UDC 330

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IS THIS THE END OF THE MANAGERS' CAPITALISM? JAMES BURNHAM'S THEORY AND THE WORLD'S ECONOMIC CRISIS OF 2008

The paper deals with the prognosis formulated by J. Burnham in his book The Managerial Revolution (1941), which drew attention to the process of dispersion of ownership in capitalism, the problem of separation of ownership from management, and – in consequence –the formation of a new class of managers who wield real power. The author of the present paper puts forward the thesis that J. Bunham's prognosis proved accurate, and that one of the sources of the world economic crisis which broke out in 2008, is the so-called managers' capitalism.

Розглянуто прогноз, сформульований Д. Бернем у книзі «Революція менеджерів» (1941), який звернув увагу на процес розсіювання власності в капіталізмі, проблема відділення власності від управління, і - як наслідок - новий клас менеджерів, які володіють реальною владою. Автором даної роботи висувається теза про те, що прогнози Д. Бернем виявилася точними, і що одним із джерел світової економічної кризи, яка вибухнула в 2008 році, є так званий менеджмент капіталізму.

Key words: dispersion of ownership; separation of management from ownership; class of managers; folk capitalism; managers' capitalism; prognostic theories.

In 1941, in the United States, the book entitled The Managerial Revolution was published by James Burnham – a sociologist and penetrating theoretician of politics, who – following the socioeconomic processes in the contemporary capitalism of the day – formulated a theory that foresaw revolutionary changes to occur in the very capitalism itself. The theory-prognosis offered by J. Burnham can be summarized with the aid of the following theses:

- The popularization of the shares-based proprietary system of enterprises lead to dispersion (de facto making it belong to society) of private property in capitalism;
- Dispersed ownership and – additionally – the technological progress, as well as the permanently complicating legal-economic conditions of enterprises' activity create a situation in which collective and anonymous owners transfer the sphere of managing companies to specialist managerial personnel, which results in a process of separation of ownership from management;
- The real control over the whole economic and political sphere (since similar processes occur also in structures of the state) are taken over by hired managers;
- The source of managers' power is not their formal title to the property, but – practically – uncontrolled making use of the property;
- The old division between the proletariat and bourgeois, labor and capital, 'haves' and 'haves-not' becomes obsolete accordingly;
- The formation of the new class of managers, as well as taking over the economic-political power by them is a social process which will be occurring not only in democratic and capitalist countries, but also in totalitarian ones (then meaning Italy, Germany or the Soviet Union).

J. Burnham's book places itself in the current of scientific writing – or in a broader sense – politically-oriented one, where the predictive potential of social sciences is made use of. The narration of this type of scientific works is usually built around the following construction: the present is a breakthrough moment which puts an end to a certain stage of a social process and which constitutes the beginning of a new epoch. Individual works, employing the same construction, differ from one another primarily as regards the intensity of the categorical nature of the theses posed by their authors. This criterion allows delineating a line which separates political writing (sometimes bordering on political fiction) from scientific works. Works belonging to the first and the other type – due to their cognitive attractiveness – enjoy great popularity (although not all of them), including the scientific ones, as well as withstand the pressure of time. Examples include (not mentioning Karl Marx – the classic writer of the genre) works by authors contemporary to J. Burnham such as: Frriedrich von Hayek [1], Alvin Toffler [2], Raymond Aron [3], Daniel Bell [4], George Orwell [5], or those who became popular in the last decade of the 20th century: Francis Fukuyama [6] and Samuel Huntington [7].

It is now time to answer the question: What connects the book by J. Burnham, which was published more than seventy years ago and has already become fairly forgotten, with the crisis which shook the world's economic order in 2008? The answer appears quite obvious: both the book and the crisis feature the same collective hero – managers. Indeed, it is the class of managers, the rule of whom J. Burnham predicted, who – in the opinion of many economists, politicians and journalists – are responsible for the economic crisis of today. The lack of real, state and proprietors' control over financial operations of companies, as well as greediness and irresponsibility of the managing personnel are – generally saying – the most frequently and unanimously indicated factors lying at the foot of the crisis.

Searching for its causes has offered an occasion for a broader discussion dealing with contemporary model of market economy. There revealed in it all ideological differences to date. On one of the wings we will find followers of the ‘old good capitalism’, who claim that market plays its role well and will do so on condition that some structural corrections are made. On the other one, there are its traditional opponents (who have become considerably active) with their predictions of a doctrinal collapse of neo-liberalism and an end to its free-market reality. As it usually happens, there are more centrist opinions locating themselves between the two extremes. Without deciding the debatable question how much the general message of the book by J. Burnham has come true, we will limit ourselves to concluding that the author’s observations have appeared surprisingly valid today and can be helpful to explain the genesis of the crisis that has affected the world’s finances and – in consequence – the real economy. Let us follow J. Burnham’s theses as juxtaposed with facts and phenomena relating to the crisis so broadly commented on nowadays.

The starting point of The Managerial Revolution is the process of de-concentration of ownership of production means in developed economies of capitalism in the first half of the 20th century. It must be stressed that J. Burnham was not the first to draw attention to the phenomenon of progressing ‘democratization’ of the capitalist ownership. It was nine years earlier that the book had been published under the title The Modern Corporation and Private Property [8], whose authors – having analyzed the ownership structure of 200 largest corporations based in the United States – noticed that they functioned as joint stock companies. They indicated, moreover, that the characteristic feature of the majority of firms of that kind was dispersion and fluidity of the shareholders. Thousands of small shareholders, players in the stock exchange market, by incessantly buying and selling shares in companies, became anonymous owners deprived of the possibility of influencing their activity. Such a process – according to the authors – has its good and bad sides. The good ones include making ownership more popular and participation of large groups of workers in companies’ profits. The bad one is the fact that over the enterprise and over the physical property - the instruments of production - in which he has an interest, the owner has little control. At the same time he bears no responsibility with respect to the enterprise or its physical property. It has often been said that the owner of a horse is responsible. If the horse lives he must feed it. If the horse dies he must bury it. No such responsibility attaches to a share of stock. The owner is practically powerless through his own efforts to affect the underlying property... Physical property capable of being shaped by its owner could bring to him direct satisfaction apart from the income it yielded in more concrete form. It represented an extension of his own personality [9].

J. Burnham developed this part of the diagnosis rendered by A. Berle and G. Means which describes the process of dispersion of ownership and loss of control over its instruments. He also drew attention to the fact that collective and – to a large extent – anonymous owners of shares are not able to personally manage enterprises since they lack not only physical possibilities of collective management of companies, but – in the majority of cases – necessary legal, economic-financial or engineering qualifications. The world of the mid-20th century – as J. Burnham aimed to prove – had become dramatically different from that of the 19th century, different for at least three reasons. Firstly, due to companies’ getting out of the local area into that of exchange on the national and international scale, their structure and capital turnover became more and more complex. Secondly, the scientific-technical progress made production a highly advanced process as far as technology was concerned. Thirdly, at last, as a result of realization of principles of new Keynes’ economy and bringing into life institutional solutions of the New Deal, which consisted in state-implemented regulation and interventionism in the market sphere, the companies’ activity was subjected to complicated legal regulations. All those factors – as J. Burnham predicted – should acquire more and more significance and – to a greater and greater extent – would exclude the possibility of personal management on the part of owners. It is worth mentioning that it was already less than 20 years later that J. Burnham’s theory was used by Adolf Berle, who – nevertheless – thought the elements of making ownership more popular and its separation from management to be positive tendencies, capable of democratizing capitalism and eliminating its class character. Consequently, in his works, he popularized a theory foreseeing a new phase of capitalism which he called ‘People’s Capitalism’ [10] (A. Berle’s theory, popularized by liberal-democratic environments, served to justify the thesis that in the new capitalism there followed a spontaneous process of making private property social, the process meant to facilitate its non-revolutionary democratization and realization – in this way – of the old postulates put forward by social-democrats. Together with J. Burnham’s Managerial Revolution and the doctrine of Welfare State (see G. Myrdal, Beyond the Welfare State, Yale University Press, New Haven, 1960) it was meant to justify capitalism and socialism getting closer to each other and their progressing convergence).

It is also today that we can not question the prognoses – at least the majority of them – formulated in The Managerial Revolution. The factors listed by the author, which favor separation and making management independent from ownership, do not only remain still valid today, but have become greatly strengthened. First, the shareholding system has become popular and acquired a supranational dimension. Second, in contrast to claims from critics of neo-liberal (neo-conservative) offensive of the last two decades, contemporary states, in comparison to the Welfare State, have not restricted their functions; on the contrary – their regulative and interventionist roles have got even greater, even though they realize them with the use of other instruments. The globalization process has accelerated; so has the technological progress. Modern economy – in the conditions of freedom of capital flow on the world’s scale – created a sector of financial operations and capital investments which were completely unknown in the middle of the last century, a sector which is still gaining in strength. The so-called real economy has become even more dependent on the credit, while the financial sector today has a considerable share in creating the world's gross income.

It is worth paying attention to yet another factor favoring the process of making management independent and this professional group's rising to be an individual social stratum, if not a class – as the author of The Managerial Revolution claimed. Indeed, in the last twenty years the significance of the so-called institutional investors has been increasing in the stock market turnover. Some enterprises buy off shares, sometimes the majority shareholding, of other companies. In this way they mutually become directly or indirectly their own co-owners. This 'tour' of capital is taking place not only within branches, but also between them. Banks and special funds functioning as joint stock companies have become significant stock market investors. In consequence, a whole network of relations and dependences between companies all over the world has been formed, which resembles family connections between the ruling houses and dynasties of Europe in the final period of feudalism. Without a risk of error we can accept the following hypothesis: if we choose any stock company in any country of developed capitalism, we are able to reach – following successive links of the chain of dependences – each company present in each of these countries. Thus, we come to deal with a situation that is well illustrated by the following extreme instance:

- Company 1 has the majority shareholding in Company 2, and Company 2 has the majority shareholding in Company 3, while Company 3 – directly or indirectly – is a shareholder of Company 1;
- All the companies are managed on behalf of owners of the shares by hired managers; it is also the latter who are members of the companies' boards of managers;
- The circle of decision makers and controllers becomes restricted in this way – if not totally then at least in part – to a closed group which, having no formal title to the property, manages the property in reality;
- The collective and anonymous owners do not have any influence on the decisions taken by the company of which they are direct shareholders; they have even less influence on companies of which they are indirect owners.

In this complicated network of institutional and capital-based connections, financial instruments are used, whose functioning is understood by very few, and whose consequences can be foreseen by no one. These instruments, are created by managers on different levels of management, who avail themselves of gaps in the financial regulations in force in individual countries and of liberal policies of institutions providing financial supervision. Thus, in the modern capitalism there function two worlds which are parallel and separated from each other – that of millions of shareholders, whose only possibility of exerting an influence is selling or buying shares and that of thousands of managers who take strategic decisions daily, ones that vitally concern the property which they do not own.

Contemporary managers' capitalism differs basically from the capitalism described by Adam Smith or Max Weber: in both cases of the old and new capitalism, the primitive motive behind the activity in the market, including the motive of taking risk, is self-interestedness and a drive for profit. The difference consists in the fact that the player in the market of the old capitalism was the owner who risked his own property, whereas in today's capitalism it is hired boards of managers of companies, who take market-related decisions or even managers of lower level, who have at their disposal millions-of-dollars-worth capital. Hence, there is no sense of responsibility for one's own wealth behind the decisions. Followers of the Welfare State and the doctrine of convergence, that is the already mentioned Adolf Berle and Gunnar Myrdal, had great expectations of managers' power. At that time it was capitalists-managers who were attributed the irresponsible desire to solely maximize the profit, incompetent market-related conduct, exploitation of workforce, and – what was closely connected with the above – the blame for cyclical economic crises. Managers' control was meant, primarily, to be founded on competences and rational nature of decisions. Managers' responsibility was meant to be the result of a lack of interest in maximizing the profit. These expectations proved vain, though: it soon became evident that the level of managers' salaries, especially that of special bonuses, was pinned on the financial results of enterprises which they managed.

Along with the legal-economic conditions behind the functioning of companies getting more and more complicated and following the introduction of new financial instruments, there was a myth growing which extolled extraordinary competences of the class of managers, particularly those who were managing large corporations. Some of them became legendary as 'healers' of bankrupt companies, financial wonder-makers. One can even say about formation of a specific managers' culture with their own language code, lifestyle and sense of egalitarianism. Yet, it was scandals of the beginning of the 21st century, such as Enron financial engineering, or the speculation bubble of e-technology that heralded the fall of the myth of managers' capitalism. The collapse of Lehman Brothers bank in September 2008 revealed effects of deciding about property without the owners' control over it. The irresponsible credit-related activity that – in an unnatural way – raised prices of banks' shares and toxic securities for future fictitious profits, was designed to artificially increase corporations' incomes. All that was done in order that companies' boards and managements could pay themselves many-million-worth bonuses. The press of the world described, broadly, cases where boards of banks going bankrupt paid themselves bonuses from state subsidies which the US government had allotted to save them from bankruptcy.

Polish political publicist, Jacek Żakowski, rightly observed that the managers' class forms today a closed order which cultivates a new religion [11]. Its monasteries are great corporations, and its temples are banks; its religion is money, profit and knowledge of finances – a unique knowledge available only to the initiated priests-managers, who assign to themselves substantial pay and bonuses for possessing this knowledge and their monasteries and temples are full of riches. Removing the layer typical of publicist's narration, one can not but admit that the analogy is apt indeed. It should be added, too, that managers – apart from large incomes – have gained not only real power in terms of economy, but also a great political influence on the state authority. Examples of such an influence are in fact numerous, one of them being the speculative attacks of financial corporations on rates of exchange of currencies, even of such countries as Great Britain. Naomi Klein, in her book published in 2007 and referred to as the bible of the alterglobalism, condemns the neo-liberal doctrine of contemporary capitalism strongly advocated by followers of the Chicago school of economics ("Chicago Boys") and predicts the onset of the world economic crisis [12].

Undoubtedly, the neo-liberal faith in natural balance enforced by play in the market has weakened today. Even Allan Greenspan, the legendary president of FED, admitted that he had been wrong believing in unlimited possibilities of market fuelled with low interest rates. In the end, it has to be made clear that it is not exclusively the class of managers who bear the responsibility for the world's economic crisis, since the political class who had created favorable conditions for the irresponsible conduct of the former should be held responsible to the same degree. It is the ruling ones, some out of their beliefs, others out of their desire to be re-elected, who deluded the electorate with prospects of an unlimited development. The high rise in the national product in countries with market economy which occurred in several recent years has grown to the rank of a dogma. The promise of consumption on credit has become a passport to achieve power. However, George Soros declares explicitly, "A certain epoch has ended. Whoever counts on the old times coming back, will get greatly disappointed" [13]. All economists and politicians, either believing in or disbelieving capitalism, are unanimous in postulating formation of a global financial supervising body with the aim to keep rigorous watch over capital-related operations. It is designed to fill in the gap which formed between the dispersed ownership and management, that is a phenomenon foreseen by J. Burnham.

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