

MANAGING THE MANAGERS - THE DISTRIBUTION OF POWER IN AMERICAN INDUSTRIAL SOCIETY

Clark/Kerr - June 1958

= Berkeley, June 1958.

America has been an industrial society for only about half a century - a relatively short period of our history. In 1900 the United States was still a predominantly rural nation. In the short span of time since then we have become predominantly urban and fully committed to an industrial way of life for most of our people.

As we have gained experience, we have been shaping and re-shaping our views about the nature of the good industrial society. In changing our views, we have re-structured our society very substantially. In particular, we have greatly increased the power of the state to control the economic system and the flow of income within that system. This control has been exercised in several major areas. The federal government has been given the responsibility for the general level of employment and for certain techniques to be used in fulfilling this responsibility. The government has undertaken a massive redistribution of income, especially through income and inheritance taxes and levies on corporation profits. It has regulated industry, trade and finance to prevent the economic exploitation of consumers. In the labor market, it has introduced minimum wages and supported the rights of employees to bargain with their employers about wages and working conditions. It has provided a system of social security for workers and for farmers.

Viewed broadly, the management of an industrial society has been considered essentially an economic problem. The task has been to raise the over-all level and to even out the internal distribution of income. Economic stability and the reduction of economic inequality have been the goals.

The economic problem did exist and will continue to exist, but with a shift of emphasis. Our primary economic concern in the future will not be the achievement of greater internal stability and equality, but rather the means of assuring an adequate rate of economic growth within the developing world-wide

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JUL 31 1958

context. This growth will depend on the rate of investment and the adequacy of our educational system more than on any other factors. In fact, these two factors will be virtually the sole determinants of our national economic progress.

But there has been a political problem, as well as an economic one, as industrialization has swept over the United States in the past half century. The political problem has been, by comparison, largely neglected, and it is growing in significance. I refer to the distribution of power in our society. As we have been dispersing income more widely among our people, we have been allowing power to become more concentrated. In our absorption with economic equality, we have neglected true political equality.

The question of political equality is more complex than we have traditionally thought it to be. Traditionally, we have been concerned with the relation of the individual to the state. We have established our federal system of government, and our checks and balances within each level of that system, and popular control of government, and the rights of individual citizens. By and large, we have done very well in safeguarding the freedom of the individual and the group from the overwhelming dictation of the state. But we have paid less attention to the growth of private governments such as the corporation and the trade union which now range along-side the public government in the influence they have over the lives of individuals. Individual freedom is not affected solely by the relationship between the individual and the state, but also by the relationship between the member and his trade union, and between the employee and consumer and the corporation.

Thus, managing the managers in industrial society is not alone the age-old question of making the political leaders responsive to the wishes of the people. It is also the question of making the private association - the trade union, the corporation, or whatever group - responsive to the people it is intended to serve. This is a newer problem in the life of man, and he is only now grappling with it in the United States and around the world. For the big state increasingly has

as companions the big corporation and the big trade union, and all of them confront the smaller individual. The distribution of power in society has taken on new dimensions and new complexities.

Industrial society is new to man. The final form it will take, even in the United States, cannot yet be fully seen. In our own country, industrial society has changed greatly in the past quarter of a century, and we can hardly expect that change is a monopoly of the past. How will it change in the future? There is at least some basis for prediction, for it is certain that industrial society has some logic to itself different from the logic of a hunting and fishing society, or a herding society, or an agricultural society.

Inherent in its logic are at least two imperatives: there will be large-scale organizations, and there will be a web of rules.

There will be large-scale organizations because many efficiencies flow from such organizations in numerous areas of production and of control. The large steel company and the large automobile company are the more effective producers, and it takes larger unions and a strong state to match their influence.

There will be a great web of rules because they are necessary to govern and channel the actions of men in an interdependent society where the acts of one person affect so many other persons. A tremendous amount of discipline in society is essential to assure that we all produce and act as we should among the millions and millions of people mutually dependent upon each other.

Thus the logic of industrial society requires that there be fewer managers and more managed, and that the managed be subject to a growing burden of rules. The eternal conflict is not between the farm and the city, or the rich and the poor, or the hereditary class and the hereditary mass, for all these historical distinctions which have set men against each other in the past are being obliterated. The inevitable and undying conflict is between the manager and the managed. And it is a real conflict, because there are real issues to fight about.

While industrialization has a logic, it has no single form for carrying out this logic. Recent history reveals a number of forms, sometimes widely varying.

Industrialization can be operated by a dynastic elite, as in pre-war Germany and Japan, among other countries. Here the emphasis is upon the paternal community where the employer is essentially the father of the employees in the family enterprise, on the perpetuation of a class structure, on a tie of loyalty between employer and employee, and generally on social stability.

An industrial society can be developed and managed, at least for a time, as in Indonesia or India, by a colonial power. Such a society will be designed primarily to serve the needs of the "home" country, however far away "home" may be.

Industrialization can also come under the control of the revolutionary intellectual, as in Russia and China. The Communists base their control not on heredity or the free choice of the people, but on the conviction that their ideology has the greatest survival value in an industrializing world. Their ideology requires forced-draft industrialization under the firm control of the state.

Contrasted with the state-controlled industrial society is the state-guided society as we see it in Israel or Turkey or Egypt. A strong nationalist urge is often the basis for guidance by the state.

Finally among alternative forms, industrialization can be organized by a new middle class of entrepreneurs, as in Great Britain, the United States and elsewhere. Here the emphasis is placed upon the open market -- the open labor market and the open consumer market -- with the maximum choice for individuals within the market. The goal is economic freedom rather than social stability.

There are, of course, many variations on these themes; and among them,

some have more survival value than others. In particular, the dynastic elite and the colonial power appear to be transitory forms of leadership in industrial society. Of the three more or less permanent forms, the "middle class" approach obviously allows more freedom to the individual and to groups of individuals than does the state-controlled or the state-guided economy.

The world is currently witnessing the greatest ideological struggle of all history -- the ideological struggle over how best to organize industrial society. Essentially, this struggle concerns the distribution of power. The Communist view is that all decision-making power and all rationality reside with the state. The "Western" view is that decision-making authority and rationality should be widely diffused among the people. The "state-guided" approach lies somewhere in between. Only the Western approach is committed to the supreme value of individual liberty.

There can be no question about which of these forms of industrialization best serves the freedom of the individual. But there is a question about whether it yields in practice the maximum individual liberty consistent with its effective operation. This is an issue which we should examine frankly and carefully. We should be concerned not only with the preservation of our system for its great values, but also with its perfection for the sake of these same values.

How, then, can our American industrial system best preserve the freedom of its individual members in the face of large-scale organizations and the necessity of complex and confining rules? How can we best keep power dispersed as broadly as it is today, or disperse it even further?

To begin with, we must develop as much concern for the appropriate distribution of power as we have had for the equitable distribution of income. Our nation began with the concern for the distribution of power, and our founding fathers handled the problem extraordinarily well within the context of their time -- the relationship of the citizen to the state. We should return to

their central concern and treat it within the context of our time -- the relationship of the individual to both public and private power organizations. In the past century, which might be called the Socialist Century because so much of the world was debating and responding to the Socialist demands for more power to the state and more equality of income distribution, this earlier concern was partly obscured. It is high time we bring it again to the forefront, for it is the more eternal and more basic concern.

Our nation is what the political scientists call a pluralistic society -- that is, a society in which there are several or perhaps many centers of authority rather than just one. A pluralistic society, in and of itself, contributes to freedom by fractionalizing authority. But the problem does not end there. For each center of authority, such as the corporation or the trade union, can make and enforce its own rules and, in doing so, can limit the freedom of the individual. Consequently, it makes a great deal of difference how these rules are made and what they are.

I should like to state briefly seven principles which I think are essential to achieve a reasonable distribution of power within a pluralistic society:

1. There should be as many power centers as possible, consistent with the effective functioning of the society. We must preserve local governments as well as state and federal. We must preserve the maximum number of firms in an industry consistent with efficient operation. And we must preserve the identity of individual unions and of the locals within them.
2. These power centers should be roughly balanced in strength, where they face each other in conflict, so that no one can dominate the others. This principle applies particularly to the equality of bargaining power in labor-management relations. Neither the company-dominated union nor the union-dominated industry is desirable if the contending positions are to be freely expressed.

3. Power centers should be separate one from another. Along with the doctrine of separation of church and state should go the doctrine of separation of state and industry, of state and labor, of industry and labor. There are some current tendencies toward the breakdown of this principle of separation and toward the creation of collusive alliances among power centers.
4. Individuals should be given as much choice as possible among these power centers. In particular, this means the open labor market and the open product market.
5. Each power center should provide for at least an essential minimum of control by its members over its leaders. Stockholders should have a measure of control over their Boards of Directors; union members over their officials.
6. Each power center should have an adequate judicial system to protect the rights of the participants -- a grievance machinery in the corporation and the trade union alike.
7. Finally, each power center should exercise only the minimum control over the lives of its participants consistent with its survival and effective operation. Today there is a contrary tendency for power centers to grow not only in size but in the depth of their penetration into the activities of their participants.

If these seven principles are observed, our pluralistic system will remain reasonably responsive to the wishes of its members and will yield them a reasonable degree of freedom. To the extent they are violated, responsiveness and individual freedom will suffer.

You will note that these principles for the operation of our industrial society have their counterparts in the governmental arrangements established by the Constitution and the Bill of Rights. What I am suggesting is that those rules, so well designed to handle the distribution of power in our political

system, be extended to apply to problems of concentrated power in other areas than that of public government alone.

None of my comments is meant to suggest that our American pluralistic system has not worked adequately, for it has obviously served us extraordinarily well. A pluralistic system can break down if its power centers fight excessively among themselves and grant no accommodation to one another, as we have seen happen from time to time in France or during the days of the Weimar Republic in Germany. In the United States, despite past periods of excessive industrial conflict, we have achieved a high degree of national consensus and social peace. A pluralistic system can also be subject to economic sabotage if individual power centers act like the Robber Barons on the Rhine in the late Middle Ages and exact a maximum toll from all who pass their way. They can restrict output and prevent the introduction of technological improvements. The United States has witnessed some of these actions, it is true, but never on a large scale. Our rising level of productivity attests to this fact.

Our pluralistic society is evidencing some deterioration not in these areas but rather in the slow erosion of the conditions essential to individual liberty, broadly defined, and perhaps also to continuing economic progress in the long run.

There are several current developments which may result in weakening the protective structure of our pluralistic system. One of these is the tendency for more and more of our national production to be concentrated in the hands of a smaller and smaller number of corporations. These corporations become increasingly autonomous. The market sets less precise limits for their actions. They are more in control of their own corporate lives and less responsive to the pressures of other elements in society. What good substitutes exist for the checks and balances normally provided by the competitive market? It is one of the wonders of the economic world that the corporations behave as well as

they do, given such considerable latitude. Markets do not set the narrow limits nor do profits constitute the single goal assumed by orthodox economic theory to be essential to the effective operation of a corporation. Perhaps it is all explained, as some have suggested, by the corporations' having acquired a "soul". Whether they have or not, competition is still "the life of the trade", as Adam Smith pointed out so long ago, and it is safer for the consumer in the long run to be protected by competition rather than by the self-chosen "souls" of corporations. Thus the anti-trust laws are still essential to the preservation of a truly free enterprise system.

Another cause for concern is the increasing number of government officials and even agencies who are being captured in whole or in part by private industry or trade unions or other economic interest groups. Agencies which were established to regulate an industry gradually come to protect that industry instead. Some agencies "belong" to labor, some to industry, some to farmers -- rather than to the people of the United States. We must remember that it is just as important to protect the independence of government as of private groups and individuals.

The balance of power centers in our industrial system is being endangered by the growing areas of collusion in labor-management relations. Prices, entrance to the trade, business practices are jointly controlled in a surprising number of industries already. The old conflict of industry against labor is giving way to a new conflict of industry plus labor against the consuming public.

Another possible danger lies in the growth of paternalistic control by the employer as the welfare corporation competes with the welfare state. This trend has not gone to the lengths of a country like Germany, where paternalism is traditional, but it has gone far enough to have disturbing effects. During the past decade many industries have introduced private pension and welfare plans which serve to tie a man to a particular plant. In this period of time the

voluntary quit rate of American workers has dropped in half, according to a recent study of the Bureau of Labor Statistics. This fact is very significant, for it shows that individuals are losing their freedom to move and that our labor market is losing some of its dynamic aspects which have been so great a national asset.

One more development which deserves close scrutiny is the current role of our trade unions. In the United States, trade unions were intended in part to secure a better balance of power within our pluralistic system. They have made a most significant over-all contribution. They help balance alike the power of the corporation and of the state. They have introduced into many employment relationships the "consent of the governed" in the formulation of rules and judicial machinery to handle grievances. But they have also, on occasion, curtailed the freedom of the individual worker, sometimes necessarily and sometimes unnecessarily. Without endangering their security or their effective operation, it should be possible and even essential for all unions to do, as many already do, these things: open their memberships to all qualified workers without reference to race, religion or creed; provide for secret elections at reasonable intervals; allow the maximum measure of autonomy to their locals consistent with effective bargaining; institute independent judicial protection for members who dissent against the leadership; and avoid extending their influence or control beyond those areas essential to the effective representation of their members, especially through compulsory political contributions which infringe on the political liberties of members.

None of this is intended to conjure up visions of 1984 or "Brave New World". But man has some choices he can make about the distribution of power in industrial society, and these choices are important to the freedom of the individual. There is no cause for alarm but there is cause for serious thought. Industrial society can be molded either with more or with less restriction on personal

freedom. If it is important to preserve our pluralistic system against the monolithic alternative, it is also important to develop it to its utmost capacity as a liberating force in the life of the individual. The citizens in the industrial society of the future must learn how to manage, not only their political leaders, but also the managers of all important aspects of national life, so that society may remain responsive to their desires for "life, liberty and the pursuit of happiness"; so that they may continue to have in the future as in the past the greatest of wealth and the greatest of freedom.