LECTURE #4

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<u>THE CHANGING ECONOMY</u>

<u>CORPORATIONS BIG AND SMALL</u>

Listeners to this Forum series are aware of the changes in the American economy since the Great Depression of 1932. They are enormous. Actual production has increased five-fold--allowing for changes in value of money. Real wages of workmen have more than doubled, though the population has greatly increased. Current estimates indicate a rise in the gross national product from a rate of $504 billion in 1960 to a rate of perhaps $671 billion in this year, 1965. It will probably approach the rate of $720 billion next year. Meanwhile people's incomes--their personal receipts--have grown from about $401 billion in 1960 to over $530 billion this year. They are expected to reach $700 billion in 1970. No major interruption of growth is in sight.

On the social side, the American record is historically impressive though not nearly so good. The proportion of the unemployed labor force, as we reckon it, has dropped from nearly 3.9 million in 1960 to about 3.5 now. We hope to lower it. The "poor"--about 15% of Americans--have been diminishing. Yet we ought, in so rich a country, to have no involuntary poverty, and no involuntary unemployment.

Measures are being taken to steer a considerable part of the American personal income into the pockets of the poorer, lowest-paid, sectors of our population. President Lyndon Johnson's campaign to abolish poverty is more than a pious aspiration. Never until now has any large country had production and resources adequate for such a project; the United States now has both. If successful--it should succeed--a new era will have opened in world history. The social and economic revolution begun by President Franklin D. Roosevelt will have been fulfilled--so far as mere economics can do it.

This did not happen by accident. Some of its elements have been discussed in the three preceding lectures. In this, the fourth, I focus discussion on one of the major American economic instruments--its system of production by corporations. They have come to be a key tool in organizing and increasing production, distribution goods more widely to consumers, and redistributing property and income throughout the United States. They have solved some problems and created others; they are worth examining.

The business of America, aside from farming, is almost entirely carried on by corporations. There are more than 1,300,000 of these in existence--as well as 9,000,000 or more individually-owned enterprises. Yet between 75% and 80% of all manufacturing, mining, transport, public work and commerce generally is carried on by less than 1,000 large companies. The remaining 20% to 25% is divided among the several million small concerns. Most of these are owned by individuals or families. These are the remaining “capitalists” denounced by Karl Marx a century ago. Their number is considerable; but their economic power is gone.

American corporations, with rare exceptions, are not socialist; they are not owned or administered by government. They are not statist. Yet many of them are so large that they can not be called “private.” They do not correspond or behave like the personally-owned or family-owned business and enterprises of a generation ago. Their owners or stockholders may be numbered in millions--the case, for example, of the American Telephone & Telegraph Company--or, more often, by tens and hundreds of thousands. In law, they are private; in fact, they lie halfway between the state and the individual. Their initiatives are their own. Theoretically, they are free to do as they choose. Actually they are compelled by written or unwritten law to keep in reasonable balance with the American economic system as a whole. In effect they work within a variety of state planning. But this planning is not rigid--as it is in the Soviet Union--nor as detailed as the planning in France. There, managements have extremely wide liberty to choose what they will produce; charge what prices they wish; and to invest capital in new development and new construction where and as they choose. In certain aspects, nevertheless, they are carefully controlled.

This is why our main interest centers in the few hundred big corporations.

These are not operated by their owners--that is to say, by their stockholders. Obviously a thousand stockholders, still less a million, can not manage or operate anything. Power must be and has been delegated in each concern to a few men. These are the directors of these corporations, and they in turn choose its executive head, usually the corporation President. He dominates the hierarchic pyramid of each corporate organization. Below him comes a staff of management personnel and, below them, are the workmen and laborers. Most of these workmen are organized into independent labor unions. Under American law, the union representatives have the right to bargain, collectively, with the employers for wage rates, working conditions, old age pensions, vacations and other benefits. Unlike many European countries, laborers are not required to join unions. But for practical purposes wage level rates are set, in most parts of the United States, by contracts worked out between labor unions and the corporations and others who employ the workers.

The largest of corporations attain enormous size. A recent calculation, for example, showed that only four nations in the world--the United States, Russia, Britain and France--had gross revenues greater than the gross revenue of General Motors Corporation alone. Many, perhaps most, of the two hundred largest American corporations take in more money from sales than most of the smaller independent countries on earth. Many corporations have more stockholders than they have workers.

More remarkable still, they are able--after paying nearly half their profits as taxes to the American government and after paying part of the remaining half as dividends to their shareholders--to save, from the price of the goods or the services they sell each year about 90% of all the new capital they need to improve their plants, or to undertake new projects. That fact means that they are no longer dependent on banks or bankers, or financiers or on the savings of individuals for the new capital they constantly need. To this is due the fact that the Marxian "capitalist" is quietly disappearing.

From this combination, two social facts have emerged--perhaps new in economic history. The American corporation has split the old capitalist structure down the middle. There is no longer an owner of wealth who applies his money as capital to construct a mill, a forge, a chemical plant, or an automobile industry. He is not needed for that. He can buy stock, of course, from some other owner who wishes to sell. But his wealth does not go into the business--it pays off the previous owner. And there is no longer (in the large corporation) an owner who manages.

Consequently, two groups have grown up, side by side; but increasingly independent of each other. One is the group of wealth holders--stockholders. They are outside the processes of production and management; they merely own shares. There are about 20 million direct shareholders in American enterprises--that is, about 10% of the population of the United States. But in addition there are about 40 million or more "indirect" shareholders. These are chiefly workers whose old age pension and welfare funds hold, as investment, stock of these corporations. The value of that stock and the dividends received from it are used to pay to these workers old age retirement allowances--in addition to the government paid old age pensions which they also receive at a certain age. The total value of all this stock is approaching one third of all the "personally owned" wealth in the United States if direct and indirect stockholdings are lumped together.

Gradually--too gradually for my liking--ownership of American industry is thus being diffused among the whole population of the United States through this direct or indirect ownership. Two million Americans still own 20%, or more, of all this. All the same, gradually ownership of American industry is increasingly coming to lie in the hands of the American people. Not, let us note, of the American state--government has nothing to do with it. Wealth, in the form of securities of corporations, can be, and is being, distributed widely without affecting the management or the effectiveness of the enterprise--and without throwing management power into political hands.

On the other side--as a second social fact--there are the managements of corporations. These, now, are coming to be chiefly professional administrators. Increasingly they are men trained in universities, in schools of business administration, in economics or in law. They form the executive staffs of the large corporations. They are well paid. They do not "own" the corporations--their stockholdings are relatively tiny. Sociologically they are really second cousins of the bureaucratic executives who would manage the enterprises if they were operated by government. The difference between them and the bureaucrats is that the initiative is primarily theirs, not that of the government. As noted, this relatively small group of 40,000 or 50,000 directors and managers altogether are responsible for operating the large corporate enterprises. Actually, far fewer have the real power. They contrast with the unorganized million or so of proprietors of tiny enterprises which among them divide between one-fourth and one-fifth of American manufacture and production.

Most corporate managers are astonished--even shocked--when they are compared to the managers and executives of, let us say, the state commissariats in the Soviet Union and in Communist countries. Yet essentially they are similar. True, their business is to make profits for their corporation--no corporation can run for long at a loss. But they are responsible--and know they are responsible--for more than merely profitable operation. They are responsible for the production of the goods and services on which America and its communities have come to rely. They must plan ahead. If they do not produce enough steel, enough oil, electricity, enough motor cars, enough shirts, enough machine tools, or enough cigarettes (as the case may be) their companies and they will be in trouble, and they know it.

And they must produce these goods and these services at prices considered reasonable or just by the American public who must buy them. In some sectors, the government fixes that price. It fixes, for example, the fares charged by railroads and airlines, charges for electricity and gas, tolls paid on the pipelines that take oil and natural gas from the fields of production to the cities consuming them. But even where the government does not fix the price, and where--theoretically--the corporation has the right to charge any price it pleases--corporate managers know that they will be in trouble if the public comes to believe they are abusing the economic power inherent in these huge organizations.

How is this outside control of these immensely powerful organizations made effective? There are a number of answers.

First, the United States does not permit monopoly. As long ago as 1890, the Sherman Antitrust Law was passed forbidding conspiracies in restraint of trade which tend to form a monopoly. It has been strengthened by later acts designed to maintain a degree of competition. As our law has developed, any corporation achieving a monopoly in any substantial line may be attacked by the Department of Justice of the United States. The federal courts may decree that it be "dissolved" into a number of component elements. As of today, a monopoly is illegal--except where the government specifically permits it, as it does in the case of railroads, electric light companies and other public utilities. But in those cases the government usually fixes the price the corporation may charge. For the others, the result has been that in most industries, from three to five or six very large corporations carry on a majority of the industry, while perhaps 20, 30 or 50 smaller, economically powerless corporations operate the rest. An extreme case is the American motor car industry. There, three companies, General Motors, Ford and Chrysler Corporation, manufacture and sell 80% and more of all automobiles sold in the American market. We call this "oligopoly." Even so, the large corporations compete against each other up to a point--and this keeps the prices they charge within more or less reasonable limits. The government enforces competition on industry. Competition is not a natural state of affairs--rather it exists where the state requires it.

Second, the United States has its own peculiar and very loose form of economic planning. It is embodied in a little known law--the so-called "Employment Act of 1946." The act requires the United States government to use all of its resources to assure, under a competitive system, "maximum employment, maximum production and maximum purchasing power." It constitutes a Council of Economic Advisers appointed by the President of the United States. These advise him. They also work out statistically the situation of the United States. Where they see tendencies emerging which reduce employment, purchasing power, or production, they must recommend remedial measures. Since the administration of President John F. Kennedy, they have worked out what are called “guidelines” covering the essential American industries. These “guidelines” indicate what the level of prices should be in each of these industries--what the rates of interest on borrowed money should be--and what should be the acceptable rate of wage increases. (As a rule, they recommend that wages can be increased in each year in an amount corresponding to the increase in productivity per man.) Factually, the real wage of American workmen goes up about 3% a year. They can look forward to having 30% more purchasing power ten years from today. Prices charged by each corporation may or may not increase. The assumption is that the greater volume of goods produced, the lower the cost. The resulting profit should be divided partly by increasing wages, partly by adding to the company’s profits, for use either for dividends or forming of capital.

When a labor union demands a higher wage increase than is justified, or when a powerful corporation raises prices beyond the guidelines, the federal government feels free to intervene. It tries to persuade and, if need be, applies pressure, so that the labor union and the corporate manufacturer, or both, shall keep wages and prices within these guidelines.

We are only part way along in development of this sort of control. President Kennedy made history by intervening to ask the steel workers to moderate their demand for wage increases--as they did--and thereafter by attacking the steel companies which promptly raised prices all along the line. The corporations retreated; the price increase was cancelled. A similar discussion is going on now over the price of aluminum. Compliance has thus far been voluntary. Yet few corporations and, in general, few labor unions, despite their vast economic power, have challenged the power of the United States government. The guidelines have been in general, though not in all cases, respected.

So the corporation world which the managers control works always in presence of three outside elements. Labor unions can and do demand wage increases; this gives them a continuing share in the greater profits of the corporations. Competitors are always anxious to take a greater part of the market; this means that prices are held down by competition. Finally, there is always the government which follows the general plan of the Council of Economic Advisers, and is prepared to move in if the charges to the public become too great.

So much for the present. The future is more exciting--more productive, possibly more dangerous. For, increasingly, science and mechanics are learning to make machines do the work which in the past was done by men. This is called “automation.” It is even learning to make machines which perhaps will make decisions formerly made by men. This is called “cybernetics,” and has already led to the advent of the great computers. No one yet knows whether these applications of science, mathematics and mechanics will displace great numbers of workers from their jobs. Yet everyone knows that the men displaced will not allow themselves to be thrown on a human scrap-heap. What is the proper method of handling men who are displaced by machines? But what should be done if it develops that far less work is needed? I have no answer myself nor try here to summarize the answers of others. One thing can be said. The new industrial revolution can, readily, provide all goods and services needed to take care of everyone in comfort. The problem will not be how to support displaced men. It will be how their time shall be occupied.

Since corporations are the precise organizations engaged in this new industrial revolution--they buy computers; their research supplies cybernetics and these are the automated factors--they are crucial in the new era. A half-century ago, they would, after installing the machine, discharge the men and leave the problem to the community. No responsible corporate manager would take that position today, if only because it would lead to an immediate strike. He knows that the problem must be solved in conjunction with his production. He is calling in the best talent he can find from universities, engineering schools and economic institutes. This is as far away from Karl Marx as one can readily imagine.

Both now and in the future, another fact is important. The large corporations service a mass market. The larger and more prosperous the population, the larger these markets and presumably the larger their profit. It is in the interest of the large corporations to have purchasing power as widely distributed as they can. If, for example, every American family had a purchasing power of $15,000 a year, the corporation could sell vastly more than it does today. If purchasing power is concentrated only in half of American families, they can not possibly do as well. It has become literally advantageous for large corporations that poverty be abolished and that social problems be solved. Not often in history have the interests of the holders of economic power coincided with those of the masses; yet such is beginning to be the case.

This is a new element in American history--a far cry from the days when corporations fought social security, unemployment insurance and old age pensions; and Franklin Roosevelt when he inaugurated the program in 1933. Today they do not. Not because they have become philanthropist or idealist--they haven't. They are merely discovering that when social problems are solved, the size of their markets increases. Henry Ford prophesied this in 1917; now, his forecast is coming to be fact.

Resistance to solving social problems--evidenced by the conservatives who backed Senator Goldwater in the 1964 election--comes chiefly from the minority of small proprietors. Numerically, they are considerable. Taken together, there are several million individual entrepreneurs, still operating as small owners did in the days of Karl Marx and well into the twentieth century. But the total volume of their operations (farms aside) probably accounts for less than one-fifth of the total production of goods and services of the country. The powerful corporations are otherwise interested. Their managements and (to the extent that they have an opinion) many of the millions of shareholders of stock are more interested in the welfare state. Education of corporate managements along this line has proceeded, albeit slowly. They were massively against Franklin Roosevelt's New Deal in 1933. A majority of them (not all) nevertheless support President Lyndon Johnson's Great Society and his war on poverty. Controversy is more likely to turn on methods, on the speed in which social programs are enacted, and on the handling of money and credit. Policies which, as they understand them, may create inflation will be opposed; corporations in general want a stable price level--though each, of course, would like to see prices rise in its own field. While each corporation will fight for its own particular interest--this is the nature of corporations--they will be balanced by others with contrary interests. Steel companies will, of course, want higher prices for their product. On the other hand, General Motors and its associates, as principal steel buyers, will want the price kept down. They must all rely on the government to maintain a balance.

The financial editor of the London Economist, Mr. Fred Hirsch, made a tour of the United States in October, 1965. British commentators in general have been critical of the United States. To everyone's surprise, his report was favorable. Everything, he said, "seems to be going right":

> It is not just that America now leads the western world in the duration and scale of its economic growth***There seems to be an equal rejuvenation in the vigour and purpose of society as a whole, in pursuit not merely of economic enrichment but of social balance. More astounding than the belated acceptance by the American business community of the economics of J.M. Keynes has been its surprisingly early bowing before the politics of J.K. Galbraith."

--who teaches liberal economics at Harvard. He found no real business opposition to the "welfare program"--it was rather seen as a "defense of American values." The capacity of the corporate system to increase production indicated that the welfare job could be done without inflicting too much sacrifice on any group of Americans.

This is the managerial contribution provided by the American corporations. Their directors are not aggregations. They are probably as grasping and ambitious as most. But they know how to organize, and to produce, and to increase production. They manufacture their own capital through the existing price system. So, they do not need to go to the big bankers who dominated them almost completely a generation ago. Only a vestigial remainder of "finance capitalism" or "Wall Street domination" now remains. The money brokers do not dictate to large corporations. If anything, it is the other way around.

Over the entire system, as we noted, there is a typically American and typically nebulous form of governmental control. It is political rather than legal. The government is relied on to keep the whole system in balance. It must curb rapacious price policies on the part of the corporation. It must keep the demands of labor moderate and reasonable. It must prevent monopoly and it must keep money, credit and interest rates in reasonable stability. It can use any tools it has at its command. A major question in American corporation law is whether our unorganized method of control through the guidelines of the Council of Economic Advisers can be kept in its present form or whether it must be crystallized into more conventional administrative regulation. For the moment, neither the American corporations nor the American government wants bureaucratic regulation--probably they prefer the present procedure. The more intelligent members of the corporation community realize that government must keep balance between the desires of the corporations to make more money, of bankers to collect higher interest, of labor to have higher pay, and of the public to buy cheaply the products it wants. On the whole, the system jogs along without too much strain.

It is not perfect. Among intellectuals here and abroad, there is a good deal of criticism. Oddly, the criticism is philosophical and esthetic rather than economic. Advertising, it is truly said, is placed chiefly by the big corporations. So they dominate the billboards, plaster their stuff over newspapers and magazines, stimulate fears and emotions and make American civilization unesthetic and unbeautiful. This is true, and it represents a set of problems with which the government, the corporations and the public generally will have to wrestle in the coming years. President Johnson had a brief skirmish with them when he caused the enactment of the first federal act designed to maintain the beauty of highways by outlawing some of the hideous billboards that defaced them. Eventually cities will have to tackle the problem for themselves--as the Governor of Puerto Rico, Luis Muñoz Marin, outlawed the uglier screaming electric signs that defaced his capital city of San Juan. A steady drum-beat of criticism beats on the great corporations that handle television broadcasting, demanding that the Federal Communications Commission do something about it. In the not too distant future, problems like these will rank equally with the problems of abolishing poverty and of bringing the 20 million or so Negroes out of their present economic despair and into reasonable economic comfort. These lie ahead, and the corporate system as well as government will have to wrestle with it.

Of importance is the fact that without the development of the large corporation, control of any kind would probably have been impossible. I do not see that the present economic and social progress could have been attained had American production been wholly divided among many millions of small enterprises. We do not have to thank the corporate system for producing results. We can say it has been an essential and increasingly cooperative part of the machinery--kept in bounds by a government which fundamentally reflects the value system of America.