CONCEPT OF THE CORPORATION

Peter F. Drucker

With a new introduction by the author

Concept of the Corporation

Transaction Books by Peter F. Drucker

Adventures of a Bystander

The Age of Discontinuity

Concept of the Corporation

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The End of Economic Man

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Landmarks of Tomorrow

The New Realities

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Routledge
Taylor & Francis Group
LONDON AND NEW YORK

Originally published in 1946 by John Day Company.

Published 1993 by Transaction Publishers

Published 2017 by Routledge
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN
711 Third Avenue, New York, NY 10017, USA

Routledge is an imprint of the Taylor & Francis Group, an informa business

Library of Congress Catalog Number: 92-4564

Library of Congress Cataloging-in-Publication Data

Drucker, Peter Ferdinand, 1909-
Concept of the corporation / Peter F. Drucker; with a new introduction by the author.
p. cm.
"Originally published in 1946 by John Day Company"—T.p. verso.
Includes index.
ISBN 1-56000-625-0
1. Corporation. 2. Corporation—United States. 3. General Motors Corporation. I. Title.

HD731.D7 1992
338.7'4'0973—dc20 92-4564
CIP

ISBN 13: 978-1-56000-625-1 (pbk)

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INTRODUCTION TO THE TRANSACTION EDITION

THERE were, of course, many books on "business" when *Concept of the Corporation* was written in the last years of World War II after I had finished eighteen months of research and study of the General Motors Corporation which had begun in January 1943. But *Concept of the Corporation* is not a book about "business." It is a book about organization, management, and industrial society altogether. In fact, it was the first book that looked upon a "business" as an "organization" that is, as a social structure that brings together human beings in order to satisfy economic needs and wants of a community. And it was altogether the very first book that looked at "management" as a specific organ doing a specific kind of work and having specific responsibilities. And while by no means the first—that honor clearly belongs to *Democracy in America* (1835-40) by Alexis de Tocqueville—it is one of the very few books in which an "outsider" takes a long and careful look from the "inside." In fact, no one, since I wrote this book almost fifty years ago, has tried to do something similar—whether with another big business enterprise or with any other of the big organizations in and through which the social tasks of modern society are being discharged, whether hospital, school, university, or church.

Concept of the Corporation is credited with having established management as a discipline and as a field of study. I have always felt that it also did something even more important: it established *organization* as a distinct entity, and its study as a discipline. Traditional sociology does not know of "organization"; it knows society and community. Organization is neither, though it has elements of both. The book of mine that preceded *Concept of the Corporation*, *The Future of Industrial Man* (also to be reissued by Transaction) concluded that industrial society needed an organ that while distinct and *sui generis* gave status and function, that is an organ that embodies the main characteristics of traditional community and traditional society. That book led to the invitation from General Motors to study from the inside the company, its organization, its management. And *Concept of the Corporation* thus became the first attempt to show how an organization really works and what its challenges, problems, principles are.

Few, if any, of the things the book discusses had ever been discussed before. Of course we knew about labor relations—after all the automobile industry had been unionized in 1937, only a few years before *Concept of the Corporation* was written. And I spent a good deal of time during my eighteen months of study with leaders of the United Automobile Workers Union, and especially with their dynamic president Walter Reuther whose friendship I then enjoyed until his untimely death in 1970—just as I enjoyed the friendship of his General Motors counterpart, Charles E. Wilson until his death in 1961. But labor relations were then seen exclusively as relations between "Management and Labor." This book sees them as relations between the individual worker and the organization, between the individual worker and his or her work, between people working together—and that was new and unprecedented. But it was the way people inside General Motors, whether management people or workers, saw labor relations; it was what one perceived when looking as an outsider but from the inside. And the same holds true for all the other topics discussed in the book.

Of course most of these topics are familiar today. But the problems they raise, the questions they ask, the opportunities they offer, are still the same for the large organization—whether business or nonprofit. In fact they are perhaps most critical for the labor union itself—and no labor union, at least not in the United States, has yet tackled them either purposefully or successfully. And while General Motors was and is a manufacturing company, these questions apply just as much to service businesses. They are the questions that are characteristic of this new social phenomenon, the organization. And so this book might best be read today not as a book about General Motors, about manufacturing business, or about business altogether, but as a book about the large-scale organization. In the 1983 epilogue to this book—it is included in this reissue—I recounted the frosty, if not hostile, reaction the book received from many General Motors people. And a main reason, I now realize, was precisely that I treated General Motors as a prototype, as an "organization," and its problems therefore as problems of structure, if not of principle, rather than as the way General Motors does things. Indeed, a perceptive and well-meaning friend within General Motors—himself one of the top executives—said to me when I wondered why the book had run into such hostile criticism within the company, "We, at GM, have to manage for sales and profits; your priorities are different ones."

Still, this is a book about General Motors. And the General Motors of 1993 looks very different from the General Motors of 1946 or even from the General Motors of 1983 when last I wrote a foreword and an epilogue to a reissue of this book. The 1983 epilogue already reported on a company in trouble—though the General Motors executives of that time, ten years ago, did not yet perceive this, let alone admit it. But the 1983 epilogue has been proven right in its prediction that, ten years later, that is in the 1990s General Motors would still be on the defensive. But I also expressed the hope that General Motors might by the nineties have returned to profitability—and needless to say, that has not happened. And the reasons for General Motors's fumbling and inability to pull itself out of the mire, are largely the problems *Concept of the Corporation* pointed out fifty years ago—for which act of high treason I then became a "nonperson" for most of General Motors's top management. By now everybody at General Motors knows that these are the crucial problems. And yet General Motors does not seem able to resolve them. Instead General Motors has tried to sidestep them by the old—and always unsuccessful—attempt to "diversify." Acting on the oldest delusion of managements: "if you can't run your own business buy one of which you know nothing," General Motors has bought first Electronic Data Systems and then Hughes Aircraft. Predictably this will not solve General Motors's problems. Only becoming again a truly effective automobile manufacturer can do that. But General Motors shows how hard it is to overcome fifty years of success, how hard it is to break a monopoly mindset. The example of another American industrial success story, the Bell Telephone System, shows that only catastrophe (in the Bell case, the breakup of the company through an antitrust judgment) will do it. I am increasingly coming to ask whether anything short of a General Motors breakup, either voluntarily or through a hostile takeover, is likely to enable General Motors (or its successors) to make a successful turnaround.

Peter F. Drucker
Claremont, California

PREFACE TO THE 1983 EDITION

Concept of the Corporation was first published in 1946, almost forty years ago. But it has not become a "classic"—that is, a book of which everybody knows but which no one reads. It keeps on selling, and in such numbers that one or two new editions have had to be published every decade—this latest one is the sixth edition. Clearly the book has something important to say to today's readers, but surely it is something quite different from what it told its first readers forty years ago.

When this book was being written, forty years ago, the corporation had barely been discovered and was totally unexplored—resembling somewhat the Africa of the medieval mapmaker, a big white space across which was written "Here elephants roam." Books on the corporation itself and on its management could have been counted on the fingers of one hand. And "management" as a discipline and as an object of study did not exist at all.

When this book first appeared reviewers did not know what to make of it. It dealt with a business—and yet it wasn't "economics." It dealt with structure, organization, policy, constitutional principles, power relationships—and yet it wasn't "government." A personal friend who wished me well—a leading political scientist of the day—concluded his review of the book in a major political science journal with the words, "It is to be hoped that this promising young scholar will now devote his considerable talents to a more respectable subject." And another friend, the president of the college where I then taught, argued strongly against my publishing the book at all. "You are well launched on an academic career either in political science or in economics," he said. "Publishing a book like this that must offend both the political scientists and the economists can only ruin your professional chances."

When this book was written, General Motors, the company I used as the exemplar of the modern corporation and of modern organization altogether, was at the very pinnacle of success. It had been the star performer in the American production achievement of World War II and was getting ready for an even more triumphant performance in the postwar economy, in the course of which it more than doubled its output and more than quadrupled its profits. The automobile industry, of which General Motors was the undisputed worldwide leader, was the outstanding "growth industry" of those days, the epitome of "high technology," and the dynamic center of a "modern industrial economy."

Today dozens of books on every aspect of the corporation and its management are being published every year. My old friend the college president was indeed right: neither political scientists nor economists have yet accepted the reality of modern organization of which *Concept of the Corporation* was the first analysis. Instead this book created a new discipline: we call it "Management"—the organized, systematic study of the structure, the policies, and the social and human concerns of modern organization. Management has since become a popular field of professional and graduate studies throughout the world.

Because it originated in a study of a business corporation—the one modern institution that had clearly emerged forty years ago—"Management" is typically lodged in a School of Business and most people still hear or read "business management" when they hear or read the word "management." But increasingly the study of "management" embraces all institutions of today's "society of organizations." Business schools—many of them renamed "School of Management"—are absorbing schools of public administration or schools of hospital management; the Harvard Business School offers "management programs" for college presidents. Most of the "executive management programs" recruit and enroll mid-career executives from both businesses and non-business institutions, from the Federal government to professional associations. And the most popular course in a good many Schools of Theology is a course in "Pastoral Management," with *Concept of the Corporation* often the basic text.

When General de Gaulle, to emulate Napoleon, decided to create a new *Grande Ecole* that would outrank his great predecessor's creations and form France's future rulers, he founded an Ecole National d'Administration, a postgraduate management school, with a curriculum modeled after the American school of management. The first book assigned to the entering students was *Concept of the Corporation.*

In sharp contrast to forty years ago, the automobile industry is today in deep crisis worldwide—a crisis accelerated by the energy crisis and OPEC but by no means caused by them. For the last twenty years, automobile demand in all Western countries has been growing less fast than the gross national product or personal income. And five years ago, in the late seventies, growth in automobile demand stopped in Japan too. This means that the industry is mature if not actually declining.

In the 1940's, the assembly line was still the most advanced manufacturing process, even though this book already was criticizing it as grossly inefficient and as a violation of basic engineering principles. Today the assembly line is as obsolete as the dinosaur and an obstacle to genuine automation. In its technology as well as in its distribution system the automobile industry has become an "old" and largely an "old-fashioned" industry. Technological and industrial leadership. as well as growth dynamics, have shifted to industries that are based on knowledge or on information, such as the pharmaceutical, information processing, or telecommunications industries.

And GM itself, while still the world's largest manufacturing company (and until recently one of its most profitable ones), has clearly been pushed onto the defensive even in its own industry and in its own home country the United States.

The greatest changes that have taken place since this book was written, however, have been in society itself.

Above all, we in 1983 see society quite differently from the way the generation of 1945 did. We see it very largely the way *Concept of the Corporation* first saw it.

Today we take for granted modern organization. Indeed we know that modern developed society is a society of organizations in which the major social tasks are all being performed in and through institutions, whether they be business corporations or government agencies, hospitals, schools or universities, or the armed services. Forty years ago the business corporation was seen as the new and the exceptional, if it was seen at all. Today it is recognized as one member of a species, with the resemblances among the various members much greater than the differences. All of them require reorganization and structure. All of them require the organ we call "management." In all of them there is a distinct kind of work, the work of management. All of them have policies and strategies. All of them within themselves face the problems of the status and the function of the individual. All have to make resources productive, above all the human resource. All of them have to handle power relationships within and thus require principles of constitutional order. These are the very issues which *Concept of the Corporation* first identified and described.

But what all of the institutions of the modern society of organizations also have in common is that they function and perform within a larger society and community and thus face what we now call "social responsibilities"—again an issue first identified in *Concept of the Corporation.*

Today all this is commonplace. Forty years ago it was so new as to be shocking. Then more than half of all young Americans still ended their formal schooling short of a high school diploma. Today more than half go on to college. Then four fifths of the American labor force still worked in "blue-collar" jobs on the farm, in the factory, in the mine, on the railroad, or in a craftsman's workshop. Today only about two fifths of the labor force—half the proportion of forty years ago—are blue-collar workers, and by the year 2000 or so the proportion will have shrunk even further, to one quarter or less. Nearly half of all Americans at work in 1945 worked in manufacturing. Today the proportion is one fifth, and by the year 2000 the manufacturing work force will be down to one tenth of the total.

Forty years ago the term "knowledge worker" was unknown (I coined it in my book *The Landmarks of Tomorrow* in 1959). Today knowledge workers (that is, people who get paid for putting to work what one learns in school rather than for their physical strength or their manual skill) constitute more than half of the American labor force.

In all developed countries the society of 1983 has become an employee society. The great majority of people in developed countries today work as employees of organizations. This is in sharp contrast to the world which was still taken for granted in the 1940's, in which the social norm was not employees but people who worked for themselves, as did the farmers, the craftsmen, the lawyers, the physicians, or the small shopkeepers.

And it was almost taken for granted forty years ago that people with higher education would work for themselves. No one, neither businesses nor government agencies, had ever heard of college recruiting. Even top management people in large companies rarely had a college degree. General Motors in those days was a curiosity in that most of its top management people had gone to college. But IBM hired its first college-educated engineer only a year or two before the outbreak of World War II.

Today nine out of every ten people with advanced schooling go to work for an organization immediately upon graduation and remain employees of an organization all their working lives. Indeed without the modern organization we would have no jobs for college-educated people. The large organization is the only place where we can put advanced education productively to work and pay for it. Conversely the modern organization could not function without people of substantial formal schooling in a wide variety of knowledge areas and disciplines.

But also in this employee society, business, and especially big business, is increasingly run for the benefit of the employees rather than, as law and political rhetoric still have it, for the benefit of the shareholders. In the first place the "wage fund"—that is, that part of the national income that goes to employees—now amounts to some 85 percent of total national income (it runs even higher in Europe, to a peak of 96.5 percent in Holland, for instance). By contrast the wage fund a hundred years ago, when the first labor unions issued their manifestos and programs, took less than 40 percent.

But also in the employee society, employees are rapidly becoming the only true "owners." In the United States this has been accomplished through the mechanism of the pension fund. Of the available business profits—that is, of whatever is left after expenses and taxes—pensions take half or more in most large companies. And since the pension funds in the aggregate are now the owners of about half the share capital of the "Fortune 500" and other large companies, they receive an additional half of the remainder, whether in the form of dividends or in capital appreciation. In other countries the same end has been reached by different means. In Japan for instance the mechanism is "lifetime employment," which means that, except in bankruptcy, employees have the first call on all income of a business.

And in the employee society, access to livelihood, to social status, to recognition, to careers is through a job in an organization. And so is access to property. For increasingly the claim to the pension through the pension fund at the place of employment is the largest single asset any but the very few very rich can hope to amass—including even the independent professionals such as lawyers or physicians.

Increasingly it is true that the individual has to have a job to be able to exercise the rights of citizenship and to be accepted as a full member of society.

But while we have created an employee society, it is not a workers' society. The political rhetoric still talks of management and labor, but the representative group in our society, and indeed the true majority, is neither. It is an educated, employed "middle class" doing "knowledge work." The members of this class are employed but not "proletarians." They are knowledge workers rather than manual blue-collar workers. they are subordinates but in many cases they are also bosses and have subordinates of their own. They see themselves as part of management even though they are fully aware of the tension between their goals and aspirations and those of the employing organization, whether it be a business, a hospital, a university, or a government agency. So far they have no clear identity of their own and no clear political or social personality.

This group will represent the true social question of the developed society of organizations. What is its status? How does it relate to the power structure?

When this book was originally written, no one even saw this group. *Concept of the Corporation* realized that such a group was emerging, but it did not see it as central. Like everyone else then, it saw management and labor. But the new group is of course neither.

The emergence of this group as a true majority explains in large part the crisis of traditional politics in all developed countries. This is a group that has no political home as yet. It simply does not fit into any of the political traditions or political conventions. It is in many ways a very conservative group and yet does not fit the conservative stereotypes, whether that of the traditional "landed gentry" or that of the traditional businessman. It is in many ways a very liberal group and yet does not fit any of the liberal stereotypes either, and certainly not those of the New Deal of the 1930's or of European social democracy. It is a group that is up for grabs politically. It distrusts leaders of the traditional type. And yet it has not yet developed any leadership types of its own. This explains why in all developed countries in the last ten years or so people have come to the top in politics who in traditional terms would have to be considered "political adventurers"—a Jimmy Carter and a Ronald Reagan in the U.S., a Margaret Thatcher in Great Britain (could anything less likely be conceived than the leaders of the British Conservatives being a woman, the daughter of a small shopkeeper and an accountant?), or a Suzuki in Japan (whose only claim to distinction is that he comes from a long line of hereditary headmen of a fishing village, and whose only qualification for being prime minister was that he never had expressed an opinion on anything save subsidies for the fishermen of his native town).

These changes are largely the effects of the emergence of the corporation and of the other institutions that are members of the same species, the modern organization. But of course these developments in turn fundamentally change the environment in which the modern corporation operates both internally and externally.

The corporation itself has changed just as much as the society in which it exists and performs.

General Motors, the prototype of the modern organization of forty years ago, was —and still is—a single-product company, a company doing business primarily within one country, the U.S., and a manufacturing company. The typical modern corporation is highly diversified, and typically includes among its operations not only manufacturing but also non-manufacturing businesses such as financial and service businesses. It is "multinational." Finally it is not primarily a "manufacturing" company and certainly not one that is engaged in mechanical manufacturing as General Motors is.

General Motors was—and is—the world's *biggest* manufacturing company. And forty years ago "bigger" was clearly "better." Most companies then were too small to use modern organization, modern marketing, modern technology. But the representative business of tomorrow may well not be large. It will be a corporation; it will be professionally managed; and it will have to have structure, organization, policies, and strategies. In other words it will be a member of the same species as GM. But it may well be small rather than big. GM may, so to speak, represent the elephant or the whale among mammals. Tomorrow's business may be man-sized. Elephant and whale derive their performance capacity very largely from their mass. Man derives it very largely from his brain. With information technology and with manufacturing processes shifting increasingly toward feedback control—that is, toward automation based on information and knowledge—the economics of scale may shift drastically. The optimum size may be the one that gives the greatest adaptability rather than the one that gives the greatest mass.

And yet if one had to choose today a business to serve as the model for an analysis of the modern corporation one would probable still choose General Motors. The very features that make GM "old-fashioned" make it the right model. Above all, GM is simple, precisely because it was and is a one-product business, a one-country business, and a manufacturing business in which there are managers and workers but relatively few professionals and knowledge workers. And only the simple can serve as a model, only the simple can be analyzed, can be presented, can be made comprehensible.

But also the modern corporation, for all the changes, is very much a child of GM, or rather of the kind of business

GM represented in its clearest, most carefully articulated, most thoroughly structured form. GM is still very much a prototype, however much the representative businesses of today have grown beyond the GM model. Above all, the basic patterns of structure and organization we have today are all developments of the patterns GM pioneered and first developed, the patterns first analyzed and described in *Concept of the Corporation.*

The answers we give today to the questions *Concept of the Corporation* first raised may be quite different. But the questions are still very much the same. Indeed the only one that was not raised in this study of GM done forty years ago was that concerning the impact of the educated, employed middle class, the knowledge workers and their employee society. Otherwise there is practically no question being discussed today—whether internal to the corporation, such as structure, compensation, strategy and policy and so on, or external to it, such as social responsibility—which was not first identified, defined, and discussed in *Concept of the Corporation*, and in much the same terms in which we still discuss these questions today. Above all, this is still, despite all the books on the corporation and its management which have appeared in the last forty years, the only book that looks at a major business in its totality, and looks at it from the inside.

Claremont, California
New Year's Day, 1983

PREFACE TO THE ORIGINAL EDITION

ONCE upon a time a young man set out to write *the* definitive book on China. He prepared himself by studying all that had been written on the subject. He learned the language. And so great became his reputation as an expert on China that a publisher gave him a most advantageous contract and a big advance. Thus prepared, he landed in Shanghai one fine morning. He spent a pleasant day calling on some people who had been recommended to him as wise in the ways of the country and he was dined and wined wherever he went. He returned to his hotel late at night, but could not go to sleep. His head almost burst with ideas. Finally, in the false dawn, he got out of bed again to jot down a few of these thoughts. When he rose from his desk twelve hours later, he had a most comprehensive, most beautiful outline; the book was done except for the transcription of his mental shorthand. He only needed a few minor statistics on some unimportant point. "Well," said the young man to himself as he read over his outline, "one day's delay won't make much difference; I might as well get those figures tomorrow so that I won't have to interrupt my writing later on." That was forty-six years ago; last heard of the young man—now a very old man—was still looking up a few minor details and figures.

The subject of this book, the social and political problems of industrial society, is fully as big as China and even less known. My qualifications for writing it are vastly inferior to those of the young man in our story. Hence this study cannot and does not claim to be complete or conclusive. It touches upon far more topics than could be adequately treated within the covers of a short book, or be mastered and understood even by a man much better trained than the author. Yet it does not discuss enough topics to cover the field; and the omissions may well be serious enough to affect the conclusions. The subject is so ambitious as to make the author's attempts to deal with it appear journalistic; yet the book is not ambitious enough to do justice to the subject. The only excuse the author has is that the alternative to submitting to the public so sketchy an essay would have been to follow the example of our friend in China and postpone writing and publication if not forever, at least for a lifetime. This may well have been the preferable course. But it seems to me that we cannot afford to postpone any further the discussion of the fundamentals of our industrial society. There is no more urgent, no more immediate topic for America—and none which is less known and less discussed. This book does not attempt to give the answers; it hopes only to raise questions. It does not pretend to be *the* definitive book on the relationship between the big-business corporation and a free industrial society; it is an opening statement in what I hope will be a lively and fruitful debate.

* * *

My interest in the social and political approach to the problems of an industrial society—as distinct from economics—goes back a considerable time. Nevertheless I would not have been able to work out even this preliminary sketch but for an invitation received in the Fall of 1943. The General Motors Corporation asked me to study and to report on its managerial policies and organization from the standpoint of an outside consultant, in which capacity I served for eighteen months. This invitation not only made possible this study financially; it also made available to me the records and the plants of General Motors as well as the rich experience of its executives. Needless to say the opinions expressed and the conclusions reached in this book are exclusively mine, and do not reflect the opinions and conclusions of General Motors Corporation or of any of its officers. But it would be ungrateful not to admit how much clarity and understanding this book owes to members of General Motors' management in the central offices in New York and Detroit as well as in the manufacturing divisions. That the end of my investigation means necessarily the end of the close contact with this group which it has been my privilege to enjoy for almost two years, fills me with real regret.

I also want to record the great debt this book owes to many other friends—in the government service, in trade unions, in business, who abundantly gave of their knowledge and experience.

PETER F. DRUCKER.

Bennington, Vermont
January 1946

CONCEPT OF THE CORPORATION

CHAPTER ONE

CAPITALISM IN ONE COUNTRY

1

THIS book on the central problems of American industrial society rests on the one assumption that nothing could induce the overwhelming majority of the American people to give up the belief in a free-enterprise economic system except a major catastrophe such as a new total war or a new total depression. This does not mean that history will necessarily prove the American people right or make their beliefs prevail. But it means that there is only one course open to American political and economic statesmanship: the attempt to make a free-enterprise system work. For it is obvious that any attempt at organizing our economic and social system on another than the free-enterprise basis—either because the free-enterprise system fails to work or because it is considered undesirable—will introduce into American society a tension between political belief and social reality, between the will of the people and their actions, which would compromise our national unity and paralyze our political and economic faculties. The central questions of American statesmanship must thus be: how does the free-enterprise system function and what are its problems; what can it do, what can it not do; and what are the questions yet to be answered?

On America's ability to make the free-enterprise system work depends not only her stability at home but world peace. Peace in the postwar world will not rest, as it always has in the history of the modern West, upon the homogeneity of political, social and economic beliefs and institutions, transcending national boundaries, but upon the ability and willingness of radically different political and economic systems to live together peaceably. This—an unprecedented task—can only be achieved if each of the major countries can prove her particular system to be stable and successful. We have gradually learned that the ability of the Soviet Union to realize a stable and successful "socialism in one country" is the prerequisite for Russia's collaboration in the maintenance of the peace. Should she fail in this attempt she would have to resort to isolationism, world revolution or imperialist aggression; for every development anywhere except in the direction of a communist dictatorship would have to appear to her as a direct attack upon her national security. We will now have to learn that similarly the ability of the United States to participate in the maintenance of peace in a world of Great Powers based upon competing principles of political and social order, depends on our ability to create a successful, stable and confident "capitalism in one country." Thus to make our free-enterprise system function—as the basis of domestic strength and unity and as a model for others—is the most important and the most immediate contribution Americans can make to international peace.

In accepting this approach this book does not intend to become an apology for free enterprise. On the contrary, we shall often be a great deal more critical of the existing order than are its enemies. We shall demand of it not only the performance of economic functions but the discharge of heavy social and political tasks. But the purpose of this study is not to prove that free enterprise is good or bad but to find out the extent to which it does its job and the most promising line of approach for the performance of those jobs that remain to be done. And if only because the American people do so, we have to assume that free enterprise can function.

But what do the American people mean by "free enterprise"? The term has become so loose that even the American Communist Party in one of its giddy gyrations could declare itself in favor of "free enterprise." Yet, I think that it is quite clear, on the whole, what the people have in mind when they use the term. It does not exclude government regulation or government limitation of business; but it sees the function of government in setting the frame within which business is to be conducted rather than in running business enterprises. It does not, however, exclude government management or government ownership of natural monopolies or of industries producing exclusively for national use such as armament plants; it is quite obvious that the American people do not regard the Tennessee Valley Authority as incompatible with their belief in free enterprise, and that proposals for the nationalization of public utilities, railroads and even of natural resources, while not received too cordially, are not felt to violate a basic principle.

But public enterprise is seen not as the rule but as an exception that needs special justification and special safeguards. And outside of this limited sphere of public enterprise, business, according to the American tenet of free enterprise as popularly understood today, is to be in the hands of men who are neither appointed by the political authorities nor responsible to any political agency other than courts of law. And the productive resources of the country are to be owned privately.

The popular concept implies further the acceptance of profit as motivating and controlling business actions. It implies that the consumer decides what he wants to buy, and that prices are based on supply and demand in the market rather than politically determined. Finally included in the concept of free enterprise is the acceptance of the privately-owned, independently-managed corporation producing for profit goods to be sold on a competitive market. It is in this sense that the term will be used throughout this study; and it is out of this definition of free enterprise that the large corporation emerges as the focus of any study of American industrial society.*

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* *NOTE ON TERMINOLOGY.* The phenomenon of an industrial society is so recent—or rather our awareness of it is so recent—that we have no generally accepted terms to describe its representative institutions. What we have to describe and to analyze is (a) the large technically integrated unit which our technology demands, and (b) the specific legal and economic institution in which the technological unit is organized, and by means of which it becomes effective socially and economically. The first of these is independent of the specific social, political or economic system of a specific country—it is a technological fact which is the same wherever and under whatever conditions modern industry exists. The second is determined by a country's specific political and economic order. The terms available and in general use are vague, misleading and full of emotional overtones. For the first concept we have the choice between the clumsy "integrated unit of large-scale production" and the emotionally charged "Big Business." In spite of all its obvious shortcomings this book will use the term "Big Business" consistently to describe the *physical* and *technological* unit of production, whether organized in a privately-owned corporation under a competitive free-enterprise system or as a goverment-owned trust as in Russia. I feel justified in this because the term, apart from being short and in common usage, means originally and literally what I make it mean. The emotional overtones are not in the term but were added by a half-century's struggle against abuses of modern industry.

Much more difficult was the decision on a term to describe the social and economic institution in which Big Business is organized under the American free-enterprise system. There is only one term in common usage: corporation. Usually it is quite clear what it means as in the title of the book by Berle and Means, *The Modern Corporation and Private Property.* It is also clear, however, that this use may be extremely confusing as the term has a very different legal meaning which is by no means extinct or confined to the legal profession. Berle and Means, for instance, do not intend to include the corner cigar stores in their discussion even though in many cases they are corporations. Nor do they mean to exclude a large business that—as may well happen—is owned by an unlimited partnership. We have no separate word, however, for the large-scale business enterprise—usually, if not always, owned in corporate form. Hence I find myself constrained to follow common usage and to use the term "large corporation" or "corporation" (wherever context permits the dropping of the adjective) in spite of its obvious shortcomings.

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LESS than ten years ago it still seemed to be a vital issue of American politics whether to have Big Business or not. To-day the very question is meaningless if not frivolous. It has become obvious that no modern society can maintain its existence or independence except as an industrial society using modern industrial technology; and it is as true as ever that survival is the first law of any society. It has also become obvious that modern industrial technology requires some form of big-business organization—that is large, integrated plants using mass-production methods—for its operation. Therefore Big Business is something that must be accepted in any modern industrial country. It also has become clear that the large industrial unit is not just a concomitant of modern industrial technology but the very center of modern industrial society. The large industrial unit has become our representative social actuality; and its social organization, the large corporation in this country, our representative social institution. In other words, Big Business is the general condition of modern industrial society irrespective of the forms of social organization or the political beliefs adopted in particular countries. Even to raise the question whether Big Business is desirable or not is therefore nothing but sentimental nostalgia. The central problem of all modern society is not whether we want Big Business but what we want of it, and what organization of Big Business and of the society it serves is best equipped to realize our wishes and demands.

The fact that the large corporation has become America's representative social institution is often obscured in our political discussion today by that fallacy—so easily indulged in by democracy and so dangerous to it—which identifies the representative and determining with the numerical majority.