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SEYMOUR MELMAN
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INTRODUCTION

Managerial Success with Production Decay

Until recently, the managers of U.S. industry were the world's best organizers of industrial work—that was the basis of their profits and for their claim to large personal incomes. Since a community must produce in order to live, and since a core task of an economy is to organize people to work, the managers, within the constraints of their profit-making concerns, performed a vital function.

The decision power and personal wealth accorded to managers was one side of a historic exchange, a social contract. In return for these privileges management was expected, by working people and community, to organize work. That social contract was threatened by the Great Depression and was reconstituted as a legitimation for management only when a new contingent of state managers was introduced to share in decision power over the industrial economy. Thereafter, management's economists, informed by the theories of John Maynard Keynes, hoped that a new "public sector" military economy could help to stabilize the functioning of management's decision processes, extending to the "private sector" as well. But the successful pursuit of profits and power by both private and state managers also resulted in a major unanticipated effect. A process of technological and economic depletion of the means of production itself was set in motion, causing major contraction of opportunities for productive livelihood.

Management's social contract with working people and community was broken.

Since the mid-1960s the production competence of many U.S. industries has obviously been deteriorating. By 1980 one-fifth of the steel used in the United States was being supplied from abroad. A fourth of the new machine tools and a third of the automobiles were no longer produced by American workers in American factories. A visit to almost any hi-fi or camera store in an American city will confirm that only a minor part of the sophisticated products offered for sale are made in the United States. The domestic production of these and many other capital and consumer goods has been replaced, increasingly, by products from Western Europe and Japan. Managers in those countries, sometimes using exported U.S. capital, have learned how to compensate for rising wages with rapid improvement of productivity.

While capturing U.S. markets with quality products at competitive prices, they have also bestowed a high, and still rising, level of living on their own populations. In 1980, seven European countries—Belgium, Denmark, West Germany, the Netherlands, Norway, Sweden, Switzerland—paid their industrial workers higher wages, in money and "fringes," than did the United States.[1] If the average rates of the 1970s' wage increases continue, Japanese workers will by 1986 be paid more than their American counterparts. The United States will then be well established as a medium-to-lower-income society, suitable for investments by other countries that want to take advantage of a relatively docile, cheap labor force.

All this is part of a collapsing production competence that occurred as the money-making successes of U.S. managers reached new highs—a possibility that has had no place in mainstream theories about industrial capitalism or U.S. industrial management. It is unprecedented that profit-taking success should be the partner of system-wide production failure.

Even the most confirmed critics of capitalism have accepted the assessment of the productivity of industrial capitalism made by Karl Marx and Friedrich Engels in the *Communist Manifesto* (1848):

> The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together. Subjection of nature's forces to man, machinery, application of chemistry to industry and agriculture, steam-navigation, railways, electric telegraphs, clearing of whole continents for cultivation, canalisation of rivers, whole populations conjured out of the ground—what earlier century had even a presentiment that such productive forces slumbered in the lap of social labour?

This description also shaped the Marxists' understanding of capitalism's internal operation. They saw production by workers as the necessary basis for management's profit and other gains—cumulatively, the "surplus value" generated by labor but appropriated by management.

Most economists agree that businessmen act as organizers of production, even though many of them differ sharply with the Marxists, seeing profit not as exploitation but as just return for services rendered. And whatever the evaluation of management's role, there is little dissent from the proposition that profit is based finally upon production. Thus, manufacturing firms have

been viewed as the productive foundation of a system that could readily support a further superstructure of profit-takers who exact their fees for servicing various forms of exchange or speculation.

The "captains of industry" who assembled the great industrial firms at the turn of the twentieth century attained wealth, power and social eminence as organizers of the largest production organizations in history. Whatever the maneuvers for financial and market control that went on in the boardrooms of industrial capitalism, no one doubted that investing in and efficiently operating the means of production, especially those of basic industry, was the high road to wealth and fame.*

During the latter half of the twentieth century, this pattern of industrial capitalism has shifted. Soon after World War II the marketing executive emerged as the bright star of the American managerial firmament. "Madison Avenue" took center stage. By the 1960s the ideal type, as portrayed in management journals, had become the financier-strategist, the shrewd, nimble operator who combined disparate firms into conglomerates that maximized the short-term profit-taking opportunities afforded by tax laws, securities transfers, the milking of production assets and other financial legerdemain. This is a world of money-making, one that can prosper even as production is neglected or transferred to distant lands. In this world, the optimum condition is profit without any production.

In the same period, the managers of state-subsidized enterprises learned how to marshal the nation's largest single block of capital resources for the military economy. That economy, which produces neither consumer goods nor anything useful for further production, is a money-maker for everyone involved in it.

Military production is often regarded as simply an adjunct to the government's foreign relations and, apart from that, as an undifferentiated part of the economy. Otherwise, military industry is viewed as a concentration point of technical sophistication, "high technology," as against the widening array of decrepit civilian industries.

A major aim of the present work is to show that the special effects of military economy are integral parts of, and major contributors to, the transformations under way in American management, technology and productivity. That is why there is a particular treatment of the military economy in each part of this book.

*An exemplary diagnosis of the businessmen of that era is in Thorstein Veblen, *The Theory of Business Enterprise* (Viking Press, 1946).

It is not to be thought that any group in American society planned or worked to bring about the erosion of U.S. production capability. It has happened as an unanticipated, derived effect of normal, proper operations by industrial managers, both private and public, all of them acting according to well-accepted rules, exercising decision power and generating profits, while enjoying the income and other rewards of their privileged occupations.

The decline of production competence in the private and state economies of the United States has been caused by two forms of managerial success: profit-taking from expanded private nonproductive or foreign investments; and the ability of government managers to extend their powers of decision over an enlarged military economy.

The historic crises of American capitalism, those revealing the functional incapacities of the system, were typically crises of decision-making, of the interior mechanism of the *business* process, while all the time the production plant was fully competent to serve the market as the buyers of consumer or capital goods appeared. The new and unprecedented development in American capitalism is the collapse of production competence in the manufacturing process itself.

The money-making strategies of private management, combined with the enlarged power of the state managers, result in the looting of the productive capital of the system on behalf of short-term money-making and military-political power. Together, they produce the world's slowest rate of productivity growth and unemployment with inflation.

The "ideal type" of private manager now embraces men who are willing to put the money entrusted to them wherever its rate of return is highest. That includes the large-scale export of finance capital, with an accompanying failure to invest and re-invest in U.S.-based production. These profitable moves often take advantage of opportunities for easy entry into new markets (like the European Common Market) or the chance to make a killing by paying very low wages, as in Taiwan, Singapore and Mexico. The money-making manager is also conditioned to maximize the "bottom line" of a short-term balance sheet. Therefore, the quarterly report becomes primary evidence of good management, and any projection beyond one year is long-range planning. The same money-makers have developed the theory that managing as a profession can be practiced independently of the character and locale of an enterprise—that is, quite apart from the product, production methods, requirements of internal organization, etc. Such managers tend to specialize in financial strategies and operate at a great distance from production, which they view as an operating expense that can reduce profit. They also become increasingly intent on enlarging the scope and intensity of their managerial controls, thus raising the cost of managing at the same time that productivity is often depressed.

These trends in U.S. industrial management have been abetted by a parallel ideology. The American idea of every man for himself, of the individual as responsible for his own success or failure, has fostered the notion of the mobile manager, a new type who acknowledges no loyalty to any particular enterprise, let alone to a community, but only to his own professional advancement. An exaggerated regard for the individual's unique contribution supports a mythology about the supremacy of the single top executive. According to this way of thinking, the wisdom of the chief executive officer, rather than the skills of engineers and workers, the structure and working of an organization, its cohesiveness, its morale, and so forth, is responsible for the success or failure of a productive enterprise. This role inflation is used to justify the large salaries bestowed on men at the top.

The reliance on individualism was given a measure of credence by the long history of the American frontier. Opportunities for acquiring land and for exploiting apparently boundless resources seemed to confirm the possibility that every man for himself could be a really workable idea.

Another, more recent strand of American ideology has also supported the new managerial style. It is the idea that ours is a post-industrial society. From that premise it follows that, aside from high technology, there is little left for U.S. industry to do. The rest of production can be left to the smaller states of Western Europe and the underclasses of the third world. In this view, the United States has achieved a permanent state of technological preeminence, and the idea of money-making without production is entirely justified because the production problems of the private sector have been solved.

Meanwhile, the state managers of American society have been operating a military economy with an annual budget that, every year since 1951, has exceeded the net profits of all U.S. corporations. That military outlay, using up the largest single block of the economy's equivalent capital funds, makes no contribution whatever to the economic product of the society. Although this deployment of funds has depleted the available capital resources of the economy, an elaborate and widely trusted ideology supports its continued operation.

On this point my analysis departs sharply from mainstream economic theories. The latter almost unanimously assume that an economic product is anything that can be assigned a price—a definition that has the marvelous effect of obscuring the influence of the military economy on the rest of the system. By contrast, the idea that nothing can be called an economic product unless it contributes to consumption or to further production exposes the contribution made by the military economy to the deterioration of production competence in the United States.

Also, the true economic role of the state managers has been shielded from view by the idea that preparation for war, like war itself, creates prosperity. Since the American Civil War, no major military operations have taken place within the continental United States. Wars have been perceived by the majority of Americans as distant events, reported in the newspapers or on radio and television, in far-off places to which American soldiers are sent—all with little direct physical impact on American homes, workplaces, or on the material quality of life.

The trends of technology are necessarily shaped by a community's decision criteria. Accordingly, the analyses of decision processes in both private and state management can explain the deterioration of the quality of American technology in the civilian and military economies. None of this means that good workmanship, competent planning and close attention to the details of production are now unknown in U.S. industry. But managements of firms that set the tone for the whole system—U.S. Steel, the Ford Motor Company and a host of other multinational conglomerates—increasingly display the new pattern of profit-making with reduced production. The residual islands of high productivity are surrounded by a sea of concentrated money-making.

The consequences of these developments lead me to frame certain questions: Under what foreseeable conditions could developments in private and state management produce a deterioration of production competence so severe as to be irreversible? And, short of that "worst case" future for the U.S. economy, what is required to generate fresh production competence?

Actually, deterioration in the production competence of U.S. industries has been well in motion since 1960. By 1965 I had diagnosed the processes of that decay in some detail.[2] Predictably, these early warnings of industrial inefficiency were received with skepticism by a population that was still aglow with the euphoria of World War II, still believed that the United States could enjoy both guns and butter, and had just been marshalled for the conquest of space and the first landing of man on the moon. In 1960, the air was full of an election campaign waged against a missile gap. Then came the Bay of Pigs debacle, the Berlin Wall crisis, the Cuban Missile crisis, the trauma of Kennedy's assassination, and the election of Lyndon Johnson—the pro-peace candidate who operated a small war on poverty and a larger war in Vietnam. All this while the universities were awash in money, as the government, with cheers from the populace, demanded more science, more technology, more trained professionals to guarantee U.S. leadership in the space race and the arms race too. In the midst of such excitements, almost no one, apart from those closely affected, paid much attention to the closing of factories in a widening sweep of northeastern and midwestern cities.

The American intelligentsia were seized with dreams of the post-industrial society—so why not hand over low technology and mundane commodities to the Japanese, the Taiwanese, and the lower-paid workers of Western Europe, while the United States concentrated on high technology? Against such a background of ideological reassurance (or was it nationalist arrogance?) few were prepared to consider the full significance of many ongoing events. So the World Trade Center in New York City has a steel framework that was made in Japan—well, after all, the U.S. construction industry has long been backward. So the Alaska pipeline was made in Japan—well, the Japanese steel industry profited from having been destroyed by U.S. bombardments during World War II. So the shoe factories of New England are closing and their machinery and tools are sold abroad—well, in the post-industrial society, Americans should be concerned with high technology and not with demeaning work like shoemaking that can well be done in less developed countries. So the closing of enterprises in the United States during the 1960s and 1970s disrupted the lives of about 15 million people—well, let the labor market handle the problem of reslotting those people into the U.S. economy.

By 1979–1980, American buyers of automobiles, almost one out of three, were passing up the products of General Motors, Ford, Chrysler, and American Motors. That debacle in the U.S. marketplace led to mass unemployment throughout the Midwest, financial losses in the billions for U.S. firms, and near-bankruptcy for Chrysler and others. The U.S. failure in autos was also a culture shock. No one proclaimed that these castoff industrial workers should redeploy themselves into new-look "services" or high-tech occupations. The U.S. automobile industry is more than an industrial colossus: it has long been a central feature of America's self-image. Detroit made of mass production an American and then a worldwide force. If the United States no longer excelled at rolling cars off the assembly line, what was left?

There are some important barriers to seeing, and therefore believing, that the United States has been losing its productive vitality. The decline is well enough understood by working people, technicians, and their immediate communities, who have lost their livelihoods and often been forced into a gypsy-like existence in the quest for jobs. The effect on young people, candidates for entry-level industrial jobs, is particularly devastating. The rest of the town feels at second hand the effects of lost industrial jobs—by the appearance of a *Lumpenproletariat,* that is, a permanently unemployed welfare-dependent population, and by the decline of municipal facilities and services of every sort.

But an important part, about 37 percent, of American society is substantially shielded from these effects. This is the suburban middle class, which is concentrated in occupations that are not related to manufacture. For these people deterioration in the United States' producing capability is hardly visible because the goods and services that they commonly purchase are available in ample supply. They neither know nor care whether the food processor comes from Kentucky, Japan or France, and the firm name on the label is no indication of where the item was produced (you have to look for the small "made in" legend). Durable goods of all sorts are to be had from local dealers, and in middle-class suburbia public amenities are often first-rate. All this has important bearing on the ability of American society to confront a new, culturally astonishing fact: the United States is well on the way to becoming a second-rate industrial country.

Since production backwardness grows out of normal managerial operations in America, it is unlikely that the processes can be reversed by any quick fix, by minor alterations in the managerial pattern, private and public. Thus, it is improbable that asking the schools of business administration to give more attention to production can change the priorities of the present faculties, or the intellectual assumptions and cultural biases that guide those institutions. The low esteem in which blue-collar work is held by the managerial teaching centers of the United States, private and public, cannot be altered by admonitions, however well intentioned, that they mend their ways. Their assumptions have become deeply embedded, linked to the core characteristics of managerialism itself. But are there technically and economically workable alternatives to present managerial-hierarchical ways of making decisions in the area of production?

My plan is first to identify the main aspects of managerialism and how they have been changing. That sets the stage for showing the impact of private and state managers on technology in the United States, for technology is shaped in the image of those who preside over it.

Once in place, the quality of the means of production, together with the ways of organizing work, have a controlling effect on industrial competence, on the productivity of labor and capital. These, in turn, are what finally determine the ability of an industrial system to organize people to work and to sustain industrial production on a high technological level.

When the cumulative effects of the developments in management, technology and productivity are taken into account, a surprising prospect for the United States must be considered: the deterioration in production competence can become irreversible. Short of such a debacle, what conceivable directions of change in economic policies, and decision-making by managers and workers, can deliver industrial and other economic renewal?

In order to help the reader get a handle on such large-scale processes, I thought it would be helpful to show how the main thread of ideas works out in the case of one industrial sphere. That is why the main argument of this book opens with the story of the U.S. machine tool industry.