclusions regarding the trend of monopoly."[20]

A good, brief overview of the extent of concentration, currently, is given by Alfred Chandler, "In 1960 six hundred American corporations had annual earnings of over $10 million . . . they accounted for 53 per cent of total corporate income. Or, if we look only at industrial corporations, in 1960 the four hundred largest of these, all of which had assets of over $100 million, earned 46 per cent of all income earned before taxes in the manufacturing sector and controlled 30 per cent of all assets. Of these the one hundred largest alone accounted for 54 per cent of all profits (not income) in the manufacturing sector."[21]

Arnold Harberger has shown that, "Elimination of resource misallocations in American manufacturing in the late twenties would bring with it an improvement in consumer welfare of just a little more than a tenth of a per cent (or national income). In present values, this welfare gain would amount to about $2.00 per capita."[22] Yet many economists remain convinced that there is a case to be made against big business. According to George Stigler the case consists of three arguments: 1) big businesses often possess and use monopoly power, 2) big business weakens the political support for private enterprise, and 3) big businesses are not appreciably more socially (technically) efficient or enterprising than medium-sized businesses.[23] Putting the matter, at least to his satisfaction, beyond dispute, Stigler asserts, "No one can write down a full list of all the forms that objectionable monopoly power has taken and may someday take."[24]

Despite the plethora of statistical evidence on concentration, profit margins, innovative activity, etc., economists as a group do not appear to have arrived at a consensus position regarding the overall significance of monopoly in the economy. Perhaps Carl Kaysen had given us the best insight into why this is so, "The significance of the economic choices that are made by the powerful large firm can be summed up in terms of their effects on the achievement of four basic economic goals: efficiency, stability, progressiveness, and equity."[25] To date, of these four criteria for appraising monopoly power, economists have made substantial progress with only the first and third. When it is recognized that each of these criteria Kaysen mentions have more than a solely economic dimension--say, social and political, as well--the complexity of the problem of giving a complete, integrated, and realistic assessment of the implications of firm size is readily apparent.

The dilemma of assessment relates to the probable inferences that may be drawn from industry structure to conduct and performance.

In its simplest form the popular case against monopoly rests mainly on the idea that its possession confers an unfair and unwarranted advantage on some individual or group, i.e., that the conduct and performance arising out of a monopolistic structure is not conformable to democratic principles.

One way to illustrate the complexity of the problem of forming adequate criteria to evaluate monopoly performance is to list the findings of the Federal Trade Commission on interlocking directorates in 1951 after surveying manufacturing, public utilities, transportation, financial institutions, and distributive trades rather thoroughly. In summary, the commission's conclusions were:[26]

1. Interlocking directorates between competitors, whether on a direct or indirect basis, tend to limit or eliminate competition.

2. Interlocking relations between companies in closely related industries forestalls the development of competition which otherwise would come from normal expansion of the list of products they manufacture.

3. Interlocking relations may give rise to communities of interest and create a united front against any who threaten habitual relationships or established preeminence.

4. Vertical interlocks may reach back to companies from which important supplies come and thereby evoke preferential treatment in the distribution of materials in short supply.

5. Vertical interlocks may reach forward, and thus create preferential access to market outlets.

6. Interlocking relations between manufacturing corporations and financial institutions, especially banks and insurance companies, may establish a type of vertical relation that assures adequate credit to favored companies and a withholding of credit and capital from their competitors.

7. Interlocking relations may give expression to an underlying ownership interest and may involve nothing more than a desire to protect an investment.

In the light of the statistical evidence contained in this seldom referred to report one would find it difficult to conclude that--evidence on concentration of the type presented earlier, notwithstanding--monopoly power, broadly conceived, is not significantly present in American industry. Evidence of the type usually marshalled in conjunction with concentration ratios simply does not get at the questions dealing with the sources of business power and influence, let alone the significance of this power in terms of economic and social performance.

II

Arthur Cole has expressed concern for the social component of economics as a social science. To be more precise, "social conditioning" of economic responses is of prime importance in the study of business and related entrepreneurial behavior. In his words, "We are concerned with the <u>impact of cultural forces</u> upon the formation and performance of social groups out of which flow the goods and services desired by society."[27] He clearly did not have in mind a narrowly focused history, ". . . it is only by giving attention to . . . <u>a broad assemblage of factors</u> that one can hope to give answers to . . . questions of prime importance for the study of economic development. . . ."[28] It should be a settled matter of course that the spirit of Cole's work, as typified in these remarks--the broad, intellectual guage of his field of view--is not something to be merely preserved and honored from time to time on suitable occasions, it belongs at the vital, working core of business history. But as the unit of history shifts from the individual entrepreneur, the question naturally arises as to how to implement this working hypothesis in practice? Even Schumpeter, whose earlier works had made the entrepreneur synonymous with technological innovation and "creative destruction," had sufficiently changed the scope of entrepreneurial behavior, "the people who take the ruling decisions' of economic life,"[29] so that entrepreneurial functions heretofore associated with individuals might be perceived in institutionalized arrangements.

The two scholars whose ideas were briefly summarized in Section II are joined by the common bond of institutional analysis. There would likely be little quarrel with the proposition that Schumpeter's ideas and Methodenstreit form an intellectual wellspring for business historians. But, I think, quite a few business historians would reject any notion of an intellectual lineage explicitly, if not implicitly, descending from Veblen, who so thoroughly excoriated the American business system. Yet Veblen's insights into that system rank on a par with Schumpeter's for breadth, cogency, and sheer intellectual power.

Let me now attempt to indicate why I think business historians have been missing out "on a good thing," so to speak, by not paying more attention to Veblen; and why I think Schumpeter and

Veblen have more in common than is ordinarily supposed.[30] First, it is often the case that American institutionalism is confused, methodologically, with the German Historical School. The latter's attention to sheer description, empiricism, and taxonomy--focusing on institutions as <u>things</u> rather than as <u>relationships</u>, <u>habits of mind</u>, <u>or behavior patterns</u> is sometimes taken as the hallmark of American institutionalism when, in fact, nothing could be further from the truth. American institutionalism, especially as associated with Veblen and Mitchell, was explicitly theoretical. The fact that it differed from orthodox, economic theory in its more standard and animistic forms, has some how earned it the undeserved epithet--anti-theoretical. While the institutional economics descending from Veblen is too universalistic, open-minded, and complex to admit of precise definition, there are several features that distinguish it. (These broad and undoctrinaire characteristics of American institutionalism are probably the main reason why, as is also the case with Schumpeter's work, it did not give rise to a "School.") The main but by no means complete set of characteristics of institutionalism would be:

a) The distinct flavor of the American philosophy of pragmatism and allied functional psychology as initiated by Veblen's teacher, Charles Pierce, and developed by William James and John Dewey.

b) As J. M. Clark has pointed out, what the exponents of institutionalism had in common ". . . was a refusal to accept the market as an adequate vehicle for expressing the importance of things to society."[31]

c) Coercion and conflict in economic affairs arising from the antogonistic aims and goals of industrial and pecuniary institutions, and from the inability of "the market" to bring about a Smithian harmony of interests.

d) Ihe presence of conflict engenders the need for social control.

e) Economic behavior is conditioned by the institutional arrangements prevailing at any point in time, and, in turn, influences institutional development, i.e., the process of economic and social change in evolutionary and interactive.

f) A borrowing from sociology, psychology, anthropology, political science and law to obtain a deeper understanding of why people behave as they do in their social and economic roles. Economic agents are more than mere automatons, and rejection of the, ". . . hedonistic who oscillates like a homogeneous globule of desire and happiness under the impulse of stimuli that shift him about the area, but leave him intact."[32]

From the foregoing points it is possible to focus more precisely on the similarities and differences between Schumpeter and Veblen. In the matter of outlook or philosophy Schumpeter could hardly have been more unlike Veblen. Schumpeter's outlook was essentially that of a Central European steeped in nineteenth century liberalism, Cosmopolitan and elitist. In contrast, Veblen was pragmatic and egalitarian paying attention, somewhat provincially, only to capitalist development in the American case. They were also different in their emphasis on the importance of the market mechanism, more specifically, how well markets did or did not work to achieve desirable social goals. Yet aside from this difference, conflict did play a role in Schumpeter's view of economic activity vis a vis notions of "creative destruction" and the hostility produced in the social order by the capitalist process. While technology played a central role in both men's writings, it entered in different ways. For Schumpeter swarms of technological innovation lifted capitalist economies ever upward in a more or less continuing pattern of harmonious growth and progress. There was little scope for conflict as all was swept along before the coercive gale of creative destruction. For Veblen, technological change meant increasing tension and conflict between the industrial and pecuniary institutions. But, for this difference in the way technology affected the economic system in their respective works, both ended up in pretty much the same way--staring at the specter of the "socialist iconoclasm" or "capitalism in an oxygen tent." Schumpeter's views on the need for and type of social control were considerably different from writers such as John Commons, who are associated with institutional economics. Veblen, however, was not nearly so keen on schemes for social control as Commons, and where this theme does appear, it is only in his later work. Both writers tried to detach themselves from reform advocacy, consciously so, in order to emphasize and concentrate on the key relationship and interactions in the economic system.

They were similar in their stress on the evolutionary approach to understanding economic behavior, and both accorded considerable prominence to the interaction between forms of economic behavior and the institutional environment. Finally, Schumpeter, like Veblen, drew on the insights and concepts of other social sciences in order to understand why economic agents and institutions behave as they do. Schumpeter would have rejected out of hand the notion that he was an economist with strong institutional inclinations, especially those of the Veblenian persuasion, and, in fact, he regarded Veblen as a potential disaster for the state of economic science. He placed Schmoller and Veblen in the same class, mistakenly, I believe; and held that Schmoller had exerted, ". . . an influence which is in part responsible for what everyone—especially every German—admits to be an unsatisfactory state of economic science in Germany. . . . Had (Veblen) been able to have his way, had his teaching not met a phalanx of competent theorists, we should perhaps have to make a somewhat similar statement as to America."[33] As to the scientific protection afforded by Schumpeter's "competent theorists," one can easily imagine the Veblenian riposte, ". . . a gang of Aleutian Islanders slushing about in the wrack and surf with rakes and magical incantations for the capture of shell-fish are held, in point of taxonomic reality, to be engaged on a feat of hedonistic equilibration in rent, wages, and interest, And that is all there is to it."[34]

Such high-jinks and hypothetical debates are as beside the point as whether or not Schumpeter and Veblen "saw eye-to-eye" on every issue. What one finds in examining their respective writings is a shared emphasis on the broad, evolutionary aspects of modern industrial economies. The central place of technology, institutional interaction, and a broad, social science point of view are also common to both. So that despite the obvious differences, business historians should be able to find ample intellectual roots, antecedents, and frameworks in the spirit and substance of the heritage of either or both of these scholarly giants.

The industrial organization point of view, while appropriate to many problems within the province of business history, is limited in what it can offer the business historian who strives to carry his discipline to a broad guage, integrated, and vital plateau-- "the highest state of the historian's art." Ihe reason for this is the same today as when Andreas Papandreou observed that economics has not yet,". . . evolved a theory of conscious co-operation."[35]

How then shall business history be written? As it always has been, no doubt--styled after the scholarly taste and preferences of its practitioners. But if, in our wandering, we take the time to inform ourselves by careful attention to the full implications of the intellectual heritage of Schumpeter and Veblen, business history will be well served. The terms of trade should be sufficiently attractive--a Weber for a Schumpeter and a Veblen--to be tempting; for those who are eclectically skillful all three might prove useful. Perhaps the intellectual menu might be broadened well beyond these tentative limits, or as is equally likely to be the case, diminishing returns may set in very rapidly to the use of stylized models in business history. Whichever path business history follows, it will always be accompanied by the full set of prescriptive issues and implications relating to large scale enterprise; and business historians will have to combine the willingness to proceed on the basis of unsatisfactory evidence, and, in many cases, untestable assumptions with a disinclination to treat any important issue as a fully settled, unalterable article of faith. Surely this is a difficult and austere prescription to follow, but no less can be demanded if we are to underwrite the full promise of the discipline. The footsteps of those who have gone before us can lead the way.

FOOTNOTES

1. Alfred D. Chandler and Louis Galambos, "The Development of Large-Scale Economic Organizations in Modern American," Journal of Economic History, XXX, no. 1, March, 1970, pp. 201-17 and "Discussion" by Harry Magdoff, pp. 218-21.

2. Louis Galambos, "The Emerging Organizational Synthesis in Modern American History," Business History Review, XLIV, no. 3 Autumn 1970, p. 280, (italics added).

3. ibid., p. 290.

4. Cochran's most representative and best known work in this vein would be: The American Business System, (Cambridge, Mass.: Harvard University Press, 1957) and (with William Miller), The Age of Enterprise, (New York; Harper and Row, 1961). Cochran's most recent work, which expands and updates the concepts contained in these earlier works is Business in American Life, (New York: McGraw Hill, 1972).

5. Thomas Cochran, "The History of a Business Society," Journal of American Histoy, LIV, June, 1967, pp. 5-18.

6. Ralph Hidy, "Business History: Present Status and Future Needs," Business History Review, XLIV, no.4, Winter 1970, pp. 491-2.

7. Alfred Chandler, "The Large Industrial Corporation and the Making of the Modern American Economy" in Stephen Amborse, ed., Institutions in Modern America, (Baltimore: The Johns Hopkins Press, 1967), p. 101.

8. Edward Mason, "Schumpeter on Monopoly and the Large Firm," Review of Economics and Statistics, Vol. 33, no.2, May 1951, (italics added).

9. Louis Galambos, "The Emerging Organizational Synthesis...," p. 289.

10. Joseph Schumpeter, "Science and Ideology," American Economic Review, XXXIX, no. 2, March, 1949, pp. 345-59.

11. ibid., p. 351.

12. ibid., p. 346.

13. ibid., p. 346.

14. George Stigler, The Intellectual and the Market Place,

(New York: The Free Press of Glencoe, 1963), p. 12.

15. Joseph Schumpeter, Capitalism, Socialism, and Democracy, (New York: Harper and Brothers, 3rd ed., 1950), p. 82.

16. Thorstein Veblen, The Theory of Business Enterprise, (New York: Charles Scribner's Sons, 1904).

17. Joe Bain, Industrial Organization, (New York: John Wiley, 1959), p. 201.

18. Morris Adelman, "The Measurement of Industrial Concentration," Review of Economics and Statistics, XXXIII, November, 1951, pp. 292-3.

19. Edward Mason, Economic Concentration and the Monopoly Problem, (Cambridge, Mass.: Harvard University Press, 1957), p. 31.

20. ibid., p. 43.

21. Alfred Chandler, "The Large Industrial Corporation and the Making of the Modern American Economy," p. 72. (quoted from the New York Times, Oct. 31, 1965.)

22. Arnold Harberger, "Monopoly and Resource Allocation," American Economic Reveiw, Papers and Proceedings, XLIV, no. 2, May 1954, p. 84.

23. George Stigler, "The Case Against Big Business," Fortune, May 1952, p. 162.

24. ibid., p. 164.

25. Carl Kaysen, "The Corporation: How Much Power? What Scope?," in Edward Mason, ed., The Corporation in Modern Society, (New York: Atheneum, 1966), p. 94.

26. U. S. Federal Trade Commission, Report on Interlocking Directorates, (Washington: U.S.G.P.O., 1951), pp. 22-3. The survey covered the largest 1000 manufacturing and 330 non-manufacturing corporations in 1946.

27. Arthur Cole, Business Enterprise in its Social Setting, (Cambridge, Mass.: Harvard University Press), 1959, p. 134.

28. ibid., p. 134.

FOOTNOTES

29. Joseph Schumpeter, History of Economic Analysis, (New York: Oxford University Press, 1954), p. 895.

30. Several authors have commented on the striking parallels between Veblen and Galbraith. While not wishing to press the point of similarily too strongly, consider the correspondence of interest between the two: The New Industrial State (The Theory of Business Enterprise) or The Affluent Society (The Theory of the Leisure Class).

31. J. M. Clark, "Aims of Economic Life as seen by Economists," in J. M. Clark, ed., Economic Institutions and Human Welfare, (New York: Alfred Knopf, 1957), p. 57.

32. Thorstein Veblen, "Why is Economics Not an Evolutionary Science?" in T. Veblen, ed., The Place of Science in Modern Civilization, (New York: The Viking Press, 3rd ed., 1932) p. 73.

33. From Schumpeter's review of Wesley C. Mitchell's first volume of Business Cycles in the Quarterly Journal of Economics, 1927, as quoted in Joseph Dorfman, Thornstein Veblen and His America, (New York: The Viking Press, 5th ed., ed., 1937), pp. 499-500.

34. Thornstein Veblen, "Professor Clark's Economics" in The Place of Science in Modern Civilization, p. 193.

35. Adreas Papandreou, "Some Basic Problems in the Theory of the Firm," in B. F. Haley, ed., Survey of Contemporary Economics, Vol. II, (Homewood, Ill., Irwin, 1952), p. 183.