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The 20th Century Capitalist Revolution, by Adolph A. Berle, Jr. (1954) and *American Capitalism: The Concept of Countervailing Power*, by John Kenneth Galbraith (1952)

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BOOK REVIEWS

THE 20TH CENTURY CAPITALIST REVOLUTION, by Adolph A. Berle, Jr., Harcourt, Brace & Co., 1954. Pp. 192.

AMERICAN CAPITALISM, THE CONCEPT OF COUNTERVAILING POWER, by John Kenneth Galbraith, Houghton Mifflin Co., 1952. Pp. 217

A century ago, in his historic work, "Ancient Law," Sir Henry Maine wrote, "The society of our day is mainly distinguished from that of preceding generations by the largeness of the sphere which is occupied in it by Contract." Berle makes a convincing argument that the modern corporation has taken over first place. A lawyer with a first rate mind, his understanding of institutional economics misses the current excellence of Galbraith and Drucker. He gropes as often as he grasps.

He declares the commonplace that in the last 30 years the structure of American business has been transformed to a pattern undreamed of in any popular economic theory; to him, the corporation was the major cause. Unlike the atom, the corporation did not logically proceed from theory to practice. This book flies the reader over the panorama of corporations in action and from it undertakes to synthesize a theory of what is seen.

It draws an informative design by assembling well known facts. The corporation has become a quasi-private institution and remains a person only by a space-ship fiction. Management has grown independent of some former controls, such as ownership whose diffusion reaches the ultimate in the great mutual insurance companies. The favor of investors counts for less due to internal financing from retained earnings (The present Cabinet, representative of contemporary business leadership, is identified more with industrial and commercial management than with investment banking). Competition has declined from a lash to an influence.

A new set of limiting factors has come into play, less subject than the old ones to precise determination by present law. The unrestricted freedom of the classical entrepreneur is no longer allowed a corporation of a size that its powers are governmental in nature. Boards tread carefully to avoid provoking more public regulation. A big time executive with enormous legal power dares not throw his weight around in the fashion of his rapacious predecessors who by comparison ran two-bit operations. No president of a corporation with listed stock ever says in the hearing of the public that it be damned. The level of business honesty has risen. For example, a mutual investment group hoped to be named "Capital Gain Fund," but the SEC sternly refused to grant this innocent wish unless the name be extended to "Capital Gain or Loss Fund." (It gave up and settled on "Capital Venture Fund.")

Under these pressures, both direct and indirect, management "voluntarily" has begun to curtail the exercise of some of its "unlimited" powers: e.g. cancellation of dealers' franchises, refusal to grant sub-contracts to qualified applicants, job discrimination on grounds other than union activity or lack of merit. (Should Boeing retain its right suddenly to leave Seattle?) Even that laggard The Law is beginning to catch up to these new attitudes which the book favors.

Other notes beside the main theme: In international affairs, corporations have served as a useful solvent, showing a capacity to work out economic problems among nations more easily than governments for the reason that their executives tend to know the subject matter, put less insistence on dogma and face, and have more spirit of workmanship. Locally, corporations have acquired more power and responsibility to assist the development of the communities where they do business. They have surplus wealth for gifts which they have come into the habit of making, often despite lack of provision either by statutes or charter; less exclusive concern for profit than in the past; capacity to influence a whole community or a segment of the national economy. Secretary Wilson had a point in equating the welfare of General Motors and the U.S.

Another digression: In those fields which tend to be dominated by a few large firms, management exercises a degree of comprehensive planning for the whole industry which would alarm many people if it were undertaken by a public body for any step beyond a zoning code. Such planning is in the public interest. It sometimes runs afoul of the Sherman Act which should be modified to permit it. Not considered: A new set of problems in sight, mergers of labor with ownership and of management with labor leadership.

The book holds that so long as our economy is diverse and pluralistic, there is a good chance for a free society. But the way to salvation is obscure. Montesquieu said, "It is in the freest countries that the merchant finds innumerable obstacles."

Our ancestors regretted that corporations had no conscience. Now, some fear, perhaps they do. Berle suggests the corporation has become so human that it has developed a spirit and a measure of free will similar to those thought to be possessed by natural persons.

From this notion of an emerging soul he concludes that management should shape rules of corporate conduct as the Chancellors made the system of equity. He warns of the stagnation of wider public control if corporations either abuse or abdicate their powers. He urges corporations to work out a philosophy to give coherence to their acts. Instead of bending to public opinion, executives and boards should establish their owns rules to improve justice; that is, constitutional government rather than mobocracy. But the new confining forces may be too strong. Even so, the narrow discretion remaining to management will be exercised with significance in the future by the choice of ends for charitable gifts.

Berle compares to regal sovereignty the corporation's independence of internal interference by courts; *ergo*, corporations should check themselves, just as kings would sometimes waive their sovereignty from sense of moral duty and to forestall revolt. But the two are not analogous. The castle of internal corporate affairs is a modern fiction. In practical wisdom courts bow before it. But royal authority did not use to be a made up story. A monarch's obedience to a court was a voluntary surrender. And since that time the rise of public power has passed the point of division between degree and kind. Courts share in this even distribution of authority embodied in Tocqueville's gloomy predictions of equality running riot. The low-angled pyramid of our society is so close to being concave that it would bewilder a Norman of any rank. The Tort Claims Act is like the condescension of an ancient king. Though the constitutional democracy which produced the Act is an imperfect fusion of sovereign and people, the government, even if less capricious, is absolute as ever to each man among the lonely crowd.

This hastily written book will not be the landmark study that the author's work with Gardiner Means was. Like a new anchor chain, its heavy erudition shines with self conscious brilliance. His pompous imitation of the Supreme Court style is no easier to swallow than his muscle-bound levity when he plays the faculty wit. A boy genius who has never grown up, he resembles George Sisler, the great first baseman who made the hard ones look easy and the easy ones look hard. Because it informs without pleasing, it is good this book is short.

Both Berle and Galbraith are concerned with the new American economy. Both appreciate and describe the nature and magnitude of what has come to pass. Berle confines his attention to the corporation, while Galbraith's work embraces Supply and Demand and All That. Berle asserts the heady freedom of corporate management, while Galbraith puts more weight on the new limiting factors and makes some of them the thesis for his book.

This is it. Price competition, the pride and essence of the classical system, has dwindled until only remnants survive. Alas. Most business has come to be conducted by a few big companies. By the old theories this state of things should cause injustice and stagnation. Yet abundance pours from the American horn of plenty in a flood that steadily increases in volume and equality of distribution. Why?

Galbraith claims the blessings of bigness and limited competition are twofold. Positive: Efficiencies of large scale operation, capacity to finance research, try out untested products, etc. (stressed by Lilienthal). Negative: Big units tend to generate opposition to themselves in the form of other big units on the opposite side of the market where the same concentration process takes place. This Galbraith calls "Countervailing Power." Thus: unions v. employers, retail chains v. manufacturers, auto companies v. steel mills. Power attracts and creates power. A manufacturer with monopoly profits tempts units of labor and retailers to insist on a division of the swag. The collision of peers forms a balance which keeps its members operating efficiently and in the public interest. Thucydides stated the value of this concept:

> "We both alike know that into the discussion of human affairs the question of justice arises only where the pressure of necessity is equal, that the strong take what they can and the weak grant what they must."

Even in the now typical oligopoly situation, competition of a sort remains among the few producers of each product and between substitutes (e.g. trains and trucks). Countervailing Power supplements it to keep the titans on their toes. When the many face the few in business, unlike the battlefield, the few have it their own way. So the many merge to get there fustest with the fewest. Countervailing Power, like pure competition, is a self-generating, self-regulatory mechanism, which, together with imperfect competition, does the job which used to be done by competition alone. The huge counterparts now curb each other, and relative power flows back and forth between them like electricity on a grid system.

Except in case of one against one, Countervailing Power works against oligopoly but not monopoly. (The difference between the two is more than used to be thought.) A single unit on one side of the market is immune to the power of even a few big opponents on the other side.

The proper target of anti-trust action is an unrestricted power unit. But the prosecution of one member of a counterpoise upsets the delicate ecology of the economy. This is like the experience of the Australians who imported rabbits to eat the weeds; the rabbits ate everything. The Robinson-Patman Act sometimes has the same effect when it cuts down the Countervailing Power of big buyers (like Sears, Roebuck and A. & P.) which are the only ones able to bargain "from positions of strength" with big manufacturers.

State intervention in the economy has two uses: To stabilize, and to prevent the misuse of private power. That is, to insure that the flow of goods and services is rapid and steady and is taken in fair shares. The development of Countervailing Power has been a major peacetime function of government over the past 25 years (e.g. the protective farm and labor legislation to help the many bargain as few). Its aim has been to strengthen the capacity of the economy for self-regulation and thus to reduce the need for public controls.

The greatest asset of capitalism is its capacity for decentralized decision. This contributes to both justice and technical efficiency; the foot knows best where the shoe pinches. Keynesian fiscal policies and other devices can take care of deflation without much state interference. But the risk to capitalism comes in time of strong inflationary pressure because Countervailing Power fails to work when seller needs no carrot and buyer has no club. War is the only cause of inflation too severe to be handled by the combination of Countervailing Power and deflationary fiscal policies, but full scale war is such that meddling authorities would be among the least of our worries.

Galbraith makes a cosmos of the chaotic facts around him just as did the classical economists in their day. One finishes the book feeling gratitude to the author for entertainment, and reassurance to be told we are protected from capsizing by a built-in gyroscope which works as well as a swarm of hidden hands under the old theory. In delight with his creation, this economessiah claims much for it. He does not make clear how in the long run the consumer will be protected against excessively peaceful coexistence among the giants. Perhaps our legislation to prevent trade restraint should be adjusted to the concept of Countervailing Power, and then applied. Nor does he see a need to disperse authority in the firms which dominate the American scene. They furnish us with machinery for decision which is decentral only in comparison to national direction of the largest integrated economy in the world. Judged by standards of human dignity and operating efficiency, executive control of these companies is too concentrated.

Galbraith is the most amusing economist in print. (No damnation by faint praise intended.) His wit makes the material easy to swallow and sometimes is the medium for insights. Yet humorous paradoxes and analogies, like poetic symbolism, often are less lucid than plain words about the things symbols stand for or at which allusions hint. Sometimes clarity is better than imagery.

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