From: Clay T. Whitehead
Sent: Wednesday, November 15, 2006 1:57 PM
To: Susan Burgess
Subject: Interesting`

Capitalism's Next Stage

By Robert J. Samuelson
Thursday, October 26, 2006; A25

When he died in 1848, John Jacob Astor was America's richest man, leaving a fortune of $20 million that had been earned mainly from real estate and fur trading. Despite his riches, Astor's business was mainly a one-man show. He employed only a handful of workers, most of them clerks. This was typical of his time, when the farmer, the craftsman, the small partnership and the independent merchant ruled the economy.

Only 50 years later, almost everything had changed. Giant industrial enterprises -- making steel, producing oil, refining sugar and much more -- had come to dominate.

The rise of big business is one of the seminal events in American history, and if you want to think about it intelligently, you consult historian Alfred D. Chandler Jr., its preeminent chronicler. At 88, Chandler has retired from the Harvard Business School but is still churning out books and articles. It is an apt moment to revisit his ideas, because the present upheavals in business are second only to those of a century ago.

Until Chandler, the emergence of big business was all about titans. The Rockefellers, Carnegies and Fords were either "robber barons" whose greed and ruthlessness allowed them to smother competitors and establish monopolistic empires. Or they were "captains of industry" whose genius and ambition laid the industrial foundations for modern prosperity. But when Chandler meticulously examined business records, he uncovered a more subtle story. New technologies (the railroad, telegraph and steam power) favored the creation of massive businesses that needed -- and in turn gave rise to -- superstructures of professional managers: engineers, accountants and supervisors.

It began with railroads. In 1830 getting from New York to Chicago took three weeks. By 1857 the trip was three days (and we think the Internet is a big deal). From 1850 to 1900, track mileage went from 9,000 to 200,000. But railroads required a vast administrative apparatus to ensure the maintenance of "locomotives, rolling stock and track" -- not to mention scheduling trains, billing and construction, as Chandler showed in his Pulitzer Prize-winning book "The Visible Hand: The Managerial Revolution in American Business" (1977).

Elsewhere the story was similar. Companies didn't achieve lower costs simply by adopting new technologies or building bigger factories. No matter how efficient a plant might be, it would be hugely wasteful if raw materials did not arrive on time or if the output couldn't be quickly distributed and sold. Managers were essential; so were statistical controls. Coordination and organization mattered. Companies that surmounted these problems succeeded. Typical was Singer Sewing Machine. Around 1910 it produced 20,000 to 25,000 machines a month and had 1,700 U.S. branch offices, whose salaried managers supervised an army of salesmen.

The rise of big business involved more than tycoons. Its central feature was actually the creation of professional managers. Like many great truths, this one seems obvious after someone has pointed it out.

The trouble now is that the defining characteristics of Chandler's successful firms have changed. For example, many were "vertically integrated" -- they controlled raw materials, manufactured products and sold

to the public. AT&T made electronic components, produced telecommunications equipment and sold phone services. But in many new industries, vertical integration has virtually vanished, as economists Naomi Lamoreaux of UCLA, Peter Temin of MIT and Daniel Raff of the University of Pennsylvania argue in a recent study. The computer industry is hugely splintered. Some firms sell components (Intel, AMD), some software (Microsoft, SAP), some services (IBM, EDS), some hardware (Dell, Apple). There's overlap, but not much.

It's also true that old, established firms -- despite ample capital and technical know-how -- often don't dominate new industries. Google, eBay and Yahoo rule the Internet, not General Motors, Sears or Disney.

To be sure, we understand some of these developments. Older firms often suffer from their own success; managers become wedded to existing products, technologies and procedures. We can also identify many of the forces reshaping business: new technologies, globalization and modern finance (pressure for higher profits; corporate "buyouts" by private equity firms). But the very multitude of trends and pressures is precisely the problem. No one has yet synthesized them and given them larger meaning.

Just as John Jacob Astor defined a distinct stage of capitalism, we may now be at the end of what Chandler perceptively called "managerial capitalism." Managers, of course, won't disappear. But the new opportunities and pressures on them and their companies may have altered the way the system operates. Chandler admits as much. Asked about how the corporation might evolve, he confesses ignorance: "All I know is that the commercializing of the Internet is transforming the world." To fill that void, someone must do for capitalism's next stage what Chandler did for the last.