Economic Integration
and The Administration of Values

James F. Becker

James F. Becker is Associate Professor of Economics at New York University.

"We need a new set of convictions which spring naturally from a candid examination of our own inner feelings in relation to the outside facts."

J. M. Keynes.

"... though we proceed slowly because of our ideologies, we might not proceed at all without them."

J. A. Schumpeter.

The tenacity of our faith in the two tenets of Liberal social organization — representative government and atomistic competition — has steadily diminished in the twentieth century. This is true whether we consider the test of that faith to be "works," or whether we consider it to be the sanction that social science lends to our cherished beliefs. The principal incidents of this century that run counter to Liberal practice are so well known that it is superfluous to recite them again. In the social sciences, those practitioners who will unqualifiedly endorse Liberal institutions no longer rule their professions or speak for any very large number of their colleagues.

"The disposition towards public affairs, which we conveniently sum up as Individualism and laissez-faire, drew its sustenance from many different rivulets of thought and springs of feeling... We do not dance even yet to a new tune. But a change is in the air. We hear but indistinctly what were once the clearest and most distinguishing voices which have ever instructed political mankind. The orchestra of diverse instruments, the chorus of articulate sound, is receding at last into the distance."1

The collapse of the competitive ideal is not an altogether joyful event. "Man is a being who cannot live without enthusiasm," says Robert Musil, and, in social life, men's ideals are what give them enthusiasm. Some new system of beliefs is needed to provide the vigor and guidance once given by the faith in competition. This essay assumes that a scientifically and ideologically adequate political economy of integration can be developed to fill this role — an assumption common to many economists, especially abroad. It assumes, also, that the economic

Theories we are tendered by establishment economists are too narrow to serve integration adequately in all the relevant dimensions—racial and religious as well as economic. Existing theories fall short of what is needed in a number of important ways but, most important, they fail to show us how economic activities and values bear upon those issues of class and social relations with which we are presently so deeply concerned. Like the classical theory of competition, from which the modern theories derive, they fail to recognize all the ways in which technical change affects the quality of human life as well as the volume of economic activity. They fail to grasp the precise manner in which modern technique contributes to the increasingly exotic and unproductive way in which power is being used. This essay seeks to show how and why power deriving from a growing technical base has been abused, and how it might, perhaps, be brought back into constructive employments, improving relationships of man to man and class to class—in a word, contributing to integration.

Integration here means the gradual incorporation within the confines of some organizational unit such as a firm, a household, a state, or nation, of all of the means essential to achieving its objectives—a "making whole" of means and ends. What we designate as "the unit" is quite arbitrary. To illustrate, consider integration in a contemporary use: racial integration. Here it refers to the consolidation of diverse racial elements within the confines of a community on terms that will enable all members to realize more fully the community's objectives: equality, justice, equity, and so on. In economic and political discourse, the definition is the same although the field of discussion changes (though not as much as some suppose). In the political-economic context it refers to the incorporation within the administrative domain of those means (e.g., factors of production) that are essential to achieving the organization's objectives. One speaks of integration within or among firms, unions, etc. In modern times, we argue, the primary force behind integration in this realm has been the growth of "administrative capacity." The key to understanding the integrations we have witnessed and those that presently concern us lies in understanding the nature and function of this capacity. Because its influence now spans such wide areas of social life, its control is directly essential to achieving integration in all contexts.

Administrative Capacity and Its Determinants

The meaning of administrative capacity, for this argument, must be broader than it is in ordinary usage. In common parlance, the phrase refers to a personal attribute. If we say that Jones has this capacity, we declare the scope of his personal authority and his ability to handle all within its range with commendable dispatch. It is, for example, a talent that Schumpeter attributes to his famous "innovators"
— an instinct, a facility, or whatever, but always a man's personal possession. Jones presumably retains it whether he works for Standard Oil, for a steel company, for government, or for himself.

With the rise of large scale organization in modern times, administrative capacity has become a corporate phenomenon as well, and can be attributed to a group or collective. It attaches to the organizational corpus and is more or less independent of individuals who work within the precincts of a firm, an enterprise, a union, a bureau, or, more precisely, of the managerial complex that coordinates the activities of the whole. In this sense, it refers to those powers to manage and to evoke cooperative endeavor that are conferred upon men by various instrumentalities. These instrumentalities may be technological; machines, for example, from typewriters and telephones to high speed computers confer upon administrators a measure of this impersonal force. Or, they may be technical, consisting of specialized methods and procedures of organization and direction included within or affecting the structure of management so as to enhance its "span of control." Psychological and sociological techniques, information gathering and disbursing procedures, new occupational specialties designed to open particular bottlenecks, etc.—all of these as well as technology, which has so captivated the managerial imagination since before the days of "scientific management," may serve to enlarge the capacity. In short, all mechanical or other instruments that have utility in the pursuit of the cooperation and coordination to which management is unwaveringly dedicated belong in the category of things that contribute to its force. Under the impress of these methods and machines, this capacity has come gradually to bear ever more decisively upon the scope of management's authority and upon its power to handle all within its range with appreciable effect.

There is a distinct parallel between the nature of the determinants of industrial capacity—the accumulations of capital or "plant" that facilitate the physical transformation of inputs into outputs—and the nature of the determinants of administrative capacity. Just as the instruments that apply directly to the fabrication of products at "lower" levels of activity within the enterprise determine industrial capacity, so do accumulated techniques and technologies of the administrative sort permit a transformation of inputs of energy directed towards coordination into outputs of control or influence. The influence upon production exerted by administrative instruments seems indirect only if one insists upon viewing the matter solely from the fabricative* level, but in fact these instruments control the process of production in both aspects, managerial and fabricative, and are ultimately decisive even at lower levels. If, then, we call the instruments that serve fabrication primarily "industrial" capital, we can with equal justice refer to those that serve coordination and supervision "administrative" capital. So far as the growth of productive capacity throughout the whole of an

* An apology is due the reader for the repeated use of this oafish term. I would appreciate a list of satisfactory synonyms.
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enterprise is concerned, we can say the following: the capacity of industrial capital grows as this capital accumulates and as qualitative improvements occur within it; the capacity of the administrative structure grows as the structure’s own peculiar capitals accumulate and as qualitative improvements occur among them. Capacities to manage as well as to produce thus have a technical base in common.

Whatever encourages the accumulation of administrative capitals, whatever contributes to their invention and innovation, makes for an enlargement of the corresponding capacity. Among the many factors affecting their accumulation that might be cited, five play outstanding roles. Foremost among them, and perhaps the most persistent in its stimulating influence, has been modern science. Even before the 19th century, science proved generous, providing knowledge of improved means of transportation and communication, knowledge which entrepreneurs were quick to turn to account in the amassing of their money capitals; in popularizing their products; in struggling with competitors, labor, and other resource owners; and even in molding opinion, in persuading others of the worth of entrepreneurial assessments of the value of particular ends and means.

A significant number of techniques brought into use during the Industrial Revolution fell outright into the category of administrative capital (double entry bookkeeping, for example), or, like improved means of transportation, served both fabricative and administrative functions. The fact that we are only just becoming fully aware that science generates specialized technological tools suitable primarily for coordination should not lead us to conclude that managerial instrumentation and methods are recent phenomena; rather, our fresh awareness of this old category of capital should lead us to ask what its historical role has been since its first appearance in ancient times. It is very probably true that an increasing proportion of present-day technical developments caters exclusively to managerial functions, and, if this is so, it should not surprise us that management’s work is broader in scope and reaches greater depths within the social space than was formerly the case. It is only to be expected that with science accelerating the growth of administrative capital there should be an increasing relative output of “coordination,” “direction,” “supervision,” and “control.”

Second, the quality of the population has had much to do with both the invention of and innovation in administrative capitals. Investment by the community in the education and training of its citizens cultivates the skills, talents, and attitudes that the growth and operation of administrative capitals require. The stimuli of Liberal education are especially important in relation to invention, while a moderate level of technical training suffices for innovation and operation. Vocational training and indoctrination provide a flow of stolid recruits perfectly capable of performing the specialized tasks required as the division of managerial labor becomes fine. The organizational man is ideal and the educational system, by providing a sufficient supply of these men, guarantees that administrative capitals can be fully manned. The vested
interest of managers in maintaining such a supply helps to explain why powerful pressures have been brought to bear upon institutions of learning, producing an eccentric bias in favor of rote, as against Liberal education. Thus, while the community's investment in education has hastened the accumulation of capital, there has also been some revision of educational curricula to conform with the needs of a burgeoning bureaucracy.

The third great stimulus to accumulation since the seventeenth century has been certain changes in the legal foundations of capitalism, especially those that have promoted the adoption of corporate forms of organization. Scholars have long emphasized the contributions of the corporate device to the amassing of money and industrial capitals: the corporation not only reduced creditors' risks but also facilitated mass production and distribution, thereby lowering economic costs of production. There is no need to challenge this thesis but only to observe that the explanation it provides of the development process is too narrow. For precisely the same reasons—the minimization of risks and the lowering of costs—the corporations enable entrepreneurs to surmount easily such obstacles in the way of mass administration as the cost of installing and maintaining larger staffs of personnel so as to take advantage of finer divisions of administrative and productive labor, and the cost of installing and maintaining the physical systems, bureaus, and equipment that amplify the energies of those who command. It may appear circular to cite as a cause of the accumulation of administrative capital a mode of administrative organization—the corporation—but it is not the argument that is circular. Rather, it is the tendency of this capital to become self-generating that the history of the corporate form reveals.

Still another incentive to accumulation is to be found in the circumstance that the capacity inherent within administrative capital permits its operators to coordinate more effectively processes that are wholly internal to the enterprise. It gives managers a firmer grip upon themselves (so to speak) when its force is turned inward upon their own establishment. It promotes discipline, cooperation, loyalty—those states of mind and heart supporting the liaisons, the subordinations and subjugations, upon whose serviceability depend the ordering and the execution of orders that make up the ordinary run of managerial activities. Whether one considers managerial capitals in their inward or outward manifestations, one sees that they possess the same kind of opportunistic versatility and force that characterize the individual entrepreneur himself—only in attenuated form. This flexibility, as much as anything else, accounts for the attractiveness of managerial paraphernalia to those who are in a position to purchase these instruments, and it contributes, therefore, to that self-generating aspect of their accumulation previously noted.

Finally, there is the matter of the character and aspirations of the great entrepreneurial innovators of the past. Perhaps they did possess unique personal qualities, though it is not much to the point here to worry unduly about their character. What is indisputable is that the
early captains did not spend the whole of their energies upon the accumulation of industrial capital. They also spent them in constructing, populating, and equipping managerial hierarchies — structures formed, manned, and mechanized so as to give maximum amplification to personal capacities — so as to adapt available means more effectively to the promotion of their ends. Society's gifts of science and education and the community's legal sanction of appropriate organizational conventions combined to accelerate the process of economic development, but we must not forget the importance of those personnel and those capitals that so extended the influence of business leaders that no obstacle, political or economic, could long resist them. In the early phase of capitalist development there were many who realized that their personal powers could be magnified merely by grafting onto them the relevant devices. With the progress of accumulation, however, personal capacities underwent a metamorphosis in their relationship to administrative capacity; gradually, the latter came into the ascendency, appearing mainly as an aspect of accumulated impersonal techniques and technologies, rather than as an aspect of the power of a particular individual. Administrative classes now stand where individuals did formerly. Techniques are still exploited to the utmost — this much is unchanged — but the attitudes and activities of those who exploit them, along with those of the rest of us, have fallen into new patterns that reflect the cumulative force of administrative capacity at its several angles of incidence to the plane of social life. These patterns are not always pleasing if only because this self-generating capital conveys power to the managers of any organization whatsoever, regardless of its ends, that is so fortunate as to engross its services. In examining and evaluating the uses that are made of this power, we must remember that it is the property of a class rather than of a single person, for this fact is relevant to our coming to grips politically with what we may find displeasing. The point that is fundamental is simply that the magnitude of managerial power is governed by the quantity and quality of administrative capitals, while the uses to which it is put are controlled by a special class of the population, the administrative.²

² The neoclassical economics never admitted this power into its formulae. Alfred Marshall, for example, allows that large scale organization may entail external economies, but he concludes that, by and large, the diseconomics of "bureaucratic method" will set an outer limit to scales. He fails to explore the implications of innovations in administrative capital upon the outer limit of economical scale, and his theory of returns is static rather than dynamic. Later neoclassical treatments of the theory are subject to the same limitations. Cf. Principles of Economics (London: 1930), 8th ed., Bk. IV, Chs. VIII-XII. Marx's analysis is also inadequate. He fails to identify the special category of capital whose accumulation is responsible for the political and ideological dominance of a special class of the population. Cf. The German Ideology (New York: 1969), especially pp. 39-43.
Early Integration and Accumulation

Using integration in its simplest, most general sense—the combining of members into a whole—there is no abuse of the term involved in saying that the filling up of economic space with individual and corporate entrepreneurs—the most striking feature of capitalist development—was a part of a process of social integration. England, the first country to enter modern industrialism, illustrates the case. One hundred and fifty years separate Cromwell's Glorious Revolution from the political and economic reforms that mark the real ascendency to power of the middle classes, and the new order which began in 1688 and emerged full-blown in the middle of the nineteenth century was shaped and given its tone and its character through intervening integrations by private entrepreneurs. Within the fields of finance, commerce, production and distribution, factors of production were combined, often at first, within more or less atomistic enterprises, and then, gradually, within organizations advancing in size and efficiency. Economic concentration and the spreading of administrative domains continued until, by the end of the nineteenth century, concentration had become a common, if not predominant, feature of economic organization. The advance of administrative capacities had much to do with this. Like a young Tom Sawyer, the administrative body assesses its potentials and looks for an outlet for its energies. It seeks to control what falls naturally within its province as well as whatever it is able to appropriate; but it always claims its prerogatives in direct proportion to its powers. As its powers advance, so does its domain.

By the middle of the eighteenth century in an environment essentially favorable for the exercise of entrepreneurial decisions, the choice of material means by which profits were to be pursued was conditioned, first, by the fact that the relevant powers to organize rested in the hands of men whose impulses to exploit them were exceedingly strong, and, second, by the existence of a form through which these impulses could be expressed that the community as a whole was prepared to sanction. Happily the material needs of entrepreneurs and the community's needs for economic progress could be satisfied simultaneously through the accumulation and consolidation of capital. From the conventional economic point of view, these are two independent phenomena, but


4 As used throughout, consolidation refers to horizontal combination, a type of integration found early in capitalism. The relative frequency and importance of other types of combinations increases subsequently. See discussion, pp. 39 ff., above. Thorstein Veblen's acute remark, "The trust-maker is in some respects a surrogate for a commercial crisis," rests upon the observation that trust-making and depression have similar redistributive effects upon holdings of financial assets. In addition, however, each of them may produce increments to fabricative and administrative capacities of survivors that likewise contribute to greater profitability. Cf. *The Theory of Business Enterprise* (New York: 1904), p. 128 ff.
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from the standpoint of the entrepreneur, seeking modes of release for his growing powers to organize, they combined into a single, logical means for promoting his objective, to be used as circumstances might dictate. Since he was the one who possessed the capacity to implement his choice, it is his assessment of these nominally distinct devices — net investment and consolidation — that seems the pertinent one. He saw in them a common quality, a power — either fabricative or managerial — which he valued and, from the beginnings of capitalism, we find both devices employed to enhance the size and efficiency of enterprises.

In time, and especially under the nineteenth century conditions of "free" competition (here, the aftermath of Liberal politics; there, the result of frontier circumstances; elsewhere, a reflection of the prerogatives of an elite class; commonly, some combination of these), the need for commanding a capacity sufficient to insure the survival of the enterprise in the long run became increasingly apparent. Whether in home or foreign markets it was always desirable to possess sufficient fabricative potential to satisfy customers' demands in the event that competitors might be displaced — otherwise strife and rivalry were pointless — and administrative capacity took on new significance for both managing the fabricative capacity and for disposing of its product.

Specifically, however, the question that needs an answer — an answer that will ratify the entrepreneur's inclination to enlarge his scale — is why does a progressively larger market for one's product lead necessarily to a greater profit than before? To see the answer clearly, one must remember that administrative capacity has been growing for a long time. By the first quarter of the last century it was already so large that no loss in overall efficiency of operations resulted from the acquiring and operating of larger establishments. Or, putting it in terms of profitability, whatever a unit's rate of profit might have been prior to an expansion of scale, total profits could reasonably be expected to increase following an enlargement of the enterprise simply because the power to manage was growing at least as rapidly.

The alacrity with which administrative instrumentalities, such as the corporate form and its variants, were seized upon reveals that entrepreneurs themselves were aware that these devices portended a margin of power sufficient to guarantee that any additions they might make to their domains could be managed with ease. The fact of con-

6 Schumpeter's "new economic space" was never equally accessible to members of all social classes in all countries. While in England original entrepreneurial functions were performed by men from various strata of the population, in Germany, for instance, initiative came "almost entirely from the princes and their bureaucracy." See J. Schumpeter, Business Cycles (New York: 1939), V. I, pp. 283-284, and Mautoux, op. cit., Pt. III, Ch. II, pp. 374-408. In Schumpeter's view, the advance of fabricative capitals is the principal determinant of the growth of new economic space. He does not ignore innovations in administrative capitals, but he does not assign them the prominence that they deserve in the explanation of economic development, especially in its later phases. For example, current prejudices concerning the economic feasibility of "outer space" exploration have been shaped extensively by propaganda reflecting the values and visions of administrative classes. The same kind of influence has long been with us.

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tinuing improvements in the “administrative arts” only convinced entre-
preneurs the more of the realism of their expectation. It was the ex-
pectation that greater aggregate profitability would follow upon the
heels of growing administrative capacities which provoked continuing
competitive battles for larger markets and for larger market shares.
Thus, the accumulation of administrative capitals appeared to be the
prerequisite to all increases in scales of organization, including those
enlargements of fabricative capacity from the sale of whose products
profits finally derive.

Basically, then, it was a matter of indifference whether one pro-
ceeded by net investment—the construction of new facilities—or by the
acquisition of productive facilities through merger, consolidation, or
financial rout of rivals in order to increase the aggregate of resources
within one’s domain. This is why periods of economic expansion always
feature an acceleration of both modes of acquisition. This is why the
tendency to enlarge scales of organization—to integration, as defined—
so marked in the latter part of the 19th century, exhibits to this day
all its original vigor whenever there is a margin of managerial power
not yet put to use. Whenever the technical improvement of adminis-
trative capitals sufficiently inflates their force, entrepreneurs can reason-
able expect greater aggregate profits to follow in the wake of an increase
in scale.

There is always a high correlation between the growth of administra-
tive and industrial capacities, but the former is to the latter as the
horse to the cart. In the first place, both net investment and consolida-
tion provide grist for the managerial mill, giving management more to
do, whether in the planning and negotiating that precede the effort
to expand, or in the supervising of larger production and marketing
operations after a projected expansion is completed. In the second, both
serve to verify the entrepreneurial estimate of increased profitability
which a studious contemplation of the power to manage conjures up.
Both are essential to that increase in the capacity rate of output of
the enterprise upon which aggregate net revenues depend in the long
run.7

6 Assume a competitive enterprise of optimum scale and its attendant capacity
rate of output. An administrative improvement now occurring, there is a resultant
enlargement of the scale of organization that is economically optimal and, cor-
respondingly, an increase in the capacity rate of output at the option of the
entrepreneur. See Appendix for Economists.

7 It may help to grasp the role of administrative capacity by describing it in
Marshallian short run-long run terminology. In the short run, integration occurs
whenever there is an increase in the aggregate of productive resources under the
command of a given unit. Mergers, combinations, net investment, etc., fix the
short run scale of organization and the degree of integration, and are devices
employed by a fixed administrative capacity (although they may lead to a
change in it). In the long run, the boundaries of the domain are defined by
the intensive margins of administrative influence, not only among productive
resources within the enterprise, but also “horizontally” among firms, “forward”
into product markets, and “backward” into factor and supplier markets. In the
long run, the scale of organization and the degree of integration are given by
the position of these margins in both vertical and horizontal dimensions; but
the dominant force affecting their position is a growing administrative capacity.
Because increases in scales brought greater quantities of productive agents — of labor, land and capital — within the confines of organizations during the nineteenth century, it, like the twentieth, may be described as a period of economic integration. True, the forms of integration that presently occupy us — chiefly, the institutions of international coordination explicitly planned to facilitate union among nations, and, more recently, racial integration — were not then in evidence; but integration did occur and net investment and consolidation were merely their economic agencies. As the harbinger of more recent developments, this was a relatively wholesome and beneficial phenomenon, contributing to the economic development to which many aspired. Yet accumulation, and the integration that went with it, did not function without defect. It was accompanied — and quite unavoidably under laissez faire — by a considerable increase in monopoly power, a power that led to unwanted side effects in the way of restrictions in rates of output, in high prices, and in industrial unemployment. Recognition of the incidence of these monopoly effects — changing distributions of income and varying levels of output and employment — is fundamental to understanding the nature of the process. These effects must not be overlooked because they offer a first, ominous illustration of the tendency of administrative capacity to maintain its own full employment at all costs.

In sum, the growth of administrative capacity, fundamentally a result of technical improvements in modes and means of organization, engendered among entrepreneurs widespread and bitter rivalries, having as its accompaniment a propensity to consolidate and invest on the one side, and sporadic tendencies towards less than full employment of labor and plant on the other. The new force blew both wheat and chaff upon the field of social economy. There were some who understood what was happening and why, and there were many who, overwhelmed by the spectacle of accumulation, refused to see its ugly side. Bernard Shaw has immortalized this naiveté in the scene in Major Barbara where the industrialist takes his simple son to the summit of a hill from where they see below them the new city of industrialism. The son exclaims:

"Oh, magnificent. A perfect triumph of modern industry. Frankly, my dear father, I have been a fool: I had no idea of what it all meant: of the wonderful forethought, the power of organization, the administrative capacity, the financial genius, the colossal capital it represents."

There is no need for us to be as naive. We can see the entrepreneur seizing upon administrative capitals in order to fulfill his personal ambitions. We recognize integration, of a sort, emerging under the aegis of new administrative classes, and observe that the fruits of the tree are mixed, not all of them so indigestible as those of monopoly, nor so beneficial as net investment and large-scale production.

This insistence upon the historical importance of the managerial or "coordinating" factor of production is not meant to minimize the importance of other influences. It is, rather, a question of striking a

8 Major Barbara, Act III.
balance; there is room here for the profit motive, for the Marxian propensity to accumulate, for the “acquisitive instinct.” Nor need one quarrel with Byron's analysis that it is love, power and glory that incite men to extraordinary feats. Nevertheless, unless men, no matter how motivated, have the capacity to command the things that are essential to achieving the consummation of their desires, their struggles must be ineffectual. It is the power to command, which was radically extended by science and institutional change, that must not be underestimated. Without more effective means of communicating, of financing, of publicizing, of coercing, of cajoling, of persuading — means which their generously inventive forebears had conferred upon them — none of the individuals who pioneered in the original accumulation of social capital would have been able to precede a step further than men had previously been able to in commandeering and combining factors of production. Man's desires to profit, to accumulate, to be loved and admired, to have power — these he has never been able to escape; but never before was he so able to bend human and material nature to his ends.

The elementary principles of mechanics upon which the technology of the Industrial Revolution rested were not unknown before it began, and historians have reasonably asked why this knowledge did not suffice to touch off a productive revolution at some earlier date. Obviously, there were ideological and sociological differences between, say, first-century Rome and eighteenth-century England that go a long way towards answering their question, but more important, perhaps, is the fact that the means by which men control other men — means of amplifying personal authority and extending it beyond primitive limits — were not widely available before the eighteenth century. Administrative as well as industrial capitals had to be developed before the economic universe could explode and its systematic expansion begin. Capitalist development got under way only after the diffusion and reinforcement, by technique and technology, of personal capacities to manage.

Later Phases: Social Imbalance and Bureaucracy

“Original” (Schumpeter's term) or “primitive” (Marx's term) accumulations of social capitals were touched off by the increased accessibility of material, financial and managerial means of promoting productive activity. Net investment and consolidation, corollaries of the growing power to manage, led to the enlargement of scales which was, in turn, inherently hostile to the atomistic competition and free access to markets once characteristic of the economic state. The growth of scales portended concentrations of power in production, distribution and finance, and these concentrations must now be considered in relation to administrative capacity. If capitalist development is attended by increasing administrative capacities, by increasing powers to organize, why do we observe no diminution of the symptoms of disorganization (economic instability, maldistributions of income, resource misallocations) and of the bitter strife that has accompanied it both at home and abroad? It
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it paradoxical that with powers to manage at unprecedented levels we still ensnare ourselves in disorder on such a vast scale. The explanation is to be found in the modus operandi of these powers, which, under conditions of laissez faire, become powers to mismanage as well. Frustrated by growing concentration in its original, unilateral preoccupation with net investment and consolidation, administrative capacity persistently and increasingly sought other outlets for its energies, contributing to social and economic disequilibria in the process. Melded thus by circumstance and the preferences of its governors, the force of this capacity distorted the economic development of the community at large, impairing both the rate of growth and composition of the social product.

The advance of concentration in finance, in production, and, subsequently, in factor markets, led to the appearance of economic "interdependency," and collusion gradually replaced the older individual autonomy as the advantages of collective action became apparent. This transition to economic interdependency worked to accelerate the accumulation of administrative capitals and to alter the direction of their employment. It forced rivals to attend more closely to inter-firm relationships, opening up a variety of new outlets for the power to manage. It further revealed that sufficient administrative power was necessary for influencing rules of the game and fixing mutually agreeable terms of trade for all those who aspired to be of consequence in determining the final settlement. By opening up this new field, interdependency increased relatively the demand for administrative capital, reducing in the same proportion the demand for tradition net investment and consolidation as the chief instruments for the pursuit of entrepreneurial objectives. The shift to a new kind of competition also raised the demand for administrative capital because, while it made monopoly power potentially greater than before, it made the exploitation of monopoly power contingent upon the coordination of policies among interdependent producers. Concentration opened entrepreneurial eyes to a vista of jointly manageable markets and prices. Monopoly power had become conditional upon collective action, the joint property of interrelated rivals, and, in order that it have substantial effect upon prices, market shares, revenues, etc., had to be picked, by concerted effort, like fruit at the harvest. Their firms enlarged, and newly interdependent, entrepreneurs found themselves in a strange situation. Like veteran actors who have suddenly been handed a new script, in which some roles are reduced and other radically revised, they set themselves to learning their new parts as quickly as possible. If the inherent profitability of the new conditions was to be exploited, a host of relationships had to be established afresh: among firms, between firms and resource

9 The mere presence of monopoly conditions does not guarantee the exercise of monopoly power any more than the properties of air guarantee that a man will fly. The monopolist must not only have knowledge of the possibilities, or be able to acquire it, but he must also have at his command the technical means for implementing this knowledge — in brief, he must have the requisite capacity. It is for this reason that the development of "administered prices" has been a gradual accompaniment to the evolution of the system.
suppliers, including labor; between sellers and buyers; and between entrepreneurs and the state. This necessity in turn gave new impetus to the construction of new administrative machinery — to the accumulation of those instruments that would allow these relationships to be regulated at will. Monopolistic laissez faire, while forcing accumulations of administrative capitals — even to the point of pure bureaucracy — also provides a persistent stimulus to economic instability and to a reallocation of resources, moving the community as a whole towards a new agenda of activity.\textsuperscript{10}

As long as the market for a specific product grows with sufficient rapidity, concentration inhibits neither net investment nor consolidation. Rising demands then sets off an intensification of investment in both administrative and industrial capitals. Industrial capacity is needed to satisfy those portions of the market that are won from rivals, or seized, or ceded through mutual arrangement; administrative capital is needed to insure accommodation in all of these eventualities. The "propensity to expand" (including the impulses to accumulate both forms of capital) is considered normal from the entrepreneurial viewpoint, which persistently interprets an expanding universe as the normal state. Expansion continues until adverse circumstances prevent accumulation from continuing at the required rate.\textsuperscript{11} In part, the growth process is undermined by the advance of administrative capacity itself, for as firms succeed in fixing the requisite relationships, their separate powers to manage converge as a collective force, raising prices, reducing outputs, and maldistributing incomes to a degree that varies directly with the coordinated power of the rivals. But the distortion of these economic quantities is not the only subversive factor. As scales grow larger in both fabricative and administrative dimensions, there is a tendency for costs of production to decline — this, too, a result of pressure from the

\textsuperscript{10} Agenda describes a field of activities in which energies are deployed to various ends. The ends or values served are discoverable by empirical examination of the field, not by reference to either the claims of those participating in the action or to the intentions of those who direct it. An agenda is not an economic plan, as that term is ordinarily used, although a plan may contribute to ordering an agenda. The administrative agenda referred to here is the program of activities resulting from the influence of administrative capacity, and, if it is sometimes whimsical, it is not accidental.

\textsuperscript{11} There are various statements of the formal growth requirement — Harrod’s and Domar’s analyses are the most familiar: "Investment today must always exceed savings of yesterday. A mere absence of hoarding will not do. An injection of new money (or dishoarding) must take place every day. Moreover, this injection must proceed, in absolute terms at an accelerated rate." Evsey Domar, Essays in the Theory of Economic Growth (New York: 1957), p. 92. And see also R. F. Harrod, "An Essay in Dynamic Theory," Economic Journal, XLIX (March, 1939), pp. 14-53. In addition to this demand condition for stable growth, however, two others must be satisfied. First, are the balance equations of input-output analysis. Cf. Oscar Lange, Introduction Econometrics (Warsaw: 1959), Ch. III. Second, in view of diminishing returns to the social scale of production, a supply condition remains to be satisfied: "The constant augmentation of his (the entrepreneur’s) capital becomes a condition of its preservation." Karl Marx, Capital (Moscow: 1957-59), V. II, p. 79.
power to manage. Unfortunately, the cost reductions that this facilitates can only be realized on the condition that there are accompanying increases in production, and these increases in capacity rates of output become ever more difficult to achieve. Expansion is halted, not only because of failures of market and aggregate demands to grow with sufficient rapidity (the currently popular explanation), but also because it becomes impossible for each firm, confronted by equally powerful rivals on all sides, to attain the increases in productive capacities and outputs that would lead to a steady growth of its profits. Theoretically, it is true for the output of the firm (just as it is true for the demand for the output of the economy as a whole) that growth must proceed by increasing absolute amounts if potential cost advantages of larger scales—and hence larger profits—are to be realized.

Thus, on one side the exercise of monopoly power promises higher profits provided that producers cooperatively contrive to restrict their outputs and raise their prices; on the other, monopolists see their gains—conditional upon expansion. Typically, they will try to sit upon both stools, seeking to raise profits by restrictive policies in the short run while seeking to create conditions that will in the long run enable them to enlarge their capacities. However, it is not because entrepreneurs' short and long run aims are logically inconsistent that failure is inevitable (one can maximize in the short run so long as this does not interfere with long run goals), but because of the practical difficulties that prevent expansion from proceeding at the proper rate.

Because economic growth proceeds at a diminishing rate, while administrative capacity continues to dilate, managerial classes are continually frustrated. With net investment and consolidation choked off by oligopolistic collusion and its attendant diminishing returns, the

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12 An improvement in the administrative arts calls into existence a potential reduction in the average costs of production, which can be realized if a general increase in the scale of factor inputs can be engineered. There is a "propensity to expand" input when improvements in administrative technique occur: *natura non facit saltum*. This is not meant to displace the role of heavy fixed costs in promoting concentration. Rather, it is meant to explain why expansions continue in space and time beyond any conceivable bearing that these costs might have on the issue. See Appendix for Economists.

13 Call $O_1$ the capacity rate of output of an enterprise, competition, factor prices, and the state of the administrative arts being given. An improvement in administration, entailing an increase of its capacity, occasions a new and potentially larger capacity output, $O_2$, a result of the more effective coordination of productive agents that the improvement makes possible. Now a second improvement will occasion a second increase in the capacity rate of output to $O_3$, so that $O_3 > O_2 > O_1$. However, it can be shown that $O_2 = O_1 < O_3 = O_2 \ldots O_n = O_1$, given a series of $n$ improvements. See Appendix for Economists, and in particular Fig. 2.

14 To say that there are diminishing returns to the social scale of production is to say that a given increase in social product can be had, with the passage of time, only through investing—increasing absolute quantities of social inputs. When the ratio of added output to added input diminishes, the difficulties that entrepreneurs encounter in attempting to enlarge their own capacity rates of output so as to take advantage of the cost gains that improvements in administrative technique allow, become ever greater. The supply condition becomes impossible to satisfy. As Henry Adams might say, the "entropy" in the system tends to a maximum.
managerial eye roams far and wide seeking relief from the repression of circumstances. "Investment" in devices that promise to keep markets expanding appears ever more attractive and leads to adventurism upon public as well as private purses. Some exploits may, it is true, contribute to the general elevation of productivity, upon which the continuation of the growth process largely depends, while others will only redistribute profits from the less to the more technologically progressive sectors. The kind of random, opportunistic probing that characterizes investment decisions under laissez faire—viewed from the standpoint of the community as a whole, leads investment away from health, education, pure research, the arts, etc.—away from activities that contain within themselves the seeds of higher levels of productivity for all members of the community. Because of this failure to invest in socially productive areas, costs of production throughout the economy will not be lowered as they could be. This is why "normal" advance becomes impossible, why "social imbalance," a concomitant of the growth process under laissez faire, culminates in economic stagnation.

STAGNATION" describes most comprehensively the resulting state. Here-tofore, the discouragement of investment that resulted from diminishing returns to the social scale entailed depression, the most severe and attenuated form of stagnation, but sluggishness in the long wave of economic life is not inevitably expressed by such a striking manifestation of dwindling social productivity as depression. Apart from the building of public stabilizers into the system, there has also been an increase in the volume and diffusion of unproductive expenditures within the realms of private and public investment.\(^{15}\) These expenditures also work to support the level of activity though they add little or nothing to the quality of social life. Although it appears improbable, it is thus possible that, today, diminishing returns will not lead to a wholesale collapse of effective demand and devastating depression. A more gentle brake on activity featuring high levels of employment and growing unemployment seems now to be the prospect. Still, there is a crisis at hand—a crisis in the community's agenda.

In the countries of Western capitalism, the administrative agendas that have gradually emerged exhibit certain common features, given due allowance for national and cultural variations. In all cases, the frustrated power to manage exhibits a tendency to move far afield from its traditional preoccupation with net investment and consolidation. Rather than trace its movements within an historical framework, it will serve our purpose merely to categorize the typical activities which administrative capacity pursues, noting their chronological incidence only approximately.

First on the agenda historically, and still of great economic significance, is net investment and consolidation of capitals undertaken by

unilateral entrepreneurial action. This straightforward accumulation of capital was the primary vehicle of primitive economic development, the first sign of the emergence of a socially significant power to manage. It continues to be a mode of exercise of administrative energy today, but in inverse ratio to the perceived need for, and popularity of, other alternatives devised or contemplated by the managerial imagination.

Second, an outlet for power exists whenever enterprises within a given line of production are led by market conditions to direct their energies to the coordination of relations among themselves, or between themselves and the state, or with resource suppliers. When all units are synchronized, they can expand at the required pace, thereby venting their increasing capacities, but only as long as the market grows at a corresponding rate. Ever since the latter part of the last century, much energy has gone into the definition of the protocol of mutual oligopolistic appropriation and the policing of these codes by both public and private agencies. Like net investment and consolidation, however, this suffices to occupy administrative energies for only finite periods of time, not only because demand and supply conditions for growth are satisfied, at best, for just a decade or two, but also because administrative capacity continues to advance so that the problem of finding employment for its powers is never-ending.

Third, should capacity extend beyond what is demanded within some line of production, recourse may be had to vertical and mixed integrations of firms or units. The popularity of this expedient for the employment of power has waxed in recent times with the high rate of technical progress in administrative capitals, and especially since the division of managerial labor has become so fine that it no longer matters whether or not "top" management is fully conversant with the problems of fabrication and distribution peculiar to a given product. Knowledge of this type is provided by those farther down in the hierarchy, leaving the upper ranks free for strategic decisions on agenda.

Fourth, should the engagements of "mixed" combination fail to occupy fully the power to manage, energies may be deflected into "research and development," or, more broadly and accurately, into whatever field — foreign or domestic — offers some promise for an eventual extension of the unit's domain. Much is invested nowadays in imperial quests for long term security — in the erection and maintenance of essentially feudal bureaus of internecine struggle, in the administration of genteel chicanery, in superfluous public endeavors and prodigal competitions, as well as in activities of more wholesome if trivial kinds, such as informative advertising, product design, and the like. These heterogeneous occupations nevertheless contribute significantly to the employment of managers whose capacities are steadily growing.

Fifth and last of these general categories is "pure bureaucracy", which is sometimes difficult to distinguish in practice from occupations listed under the previous headings. It involves a direct and gratuitous enlargement of the managerial hierarchy itself. It lies at the opposite end of the economic scale from the straight-line increases of productive capacity with which our classification began, for it includes all en-
largement of scale that is wholly redundant in either the short or long run, such as the management of bureaucrats by other bureaucrats and the administrative featherbedding that is found in layer upon layer of busy but functionless officialdom. Of course the "pure" bureaucrat, like the fabled princess, is always certain that the hard pea of productivity is directly below him in the pile. Strictly speaking, the perception is extra-sensory, for no productive influence is traceable from him through the layers. Whether in public or private enterprise, pure bureaucracy is sheer waste, and resources expended in its support are misallocated. Further, it offers the very real danger that it will spend its considerable powers in messianic or other psychic adventuring for lack of more valid work.

When the power to manage is frustrated, its full charge is by no means disarmed. Like a circus balloon in the fist of a child, it wriggles out in unexpected directions, producing spectacular and, frequently, alarming effects to be valued as one is inclined to value them. When it encounters an obstacle, it merely shunts itself into whatever avenue offers least resistance. Like water on its way to the sea, it will seek its own course, however well or badly this may suit social needs, unless channels to control its passage are carefully constructed. On occasion, it has accomplished something of value. It has also done work of no value. It has also been positively harmful. From the standpoint of its governors, the opportunistic direction of capacities under laissez faire is believed to have been in the public interest — a class bias that is more difficult to dislodge the more entrenched the class becomes — but the facts of the case are to be determined scientifically, and there are signs that administrative pursuits diverge too radically from community needs.

Who, then, is to manage the vast capacities that have been accumulated? What ends are to be served? From time to time, certain individuals and groups have had the courage to face up to these questions, the impudence to demand more meaningful integrations. Integration in any case is inevitable, because, as we have seen, scales of organization grow in proportion to the growth of administrative capacity. In the past, however, integration has come too often in haphazard, irrational fashion, without sufficient regard to the interests of all who are directly or even indirectly involved. As a consequence, the community has paid a heavy price for the material progress that it enjoys.

Towards a Political Economy of Integration

The informed voices recommending an atomistic, competitive organization of the economy, to which Keynes referred, no longer speak in unison. And if we ask why this is so, we may point to, as a part of the reason, the fact that concentration and increasing scales of organization have almost everywhere triumphed. The reason that events confound our historical prejudice for smaller scales is that technical progress lends force to the power to manage, and the power to manage makes for larger scales. By extending this power, technical advance in-
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vites us to extend our domains so as to use these powers to the fullest. In this one respect the ascendancy of large-scale organization reflects an economic necessity. Administrative capacity, like any other, must not be wasted and, so long as it continues to grow, no less a principle than that of economy requires the extension of its span of control. The full use of technical potentials is part of the business of giving society the efficiency to which it is entitled in the conduct of its affairs. If we could assume that the affairs themselves were in the social interest, integration would then bring only benefit in its wake.

The propriety of making this assumption, however, has become increasingly dubious with the passage of time. Under laissez faire, the power to manage includes the power to choose what to manage as well as how to manage it. Administrators have the capacity to determine their own agenda, and have done so with increasing effect for almost a century. In view of the peculiar agenda that has emerged, the social utility of laissez faire has degenerated with the waning of competition. The allocation of social resources has come under the aegis of organization men who have moved ever more decisively to exploit them for partisan purposes, while laissez faire has become merely a rationale for their power and their program. Sheltered under the old banners, administrative voices speak with a vigor and uniformity formerly characteristic of Liberal scientists and intellectuals; all the more so because they control the technical devices for amplifying and projecting their preferences. Under these auspices the central problems of social organization are being "solved." Unhappily, these problems are of a kind that should not be abandoned to a special class of the population.

Integration in all its forms must be the rule for achieving social economy. However, there are inherent three major problems which administrative forces under laissez faire cannot solve satisfactorily. The first problem, as defined by Rousseau, and the other great Liberals of the 17th and 18th centuries, is one of fixing upon the limits of the domain:

There are reasons for extending, and reasons for confining the limits of a state; and the politician must possess superior talents who can find, between the two extremes, that golden mean, on the adopting of which depends in a great measure the permancy of the nation.16

The "mean" between the extremes is still difficult to discover, and although something can be said about it today which was not evident in the eighteenth century, it is still unlikely that it can be found by ordinary politicians. The proper scale of organization must, as long as administrative capacity advances, gradually approach the extreme of the largest conceivable, and integration must proceed at a pace governed by the technical possibilities for effective coordination. Otherwise, a portion of the capacity becomes redundant and subject to wanton ex-

penditure. Even if administrators were concerned to discover the proper rate at which to expand their establishments, it would be exceedingly difficult for them to achieve it. With the boundaries encompassing their field of influence gradually moving outwards, collisions inevitably occur with other units under similar compulsion to expand; the advance of scales is always attended by struggles among "countervailing powers." History suggests that the principle that might make right is the preferred principle of administrative settlement, but the resolution of issues of jurisdiction and sovereignty, which logically precedes integration, must not be based upon this widely popular but outmoded principle. If pacific and equitable relationships among independents are to be established, in an expanding universe, more rational criteria than "might makes right" are necessary.

The second great problem that will not be resolved automatically under laissez faire is that of fixing upon the terms of integration. This issue is intimately related to that of the technical pace of expansion, for the combinations that are warranted by the advance of technique cannot be achieved unless there is substantial agreement among the parties involved. This agreement, in any enduring context, is presently unlikely for two reasons: first, because dyadic administrative units cannot be expected to sacrifice autonomy and jurisdiction whenever technical considerations warrant; and, second, because administrators have their own private objectives which coincide with the public interest only under special circumstances (e.g., "perfect" competition, or "perfect" planning).

The powers that have pulled factors of production into ever larger aggregates, establishing thereby de facto terms of integration, have radically affected both the prices of productive agents and the prices of intermediate and final products. In fact, prices are, in their economic dimension, nothing other than the terms of integration, which is why, as administrative capacity bears ever more heavily upon them, we must carefully consider how closely they might come to satisfying the conditions of social equilibrium. While some economists have recognized the need for this examination, the conception of "administered prices," to which some of them subscribe, is far too narrow to encompass all the facts. The prices of virtually all goods and services need to be realigned in relation to the values of their respective contributions to the satisfaction of the community's true needs and wants. It is undeniable that the power to manage, along with its handmaiden, monopoly power, has directly influenced the formation of prices throughout considerable areas of the economy, but what is not so readily admitted is that it has invaded the realm of values—a more vital matter still.

Heretofore, apart from wartime and depression, the community has left those with the power of decision free of particular instruction in

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17 J. K. Galbraith's thesis that countervailing power may lead to equilibrium is deficient on two counts. First he presents no formal demonstration of the possibility. Second, he fails to see that prices reflect the values of administrative classes, and there is no reason to think that these values are socially optimal—unless one believes in the administrative agenda. Cf. American Capitalism (Boston: 1952)
regard to the allocation of resources. Rather than decide explicitly what it values, and instruct capacity to move accordingly, it has left capacities free to pursue whatever has not been expressly forbidden. This is the essence of laissez faire. As a consequence, the administrative class has become ever more concerned with the justification of its choices to the community at large. Like any other class, it has a vested interest in what it has done and what it contemplates doing. It must defend the former in order to be left free to attend to the latter. Hence, it seeks to convince the public that its decisions are always in the public interest, and directs a portion of its capacity to the construction of a constellation of values favorable to its needs and ambitions. What values? Because it has power and seeks to retain it, it extolls power so that others will respect what it has. Because it must use the power as profitable opportunities present themselves, it extolls opportunism. Power and opportunism, therefore, are the principal values upon which rest the prerogatives and authority of managerial classes under conditions of laissez faire. Faith in power and in the beneficence of its opportunistic employment is typical and is becoming ubiquitous, as the evolution of the administrative agenda suggests. The faith is widely publicized, especially through mass communications media, whose managers have similar tastes and needs. It is defended in ideology. It is the ambience of administration, and recruits to the managerial arts are indoctrinated in its tenets and advance by its tests. Because a portion of the power to manage is systematically devoted to the propagation of these values, these values tend to determine the structure of prices as a whole. Just as supply and demand in the Marshallian long run equilibrated utilities and costs, administrative capacity pushes for its own equilibria between costs and values. The trouble is not—as some imagine—that prices do not measure values. The trouble is precisely the contrary. Prices do tend to measure values, only the values that they measure are frequently of dubious utility to the community.

Terms of economic integration are merely ratios of exchange or prices. In a universe of growing capacities, the function of prices must be to facilitate the incorporation of larger aggregates of inputs of productive agents, under the coordinate direction of a superior, economical management. Not only must these prices be equitable, so as to encourage the accommodation of members to the integration at the pace required by the rate of technical advance, but they must also measure those values that are in accord with the prime long term ends of the community. If prices reflect only the values of administrative sovereignty, if they are dictated by opportunistic considerations relating only to the agenda of a special class of men, it is unlikely that they will contribute either to the equity among parties that will make inte-

18 These values are not usually made explicit by those who adhere to them. Opportunism, for example, is commonly called "realism." The latter, in turn, is confused with naturalism and accompanied by an exaggerated devotion to the status quo. The worship of power is evidenced by an excessive mutual esteem among those who have it, and by a pervasive admiration for those who have it among those who do not.
grations endure, or to the common goals. Only rarely do the prime values of a particular class coincide with those of the whole community, and a political economy that fails to reckon with this fact will not be realistic. We now come to the third problem that lies beyond the ability of administrative classes to resolve under laissez faire: the reconciliation of private, particular values with those that are public and common. Until we know how this reconciliation is to be made, we will not be able to minimize strife and establish stability in integrations. The form in which the problem presents itself is one of constructing a system of economic values that will be subservient to general values, survival, improvement of the species, or whatever we determine them to be.

Economic values are, then, to be determined. But how? Unlike an individual, an enterprise, or a state, the community at large cannot be said to have a preference function. This is not because there are for its members no preferred sets of activities, sets superior to others in their contributions to the welfare of the whole, but for the much more practical reason that there can be no organizational instrument we can trust to undertake the task of constructing such a function prior to integration. From whence, then, and by whom can the values in question be derived? If we had before us an agenda of community activities which, upon empirical examination, would seem to lead directly to the realization of the community's ends, the economic values we seek would be quite evident. They would be measured by those ratios of exchange, or prices, that would best support and sustain the activities of the agenda. Who is to frame the required agenda? Obviously, those who are sensitive to the community's needs, who recognize the need for the agenda, and who subscribe to empirical methods and canons of evidence. Until such men bring themselves to the task, the community, laboring under the opportunistic thrust of administrative capacity, must make do with another's agenda. There is a logical sequence in which they must proceed in their endeavor — the formulation of agenda, the establishment of terms, and the promotion of the proper pace. This must be the order for their enterprise.

The construction of a community agenda is not without scientific precedent. The notion of agenda was first used in the classical economics by Jeremy Bentham as an aid to specifying the activities appropriate to government in the social economy. Further, the notion is implicit in a vast quantity of subsequent discourse in political economy relating to the activities in which a people must presumably engage in order to secure common ends. In the classical period, the utopian content of the program was gradually rendered more specific by analysis, and its

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19 See the otherwise interesting article by Jan Drewnowski, in which he unfortunately skirts the issue of the conditions under which the state can be trusted to determine economic values in conformity with the preferred community agenda. "The Economic Theory of Socialism: A Suggestion for Reconsideration," Journal of Political Economy, (August, 1961), XLIX, pp. 341-354.

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partial realization was effected by men who were swayed by the ideological appeal of natural liberty and who were assisted in its implementation by a fortunate conjunction of technological and political circumstances. Later, alternative conceptions were advanced, some of them ill-defined, as in John Stuart Mill’s discussion of the stationary state, or in Marx’s of the classless society. Some men have proceeded more analytically, as Hobson did in his Work and Wealth. Others, such as Thorstein Veblen and, more recently, J. K. Galbraith, have worked by indirection, assuming that a critique of the existing order would suffice to reveal the essential activities of a new one. There have been blueprints and sketches by Bellamy, the Webbs, Wells, Huxley, and so many others. The scientific imagination has deposited a vast store of materials from which something definite might yet be built.

Beyond this task, and deriving from the logical priority of agenda in the economics of integration, is the need to articulate a theory and an ideology that services the program. Attempts to reallocate resources must be informed by theories that tell how reallocations are to be carried out as well as that define the “target” activities they need to support. Given the agenda, we will need to know how wage and price controls are to be used and what additions to them may be necessary, especially in order to lead administrators toward socially correct pricing and output decisions. The same may be said of fiscal and monetary controls. Further, an empirical examination of existing administrative capacity is badly needed in order to determine what portion of it is economically redundant. Comparing this redundant capacity with the agenda will give us a clue to the volume of productive agents available for reallocation into precluded activities. Idle capacities in labor and in plant will swell the total of available energies. Clearly these uncommitted energies will be great and only an uninhibited imagination will be able to conceive of the specific tasks that should be assigned them in order to fulfill the principal requirements of the new agenda.

All must come to see that today’s mismanagement, so evident in the means by which resources are allocated and in the ends that they de facto serve, will not be dissipated automatically. Because the power to manage continues to expand, under the joint auspices of science and the desires of administrators themselves, the problems that surround its employment can only intensify. A new attack upon them must be joined, for the social control of this power is a prerequisite to the economical utilization of all resources within and among nations. There is a great need for a new ideology of integration, one that will serve to unite and guide all peoples in pursuit of their mutual, human interests.

Will administrators acquiesce? Even from the manager’s viewpoint, there is much to be said for a progressive integration. The manager would, in the end, have meaningful work and appropriate rewards. There would no longer be a need for his painful, neurotic musing on whether or not the pea of productivity lies under his mattress. For this reason, one can appeal to his higher instincts:
"The heroic role of the captain of industry is that of a deliverer from an excess of business management. It is a casting out of business men by the chief of business men."21

For some, perhaps, the hero's reward will suffice as a lure. Still, it is well to keep in mind that administrative capacity, under the rule of laissez faire, does not follow some ideal prior allocation of resources, as the neo-classical economics supposes. To assume that it does is to put the cart before the horse. The horse has pulled us up the hill from which we can see the pit as well as the towers. He must be reckoned with, because he has the power that we need for further achievement. He may prove to be a very stubborn horse, and his blinders do not permit him to see what others see. It is primarily a question of leading him.

21 Thorstein Veblen, *op. cit.*, pp. 48-49.

AN APPENDIX FOR ECONOMISTS

With the aid of two diagrams, one can explain more precisely the economic pressure to expand scales of organization that derives from administrative improvements.

The "envelope" curve of neoclassical theory (e.g., LAC0 in Fig. 1) represents, it is agreed, a curve of least possible costs of production for the various rates of output associated with any and all points along its length. By definition, it is the curve that is tangent to (envelopes) a universe of short run average cost curves (SAC01, SAC02, etc.), each representing a different scale of organization that could be adopted by entrepreneurs, the state of the industrial arts being given and the quantities and proportions of all productive agents being freely variable. The usual explanation for the U-shape of the long run curve is as follows.

The curve descends over a portion of its range because, as the aggregate of resources employed in producing outputs grows larger, (a) larger and more specialized machinery and equipment with their greater productivities may be used, and, (b) larger and more specialized managerial units may be adopted whose productivity advantages, following upon more effective coordination of factors of production, are analogous
FIG. 2
EFFECTS ON RETURNS TO SCALE OF A SERIES OF ADMINISTRATIVE IMPROVEMENTS

COSTS

\[ C_0 \]
\[ C_1 \]
\[ C_2 \]
\[ C_3 \]
\[ C_4 \]
\[ C_n \]

0
\[ 0 \]
\[ 0_1 \]
\[ 0_2 \]
\[ 0_3 \]
\[ 0_4 \]
\[ 0_n \]

CAPACITY RATES OF OUTPUT

James F. Becker
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(within limits) to those that result from adoption of better fabricative technologies. Within a given state of the industrial arts, progressively better techniques and technologies being utilized with larger scales, the long run average costs of production of ever larger volumes of output will decline. To the right of R (Fig. 1), however, the curve LACa rises; decreasing returns to scale are experienced. Apart from the fact that technological possibilities for ever greater productivity are limited, given the state of the arts, the usual neoclassical explanation for decreasing returns seizes upon the appearance of what Alfred Marshall called "bureaucratic methods," institutionalized defects of bureaucracy. It is usually acknowledged that some economies of scale may attend the use of larger managerial units, but it is agreed that these economies are eventually offset by growing diseconomies — administrative rigidities and complexities that frustrate efficient coordination — which come to predominate over all economies whatsoever, whether administrative or fabricative. The curve of fabricative costs may be one of increasing returns, but the curve reflecting administrative overhead will ultimately rise. As a result, the LAC curve, the sum of these two component curves, is U-shaped.

Thus the LAC curve is thought of as being shaped by a conjunction of economies and diseconomies, bureaucratic inefficiencies becoming ever more decisive as the scale of enterprise grows. And, while each point on the curve defines the least possible cost of production for the rate of output associated with it, each such average cost point must be thought of as including whatever cost burdens of bureaucratic method are super-

1 Marshall means by "bureaucratic methods" all administrative obstacles to introducing "creative ideas and experiments in business technique, and in business organization." Principles of Economics, 8th ed. (London: 1938), p. 594. By assuming that these obstacles are never overcome, Marshall avoids the problem of formulating a dynamic theory of returns to scale.

2 To illustrate the usual view, I cite three typical if auspicious opinions. Marshall, who is reluctant to concede that there are any "internal" economies whatsoever that advance with the scale of the managerial unit, supposes that diseconomies are a direct function both of the size and age of the organization. His argument is consistent with his well-known but misleading metaphor: "... we may read a lesson from the young trees of the forest as they struggle upwards through the benumbing shade of their older rivals ... a few only survive ... they tower above their neighbors, and seem as though they would grow on forever ... But they do not ... sooner or later age tells on them all ... they gradually lose their vitality." Ibid., pp. 315-316. Though he is mistaken in his supposition, E. A. G. Robinson thinks that managerial diseconomies must prevail even in a dynamic setting: "... set in these rather more dynamic terms, I wouldn't still think that problems of management in certain contexts set an upper limit to the optimum size of the closely integrated productive unit ... on the other hand, any serious diseconomies of size emerge only after fairly considerable size has been reached." The Structure of Competitive Industry, (Chicago: 1959), p. 49. E. H. Chamberlin traces the rise of the long run curve to growing difficulties of coordination: "In the early stages they (problems of coordination) are submerged by the overwhelming gains from further specialization and more efficient techniques ... But since these latter tend to exhaust themselves with larger aggregates, whereas complexity steadily increases, it appears certain that diseconomies must sooner or later outweigh the economies, and beyond that point predominate." The Theory of Monopolistic Competition, (Cambridge: 1948), Appendix B, pp. 247-248.
imposed upon fabricative costs by virtue of the scale of the managerial unit being used to produce the output in question. The higher the rate of output one considers, the greater are these costs of inefficient administration. This is the neoclassical hypothesis. We are not concerned to challenge it as an explanation of what is the case under static conditions, but seek only to place its static limitations in a clearer light.

The neoclassical theory is static; it assumes the "state of the industrial arts" to be unchanging. To be sure, it allows that the field of choice of technologies and techniques available to entrepreneurs is "open," permitting them to select better technical combinations so as to enable them to produce whatever output they might desire at some lower cost in the event that they have not previously made the best possible technical choices; but the contents of the field are taken to be given. We wish now to consider the implications of an addition to this field; in particular, of an organizational improvement, assuming the state of fabricative technique still to be unchanged. It will be seen that the effect of a single improvement is to create increasing returns to scale over a wider range of outputs than formerly, while the effect of a series of these improvements is to generate perennially increasing returns to scale.

In order to show this, we will begin by formulating the neoclassical hypothesis in somewhat more specific terms. Given the state of the arts, consider any two scales of organization enveloped by \( \text{LAC}_0 \) in Fig. 1, say, \( \text{SAC}_{00} \) and \( \text{SAC}_{00} \). The average costs of the outputs \( O_{00} \) and \( O_{10} \) are \( C_{00} \) and \( C_{00} \) respectively. As we have seen, some portion of the average cost \( C_{00} \) (of \( O_{00} \)) will result from bureaucratic methods. Assume RA in Fig. 1 (\( C_{00} - C'_{00} \), or average total minus average fabricative costs) to measure these costs. For the somewhat larger scale of organization, \( \text{SAC}_{00} \), these costs of deficiencies in coordination, SB in Fig. 1 (\( C_{00} - C'_{10} \)), are taken to be absolutely larger than for the previous scale. As in the neoclassical theory, we assume that the costs of bureaucracy advance in some proportion with the advance in scale of organization, the state of the

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4 Following Schumpeter, we define an organizational innovation as any new device permitting a reduction in the portion of average total costs of production resulting from bureaucracy. In what follows, it may be well to remember that any innovations in fabrication that occur simultaneously with those in administration will only further enlarge all cost reductions and make larger scales through expansion still more attractive to entrepreneurs.

5 Here we take the capacity rate of output as the index of scale and assume that the costs of bureaucracy advance in some proportion to increases in the capacity rate of output, as in the neoclassical economics. In what proportion? In order to answer this question and at the same time be consistent with the neoclassical hypothesis—that, given the state of the industrial arts, the long run curve exhibits increasing followed by decreasing returns to scale—it is assumed that the form of the long run cost function is not altered by the improvement. As a matter of geometric construction, this means that points A and B in Fig. 1, representing costs after bureaucratic overhead are deducted, are selected so that the short run curves \( \text{SAC}_{19} \) and \( \text{SAC}_{13} \) will be tangent to another curvilinear function, \( \text{LAC}_1 \). This provides the simplest answer to the question and, for this reason, is the preferred answer in the absence of direct evidence as to how and whether the forms of these functions change from on state of the arts to the next.
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industrial arts being given.

Suppose, now, a change in the state of the administrative arts. What will be the effect upon the average costs of production of, say, SAC_{\infty}? Innovation implies some reduction of average costs, C_{\infty}, because it entails a reduction in the portion of these costs deriving from bureaucratic methods (C_{00} - C'_{\infty}). However, in order to trace through the effects of the innovation, some assumption must evidently be made as to the magnitude of the reduction made possible. In the absence of empirical evidence as to what this magnitude might be, one assumption is as good as another and we will assume for simplicity that one-half the costs of bureaucracy can be eliminated by the device at hand, whatever the scale of organization that we contemplate. For example, the minimum average costs of production of SAC_{\infty} can now be reduced by one-half their bureaucratic component, by the amount C_{00} - C'_{\infty}/2. The minimum average costs of the output O_{00} will then fall from C_{00} to C_{\infty}, by the amount RL. For the same reason, an analogous reduction will obtain for any other scale of organization, e.g., for SAC_{\infty}. The latter’s minimum average costs fall from C_{00} to C_{\infty} because its bureaucratic overhead is reduced by one-half, i.e., C_{00} - C'_{\infty}/2. Bearing in mind the neoclassical hypothesis—that cost burdens of bureaucracy vary directly with the scale of organization—it follows on our assumption of the magnitude of the cost effect of an organizational improvement, that the absolute amount of the reduction in bureaucratic overhead also increases directly with the scale of organization.

That is, each and every scale enveloped by the curve LAC_{\infty} (with the sole exception of the smallest possible scale, SAC_{1}, which is assumed to be without bureaucratic diseconomies) now finds its short run average costs reduced, each short run curve being lowered vertically by an amount which varies directly with the scale being considered. Thus each of the curves tangent to LAC_{\infty} (SAC_{01}, SAC_{02}, etc.) will now be lowered, becoming tangent to some new long run cost curve, LAC_{t}, enveloping each and all of the new scale possibilities. A new long run cost curve, LAC_{t}, is generated by an organizational improvement. Like the previous long run curve, LAC_{t} exhibits both increasing and decreasing returns to scale, given the new state of the industrial arts. Furthermore, and as a matter of course, LAC_{t} contains a new “optimum scale of organization.” SAC_{t}, whose capacity rate of output is O_{t}, greater than the capacity rate of output, O_{00}, of the previous optimum (the “capacity effect”). The least possible costs of production are also lower than before—C_{t} rather than C_{00}—and this level of costs of production can be achieved by any entrepreneur provided that he expands his scale to the new optimum size.

If, therefore, one assumes a competitive industry in equilibrium with producers of optimum scale in a given state of the industrial arts, an improvement in that state will cause one and all to try to enlarge their scales, e.g., from SAC_{00} to SAC_{t}. The improvement “converts” de-

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6 This is to assume that the amount of the reduction in bureaucratic costs increases absolutely in the scale of organization.
increasing returns to scale beyond SAC⁰⁰ into increasing returns from SAC₀⁰ to SAC₁³ (R to R¹ in Fig. 1); it dissolves the bureaucratic barrier that would otherwise prevent an economical enlargement of scales.

In the real world, moreover, organizational improvements of the type that permit reductions in bureaucratic overhead are not isolated and occasional but general and continuing phenomena, so that what we must contemplate in the interests of realism in our model are the effects of a series of organizational improvements. These effects are illustrated in Fig. 2. A series of discreet changes in the state of the administrative arts will render possible continuing advances in scales under conditions of increasing returns.⁷ As is well known, requiring no further explanation to economists, increasing returns to scale (R, R¹ . . . R¹ in Fig. 2) are incompatible with the maintenance of competition in the industry. Improvements create a propensity to expand scales of enterprise which must eventually result in the destruction of competition. Historically, they have produced this result. It is impossible to articulate further details of the theory here, but enough has been said so that the general possibility of increasing returns in the social economy may be grasped.

⁷ In Fig. 2, the cost line of advance, R . . . R¹, becomes more shallow as the capacity rate of output grows. There are two economic reasons for this. First, the line becomes more shallow because the proportionality rule requires that entrepreneurs employ relatively greater quantities of the more efficient, i.e., coordinating, factor of production as their scales advance. Cf. Chamberlin, op. cit., pp. 249-255. Second, the least possible scale of enterprise (e.g., SAC₀⁰ in Fig. 1) tends to grow larger as a number of technical improvements are added to the industrial arts. With the passage of time, the smallest scale suitable for production shifts to the right (Fig. 1) causing a line segment, R¹ . . . R¹+¹, to become more shallow even if the LAC curves were not to become more concave as a consequence of entrepreneurs applying the proportionality rule.