In one of the oldest and best-respected traditions of the public lecture, I begin with an irrefutable proposition. It is that capitalism, or what is still so denominated, is not working very well in the older industrial countries. Its poor performance in the United States, the United Kingdom, and, if in slightly lesser nature, Western Europe is having a blighting effect on economic progress—and solvency—around the world and notably in the states that emerged into independence in the years following World War II. It is not without interest or relevance that the economic performance in the socialist and Communist world is also far from favorable. I shall argue that the controlling economic development in our time is by no means confined to the nonsocialist countries. However, I shall be speaking in the main of the older western economies, especially those of the United States, Britain, and Western Europe. It is my purpose to go a bit behind the headlines to the deeper forces
that shape the present and the future—and that are the basis of our present difficulties.

The controlling economic development in our time, a point I have urged in the past, is the rise of organization—the general movement, were one permitted to put matters in a slightly too dramatic form, from the age of capitalism to the age of organization. This is part of an historical process which, in principle, we accept; one does not earn a reputation for novelty by asserting that economic and social life is in a state of constant change. However, the change that we accept in principle we do not act on in practice. In consequence, we have not accommodated attitude, analysis, and policy to the economic, social, and political structures that now exist. Instead, and most notably in the United States and Britain, the political tendency has been to deny that there has been change. The approved policies are those appropriate to an earlier stage of market capitalism, a step backward celebrated by the phrase “a return to fundamentals.” These policies—the monetarist commitment in Britain and the monetarist and supply-side policies in the United States—have contributed in a substantial way to making the economic performance worse. But let me go back to the beginning: what is the evidence of the change that I am asserting? One is right to react suspiciously to anyone who speaks of great change in the social and economic fabric without illustration or proof. The process to which I advert today has the advantage of being visible to all who have the eyes and the will to see.

Organization, the subordination of the individual to the common purposes of a highly structured association, is a general phenomenon. For economic purposes, however, it has three relevant manifesta-

tions—in the modern corporation, the modern trade union, and the modern state. In all three of these, but especially in the corporation and the state, organization—bureaucracy—has become the decisive source of power and the controlling influence on economic behavior. What is still called the free enterprise system is, in practice, an array of massive organizational structures. This is most readily evident in the case of modern corporate enterprise.

A thousand or so large corporations now supply approximately two-thirds of the privately produced goods and services in the United States. This concentration is not, however, peculiar to any one country; there is similar concentration in all the other industrialized lands; it is a basic imperative of the modern economic system.

With the rise of the great corporation goes a major shift in power to organization—to the corporate management. This is largely accepted, at least in practice. Few now seriously pretend that stockholders—the owners of the modern enterprise—are a significant force in its practical guidance. In the United States a banal annual ceremony, the stockholders’ meeting, celebrates the irrelevance of the owners and ratifies for a largely honorific role the board of directors that the management has already selected. Authority not only rests with the organization—the bureaucracy—but, in substantial measure, it resides well within it. Except in the industry itself no one any longer knows the name of the head of a large American or British firm unless, perchance, that corporation is in serious trouble. Then the chief executive officer may command a certain attention for his explanations, for government help, or by being fired.
The role of organization—bureaucracy—in the modern state is not, of course, in dispute. It is a matter of everyday comment; all recent Presidents of the United States have reacted to its power. It was President Kennedy's delight, twenty years ago, to say, when presented with some plausible suggestion for a new course of public policy, "Well, I agree, but I don't think we can get the government to agree." What remains, as regards the great and massive structure of the modern state, is the impression, cultivated by the more ephemeral sort of politician, that somehow it can be made to disappear. It will not. None can doubt that there is a certain room for romance in all public discussion, but it should not be carried to extremes. Like the great corporation, the modern state with its massive bureaucracy is here to stay.

So is the trade union. It is an integral part of the contemporary industrial scene; there is today no industrial country where trade union organization has not reached a high level of development. In the United States there is an ebb-and-flow process in union power; of late, we have been on an ebb tide. But even where unions do not exist, the threat that there might be one is a powerful force in setting wages and benefits. So is the wages-and-benefits pattern that the unions establish for all workers. The great management-controlled corporation, the bureaucratically powerful state, and the trade union constitute the basic triad of modern economic society.

The primary effect of the rise of organization has been on the classical market—on both its operation and its ethic. The accepted purpose of the trade union is to replace the determination of wages by the market with a process of negotiation which protects the individual union member from the market. The great apparatus of the modern state has two broad functions. One is to render those services—provision of education, housing, health care, and the national defense—that do not come or do not come adequately from the market. The second function—as with farm-price supports, minimum-wage legislation, unemployment compensation, old-age pensions—is to temper the crude thrust of the market as it affects the particular individual or firm. Thus the state supplements, replaces, or modifies the working of the market.

Finally, it is one of the clear purposes of the modern great corporation to achieve a measure of control over the prices it pays and receives and over the response of consumers to those prices. The latter is what modern advertising and merchandising are all about.

Thus the age of organization, in all of its principal manifestations, has brought a displacement of the operation of the classical market. With this view, I am forced to concede, many of my fellow economists do not agree. No one familiar with my profession can doubt the ingenuity and determination with which numerous of its members divert their attention from what cannot readily be reconciled with their geometry, their algebra, or their preconception. However, reality does not yield to professional convenience.

The age of organization involves a massive assault on what may be called the ethic of the market economy and society. In the market economy adversary interests are arbitrated by the market. An adversary interest on wages between employer and employee is arbitrated by the market; an adversary
interest on prices between raw-material supplier and manufacturer and between producer and consumer is also arbitraged by the market. And on market intervention and regulation there is a generally adversary relationship between the business firm and the state. It is taken for granted that taxation, regulation, and the extension of state activities into the private sector are to be resisted.

With the rise of organization, the ethic of negotiation replaces the adversary market arbitration. Or it should. Conciliation is the basis of successful association between organizations; the alternative is a mutually damaging conflict. There is strong resistance to this change; the notion of an inherently adversary relationship between business, labor, and government is very deep in the industrial psyche. We are only gradually coming to see that in those countries where the adversary relationship has been at least partly overcome—Japan being the most prominent example—capitalism works much better than in those where adversary attitudes are still assumed and, it may be added, considerably enjoyed. This is a matter to which I will return.

In all of the industrial countries we will live successfully in the age of great organization only as we better understand the internal character and dynamics of organization. And only as we accommodate to the interrelationships between organizations and the resulting dynamic and as we move from the adversary to the conciliatory ethic that the age of organization requires. Let me be specific.

As to the internal dynamic of organization, we must accept that corporations, as also public agencies and all other organizations, have a basic tendency to age and senescence. They are not, as we have been disposed in the past to believe, blessed with eternal youth. And we must counter this aging process much more successfully than we have hitherto. We shall have taken a very considerable step when we recognize that such an aging tendency exists. One of its manifestations is the different levels of corporate performance as between the younger industrial countries and the old. What is currently being attributed to Japanese genius in organization is at least partly attributable to the less durable advantage of greater youth. And contending with Japan for industrial achievement, we notice, are the yet younger corporate enterprises of Taiwan, South Korea, Hong Kong, and Singapore.

It should be one part of the solution that men and women come into positions of major responsibility in the modern corporation at a much earlier age than at present—in their late thirties or early forties and not, as now, in the last years before retirement. This would contribute to longer-range planning; executives would have to live with their errors of commission and their even greater errors of omission. They would still be in office.

We must recognize that it is the tendency of all organization as it grows older to define excellence in personnel as whatever most resembles what is already there and wisdom in decision as what most resembles what is already being done. In consequence, all organization can have a self-perpetuating excellence. And equally, alas, it can have self-perpetuating mediocrity and obsolescence.

It must further be understood that all organization, all bureaucracy, has an internal dynamic of ex-
pansion—expansion in numbers of people. This has long been recognized as regards the public bureaucracy. None should doubt that it also powerfully characterizes the private corporation. Prestige in organization depends on the number of subordinates the individual has; there is a general and powerful impulse to enhance position and importance by adding more. Nothing so relieves the individual from the terrible burden of thought as more assistants to help with this ungrateful exercise. Thus the pressure for bureaucratic expansion.

Myron Gordon, a professor at the University of Toronto, has recently undertaken to measure the cost of the bureaucratic apparatus in American manufacturing. Between 1947 and 1977, the share of total revenue going to purchased materials decreased from 40.3 percent to 35.6 percent; the share going to labor decreased from 25.6 percent to 21.0 percent. The share of revenue going to profits and taxes also decreased. The share going to the corporate superstructure—the white-color and executive bureaucracy—increased from 14.6 percent to a massive 26.2 percent. Over these years, he concludes, “the rise in output due to increased productivity was more than absorbed by the disproportionate rise in the cost of obtaining that output,” that rise being in the overhead or the bureaucratic establishment.

In these last months, under pressure of recession, American corporations have been shedding salaried and executive personnel. The number so dispensed with in the case of the largest corporations runs into the thousands. Fortune magazine in a recent issue studied the process, gave advice on how the shedding could best be accomplished, and called the article in question “The Executive Recession.” The resulting streamlining has been thought greatly to strengthen the enterprises so engaged. The question that arises in a most compelling way is why were those people hired in the first place, what were they doing before? The answer is that many originally came to the organization not in response to need, but in response to the dynamic of bureaucratic growth.

We must also recognize that a related dynamic characterizes the corporate structure in general. The size of the organization is the ultimate source of prestige, the prime test of achievement in modern industry. An accepted order of social precedence in all industrial countries accords the front rank—the head of the table—to the executive of the largest corporation. In consequence, size has become a goal in itself in the age of organization. Profits are not unimportant, but to be big is better. In these last years in the United States we have been witnessing a great combination movement—what has been called the takeover frenzy. (Marx, if he is watching, is nodding his head in self-approval. It is a spectacular example of what he delineated as the process of capitalist concentration.) In this great thrust there has been little or no discussion as to whether the merged enterprises would be more profitable. Almost no one supposes that to be the aim. The aim is to be bigger; that is the goal of those initiating the takeovers. It is a striking illustration of the dynamic of organization. Were it so perceived, it might also be regarded with less equanimity. The prospect, if the aim to be bigger continues, is for yet greater corporate bureaucracies given to yet deeper bureaucratic stasis.

A sacred myth, devoutly observed, holds that a
total difference divides the world of capitalism from the world of socialism and Communism. They are two different systems; they have nothing in common. As we reflect on the entry of the industrial countries into the age of organization, we have a better if less dramatic view. Modern communism is also an exercise in massive organization. China, the Soviet Union, and the Eastern European states are also struggling with the unsolved problems of organization, including its ineluctable tendency to age and associated sclerosis. In a world where so many seek difference and conflict, it is mildly rewarding to find that there is some convergence even when it is on common misfortune. The competition between capitalism and socialism in the future will be, in no small part, a competition to see which can best deal with the still unsolved problems of pervasive organization.

I turn back to capitalism and to the external manifestations of the age of organization—to the problems inherent in the relationship between the great organizations.

These problems arising from the interrelationship of organizations are twofold. And while they have had devastating consequences, they are not matters of any great intellectual complexity. Organization has added a major new dimension to the task of macroeconomic management of the modern economy. And it has rendered obsolete and aggressively damaging the traditional instruments of such management.

Specifically, organization, as it has matured in the older industrial countries, has introduced an interacting dynamic as between incomes and prices. Organized workers press for higher wages; corpora-

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spection. The United States and Britain are currently suffering severe recessions—high unemployment, low utilization of plant capacity, the highest rate of business failures since the Great Depression, especially serious depression in what are called the credit-sensitive industries. All of this is the direct consequence of a commitment to astringent monetarism in the age of organization.

The recession has been made worse in the United States by the association of a tight monetary policy with a relatively loose fiscal policy—what we may call the supply-side aberration. Loose fiscal policy puts an added burden on monetary policy, involves a greater competition for lonable funds, and leads to high interest rates. In all economic management higher taxes are to be preferred to higher interest rates. Monetary and fiscal policy are no longer sufficient tools of management in the age of organization. But for repressing demand, when that is required, fiscal policy is much to be preferred to monetary policy.

It is an extraordinary thing we have done in the United States in these last years. Conservatives are in positions of authority. One must suppose that they are generally in support of capitalism, and also their own pecuniary interest. But in the name of getting back to fundamentals, they have avowed and adopted policies deeply damaging to the reputation of the economic system and deeply inimical to the economic interest and well-being of their own supporters. Since the days of Marx it has been assumed by people of all political faiths that economic determinism—the accommodation of political decision to economic advantage—is the basic tendency of modern govern-
tion are possible. In the case of Austria, Germany, Switzerland, and Japan, they are already in an advanced stage of development. The requirement is, however, the same in all countries: the negotiating and conciliatory ethic of organization has to replace the adversary ethic of the market.

Such are the internal and external imperatives if capitalism is to survive in this age of organization: An understanding of and response to the aging tendencies of organization and its powerful dynamic of bureaucratic expansion. An understanding of and response to the external dynamic of interorganizational relations—of wages on prices and prices on wages—which is the modern cause of inflation. A respect for the negotiating ethic of the age of organization as distinct from the adversarial ethic of the age of the free market.

My onetime colleague at Harvard University, Joseph Schumpeter, thought well of the capitalist system, but he thought poorly of its chances of surviving its critics and its own misappreciation of its character. I do not consider myself wildly optimistic; these last years have shown, in the older industrial countries, a notable tendency to self-inflicted damage. If we do better in the future, it will not be because we have succeeded in recapturing the past, but because we have learned to come abreast of the present.

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