

## CHAPTER FOUR

### THE INDUSTRIAL REALITY OF THE TWENTIETH CENTURY

THE representative social phenomena of the industrial system of our time are the mass-production plant and the corporation. The assembly line is the representative material environment; the corporation is the representative social institution. The large-scale plant has taken the place of the rural village or of the trading town of the eighteenth and early nineteenth centuries. The corporation has replaced the manor and the market as the basic institution in and through which the material reality is organized socially. And corporation management has become the decisive and representative power in the industrial system.

The corporation is usually considered an *economic* institution. But what economic function does the corporation fulfil that could not just as well be discharged by a partnership? The creation of credit requires a bank. But whether a big plant is individually or corporately owned makes no difference in its productivity, its economic efficiency or profitability. Nor does the institution of the corporation fulfil any technological function.

It is also not true that the corporation is a "conspiracy" to create privileges and monopolies, as has been so often asserted by American reformers and populists. This belief has a long history, going back to the bitter fights between the King's lawyers and the common lawyers in Tudor and early Stuart times. It was correct for the early corporation; before incorporation became accessible to everyone upon fulfilment of simple formalities, corporation and monopoly privileges were identical. The early corporation was always endowed with one of the prerogatives of the sovereign. It was to do things forbidden to all other citizens. Thus the first great corporations, the Dutch and British East India

Companies, the Hudson's Bay Company or the Massachusetts Bay Company, were expressly chartered to exercise royal authority; they had their foundation in a direct delegation of sovereign power. To 'acquire and to rule territory' overseas was at least as important a function of the first corporations as were their commercial tasks as traders or planters. In the few cases where a corporation was chartered before 1750 to do domestic business—the Bank of England is the outstanding example—it was to fulfil functions which, like the issuing of money, had been regarded from time immemorial as the inalienable monopoly rights of the sovereign. Even for another hundred years after 1750 when domestic corporations became more plentiful, they were largely confined to quasi-governmental tasks, involving an express grant of the sovereign right of eminent domain for the purpose of exploiting a "natural monopoly": turnpikes, bridges, water-works, canals, railways, and other "public utilities."

But although the modern corporation grew out of these chartered monopolies, it has very little in common with them except for legal forms. The modern corporation is in intent and social purpose the very opposite of the sovereign monopoly such as was the British East India Company—or such as the central banks of all countries still are. This does not mean that there are no monopolies today, or that many of them do not use the corporate form. But in the modern monopolies the corporate form is accidental, whereas it was of the essence of monopoly two hundred years ago. Before 1880 J. P. Morgan & Co. would have had to have a royal charter to obtain the position of monopoly power and privilege they had before 1907. As it is, the Morgans converted their business into a corporation precisely when they had lost most of their economic power, after 1933.

The old corporations based their authority upon the delegation of power by the political government. The new, modern corporation, the corporation which rules our

industrial reality, based its authority originally upon the delegation of the individual property rights by individual citizens. It came to power as an institution of the independent social sphere of the nineteenth century, the sphere in which individual property rights gave social status and function, and generated legitimate power.

The modern corporation is thus a *political* institution; its purpose is the creation of legitimate power in the industrial sphere.

The enactment of the modern corporate laws between 1830 and 1870 was the final triumph of the mercantile society. These laws allowed any property owner to create a corporation. That a collective entity such as the corporation could be created by the free contract of individual property holders without need of any further political sanction, recognized property as an original and sovereign right. The free incorporation of the nineteenth century was the climax of the development of the bourgeois society that began with Locke's Second Treatise on Government.

The political purpose of the corporation is the creation of a legitimate social government on the basis of the original power of the individual property rights of its shareholders. The corporation is the *Contrat Social* in its purest form.

It is no coincidence that the corporation as a distinct form of organization appeared first with the theory of the social contract as formulated in the years around 1600 in North Germany and Holland, by Althusius and Grotius. And it grew to maturity in England simultaneously with the maturing of the contract theory in Locke's work. For the corporation is nothing but the contract theory transferred from the field of historical fiction or ethical justification into that of political action.

In the articles of association of a corporation founded today there is still clearly expressed the simultaneity of contract of association with contract of subjection which, according to the contract theory, creates and justifies both

society and legitimate government. The limited liability of the stockholder corresponds exactly to Locke's rule that no citizen is liable for more than he has transferred to society. The free saleability of the shares which enables each shareholder to resign from the association is an exact realization of the rule—expressed in its classic form by Rousseau—that each member of society must be allowed to resign by emigration. And the forms in which the stockholder-citizen exercises his "right of revolution" against the government for which he has contracted are faithful copies of the forms developed for society as a whole in Locke's Second Treatise on Government.

The purpose of the contract theory was to explain and to justify the existence of government and society as distinct from, and independent of, the existence of the individual member. In political life the theory remained a fiction—though a powerful one. But in social life it became reality in the corporation. In the social contract of the corporation a social entity is actually created through the subjection of each member's individual property rights under corporate management. Just as the people remain sovereign in the contract theory of Locke, so the stockholders remain sovereign in the corporation. But it is a purely normative, legal sovereignty; the sovereignty of the people as well as that of the stockholders is the source of all legitimate power. It institutes, limits, controls power. But it is not power itself—a fact which many modern interpreters of the contract theory fail to understand. Power resides in the legitimate government—in the case of the corporation in the duly constituted management. Management has legitimate power because it is derived from individual property rights. And its power remains legitimate as long as it is based upon individual property rights.

Very few institutions in history have been as successful as the corporation. It is hardly necessary to point out the tremendous political and social power of corporation management. Before the introduction of the present war

economy the executive of a big corporation in any of the industrial countries had more power over the lives and the livelihood of a greater number of people than most of the political authorities proper. The decisions of big business management regarding prices and wages, working hours and output, shaped and moulded the lives of millions of people and, ultimately, of the whole community.

But contrary to the assumptions of the contract theory, the managerial power in our industrial system is no longer based upon the property rights of the individual. It is not derived from these property rights, not controlled or limited by the holder of these rights, not responsible to them. In the modern corporation the decisive power, that of the managers, is derived from no one but from the managers themselves, controlled by nobody and nothing and responsible to no one. It is in the most literal sense unfounded, unjustified, uncontrolled and irresponsible power.

The stockholder in the modern corporation is neither willing nor able to exercise his legal sovereignty. In the great majority of cases he never casts his vote but signs a proxy made out beforehand to and by the management. He exerts no influence upon the selection of new managers who are chosen through co-option by the management in power. The stockholder exercises no influence upon the decisions of management. As a rule he neither confirms nor repudiates them; he does not even know about them and does not want to know about them. For the average stockholder today, the attraction of stock ownership over other forms of property lies precisely in the complete freedom from "bother" such as attends any other form of property ownership—the need to make or to confirm decisions, to take a part in the management or, at least, in the selection of management, the need to learn or to understand something about the business, in short the need to assume some of the responsibilities and to exercise some of the rights of ownership.

It is not true, as has often been asserted by reformers, that the stockholder has been deprived of his political rights of control and decision by a management lusting for power. The opposite is correct. The stockholder has thrust away these rights. He has abdicated, and he cannot be induced to reassume his rights. For to him they are nothing but burdens; they are entirely contrary to his purpose in becoming a stock owner.

This was shown in Germany just before Hitler came to power. For years it had been the custom of the German banks to vote in their own names the shares deposited with them by clients. The only way for a client to prevent this exercise of his right by the bank was to give explicit instructions forbidding it—a practice so rare as to be almost unknown outside of textbooks. And since the great bulk of the privately owned shares was deposited with the banks—which in Germany combined the functions of banker, stockbroker, safe deposits and trust companies—the majority of the shares and with it the decisive vote used to lie with the banks, which almost always voted with the management. During the early years of the Depression, in the course of a reform of the corporation law, this practice was declared illegal. In order to reinstate the stockholder into his rightful position—supposedly snatched from him by greedy banks and dictatorial managements—it was laid down by law that no bank could vote its depositors' shares except upon express authorization. Contrary to the expectations of the lawmakers, the depositors—practically without exception—gave this authorization. Many of them even threatened the bank with withdrawal of their clientele unless it would accept a blanket authorization to vote all the clients' holdings at all occasions—an authorization clearly contrary to the new law for the "protection of the stockholder."

A more serious though not so blatant example is the experience with the American Security and Exchange Act—one of the best laws of the early New Deal. To protect

the stockholder this act requires that all corporations whose securities are listed on a stock exchange disclose a great volume of important and relevant facts. There is no doubt that a person with business experience and financial understanding can learn more about the corporation from a study of these figures and facts than he could ever have learned before. But the normal stockholder does not want to learn anything about the policies, the decisions of the management of the corporation which is legally "his" corporation. All he knows is that the new law expects him to use a great deal of time and energy which to save is precisely the motive for his investment in shares. Not only does he not read these statements. He assumes that the fact that they are prepared according to a law and under the supervision of a government agency relieves him completely of any obligation or responsibility whatsoever. All authorities in touch with American stockholders—brokers, bankers, lawyers, investment counsels, even members of the Securities Exchange Commission—agree that the average stockholder today takes even less part in the control and management of "his" corporation than the stockholder of ten years ago.

The stockholder has not only abdicated, he has also largely become superfluous—if not in the new and weak, so in the old and successful, corporation. It is true that the record of American corporation financing, brought out in the hearings of the Temporary National Economic Committee in 1939 and 1940, covers a most unusual and atypical period: one of cheap money and simultaneous stock-exchange stagnation. Yet the extent to which one big corporation after the other succeeded in the Depression decade to finance substantial expansion programmes out of internal means and without recourse to the capital market is a definite sign that the big and successful corporation can get along without the stockholder. An investigation of German business finance from 1923 to 1933 would probably have shown the same results: financing of a tremen-

dous expansion programme through bank credits and the "ploughing back" of earnings without recourse to the stock market.

The process by which ownership in the corporation has been divorced from management and control has been most publicized in the United States, where Berle and Means\* in their famous book more than a decade ago first portrayed it as a movement characteristic and typical of modern industrialism. Subsequent studies, especially one by Marshal E. Dimock,† have shown that the development has been gathering momentum during the depression years. American political and economic thinking alone has understood the full implications of the process. But American actual developments—up to America's formal entry into the war—had seemingly not progressed as far in the direction of the divorce of ownership and control as had developments in pre-war England and pre-Hitler Germany.

In the United States the decisive power at least still rested with the management of the corporation proper. But in pre-war England and in pre-Hitler Germany the decisive power in the industrial system had largely passed to a management outside of the corporation: to the managers of cartels, industrial federations (*Spitzenverbände*), etc. The executive secretaries or directors of these managers' associations largely determined prices, labour policies, and wages. In the most powerful associations—such as the British Iron and Steel Federation, the International Steel Cartel or the German Cement Cartel—they also determined output and margin of profit. While these association managers themselves were responsible to, and controlled by the managers of the member firms of the association, they were completely beyond reach of stockholders' control. The distribution of the cement quota among the member firms of the German Portland Cement Cartel or the distribution of the tin-plate quota among the

\* Berle and Means: *The Modern Corporation and Private Property*.

† In No. 11 of the T.N.E.C. monographs.

members of the British Iron and Steel Federation determined not only output and profits, but often the survival or disappearance of the business. Yet the cartel managers' power was founded on nothing but the absolute and uncontrolled managerial will.

But it was in the United States and not in Europe where managerial power was officially enthroned as autonomous and uncontrolled power. The National Recovery Act (NRA) Codes of 1933 and 1934 not only provided for compulsory cartels in all industries; they also left the stockholder without legal rights. These Codes were declared unconstitutional by the Supreme Court and the previous legal system was restored. But industrial reality never went back. During the thirties it always conformed more closely to the NRA pattern than to the assumptions of nineteenth-century corporation laws or to economic rules.

The difference between Europe and America is not a difference in political development. The only reason why there are no cartels in the United States is that they are illegal under the antitrust laws. But while the antitrust laws prevented the cartelization of American industry, they undoubtedly furthered the growth of the mammoth corporation in which management is as independent of stockholder control as is the executive of a cartel. In Europe two or three competing firms would come to an agreement as separate companies about prices, wages, and sales quota. But merger was the only way to reach the same end in the United States. For while agreement in restraint of trade is illegal, merger is not. Every student of American business history knows numerous examples—old and recent—in which actual corporate merger was the form chosen to realize marketing or price agreements. The antitrust laws which were enacted in order to protect the small fellow thus led in many cases to his actual extinction, since they made impossible non-competitive survival as a member of a cartel.

Both in the American mammoth corporation and in the

European trade federation or *Spitzenverband* the stockholder has no decision or responsibility. And in both he wants none. In neither is managerial power actually derived from, or traceable to, stock ownership; that is, to individual property rights. The decisive political authority in the industrial system, the modern corporate management—whether nominally a servant of the stockholders as in America, or legally completely unconnected with the stockholders like the management of cartels and *Spitzenverbände*—is not the executive agent of the atoms of individual property joined together socially in the corporation. It is not power delegated by property. Management power has become original power.

Actually, this is still an understatement. It is not only true that management in the modern corporate system is independent of and uncontrolled by the holders of individual property rights. It is equally true that ownership of stock in the modern corporation is no longer property in the corporation in any but the most formal sense. All it represents is a vested and legally protected right to a participation in future profits in consideration of past services. Nobody buys a share today except as a share in earnings—or in order to benefit from an increase in the price of the stock which will follow from the expectation of higher earnings. In other words, the present-day investor does not want a property right. He wants a share in whatever profits result from somebody else's exercise of property rights; and that somebody else is the management. Actually, the stockholder regards the management as the real sovereign in the corporation, holding original power as if it owned the corporation. He sees himself only as the beneficiary of an extremely limited right of usufruct.

That in the last analysis there is no ownership in the assets of the corporation has already found expression in the legal and institutional treatment of the corporation. The most radical legal expression of the change is the Nazi corporation law which treats the corporation as an organic

autonomous social entity in which management has direct, indigenous and sovereign power under the "leader principle." The stockholder has no rights. He receives the dividend allotted to him by the government or by the management; but he has no vote, especially no vote against the management. This new legal concept of the corporation consciously repudiates the contract theory from which the corporation had originally been developed—an inevitable repudiation from the Nazi point of view, of course. It also repudiates the claim of property to be the legitimate basis of social power—again a logical step for Nazism. It proclaims that corporate property is different in kind from individual property, and that ownership of individual property can give no property rights over corporate property. In other words, it proclaims that corporate property is not property in the traditional sense but something new and basically different.

The Nazi corporation law is the most complete break with the traditional legal and political concept of property. Even Soviet Russia did not go so far. Actually, the Bolsheviks kept the traditional property concept in all its Lockean purity. It is, after all, the essence of Marxism that it accepts property ownership as the legitimate basis of political and social power. Only on the basis of the politically constitutive character of property ownership can the Marxist justify his demand that all property should be owned by the sovereign people as the rightful fountain-head of all power.

Yet, although the Nazi corporation law sweepingly renounces and repeals all traditional political assumptions and beliefs regarding the nature and meaning of property, the German stockholders did not seem to think that anything had happened. There have been no reports of stock sales on account of the new laws. The German shareholder obviously felt that the new laws only codified what had been actual social reality for a long time before.

The United States has not yet enacted any drastic change

in its corporation laws. Yet as experienced a man as Owen D. Young—perhaps the best representative of modern professional corporate management—proposed over ten years ago to deprive the stockholder of his legal property title, to vest property rights in the management, and to pay the stockholder a “wage” for the use of his money. Such a legal concept of the corporation would conform far more accurately to reality than do our present laws which describe the corporation of a hundred years ago. For many years the American shareholder has been used to shares without voting power—shares expressing a mere right of usufruct without carrying the political rights of property ownership. And the bankruptcy law enacted during the Depression—a law which the stockholder generally regards as favourable to him—expressly treats corporate property and corporate management as autonomous, and the stockholder’s property as a mere claim to future profits.

However, the most radical change in the status of the stockholder has come in this war, not through legal reforms but through the war system of taxation. Both in the United States and in England it is now the government which occupies the former position of the common-shareholder and which has the direct stake in profits and losses. Under the wartime excess profits taxes of both countries the common-shareholder’s return is “frozen.” An increase in profits goes entirely to the government. And due to the high level of corporation taxes, the government is also the chief loser if there is a decrease—although the shareholder, too, participates to a minor extent in a reduction of income. Altogether the common shares have become—at least for the duration—very precariously secured preferred shares. The equity position formerly occupied by the common shares has almost entirely been assumed by the Treasury.

A good example is the case of one of the largest American retail companies which in the last peace-year sold almost \$1,000,000,000 of goods, and which cleared a profit of

approximately seven dollars per share. Under the war-time excess profits tax the stockholder cannot receive more than \$3.50 in dividends, which corresponds to the average earnings on a \$500,000,000 turnover. The company could thus lose half its business before the stockholder's share would be affected. On the other hand, his return cannot increase no matter how prosperous the company. All possible increases in earnings benefit only the Treasury, and the Treasury is also the only loser as long as profits do not fall below fifty per cent of the last peace-year. The common-shareholder is thus indeed confined to the "wage" for his capital which Owen D. Young proposed.

Both in the United States and in Germany there have been corporations which were actually owned by no one—not even legally. There were, before the Depression, the potash companies in Germany which were under the same management and owned each other without outside shareholders at all. In the United States some of the "pyramided holding companies," particularly in the Insull utilities empire, achieved the same end by a combination of "voting trusts," intercompany holdings of shares and intercompany financing. Yet, although there was no owner, these corporations functioned as such and were managed by "duly elected" directors who in turn "appointed" the executive officers; and they undoubtedly had tremendous properties. Could anyone have said who *owned* these properties? Or was it not true that these corporations owned themselves? And what remained of the assumptions on which had been based the eighteenth- and nineteenth-century theory of property and of the institution of the corporation: that all property must be owned by someone, and that the social and political power in the corporation derives its legitimacy from individual property rights.

The corporation has become an autonomous social entity—in no way different today from, for instance, a city or any other political entity. There can be no rights of property in an autonomous organic social entity since it must be

conceived of as existing independent of, and before, the members. There can only be rights against such an entity: claims; and rights within it: governmental authority. The stockholder today actually only owns a claim; the management exercises authority. But on what basis does this authority rest if there is no longer the basis of individual property rights?

The abdication of individual property rights as a basis of social power is the central institutional change of our times. It has already had tremendous consequences.

In the first place, the development of the corporation to an autonomous social entity which exercises power by its own authority, has made meaningless the discussion between capitalism and socialism—at least in the terms and with the assumptions that have been traditionally used. Both orthodox capitalism and orthodox socialism assume not only that property is a legitimate basis of power, but also that property is social power. Neither can admit the possibility of a divorce under which social power would become independent of property, and property would become socially powerless. Both the orthodox capitalist and the orthodox Marxist start with the axiom that property is socially constitutive. They differ only on who should own. But they agree that the ownership of property must decide the nature and structure of society and of social power—precisely because they agree on the nature and political meaning of property. In their discussions of property, Locke, Adam Smith and Hamilton are a good deal more “Marxist” than Marx.

But ownership today is not socially constitutive. The form in which property is owned does no longer decide who wields the power. We have seen this quite clearly in the two revolutions of our times. The Communist nationalization of private property did not result in the equality that would have followed had the capitalist-socialist assumptions been true. The concentration of

power in government hands and the totalitarianism of the régime had nothing to do with the nationalization of property. The Soviet system is based on the transfer of total control to the government which could just as well—if not better—have been effected without any change in the legal title of ownership.

This has been proved by the second revolution of our times—that of the Nazis. They have made no legal changes in the property sphere. Yet they have abolished private initiative, private social power and the “free enterprise” system as effectively as have the Communists. Nobody at all familiar with the Nazi system would maintain that it is “capitalism” in any political sense of the word. Yet it maintained private property and profits as legal fictions—simply because these institutions do not matter politically in the industrial system. They were easier to maintain than to destroy, especially as their destruction would not have increased the efficiency of the total control of the party-state.

Since the war started, every belligerent country has learned the lesson the Nazis have taught: property does not matter politically. All that matters is control, which today is divorced from and independent of property rights. Total political control is the essence of modern war economics. And while it makes property rights politically meaningless and non-existent, it does not and need not change or eliminate property.

For the future this means that the basic political issues will centre on control and not, as in the past, on property. We can see that clearly in contemporary economic and political thinking. We no longer talk about the “private property system” but about “free enterprise” and “private initiative.”

The only consistent and effective contemporary theory of capitalism—that of Professor Joseph Schumpeter—neither attempts to justify property nor tries to see property as constitutive in the social structure or as the motive power of economic development. Schumpeter centres on private

initiative; the enterprising manager is both the justification and the motive power of this capitalist system. Capital plays a most subordinate part. Without the enterprising manager, Schumpeter regards it as wholly unproductive; it is nothing but an auxiliary to management. Professor Schumpeter is hard pressed to find a convincing justification for capital's claim to a share in the profits. One gathers that he would consider compensation beyond a service fee as an unjustified increment, and as a "surplus value" which properly should have gone to management.

On the other hand, the socialists too have been shifting their emphasis from property to control. The "expropriation of all means of production" is something very different from "social planning," which has become the essence of modern collectivist thought. Planning is simply another name for control; and that it is seen as the essence of a new socialist society is a confession that control, not property rights, matters. Even where the old slogans cannot be given up and where nationalization is still regarded as an important aim, it is the nationalization of controls that is aimed at. Thus the British Labour Party's demand for a "nationalization of the banks" which became official party policy during the thirties—formerly it had always been nationalization of railways or steel mills—was a demand for the nationalization of a control. Banks do not produce goods but control their production or distribution.\*

This does not mean that private property will disappear in the society of the future. On the contrary, individual property should be maintained; and attacks on it might cease. Just as religious freedom became a universally recognized and granted right as soon as religion ceased to

\* The Labour Party platform was based upon a thorough misunderstanding of the nature of credit. And it failed to see that commercial banks today are "nationalized" anyhow as their policies are completely controlled by Treasury and Central Bank policies or requests. Yet, while meaningless in practice, this switch of the Labour Party from nationalization of property to nationalization of controls grew out of a correct, though probably subconscious, appraisal of the actual social development.

be constitutive of Western society, so individual property should become universally recognized and generally granted if it no longer carries political power or control. If it is understood that to own a house has as little political meaning as whether one is a Baptist or a Presbyterian, then there will be no objection at all against individual property. Governments would be able to promote the individual ownership of personal property as a matter of course.

This brings us to the final and most important conclusion from our analysis: Managerial power today is illegitimate power. It is in no way based upon a fundamental principle accepted by society as a legitimate basis of power. It is not controlled by such a principle nor limited by it. And it is responsible to no one. Individual property was a fundamental principle accepted by society as a legitimate basis of social and political power. The limitations, controls, and responsibilities of management were those set or imposed by the individual shareholders exercising jointly and severally their individual property rights. Western society is still willing to accept individual property rights as a good title to legitimate power. But today managerial power is independent of, uncontrolled by, and not responsible to the shareholders. And there is no other fundamental principle to take the place of individual property rights as a legitimate basis for the power which management actually wields.

Altogether, our industrial economy has become split into two parts: a "real" economy of plants, mills, machines, managers and workers, and a "symbol" economy of negotiable securities, legal titles and empty ownership rights. The "real" economy is organized in "going concerns"—the significantly vague term American jurisprudence has coined for something that really does not fit into the legal system of property rights. The "going concern" is taken to exist outside and beyond the property rights of the

shareholders and to be unaffected by the fluctuations and fortunes of the market. Everywhere we find economic policy today based on the assumption that the "going concern" must be maintained and strengthened, even at the price of jettisoning both stockholders and the price system of the market. The "symbol" economy, on the other hand, is of the market. In it are observed the nineteenth-century assumptions regarding the position of property.

But only in the "real" economy are there social power and control. The "symbol" economy gives wealth; but wealth by itself no longer confers social power. The rulers in the "real" economy might have to be content with a good income and they might never accumulate large fortunes. But they, and they alone, have power. Yet their power rests in no way upon the symbols of property rights and ownership. Only in legal fiction is the "real" economy still depended upon, and directed by, the symbols. Actually, the "symbol" economy has become a powerless appendix to the "real" economy—if there is any connection at all.

Lest I be misunderstood: this is *not* an attack upon modern management. On the contrary, there has never been a more efficient, a more honest, a more capable and conscientious group of rulers than the professional management of the great American corporations today. The power they wield is theirs not because they usurped it but because the stockholder has relinquished his rights and his duties. Most of the corporation executives I know are unhappy in their positions of uncontrolled and non-responsible social power which they did not seek, but into which they have been pushed. •

A clear indication of their acute discomfort can be seen in their attempts to develop a legitimate basis for their power in "service." The campaign to have the services rendered by management to the community, rather than the property rights of the stockholders, accepted as a basis of managerial rule was by no means all hypocrisy or super-

salesmanship. Most of the managers took it seriously.

However, honesty, efficiency and capability have never been and never will be good titles to power. The questions whether power is legitimate or illegitimate, whether a ruler is a constitutional ruler or a despot lie altogether on a plane different from that of personal qualities. Bad qualities can vitiate a good title. But good personal qualities can never remedy the lack of title. Nor is the despot against his will any less a despot. All that is likely to result from his attempts to shirk the power that has been thrust upon him, is timidity and insecurity which only aggravate the situation. A good man on a usurper's throne will probably rule for a shorter time than the bandit who does not care about the title as long as he has the power; at least the bandit will act and will fight for his power.

It was this insight which earned Machiavelli most of the opprobrium which has been heaped upon him. At a time when there was no legitimate rule and no legitimate basis for power—at least not in his native Italy—he saw that the bandit was more likely to succeed and to prevail than the honest, scrupulous, conscientious prince. And although his conclusion is most unpalatable to all honest men, it is a correct one. The answer to Machiavelli is not honest and enlightened despots but legitimate rulers. The answer to the illegitimacy of present-day managerial rule is not to "turn the rascals out"—there are not many, anyhow—but to make the ruling power in the industrial system a legitimate power.

Unless and until this is done, the industrial system will have no legitimate power.

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If the corporation is the representative social institution and if management is the decisive social power, mass production in big units is the representative social form of our society. The big centralized concentrated mass-pro-

duction unit may not be quantitatively in the majority—neither in the number of workers employed nor in the volume of output. Yet the attempt to use these quantitative measurements for the qualitative purpose of proving that ours is actually still a “small unit” technology is ridiculous in the extreme. It does not matter what the statistical averages are. The big mass-producing unit may statistically be an isolated case, as in England before 1939. It may be less efficient technically than the small or medium-sized factory. The big automatic mechanized plant may even be economically unprofitable. But mechanized mass production in big units is the technological form of industrial production which matters most, politically and socially.

Mass production is the “ideal type” of modern industrial production which directly or indirectly moulds all our concepts, methods and aims of industrial production altogether. It would be but slight exaggeration to say that our whole industrial society changed basically on the day, thirty-five years ago, when Henry Ford first used the assembly-line method consciously as a radically new system of production. Certainly since then no industrial country has ever been the same, even in Europe where the assembly line itself was very slow in gaining ground.

The new mass-production system carries all the technological and economic momentum; it is the dynamic force in our techno-economic engine.

If we analyse this representative system of industrial production, we shall find that its new basic feature is not a new use of, or approach to, machinery. There is no difference in the treatment of the inanimate tools of production. When we call the new system “automatic” or “mechanized,” we do not mean that the machines have become automatic or mechanical. What has become automatic and mechanical is the worker.

The great innovation of modern industry is a vision: a vision of the worker as an efficient, automatic, standardized

machine. Whether the credit for this vision should be given to Henry Ford, to Taylor, or to the behaviourist psycho. is a moot point. Like all great discoveries, it was probably made at the same time by different people working and thinking independently. Around 1900, the whole emphasis of industry changed. Up till then, for a hundred and fifty years, the most skilled, the most highly trained worker was the most efficient, the most productive, the most valuable worker. Suddenly, the very qualities which made the good craftsman—understanding of the process, knowledge of all its phases, initiative, the personal touch, etc.—became obstacles to efficiency and productivity. Uniformity, absence of any personal relationship to the work, specialization on one unskilled manipulation, subdivision of the work into particles without comprehensible cohesion became the new way to maximum productivity and efficiency.

It may be said that the era before mass production was just as much based upon the unskilled, mechanized labourer as our present productive system. All the descriptions of the mills in Manchester, Liverpool or Glasgow in the early stages of the Industrial Revolution emphasize the almost dehumanized hordes of starved, illiterate, dispossessed semi-savages from Ireland and Scotland who slaved on the early power spindles and power looms. But this was not efficient labour—no more so than are today the illiterate, unskilled labour in Malayan rubber plantations, or the Negroes in the cotton fields of the American South. The unskilled workers of the early industrial stage were so inefficient that they could be used economically only at starvation wages. They were employed only because skilled, self-respecting workers could not be obtained.

Most manufacturers in the century before 1914 or 1929 firmly believed that a more highly skilled, more individualist worker would be a better worker. They were for ever starting trade schools or endowing polytechnical institutes. Actually, all during the nineteenth century there

was a definite trend away from the unskilled, automatic worker to the craftsman. If there ever should be a statistical investigation of the development of labour skills during the nineteenth century, it will certainly show that at the close of the century the proportion of unskilled, automatic workers was much lower<sup>d</sup> than it had been at the beginning.

Today, however, the automatic mechanized worker is the most efficient worker, producing the most per unit of labour. There is not only a rapid trend toward the complete mechanization of all but a few workers which has been greatly accelerated by the Depression and by the present war. There is also a prestige attached to it; to go automatic is to be progressive. The most convincing examples of the change are in the old industries—the same industries which started a hundred and fifty years ago with human automata but had managed to develop their own craftsmen in the meantime. As old, as efficient and as specialized an industry as the New York garment industry has, since the Depression, suffered greatly from the competition of a new, fully mechanized, automatic clothing industry in St. Louis and Kansas City. The fact that women's wear seems least amenable to standardization, in view of the rapid fashion changes in the United States, apparently proved no obstacle to the assembly-line process.

It is sometimes argued that the mechanization and automatization of the worker in modern mass-production industry are but a transitory stage to the complete elimination of manual labour. An automatic steel strip mill or an automatic plate-glass plant operates seemingly without manual labour at all. A handful of highly skilled operators on control boards—junior executives rather than workers—do the work formerly performed by hundreds or thousands of skilled manual workers. What has happened is not that the former manual labourers have now become skilled control-board operators. Today only the former foremen are left, while the former labourers have dis-

appeared. Whether they have become the victims of technological unemployment, or whether they are now human automata serving machines producing far more than they ever could have produced in the old way, is immaterial for our point. Even the assumption of the "technocrats" of 1933 memory does not invalidate our argument. For if it should really be true that a consistent application of modern mass-production methods would produce a superabundance of goods, practically without any labour, then the former industrial worker would no longer have status and function in the productive process. And a society like ours, which sees social status and function predominantly in status and function in the economic process, could not integrate the functionless industrial worker—even though it might be able to supply him abundantly with goods.

That the employed worker in modern mass-production industry has no social status and function is usually overlooked by modern writers who have been taught that nothing counts in social life except income and economic wealth. But even they have noticed the social and political problem of the *unemployed* worker in modern society.

The mass unemployment of the "long armistice" was an entirely new phenomenon. In no previous depression was there any chronic unemployment. Indeed if we accept the results of recent research, there was no unemployment at all in the most severe business crisis of the nineteenth century, that of 1873. But even when there was unemployment it was the last of the crisis phenomena to come, and the first to go. In the past, unemployment had always disappeared long before the recovery showed in higher stock and commodity prices or in bigger industrial profits. In the last Depression, however, the unemployment problem improved last—if it improved at all.

Actually, the most frightening thing about the industrial unemployment of the last twenty years was that it persisted through periods of recovery, and, indeed, of high prosperity. There remained an irreducible core of unemploy-

ment in the Germany of 1927, the England of 1935, the United States of 1937—all years of record or near-record industrial activity. This is not just a sign of economic dislocation. It is a most serious symptom of social disruption. For unemployment is not only an economic catastrophe. It is a social disfranchisement. "The unemployed has lost his livelihood as well as his status and function in society. He is an outcast—for a man who has no function and no status, for whom society has no use and nothing to do, has been cast out.

We all know that unemployment cannot be cured by economic relief. In countries where the "dole" was almost as high as the wages of unskilled labour, the social effects of unemployment showed almost as fully as in countries where there was no organized relief at all. Above all, the unemployed disintegrated socially. He lost his skills, he lost his morale, he became apathetic and asocial. The unemployed may be bitter at first; resentment is still a form of participation in society, if only in protest. But soon society becomes too irrational, too incomprehensible to the unemployed even for rebellion. He becomes bewildered, frightened, resigned, and sinks finally into an apathy which is almost a living social death.

During the twilight periods of high business activity with high unemployment which characterized the industrial countries during the recent past, any social worker with experience could point out the chronically unemployed from among the Saturday evening crowd in an industrial town. They were not necessarily dressed more shabbily than the others; they did not look any more underfed than many of the employed workers in the crowd. But they had an unmistakable air of bewilderment, of defeat and blind purposelessness that set them apart fully as much as if they had belonged to another race. And in a sense they did. Around them had grown an invisible wall separating them from the members of a society which had cast them out. Not only the unemployed but society too felt this wall.

Social intercourse between employed and unemployed ceased gradually. They frequented different taverns and different pool-rooms hardly intermarried and generally kept to themselves. There are no more tragic and no more frightening pages in the whole literature of chronic unemployment than those which tell of the destruction through unemployment of man's most basic community: the family. Many a fully unemployed family maintained its social unity, its social cohesion and its social strength—but hardly any partly unemployed family survived as a functioning community. Unemployed father and employed children, unemployed children and employed father, unemployed brother and employed sister—became separated by a wall of mutual suspicion and mutual incomprehensibility, which neither love nor necessity could breach.

If there is any further proof needed for the social meaning of unemployment, it is provided by the gambling of the unemployed in all industrial countries. The popularity of football pools and dog races in England or of the "numbers game" in the United States cannot be explained by the desire of the unemployed to make a few pennies the only way they could. The unemployed knew that they were bound to lose as well as any sermonizing editorial writer calculating the odds. But blind, unreasoning chance appeared to the unemployed the only operative force in this world and in this society; only chance made sense. And football pools or numbers games were seemingly the only rational conduct in a society without other rationality, without meaning, sense, function and integrating power.

It is absolutely certain that we shall have to prevent a recurrence of large-scale chronic unemployment after this war. Otherwise, we shall surely disintegrate into chaos or tyranny. But it is not enough to find productive work for the unemployed, though it is the first thing to do.

However, this would only solve the problem of economic security and not that of social function and status, which

is a problem of the employed worker as well as of the unemployed. The social problem of the industrial worker in the modern industrial system may be likened to an iceberg. Unemployment is the part that shows above the water. But the real bulk, the real danger, lies below water-line. It is the increasing lack of function and status of the employed worker. We may get rid of the obvious danger: the unemployment. But unless we also attack the much greater, though less obvious problem of the social function of the employed worker, we will founder.

We do not have to examine the consequences of automatic mass production to arrive at the conclusion that the worker in modern industry lacks social status and function as an individual. Denial of the existence of an individual with social status and function is really the essence of the new approach. In mass-production technology the worker is only one sloppily designed machine. To bring this human machine to the full mechanical and automatic efficiency which its Maker apparently failed to achieve is the main aim of the new science of "human engineering." That means, however, that the individual must cease to exist. The new technique demands standardized, freely interchangeable, atomic labour without status, without function, without individuality. It demands graded tools. But there is no relationship between the worker's function as part of a precision machine which the present-day industrial system assigns to him and any individual purpose. From the point of view of the system the individual worker functions only, makes sense only, is rational only when he ceases to be a member of society. From the point of view of the individual worker the society of the mass-production age does not and cannot make sense at all.

Certainly the unskilled labourer did not hold such an enviable position in the productive system of yesterday. The wheelbarrow-pusher in a steel plant, the sewing-machine operator in a garment sweatshop, the Irish navvies

in a railroad-construction gang, had a hard life indeed, much harder than the mechanized assembly-line worker of today. But the unskilled worker of the last generation was an inferior. Often he was a recent immigrant from central or southern Europe (in the United States), from Ireland or Russia (in England), from Bohemia or Poland (in Germany and France). He did not speak the language and he came from countries that were considered "backward." Or the unskilled worker of yesterday was the individual failure, the "shiftless and thriftless," of the early capitalist society. That those workers were not integrated into society could be rationally explained.

Above all, the unskilled worker of the nineteenth century was an auxiliary. He was necessary to help the real workers; but none of the skilled people would have called him a worker. He brought materials to the skilled people. He carted off their semi-finished or finished products, or he performed a type of labour which, like digging the soil, was basically pre-industrial in technique. The real worker was a craftsman with all the craftsman's pride, understanding, skill and status. No one could be prouder, more self-respecting and more firmly aware of his relationship to society than an old-line printer, railroad engineer or machinist.

But in the new system the unskilled mechanized worker is the real worker. The skilled craftsmen have become the auxiliaries who prepare and lay out the job but who do not do it themselves. The productive labour is that of the man on the assembly line who, standing rigidly all day, holds in his outstretched hand a paint-brush which automatically draws a red line on the flanks of slowly passing automobile bodies. He neither understands how an automobile works nor does he possess any skill which could not be acquired by everyone within a few days. He is not a human being in society but a freely replaceable cog in an inhumanly efficient machine.

That the industrial system neither provides social status and function for the individual nor establishes a legitimate social power is not a very new discovery. Especially in the last ten years there has appeared a vast amount of "crisis literature" dealing with the social problems of our time. And there have been a considerable number of proposals how to solve these problems. Some of them merit a short discussion, if only because they have been widely acclaimed as panaceae. Actually, all of them are at best palliatives. They might mitigate some of the symptoms but they do not attack the causes. By and large, they are not solutions for the future but unfinished business of the past.

Economic security is the most popular cure-all. I want to say at the outset that a considerable measure of economic security will be a "must" in the industrial countries after the Western democracies have won the war. We know that in peacetime we can produce enough of all essentials of life for everybody. The war has added the realization that production can always be made to run at full capacity with the aid of direct governmental intervention into production and investment. The new techniques of distribution—rationing, communal feeding, distribution of essentials outside the market (such as that most promising of all beginnings, the Food Stamp Plan in the United States)—have shown that it is possible to distribute existing supplies equitably. It is most unlikely that the people in any belligerent country after this war will allow large numbers to go without essentials in times of potential or actual surplus when there has been a reasonably equitable distribution in times of shortage. As far as economic security means "security from want" and a guarantee of the basic necessities of life, we can assume that it will be a fact after this war in any country capable of producing the basic

necessities in abundance. This means, of course, the United States in the first place.

Actually, we had a very substantial measure of economic security in the Western world before the outbreak of the war. The panicky fear of insecurity which was characteristic of the years before the war arose at a time which offered more economic security than any previous period. Never before in Western history had there been such ample economic provision for the needy and the unemployed as in the Depression years with their doles, relief payments, WPA's, etc. It sounds strange, but it is a fact, that as a result of the relief programme, actual nutritional conditions in the United States were better in 1935 or 1938 than they had been in 1928 or 1929.

This shows that economic security in itself is not the solution. What the people really demanded during the last decade was not only economic security but social status and function. Not knowing what it was they lacked, they called for economic remedies; after all, they had been taught for almost two hundred years that economic measures and rewards alone matter. Yet one need only look at the case histories of relief recipients or of workers on the WPA to see that what they needed and lacked was the social integration, the social function and status which economic security could never have given by itself and never did give.

Minimum economic security—the guarantee of an adequate supply of the basic essentials for all—will be an accomplished fact in the democracies of the West. This will be true even before the end of the war—if the war lasts more than another year or two. It may not be called "economic security" but may go by some technical name such as "purchasing-power rationing," under which it is at present being advocated in the United States and in England. Whatever it is called, the essence will be the same: the equal distribution of basic necessities regardless of individual income. That part of the programme which limits the purchases of essentials by the well-to-do should

indeed disappear after the war. But that part which subsidizes the poor to enable them to obtain an adequate minimum supply will certainly remain once it has been introduced.

Economic security necessitates a far greater degree of paternalism than anything ever tried under a free society. The fears and objections of those who see in the demand for it a programme for tyranny cannot simply be dismissed as "reactionary." And the argument of the supporters of economic security that free public schools or highways were also once decried as "socialism" is not a very strong one. The concentration of economic power necessary for a programme of economic security will be compatible with a free government only if there are carefully prepared limitations, new institutional vehicles of self-government, and a rigid decentralization. But it is not impossible to set up institutions that will safeguard society against the political danger of economic security. Undoubtedly there also will be people who will abuse what is conceived as a protection against undeserved and unnecessary want. But, on the whole, the danger that economic security will demoralize vast masses seems greatly exaggerated. Altogether the gulf between the guaranteed minimum security and the standard of consumption which is regarded even today as a moderate standard in the United States should be so great as to eliminate the danger of a large-scale lapse into government-backed loafing. But even if economic security is completely divested of the last traces of paternal despotism, it will still not be a constructive basis of a functioning society. It will not give social status and function to the individual member of society.

Economic security as a political programme ignores the most important lesson of the last twenty-five years: that economic satisfactions are only negatively effective in society and politics. The absence of economic satisfactions creates severe social and political dislocations. But their presence does not by itself constitute a functioning society.

Economic satisfactions can be likened to vitamins; their absence creates deficiency diseases of a most serious nature, but they do not in themselves provide calories.

It is the great strength of agrarianism and unionism that they see the organization of society as the central problem of our time. Indeed, both talk not just about social organization but about a way of life—about basic beliefs, about the social order, about man's nature and its fulfilment. Both contain much that I hope will be realized in the industrial society of the future. There is the agrarian's insistence upon the vital place of individual property in society—not as a basis of political or social power, not as control over the means of production, but as purely personal property, as a basis for human dignity and independence. There is the unionist's demand that labour be treated not as a commodity but as a partner with a right to self-government and to human dignity. And both philosophies realize that we are living in a great social crisis today—a crisis which centres on the order of the industrial system. Yet while both contain much that is promising, important and constructive, neither seems equipped to provide a solution and to build a functioning industrial society. If and when we have developed such a solution, we shall probably look back upon these two philosophies as forerunners—but as nothing more than that.

All agrarian movements or philosophies—whether they talk of the "co-operative way of life," of small family farms, or of garden cities—start out by repudiating the industrial reality. They all talk of building a functioning society. But they begin by shirking the issue: our society does not function precisely because it is not an industrial but a pre-industrial, mercantile and rural one.

This is clearly realized by those who advocate unionism as the "realistic," as the typically industrial solution. It is unionism that is usually meant when people talk about "industrial democracy."

However "realistic" the industrial democracy of unionism might appear at first sight, it is the greatest mirage of our times. It is certain to end not in a free but in a despotic society. It also could never bring about a functioning society where the individual would be socially integrated, and where social and political power would be legitimate. Agrarianism, while a romantic escape, has at least a noble vision of a society built on the independence, responsibility and dignity of man. But unionism as a social creed is a misunderstanding.

In our present political and social system, trade unions are beneficial and necessary. The worker needs the organization and protection which only the unions can give. Trade unions, as the organization of labour, are the necessary, almost inevitable concomitant to the managerial and big-business structure of modern industry. In our existing system of industrial organization, they are also an extremely efficient method of labour-management—so much so that a strong, independent and honest union is as much of an asset for management as for the workers.

The trade union is beneficial and desirable today because it counterbalances some of the more obvious ills of our social body. It is an anti-organization, an anti-body against social toxins. But it is not a constructive institution—nor designed as one. It is only possible and only meaningful as the counterweight to the big-business management in our present society. But it is just as little controlled, responsible or legitimate power. Unionism is basically a corrective, and, as such, extremely valuable. It is a brace needed by a social body suffering from curvature of the spine. It cannot create a healthy body or do anything but damage if used on one.

The greatest illusion of the advocates of unionism as a social philosophy or a political programme is their belief that the power in the trade union is legitimate power. Their argument is simply that trade union leaders are elected by the majority vote of the members and hence are

both democratic and legitimate. The same people would angrily denounce the argument that modern corporation management is elected by the majority of the stockholders and hence both democratic and legitimate. They would point out that election and control of corporate management by the stockholders are a legal sham, and that in reality management is self-appointed, uncontrolled and almost completely removed from the individual property rights of the stockholders. But precisely the same is true of modern union leadership—and for the same reasons. The individual union member is like the individual stockholder; he neither wants to exercise his individual rights, nor would he know how to do it and for what purpose. Just as the stockholder buys a share in a modern big-business corporation because he thereby escapes the decisions and responsibilities of ownership, so the individual union member joins the union in order to escape decisions and to transfer the burden of responsibility to the union leader.

The one occasion when the union member exercises his membership right to choose his leadership is, as in the case of the corporation stockholder, after a catastrophe. A lost strike may lead to the ejection of the union leaders, just as a succession of bad years or bankruptcy may lead to the removal of the corporation management by the stockholders. But in each case a new management is promptly put in to be as uncontrolled and uncontrollable as the old one was. Actually, the modern union is a good deal less democratic than the corporation, as far as its internal organization goes. The stockholder can always sell his shares, whereas the union member must remain a member on pain of losing his livelihood. So far as society is concerned, there is no difference between the corporation management's claim to political and social power and the union leader's demand for such power. Neither has a real and legitimate basis; the majority decision of the union membership is as much a fiction as the majority decision

of the stockholder's individual property rights. This is as true for unions which strictly observe all rules, hold elections, publish reports and try to educate their members to participate actively in union affairs, as for those unions—not unknown in the United States—which have not held an election in ten years, are ruled by strong-arm methods and do not permit their members any expression of opinion other than regular payment of dues. For it is the union membership which does not want the power and responsibility which is fictionally theirs. If there is any union in which the members actively elect and direct their leaders, it is only the weak and struggling one—just as the shareholders usually take an active part in the management of a young corporation in its development stage. As soon as a union or a corporation is strong and well established, management of necessity becomes self-perpetuating and absolute.

Modern union leadership is simply the counterpart of modern corporation management. It has been developed to deal with corporation management and it operates on the same principles. It is the negative to the corporation's positive. The difference between them is so small that it might pass unnoticed if the union leaders were to change places with the industrial managers. In every industrial country business management and union leadership follow the same pattern of personalities and policies. There is a striking similarity between the qualities that in England make for success in the trade associations, cartels, and industrial federations—the seat of the actual managerial power in that country—and the qualities that characterize the successful British trade union secretary. But for the fact that they went to different schools, the two are interchangeable. Yet this type of the "functionary" is otherwise rather rare in English public life. The same was true in pre-Hitler Germany: The conscientious, pedantic, legalistic and unimaginative trade union bureaucrat and the equally conscientious and unimaginative cartel or trade association

bureaucrat, Syndikus, Chamber of Commerce St etc., were of one piece.

The most striking confirmation of this thesis can be found in the United States. The trade union leaders of the present generation, a Samuel Gompers or a William Green, fully mirrored the conservative and rather timid bureaucratic corporation-counsel management of the years before the War of 1914. The leadership of the new trade unions sprang up during the Depression resembled nothing more than the public utility tycoons of pyramided holding companies and the jerry-builders of spectacular but purely speculative industrial empires who dominated the American industrial scene in the twenties. And already—following the trend in corporation management with only a few years' lag—a new type of union leader is coming up: the career man and efficiency expert who think in terms of the union as an autonomous institutional entity, just as modern management thinks of the corporation.

To substitute union leadership for corporation management as the foremost if not as the decisive power as the union creed demands would not make for any real change in the structure of society. The rulers would be changed, but not the rule. Such a change would not establish the first prerequisite of a functioning society: that its decisive power be legitimate power. It would actually increase the danger of non-legitimate power. There are so many corporation managements that competition often prevents concerted political action even in our "economy of monopolistic competition." But there could only be a few union leaders united in one closely knit ring.

Unionism also fails to provide the other prerequisite of a functioning society, the social integration of the individual. For what is the status and function of the member of a unionist society? What social purpose does his life have? And what individual purpose does a unionist society fulfil? A union must of necessity enforce equal conditions in all comparable plants in the same industry.

Hence it cannot allow one plant to become a community of its own with a functional integration of the worker and his work. It can only protect the worker politically and economically against exploitation. But what is its purpose when it dominates and when the union of the exploited workers has become the top dog? There are no answers to these questions; they are unanswerable.

Unionism as a political force collapses as soon as the conditions disappear which the trade unions have been developed to correct. There is no weaker political and social structure than an established, successful and *arrivé* trade union system. Politically unionism and unions are strong only so long as they are young, struggling against heavy odds and the sacred cause of a fanatical minority. As soon as they become big, dominant, and respectable they become flabby. This is due to the character of unionism and of trade unions as a critique, a corrective, an antibody. If the majority of the workers are organized and the majority of big business under union contract, the trade unions lose all but administrative functions. Owing to the necessarily centralized character of the organization—a few big unions with a few national presidents and secretaries—they can be destroyed without any danger of real opposition. For the threat of the general strike ceases to be a practical one in a country where unionism is no longer a partisan issue but an accomplished fact.

The seemingly strongest, best organized and best managed trade union organization of our times, the German trade unions, were captured and destroyed without a struggle. Hitler arrested a handful of union leaders, occupied a few central offices, and confiscated a score of accounts. And the apparently most powerful and most successful trade union system of industrial Europe had ceased to exist. To bring the business managers under their control was infinitely more difficult for the Nazi régime than to destroy the unions. There were more business managers, they were not as centralized as the unions, and

they were needed as technicians. The same thing happened seven years later in France—again a fully unionized country.

Unionism cannot become the basis of a functioning society. But also it cannot become the basis of a powerful political movement. It is in essence only the shadow of corporation management; and it can neither succeed the managers nor overcome them.

None of the various short cuts to a functioning industrial society can achieve what they promise. They are not all futile or wasted. They should all contribute important features to the future—if we succeed in reaching the future free industrial society without a political revolution or a social collapse, and without the destruction of our social freedom. But the contributions of these movements and philosophies to the future industrial society will be confined to incidentals and techniques. They cannot provide a basis.

In this situation in which there are many palliatives but no remedy it was to be expected that sooner or later there would be an attempt to make our present industrial non-society appear a perfectly functioning society. This attempt has recently been made by James Burnham in a book which has aroused great interest in the United States.\*

Mr. Burnham claims that managerial power is legitimate power. More important, he only said out loud what a great many managers have been thinking; he does not see any problem of legitimacy at all. According to him, the rise of the managers "inevitably" leads to a managerial society in which the managers will rule. Nazism, Communism and the New Deal appear to him but different "fronts" for the same managerial rule. Insofar as there is any question regarding the title on which this rule will rest. Mr. Burnham assumes that an appropriate ideology will be tailored to measure and sold to the people<sup>2</sup> as, according to him—

\* James Burnham: *The Managerial Revolution* (New York: John Day, 1941).

exists—has been done before in the case of property rights and all preceding titles to legitimate power.

In this analysis it must first be said that nothing is inevitable in political life, which is the product of man's decisions. An appeal to inevitability is usually an appeal to slaves to accept slavery. It is significant that Mr. Burnham considers it "inevitable" that all industrial countries must go totalitarian.

But Mr. Burnham's analysis is also a perversion of the developments of the last twenty years. The "managerial society" which he forecasts for the future has been our society in the first third of the present century. And it belongs already to the past.

To call Hitlerism and the New Deal "fronts for managerial rule" is absurd. Though they had nothing in common, both régimes attacked managerial power. Nazism made the abolition of managerial power and the assumption of the manager's political functions by the central government one of the main steps in its attempt to create a functioning industrial society. In the United States, the attempt to divest management of its social and political power, and to transfer these powers to authorities claiming legitimacy on the basis of a mythical contract, is the New Deal's social program.

The people in industrial countries will accept individual property rights as a basis for legitimate power. This was clearly evidenced in the popular support which Henry Ford received in his fight against unionism and against the New Deal. But there was no such popular support for more managerial power; General Motors, though on the basis of its own merits probably more deserving of support, obtained none. In other words, there is simply no evidence for the assumption of Mr. Burnham—and of the manager who applauded him—that actual rule successfully invents its own ideological justification. The opposite is true, as it has always been true in the past. The

exercise of power must be based on an existing and accepted basic principle in order to be legitimate. If there is no such principle, the power becomes despotic and politically unbearable. 3

No social power can endure unless it is legitimate power. Unless the power in the corporation can be organized on an accepted principle of legitimacy, it will disappear. It will be taken over by a central government—not because the government wants the power but because it will be forced by the people to assume it.

And no society can function unless it integrates the individual member. Unless the members of the industrial system are given the social status and function which they lack today, our society will disintegrate. The masses will not revolt; they will sink into lethargy; they will flee the responsibility of freedom, which without social meaning is nothing but a threat and a burden. We have only one alternative: either to build a functioning industrial society or to see freedom itself disappear in anarchy and tyranny.