

# 8 The Organization in Society

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Who says organization, says oligarchy.  
ROBERT MICHELS

What is occurring ... is a drive for social dominance, for power and privilege, for the position of ruling class by the social group or class of the manager.  
JAMES BURNHAM

We do need to know how to cooperate with the Organization but, more than ever, so do we need to know how to resist it.  
WILLIAM H. WHYTE

An organization so often ends by smothering the very thing which it was created to embody.  
KENNETH E. BOULDING

The danger to liberty lies in the subordination of belief to the needs of the industrial system.  
JOHN KENNETH GALBRAITH

Small is beautiful.  
E. FRITZ SCHUMACHER

Organizations do not exist or operate in a vacuum. They are one sort of institution in a particular society. They have to conform to the needs and standards laid down by institutions other than themselves. The pressures of a market economy, political decisions and legal restrictions all affect organizational operations. Yet the large-scale organization is one of the dominant institutions of our time, and in its turn must exert a powerful influence on the rest of society. Many writers have taken up this theme and have tried to show how far the nature of modern organizations has changed society.

Robert Michels argues that large modern organizations inevitably produce a powerful oligarchy at the top, with far-reaching social consequences. James Burnham examines how the balance of power in society has shifted from the



owners of wealth to those who manage it. For William H. Whyte also, managers are an increasingly assertive section of society; he is alarmed that their characters are being moulded by the organizations which employ them. Kenneth E. Boulding highlights the frequent conflicts between the interests of the organization and the wider interests of society.

John Kenneth Galbraith underlines the inadequacy of the market mechanism for regulating economies, pointing to the consequent frequent intervention of governments as a 'countervailing power'. E. Fritz Schumacher warns against believing that the problems of production have been solved when we are using up the resources of our planet at a rate which cannot continue.



# Robert Michels

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Robert Michels (1876–1936) was a German sociologist and political scientist, writing at the beginning of this century. Like many of those who were involved in the early development of ideas in the social sciences, he was politically as well as scientifically committed. He was a socialist until, as he came to the end of his life and as a result of his own theorizing, he turned towards the fascist ideas of Mussolini. His political life informed his social theories and his social theories influenced his political life.

What was it, then, that caused Michels to move from the left to the right of politics? His move derived from the contradiction that he perceived in the internal structure and functioning of organizations: the contradiction between democracy and bureaucracy. For Michels, the essential principle of organizational functioning was ‘the iron law of oligarchy’. This iron law means that whenever an organization is created, it inevitably becomes controlled by a small group of people who use it to further their own interests rather than those of other organizational members. His main concern was to examine the organizational features which make internal democracy impossible and the displacement of objectives certain.

To understand how Michels arrived at his pessimistic view of organizational life, it is necessary to put him in the context of his times and to examine the kinds of organizations he was primarily interested in. Those observing and writing about society during the latter half of the nineteenth century and the beginning of the twentieth saw the rise of the large-scale organization. Not only was this becoming apparent in industrial life, but also in politics and government. The extension of voting to more and more individuals led to political parties. The beginnings of the welfare state and increasing governmental activity meant the expansion of the civil service. Michels analyses the interaction between increasing organizational scale and the growth of bureaucracy.

His particular concern is with political parties and the state. The first mass-based political parties were appearing, with the avowed aim of opening up politics – and consequently influence on the state – to a wider population than ever before. Political parties, especially those of the left such as the German Social Democratic party, were democratic in structure. But for Michels the democracy of such parties quickly became a matter of formal structures, rule-books and constitutions; the actual functioning was something different – elite domination by means of a bureaucratic organization. The emergence of a bureaucratic elite is inevitable: it is the iron law of oligarchy.



Michels suggests that as an organization gets bigger, so it becomes more bureaucratic. Political parties strive for increased membership. If they are successful and grow, they produce a larger hierarchy. They recruit full-time salaried officials and expert, professional leadership. There is a concentration of the means of communication, of information and of knowledge at the top of the organization. Because of its size and the bureaucratic mode of operation that this entails, a high level of participation is impossible in large organizations. A number of important consequences result.

Once an elite leadership and full-time officials have appeared, there is the inevitability of divergence between the leaders and the led. This is particularly the case in voluntary organizations. The role of those at the top of the organization is to present the views and aspirations of the mass of members. But with the advent of specialized personnel and a dominant elite, the gap between the top and the bottom of an organization gets wider and wider. In these circumstances leaders no longer represent the interests of the membership. So it is that an organization with a bureaucratic structure comes to be operated in the interests of its leaders who are concerned with the preservation of the bureaucracy.

Leaders wish to maintain their positions because of the prestige and influence that go with them. Salaried officials are self-interested because of the career possibilities that a well-developed bureaucracy offers. Together these constitute bureaucratic conservatism.

The processes of self-interest and bureaucratic conservatism together produce a slackening of the revolutionary ideas and fervour which Michels sees as necessary for a lea-wing political organization. Indeed, such ideas become supplanted by ideologies which stress the need for internal unity, for harmony of views and ideas, and the undesirability of conflicts or tensions in the organization. Stress is also placed on the hostility of the surrounding environment, on external enemies and the danger of exposing internal difficulties and differences. With a professional leadership cut off from the mass of members, the organization becomes an end in itself rather than a means towards non-organizational ends such as equality or democracy. Because of its scale and bureaucratic nature, it serves the interests of the elite.

Although primarily concerned with the problem of internal democracy in political parties, Michels broadened his argument in two ways. First, he demonstrated the link between organizational and societal oligarchy. The leaders of organizations will be socially and culturally different from the led; indeed they will be members of the politically dominant classes, maintaining their positions through the control of organizations. In addition the expanding middle classes will be able to find security of employment through the growth of state organizations and thus enter into an alliance with the political elite as the servants of power (see Burnham, following in this chapter, for another view of the emergence of managerial powers).

Secondly Michels maintains that the iron law of oligarchy is applicable not just to political and voluntary organizations, but to all organizations subject to increasing scale because of the inherent opposition of bureaucracy and democracy. Agreeing with Weber (Chapter 1), Michels sees the development of bureaucratic structures as



an inevitable aspect of organizational growth. The processes of specialization and hierarchy which are the basis of bureaucracy, are inimical to democracy because of their effects on decision making and communication.

Michels saw no way out of his cycle of despair other than through periodic revolutionary and charismatic movements. Unfortunately (from his point of view) such movements rapidly become institutionalized and subject to the processes of oligarchy. For Michels the outlook for democracy was poor, and eventually his personal answer lay in a charismatic political movement – the fascism of Mussolini.

Michels was the first to give expression to a problem that has concerned many writers for over a century; namely, can large organizations retain democratic functioning or will an inimical bureaucracy inevitably take over?

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# James Burnham

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James Burnham (1905–1987) was educated at the University of Princeton and Balliol College, Oxford. From 1932 to 1954 he was Professor of Philosophy at New York University. In 1955 he became editor of the *National Review*. During the 1930s he was a member of the Trotskyite 'Fourth International', but he broke his Marxist connection in 1939. His many publications are mainly on political topics.

The term 'managerial revolution' has become part of the language since Burnham made it the title of his best-known book, written in 1940. As he himself points out, his views are not particularly original, but they do constitute an attempt to formulate and argue logically about certain ideas which many people have wondered about, both then and since.

Burnham's thesis is that a declining capitalist form of society is giving way to a managerial one. The managerial revolution by which this is being accomplished is not a violent upheaval, but rather a transition over a period of time, in much the same way as feudal society gave way to capitalism. A wide range of symptoms heralded the imminent demise of capitalism as the Second World War commenced. The capitalist nations were unable to cope with mass unemployment, with permanent agricultural depression, or with the rapid rise in public and private debt. Their major ideologies of individualism, 'natural rights' of property and private initiative were no longer accepted by the mass of the people.

But there was no reason to think of socialism as the alternative. Almost everywhere Marxist parties were insignificant as a political force. The working class was declining in relative size and power. In Russia, the abolition of private property rights, which in Marxist theory should bring about a classless socialist society, neither prevented a ruling class from emerging nor promoted workers' control. Nevertheless, 'though Russia did not move towards socialism, at the same time it did not move back to capitalism'. What happened in Russia, as is steadily happening throughout the world, was a movement towards a managerial type of society. In this society it will be the managers who are dominant, who have power and privilege, who have control over the means of production and have preference in the distribution of rewards. In short, the managers will be the ruling class. This does not necessarily mean that political offices will be occupied by managers, any more than under capitalism all politicians were capitalists, but that the real power over what is done will be in the hands of managers.

In order to define who the managers are, Burnham singles out four groups of people with different functions. There are stockholders, whose relationship to a company is entirely passive. There are financiers – capitalists whose interest is the



financial aspects of numbers of companies irrespective of what those companies do. There are executives, who guide a company, watch its profits and its prices. Then there are those who have charge of the technical process of producing, who organize employees, materials and equipment and develop the know-how which is becoming increasingly indispensable. These last are the managers. Of the stockholders, financiers, executives and managers, only the managers are vital to the process of production. This has been demonstrated by state ownership in Russia and by the extension of state enterprise in other nations. Moreover, even where private owners continue, they have been moving further and further away from the instruments of production, delegating supervision of production to others and exercising control at second, third or fourth hand through financial devices.

Burnham remarks on the self-confidence of managers compared with bankers, owners, workers, farmers and shopkeepers. These latter display doubts and worries, but managers have a self-assurance founded on the strength of their position. In managerial society there is no sharp distinction between politics and the arena of economics. In the state commissions, the committees, the bureaux and the administrative agencies, managers and bureaucrats coalesce. Rules, regulations and laws come increasingly to be issued by these interconnected bodies. The making of law is to be found in their records rather than in the annals of parliament. So in many nations sovereignty is gradually shifting from parliament to administrative offices.

In such an economy managers will exercise power by occupying the key directing positions. But their preferential rewards will be less in wealth and property rights than in status in the political-economic structure.

Burnham also sees the outlines of the managerial ideologies which will replace those of individualistic capitalism. The stress will be on the state, the people, the race, on planning rather than freedom, on jobs rather than opportunity, on duties and order rather than natural right.

Burnham's analysis of the overall trends in society and his projection of these into the future arouse interest to the extent that events bear him out. He was writing as the Second World War began. Much that has happened since could be construed either way, for or against his arguments. Years later, W. H. Whyte's description of the organization and *The Organization Man* is in keeping with Burnham's forecast. Is there a managerial revolution?

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# William H. Whyte

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The American writer William H. Whyte (1917–1999) was a journalist and a student of the society in which he lived. He was on the staff of *Fortune* and published articles in this and other leading magazines.

Whyte has concerned himself with contemporary trends in American society; his book *The Organization Man* is an attempt to portray vividly one such trend which Whyte himself believes may go too far. He points to the coming of an organization man (and woman) who not only works for The Organization but belongs to it as well. Such a person is a member of the middle class who occupies the middle rankings in all the great self-perpetuating institutions. Few of these ever become top managers, but they have 'taken the vows of organization life' and committed themselves to it.

Whyte argues that for an organization employee of this kind, the traditional Protestant ethic is becoming too distant from reality to provide an acceptable creed. The Protestant ethic is summed up by Whyte as the system of beliefs in the virtues of thrift, hard work and independence, and in the sacredness of property and the enervating effect of security. It extols free competition between individuals in the struggle for wealth and success. But to Whyte life is no longer like this, if it ever was. To him 'that upward path toward the rainbow of achievement leads smack through the conference room'. The younger generations of management have begun to recognize themselves as bureaucrats, even if they cannot face the word itself and prefer to describe themselves as administrators.

Such people need a different faith to give meaning to what they do, and Whyte finds in American society a gradually emerging body of thought to meet the need. He calls it the social ethic. This ethic provides the moral justification for the pressures of society against the individual. It holds that the individual is meaningless personally but that, by being absorbed into the group there can be created a whole that is greater than the sum of its parts. There should be no conflicts between human beings and society; any that occur are misunderstandings which could be prevented by better human relations.

There are three major propositions in the social ethic: *scientism*, *belongingness* and *togetherness*. 'Scientism', as Whyte dubs it, is the belief that a science of humans can be developed in the same way as the physical sciences have been. If only enough time and money were available, the conditions apposite to good group dynamics or to personal adjustment to social situations or any other desired human response could be discovered. Believers in scientism (who are not to be confused with social scientists) could then generate the belongingness and togetherness which they seek



for all. The ultimate human need, it is thought, is to belong to a group, to harmonize with a group. But in belonging humans also need togetherness. They do not merely want to be part of The Organization, but to immerse themselves in it, together with other people, in smaller groups – around the conference table, in the seminar, the discussion group, the project team and so on.

Whyte traces the career cycle of organizational people as, guided by the social ethic, they give themselves up to The Organization. The influence of The Organization has extended into college curricula, so that by the time students are looking for their first job they have already turned their backs on the Protestant ethic. They look for a life of calm and order, offering success but not too much success, money but not too much, advancement but not too far. The Organization attempts to recruit for itself those who will fit in, those who will get along well with others, those who will not have any disturbingly exceptional characteristics. Increasingly it uses the tools of the psychologist: not only the well-trying aptitude and intelligence tests, but others purporting to reveal personality. Whyte challenges the validity of these latter tests, going so far as to write an Appendix entitled 'How to Cheat on Personality Tests': to obtain a safe personality score, you should try to answer as if you were like everybody else is supposed to be.

Once recruited, the training of potential managers emphasizes not their own work, but the exploitation of human relations techniques to manage the work of others. The successful trainee is not the one who competes successfully against others, but the one who cooperates more fully than others cooperate. What of the loss of individualism in group life? Whyte says that young people today regard this aspect of the large organization as a positive boon. Their ideal is the well-rounded person who has time for family and hobbies and, while good on the job, is not too zealous or over-involved in it. Overwork may have been necessary in the past, but now The Organization looks for the full individual. In particular this is the image held by personnel managers and business schools.

Whyte also sees the same tendencies in scientific and academic institutions. The idea of the lone genius is being displaced by that of the group-conscious research team. There is a steady increase in the proportion of scientific papers by several authors compared with those by a single author.

Though Whyte is stating a case against too great a belief in the social ethic, he realistically points out that it may never be applied as absolutely as it is preached, any more than was the Protestant ethic. Even so, the social ethic may delude individuals that their interests are being cared for when The Organization is really following its own ends. Guided by the social ethic, The Organization may suppress individual imagination and cling to a mediocre consensus. People may become skilful in getting along with one another, yet fail to ask why they should get along; may strive for adjustment, but fail to ask what they are adjusting to. It is Whyte's contention that organization man and woman must fight The Organization and accept conflict between themselves and society.

However, for some few in The Organization who start to go ahead of their contemporaries, there comes a realization that they have committed themselves: that they must go on alone to higher executive positions, that their home lives



will be curtailed and their spouses less and less interested in the struggle. Such managers find themselves working 50-and 60-hour weeks, taking work home, spending weekends at conferences. They have no time for anything else. More than this, their work is their self-expression and they do not want anything else. They discover that someone on the way to the top cannot be well-rounded. The dream of a comfortable contentment just short of the top is shattered, and they talk of the treadmill, the merry-go-round and the rat race, 'words that convey an absence of tangible goals but plenty of activity to get there'.

Thus all executives contain within themselves a conflict between the old Protestant ethic and the new social ethic. Those who go ahead do so in order to control their own destinies, yet in *The Organization* they must be controlled and look as if they like it. Even though they want to be dominant, they must applaud permissive management. The executive may have risen by being a good team player, but now the other side of the coin becomes uppermost – the frustration of the committee room, the boredom of being sociable. Here is the basis of executives' neurosis.

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# Kenneth E. Boulding

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Kenneth E. Boulding (1910–1993) was born in England and educated at Oxford. He held a variety of teaching posts at universities in Scotland, Canada and the United States, and was for many years Professor of Economics at the University of Michigan. He was the author of many books on economics, but his work on *The Organizational Revolution* sprang from his interest, stemming from the fact that he was a prominent Quaker, in the relationship between organizations and ethical systems.

Boulding sees this 'revolution' as one of the major events of the past hundred years. There has been a great rise in the number, size and power of all organizations. More and more spheres of activity have become organized so that there are now businesses, trade unions, employers' federations, political parties, farming groups and the state, all of which are highly organized. This revolution is due on the one hand to changes in the habits and needs of people, and on the other to changes in the skills and techniques of organizing. Boulding sees the latter as the more important. Henry Ford did not mass produce motor-cars because of the demand, but because of new knowledge on how to organize and make them. Supply, not demand, was the dominant factor.

Such a growth of organizations has given rise to a large number of ethical problems. In Western societies there are certain basic values and assumptions which are drawn from Christianity. The Ten Commandments and the Sermon on the Mount are still largely the final basis for an ethical analysis of behaviour. They define morality as a matter of personal relationships, with a Christian ideal of fellowship and equality. It is on the level of personal behaviour that the application of such principles gives rise to ethical problems in organizations. All organizations create an 'in-group' made up of members of the organization, and an 'out-group' of non-members. The moral dilemma for the individual in such a situation is that the defence of the inner fellowship necessarily means the breaking of wider fellowships. To whom does the individual owe moral allegiance?

As organizations grow larger and more powerful, there is increased pressure for a hierarchy to fix the relationships and the distribution of power between people. But the presence of such a hierarchy is directly in conflict with the moral idea of equality since it tends to produce an aristocratic, highly stratified society based on status. Political democracy is an attempt to overcome this moral dilemma, making those at the top dependent on the will of the people.

The ideals of Christianity are also what Boulding calls 'familistic'. A full and intimate relationship of love and concern is the ideal human relationship. The major



virtue is love, and the closest one gets to this is in the family. Such an ideal constantly comes into conflict with the necessities of organizational life. Relationships in economic organizations are based on contracts which demand only a lesser virtue, that of integrity. For large-scale organizations to exist, relationships must be pared down to the minimum, losing something vital as a consequence. The special moral problem of the businessman is balancing the equation of love and necessity. 'The business world is one in which relationships are based mainly on faith and hope, and, if it seems to be deficient in the warmer virtue of charity, it must at least be given credit for the other two.'

However, ethical problems also arise for organizations at levels other than that of personal relationships. To what extent should the leaders of any organization feel a responsibility to society as a whole? Should they advocate policies for the whole society rather than for their own special interests? What are the obligations of an organization to society? Boulding says that the usual excuse for pursuing special interests is that one is acting as a counter-pressure against other interests. The menace to society lies in the fact that certain special interests may become powerful enough to demand, and receive, privileged protection.

The heart of ethical conduct is action in the general interest. The problem is to make sure that organizations acting in such a way survive, and that those not meeting the needs and ends of society disappear. But this must be done without the use of coercion, which is inimical to the pursuit of Christian ideals. Action in the general interest is an ideal which is difficult to attain; the need is for a mechanism which will continually adjust actual to ideal.

The mechanism to achieve this is the market reacting to the laws of supply and demand. Competition and specialization, which are the mainsprings of a market economy, are prime movers in bringing together the general interest with special interests. But the organizational revolution has superimposed monopolies and large-scale economic groupings on the market economy. So the need is for a governed market economy with the principle of political representation built into it. This makes individuals responsible to others for their actions. There has been a shift from the market to representation as the adjustive mechanism. It is through the operation of social democracy that the best approximation of the ideal and the actual can be made.

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# John Kenneth Galbraith

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J. K. Galbraith (1908–2006) was born in Canada, but lived most of his life in the US. He was an economist who spent his academic years at Harvard University. He was a supporter of John Kennedy and during the Kennedy administration served as US Ambassador to India. Galbraith has long believed in the necessity of popularizing the ideas of economics, his books being aimed as much at lay people as at professional economists.

The underlying thesis in all his work is that the nature of American capitalism has changed over the past century and that, as a result, traditional economic theories no longer apply. Classical economic theory rests on the proposition that the behaviour of buyers and sellers is regulated by the market, through which the stimulant of competition is provided. Economic power is denied to any one person or firm because of price competition. But this system depends on a large number of producers of a good or service, none of whom is in a position to dominate the market; conversely it depends on large numbers of buyers, who individually cannot affect the market. Yet this is demonstrably not the situation in modern industrial economies. Instead there is a process by which the typical industry passes from an initial stage of many firms competing, to a situation of a few large firms only – what economists refer to as ‘oligopoly’.

Thus, the most important task facing modern economic theory is to analyse the place of the large corporation in the economy, and to discover what new regulatory agencies, if any, have replaced the marketplace. If the balanced power of the competitive system no longer applies, does the large corporation wield unchecked power? In *American Capitalism*, Galbraith suggests that there is a situation of countervailing power. The concentration of industrial enterprise, on which everyone agrees, produces the giant corporations which might possibly wield huge agglomerations of power both in economic and political terms. But this process brings into existence strong buyers as well as strong sellers. This is something that tends to be forgotten when the supposed ‘evils’ of oligopoly are discussed. An example of such countervailing power is seen in the development of large retail trading chains, such as Marks & Spencer and the Cooperative Movement, who from their importance as buyers of goods are able to offset the oligopoly power of the producers or sellers of shirts, dresses and so on. Similarly, in the labour market there is the power of the union countervailing that of the employers’ association. Thus, the situation is one of giants standing off against each other. Much of the increasing intervention in the economy by the state comes from the need to develop sources of



countervailing power in the economy. A recent phenomenon in the US and Britain which fits the theory is the development of vocal consumers' associations.

In summary, the competitive marketplace as regulator has been replaced due to differences between the capitalistic system of today and that of 50 years ago. And today's system has its efficiencies. It is the large oligopolies which can best incur the cost of research. However, Galbraith himself points out that this system of countervailing power really only works where there is limited demand, so that the buyer has some leeway vis-à-vis the seller. In the context of unlimited demand, the balance of power shifts decisively to the seller – the large corporation. In *The Affluent Society* and *The New Industrial State*, he develops the idea of control of the market by the corporation, where a situation of unlimited demand is 'manufactured'.

Again the starting idea is the rise of the large-scale corporation, the separation of ownership from control and the results of this for a competitive market system (see Burnham, earlier in this chapter). Control of the market becomes increasingly important for the well-being of the organization because of the use of more and more sophisticated technology. The organization faces a set of technological imperatives (technology being the systematic application of scientific or other organized knowledge to practical tasks). For Galbraith there are six imperatives deriving from increased technological sophistication which have important implications for the relationship of the organization to other organizations, to the consumer and to the state.

First, the time-span between thinking of a new product and actually producing it is getting greater and greater. An example is the lead time between the initial idea for a car and its arrival on the market. Secondly the amount of capital that is committed to production increases; more investment is required. Thirdly, once time and money have been committed, there is a great deal of inflexibility; it becomes very difficult to back out. Fourthly, the use of advanced technology requires special sorts of staff, leading to the rise of the engineer, the applied scientist and the importance of technical qualifications. (As with Burnham, Galbraith sees this 'technostructure' as becoming the most important source of decision making.) Fifthly, organizations become more complex, with an increasing need for the control and coordination of specialists. Sixthly, all these imperatives together produce the need for planning.

Thus, societies require large corporations (which Galbraith names 'the Industrial System', the dominant feature of the New Industrial State) properly to acquire the benefits of new technology. But it is obvious that the imperatives outlined above involve the organization in situations of risk. There are always the famous cases of the Ford Edsel and the Rolls-Royce aero-engines as salutary reminders of what can happen when planning fails. It is only the large business organization which can find the necessary capital and employ the necessary skills to use sophisticated technology, but it still needs help in dealing with it and with the risks involved.

Organizational planning does not just mean making sure that the right materials get to the right place at the right time, internally. It also means that suppliers are reliable (producing goods, components and so on, as needed) and that buyers are there when needed. As a result, to quote Galbraith: 'Much of what the firm regards as planning consists in minimizing or getting rid of market influences.' To deal with



the uncertainties involved and thus minimize the risks facing the organization, planning is required to *replace the market*. Control of the market can be done in two ways: either by direct control of the consumer, making them dependent in some way on the corporation, or by having a single customer – a guaranteed market. Both of these options involve increasing state intervention, another illustration of the changing nature of contemporary capitalism.

Direct control of the consumer can take place in a variety of ways. One of the most important is the use of advertising. This is a direct attempt to influence the demand for a product and also to create a psychological dependence on the part of the consumer. Under conditions of affluence a situation of unlimited demand can be created, with the corporation controlling the needs and aspirations of the consumer rather than vice versa. In the US the accepted view of a desirable automobile is the current model as styled in and by Detroit. A further possibility is the control of the market by size domination, a movement towards monopoly. This can be helped along by vertical integration and the use of contracts to tie buyers and sellers together, stabilizing the existence of both. The state is important in that it now carries the responsibility for regulating the level of demand in the economy, stabilizing wages and prices.

Having a single-customer guaranteed market becomes extremely important for those organizations using especially advanced, expensive technologies. In particular what happens is that the state becomes the customer and the idea of a market starts to disappear altogether. The state is in effect underwriting the cost of investment so that the line between the 'private' corporation and the state begins to disappear. This situation is typical of the aerospace industry where research, development and production are commissioned by the government. An organization such as Lockheed sells more than three-quarters of its production to the government.

Considering both the need to control demand and the role of the state in this process, there is a tendency for the corporation to become a part of the administrative arm of the state. The management of demand becomes a vast, rapidly growing industry in which the public sector is increasingly important through its control of the wage-price spiral, its setting of personal and corporate income tax, its regulation of aggregate demand and its own role as a consumer. Also the state is responsible for producing the qualified manpower (the technostucture) on which the corporation is dependent, through its financing of education.

The net result is an increasing similarity between all mature industrial societies in terms of the design of organizations and the planning mechanisms used. The heavy requirements of capital, sophisticated technology and elaborate organization, which need planning to replace the market, lead to the dominance of the large corporation. Such corporations are in turn dependent on the state. As Galbraith summarizes his position: 'Given the decision to have modern industry (in any country), much of what happens is inevitable and the same.'



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## E. Fritz Schumacher

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Born in Germany, Fritz Schumacher (1911–1977) went to Britain in 1930 to study economics at New College, Oxford, and from there to Columbia University, New York. He later turned from the academic life to business, farming and journalism. His public service for Britain included serving from 1946 to 1950 as Economic Adviser to the British Control Commission in Germany, and from 1950 to 1970 as Economic Adviser to the National Coal Board. He was Founder and Chairman of the Intermediate Technology Development Group Ltd, President of the Soil Association (an organic farming organization), and a Director of the Scott-Bader Company.

To Schumacher the belief by economists and industrialists alike that humankind has solved the problem of production is glib nonsense. It has been solved only by the industrialized nations consuming resources at a frenetic pace. Production is using up the natural capital of our planet without which it cannot itself continue. Even supposing that there were resources sufficient for all peoples to use energy at the rate at which it is now used in the industrialized nations, if they did so the world level of thermal and nuclear pollution would be intolerable.

We must begin to evolve a new lifestyle with methods of production and of consumption that are designed for permanence, based on biologically sound agriculture and on ‘non-violent technology’ which does not abuse resources or people. We need ‘technology with a human face’.

The fragmentary view propounded by Western economics is too narrow to see this. Its exclusive focus on readily quantifiable goods ignores the free goods from which these derive. An activity can be economic even though it destroys the environment, whilst a competing activity which conserves the environment will be made to appear more costly and therefore uneconomic.

Even work itself is seen as labour, as a cost, as a disutility, as a sacrifice of leisure. It is not seen as a desirable activity in which individuals use their faculties of brain and hand, join others in a common task, and find purpose in bringing forth needed goods and services. Virtually all production has been turned by large-scale technology into an inhuman chore where the work of brain and of hand are separated, despite the needs of a human being for both.

Technology and the organizations making use of technology ought to fit the resources of our planet to the needs of mankind. They must be of an appropriate scale: ‘Man is small and, therefore, small is beautiful. To go for giantism is to go for self-destruction.’



From this critique stems Schumacher's advocacy of 'intermediate technology' and organization for the third world, and 'smallness within bigness' for the organizations of the industrialized world.

*Intermediate technology* should replace the 'technology of giantism'. The trend towards ever-greater size of production equipment, and of larger organizations to run it at ever-higher speeds, is the opposite of progress. Third-world poverty is a problem of two million villages to which such technologies and organizations are wholly unsuited. They result in incongruous and costly projects. A textile mill in Africa is filled with highly automated machinery to eliminate the human factor even though people are idle and even though its standards demand fibres of a length not grown locally so that its raw materials must be imported. Again, a soap factory produces luxury soap by such sensitive processes that only very refined materials can be used; these are imported at high prices whilst local materials are exported at low prices. Examples of such disparities abound.

As Gandhi said: 'The poor of the world cannot be helped by mass production but only by production by the masses.' Therefore the best of modern knowledge should be applied to designing technology at a level which is conducive to decentralized moderate-scale production that is gentle, not violent, in its use of scarce resources, and that serves human beings rather than their serving it. This intermediate technology should be a means for people to help themselves, making what their countries need rather than sophisticated products usable only by the rich populations of the industrialized world. It should enable them to work in a way fitting for themselves. Their first need is for work that brings in some reward, however small; not until they gain some value for their time and effort can they become interested in making it more valuable.

Schumacher argues that the smallest-scale technology and organization suitable for the purpose in hand should be used. He puts forward four propositions:

- Workplaces should be created where people live now, not in the metropolitan areas to which they are forced to migrate.
- These workplaces should be cheap enough to be created in large numbers without requiring unattainable levels of capital formation and imports.
- Production methods should be sufficiently simple to minimize demands for high skills either in production or in organization.
- Production should be mainly from local materials and for local use.

The intermediate level of technology may be symbolized in monetary terms. Suppose that the indigenous technology of a typical developing country is called a £1-technology, and that of developed countries is called a £1000-technology, then intermediate technology is a £100-technology.

It has been objected that using such technology is deliberately denying people the chance to be as productive as possible. Productivity should not be deliberately held down in order to limit the amount of capital per worker. People should not be prevented from increasing their wealth as quickly as possible by the latest methods. Schumacher's rejoinder is that this overlooks both the real situation,



and the capabilities and needs of the people themselves. It is a mistake to assume that sophisticated equipment in an unsuitable situation will be efficient at the level projected for it in an industrialized society. Not only are the technical and administrative skills not available, but industrial estates all over the third world stand half idle because the assumed supporting communications, transport, distribution network and imported materials and components are not in fact there.

Whilst intermediate technology in the third world would require the organizing of people in small units, the giant organizations of the industrialized world cannot simply be abolished. Some goods can only be produced on a large scale. So what can be done about these giants? The fundamental task is to achieve smallness within bigness.

Bigness ensues from the constant mergers and takeovers in private industry, and from nationalization in the public sector. Individuals come to feel mere cogs in vast machines. Kao's nightmarish novel, *The Castle*, depicts the devastating effects of remote control on an individual who gropes within the system to find what is what and who is who, perpetually mystified and confused. No one likes large organizations, yet Parkinsonian bureaucracies continue to grow.

What organizations need are both the orderliness of order and the disorderliness of creative *freedom*. Large organizations are pulled to and fro by these two needs, and in consequence go through alternating phases of centralizing and decentralizing as they give priority first to the one and then to the other. Unfortunately, administrative demands tend to bias them towards orderliness and centralization at the expense of the disorderly decentralization which allows scope for entrepreneurial innovation. Perhaps what is needed is neither centralization nor decentralization but one and the other at the same time.

This leads Schumacher to formulate five principles for running large-scale organizations which are essentially aimed at devolving them into relatively autonomous profit centres.

First is the *Principle of Subsidiarity*, or the Principle of Subsidiary Function. A higher level in an organization should never do what a lower level can do. Thus a large organization will consist of many semi-autonomous units. From an administrator's point of view this will appear untidy compared to a clear-cut monolith, but the centre will actually gain in authority and effectiveness because of the loyalty engendered in lower units (see also Tannenbaum, Chapter 5).

Accountability of the subsidiary units to the centre requires the application of the second principle, the *Principle of Vindication*. Other than in exceptional cases, the subsidiary unit should be defended against reproach and upheld: it should be assessed on a minimum number of criteria of accountability so that it knows clearly whether or not it is performing satisfactorily. In a commercial organization there would ideally be only one criterion – profitability. Numerous criteria mean that fault can always be found on one item or another, which stifles initiative.

Hence the third principle, the *Principle of Identification*. It must be possible for each unit to identify clearly its cumulative success or failure by having, not only a



separate profit and loss account, but a separate balance sheet of assets. The effect of its own efforts on its own economic subsistence is then visible.

Fourthly, the *Principle of Motivation* calls for a positive approach to work. If all efforts are devoted only to doing away with work by automation and computerization, work comes to be regarded as something to be got rid of. It becomes a devalued activity which people put up with because no other way has been found of achieving required ends. They work just for the pay.

Finally there is the *Principle of the Middle Axiom* which the centre should follow if it wants to get things done, for if it uses exhortation, nothing will happen. If it issues detailed instructions, these may be erroneous because they do not emanate from the people closely in touch with the actual job. What is required is something in between, a middle axiom. This is an axiom because it is sufficiently self-evident to command consent and also clear enough for others to know how to proceed.

The incomprehensibility of large organizations to those in them is exacerbated by their forms of ownership. In small-scale enterprise, private ownership is 'natural, fruitful and just', in Schumacher's view. But in medium-scale enterprise, private ownership begins to lose its function; its contribution begins to disappear. Moreover in large-scale enterprise, private ownership 'is a fiction for the purpose of enabling functionless owners to live parasitically on the labour of others'. It 'distorts all relationships within the enterprise'.

Nationalization is a purely negative extinguishing of private rights without substituting anything positive. Schumacher describes one alternative exemplified by the Scott-Bader Commonwealth with which he himself became connected. In this polymer chemistry firm, private ownership was replaced by Commonwealth ownership. All employees became members of the Commonwealth which owned Scott-Bader Co. Ltd. as a collectivity – without individual ownership rights.

This kind of solution would be applicable only in small- to medium-size organizations. For larger organizations, Schumacher makes radical suggestions as to how a public share in the equity could be achieved. He proposes that, instead of profits being taxed, the public be issued with equity shares. In harmony with his views on the local character of industries that use intermediate technology, he proposes that these shares be held locally in the district where the enterprise is located. One way for this to be done would be to vest the shares in social councils composed of members from local trade unions, local professional associations and local residents.

To Schumacher, small is beautiful because it is the way to humane efficiency in the organizations of our time.

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